Abstract
The article is timed to the 100th anniversary since the death of Sergei Witte, a prominent Russian statesman, economist, 1895 – 1906 years acting Minister of Finance and Prime Minister of Russia. In the article the analysis of the monetary reform carried out by S. Yu. in 1895 to 1897. Many researchers have displayed an interest in the vivid personality of Sergei Yul'evich Witte. Monographs and articles examine his life, record, political views, statesmanship, economic policies, and diplomatic achievements. Very few authors, however, have so far analyzed Sergei Witte's important role in the fate of our country. It was he who took steps to transform the rouble into a convertible currency. He managed to achieve his goal. This article shows how the reform was effected and looks into its consequences. This experience may prove useful to politicians and economists who are seeking to stabilize the economy in the same way. Although some of the author's appraisals differ from the generally accepted views, the believe that they might be of help to those who are interested in Russia's socioeconomic development from the late 19th to the early 20th century. It should also interest those who are concerned about this country's future. The author of the article proves that the Russian rouble model 1895 - 1914 years was gold the motto, well performing the functions of attraction of foreign investments in industry, but for the agricultural sector of the Russian economy he was too «expensive», what was the cause of extreme social tension in the village in 1905 and 1917.

Keywords: economic history of Russia, Sergei Witte, monetary reform of 1895-1897 years.

Introduction
First, a few words about Sergei Yul'evich Witte himself. He was born in Tiflis (Tbilisi) in 1849. His father, Christof Heinrich Georg Julius, was of Dutch ancestry. His ancestors emigrated to the Baltic countries when they were under Swedish role. He was a manager of government estates in the Caucasus. In 1856, Julius Witte and his family were registered as gentry of the province of Pskov Gubernia. Sergei Witte's mother,
Ekaterina Andreyevna (nee Fadeyeva), was the daughter of a privy counselor, the former governor of Saratov, and a member of the Council for Administration of Transcaucasian Territory.

In 1870, Sergei Yul'evich Witte graduated from the Department of Mathematics, Novorossiski University in Odessa. He began work at the railway department and twenty years later was appointed Minister of Railways. From 1892 to 1903, he was Minister of Finance. It was then that «Russia entered the stage of imperialism». Historians will have to examine Witte's role in the country's «entry into the stage of imperialism», because to think that this was a spontaneous process is unfounded. It is worth noting that the all-powerful Minister of Finance contributed to the merger of Russia's banking and industrial capital.

Many people know that Sergei Witte was chairman of the Committee of Ministers from 1903 to 1905 and Russia's first premier (1905 - 1906), but few know that he initiated the money reform of 1896 - 1898. It was this reform that first officially introduced the gold coin into Russia. Even today, Witte's «tsarist ten-rouble piece» is still the only widely-known Russian gold coin.

Sergei Witte, minister and reformer, was made a count in gratitude for the successful signing of the Portsmouth Peace Treaty in 1905. (Under the terms of this treaty, Russia ceded half of Sakhalin Island to Japan. A distinguished wit referred to him as «Graf Polusakhalinskii» - Count of Half-Sakhalin). Emperor Nicholas II conferred the title of count on Witte in order to soften Witte's coming retirement. The premier had fallen into disfavor. Even so, until the day of his death in 1915, Sergei Witte was a permanent member of the Currency Committee of Russia's Finance Ministry. His «baby» - the gold ten-rouble piece (now known as the «convertible rouble») needed his fatherly care the entire time.

Method

Before the currency reform, the paper rouble in Russia was as «wooden» and scorned as the rouble today. When mentioning the gossip that excited educated people of 1880, the Russian satirist M.E. Saltykov-Shchedrin wrote that «rumors about the forthcoming financial recovery were most persistent». Though his explanation of this phenomenon is «eccentric», it is still valid today. He wrote: «You cannot die with an easy conscience, if you don't really know what a rouble is» (Saltykov-Shchedrin). The rouble banknote was not convertible either on the home or the foreign

As a result, there were two currencies in circulation in Russia; the «assignat rouble» and the «silver rouble».

