

## **Monometal System of S.YU. Witte Within the Context of Economic Development of Russia in the End of the 19th Century**

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**Abstract:** In modern condition of large-scale economic transformations in economic sphere, learning of the active role of the state in economic development is now topical than more than ever. S. Yu. Witte was the most consistent supporter of active government control country's economy. This study considers the essence and content of financial and economic reforms of Witte. Special attention is paid to monetary reform and its place in financial policy of the state. Necessity of its performance is discovered, the process of preparation of reforms with Bunge and Vishnegradskiy at the helm of Treasury Ministry is described, analysis of main arguments for selection of gold monometallism as a base for new currency system is contained. Content and main stages of implementation of currency circulation reform are considered. Background of development of money circulation in the second half of the 19th century. We observed different variants of solving the task of arrangement of money circulation as well as the main elements of gold mono-metal monetary system. Basing on the materials of meetings of the 3rd Part of Free Economic Society we consider main arguments against implementation of monetary reform, suggested by Witte which were furthered by opponents of the reforms as well as the main points of the Program of "preliminary actions for implementation of the monetary reform". While analyzing the process of preparation and implementation of the monetary reform, special attention is paid to important external aspect of the reform, namely fortification of Russia's international credit. According to S.Yu. Witte's vision, stabilization of monetary system should have furthered active attraction of foreign investments for Russia's industrial development.

**Key words:** Monetary reform, monometallism, budget system, S.Yu. Witte, gold reserve

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### **INTRODUCTION**

In modern conditions there occur some debates regarding the necessity of making changes in economic policies of countries. In this aspect, we consider the program of "democratic idealism" by J. Stiglitz to be interesting. The researcher suggests correcting balance between the state and the market. Macroeconomic regulation is one of the spheres where state intervention is reasonable. Monetary reform introduced by S.Yu. Witte is a vivid example of such intervention and this historic experience is of much interest nowadays, especially within the context of "building" economic model of the state into world globalization process.

### **MATERIALS AND METHODS**

Ignatyevna analyses economic system of S.Yu. Witte from the outer positions, considering the tasks of the reform which may be solved in terms of foreign policy Diakin (1991) expressed his disagreement with the accusations against S.Yu. Witte, according to

which it was his financial policy that was the main reason of peasant agriculture's decay. He used vast documentary material to prove that forced development of industry was the reason of peasant agriculture's degradation. In Foreign historiography attention of the large amount of investigators was focused on Witte as the most outstanding political figure of the turn of the 19th and the 20th centuries who performed "modernization" and "industrialization" policies (Gerschenkron, 1970). In the study of American historian A. Rieber which was published in 2000, the author considers some aspects of interaction between the Ministry of Finances under the guidance of S.Yu. Witte and social spheres. Witte's style of work as well as his antecedent's style of work former minister of finances was developed by school of private entrepreneurial activity. Both of these two ministers were persistent, decisive and lacked scrupulosity in the course of selection of their political allies. Witte's managerial style, according to the researcher, deserves as close attention as it economical system does. Personnel of the Ministry of Finances were always in touch with commercial and industrial representatives which brought

feedback into implemented reforms (Rieber, 2000). Theorists of gold monometallism were represented by head of the sub department of political economy and statistics of Saint-Petersburg University I.Yu. Kaufman, professor of political economy and statistics of Yuryevskiy University A.N. Miklashevskiy and academic secretary of Scientific Committee of Ministry of finances A.N. Guryev (Melnikov, 2010). In the 19th century, the most of the countries switched to gold value system in connection with enormous growth of commodity circulation and development of credit. England actually switched to gold currency at the end of the 18th century, in 1816 gold monometallism was officially announced. In the 1870s it was introduced in Germany in Nordic countries, in the countries of Latin Monetary Union (France, Italy, Belgium and Switzerland) as well as in Greece and in the United States and in the 1890s, it was introduced in Austria-Hungary, Japan and Argentina. Thus, this principle served as a basis for the whole global economy. That's why, we'd like to emphasize that collapse of monetary system in the period of the First World War was not a ruin of Witte's model but the component of collapse of world's gold monometallism system.

## **RESULTS AND DISCUSSION**

Monetary reform in Russia was being planned during a long period and it took about 15-17 years. Significant contribution into its implementation was made by three antecedent ministers of finances: M. Reiter, N. Bunge and I. Vyshnegradskiy. S.Yu. Witte continued and finished their business. Another important fact was that before the beginning of monetary reform's implementation, gold reserve of the state increased up to 645.7 millions of rubles (with I. Vyshnegradskiy at the helm it increased in 309 millions of rubles). Witte was capable to realize these advantages. His main goal was to fortify monetary system of Russia which represented the primary structure of united home market that was being developed at a high pace.

