THE ECONOMY OF THE GRAND DUCHY OF FINLAND AND THE RUSSIAN REVOLUTIONS 1917

In this article we describe both the development of the Finnish economy between 1809 and 1917, when Finland was a Grand Duchy under the Russian rule, and the economic effects of the
Russian Revolutions in 1917 on Finland. In this revolutionary year Finland achieved the status of an independent state. The research questions are: 1. How was the Finnish economic development affected by the Russian connections? 2. What kind of economic impacts did the Russian Revolutions have on the Finnish economy? The essay uses the Studies on Finland’s Economic Growth, the field where the authors previously worked, and other economic historical literature. Generally, the Russian connection had a mostly positive impact on the Finnish development. The revolutions in Russia were crucial in opening the path to the Finnish independence in 1917, but, at the same time, they led to the Finnish Civil War in 1918 and created serious economic problems.

Keywords: autonomous rights, growth of the gross domestic product, trade and business connections, oppression policies.


1. Introduction

In this paper, we examine Finland’s economic connections with Russia from 1809, when Finland was separated from Sweden and became a Grand Duchy of the Russian Empire, until 1917, when Finland became independent following the Russian Revolutions in 1917, and the revival after.

Basic material for our study comes from the Studies on Finland’s Economic Growth, which were conducted under the Bank of Finland starting from the 1960s and ending with the final publication in 1989 [Hjerppe 1989]. Growth studies consist of 13 different publications, and the main results are now available in electronic form in the Statistics Finland Historical time series: National accounts 1860–2015. Other material is compiled from different research literature. First we detail the administrative structure of the Grand Duchy and the special privileges, the so-called autonomous rights, that Tsar Alexander I granted to Finland in 1809.

Next we elaborate on the general economic development of the Finnish economy in the 19th century, especially on the trade relationships and entrepreneurial connections between Russia and Finland.

We also describe political disagreements, which started to appear on stage when Tsar Nicholas II commenced the so-called Russification campaign towards Finland, which also had economic implications.

World War I caused turmoil in economic development. Finland remained outside the war but on the Russian side, supplying war materials to Russia. Finally, the economic consequences of the Russian Revolutions in 1917 are described together with an account of economic revival after the crises.

2. From a Swedish province to Grand Duchy of Finland

In the Tilsit peace treaty in July 7, 1807 between Russia and France, France approved of the Russian intention to conquer the eastern provinces of Sweden (which almost comprised of present-day Finland). The war between Sweden and Russia was waged 1808–1809. Even before the end of the war, Russia, indeed, took over the whole of the Finnish area.

In March 1809, Tsar Alexander I called the Finnish estates to the town of Porvoo, Finland, in order to decide on the new administrative arrangements and to form from the conquered region a Grand Duchy of Finland belonging to the Russian Empire.

Alexander I was cautious in the new administrative arrangements. He promised to the estates to preserve their old Swedish privileges. He also preserved the existing Swedish legislation, and, in order to calm down the possible resistant sentiments of the Finnish peasants, he also pledged not to introduce serfdom in Finland.

The Grand Duchy of Finland received its own state finances as well as its own customs border and postal services. These can be considered the most important autonomous rights of the new Grand Duchy. Some historians, in fact, interpret these arrangements as the birth of the Finnish state.

Finland was also given its own administrative structure. The internal affairs of Finland...
were to be in the hands of the senate, the members of which were Finnish citizens. The Governor-General was the representative of the Russian administration in Finland. The highest authority was, however, the Tsar. The Minister State Secretary, whose office was in St. Petersburg, submitted senate’s proposals to the Tsar for decisions.

The Finnish estates formed a parliament which, however, had limited rights. Only if the senate wanted to raise taxes did it have to get consent from the parliament. Otherwise, the senate had the power to run the country.

During the 19th century, the Finnish legislation was mainly inherited from Sweden. This fact, coupled with the Grand Duchy’s own internal administration, led Finns to consider Finland relatively independent from the Russian Empire.

When a one-chamber parliament was established in 1906 in Finland, it was based on universal suffrage, but otherwise, the general decision-making did not change. The decisions of the parliament remained ultimately under the authority of the Tsar.

In 1917, Finland achieved full independence. This was a consequence of the Russian Revolutions of that year.

3. Finland’s overall economic development in the 19th century

In 1810, Finland’s population was under 900,000, while Russia had a population of 41 million. By 1917, Finnish population had grown to exceed 3,000,000. The economy in 1810 was mainly based on subsistence agriculture with a small commercial sector. The commercial sector exported tar and sawn timber to the Western market, Southeast Finland provided firewood and agricultural products to St. Petersburg, which was rather near.