Assignats - paper money issued by the state treasury. Assignats were issued in 1768 as certificates entitling the holder to receive money at the State Bank. The caption read: «The Assignat Bank shall pay the bearer of the state assignat 25 (50, 70, 100) roubles in 1708 coin-ages in use». Owing to the steady inflation in Russia, the «coinages in use» were actually only copper coins. In the reign of Catherine II, copper money was minted extensively, because there was plenty of copper (since copper cannons had been replaced with cast-iron artillery pieces). The purchasing power of the coins decreased, while their weight increased. When assignat roubles appeared, one rouble in copper change weighed exactly one kilogram. If a customer had to pay 50 roubles or more for something, a horse-drawn cart had to be used to deliver the money. As a result, people found assignats - certificates - handy. Later, the treasury issued five- and ten-rouble bills. These were even more convenient. After that, more bills appeared. Having first put into circulation a sum of one million roubles in paper money, the treasury gradually increased it to 600 million. By then, the value of a rouble bill had dropped to 25 kopecks in copper coins. Any European bank would have declared itself bankrupt under such circumstances, but Russia’s State Treasury decreed that a rouble bill would be equivalent in value to 25 kopecks in coinage and stopped exchanging bills for small coins. In 1839 - 1843, it renewed the minting of silver coins. Until it was withdrawn from circulation, the government attempted to withdraw the paper money from circulation by making silver loans in other countries. But this measure failed. The people willingly accepted paper money for payment. However, soon the value of paper money diminished vastly in their eyes while that of copper and silver coins increased.

During the lifetime of Saltykov-Shchedrin (1826 -1889), one silver rouble (in a single coin or silver and copper change) was equivalent in value to three roubles and 50 kopecks in bills. A customer buying 15 kopecks' worth of merchandise who paid with one silver rouble was entitled to three roubles in change (in bills). If a person had three one-rouble bills, it would be difficult to purchase an item sold for one rouble in silver. The reader must certainly understand that such daily exercises in arithmetic harassed the already troubled life of the common people. Saltykov-Shchedrin's contemporaries termed paper money assignats, though they were essentially no longer assignats.
The currency reform which replaced «Catherine's» assignats took place quietly. (Today one, three and five-rouble bank notes are being replaced equally quietly with bills of the same face value). As a result of the reform, the rouble bank note was equal in value to the silver rouble, i.e., to a specific number of grams of silver. The present bank notes are secured by gold, but the notes do not state the number of grams that can be «redeemed» in gold.)

Soon after the reform, effected shortly before the Crimean War (1854 - 1856), the newly-introduced bank notes shared the same fate as the earlier assignats. They quickly depreciated in comparison to the silver rouble. When the assignats were exchanged for bank notes, the savings of certain sections «shrank» to less than one third (two new one-rouble bank notes were exchanged for seven old ones).

The depreciated bank notes further complicated the settling of accounts in sales and purchases. Even though, as a result of the reform, the new money was «secured by silver», the rate of exchange was never adjusted to the system of supply and demand. In autumn, the grain merchants needed credit and the peasants were eager to sell their grain in order to pay their taxes to the government. The rouble bank note, therefore, increased in value. The prices of goods (including silver) correspondingly dropped. In spring, the opposite happened. The demand for money on the part of the merchants and peasants declined. The rouble became «cheaper» and prices grew. The difference between the «value» of the paper rouble and that of silver coinage widened.

In the course of a year, the value of the paper rouble fluctuated between 40 and 80 kopecks in terms of silver coinage. Therefore, only the bank could define «what a rouble is», i.e., establish the purchasing power of the rouble at any given moment. The bank alone established the ratio between the «commodity» (current) and «gold» (stable) price indices for every single day.

