

but openly. But this will has remained as yet unfulfilled, and the time is ripe for its fulfillment.

Russia's agricultural period has come to a close. There are so many seeking new additional earnings, and so many debts are piled up on the surface of the land, that one inevitably comes to think: Couldn't payment be extracted from underneath the arable layer? For you realize, that a few hundred thousand Englishmen digging coal . . . earn for themselves and for all of Europe, just as much as tens of millions of Russians sowing and reaping rye. . . .

The danger of free trade

In conclusion, I consider it necessary to say that one of the collateral causes for the appearance of this work is the circumstance that in our Russian literature very often, and in the current literature even too often, there are to be found works of the so-called free trade tendency, where it is usually asserted that protectionism is only supported in Russia by people who lack scientific training, and for petty, self-serving ends.

Belonging to the small circle of Russians who have given their entire lives to science, who own neither factories nor plants, and knowing that contemporary science has uncovered crude untruths and omissions in the "classical" and "orthodox" teachings of the free trade school, and, finally, seeing that the historical and experimental—that is the real—path of study of political economy leads to different conclusions than those of the freetraders, which are taken on faith as "the last word in science"—I consider it my duty, partly in defense of truly contemporary, progressing science, to say openly and loudly that I stand for rational protectionism. Free tradism as a doctrine is very shaky; the free trade form of activity suits only countries that have already consolidated their manufacturing industry; protectionism as an absolute doctrine is the same sort of nonsense as free trade absolutism; and the protectionist mode of activity is perfectly appropriate now for Russia, as it was for England in its time. . . .

[Concerning] the "classics" Adam Smith and David Ricardo, it is time to cease taking them at their word on everything. It is worth reading them, but in reading them, one ought to see how erroneous is their reasoning; and if someone does not see this, then he should not pretend to understand the subject. The doctrine of the free-traders may be logical, rational, and beautiful. That does not mean it is true. "Phlogiston" was very logical, rational and beautiful, but it did not pass the test of experiment and turned into something completely different, to the degree that all chemistry was at one time called "anti-phlogiston teaching." It must be understood, that the economic doctrines of the "nationalists" and the "historical school" have long since broken free-tradism at the roots, and that contemporary economic science should, for clarity, be called "anti-free trade." This must, absolutely must be known by anyone who would speak on economic questions in the name of science.

Sergei Witte, 1912

The fight for Russian industry

Count Witte's appointment to the Ministry of Finance commission to draft the 1891 tariff law came as he was finishing his Russian-language edition of Friedrich List's *National System of Political Economy*, a work Witte called "the solution for Russia." Witte shared List's view, that railroads were vital for large-scale national development, and for drawing the rural population into an increasingly urban-oriented society.

One year after the tariff was inaugurated, Witte replaced Vyshnegradsky as minister of finance. He initiated financial reforms to accelerate the influx of foreign capital, and capital accumulation domestically. In 1894, he ended speculation on the ruble on the Berlin money markets, by secretly buying up rubles and then pulling the plug on speculators when their contracts came due. He reorganized the state bank to issue loans for industry, and created a network of state savings banks, both to "awaken the restlessness of enterprise" in the peasantry and working population, and to increase capital formation. Every railroad station and school was authorized to install a bank branch.

In January 1897, Witte placed Russia on the gold standard, calling this "one of the greatest successes in the peaceful cultural development of mankind." This measure, coupled with the 1894 stabilization of the ruble, created the conditions for a rapid influx of foreign capital, which increasingly took the form of investment in founding chartered companies and industrial works, rather than credit to the government.

Scientist Dmitri Mendeleev's assertion in the 1891 tariff report, that "Russia has now reached the period at which the already existing germs of manufacturing industry must develop with tremendous pace," was becoming reality. Railway development is exemplary: The 5,400-mile Trans-Siberian Railroad was completed on schedule in 1903; the amount of track laid from St. Petersburg to the Crimean Sea tripled. Railroads were the largest single industry in the country, employing 400,000 people in 1900, and were forcibly transforming other sectors. The metallurgical industries were developing apace, while approximately one-half of all finished metal products were railroad tracks. The oil and

chemical industries were operating at full throttle, and coal production in the Donets basin tripled between 1892 and 1903.

