

***ANTICOMPETITIVE INDUSTRIAL POLICY AND  
SOCIAL DISTURBANCE:  
THE RUSSIAN REVOLUTION OF 1917 AND  
ALTERNATIVE OUTCOMES IN OTHER  
ECONOMIES***

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# MOTIVATION

- The centenary of the Russian Revolution
- The debate between:
  - those, who see the main reasons for the Russian Revolution in the poor state of the domestic economy
  - those, who admire high rates of economic growth in late XIX and early XX centuries and attribute the Russian Revolution mainly to exogenous shocks



Source: (Gerschenkron, 1947; 1962)

# HYPOTHESIS

- The rapid economic growth of the time was non-inclusive and provoked social turmoil due to government failures in the area of competition policy
  - The Russian government industrial policy was relatively successful in maintaining economic growth
  - But the anticompetitive character of the industrial policies without effective antitrust institutions led to the non-inclusiveness of growth

# INDUSTRIAL POLICY AND COMPETITION POLICY

- *Industrial policy* is intended to develop specific industries by transferring resources to them
- Different approaches to industrial policy (Lin, 2012; Warwick, 2013; Aghion et al., 2015):
  - Structural (selective) industrial policy: to support specific “advanced” industries and firms notwithstanding market incentives, to promote “national champions”
    - Rather anticompetitive
  - Liberal (horizontal) industrial policy: to promote free market competition and to develop human capital, thus lowering barriers for the most competitive industries and firms
    - Rather procompetitive
  - New industrial policy: market is a basic instrument of allocation but governments coordinate investments and compensate externalities
    - Generally procompetitive

# COMPETITION POLICY: ELEMENTS OF POLITICAL ECONOMY

- At least two functions of social stability may be attributed to competition policy:
  - Preventing the excessive inequality or making growth more inclusive. Competition policy often acts in favor of consumer surplus (though it is not necessary, another standard is total welfare (Pittmann, 2007; Katsoulacos, Ulph, 2009)). Thus it may protect final consumers – households – by maintaining their *real* incomes
  - Preventing the excessive concentration of economic power in the hands of a small minority (MacCraw, 1984)
- However, competition policy may be used for lobbying by interest groups

# PRO- AND ANTICOMPETITIVE INDUSTRIAL POLICIES: CASES AND STYLIZED FACTS

- (Dobbin, 1994) on the industrial policies in railroads, especially in the 2<sup>nd</sup> half of XIX century:
  - USA: procompetitive policies, try to maintain price competition between railroads, in particular to protect consumers amid the Granger Movement (farmers against the monopolism of railroads), to protect competition itself as the basic pillar of the economy
  - France: anticompetitive dirigisme with strong state involvement – creation of regional monopolies with administrative price regulation (later – nationalization (1937))
  - Great Britain: anticompetitive (in the modern sense) policies promoting cartels in order to protect the presence of small firms, with some protection of consumers.
- (Cole, Ohanian, 2004) on the anticompetitive US industrial policies of the “New Deal” and their negative consequences – the prolongation of the recession
- (Gao, 2011) on development of non-market governance descending from specific Japanese industrial policy in the 2<sup>nd</sup> half of the XX century
- (Aghion et al., 2015) on modern Chinese industrial policies tending to be procompetitive

# PRE-1917 INDUSTRIAL POLICY IN RUSSIA

- There are at least two traditions of interpretation:
  - (Gerschenkron, 1947, 1962):
    - Conditions:
      - not enough high-skilled labour force,
      - low private consumption and savings
    - Policies: promote capital-intensive industrialization by means of
      - high import tariffs
      - preferential state procurement
      - subsidization of industries
      - attraction of foreign investments
  - (Gregory, 1991; Crisp, 1991)
    - no internally consistent industrial policy, no structural priorities
    - taxes and duties are set with regard only to fiscal needs
    - low level of state procurement and subsidies (except state participation in railroads)
    - inflow of foreign investment goes on independently on state policies



# PRE-1917 INDUSTRIAL POLICY AND COMPETITION POLICY IN RUSSIA

- No effective blocks against cartels; there is some anecdotal evidence (Krylov, 1963; Kinyov, 2012) of anticartel actions but it was incidental
- Foreign firms obtain exclusive licenses, they are lobbying NOT low import duties BUT exclusivity
  - (Gregory, 1991): “It does appear that the Russian bureaucracy failed to engender competition by restricting licensing to single companies rather than using multiple licenses to promote competition”
- Nevertheless competition with imports is restricted by high tariff rates.
- Consumer surplus is not taken into account as a rule
- **As such, Industrial Policy of the late XIX century was mostly anticompetitive, and competition policy (at a large scale) was virtually non-existent**



# CLEAR DESCRIPTION FROM THE EARLY XX CENTURY

From L. Kafengauz “Syndicates in Russia” (1910):

