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## FINANCIAL REFORMS AND CURRENCY IN THE RUSSIAN EMPIRE IN THE 60-IES OF THE XIX CENTURY

After the Crimean War the Russian Empire had quite an aggrieved financial system. It was limited by the European financial markets and therefore it was impossible to replenish the budget deficit by external borrowings to the full extent. There was a need in the additional emission of paper banknotes. With the budget of 300-400 million rubles only during 1855-1857 years there was issued almost half a billion banknotes<sup>1</sup>. On January 1, 1863 there were 698.9 million rubles in circulation (Fig.1).



Fig.1 State banknote of 1854

In April 1862 there was an agreement on 5% of external loan of 15 million pounds sterling in order to raise the rate of banknotes by increasing the bargaining monetary fund. Respectively, there were about 88.5 million rubles in circulation in coins. According to the Decree #38170 of April 14, 1862 “About the seventh five percent loan of fifteen million pounds sterling”<sup>2</sup> it was noted that the purpose of the loan which was contracted through the mediation of banks of N.M.Rotshild & Sons in London and Rothschild Brothers in Paris was to reinforce bargaining fund of banknotes.

That in its turn had to facilitate to “establish monetary circulation on solid grounds” for the gradual “opening the exchange of state banknotes for coins at the State Bank” that had been provided by more than 79 million rubles in gold and silver in bullions and coins, as well as 12 million rubles of public funds. The purpose of the loan was “solely to reinforce exchanges of Fund of banknotes” and it was fixed by the Decree #38207 of April 25, 1862 “On the exchange of the state banknotes”. The Decree stated that the issuance of the state bank of

- 1 Ananjich B.V., *Essays on Russian History* / Ananjich B.V., Andreev I.L., Anisimov E.V. and others. – K.: Nika-Centre, 2007, 800 p.
- 2 Bliokh I. S., *Finances of Russia of XIX century: History – Statistics: in 4 volumes* / I. S. Bliokh. – SPT.: Publishing House «Public Use», 1882, v. 2. – 1882, 295 p.

silver and gold coins and bullions in exchange for banknotes and conversely banknotes in exchange for silver and gold coins and bullions should start on May 1, 1862, assuming Half Imperial in 570 kopecks (Fig. 2) and a silver ruble coin (Fig. 3) in 110.5 copecks<sup>3</sup>.



Fig. 2 Half Imperial of Alexander II  
(5 rubles of 1858 – 1881)



Fig.3 A silver ruble of Alexander II  
(1 ruble of 1859-1881)

The initial mistake of the reform was the fact that in order to strengthen bargaining fund only about 40 million rubles of the total loan sum were in circulation, the rest was used to cover the deficit of the state budget which was obviously not enough for the realization of the exchange. At first, the mechanism worked and during 1862 the rate was kept. That year coins were issued to change for only 11.9 million rubles while provision of the bills was quite stable<sup>4</sup>. But in November 1862 the situation changed dramatically due to objective and subjective reasons. One of the reasons was preliminary announcement of the state bank about the lowering rate of buying and selling of half imperials. This measure was made up in order to increase the rate of a credit ruble. At the beginning of the exchange it was profitable to put into the bank gold and silver in exchange for banknotes so that after certain period of time those banknotes could be exchanged back but with overcharge prices<sup>5</sup>. So, by the beginning of 1863 the increase in price of paper ruble led to active speculation which in its turn facilitated considerable coming out of capital abroad. At the same time in January 1863 a non-stable political situation arisen because of Polish uprising and in order to suppress it the government had to issue a considerable amount of accounts of the State Treasury. There were also negative changes in the proportions of export-import balance (at the Prussian border). Political instability in Europe caused by threatening statements of Napoleon III at the opening of legislation meeting which were perceived by the society as a prognostic of the all-European war had a negative reaction in financial circles. Due to all the above-mentioned reasons the Russian funds fell considerably on foreign markets and bills' rates began to decrease by 7 and more per cent. Demand on gold significantly increased. The Ministry of Finance held the measures to stabilize the rate through tracing bills in foreign currency and limitations on exchange of banknotes for only silver but all the measures were hardly effective. The process of falling of credit ruble price from November 1863 became irreversible. The dynamics of the change of average value of a credit ruble in 1863-1864 is presented in Fig. 4.

3 Temporary Standing about Local Controlling Offices dated on January 3, 1866 / Reforms of Alexander II, M., Jurisd. Lit. 1998, 464 p.