Preparation and implementation of this reform has its background which was connected with development of currency circulation in Russia which began in the second half of the 18th century and which continued throughout the whole 19th century and which was described in details by Witte himself and other authors.

Up till the middle of the 1890s, paper money circulation predominated in Russia. Paper money was first issued in the late 1760s, basing on the Manifest of Catherine the Great dated the 29th of December 1768 and which were called assignations (paper money). This act

laid the foundation of a long period of inflationary paper money circulation which lasted for 100 years up to introduction of gold currency. As a result of issuance of an enormous amount of fiat bank notes during Crimean War, the value of paper ruble dropped to 83.5 kopecks in 1895 and during next few years it dropped up to 2/3 of ruble. Exchange value of ruble was unstable and demonstrated a tendency to drop. M.Kh. Reiter understood that arrangement of currency circulation was a pre-requisite for development of credit and attraction of Foreign capitals into the country.

Under direct supervision of Ye.I. Lamanskiy in 1862-1863 there had been an attempt to recover exchange value of ruble and change of ruble to gold which resulted in a total failure. After spending several millions of rubles by 1866 exchange rate of ruble equaled 68%. New issues of paper money that associated with Russo-Turkish war of 1877-1878 caused another slump of exchange of ruble (up to 61.7% in 1879). Thanks to Saltykov-Shchedrin's good graces all educated people of Russia in the 1870s used to say: "Back in the day one could have had fifty-kopeck piece in exchange for one ruble abroad and now you're going to be stroked in the face if you show one". Only in two years after the war finished, on the 1st of January, 1881, decree about gradual retirement of temporary issues of bank notes at the amount of 420 millions of rubles by means of annual redemption. The aim of this measure was, as it was stated in the decree, "to further fortification of monetary unit without causing sudden restraint of money market and industrial and commercial difficulties that may be caused by this" (Bugrov, 2015).

Thus, damaged money circulation became the gaze of Ministry of finances yet in 1880s. At the meeting of Financial Committee on the 27th of June 1887 the participants agreed that it had been necessary to support of ruble's exchange rate with gold circulation. There were four means of accumulation of state gold reserve: domestic gold extraction, trophies of war, Foreign loans and exports of goods. Russia mostly used the latter one, namely, forced agricultural export. Tax and custom system was aimed at export promotion. Slogan "we may underfeed but we're going to export this" became popular all over the state. Introduction of monetary reform was preceded by the range of acts which served for reducing the number of speculative transactions and weaken currency intervention. On the 13th of June 1893 banks were prohibited even to indirectly further speculations on exchange rates. Persons, who were guilty of performing of such transactions were subject to penalty at the amount of 5-10% of the transaction amount. "Statistical" (1 kop. For 100 rubles) customs on imports and exports of bank

notes was introduced. Secret export or import (i.e., without paying fees), was subject to a fine at the amount of 25% from contraband sum. At Berlin Stock Exchange which played an important role in speculative activities with Russian rubles in 1894 the mass (at the amount of 30 millions of rubles) buying out of bank notes at a low rate which was very profitable for Russia. Among preparatory measures one may mention conclusion of customs agreement with Germany. In response to heavy duties on Russian bread exports Witte introduced the law through National council in according to which tariff rates were considered to be minimal only for those countries which adhered to regulations of the most possible furtherance in relations with Russia. Germany didn't adhere to such regulations and its exports to Russia were subject to tariffs with penalty rate. Germany had to make some concessions. In 1894, new trade agreement was concluded. The program of "preparatory actions for implementation of monetary reform" was planned within three points:

- Fortification of exchange within the rate, close to 1.5 credit rubles for 1 metal ruble
- Strengthening of exchange fund and
- Authorization for transactions with gold

This program was implemented "very carefully" within the next nine years" (Tatarinov, 2011). In March 1895 Witte addressed the meeting of Committee of finances in support of authorization of transactions with gold and levying of some state-owned payments in gold. He mentioned that in current state placement of foreign capitals in Russia is difficult. When speaking at State Council on the 28th of December 1895, Witte paid attention to another aspect of monetary reform, such as necessity to fortify Russia's international credit. At the existing monetary system, the money is loaned less willingly and on less beneficial terms. We are forced to "pay foreign creditors some special tax, special insurance premium" for the risk of exchange fluctuation (Anonymous, 1994).

The task of regulation of money circulation could have been resolved in various ways. In conditions of devaluation of silver on the world market Witte preferred the most expensive but at the same time the most perspective in terms of international relations, gold monometallism. Thus, he demonstrated some courage. On the 14th of March 1896, S. Yu. Witte submitted the project "Regarding correction of money circulation" for consideration of Committee of finances. New monetary system, built on the principle of gold monometallism, included the following elements.

