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978-0-521-46619-6 - Government, Industry and Rearmament in Russia, 1900-1914: The Last Argument of Tsarism

Peter Gatrell

Excerpt

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Introduction

An eminent scholar, surveying a century of Russian and Soviet development, once remarked that 'it always was a "political" economic history'.¹ This epigrammatical statement reflected the widely held view that the tsarist state actively promoted Russian economic development for geo-political purposes. The old regime, conscious of the disparity between its diplomatic pretensions and relative economic weakness, aimed to build a modern industrial economy. Russian industrialization and tsarist foreign policy were closely intertwined, as the regime sought to enhance the international status and influence which it forfeited in the years following the Crimean War. The pursuit of international prestige went hand in hand with a programme for rapid industrial development, which laid the foundations for economic and military security.

A generation after Gerschenkron wrote the words quoted above, many aspects of Russia's 'political' economic history remain contentious or unresolved. Scholars who disagree about key aspects of Russian history nevertheless agree that the tsarist state exercised a decisive influence over the course of economic development. But exactly what role the state played in the process of economic development and by whom economic policy was formulated are questions which still await thorough examination. The implications of a powerful state for private entrepreneurial initiative have attracted some attention, but many aspects of business policy, entrepreneurial practice and industrial performance remain unclear. The connection between foreign and defence policy, on the one hand, and industrial development, on the other, is opaque. What were the defence-related imperatives that Russian industry purportedly obeyed? What role did the state play in the production of defence goods, and what role did it assign to private enterprise? The interaction of government and business in the sphere of defence production is as yet imperfectly

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understood. Did the tsarist defence effort promote economic growth, by mobilizing resources that would otherwise have remained idle, or retard it, by diverting resources from productive to unproductive ends?

Backwardness, businessmen and the tsarist state

Russian industrialization was of paramount importance to the tsarist state. Seeking to aspire to the great power status Russia once enjoyed, but had lost with the coming of the machine age, policy-makers had to overcome the legacy conferred by years of stagnation. Economic backwardness was deeply entrenched. But – according to Gerschenkron – having identified the ends, the tsarist state was forced to confront the limited means at its disposal. These included a preponderant and traditional agricultural sector, a dearth of funds for investment and a small and poorly qualified entrepreneurial class. The government was unable to devolve upon private enterprise the function of mobilizing resources for rapid industrial growth: the burden was simply too heavy, the responsibility too grave and the urgency of the task too great. In Gerschenkron's terms, the state 'substituted' for factors that were missing or in short supply, by purchasing industrial goods on a massive scale, supplying credit to selected entrepreneurs and encouraging the import of foreign capital and skills. Responding to these stimuli, Russian industrial development during the 1890s proceeded at breakneck speed.²

In Gerschenkron's scheme, war figured as an exogenous development, unrelated to prior socio-economic and political change. As a consequence, he never examined in detail the link between diplomacy and domestic policy. He raised briefly the possibility that Russian industrialists sought war, in order to secure lucrative contracts, but dismissed the suggestion, on the grounds that it tended to 'magnify the political significance of the Russian bourgeoisie out of all proportion'. Beyond this statement he refused to venture in print.³ But the war did not emerge like an unforeseen bolt from the blue. As for the revolutionary process, Gerschenkron largely ignored its causes, preferring to concentrate instead on the stabilizing forces at work in the late imperial Russian economy.

The connection between government policy, industrial development and revolution figures much more prominently in the interpretation developed by Teodor Shanin. Shanin follows Gerschenkron in accepting the primacy of state initiatives in accounting for rapid

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industrialization. However, he offers a more explicit conceptualization of the tsarist state and posits a link between government policy and revolution. Shanin subscribes to the view that the Russian state underwrote rapid industrialization, in order to maintain its security at home and abroad. However, this programme accentuated the predominant features of a polity which is characterized by 'dependent development', namely 'a state machinery that has variously been described as "overgrown", "strong" and/or "state capitalist"'. The tsarist state possessed 'exceptional power' and maintained an 'extensive ... economic grip as owner, producer, employer and controller of resources ...'. Industrialization enhanced still further the scope of the tsarist state and its control over resources.⁴

Shanin's conceptualization of the state is accompanied by an interpretation of revolution. Industrialization helped to undermine the foundations of the state at the same time as it magnified state power. State-led industrialization antagonized and impoverished the bulk of the peasantry (Gerschenkron also saw this as a cause of revolution in 1905), and created irresolvable tensions between foreign capitalists, local capitalists and the government. Officials found it easier to handle indigenous capitalists than the foreign ones who flocked to Russia to take advantage of the growing opportunities for investment. The state, according to Shanin, was undermined by bureaucratic mediocrity and incompetence, by its dependence on foreign capitalists, by its exploitation of the peasantry and by an inability to reduce differentials of wealth.

