Financing the Imperial Russian State

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In 1898, Sergei Witte, the Russian Minister of Finance, wrote to Nicholas II:

‘The French state budget is 1,260 million rubles for a population of 38 million; the Austrian budget is 1,100 million rubles for a population of 43 million. If our taxpayers were as prosperous as the French, our budget would be 4,200 million rubles instead of its current 1,400 million, and if we matched the Austrians, our budget would be 3,300 million rubles. Why can we not achieve this? The main reason is the poor condition of our peasantry.’

While the Minister of Finance bemoaned the poverty of the Russian population and the consequent low level of taxation that it produced, the Russian state’s financial performance had proved relatively successful. Russia had avoided the type of financial crisis that had made a major contribution to the collapse of the French monarchy at the end of the eighteenth century, and the financial difficulties that had given the Habsburg state such difficulties during the eighteenth and nineteenth centuries. Witte’s analysis laid the blame for Russia’s inability to generate a sufficiently large state budget firmly at the door of the peasantry, but he failed to take into account the other forces that put pressure on the Russian financial situation. This paper will discuss the stresses on Russia’s finances and consider the extent to which Witte’s judgement on the causes of Russia’s relative penury was justified.

The Russian state budget hardly warranted such an appellation until well into the nineteenth century. Troitskii describes the ‘inadequate centralisation of financial administration, the lack of a central treasury, the secrecy of the budget, the unsatisfactory recording of business, the lack of accountability in agencies and the almost complete absence of state fiscal control of expenditure’ that characterised Russian state finances during the first half of the eighteenth century. The process of budget-making remained weak until the last decades of the nineteenth century. Even in 1878, a committee established to examine ways of reducing government expenditure reported that the Ministry of Finance could exert little influence over the process by which expenditure was determined and noted that, in effect, the Finance Ministry had proved unable to assert its authority over the spending ministries. The process of budget-making was essentially driven by the demands of the spending ministries and the role of the Ministry of Finance was to raise the revenue that was demanded to meet the spending plans of each ministry.

I

It was military expenditure that dominated Russia’s state finances. During the eighteenth century, the army and navy consistently accounted for more than half of the Russian state’s spending and, at times, more than 60 per cent of the budget was devoted to military

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3 S M Troitskii, Finansovaia politika russkogo absolutizma v XVIII veke (Moscow, 1966), p. 221.
expenditure. This is hardly surprising, given Russia’s persistent involvement in wars and in the continuing impetus to extend the territorial boundaries of the empire. Military expenditure grew significantly during times of war, with sharp increases during the Napoleonic Wars, the Crimean War and the Russo-Turkish War of 1878-79. There was also a considerable increase in military spending in the years preceding the First World War, with expenditure growing from 420 million rubles in 1900 to 820 million rubles in 1913. Although this did not represent a significant increase in the proportion of the government’s income devoted to military spending, since the state’s budget was growing rapidly during this period, it was a much heavier burden that at first appears. By 1914, Russian military expenditure exceeded that of Britain, even though Britain’s army and navy were needed to protect the security of its far-flung empire. Throughout the nineteenth century, there were repeated efforts to restrain military expenditure and government committees regularly grappled with the problem of the cost of the Russian army and navy. A special committee met in 1818, followed by a review of military expenditure by Arakcheev in 1822, and a further attempt to rein in expenditure in 1835. This last review concluded that reductions in expenditure during the 1820s had had a negative impact on both Russia’s military forces and on the overall national economy, as a reduced demand for goods by the army had resulted in an overall reduction in the prices of domestically-produced and this had affected both manufacturers and the treasury, since the government suffered a consequent loss of tax revenues. The dominant place that Russia’s military strength played in the government’s thinking is reflected in the results of the 1835 review: the committee could only suggest ‘housekeeping measures’ to limit military spending and then only if both economic and military conditions continued to be stable. Further attempt was made to reduce overall government expenditure in 1861 but, in the aftermath of the debacle in the Crimea, no serious attempt was made to constrain military spending. The 1879 committee’s work came at the end of the Russo-Turkish war, when it was again clearly impolitic to propose any major reductions in military spending. At the first hint of a proposed reduction in the army’s budget, Miliutin, the Minister of War, wrote to Abaza, the president of the State Council’s economic department that ‘any significant reduction in [military] expenditure would rapidly cause damage to the crucial matter of the state’s readiness to


6 ‘Finansovaia politika v period 1861-1880 gg.’, *Otechestvensnye zapiski*, 1882, no. 11, pp. 1-3


8 See P. Gatrell, *Government, industry and rearmament in Russia, 1900-1914: the last argument of tsarism*, (Cambridge, 1994), pp. 152-5. Gatrell suggests that the proportion of Russia’s national income devoted to military expenditure was almost twice as heavy as for the more economically developed countries of Britain, France and Germany.