4 Gurjev A., *Monetary Circulation in Russia in XIX century* / A. Gurjev, SPt.: Publishing House of V.F.Kirchbaum, d. M. Finance, at Palace Squire, 1903, p. 253.

5 Zakharov V. N., *History of Taxes in Russia XIX – beginning of XX* / V. N. Zakharov, Y. A. Petrov, M. K. Shat-syllo, M.: «Russian Political Encyclopaedia» (ROSSPEN), 2006, 296 p.

As a result, on November 5<sup>th</sup> 1863 the emperor Alexander II made a decision to change credit rubles for coins. That month credit ruble fell down to 92,3 kopecks which was its natural position coming out of the dynamics of falling during almost all 1864 and got the minimal level of 77, 3 kopecks in October, 1864 (see Fig. 4). Therefore, general results of financial reform of 1862 let to state about its failure.

Critical financial situation of the state challenged the government to stabilize monetary circulation with the help of internal reserves, restoring order in accounting of state incomes and expenses through strengthening control functions of the state and holding reforms which could facilitate the increase of incomes into the budget. The Ministry of Finance held a series of measures in the budget sphere which had to stabilize financial system and especially monetary system of the country.

At first, a tax reform started in 1863. Its necessity was caused by the previous peasant reform of 1861 and abolition of serfdom in the Russian Empire. That required changes in the system of taxation that was based on the archaic per-capita taxation. On July 10, 1859 a specially formed Commission at the Ministry of Finance worked on the issues of

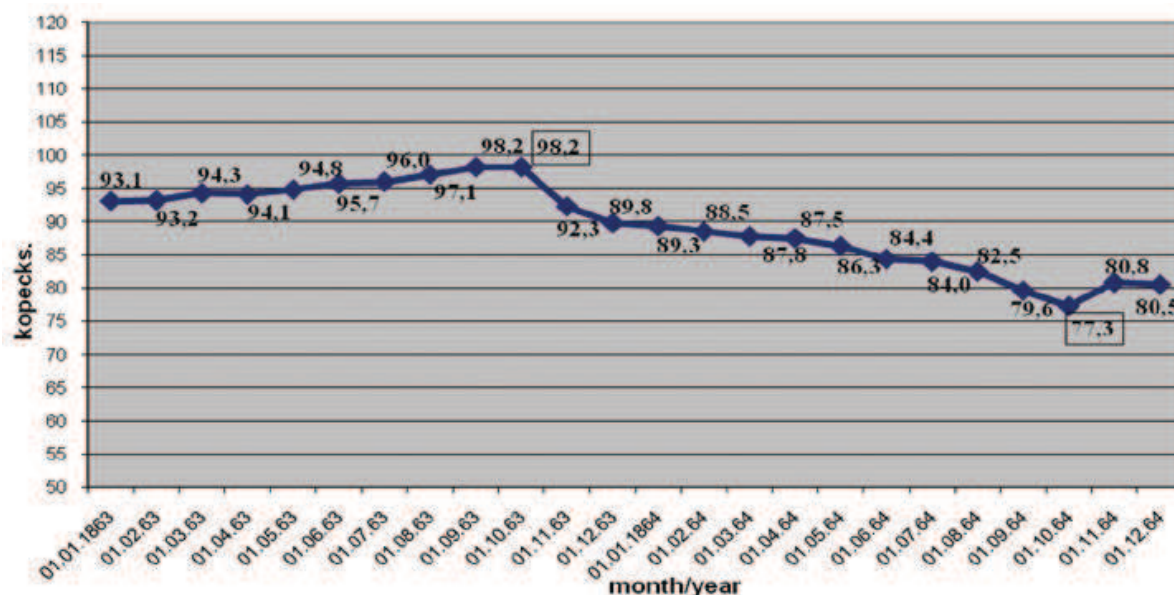


Fig. 4 Dynamics of changes of average value of a credit ruble in 1863-1864

Source: ccompiled by the author<sup>6</sup>.

reviewing the systems of taxes and imposts. The royal decree about the formation of the Commission clearly stated its task: «to abolish taxable estates and cancel per-capita taxation with the lowering of all kinds of dues and charges which peasants had to pay, to the level they could pay»<sup>7</sup>. Search for alternatives in taxation did not always have economic grounding and quite often it had fiscal approach.

6 About the seventh 5 per cent loan of a sum of 15 million pounds sterling: Decree #38170 of April 14, 1862 // PSZ, edition 2, in 55 volumes, Official Edition – SPT.: Publishing House of II Department of the Own His Imperial Majesty Office, 1834, v. 37, Chapter 1, 1865, p. 327-328.