Economically speaking, Finland was a small part of the Russian Empire. Its share of the Russian foreign trade was only around 1% in the 1810s. From the 1860s onwards to the 1910s, the share grew from 2 to 4% [Pihkala 1970b, 36].

The Finnish economy grew at a moderate pace gradually at least from the 1820s on. From the middle of the 19th century, Finland’s economic growth accelerated. This has been seen at least partly due to Tsar Alexander II who in the 1850s allowed reforms in the Grand Duchy. New legislation approved the foundation of steam sawmills 1857, forest felling restrictions were abolished, the parliament of estates was reconvened 1863, and new legislation to liberalise the economy was introduced. The decades before World War I can definitely be characterised as a period of industrialisation. From 1860 to 1913, Finland’s Gross Domestic Product (GDP) grew 2.2% a year. GDP per capita grew 1.1%, doubling in approximately 70 years. Just before World War I (1912–1913) the growth accelerated to 5.5% annually [Hjerppe 1989].

From the middle of the 19th century on, Finland experienced rapid structural changes, particularly significant among which was the increase in the openness of the economy. The export and import values in relation to GDP had quickly grown from insignificant levels to about a fifth and a quarter, respectively. Those were considerable shares in those days.

The general economic climate in the latter part of the 19th century was favourable for long-term economic growth. Foreign trade was, in general, growing rapidly in the world, furthering industrialisation. Finland became part of that wave.

Several countries had adopted a common gold standard, which was bringing stability to trade relationships and economic circumstances. In addition, capital and investments flowed relatively freely between countries. This period of globalization was supported by new scientific inventions, improvements in transport, and international investments. However, countries also confronted fierce competition and imperialist struggle for resources.

Agriculture was still the dominant way of livelihood at the beginning of the 20th century. About 70% of the workforce was employed in agriculture. However, in 1910 the share of agriculture and forestry was only 43% of GDP due to relatively low productivity of labour. The share of manufacturing industries was 19%, construction 5% and services the rest 33% of GDP in 1910.
When Finland was annexed by the Russian Empire in 1809, Tsar Alexander I believed that the Empire would not benefit in any way from this former remote corner of Sweden. Finland had to manage by itself, and Finland should not be a drain to the Empire.

During the 19th century however, Finland advanced quite well, and before World War I, the country had succeeded to raise its living standard, even though it was still some 40% below the Western European level [Kokkinen et al. 2007].

4. Finland’s economic connections with Russia in the 19th century

The trade relations of the Grand Duchy of Finland and Russia gradually started to flourish owing to the new special trade regulations which took effect in 1811. Nevertheless, it has to be noted that a customs border between Russia and Finland was maintained. The main rule was, however, that Russian exports to Finland were duty free.

Exports from Finland to Russia were taxed according to so-called special lists. Finnish raw materials and so-called peasant goods, mostly agricultural, forestry and handicraft products, were duty free. Industrial goods with certificates of Finnish origin had duty free quotas. If quotas were exceeded, a customs duty had to be paid. For some goods so-called differential duties were introduced, which were lower than regular Russian foreign duties. Accordingly, the Finnish goods were getting privileged treatment in Russia compared to the goods of other foreign countries.

The opening of the Saimaa canal in 1856 in Southeast Finland from Lake Saimaa to the Gulf of Finland near Vyborg, and the railroad connection from Helsinki to St. Petersburg in 1870, improved transport connections to Russia. A fair amount of other railroads were built during by World War I.

The structure of trade also changed. Relatively unprocessed pig iron and wrought and bar iron, important export items from the 1850s to the 1870s, were gradually replaced by engineering products in exports. The Finnish old fashion lake and bog iron production lost in competition when modern iron manufactur-
Exports paid for imports, which, for the most part, were raw materials and intermediate products, most importantly grain. Finnish grain tariffs had been abolished in the spirit of free trade in the 1860s; Russian grain would have entered the country duty free in any case. German grain to Finland was also duty free. Other important primary items from Russia were raw sugar and raw tobacco as well as some luxury goods for consumers.

Even though agriculture was a major livelihood, the most important nutrient, grain, was mostly imported. Only 40% of grain was domestic. Grain was imported customs free from Russia and Germany. On the other hand, livestock products like butter were exported, mainly to St. Petersburg.