The phenomenon of seasonal fluctuations in the purchasing power of the rouble recurred under the Soviets after the New Economic Policy was effected in 1921. At that time, an open discussion was held concerning the «gold» and the «commodity» rouble. I do not consider it necessary to review its content because it has been adequately set forth in recent historical economic literature (Bogomazov). There is one important point connected to this. When the New Economic Policy was adopted, the rebirth of the «market» was accompanied by the replacement of the surplus product appropriation system. The tax-in-kind was replaced with
tax-in-money. Consequently, the peasants voluntarily sold at market the products which the food requisition detachments used to exact from them.

Similar developments occurred after the Great Reform (emancipation of the serfs) in 1861. The process of transforming a natural peasant economy into a commodity-producing economy took much less time in Russia than in Europe (where it developed over several centuries). Just as during the period of the New Economic Policy, the process was «catalyzed» by the replacement of taxes-in-kind with taxes-in-money. Long before the October Revolution in Russia, V.I. Lenin pointed out that taxes-in-money played an important role in the promotion of commodity exchange in the country (Lenin). This was not at all surprising. The taxes amounted to 200 percent of the income of peasant households (Yanson).

To avoid forced sales of their property to cover arrears, the peasants had to sell, i.e., to turn into a commodity, even that part of the harvest which formed the seed fund. Having paid the taxes to the government, the peasant «returned» to a way of life typical of a natural economy. In the spring, he would buy from the rich peasant (the village «bloodsucker») the grain he had sold the latter and now needed for sowing.

The Russian producers of commodities had little in common with their counterparts in Europe, who turned out products for sale on a voluntary basis. Economists of the Populist school were well aware of this distinguishing feature of the Russian «market». As a result, they called capitalism in Russia «artificial» and said that it was «forcefully» thrust upon the country.

The forced turnover of goods was bound to affect the Russian monetary system. In a market economy, money is also a commodity. The character of goods turnover determines the money turnover. In the European market, it was the free commodity producer who created the demand for money. On the Russian market, this role was played by the government. The state (represented by the government), established along «planned lines» the sum of revenues to be raised and the time by which it was to be deposited in the treasury. After that, the peasants, naturally «created the demand».

The system of money supply was very different as well. In the European market, the commodity producer offered money which was not in circulation at the given moment. It could also be offered by the small
producer. In Russia it was always the state that provided credit, i.e., supplied money.

The market mechanism is the mechanism of supply and demand. The character of this mechanism ultimately determines that of the market. Owing to the specific character of its system, the Russian market was «incompatible» with the European market. The distinctions manifested themselves in ordinary, everyday, matters. M.A. Dmitriev, a 19th century Russian poet, maintained that, on the Russian market, the state robs consumers when they buy tobacco and vodka and also when they travel abroad (Dmitriev).

Why couldn't a Russian subject freely exchange paper roubles for European paper money? Why did rouble notes first have to be exchanged for gold, say, at a rate of 200 roubles in bills for 150 roubles in gold? Russian bank notes, as distinguished from European paper money, were secured by tax (state) credit, and not commodity (private) credit. Taxes can be regarded as «goods», though of a specific kind. The state was selling services to the population and demanding payment for them. But it was not possible to resell this service back to the state. Therefore, these «goods» were not convertible. The money used in such a transaction was not convertible either.

Close to 80 percent of the money in circulation on the Russian «market» was non-convertible bank notes, i.e., money that the state forcefully exacted from the population through taxation and then offered to buy «voluntarily» (to take a loan or obtain credit) (Financial Encyclopedia, 1924).

Results

How did Witte manage to transform the Russian non-convertible (commonly known as the «wooden») rouble into a convertible currency despite economic laws «governing the movement» of non-convertible paper money? As I see it, a whole range of circumstances contributed to this.