7 About the exchange of state credit banknotes: Decree #38207 of April 25, 1862 // PSZ, edition 2, in 55 volumes, Official edition – SPT.: Publishing House of II Department of the Own His Imperial Majesty Office, 1834, v. 37, Chapter 1, 1865, p. 369-370.



The tax reform of 1863 had the following directions:

- introduction of excise system in taxation of alcoholic drinks and beer instead of potatory mercy<sup>8</sup>;
- introduction of new tax on real estate in the second part of 1863<sup>9</sup>;
- change of the state salt monopoly system for the excise system<sup>10</sup>;
- introduction of new customs regulations for the right to trade and merchant<sup>11</sup>;
- introduction of additional tax on village citizens and 10% tax from nobler real estate in western provinces<sup>12</sup>.

Secondly, the regulation was adopted which stated how to compose, consider, approve and implement state records and financial estimates of ministries and head offices which introduced the principle of budget unity and the correct use of funds. For the first time it was envisaged to promulgate the budget through its publication for common study<sup>13</sup>.

Thirdly, the system of cash unity was introduced<sup>14</sup>.

Fourthly, the state control in budget sphere was strengthened with the help of creation of special controlling chambers in all provinces and regions. They were authorized a) to control the accuracy of circulation and safety of financial and tangible assets and b) to make reports on expediency of certain economical operations which were held using state funds<sup>15</sup>.

Monetary reform of 1862-1863 which was carried out by Minister of Finance M.K. Reiter in very difficult economic and political situation predetermined its inefficiency and failure. Leading imperial financiers who worked for the government understood that in order to improve monetary system measures which acted on the system itself were not enough. They had to act for the whole complex of the state financial system and to introduce complex measures to improve production forces of the country. That is why some of the above-mentioned measures had to stabilize state financial situation but their results could not be quick. They needed time in order to realize the reforms and get economic return. This process in the Russian Empire took almost 30 years. Monetary reform of 1895-1897 (Witte reform) was carried out under more or less favourable political and economic conditions and had considerable success which lasted till 1914.

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8 About Improvement of Our Salt System: №38280 of May, 1862 // PSZ. Second Edition – in 55 volumes – Official Edition. – SPt.: Publishing House of II Department of the Own His Imperial Majesty Office, 1865, v. 37, Chapter 1.– 1865, p. 439-443.

9 Decree about potatory mercy of July 4, 1861 / Reforms of Alexander II, M.: Jurisd. Literature, 1998, 464 p.

10 About Temporary for 1863 Additional Tax for Per-Capita and quit-rent tax: #39086 of December 25, 1862 // PSZ. – Second Edition – in 55 volumes – Official Edition – SPt.: Publishing House of II Department of the Own His Imperial Majesty Office, 1865, v. 37, Chapter II, 1865, p. 588.

11 About Arrangement in St. Petersburg from January 1, 1864 in the form of experience, unity cash with modern revision of its turnover: #40100 of October 8, 1863 // PSZ – Second edition – in 55 volumes – Official Edition – SPt.: Publishing House of II Department of the Own His Imperial Majesty Office, 1866, v. 38, Chapter II, 1866, p. 91.

12 Decree about duties for the right to trade and merchant: #39118 of January 1, 1863 // PSZ – Second Edition – in 55 volumes – Official Edition – SPt.: Publishing House of II Department of the Own His Imperial Majesty Office, 1866, v. 38, Chapter 1, 1866., p. 3-15.

13 Regulations about Taxation of Real Estates in Cities and Townships in 1863: #39119 of January 1, 1863 // PSZ – Second Edition – in 55 volumes – Official Edition – SPt.: Publishing House of II Department of the Own His Imperial Majesty Office, 1866, v. 38, Chapter 1, 1866, p. 15-19.

14 Regulations on Compilation, Consideration, Improvement and Implementation of State Records and Financial Estimates of Ministries and Head Offices of May 22, 1862 r. / Reforms of Alexander II, M., Jurisd. Literature, 1998, 464 p.

**Фінансові реформи та грошовий обіг у Російській Імперії  
в 60-х роках XIX століття  
Резюме**

Стаття присвячена аналізу фінансових проблем в Російській імперії, що виникали в середині XIX століття. Розглянуто механізм проведення грошової реформи 1862-1863 рр., та досліджено ряд комплексних фінансових заходів які вживалися імперським урядом задля стабілізації фінансового стану держави.