- Russian companies produce mainly mass consumption products, intermediate goods and raw materials, i. e. homogenous goods that are more “favorable” for monopolization
- The demand is not sophisticated, which contributes to the homogeneity of goods
- A big part of demand comes from the government. Anticompetitive agreements are often founded during state procurement
- Geographic boundaries of local markets are narrow due to high territorial heterogeneity, which favors monopolies
- The government favors cartels (e. g. contributed to the formation of sugar, iron and petroleum cartels)
- First syndicates were founded in 1860s (in railroads) but **anticompetitive practices especially developed after the crisis of 1900-02** due to temporary decrease in profit margins
- **Their activity results mainly in price increases. Price fixing is confirmed by numerous examples**
- All the economic policy of Russia may be described as the restriction of competition

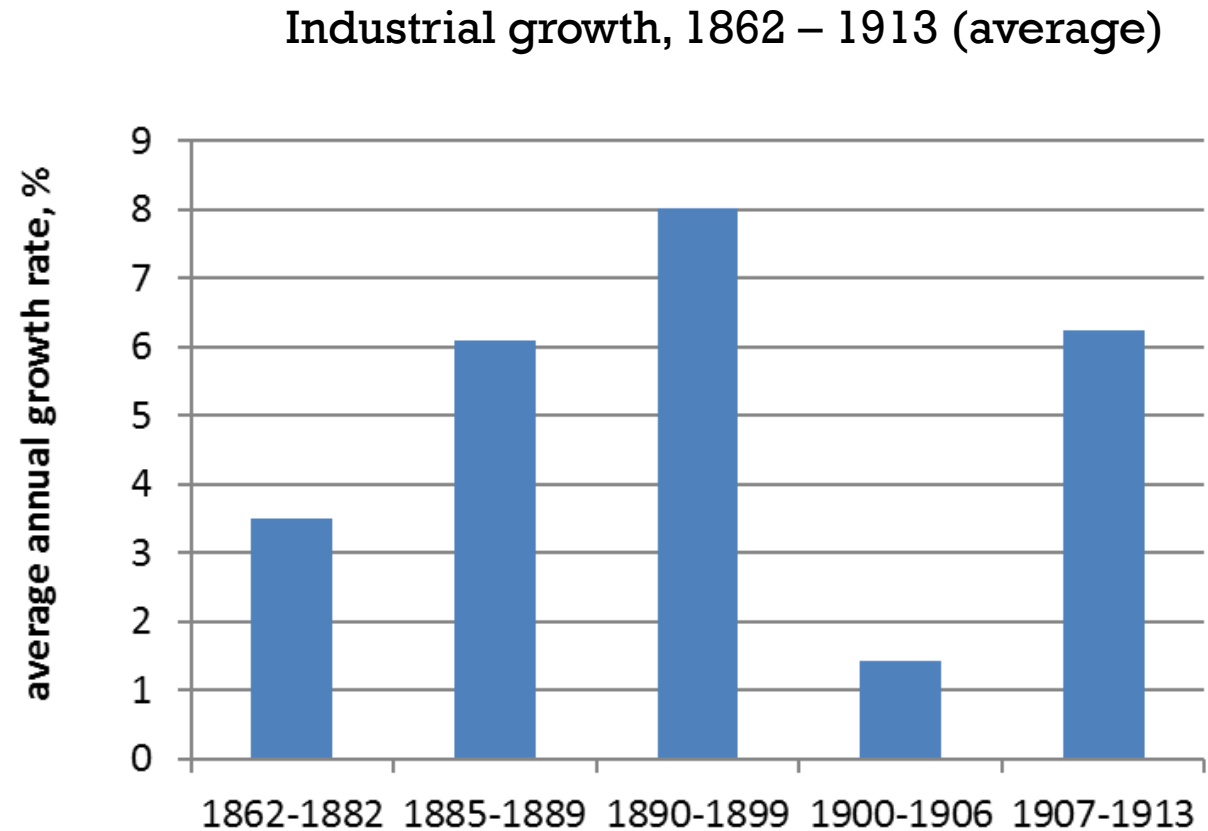
*Source: (Artemiev, Puzyrevsky, Sushkevich, 2014)*

# FIGURES ON MONOPOLIZATION IN RUSSIA

- 1880-1899: About 50 monopolistic alliances (Krupina, 1963; Erokhina, 2009)
- Early XX century: Cartel agreements or syndicates existed in virtually every industry: 150 agreements in 50 industries (Kafengauz, 1910)
- Early XX century: Approximately 140-150 cartel agreements or syndicates in Russia, 82 confirmed syndicates (Goldstein, 1913; Khromov, 1950; Erokhina, 2009)