About two months after Nicholas II ascended the throne, Sergei Witte submitted a draft proposal to him which would reform the State Bank. It was a tempting proposal. If it were realized, Russia would catch up with the technological progress of the industrialized countries. Russia was lagging behind the West and was constantly trying to catch up with it.
Russia's technological progress was impeded because its industries were desperately short of credit. Bank credit was still a startling innovation to Russian manufacturers. It could not meet the demand of Russia's industries, greatly in need of long-term credit. The credit that was available was short-term credit granted for no more than six months. It depended on the cycle of agricultural production. In Russia, agriculture was the only source of credit. Industry had not yet accumulated any current assets. As Vestnik Finansov (Financial Herald) wrote in 1892, enterprises whose fixed assets amounted to millions of roubles had started off with no current capital of their own. Later they were constantly suffering from lack of funds (Vestnik Finansov, 1894).

In his draft proposal, Witte suggested that industries should be granted bank credit for a term of three years. Where did he hope to secure the funds for long-term credit? First, Witte proposed to transfer the financial funds of state (government) departments to the revenue expense accounts of the country's central emission bank. Until then, the state departments functioned on the basis of «self-financing and economic accounting», i.e., independently of the State Bank. They transferred their remaining redundant funds to the state treasury. In Witte's opinion, concentration and centralization of state-owned capital through the banking system would help make more funds available to industries in the form of credit. Secondly, he discovered a very simple mechanism that would make the State Bank's own assets work. Since the State Bank did not expect any flow of money from private enterprises, Witte compelled the State Treasury to pay the State Bank the sums that it owed the Bank from the day of its foundation.

The State Bank was founded in 1860 in order to execute the redemption transaction. Previously, the situation was as follows: after the Emancipation (when serfdom was abolished), the peasants did not have the cash to pay landlords for the land they were buying now that they had a right of personal ownership. They were to pay in installments over the course of 49 years, while they built up their own savings. The state, which assumed the role of creditor, did not have any cash either. The state had allegedly «loaned» funds from the newly - founded State Bank to «effect a settlement» in full with the landlords who had sold the land. The landlords acquired the «profits» from the sale of their lands straight away, though not in coin or bills, but in securities. These were redemption certificates and bank coupons, something like state bonds. They assured an interest of five percent a year. This state loan made up
the Bank's fixed «assets». By January 189 the treasury still owed the State Bank 849,300 thousand roubles - a huge sum in those days. The Bank's loan account turnover amounted to only a quarter of this sum. From 1888 onward, state «bonds» were not redeemed. However, Witte renewed payment of the debt along with the approval of the State Bank's new Statute.

In 1895 - 1896, the treasury paid the State Bank a sum of 148 million roubles. In 1897, it paid 446,300 thousand roubles. Witte managed to find still another source of state revenues: he found it in the state's monopoly on the sale of spirits. Previously, a system of farming (licensing) existed in Russia whereby an entrepreneur would purchase a license for the production and sale of liquor. The treasury received money only when it sold a license. Later, it received practically no revenues from such «enterprises». Witte created a monopoly on the sale of alcoholic drinks by the State Treasury. Thus, single excise duty was transformed into a turnover tax. Of course, the state claimed credit for this step. It wished to display concern for the welfare of Russian subjects who were being plunged into «alcoholism» by the licensees. The state, it was claimed, would henceforth exercise control over drinking on the basis of «sound medical standards». In the course of the first year of the monopoly, the Treasury netted a profit of 52 million roubles from the sale of vodka alone (not counting the returns from other liquors). By the time Witte resigned from the post of Minister of Finance, vodka sales accounted for an annual revenue of 365 million roubles.

Centralization of financial and banking capital, in the «Russian style», affected turnover of money. The rate of money turnover slowed down throughout the country. There were signs of inflation in the industrial centers. The Bank could not use all the funds it received for granting long-term credit. Most of the payments were of a short-term character. In his memoirs, Witte admits this mistake, though he accuses A.Ya. Antonovich (Witte, S.Y., Vospominaniya (Memoirs),1960), his deputy, of making it. The Minister of Finance issued a personal order imposing restrictions on some of the articles of the new statute of the Bank. He did this even though the statute had been approved by the emperor and thus had the full force of law.

