

Russia's Loss in World War I: The Economic Causes of Revolution

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Abstract

The shortage of fuel and food in Russia is the reason of Bolshevik revolution. Before World War I, the Russian government tried hard to establish national banks and expansion in Balkan to protect its trade lines. Before and in World War I, the investment from banks to small industrial companies was lack due to the corruption in government. And the labor force transferring from industry into army made the condition even worse. Monopoly groups in industry fought for the large military order for goods and bought the rare fuel company to promise the supply. Nevertheless, since the loss in transportation and front line made the city citizens fail to get enough food and fuel to feed up their basic needs, the thought of Bolsheviks spread quickly in poor people like factory workers and small farmers.

Keywords

Russia Industry; World War I; Bolshevik Revolution.

1. Summarizing of Russia in World War I

1.1. Shortage of Fuel Caused Revolution

The loss of Russia in World War I to the Germans and the rising of the Bolsheviks is due to the chaos of the economic system at that time. The lack of fuel during the war caused serious consequences in St. Petersburg and in the army, resulting in anti-government sentiment. This was used by the Bolsheviks to gain support and to eventually take control of Russia. Additionally, the corruption in banks, due to a lack of oversight and monitoring, led bankers to gain large profits on their own which affected the war effort. This system led to monopolies in industrialization, which made the economic system in Russia inefficient. Small factories suffered as a result since they also needed fuel and raw materials. What is more, these monopoly companies were ordered by the government to switch into military production, so they had to buy fuel companies to maintain their factories, which significantly affected the supply of fuel to cities and towns.

1.2. Russian Power before World War I

When World War I began in August 1914, Russia was a major European power because of its sheer size and population. Russia's political system was archaic and fragile; its land holdings and natural resources were vast [1]. Russia's territory spanned around one-sixth of the Earth's landmass, from Finland in the west to Siberia's Pacific coastline in the east. The population of the Russian Empire was also enormous, around 128 million people in 1900 and even more in 1914 [2]. Between 1913 and 1919 a country with the largest territory, the third largest population, and the fourth largest economy in the world was reduced to an average level not seen in Europe since the Middle Ages [3]. Everything is complicated by boundary changes. Between 1913 and 1922, Russia gave up 3% of its territory, mainly in the densely settled western borderlands; this meant the loss of one fifth of its pre-war population [4]. Meanwhile, powerful political forces propelled the economy onto a new trajectory away from a relatively decentralized market economy with predominantly private ownership of land and capital

towards state ownership, permanent mobilization, and the allocation of resources by centralized plans [5].

1.3. The Trying to Stimulating Economy

The Russian Navy complained to the emperor that the Strait of Bosphorus controlled the trade between Southern Russia and the world market. In the time of Nicolas II, the expansion of Russian Slavs into the Balkan Peninsula began again because the Tsar believed the nobility's words instead of professional officers, just as the officers' opinions were often ignored by the Tsar with respect to Serbia and Albania [6]. The direct reason for the war between Austria-Hungary and Russia is because of the broken relationship between them. The Russian government faced tremendous pressure from Russian citizens in the Bosnian Crisis since the editors created the word "diplomatic Tsushima" to criticize the surrender to the German-Austria League [7]. The reforms embraced by Tsar Alexander II in the early 1860s were designed, in part, to stimulate changes in the Russian economy. Emancipating the serfs was not just a social reform, but it was also intended to release them from the land and the control of conservative land-owners. The Tsar and his advisors anticipated that many freed serfs would become a mobile labor force and relocate to areas where industrial workers were needed [8].

2. The Danger in Industry

2.1. Lack of Labor and Investment

In WWI, the Russian Army found it hard to keep their front line. In many European provinces of Russia, the average railway length per verst square was even smaller than in Siberia, which was 7.1 verst per verst square [9]. In 1908, the workers in the railway production industry was only 3.3% of the whole industrialization worker number. In 1912, the condition was even worse as only the metal processing industry, which includes railway production, remained with 35% of workers in 1908 [10]. This tendency shows that the railway system, even though still increasing in distance, is facing enormous difficulties. These difficulties would also affect the ability of the railway system to transport supplies to the frontlines and large cities. However, it's not only because of the outdated railroads, but also the lack of monitors in each industry. The establishment of private banks and national banks successfully provided many loans into the market. Nevertheless, there was corruption between officers and bank owners at the same time. The gold currency standard system made by Sergey Witte kept the value of rouble stable and limited the number of roubles at the same time. Many factories could not get enough loans from banks and the national banks did not provide currency on time. In the 1880s, identifying a need for capital investment, Witte made it easier for foreigners to invest in Russian industrial ventures. Existing barriers were removed while foreign individuals and companies were offered incentives for investing in Russia's industrial and manufacturing sectors. Witte also undertook currency reform. In 1897, he moved the Russian ruble to the gold standard, strengthening and stabilizing it and improving foreign exchange. He also borrowed from foreign banks to fund public works and infrastructure programs including new railways, telegraph lines and electrical plants [11].