Finland had actually adapted itself well into the international division of labour under the world of relatively free trade, and was importing materials it was not very fit to produce because of natural conditions (notably grain). It paid for the latter with products better suited to Finnish conditions (sawn timber, cattle products and industrial goods to Russia). Raw material imports as a share of total imports was 55–60% in 1890–1913.

Finnish trade of goods with Russia had a considerable deficit, but a fair part was covered with the payments of the Russian army stationed in Finland as well as the living costs of approximately 100,000 Russian vacationers spending summers in Finland.

It has been considered that economically Finland had a relatively favourable position as part of the Russian Empire because of the trade opportunities it opened Finland’s trade to Russia was at its highest in the 1860s, 1870s and 1880s when about half of Finland’s imports and exports were with Russia. This share clearly declined from around 1890 to the early 1910s, when only a quarter of foreign trade was with Russia. Germany replaced Russia as a major supplier of goods and Great Britain became the largest export country. This did not mean a decrease in Finland’s Russian trade volumes; rather, it was a consequence of the faster expansion of the Western trade [Schybergson 1986; Pihkala 1970a].

5. Russian entrepreneurs and companies in Finland

Russian entrepreneurs were important in many industries in Finland mainly around the middle of the 19th century, and they definitely helped Finland to industrialise. Their significance, however, declined considerably already during the second half of the 19th century.

In the saw-mill industry, Russian entrepreneurs’ activities were relatively at their largest in the 1830s and 1840s, and in metal industry and mining in the 1860s, 1870s. Metal industry was the most important of these producing pig iron and bar iron to be used as inputs in armaments and other metal manufacturing in Russia. The most significant businessman in iron was Councillor of State Nikolay Putilov, who founded a couple of ironworks in Finland. He exported the products to his steel and armaments plants in St. Petersburg. Finlayson’s cotton factory located in Tampere was very important, too. In the 1830s, two businessmen from St. Petersburg bought the factory and managed to develop it to a very large plant selling mainly to St. Petersburg. In the 1870s, it was the largest manufacturing unit by employment in the Nordic countries. Russians also owned factories for consumer goods production like bottles, mirrors, sugar, beer, ceramics and tobacco [Mikkola 1984, 219–240].

Around the middle of the 19th century, the Russian owned companies had an important position in Finland’s industry when a fifth of the largest 30 industrial enterprises were in Russian ownership, half of these in metal production. Regionally they were mainly located in eastern or south-eastern Finland, near the big market of St. Petersburg and their own businesses there [Hjerppe 1979].

In retail trade and export–import trade the Russians also had a significant share, particularly in eastern Finnish towns and in Helsinki in the early 19th century, but their share also seemed to decline at least from the 1870s on. Some of the merchants were actually very successful. The Russian companies were bringing modern national insurance into Finland and had a significant share between the 1850s and 1890s.
As to the motives of the Russian entrepreneurs, in manufacturing industry some entrepreneurs came to exploit the natural resources of Finland, particularly the iron, copper and tin deposits. The low tariffs of Finland were used by some Russian entrepreneurs to avoid the high Russian import tariffs, for example in metal, textile and sugar industry. Many Russian companies founded subsidiaries in Finland to expand their markets; this was typical in trade and insurance. Some were just looking for markets for their own products. Many came just to make their living as immigrants. The Russian companies brought capital, created work places and employment, added to the GDP and exports of the country, and brought new technology or business ideas to Finland and added competition. They were acting very similar to what was happening in foreign direct investments internationally at the same time, with the same motives and manners [See e.g. Jones 2013].

6. Autonomous rights under threat

Most of the 19th century the Finnish autonomous rights – own state budget, customs tariff and postal services – were kept intact. Finland also received her own money, the markka, in 1860. Initially, it was ¼ of the value of the rouble, but was tied to silver in 1865 and to gold in 1878.

Towards the end of the century, the Russian policy stand towards Finland changed. Tsar Alexander III started a Russification campaign in Finland, which in Finland is called The Years of Oppression. The idea was to introduce the common Russian customs border to Finland and to expand the use of the rouble as a common currency. The idea was also to expand the use of the Russian language in Finland. In matters of defence, Finland was considered a free rider, as the Grand Duchy did not have its own army. Therefore Finland had to pay compensation in money to the Tsar’s coffers. Finns call the period 1899–1905 the First Oppression Period, and the Second Oppression Period started in 1908, lasting until the independence of Finland in 1917. During the latter period, Finns refused to participate in the senate, and the members of the senate were nominated from Finns who were born in Russia.