9 RGIA, f. 1172, op. 16, d. 1, ll. 54-7. ‘Komitet o sokrashchenii raskhodov po ministerstvam: voennomu, morskomu, inostrannykh del i vedomstvam: pochtovomu, putei soobshchenii i dukhovnomu. 1835.’

10 RGIA, f. 563, op. 2, d. 144, ll. 2-5. ‘Komitet finansov. Po zapiske Ministra Finansov o finansovykh merakh: uvelichenie dokhodov; sokrashchenie raskhodov; svod rospisi. 1861.’ The War Ministry was able only to suggest savings of 881,000 rubles, out of a total annual budget of more than 90 million rubles.
support its political dignity’. Abaza’s committee had begun with the lofty ambition of moving beyond short-term solutions to the recurrent financial difficulties that faced the Russian government, and instead putting in place measures that would prevent ministries increasing their expenditure after their annual budget had been set. But by the middle of 1879, Abaza was compelled to admit that due to ‘the alarming events of recent times’, ministries had been unable to devote adequate attention to the work of his committee and that they had proved very tardy in providing the information he needed in order to proceed. The Russian bureaucracy proved able to frustrate these plans; central authority was not yet well-established enough to override the power of individual ministries.

Russia’s military expenditure continued to grow in absolute terms, but other calls on the state’s budget came to play a significant part in government spending. During the second half of the nineteenth century, the Russian government considerably extended its activities and, in particular, played a much greater direct role in the economy of the country. The government’s recognition of the importance of the railway network in stimulating Russia’s overall economic performance, together with the absence of other sources of investment capital meant that the state itself took on itself much of the burden of financing Russia’s railways. The Ministry of Communications took only 2.5 per cent of the state budget in 1885, but by 1895 this had increased to 11 per cent and by 1908 to 20 per cent. The construction of the Trans-Siberian railway was an essential element in this development, and Witte was prepared to expend whatever resources were necessary in order to see the project realised. The government spent some 600 million rubles on its construction in the last decade of the nineteenth century, far above the original estimate of 320 million rubles, and further spending was needed after 1900, bringing the total cost for the railway to over 1,000 million rubles, at a time when Russia’s annual budget was less than 1,500 million rubles. The state also increased its direct involvement in another critical area of the Russian economy - the liquor trade. In 1863, the government abolished the system of tax farming that had generated revenue from the production and sale of vodka, but this was only a step on the road towards the state taking full control of the wholesale and retail trade in liquor. Between 1894 and 1901 the state became the only legal purchaser for the products of Russia’s vodka distilleries and, while this proved an effective move in terms of safeguarding tax revenues from vodka, it did also involve the government in increased expenditure as it took direct control of the industry. By 1912, the state was expending nearly 200 million rubles annually to maintain the vodka monopoly. Further strains were placed upon the Russian budget by the state’s growing indebtedness and the need to service its loans. By 1899, 98 million rubles was required annually to pay interest on Russia’s loans and Russia proved lucky in its ability to contain its expenditure in this area. Russian credit abroad had improved during the 1890s, especially with the signing of the Franco-Russian alliance in 1894, and this enabled the Russian government to reduce the level of interest it paid. Between 1891 and 1902, Russia was able to reduce its average rate of interest on its loans from 4.9 per cent to 3.86 per cent, thus allowing the state to borrow significantly more money, but without increasing the cost of servicing the

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11 RGIA, f. 1214, op. 1, d. 23, l. 1a. Letter from D. A. Milituin to A.A. Abaza, 29 May 1879.

12 RGIA, f. 1214, op. 1, d. 26, ll. 32-34. ‘Doklad Predsedatelia Osoboi Kommissii A. A. Abaza s kratkim otchetom o deiatel’nosti Osoboi Komissii’, 11 June 1879.

13 Pogrebinskii, op. cit., p. 154-5.

14 M. Friedman, Kazennaia vinnaia monopolia, vol. II (St Petersburg, 1914), p.236.
public debt. The increasing social burdens that the Russian state assumed during the nineteenth century also had budgetary consequences. Judicial reform from the 1860s onwards made the legal system increasingly complex and easier access to justice resulted in a growing number of cases brought before the courts each year. The Ministry of Justice pressed for annual increases in its budget, emphasising that its expenditure was modest in comparison with that in other European states. Education provision expanded rapidly at the end of the nineteenth century and the financial demands on the state grew significantly. In 1879, the central government budget had only contributed 11 per cent of total funding for rural schools, but this proportion increased to 45 per cent by 1911. The government spent 2 million rubles on primary education in 1895, but this increased very rapidly to 19 million rubles in 1907 and to more than 82 million in 1914. Total education expenditure accounted for 2.69 per cent of the state budget in 1881, but this had increased to 7.2 per cent in 1914. There were growing pressures on Russia’s budget from every side. The army and navy continued to take the largest single element of government spending as war and the threat of war remained ever-present. The state’s expansion into both direct involvement in the national economy and into enhanced social provision mean that the government could not easily seek to compensate for increasing military expenditure by making significant reductions elsewhere. The result was that the overall Russian state budget grew as expenditure increased in nearly every area. The challenge for the state was to increase its revenues to match this additional spending.