2.2. The Formation of Industry Monopoly

The unhealthy bank industry makes Russian small industrialization hard to develop since the investment to large companies was much more than to small companies. In the book of *Industrial Monopolies in Russia: A Media History*, the Bank of St. Petersburg supported the Colom machinery manufacturing company and Sal Mo company which produced steel and machine manufacturing [12]. In addition, the controllers of large industrial groups were also hired as counselors in large industrial companies and got high salaries as a result. Mr. Messielsky, who worked as the leader of Kolomna, Salmova union company and a committee member of the St.

Petersburg International Commercial Bank, was also hired as the executive director of some other companies which were also invested in by the bank where he worked [13]. This means that the bank was eventually controlling all companies it had supported and prompted the union of large industrial groups. In addition, in 1916, the St. Petersburg Russo-Asiatic Bank board of directors decided to help Balviaigne Company to buy the stock of Novorossiysk Company to control the famous Yuzovka Factory and improve its output of military devices. However, the newspaper, Commercial Telegraph, reported that after the million rubles of bribery. Though the newspaper changed its report completely after 3 days [14]. But it is clear that the change was because of pressure from the bank. According to Svetelana, the number of companies in 1912 was obviously smaller than in 1910, which means that the banks were attending the purchasing process. The number of companies in the metal industry in 1908 only increase for about 7% until 1912, since it's the era of recovering from the economy crisis, the low increasing rate shows the purchasing of large industrialization groups and the declining number of young companies in this industry [15].

2.3. Scramble of Military Order for Goods

As the government required more military equipment, some factories were ordered to turn to producing them, which made the daily use products number become smaller. The manager of the factory was even caught by the army because he failed to complete the weapon production goals because of producing daily use items several weeks before. In 1915, the Kolomna-Salmova company was accused by the Securities and Exchange Commission's chairman Mamontov for stopping producing military devices and being controlled by Germans because one of the company's builders and investors were German. However, before an investigation into the factory's condition, the CEO of this company was arrested by the Secretary of State for War and began to decide whether the CEO should be fired or not. The result of the investigation was that the machines in factories of Moscow could not adapt the production of cannons. The conditions of turning into the production of military resources caused many cases of arrest just as the Kolomna-Salmova company. What is more, the large companies in the machine industry would be more likely to purchase other companies' factories and use them to produce military equipment, just as the Stoll Maschinenbau AG purchased an oil mill and turned it into a metal factory. In addition, banks increased their purchasing waves; the bank groups purchased and tried to manage the Chilkaser Sugar Factory, even though banks could not control the daily production as well as private leaders or government sections [16]. Those behaviors were one of the reasons why Russian citizens faced a more serious shortage than other countries which had worse production of goods for citizen's everyday use.. In the Bacmanovsko factory, which was purchased by Kolomna company before, they could produce 2500 bombs everyday in 1916. However, it was used to produce agricultural machines before the purchasing happened, so the production increase in military devices was based on the decreasing number of citizen used goods in many areas [17].

2.4. Failure of Transportation

The changing of the Bacmanovsko factory was just a small part of the whole movement of turning into a wartime economy in Russia, which significantly affected the abundance of citizen goods supplied on the market. According to Mr. Hartnett, "Store shelves were emptied of their products and inflation soared, with losses mounting on the front and hunger and desperation growing at home, the Russian government felt the pressure.". The decrease in transportation equipment production also weakened the ability of transporting goods long distances. According to Mr. Miner, "Wartime Russia still produced sufficient food during the war to feed its population, but even so, Russians still went hungry. 'The problem was not production, but rather distribution and transport, which led to periodic shortages.' The inefficiency of the czarist state began to hollow out political support." [18].