Shanin's argument has the merit of addressing seriously the association between the economic system of tsarist Russia and its eventual collapse. According to Shanin, at the heart of Russian government initiatives there lay what might be termed a structural paradox, namely that the process of industrialization weakened rather than strengthened the old regime. But this paradox needs to be examined more fully. The latest research would certainly not corroborate the suggestion that state-led industrialization during the 1890s was fed by fiscal impoverishment of the peasant population; besides, the living standards of the peasantry improved significantly between 1905 and 1914. Nor should the professional competence of the bureaucracy be dismissed in so sweeping a fashion. The middle-level bureaucracy struggled reasonably well to reconcile divergent interests and constraints.⁵

Dietrich Geyer offers an interpretation which relates economic development both to domestic social and political conflict and to

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international diplomacy. In his view, the tsarist regime found it difficult to come to terms with the changed realities following the Russo-Japanese War. Internal problems remained acute in the aftermath of the 1905 revolution. These problems included 'the disintegration of pseudo-constitutionalism, an atmosphere of catastrophe charged with strong social tension, the turbulence of a period of economic boom, dissatisfaction in agricultural circles and the declining ability of the government to assert its authority'. In these circumstances, deep-seated fears about the future of the country 'were projected onto a foreign enemy'. Although Geyer rejects the insistence of Soviet historians on the emergence of a 'revolutionary situation' in 1914, he finds evidence of a profound rupture between government and people, which the regime sought to disguise and even surmount by leading a nationalist crusade against Germany and Austria-Hungary. Thus, the structural weaknesses associated with economic modernization generated a foreign policy that was fraught with risk.⁶

A somewhat different argument is developed here. There is no dispute that the search for imperial grandeur led the old regime – more accurately, a modernizing faction within it – to embark on a programme of industrialization during the 1890s. The industrialization programme required for its completion a sustained period of peace and stability, in order to promote business confidence and foreign investment in Russia. But Russian heavy industry rested on fragile economic and institutional foundations, and the industrial boom came to an abrupt end at the turn of the century, when the frantic pace of railway construction and capital investment slackened. The confidence of Russian businessmen received a nasty jolt. A welcome upturn in the business cycle coincided with a reckless military gamble in Manchuria, the result of ill-considered policies being pursued by another faction within the regime. In the aftermath of the war against Japan, Russia tried to pick up the pieces. The search for grandeur now took on a different meaning, as the government struggled simultaneously to meet the costs of war in the Far East and to remain active on the European stage. Russia hoped to share the burden of defence with its French ally, but there was a limit to what the alliance could achieve, when both parties ostensibly had little in common, save their mutual suspicion of German predominance in Europe. In the industrial sphere, the state used its control of industrial assets to counter a potential increase in the power of capitalists, whether foreign or Russian. Contrary to the claims of Shanin, the state did not succumb to the dictates of foreign capitalism. Foreign investors, bankers and entre-

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preneurs were kept at arm's length, either by design or by virtue of the mass of bureaucratic regulation which confronted them in the Russian empire and which made many businessmen wary of too deep an involvement in the tsarist economy. The story with regard to domestic capitalists was yet more complex, and requires a fuller elaboration of business-government relations. In this sphere, against the backdrop of renewed uncertainties about national security, is to be found a key component of social and political instability in late imperial Russia.

The economics of defence

The themes of industrialization, business-government relations and imperial diplomacy coalesce in a study of defence industry. In any modern economy, as in tsarist Russia, several distinct branches of industry contribute to the market for defence goods. The armed forces require weapons and naval vessels, which are supplied either by specialist armouries and dockyards or by metalworking and machine-building industries. Engineering firms also supply defence equipment, such as military vehicles, whilst at the same time producing a range of other goods for the civilian market. Other industries, too, are involved in the construction and furnishing of military installations, such as fortresses, barracks, depots and ports. Explosives are produced by the chemicals industry. The armed services also require food, fodder, footwear and uniforms. Thus, the market for defence products is very varied and draws upon the productive capabilities of a range of industries. Here, in pragmatic fashion, defence industry is used as a convenient shorthand to describe those heterogeneous branches of industry that supply goods for the armed services. In practice, the focus is largely on those branches of industry that produce semi-finished goods and finished military hardware.⁷