II

The main component of government revenue during the eighteenth century was the poll tax. Peter the Great levied this tax on most of the male population, using it to replace the household tax that had been in force between 1678 and 1721. The rationale for the poll tax was straightforward: Peter needed a reliable source of income to support his military campaigns, while revenue from the household tax was falling as the population discovered that they could combine their households and thus evade the tax. The poll tax proved to be a highly successful means of raising money: Its collection presented no great difficulties: initially, military detachments collected the taxes from the regions in which they were stationed and then used the revenue to maintain themselves. After the end of Peter’s wars, collection became the responsibility of the civil administration, and serf-owners were given the prime responsibility for collecting the taxes from their serfs. The success of the poll tax was partly due, however, to the rise in the Russian population through the expansion of its frontiers and gradually decreasing mortality rates. Its relative ease of collection meant that the government felt able to increase poll tax rates during the course of the century, increasing the burden on private serfs by one third across the period. Between 1726 and 1796, the amount collected from the poll tax increased from 4 million rubles to 10.4 million rubles.

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16 RGIA, f. 1214, op. 1, d.19, ll. 21-2. ‘Zapiska o merakh, mogushchikh povesti k znachitel’nomu sokrashcheniu raskhodov po vedomstvu Ministerstva Iiustitsii’, 1879.
18 Kahn, op. cit., p. 333.
1800, the poll tax played a less significant role in government revenues as other taxes contributed larger shares of the government’s income. The emancipation of the serfs in the 1860s made the collection of the tax more difficult, while voices were heard suggesting that the tax burden should be more equally shared, rather than through the poll tax with its flat rate for each category of taxpayer. The government remained undecided about the fate of the poll tax during the 1860s, recognising that it caused difficulties for some taxpayers, but also needing the revenue that it generated. Even at the end of the 1870s, the poll tax produced 59 million rubles annually. It was the sense of growing crisis and peasant discontent that gripped the government in the late 1870s and early 1880s that propelled the Russian state towards a fundamental review of its taxation system and the abolition of the poll tax.

Revenue also came from a variety of other sources. Indirect taxation formed an important part of the government revenues, even in the eighteenth century. The largest single source of indirect taxation was from liquor. Distilling was established as a monopoly of the nobility in 1754, and from 1767 revenue was collected through a system of tax farming in which a merchant obtained a concession to sell liquor and paid the government a fixed fee for the privilege; the Moscow and St Petersburg liquor farm for 1767-70 attracted a price of 2.1 million rubles annually. Revenue from the liquor trade made up an increasing proportion of the government’s income during the eighteenth century: in 1724 only 11 per cent of the state’s revenue came from liquor, but this jumped sharply, reaching a peak of 43 per cent of the total in 1780 and then falling back to 24 per cent in 1805. During the nineteenth century, liquor revenue averaged 31 per cent of total government revenue. By the middle of the century, the government had developed sufficient bureaucratic capability to consider abolishing the system of tax farming and taking on itself the administration of the liquor trade. This was a highly significant development, since the state was now able to monopolise tax collection and thus gain much greater control over its fiscal affairs, without needing to take the tax farmers into account. In 1863, the tax farm was abolished. It not only signified the growing strength of the state’s fiscal apparatus, but also resulted in an increase in the net revenue that the liquor trade brought in. Gross liquor revenues rose consistently after 1863, but the costs of collecting the new excise duties were consistently reduced. In the 1850s, some 18 per cent of gross liquor revenue was eaten up by the cost of collecting the taxation, but this was reduced to only 3 per cent by 1880. The risk that the state had taken in believing that its resources were strong enough to cope with this major change in its fiscal system proved to be justified. The introduction of a full government monopoly on the manufacture and sale of vodka brought significantly increased gross revenues to the treasury from liquor, reaching more than 950 million rubles in 1913, but this was offset by considerably higher costs, meaning that the net contribution to the state’s budget from liquor remained steady after the 1894 reform.


In common with other states, the Russian government sought to raise revenue by taxing salt. Peter the Great introduced a state monopoly on salt in 1705 and the government took control of a vast enterprise to refine and distribute salt across the empire. This did not prove to be the same easy source of revenue as the liquor trade, since Russia’s salt deposits were often located far away from the main centres of population and the costs involved in exploiting these resources proved to be very high. In 1762, the state spent one third of its gross revenues from salt on production and distribution costs, leaving it with a net contribution to the budget of only 2.2 million rubles. Within 20 years, the net income had halved and, in 1791 the government made a loss on its salt operations for the first time. In such a situation, the state had to act to protect its revenues. Even though the government raised the price of salt, this did not help in stabilising the situation and in 1818 the state gave up its monopoly on the sale of salt, eventually abolishing the salt tax completely in 1880.