# IMPACTS OF INDUSTRIAL POLICY

- Industrial policies contributed (or at least didn't impeded) to the economic boom of 1880s-1890s, a period of active protectionism, growth of infrastructure, anticompetitive policies in general
- The growth came back in late 1900s, despite a strong monopolization (or, probably, partially thanks to it)



Source: (Gerschenkron, 1947; 1962)

# PRICES AND WAGES OF WORKERS IN SAINT-PETERSBURG

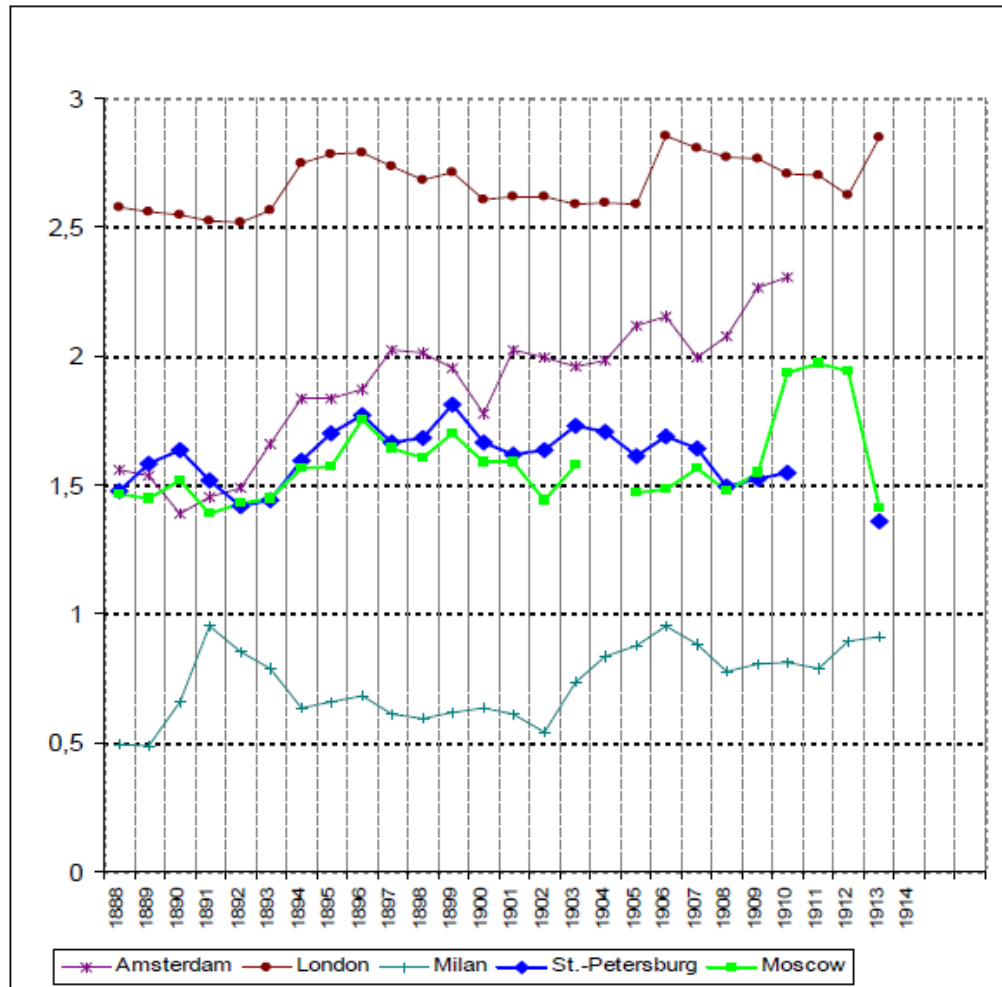


Source of data: (Mironov, 2004)

- Mironov's data (Mironov, 2004) on prices and real wages of carpenters show that there was an upswing in prices during the period of active monopolization
- Other factors?
  - due to the golden standard the government could not unilaterally provoke inflation by printing money
  - commodity prices (metals, energy) were stable or falling but wheat price actually increased in the 1900s