Under Witte's direction, government structure and financial policy were reorganized, in order, as he put it, to "give the country such industrial perfection as has been reached by the United States of America, which firmly bases its prosperity on two pillars—agriculture and industry."

The Ministry of Interior and the Ministry of Agriculture and Domains remained strongholds of the landed nobility, who for the most part supported an alliance with England and perpetuation of Russia's role as chiefly a grain exporter. Chipping away at their areas of control would not be enough, as Witte's eventual defeat in 1905 showed. Agriculture remained backward and hobbled comprehensive industrialization. Although Russia's industrial growth was among the most rapid in the world, over seven-eighths of the population lived at subsistence level in rural villages.

In his 1890 budget report for the Ministry of Finance, Witte wrote, "The railroad is like a leaven, which creates a cultural fermentation among the population. Even if it passed through an absolutely wild people along its way, it would raise them in a short time to the level requisite for its operation."

Witte called the landed nobility "parasites with exaggerated hopes of government assistance." He openly advocated the dissolution of the rural communes, a form of land tenure that kept the ex-serfs in bondage, observing, "I doubt whether a man can be found, who could carry through the change from *obshchina* [commune] to the individual farm basis, so necessary for economic progress."

In his *Memoirs*, Witte analyzed the immorality of the oligarchy in Russia: "Speaking of our nobility, I feel impelled to say again that I am a hereditary noble . . . and that I am aware that some nobles are truly noble, men who are concerned for the entire people, particularly the weak. Such nobles were the ones who worked out the reforms of Emperor Alexander II, but, unfortunately, they are in the minority. Politically speaking, the majority of the nobles constitute a band of degenerates who are concerned solely with their own interests, their own appetites, and it is they who direct their efforts at extracting favors from the government at the expense of the people."

Meeting his domestic opposition head on, over what was to be done for the peasantry, Witte wrote in an October 1898 memorandum to Tsar Nicholas II: "The peasant, while personally free, still finds slavery in arbitrariness, lawlessness, and ignorance. . . . Slavery robs the individual of the impulse to improve himself." He reported that "rural education remained not only behind Europe, but behind Asiatic and transatlantic countries as well. It is necessary to move energetically; a dark [ignorant] people cannot be perfected." He also condemned the whippings meted out by peasant courts, since this practice "killed God in human beings."

Count Witte's 'Lectures on Political Economy and State Finance'

The following excerpts are taken from Witte's two-volume Lectures on Political Economy and State Finance, published in 1912. The Lectures originated as classes for Tsar Nicholas II's brother and, at the time, heir, the Grand Duke Mikhail Alexandrovich, whom Prime Minister Witte tutored after 1900. A decade later, out of power, Witte published transcripts of the lectures. Our translation, by William Jones, is from the 1913 German edition, published by Josef Melnik. Subheads are added.

On what basis economic activity should be conducted will be the subject of investigation when we discuss international trade; in passing we should note that only three states—England, Belgium and Holland—have considered it advantageous to introduce free trade; all other states are adherents of a protectionist system of tolls. We would also like to note that in the economic literature, the number of those proposing protectionism are increasing, and there is a growing understanding of the defects of the theory of the English school, which claims that free trade is advantageous for all countries, regardless of their level of development.

The English school of national economy has attributed much too great a significance to the division of labor among nations and to the economy of labor, which asserts that each country should produce only those products, which, thanks to the peculiarity of its soil, its climate, and its mineral deposits, it can produce more cheaply than other countries, and whose production, therefore, would represent a more economic utilization of the world's productive forces. The writers of this school view the world as a mammoth workplace, in which each country produces only those goods, which it can produce in the most effective manner, and, therefore leads to the best possible utilization of the productive powers of our planet and of humanity.

Such a conception, however, is much too one-sided, and disregards the significance of international trade; its implementation, without taking into consideration the level of industrial development that the country in question has achieved, can fully paralyze the productive forces of the country and inflict great unhappiness on its people; its introduction in all countries of the world would lead to the suppression of the industrially weaker countries by the industrially stronger.