The government also received income in its capacity as landowner from the peasants who lived on its land. In 1723 Peter the Great standardised the variety of labour service and other dues that were owed by state peasants and instead made them liable for cash payments (obrok) to the government. This produced a growing source of income and was one that the state believed it could exploit. During the eighteenth century, the rate of obrok payments increased by roughly twice the rate of inflation, although state peasants did pay significantly less than privately-owned serfs. Discussions took place about further increases in the rate of obrok in the 1840s alongside Kiselev’s overall reforms of the state peasantry. The government was wary of demanding large additional sums from the peasants, believing that this ‘would disturb the tranquillity of the population and have dangerous consequences’. While obrok did offer some advantages to the government as it sought to increase its revenues, the government also recognised that by publicising its move away from the poll tax, it would be publicly demonstrating its problems in making an accurate census of the population. Kiselev did reform the system of obrok, but this question again raised its head when the emancipation of the state peasants was implemented in 1866. The government was reluctant to lose its income from obrok and was wary of making radical changes that might threaten the security of its revenues. Instead of moving immediately to a system of redemption payments, as with privately-owned serfs, the government reformed the system of obrok, calculating peasants’ liability not just by the value of the land they held, but by taking into account their total income. It was only in 1886 that state peasants’ obrok payments were finally converted into redemption payments. This move resulted in a significant increase in revenues: the average total revenue from obrok between 1880 and 1885 was 32 million rubles annually, whereas in the period 1887 to 1890, income averaged 43 million rubles. The famine years of 1891 and 1892 witnessed a reduction in revenue from state peasant’s redemption payments, but they then increased again, reaching 55 million rubles in 1895.

As the Russian government looked for ways to curb its expenditure, it also sought to increase its revenues. This process, however, proved of equal difficulty. The 1841 committee that had

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24 RGIA, f. 1175, op. 16, d. 1. 18. ‘Osoboi komitet dla pazsmotreiniu predstavlennogo Ego Velichestvu ot neizvestnogo obzora finansovoi chasti v Rossii, 1841’.

rejected a large increase in *obrok* also found good reasons to turn down most other suggested methods of increasing the government’s income. It avoided detailed discussion of the poll tax, preferring to wait for the Ministry of Finance to make its own proposals, argued that the government was already seeking ways to enhance the efficiency of the salt industry and thus enhance income from that source and finally rejected any wholesale reform of the liquor industry.  The committee took a highly defensive tone towards criticism of the government’s record on enhancing its own revenues, finding reasons to reject every suggestion for improvement. By the 1860s, the government’s financial position was more precarious and attempts to find ways of raising additional revenues met with a more positive response. This new attempt to increase revenues was also motivated by what proved to be a mistaken assumption; that the changes to the system of liquor taxation and the introduction of excise duties would lead to a fall in the government’s income from that source. In 1861, the Committee of Finances proposed making small increases to both the poll tax levied on state peasants and to the level of *obrok* that they paid to produce an additional 3.2 million rubles of income annually. Alongside this, a rise in the salt tax was proposed, together with increases in customs duties and in postal charges. Altogether, the government calculated that these measures would bring in an extra 7.5 million rubles which would help to offset the expected decline in liquor revenues.  These proposals only represented adjustments to existing sources of taxation and did not involve any overall review of Russia’s system of taxation.

From the mid-1860s, however, the government began to move towards a more radical approach to restructuring its sources of income. The motivation for this was complex. First, the emancipation of the serfs had consequences in the financial sphere, as in almost every other area of Russian life. The emancipation settlement itself had been significantly conditioned by the government’s financial position which had led to the peasantry paying the full price for the land that they gained, without any government subsidy.  The perception of contemporaries was that redemption payments from the peasantry were thus set at a level which was on the edge of affordability for many of them. This view has been challenged by modern analyses, but in the 1870s and 1880s the Tsarist state was deeply concerned about that potential threat that it faced from a discontented peasantry that was perceived to be downtrodden and impoverished. Changing the system of taxation to reduce the burden on the peasants and thus lessen the threat of discontent was an important reason for the tax reforms that took place in the 1880s. At the same time, the Russian government recognised that it could not hope to achieve significant increases in revenue from the existing taxation system and therefore needed to take more radical steps. During the nineteenth century, the government had faced a series of financial problems which had been resolved without making structural changes to either expenditure patterns or to sources of revenue. By the last quarter of the century, officials were coming to realise that this strategy could not be sustained and that, especially at a time when the nature of the Russian economy was changing with the development of an industrial sector, new sources of revenue had to be found.