# WELFARE\* OF WORKERS IN SAINT-PETERSBURG AND MOSCOW (KHAUSTOVA, 2013)

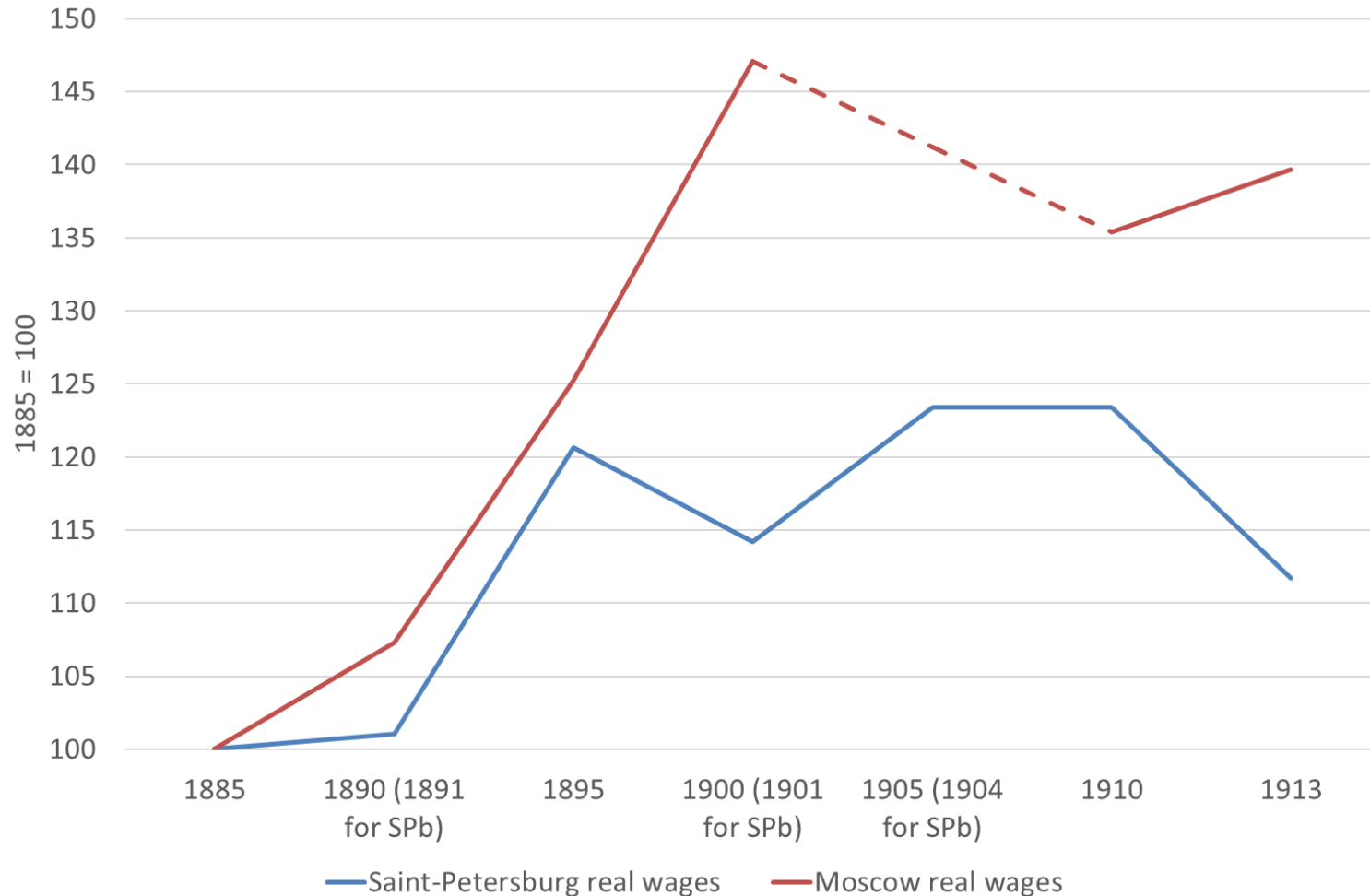
Figure 5. Welfare Ratios (avg./ avg.)



- More detailed analysis in (Khaustova, 2013) gives mixed results for 1900-1913:
  - welfare of Saint-Petersburg workers clearly goes down
  - The general trend in Moscow is downward but with outliers
  - Some upward trends in 1900-1913 in other cities of the world

\*Welfare = the ability to buy a standard basket of consumer goods

# REAL WAGES OF WORKERS IN SAINT-PETERSBURG AND MOSCOW



- Based on the data from (Kiryanov, 1979)
  - Metallurgic plants of Saint-Petersburg (Average)
  - Machinery plant Kolomensky in Moscow

Source of data: (Kiryanov, 1979)

# CONCLUSIONS

- High import tariffs, loyalty towards cartel agreements, practice of exclusive licenses for foreign corporations constitute the elements of **anticompetitive industrial policy of the Russian government in 1890s and 1900s** . This kind of policy was respectable at the time, and it really was relatively successful in terms of growth.
- **The outbreak of cartels in 1900s resulted in price increases** in different industries, according to the numerous cases of price fixing; however, the comparative role of cartels and objective factors (global prices) should be further investigated
- **Increase in prices led to the stagnation or even decline of welfare of industrial workers. They played a crucial role in social turmoil.**
  - The example of the opposite outcome is given by the USA: e. g. the popular Granger movement contributed to pro-competitive regulation of railroads in 1870-1890, and, later, the Sherman antitrust act of 1890 protected consumers throughout the whole economy



**THANK YOU FOR YOUR  
ATTENTION**