In such a manner the United States, thanks to its size and the fertility of its agriculture, produces grain under much more advantageous conditions than do the western European countries. If the import of American grain deprived the French farmer of the possibility of producing grain, what would he then do? Should he then, might you say, occupy himself with wine production? But then, how would such an extraordinary wine production be disposed of? France finds itself in the same unfavorable position with regard to

the silk production of China, the wool production of Australia, and the beef production of Argentina. Should then the French farmers, who constitute half of the population of that country, leave their farms and move to the cities? But with what perils would such a migration be associated? Perils not only from a purely economic point of view, but also from the point of view of general health, of morality, of political safety and of the entire future of the country? And, furthermore, where would the masses migrating to the cities find profitable work? Each country must strive to diversify its production and introduce all innovations as soon as they appear compatible with the climate and with the natural resources of that country. . . .

Population density

The most important factor determining the transition from one level of economic production to another, is the increasing population density. . . . Let us assume that by means of hunting alone, one can feed on one square kilometer of land no more than 40 people; the surplus population will find no food and will die. Only with great effort, does man slowly learn how to tame animals and gradually shifts to a more pastoral form of life, a transition which permits him to feed a greater number of people and guarantees him a more certain livelihood. . . .

Increasing population density compelled man to exert his intellectual powers and to discover new methods for the greater cultivation of the soil. . . . In this way, agriculture progressed and cattle-raising became a mere adjunct to agriculture; in the period of farming, people became settled. . . .

In our time, in all the countries of western Europe as well as in Russia, the growth of national wealth out-distanced population growth: The wealth of nations grows more rapidly than does the population. And this is possible, thanks to the extraordinary progress of the natural sciences, and their ever broader application in the technology of commodity production. Without going into its many other causes, we see already that the introduction of machinery into production has increased the productivity of human labor more than tenfold. . . .

Every form of labor is associated with a particular use of man's physical and intellectual powers. Even a purely physical exertion of human powers requires the presence of man's intellectual capabilities, and vice versa, creative intellectual activity is always accompanied by the expenditure of some muscular exertion. As, however, in any form of labor generally, either the physical element or the creative element predominates, leading us to characterize it as either physical or creative labor. . . .

Knowledge is one of the most essential forms of capital. The entire history of the process of production testifies irrefutably, to the prominent role played by this form of capital. You cannot imagine any form of capital, any tool, any instrument, any machine, any industrial installation, the de-

velopment of which was not preceded by the study of some phenomenon of nature prompting the original idea for that discovery. It could be said without exaggeration, that every machine, every chemical process, is nothing but the material realization of some technical, scientific knowledge. The skill of the workers, the talent of the leading engineers, or of entrepreneurs, appear in their turn as the result of a labor of reason, which is the fruit of knowledge, the form capital takes as it spreads to the broad layers of the population. . . .

Not less important, in this respect, are the provisions for providing greater access to knowledge to the entire population. The results of a broad organization of popular education, for example, in Germany, became so evident that its influence on the development of the country's capitalization should be considered irrefutable.

Two objectives must be aimed for in education: first, to secure a high level of scientific organization in the education system, thereby expanding the field of scientific thought, to which we owe the most fundamental discoveries; and second, an expanded dissemination of general practical knowledge, which contributes to raising the quality of labor, both physical and intellectual, on all levels. Scientific and practical knowledge, stimulated through such an organization of education, develop ever closer and firmer bonds, as we observe in Germany, by which the process of production and the capitalization associated with it are advanced.

The menace of 'free trade'

Developing their theoretically convincing, but for individual countries, practically useless, axioms of free trade, Adam Smith and a number of his more thoughtful disciples, operated mainly for the benefit of England. The superbly developed theory enticed even statesmen in countries with a poorly developed national economy onto the road of free trade; it strengthened the economic dependence of these countries on England, and secured for a long time the trade and industrial ascendancy of that nation. In the 1850s and '60s, enthusiasm for the idea of free trade was universal. Bitter experience, however, soon convinced people of the drawbacks to the untimely application of this theory. . . .