'Defence industry' is not, however, an artificial construct, created simply by amalgamating a number of discrete branches of manufacturing industry. Defence industry is possessed of specific features that relate both to its structure and to the nature of the defence market.⁸ The production of military hardware is distinguished from other branches of industry in that the goods are destined to be used, neither as investment goods nor as the means of satisfying household consumer needs. The defence industry is 'a component in an international system of threat and conflict, as distinct from all other industries whose relation is one of international exchange'. Its products are

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either used as the means of destruction or are stockpiled until their potential military usefulness has expired.⁹

Its strategic significance gives defence industry a potential leverage that is likely to be denied other sectors. Decision-makers may attempt to influence the course of foreign and defence policy, in order to enhance its prospects. In a classic article, first published in 1933, the German historian Eckhart Kehr argued that this behaviour was a functional necessity for the survival of the industry. When business is slack, he asserted, the industry's leaders advocate rearmament, in order to protect their investment. The government may be unwilling to respond, but the failure to accede to their demands carries the risk that factories will close and skills will be dissipated. Corporate pressure by the arms trade would, for these reasons, be difficult to resist.¹⁰ Kehr's conclusions hardly command universal acceptance amongst scholars who have studied the prewar arms race. Evidence from other societies, where Kehr's views might have been expected to be confirmed, weakens his case. For example, the zaibatsu did not wholeheartedly support the Japanese arms build-up during the 1920s and 1930s, fearing that the programme would lead to higher taxes and international instability. Although the expansionist policies pursued by Nazi Germany had the active support of leading German firms, notably in chemicals and non-ferrous metals, Hitler's foreign policy was driven by a range of social forces, of which big business was only one element.¹¹ More generally, the concept of a 'military-industrial complex', which Kehr was the first to scrutinize in depth, has lately been reassessed. Defence economists have demonstrated that modern capitalist economies do not rely heavily upon defence production for their survival, and they are sceptical of the view that modern governments are strongly influenced by defence firms.¹²

Other distinctive attributes of defence industry command attention. One outstanding feature is that governments are the sole customers for its products. Government is directly involved in issues of defence production and procurement, and will be at pains to establish some degree of control and supervision over the industry, in order to ensure that suppliers adhere to the terms of the contract. This means that government agencies pay close attention to questions of price, product quality and delivery date. A close relationship thus develops between government and industry. But it does not follow that government, as sole customer, is able to exercise the power implied by monopsony. The defence industry is often structured in such a way as to prevent competition.¹³

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Defence economists have specified the conditions that hinder competition and foster a tendency towards concentration, contrary to the competitive tendencies which purportedly exist in other branches of industry. The potential for oligopoly (a market dominated by a handful of firms) is created in two ways, namely by the barriers to entry of new firms and by the tendency of existing defence contractors to collude and combine, in order to protect themselves against their client. Barriers to entry operate because potential newcomers do not have the necessary specialist expertise in defence production. They find it prohibitively expensive to invest in the lengthy research and development required to enter the industry. Existing defence firms, for their part, will tend to join forces in order to realize economies of scale, such as pooling their technical knowledge and expertise in order to share R&D costs and thereby keep pace with the high rate of technological change, on which their future depends. These oligopolistic tendencies may be offset by other developments. Barriers to entry operate less effectively where the technology is itself undergoing change. In these circumstances, new and existing defence firms are in the same position, neither having been able to accumulate the necessary expertise. In addition, the complex and constantly changing pattern of military demand may allow a plethora of small firms to secure a niche, by concentrating their limited resources on one element of the market.¹⁴

How relevant are these considerations to Russian defence industry at the beginning of the twentieth century? Most of the attention of economists who have studied defence industry has been devoted to the principles governing the behaviour of private enterprise. This emphasis is unfortunate. Before 1900, the contribution of state-owned enterprise to armaments production was more important than the contribution made by private industry. In Russia, state enterprises had been established by Peter the Great. By the second half of the nineteenth century they had built up a skilled and loyal labour force.¹⁵ The tsarist government had no wish to depend on the private sector, when firms might combine, in order to dictate terms to government, or suddenly cease trading. There was no question of abandoning state-owned defence industry. However, the realization of this strategy depended, in part, upon the distribution of large subsidies to state shipyards and armouries. Whether this support could be justified after 1905, in view of new political and fiscal pressures, was another matter.