Antonovich stated with bitterness that «even the most powerful government could not create capital» (Materials on the History of the USSR,1959). Despite this, Sergei Witte would not abandon his aim. He continued his search for long-term loans for Russia's industries. He had
made many promises to the new emperor. When the State Bank limited the issue of long-term credit, deflation (a shortage of money in circulation) appeared in the country. Addressing the members of the State Council two years after the reform was launched, S.Yu. Witte said: «I must increase the quantity of bank notes. No Minister of Finance can bear such a situation for a long time. He is bound to resort to issuing more paper money in the end» (Central State Historical Archives of the of the St.Petersburg, st. 1152, f. 1211). But Witte was unwilling to issue more paper money. If he resorted to this measure, it would prove that he was a failure. Several Russian financiers, N.K. Bunge, L.P. Shipov, and R.R. Migulin in particular, warned Witte about the consequences of his experiments, and discussed them openly in the press. If Witte had started to issue more bank notes, he would have disgraced himself.

Witte found a way out. He found a source of credit not in the treasury, but on the European capital market. The paper rouble could not serve as a debenture on the foreign market.

Witte decided to «kill two birds with one stone», namely, to increase the circulation of the gold, not the paper, rouble on the home market. The gold rouble could also be used as a guarantor of the paper rouble (secured by commodities) on the foreign market. This combined step helped both to slow deflation and prevent inflation. It is impossible to over-circulate gold (even if paper money is used at the same time). «Surplus» gold coins will inevitably be replaced by paper money in cash turnover.

A character in a comedy written by Aristophanes said: «Money is like people: the better is replaced by the inferior sort». When paper money is introduced, the replacement of «better» money with «inferior» money does not undergo any serious change. First, surplus money is «deposited» as savings. Then unclaimed savings are gradually turned into treasuries. The population seeks to exchange paper money for the more reliable coins. As a result of such operations, the «better», metal money disappears from cash circulation. In 1927, the population of the USSR exchanged the depreciated chervonets ten-rouble bills not only for silver rouble and 50-kopeck pieces, but also for copper coins. Consequently, the state began to mint coins out of cheap copper-nickel and brass alloys. In this way, «inferior» coins wholly replaced the «better» silver coins, which disappeared from circulation.

Gold coinage was in circulation in Russia over the course of two decades. During this period, the treasury minted 1,695,200 roubles' worth of gold coins. No more than 700 million were in regular circulation
each year. The amount of new coins put into circulation was determined by demand. The situation became totally different when additional quantities of paper money were issued.

Another important point is that when gold coins were minted, the foreign investor was sure to be able to take profits that were «as good as gold», (though in paper money). These were not worthless bills that would not buy anything in his own country. If the foreign businessman could not find the Russian goods he needed, he knew that he would get 0.77 grams of pure gold for every Russian paper rouble. The foreign branches of the State Bank would exchange his bills for five- and ten-rouble gold coins at face value. A foreign creditor could always, if necessary, remint Russian coins into his own. In Great Britain (then a center of international trade), the Royal Mint did not even charge for reminting coins.

It would seem that Witte finally achieved his goal. Russian paper money was freely «converted» into gold at European market prices. There was no longer any difference between «their» currency and «ours». Capital could freely flow «there» and «back» without hindrance.

However, Witte was unable to circumvent certain economic laws. Russian paper money did not really become a European currency. The Russian paper rouble would buy gold. But only one buyer - the State Bank of Russia - was willing to purchase Russian paper money for gold. To understand this fine distinction, it is important to know that in Europe two forms of money ownership developed historically. As in Russia, coins were the property of the state (state monopoly on minting coins has existed and continues to exist in all countries).

In the West, paper money appeared along with the emergence of private ownership. It took shape outside the state's sphere of influence. Early on, the money consisted of ordinary notes acknowledging a debt for commercial credit. One free commodity producer granted credit to another. With time, the common note developed into a promissory note. The latter formed the basis for the bank note (an English term).