In addition to the detrimental results of the untimely application of the principles of free trade, an unquestionable influence on the shift toward protectionism was exerted by the noted German economist Friedrich List, who with particular emphasis exposed the shortcomings of the dominant English school of economists and demonstrated the ever-present necessity for each country to strive for the independent development of all its productive forces.

Just as there can be no freedom in the unlimited struggle of all individuals against each other, where the weaker become dependent upon the stronger, so also in the struggle between peoples under the rule of the free trade principle,

the weaker nations become dependent on the stronger, which surpass them, and they are given no possibility for a normal development. Every country must therefore develop itself independently and take necessary measures to secure for itself the possibility of development.

The wealth of a nation consists not so much in the sum of exchange values it disposes of, but rather in its labor and in the diversity of its productive forces, which create those values and for whose benefit it must strive for a many-sided development. But the single individual cannot accomplish this by himself; this is the function of the state, the nation, which comprises the link between the individual and mankind. Every nation traverses a series of successive stages of development, the highest of which is the commercial-industrial phase. A policy of protectionism, the establishment of primarily moderate customs duties, serves as a means to the achievement of that highest phase.

List has penetrated deeper into the meaning of protectionism; he saw in it only a temporary school for the nation, a means to defend its national freedom, and a potentiality for unfolding the powers of the nation in order to more extensively participate in the labor of the world. He is the first one to establish the relationship between protectionism and nationalism, but not a narrow-minded nationalism striving only for a greater amount of goods for itself and at the cost of others, but rather a nationalism of a higher order. Each nation must develop all its capabilities in order to acquire, in the broader universal labor process and in free exchange with other nations, the opportunity to contribute as much as possible to the treasure house of the world.

Malthus refuted

The basic idea of Malthus, that the physical universe places a limit on population growth and on further development to the extent this is conditioned by a greater population density, may be correct, but at a point so far in the future that it cannot be foreseen. With regard to the present, the theory of Malthus is deprived of all practical significance. The improvements achieved in technology have shown themselves to be so great, that, for individual regions, a much more rapid increase in production than in population has been possible for a long period of time. . . .

How little practical use the malthusian theory has, is best seen in the example of the United States of America, whose population growth Malthus took as the basis of the exposition of his well-known progressions. Since the end of the eighteenth century, when the "Essay on the Principle of Population" was first published, until the present time, the population of the Union has found itself in rapid growth; in spite of exporting enormous quantities of grain to the European countries, there can be seen no disparity between foodstuffs and the demand for them by the native population, but rather it has proven to be possible to even accept around 12 million immigrants and their progeny and to feed them.

Book Reviews

Witte: Tariff helped build our industry

by Denise Henderson

The Memoirs of Count Witte

translated by Sidney Harcave
M.E. Sharpe, Armonk, N.Y., 1990
885 pages, hardbound, \$39.95

The writings of Count Sergei Iulievich Witte (1849-1915) have not been generally available in English, but historian Sidney Harcave has translated and edited a new and more complete translation. Few efforts could have been more apropos: As of this writing, the Soviet Union will formally pass from existence on Jan. 1, 1992, and the crucial battles for the newly freed republics will revolve around the same issues as Witte's efforts to stop the inroads of Adam Smith's "free trade" into Russia.

Harcave's introduction provides a helpful thumbnail sketch of Witte's life and career. He documents that Count Witte wrote three works, two of them draft memoirs, which have been edited and translated into seven languages. Another, which Harcave excerpts briefly in the *Memoirs*, was *The Origins of the Russo-Japanese War*, in which Witte documented his efforts at war-avoidance, beginning with the trans-Siberian railroad. Harcave points out that much of the material in the *Memoirs* assumes the reader has access to the former work, which included a full volume of documents.

The following excerpts from Witte's memoirs were written around 1911, after his ouster from government.

I feel obliged to speak of the response to my proposal that with the construction of the Siberian Railroad there should come greater migration from European to Asiatic Russia. . . . Such a movement would help thin out the population of European Russia and thus make it easier to improve the peasant lot there and, in the long run, help the railroad pay for itself by developing Siberia.

Yet the idea, far from receiving support, met with hidden