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26 RGIA, f. 1175, op. 16, d. 1, ll. 17, 25 and 28-9.

27 RGIA, f. 563, op. 2, d. 144, ll. 52-66. ‘Komitet finansov, zasedaniia 2, 13, 16, 20 & 23 dekabria 1861’.


The crises that affected the Russian government’s finances were mostly precipitated either by war or by the threat of war. War with Persia and with Turkey in the late 1820s placed stresses on the budget and, in late 1830, the Ministry of Finance indicated that the outbreak of further conflict would cause significant problems. Expenditure was already likely to rise due to a series of poor harvests and the outbreak of cholera in some parts of the empire and the Finance Ministry warned that further war could not be financed from ordinary expenditure: Kankrin, the Minister of Finance, had already reported to the Emperor that the government would face severe difficulties in finding the additional resources needed for conflict. Kankrin’s view was not, however, shared by the government as a whole and the Finance Committee argued that any difficulties could be overcome by printing money and by a number of measures that would enable the government to raise internal loans. This approach to dealing with the financial pressures of war continued throughout the reign of Nicholas I. Discussions about managing the costs of the Crimean War in the mid-1850s resulted in the same measures being proposed. The Ministry of Finance issued more paper money as its first reaction to the increase in expenditure that was required by war, more than doubling the amount of paper money in circulation, but the Ministry did acknowledge that this solution was only sustainable if the war was short. It also recognised that this was a risky move to take, since the outcome of printing money would only become clear once the war was over: if the economy prospered, all would be well, but difficulties would arise if it weakened.

The economic situation across Europe in the late 1850s was not propitious for a Russian recovery, and this was exacerbated by domestic conditions. A banking crisis, produced partly by a reduction in interest rates by the government, had effects that were felt right across the Russian economy. At the same time, the Ministry of Finance complained of a fall in exports as a result of both the war and of poor domestic harvests. The growth in imports meant that Russia was suffering a net outflow of foreign capital and that government revenues were suffering. The national economy was facing serious difficulties, while the government’s own financial position was looking increasingly precarious. Kniazhevich, the Minister of Finance, reported that the government had been using its traditional methods to deal with the budget deficit: loans and issuing paper money. But, by 1860, the situation was such that it was difficult to solve the burgeoning budget deficit in these ways. The government already owed very large sums to the banks, its debts having grown from 166 million rubles in 1845 to 441 million rubles in 1859. Over the same period, the amount of paper money in circulation had more than quadrupled, reaching 93 million rubles in 1859. Foreign debts had also increased, totalling 365 million rubles in 1859. Kniazhevich argued that while it would be possible, in an extreme case, to issue yet more paper money, this would threaten the whole financial system, since the population could easily lose confidence in the currency. The Minister of Finance was prepared to print money to finance one-off items of expenditure, but he argues that this method could no longer be used as a permanent means of monetary policy. Further loans, whether from domestic sources or from abroad, were unsustainable, given Russia’s huge burden of debt. The government was faced with a growing budget deficit and the Finance

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30 RGIA, f. 563, op. 2, d. 21, ll. 3-5 & 14. ‘Ob otyskanii denezhnykh ressursov na sluchai voiny’, 1830-31.

31 RGIA, f. 563, op. 1, d. 6, ll. 2-6. ‘O sredstvakh k pokrytiiu raskhodov po sluchaiu voyny’, February 1856.
Ministry could see no easy way of financing it.\(^{32}\) This crisis demonstrated the weakness of the government’s budget-setting process. The Ministry of Finance could only implore that expenditure be kept at its projected levels, and that any requests for additional spending must be communicated to the Ministry before being sent for the emperor’s approval. At the same time, ministries were presented with suggestions for reducing their expenditure, in one of the first examples of the Russian government as a whole taking responsibility for financial policy. Not surprisingly, ministries resented these attempts at central direction of their spending and argued fiercely against proposals that came from the Committee of Finances.\(^{33}\)