New-mintage gold coin with a value of ten rubles was the main coin in Russia of those times, as well as a legal currency. Gold coins of the mintage of 1885 were subject to acceptance for all the payments till their withdrawal of circulation with ratio of 1 ruble = 1 ruble and 50 kopecks in gold coin of a new mintage.

**Payment power of silver was restricted to 50 rubles:** State bank notes represented legal currency and were included into bank's liabilities. They were exchanged to gold at the rate of 1 credit ruble and 50 kopecks for 1 gold ruble or 66 2/3 golden kopecks for 1 credit ruble which corresponded to average rate of ruble and correlation of account balance which had been formed during several years before the reform was introduced.

Issue of bank notes was performed by National bank for bank's commercial operations only. Up to 1 billion of rubles bank notes were secured with gold for 50%, amounts that were >1 billion of rubles were secured for a full price.

All liabilities per state and private loans that had been made with the usage of metal rubles, stayed untouched, i.e., they were subject to payment with new rubles half as much again.

On the 15th of March in the newspaper "Novoye Vremya" the study that described the content of the money reform was published which served as a signal for creation of bitter dispute around the project (Bokarev, 2011).

Project of the reform caused significant resistance on the part of various social groups in Russia which upheld various political views and whose understanding of the problems of Russia's economical development were different as well.

In order to try and look into this largest reform, introduced by Witte from the point of view of his contemporaries, the researchers turned to materials of meetings of the 3rd Part of Free Economic Society. Yet at the first meeting the members of the Society defined the issues which were lately used for discussion of the whole project, namely the conditions, needed for implementation of the reform, consequences of the reform for state's national economy. Without dwelling upon the discussion that occurred, let us only note that all objections and declarations against money reform may be divided into three groups. The first one represented discussions about the necessity of transformation of state's monetary economy. The second group of objections was related to the possibility of reforms' implementation. This group of objections was focused on the problem of distressful state of Russia's population and its state budget. And finally, the third group of objections was related to technical aspect of the project.

None of other economic reforms was as debatable at those times as that monetary reform was. Witte's ideas and suggestions became the targets of virulent abuse. One of Witte's undeniable achievements that made him historically outstanding person was his courage and strength to run counter to powerful social movement and to act in accordance with his own visions of Russia's well-being. In 1895-1897, the reform was implemented. The main aim of monetary reform was liquidation of inflationary paper money circulation and introduction of gold currency. Thanks to preliminary measures made by Bunge and Vyshnegradskiy by 1895 the state of ruble stabilized insomuch that many public figures considered it possible to head for introduction of gold circulation at 100% gold backing. Though, Witte believed that until reform is implemented, one could not be sure about stability of "1 credit ruble that equals 66 2/3 gold kopecks" parity rate. He explained it by the fact that economy's needs set up alternatives: either quick switch to metal circulation or production of new issues of bank notes. Raise of ruble's exchange value up to gold parity was considered by supporters of this measure either as something that could be achieved gradually or implemented instantly in the result of introduction of a reform. Witte believed that in the latter case, it could cause large perturbations in the economy. In the first case if the exchange value rises "gradually and in undefined terms, the people would be left under pressure of constantly rising prices for an indefinite period of time. Slowness of this phenomenon, uncertainty about final result may frighten both adventurous and cautious ones. It may be that the whole generation at struggle with constant losses would lose the will to perform productive labor. As a result, instead of acute crisis, the country would suffer long-term disease with undefined result". In both cases, the monetary reform itself would be exposed to risk, since its success in many ways depended on success of industrial and commercial development of the country. First of all, possibility of leakage of gold abroad depended on condition of external trade balance which in its turn, depended on condition of ruble's exchange value. The entire reform of monetary circulation was designed for future industrial development of Russia. However, inevitable was the question about how devaluation and free exchange of ruble to gold would influence intra-organizational activity and first of all, on position of the major part of Russian subjects in the future. Witte believed reorganization of financial circulation wouldn't cause any significant perturbations in social and economic spheres. Currency convertibility system mainly affected external economic activity while correlation of metal and paper currency units that was being introduced

only fortified the position that had developed. Lifestyle pattern of the majority of population, its everyday material and subsistence support didn't actually depend either on the gold parity itself or on the character of world currency calculations, Russian peasant was left outside the system of world money market and "price weather" inside the empire was controlled by the government.