Russia did not evolve paper money over a period of one hundred years. As with private property, bank notes were introduced to Russia through government decrees. The European terms served to camouflage state property. One can argue endlessly about whether or not private ownership existed in prerevolutionary Russia. It is impossible to question, however, the simple fact that it was the state, and not the
market, that evaluated the result of the labor of Russian «owners». This is evidenced by its monetary system.

In Europe, a sale-and-purchase relationship existed between the bank note and the coin. The bank note was an instrument of wholesale trade. The coin was used in retail trade. Before making wholesale purchases, the state would obtain credit at a private bank using its property (namely coins), as collateral. To split up their bills, the banks would buy coins (change) from the state. In the course of this exchange, a value ratio would develop. (In contrast to this, the Russian the ratio was established by the state.) One pound sterling (in bank notes) was equal to 20 shillings, and one guinea, to 21 shillings. The decimal system (whereby one banknote was equated to 100 coins) was established in Europe after the private banks forced the state treasuries to accept their rules of the game. In Russia, both coins and paper money were owned by the state. There were no market sale-and-purchase relations between them. In principle, Russia could declare any gold content attached to the paper rouble. We know this from recent Soviet experience. At one time the rouble was equated to 0.2221..., and later to 0.9874... grams of gold. But people saw only the difference in definition, not the gold content. In effecting money reforms, prerevolutionary Russia discussed granting «autonomy» to banks so that they would be independent from the Ministry of Finance, i.e., the State Treasury. However, this only addressed the tip of the iceberg. Only in Russia were bank notes issued solely by the state. The lack of private credit sources rendered the State Bank's «autonomy» meaningless. As in the past, the state fixed the purchasing power of its money by decree.

Russia «merged» with the European private ownership currency system in a rather original way. Outwardly everything appeared the same as in Europe. Due to the introduction of the gold rouble, the Russian entrepreneur could do business with European partners independently of the state. But Russian money was state money, in an example of Russian dualism. The Russian entrepreneur could borrow foreign currency as a private person, but the loan would be guaranteed by gold belonging to the state treasury.

To make such transactions possible, Russia kept a part of its gold reserve at the offices of trade representatives in other countries. If there was any doubt about Russian stocks and bonds being secured by commodities, or if they showed a drop on the stock exchanges in Europe, the offices of trade representatives would inter-vene. They would buy up
the securities for gold at face value - rouble for rouble. This policy was necessary to the monetary system produced by Witte's genius. Without it, the paper rouble would have suffered from skyrocketing inflation and the gold reserve of the state treasury would have been lost to other countries.

Russian state support for all «European-style» enterprise (particularly if it promised to promote technological progress) produced a negative effect on traditional agricultural production. The state was no longer in a position to control of efficient use of money loaned by foreign banks. Loan capital could be used for the benefit of enterprise «in general», and not for the specific purpose of technological progress. This was because loans were not guaranteed by the industrial economic sector or by trade (which were the main recipients of loans), but by the state treasury, i.e., by the taxpayer.

Russia's tax system did not «net» income tax. In a memorandum to Emperor Alexander II, Reutern wrote that «the tax on income which was widely imposed in Europe cannot be introduced in Russia, because it has no private owners» (Dnevnik P.A. Valueva). There was no income tax in Russia. There were only indirect taxes and taxes on property. Tax increases to assure the growth of state revenues compelled certain segments of the population to «raise the marketable effect» of their property, i.e., to turn out more marketable products. Generally speaking, these segments had nothing to do with foreign investments in Russia's economy. They made up the «rural estate», the biggest taxpayer, accounting for nine-tenths of the country's population.