A significant private defence industry came on the scene relatively late, at a time when government-owned enterprises were well

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established, particularly in small arms and artillery. In the manufacture of small arms, a high degree of precision engineering was required, far more than in other branches of civilian engineering, such as locomotive manufacture. Here, a technological barrier certainly hampered the entry of new enterprises. The entry of private firms in other branches of defence industry coincided with a profound shift in armaments technology. In artillery, heavier calibres were adopted, the machine gun became more widespread and, above all, shipbuilding was transformed by the introduction of the dreadnought. Now, private enterprise offered the Russian government the opportunity to tap advanced technology, by means of the technical agreements concluded by new firms and their foreign associates. The barriers to the entry of new enterprises in defence industry began to come down.

There were nevertheless risks involved in entering the defence industry. First, private firms might invest heavily in new plant, designed with a specific product in mind, only to find that the procurement agencies changed the specifications attached to the order or, more worrying still, that the government transferred future contracts to the state sector. It must be said that some risks were no more serious than the risks attendant in other branches of manufacturing industry: fluctuations and uncertainty afflicted the defence market, but the same was true of the Russian market as a whole. In practice, as we shall see, private firms dealt with the problem by maintaining a diverse product mix. Until the eve of the First World War, only a small number of firms specialized exclusively in defence products.

Another key issue relates to the defence effort more broadly conceived. To what extent were patterns of defence spending during the early twentieth century linked in a coherent fashion to changing conceptions of strategy? What kind of military preparations were being formulated by the military leadership of the European powers: were they designed to equip countries for an offensive or defensive war, for a long or a short war, for a land or naval engagement? By what means, and with what success did these military conceptions translate into defence spending and armaments programmes? These issues have attracted a substantial literature, particularly in regard to German preparations for war during the 1930s. The Blitzkrieg strategy was designed to enable Germany to adjust its military goals to resource endowment, in particular to shortages of raw materials. This strategy in turn imposed the need for rearmament 'in width', that is a programme based upon stockpiling tanks and other weapons. Economic realities and military ambition thus corresponded closely. A discussion

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of economic and strategic planning before the First World War reveals that Admiralty strategists capitalized on Britain's geographical position and naval power to prepare for the starvation of German civilians, dependent as they were on imported foodstuffs, into submission.¹⁶

This kind of analysis has not been pursued very far with regard to imperial Russia. Only rarely have military strategy, domestic politics and economic policy been considered together.¹⁷ K. F. Shatsillo argued that the personal preference of Tsar Nicholas for a strong fleet led to cut-backs in planned spending on territorial forces. His approach is more subtle than the crude judgements made by other former Soviet historians. One eminent historian of late tsarist Russia condemned tsarist military preparations in sweeping fashion: 'the government of Nicholas II, in the ten years after the Russo-Japanese War, did *nothing significant* to prepare for the coming war'.¹⁸ Given the resources at Russia's disposal, including the prospect of sharing the costs of defence with its French ally, did the country's military planners obtain adequate security? Could they have done better?

The clear implication of one well-informed study of the imperial defence budget is that Russia substituted manpower for capital equipment.¹⁹ This policy economized on the relatively scarce resource. It tallied also with the expectations held by French military planners, who dearly hoped to maintain a huge contingent of Russian troops on Germany's eastern frontier. As Russia's ally, France could have been expected to exercise influence over the allocation of military manpower and thus, indirectly, over the allocation of resources in the defence budget.

Domestic politics should have the final word, because the combined impact of international and domestic economic variables ultimately impinged directly on the conduct and structure of domestic politics. Possible sources of strain in the imperial polity included the politicization of defence spending. Taxpayers, with some access to a parliamentary assembly after 1905, might not be expected to tolerate the burden of taxation, particularly if rearmament made it heavier still. On the other hand, their criticisms might be offset by a commitment to the overall strategic goals of the Russian armed forces: the containment of Europe's other empires and the protection of slav minorities on the territory of Austria-Hungary and the Ottoman empire. A more serious problem derived from the attitudes of Russia's military leaders, who baulked at the constant expectation that troops were expected to repress the 'enemy within' as well as to defend the empire from external aggression.²⁰ Other sources of conflict – between Duma and

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government, between state and private enterprise, between government and businessmen – also posed challenges to the old regime. Whether it could handle them, at a time of rapid economic change and international uncertainty, is the subject of this book.