Introduction of exchanging ruble to precious metal was established in keeping with actual rather stable rate correlation: credit ruble equaled 66 2/3 of gold kopecks. Main conditions for introduction of the reform, as well as its subjects were defined by Witte in his presentation to State Council as of the 14th of March 1896 which was called as "Regarding corrections made to money circulation" in the following way: "To consolidate gained success in the sphere of financial and national economy by means of creation of solid foundation for them in the form of metal monetary circulation" (Buyst *et al.*, 2005). Introduction of gold circulation was performed stage by stage. The first step in that direction was the law dated the 3rd of January, 1897 "Regarding minting and issuance of gold coins", according to which "With a view to elimination of grounds to doubts, created among population because of inconsistency of gold coin's nominal value to its actual cost, defined for exchange to bank notes from now forth gold coins should be minted with its cost, indicated on it". That was the law about ruble's devaluation.

Another important act on reform's completeness was decree dated the 29th of August 1897 regarding the bases of issuance of bank notes. The decree formulated the principles of bank notes' emission. "Later on the same day another decree appeared which touched upon printed message on bank notes: it was now liability of National bank and state about exchanging bank notes into gold. Also, the new monetary unit was defined (one ruble = 1/15 imperial which contained 17.424 of quota of pure gold). Transformation of monetary system on the base of gold monometallism required changes of monetary regulations as well new edition of which was approved by Nicholas II on the 7th of June 1899. The main provisions of that document were the following. Ruble was national monetary unit of Russia which contained 17.424 of quota of pure gold. Gold coin could be minted from both gold that belonged to treasury and other metal that was provided by private persons. Full-bodied coin was obligatory for acceptance in all payments on unlimited amount of money. Silver and copper coins were made only from treasury's metals and were auxiliary in circulation, being obligatory for acceptance in payments up to 25 rubles. Silver coin with equivalent of 1 ruble and 50 kopecks contained 900 parts of pure silver and

100 parts of copper, while silver coin with denomination of 20, 15, 10 and 5 kop. contained 500 parts of silver and 500 parts of copper. Beside gold coin with denomination of 15 rubles (imperial) and 10 rubles, 7 rubles and 50 kop. and 5 rubles, coins of the former minting were being in use.

Gold was quickly established as a main monetary unit which favoured stability of exchange-value of ruble. In the end of 1898, Witte stated that "monetary circulation of Russia had been put in order and established just as firmly as it was done in the states where this sector of national economy from olden times had been in exemplary condition". According to his calculations by 1899 33% of circulation fell on gold coin and 10% on silver coin while by 1896 >98% of paper money was circulating with >2% of metal ones. Minister of finances stated that three years after the launch of the reform gold backing of ruble equaled 168%. As a result of application of hidden devaluation, stabilization of ruble was reached without replacement of currency units, without revaluation of process and liabilities. All this allowed Witte to write later in his "Memories": "I performed the reform in the way that Russia's people didn't even notice it as if nothing changed at all".

**Summary:** By the middle of 1890s S.Yu. Witte theoretically justified the necessity of money circulation reform by means of introduction of gold monometallism. Stage-by-stage implementation of the reform allowed making hidden devaluation. Monetary reform provided stabilization of monetary system and fortified exchange rate of Russian ruble. The following historical incident was quite meaningful one: in 1913 during Diaghelev's 'Ballets Russes' in London Royal Theatre Covent Garden choristers foiled the performance of "Boris Godunov". They demanded payment not in English pounds but in Russian rubles which were one of the most stable currencies, reserved by gold. Thanks to the reform and introduction of monometallism, Foreign investments started flowing quicker into the state which became an important element of economic program of Russia's industrialization. Industrial development was the alpha and omega of Witte's views. Monetary reform caused fierce debates in the society and Witte had to avoid confrontation with his political opponents, performing it part by part.

### CONCLUSION

Success of Witte's monetary reform was in many ways related to his politics of stabilization of Russia's budget system. S.Yu. Witte didn't interpret budget expenditures as panacea for all woes. Reserves have its limits, beyond which rejection of specified requirements may cause serious hindrances to normal development of

civil and economic life of the country. It should be noted that at its time results of the reform of 1895-1897 arouse rave reviews of the contemporaries. Well-known German money circulation specialist Ottomar Haupt wrote: "There is nothing we can compare with successful introduction of gold currency in Russia. Russian Minister of Finances S.Yu. Witte managed to bring money business in the country to the state which is by science is considered to be an ideal state of currency gold base of it" (Nagane, 2004). Implementation of monetary reform was one of the pre-requisites for implementation of program aimed at modernization of Russia's social and economical spheres. Witte realized direct connection of monetary unit's stability and general state of the economy. Admitting that monetary reform is being implemented successfully, he believed that reconditioning of gold circulation would be stable and favorable at conditions when economic state is as much stable as it cannot be destabilized by combination of adverse circumstances.

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