3. Russian Industry in War

3.1. Promising the Supply of Fuel

Large industrialization groups bought fuel companies, which totally destroyed small factories and citizens' fuel supply lines. The large industrial groups have bought some wood factories which had offered wood to cities before. In 1916, as the development of war, the market was harder and harder to supply enough raw materials or fuels. Since those military factories were facing fuel shortage at this time, for citizen goods factories or residents, the possibility of finding enough fuel in winter was extremely challenging. To make things even worse, these large industrialization groups were trying to find their own fuel supply companies, and they just purchased coal, wood or oil companies. The Kolomna-Salmova group purchased the forest renting companies and wood production factories in Perm to promise its fuel supply. In addition, the Russian Ordnance Manufacturing Company found that establishing companies near Donbassaero coal diggings so it could have enough coal supply nearby [19]. However, these behaviors declined the supply of other areas and other distant factories at the same time. The merging of Nobel oil companies also made the monopoly condition in Russian oil production area. The Nobel company used stocks to control the Umar oil companies, which became a large Konzern group. The Nobel group could produce more than half of the oil mining in Russia, which completed its monopoly status [20]. The group behaved just like a monopoly company, to get the largest profit, Nobel Oil Group and other two oil groups increased the oil processing factories vacancy rate from 27.1% in 1901 to 68.1% in 1910 [21]. The companies would sell goods to people who would like to pay the highest price, and those large industrialization groups and navy had much more wealth to keep its raw material supply than those residents. Making things even worse, on the Baltic Sea's coast, this region needed to import 321million ports of coal, and the demand for iron in the civil use area was in serious shortage. Part of the reason is because of the production in the military area [22]. If the civil use coal needed to be imported from another European country, at war time, since the Germans use their marines to block some trade ships to Russia and Turkey block the strait, the only way for Russians to import goods is from Siberia, which is a very rare-use trade line until nowadays.

3.2. Corruption in Government and Banks

The monopoly before and between WWI only gave profit to some officers instead of the whole industry. One of the significant phenomena in the Russian industrialization area is that the bank leaders took part in those companies' business. In the summer of 1916, St. Petersburg International Commercial Bank supported more than ten companies, and all of those companies put Vyshnegradsky as a member of their board of directors. The Kolomna-Salmova company would only give him five hundred thousand rouble as his salary. After his death, his son found twenty-five million rubles in his account only in one bank, which could let us imagine the amount of corruption [23].

3.3. Disaster in Military Caused Shortage

However, there are still some strong opponents. Just as the corruption in industrialization could cause soldiers and residents to hate the society, the disaster in the front line and lack of transportation could also make these people face shortage. In the book *Look Towards the Flame*, author Dominic tells us that the railway system in Ukraine served for the Black Sea exporting instead of transporting food for St. Petersburg or the Ural region [24]. In other words, Russia did not make its railway system work properly for war just as Germany did. What is more, in 1917, more than 15 million of the labor force had entered the war industry, which significantly affected the people participating in farms. Making things even worse, since Russia lost Poland, some of its light industrialization disappeared forever, and the shortage of those goods made farmers refuse to grow crops as before. The central government, the troops and the zemstvos

(local government in Russia) were still arguing for the price of food on the market in 1917, and the argument stopped when some food came into market, which led to the shortage of affordable crops in cities or towns [25].

3.4. Selfish Companies Feed up the Bolsheviks

The lack in bank system law and corruption in officers caused the monopoly in Russian Industrialization, which led to the failure in WWI. Though the konzerns and trusts successfully satisfied their own needs without government support, they failed to keep the balance between civil and industrial used raw materials, just like bunkers. The failure to fill the containers with necessities finally resulted in revolution and separatism enthusiasm. The revolution caused serious results and eventually broke the productive abilities of factories in each region. This means that the industrial output in Russia in 1918 was only less than half of the statistic in 1917 [26]. The damage of the civil war also decreased the power of the large capitalists' when negotiating with Lenin and the communist party. Messilsky once in 1917 and 1918 made a plan that a new trust should be established and capitalists could still gain their own factories. However, this plan was canceled in 1918 and Lenin finally decided to nationalize the enterprise instead of allowing large trusts [27]. One of the famous sentences made by Lenin was "Peace, land and bread," and when the Tsar could not satisfy those needs for the Russian people, the communist revolution finally happened in the capital of Russia and brought an end to the Romanov dynasty. The effect of ensuing civil war on industrialization significantly influenced the policies made by Stalin later because he needed to rebuild factories and proceed with the technological development lost in the civil war. After 75 years, when President Gorbachev did the same thing, the capital of the Soviet Union had another revolution and changed Russian again.

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