Discussions

It was the landlords that were the first to suffer from the «convertible» rouble. This may appear strange, since they were wealthy people. They did, however, own quite a bit of land, or taxable property. After the Witte reform, landlords were quickly ruined. In Anton Chekov's «Cherry Orchard», written in 1902, the land-lords were educated people. They were not «ignorant» peasants (who were also being rained). The landlords could defend their property through to the press. They were the most vigorous and persistent critics of the new «European-style» monetary system which Witte introduced. Their arguments are still somewhat valid today.
Today the word «landlord» does not have the negative connotations it used to have. Perhaps this will enable us to hear and understand some of the voices from the past that were ignored by their contemporaries. Today, few people know that in prerevolutionary Russia the word «landlord» had the same abusive shade of meaning as it did after the Revolution. Nineteenth century Russia's democratic press referred to landlords as «planters» and «slaveholders». After the abolition of serfdom, however, they employed hired labor, as was common in the rest of the «civilized world».

I needed to make this «lyrical digression» about the exploiting class in order to introduce S.F. Sharapov, a distinguished and competent critic of Witte's «convertible» rouble. He was referred to as «a defender of landlords, reactionary and conservative» (Encyclopedia of Economics, 1980). Why Sharapov and not somebody else? Weren't there any other persons who criticized Witte's reform? People with more «politically presentable» personalities than Sharapov? There were a few, including M.I. Tougan-Baranovskii, P.V. Oil', and N.K. Bunge, all «professors of the old school». Perestroika (restructuring) has «rehabilitated» them as competent scholars. However, in my opinion, Sharapov was the most foresighted of the group. In his memorandum to the Minister of Finance, dated December 29, 1902, he wrote: «Gold currency is ruinous to Russia. The economic chaos it has created will result in complete economic exhaustion of our homeland, in the loss of its economic independence, and, finally, in political disaster. The ominous signs of this catastrophe are already too conspicuous and close» (Central State Historical Archives of the St. Petersburg, st. 560, f. 26). Sharapov predicted the intense agrarian crisis which was indeed one of the causes of the Russian Revolution of 1905. He also foresaw the Stolypin agrarian reform, the defeat of Russia in a forthcoming war (the Russo-Japanese war had to be discontinued because of inevitable financial collapse), and the impending disintegration of the Russian Empire into several isolated «markets». These merged together again into a «unified economic space» after the Civil War of 1918 - 1920. Sharapov predicted numerous other developments as well.

In one of his speeches, Sharapov remarked: «Despite all of its weaknesses, our former nominally silver, but really paper, currency ensured tremendous advantages for Russia's national economy. It subsidized export of grain and raw materials and provided some protection against non-equivalent exchange, when foreign goods and
capital were imported...» (Reform of Money Circulation in Russia: Papers and Discussions in Section III of the Free Imperial Economic Society, 1896). Russia enjoyed these advantages because «the value of the paper rouble was fixed by the state». «In spirit and essence» Russia's economy was a state economy. With the forceful introduction of «private entrepreneurship and of a European equivalent of commodity exchange into Russia», the proportions of natural commodity exchange which developed historically were «adjusted» to the cost proportions of the Western market. Some of the products whose value was established «in kind» (products in high demand on the home market) became «redundant». But this «surplus» was a mere illusion created by a cost equivalent that «had been borrowed from outside. It had not developed organically in Russia's national economy». This alien cost equivalent actually upset all the proportions of exchange which had existed earlier. Grain was forcefully being turned into a commodity by the ever-growing tax burden, and becoming redundant. It was exported to other countries for next to nothing. At the same time «the people inside the country suffered from a shortage of grain» (Discussions on the Question of Currency at the Oryol Regional Convention of Agriculturalists, 1899).

The problems Sharapov raised in his works were difficult to foresee in his day. But his prediction proved true. Pryanishnikov, eminent agricultural researcher, established that, with the introduction of Witte's «convertible» rouble, Russia's grain exports to Europe increased more rapidly than grain production. Russia, while supplying half of Europe with grain, suffered from shortages of grain on the home market. Its consumption dropped below a permissible level. During the five-year period preceding World War I (1908 -1913), the annual per capita grain consumption in Canada was 1776 kg, 992 kg in the USA, 960 kg in Argentina, 656 kg in Denmark, and 496 kg in Sweden. In Russia, the consumption of grain and potatoes in grain equivalent terms was as low as 448 kg (Pravda, 1928).