The government was helped out of its immediate difficulties by the success of the new liquor taxation system in raising revenue but, without making any structural changes to the state’s fiscal and spending systems, Russia’s finances remained problematic. M. Kh. Reitern had been appointed as Minister of Finance in 1862 and recognised that the issues raised by his predecessor Kniazhevich in 1860 had still not been solved. In 1866, Reitern wrote a lengthy report on the financial and economic condition of Russia that attracted the attention of Alexander II who presided at the meeting of the Committee of Finances in September 1866 where Reitern’s report was considered. As his predecessors had done, Reitern identified a pressing need to cease using domestic loans as a means of covering government expenditure. He argued that it was now difficult for the government to raise money at home, as the financial markets were exhausted. But Reitern did recognise that he could not be over-prescriptive here, since the state had an urgent need to borrow to finance railway construction, and the long-term economic interests of the state over-rode these temporary financial difficulties. He was also prepared to use the state’s slender credit resources to try to find a more permanent way out of Russia’s financial difficulties, despite the risks that this presented. Reitern also wanted to protect the value of the ruble and proposed measures to stop the outflow of funds abroad. He wanted the government to stop making purchases abroad, and included the War Ministry and the Ministry of Communications in his strictures here, and was intent on stopping costly foreign visits by Russia’s navy. Reitern argued that the budget deficit could only be eliminated by both raising additional revenue and by placing curbs on expenditure. As successive finance ministers had discovered, it was difficult to squeeze extra income from existing sources and the suggestion by P. A. Valuev that an income tax should be introduced was thus placed on the agenda for further investigation.\(^{34}\) The government’s good intention of relying less on loans could not be implemented immediately: in 1868, the Committee of Finance resolved that the only way in which it could finance a projected budget deficit for the year of 12.5 million rubles, as well as meet railway construction costs of more than 36 million rubles, was to take a loan from foreign bankers.\(^{35}\)

\(^{32}\) RGIA, f. 563, op. 2, d. 115, ll 6 - 13. ‘Po predstavleniiu Ministra Finansov o khoziatsvennom i finansovom polozenia Rossi, 30 ianvaria 1860’.

\(^{33}\) For example, it was suggested to the Ministry of the Imperial Court that its buildings department be abolished, that the ministry’s Committee on St Isaac’s Cathedral be disbanded, since the cathedral was now complete, and that the Imperial theatres be placed in private hands. The Ministry rejected all these proposals and argued that any expenditure on the court should remain outside audit and control by central government. ibid, ll. 13-16. ‘Zhurnal Komiteta Finansov, 4, 11, 18 & 25 noiabria 1861’

\(^{34}\) RGIA, f. 560, op. 22, d. 120, ll. 23- 25. ‘Zhurnal komiteta finansov, 29 sentiabria 1866’. Reitern’s original report is published in *Sud’by Rossii* (St Petersburg, 1999), pp. 114-59.

\(^{35}\) RGIA, f. 563, op. 1, d. 16, 1. 1. ‘Komitet finansov. O sredstvakh dlja pokrytija defitsita po gosudarstvennoi rospisi na 1868g.’.
Russia continued to run sizeable budget deficits. Between 1866 and 1888, the budget was in surplus for three years, and in balance for a further two. Deficits ranged from 1 million rubles in 1870 to 80 million rubles in 1881, with an average budgetary outcome across the period of annual 18 million ruble deficit. This did represent a considerable improvement on the pre-1861 period, when deficits averaged 45 million rubles annually in the thirty years after 1832, but it was only in the 1890s that the budget situation showed signs of consistent improvement. This situation was short-lived, however, since the budget returned to deficit in eight of the years between 1900 and 1913, averaging a deficit of 44 million rubles annually. This situation, while equivalent in cash terms to the level of deficit between 1831 and 1861, represented a significant improvement on that period, since the overall level of government spending had increased more than tenfold by the beginning of the twentieth century and the largest deficit in this period - 386 million rubles in 1905 - represented 14 per cent of government revenue, in contrast to the average deficit of 16.8 per cent in the thirty pre-reform years. Improved performance during the 1890s came through significant increases in revenues, outstripping expenditure growth by 15 per cent over the decade. This reflected Russia’s healthy overall economic situation during this period, as increased economic activity generated higher income from taxation. This was assisted by changes to the structure of the taxation system that were introduced during the 1880s.

The period of N. Kh. Bunge’s tenure of the Ministry of Finance witnessed important shifts in the emphasis of the taxation system. The government shifted the balance of taxation away from direct levies and towards indirect taxation. The poll tax was gradually abolished between 1883 and 1886 but the government had to find other sources of income to compensate for the loss of the more than 50 million rubles of revenue that the poll tax generated annually at the beginning of the 1880s. Other direct taxes did not have sufficient potential to produce sufficient additional income. Revenue from the land tax barely grew during the 1880s and 1890s, remaining steady at some 6 million rubles each year. There was little scope to increase obrok significantly, although revenue from this source did increase from 33 million rubles in 1881 to 45 million rubles a decade later. Redemption payment revenue too remained steady at around 40 million rubles annually during the late 1880s and 1890s. Attempts were made to increase the tax revenue from business by introducing an income tax, to add to the existing patent system of 1824 which gave merchants a licence to engage in a trade or industry in return for a fixed annual fee to the government. In 1885 the government introduced a three per cent tax on business profits, increasing this to five per cent in 1893 and, in 1898, made the tax progressive. This proved to be an effective source of revenue, helping to more than double tax revenues from business between 1884 and 1895.

The only other real opportunity for increasing revenue came from indirect taxation. The success of the government in gaining additional revenue from its alcohol monopoly has already been noted, but during the 1880s concerted efforts were made to enhance income from other sources. The existing taxes on tobacco and on sugar were increased, so that revenues from tobacco more than doubled between 1880 and 1895, while the income from

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36 Stepanov, op. cit., p. 369.
38 Bowman, op. cit., p. 277.
taxing sugar showed a tenfold increase during this period. By 1895, taxes on sugar produced more than 47 million rubles annually, some 80 per cent of the revenue that the poll tax was producing in the last years before its abolition. The government also moved to introduce indirect taxes in new areas: oil and matches were both subject to new taxation from 1888, bringing in more than 27 million rubles annually by 1895. Stamp duties were also increased, resulting in a near-doubling of revenues from that source. The last area of indirect taxation where the government was able to increase its revenues was through customs duties. Tariffs produced close to 100 million rubles of revenue annually by 1880, but the government’s policy of moving to increase duties on imported goods during the 1880s in order to stimulate domestic production resulted in an additional 40 million rubles of revenue by 1890. Bunge’s successor as Finance Minister, I. A. Vyshnegradskii, put in place a major tariff reform in 1891 and this accelerated the growth of revenue from this source so that in 1894 the government collected more than 183 million rubles from customs duties. This development of indirect taxation made Russia much more dependent on these sources of income than any of the other European powers. By 1911, Russia gained 84 per cent of its revenues from indirect taxes, while indirect taxation in France accounted for 70 per cent of its budget and Britain’s budget gained 59 per cent of its total revenue from this source. This dependence on indirect taxation had serious consequences for Russia on the outbreak of war in 1914. In a fit of patriotic enthusiasm, the Russian government decided to introduce prohibition during wartime, but this brought about a severe and immediate reduction in the government’s income, as it lost its income from liquor. Revenues in 1914 showed a reduction of more than 500 million rubles on the previous year, at the same time as the government was having to cope with severely increased expenditure to fight the First World War.

IV

The impact of Russia’s budgetary policies on its population was considerable. Since the overwhelming majority of Russia’s population were peasants, it was inevitable that they would bear the greatest burden of taxation. Discussions over the effect of government taxation policies on the peasantry have centred on two periods: the early part of the eighteenth century, when Peter the Great introduced the poll tax, and the post-emancipation period. While the Russian government’s need for revenue was acute, and its apparent authority over its population was very considerable, it had to act with considerable caution when calculating the impact of its taxation policies. The threat of peasant rebellion - whether real or merely perceived - was ever-present and the government was well aware that its control of the empire could easily be challenged by uprisings across its domains. The four great peasant revolts that Russia experienced after 1606, culminating in the Pugachev revolt in the 1770s, reinforced this belief and acted as a reminder of the power that the Russian peasant could exert. While the state had been able to deal with these rebellions and to reassert its own authority on each occasion, the government became wary of implementing policies that could provoke the peasants into further revolts. This was especially true in the mid- and late nineteenth century, when the interests of noble landowners had to be balanced against the needs of the peasantry in the construction of the emancipation settlement. An increase in the number of peasant revolts in the 1850s caused genuine alarm inside the government, and a nervousness about the potential power of the rural population played a significant part in the taxation reforms of the 1880s.

The impact of Peter the Great’s introduction of the poll tax on the peasant has been widely debated. The Emperor wanted to introduce a new and reliable source of revenue, but at the same time he was very conscious of the need not to antagonise the peasantry by making severe financial demands on them. Despite this, it has been argued, most notably by P N Miliukov in his writings before 1917, that the burden of taxation increased very substantially during Peter’s reign and that, in particular, the poll tax generated 260 per cent more in revenue than the taxes that it replaced. This argument is based on analysis of the total tax yield, rather than looking at the burden faced by each Russian household and does not take into account the increase in population over the period and has thus been challenged by more recent commentators. It has been argued that the state’s tax revenues increased partly because there were more taxpayers, but that this was also due to inflation and that the real tax burden on individuals remained more or less steady. It has even been suggested that the introduction of the poll tax represented a reduction in the level of taxation, after the government’s need to increase taxes to pay for the Great Northern War. As has been widely acknowledged, however, there is insufficient evidence to come to definitive judgements about the burdens of taxation in the early part of the eighteenth century. The Russian state did not have the bureaucratic capacity to maintain accurate records of its finances during this period and the budget-making process was still rudimentary. While complete evidence for the actual financial burdens faced by the peasantry during and immediately after Peter’s reign is lacking, the perception produced by the introduction of the poll tax is much clearer. The population as a whole believed that the poll tax had resulted in significantly increased taxation. But, this belief was related to the circumstances of the tax’s introduction. The early 1720s were hard years for Russian agriculture. Poor harvests and resulting high prices for grain helped to reduce the peasants’ standard of living: many peasants were compelled to become purchasers of grain, rather than being able to sell their own produce. At the same time, the government moved to requisition grain, paying only very modest prices to the peasantry, to try to alleviate famine. The methods by which the new poll tax was collected also served to generate antagonism: the task of tax-collection was initially handed over to the army and the military sought to collect the new tax in cash. Previously, the work of tax-collection had been undertaken by landowners, and peasants had been able to negotiate to pay their taxes in kind or by performing additional labour services. The combination of the need for the peasants to produce cash to pay the new poll tax, together with the unbending attitude of the army during the process of collection, served to intensify the stress that the peasants were already feeling as a result of poor agricultural conditions. Even though the burden that the new tax represented may, overall, not have represented any substantial increase in the overall level of taxation demanded from the Russian peasant, their clear perception was that the poll tax did represent a considerable extra demand by the government.