These figures show that on the eve of World War I, Russia should have been an importer, and not an exporter, of grain. But Witte's «economic system» was based on Europe's money equivalents. To equate the mass of marketable farm products with that of manufactured (industrial) goods in terms of value (i.e. «to adjust» the proportions of the Russian market to those of the European market), grain «surpluses» (in terms of value and not in kind) had to be exported in exchange for consumer goods. Grain exports were commodity «collateral» for profits.
that foreign businessman took out of the country. If Russia were to stop its grain exports, it would have had to use the state treasury's gold reserve as commodity «collateral» for profit accumulated in the country.

The financial system Witte created aggravated the disparity between Russia's natural commodity and money economy, on the one hand, and credit economy, on the other. The product-money exchange disparity resulted in chronic shortages of grain supply in the country's industrial areas. This led to social tensions aggravated by seasonal fluctuations of grain supply on the home market. The entire population suffered from poverty. It was H. Nakayama, a Japanese economist, who identified this (Nakayama). He wrote that Witte's economic system functioned within the framework of a specific foreign trade structure. He pointed out that the country had to pay for the import of foreign capital with the export of products that were badly needed by the people of the Russian Empire. Witte's economic system was mainly responsible for «the impermissible shortages of agricultural products on the home market».

The emission of paper money during World War I illustrates the consequences that resulted from Witte's financial system as exports declined and the bank no longer exchanged bank notes for gold coins, see. Table.

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<th>Date</th>
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<td>1.663</td>
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The skyrocketing increase in quantities of money put into circulation was not solely due to growth of military spending. This increase was not seen in the other belligerent powers of Europe, though something similar took place in Germany after its defeat in the war when the Treaty of Versailles compelled it to pay enormous reparations. The Russian treasury was paying similar reparations to the peasants it had robbed earlier. The «golden mist» soon dispersed. The Russian bank note was exchanged for «coins» of corresponding value, namely for pieces of paper with a face value of 10, 15, 20 and 50 kopecks. These were put into circulation by the Provisional Government (after the tsar was deposed). They were known as «kerenki» (or «Kerenskii notes», after Alexander Kerenskii, Premier of the Provisional Government).
Summary

When World War I broke out, it became imperative to effect a financial reform. Russia would have to begin reforms, even if it remained neutral, as the war in Europe would have stymied foreign trade anyway. Without foreign trade, Witte's gold rouble would have ceased to be a convertible currency, not only on the foreign, but also on the home market. Foreign trade alone made it possible to determine the value of the «hard» paper rouble in terms of a gold equivalent. In 1915, the Free Imperial Economic Society held a series of violent discussions on ways to conduct financial reform. Parts of the proceedings, still of academic interest today, appeared in separate publications (Ed. Zheleznov).

Ironically, it was Sharapov who suggested to Witte that it would be expedient to introduce «planned» circulation of paper money in Russia. Under the Soviets, Sharapov was branded a «defender of the landlords» and, therefore, a «reactionary». In Sharapov's opinion, the state should determine the value of the rouble and regulate prices in keeping with the mass of paper money in circulation (Sharapov). This was implemented in Russia only after the October Revolution of 1917. The term is «new content of money under socialism».

It is hard to say unequivocally whether Count Witte's convertible rouble was beneficial or harmful. His system enabled the country to gain access to the European capital market. The rate of growth of Russia's national income increased, the network of railways expanded, and trade thrived. On the other hand, during this period taxes increased and grain exports mounted, though grain was badly needed in Russia. The situation paved the way for the social conflicts which ultimately led to the socialist experiment beginning in 1917.

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