The position of the peasantry in the second half of the nineteenth century was also complex. Emancipation had been introduced partly as a response to the apparent growth in peasant discontent during the 1850s. The terms of the settlement had been dictated as much by the Russian state’s financial position as by the needs of either peasants or landowners. The government was extremely unsure of the likely peasant response to emancipation, both in the short term and as the real effects of the reform became clear. It was, therefore, very wary of making significant changes to the tax system until emancipation had bedded down. The system of redemption payments introduced a new financial burden for former serfs and, even though, the state’s need for extra revenue was considerable during the 1860s and 1870s, it was reluctant to embark on a radial restructuring of the tax system. The perception that

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40 Kahan, op. cit, p. 332.
gripped the Russian establishment after emancipation was that the peasantry were becoming more and more impoverished and that this was not unrelated to the growth in revolutionary activity in the 1870s, culminating in the assassination of Alexander II in 1881. The government came to believe that it needed to try to alleviate the financial situation of the peasant if it was to prevent rebellion. Alongside this, in the last part of the nineteenth century the state wanted to promote industrial growth in Russia. As Minister of Finance, Bunge wanted to reduce the level of direct taxation on the peasantry, but the increases in indirect taxes in the 1880s and 1890s clearly had a significant impact on the rural population. The argument turns on the extent to which the reductions in direct taxation were balanced by increases in excise duties and other indirect levies. It has been suggested that in the first half of the 1880s, the overall burden on the peasantry was reduced: even though indirect taxation increased by some 10 per cent, this was more than compensated for by significant reductions in direct taxes. Urban residents paid more in taxation during this period, but the rural population saw its overall tax burden reduced by some 8 per cent. This analysis is shortsighted, since it only considers the first part of the 1880s and fails to take into account the new impositions that were levied during the late 1880s and 1890s. There has also been considerable debate over the overall standard of living that the Russian peasant enjoyed after emancipation, with historians arguing that the supposed ‘crisis of Russian agriculture’ at the end of the nineteenth century was a chimera. The role that taxation played in the peasant economy has formed part of these discussions, with the increases in indirect taxation being taken as evidence to support the view that the peasant standard of living declined at the end of the nineteenth century. While indirect taxes do bear more heavily on lower-income groups, the peasantry could also purchase less of the taxed goods, should they find themselves in straitened circumstances. Even the excise duty on vodka could be avoided by the age-old practice of the peasantry distilling their own illegal spirits.

The increased revenues that the government received from indirect taxation suggests that the population was sufficiently prosperous to continue to consume taxed goods, even as the tax on them rose. The preponderance of rural dwellers in the Russian Empire makes it improbable that it was townspeople who were the main purchasers of these goods and, in any case, significant numbers of the peasantry augmented their income from farming by wage labour in Russia’s growing factories. It does appear as if the Russian peasant was, overall, well enough off to be able to continue to consume manufactured goods, even as the government increased the taxation on them. Witte’s 1898 plaintive report to the Emperor about the impoverishment of the peasantry and the effect this had on the state’s budget is a reflection on the long-term relative poverty of the Russian peasant. The poor yields that Russian agriculture produced meant that the per capita income of Russia’s farmers continued to be much lower than incomes elsewhere in Europe and thus, that the tax revenues that they could contribute were significantly lower than in Austria or France. The challenge that the Russian state faced was how to enhance the overall prosperity of its population and thus increase the state’s revenues. Its persistent budget difficulties were the product of the Imperial

41 See, A.I. Engelgardt, Letters from the Country, 1872-1887, tr. C. A.Frierson (New York, 1993), for one of the main examples of this ‘literature of social lament’.


Russian regime seeking to maintain a military profile equivalent to that of its western neighbours and rivals on an economic base that was much less developed than its Great Power rivals. The Tsarist state had, therefore, to impose relatively high levels of taxation and to collect its revenues effectively if it was to continue to be able to act as a credible military power.