The Finnish markka achieved a trusted position in international markets in the 1870s through to the 1890s. State finances were in excellent condition. During the Years of Oppression, the trust in the Finnish markka considerably deteriorated, and Finland had even some difficulties in arranging international loans at the beginning of 1910s [Arola 2006].

7. World war supplies and the rouble crisis

When the World War I started, the most important effects on the Finnish economy were problems of foreign trade. The largest import item from Germany, flour, plummeted immediately, as all imports from Germany, an enemy country, were prohibited. Germany also closed the seaway to Great Britain, and the largest exports to the British Isles, sawn timber, were stopped.

About a quarter of all import and export volumes were lost immediately in 1914, but then the volumes remained at about this level in 1915 and 1916. GDP fell by 4–5 % in 1914 and 1915. Fortunately, at the outbreak of the war, the Russian army sent orders to Finnish industry. The Finnish engineering industry as well as the textile, leather and shoe industries could sell all they could produce. In the metal industry, this even led to the expansion of plants. The volume of production of metal industry increased 65 % from 1913 to 1916. Exports of pulp and paper to Russia increased 85 % in 1914–1916 [Hjerppe et al. 1976, 165; Pihkala 1970a; Hjerppe 1989].

The demand for war materials initiated a small boom in the whole economy. The GDP increased 1,5 % in 1916. Financial conditions eased and the new Finnish stock exchange even boomed [Pihkala 1970b, 63; Hjerpe 1989].

The boom was, however, temporary. Due to the Russian Revolutions in 1917, the production of metal industry collapsed 30 % in 1917 and even more in 1918.

The increasing demand of war materials from Russia caused unexpectedly a monetary crisis in Finland. Immediately after the war had begun, the value of Russian rouble collapsed. The Russian authorities, however, required the Bank of
Finland to change the roubles at the old parity price. The bank was receiving roubles which had lost their value, but had to give in exchange markkcas at the old higher value of roubles. The Bank faced big losses since the value of the rouble was ultimately down more than 60%.

Also the state finances were affected through railways and postal services. This phenomenon caused considerable speculation on the stock market, which aggravated the problem [Karhu 1917].

The problem was finally solved by a loan, which the Bank of Finland granted to Russia February 17, 1916. This made available the markkcas, which were needed to buy war materials. Altogether four tranches of loan were granted before the February Revolution in Russia [Kuusterä and Tarkka 2011, 408–411].

8. Finnish independence, civil war and food crisis

The revolutions of 1917 threw the Russian economy into turmoil, and the Finnish economy really started to suffer. Finnish import and export volumes dropped to a half and 30% respectively from the pre-war levels, GDP by 16%. Exports to Russia continued until the summer, but not all of them were paid for. The most dramatic collapse was in the grain trade, where imports fell from 378,000 tons in 1916 to 27,000 tons in 1917, when imports ceased altogether early in the year.

In addition to food shortages, the chaotic conditions in Russia caused unemployment in Finland. The Russians discontinued fortification works in southern Finland, and manufacturing companies laid off workers when orders stopped coming. The end of the small-scale peasant trade in St. Petersburg and the disappearance of the Russian vacationers caused economic difficulties for the inhabitants of southeastern Finland, particularly for those living on the Carelian isthmus by the Lake Ladoga [Pihkala 1970a, 62].

It is generally acknowledged by the Finnish historians that the Russian Revolutions opened the way to Finnish independence [Kuisma 2015, Jussila 2004].

After the February Revolution, in St. Petersburg, the Finnish parliament accepted in July the so-called ”power law”, which was considered a kind of reclamation of independence. The government in St. Petersburg did not, however, accept this reclamation and dissolved the parliament. New parliament was formed, but in the meantime in Russia the Bolshevik Revolution broke out. The right wing parties in Finland hurried the independence movement, and on December 6, 1917, the government declared the independence. The Bolshevik regime recognised this declaration January 4, 1918.

Due to the conflicting political situation Finland was plunged to a civil war in January 1918. The conflicting parties were: the Red Guards with workers and leftist farm workers following the Russian example as well as Russian soldiers stationed in Finland, and the White army formed of middle class people and some farm owners. The war ended in May with the victory of the White army, which received some help from Germany.

In 1918, foreign trade reached its bottom. Its level was only 10% of the level of trade in 1913. It took until 1920 before the level of 1913 trade was achieved again. The GDP also reached its bottom level which was 33% under the pre-war level [Oksanen and Pihkala 1975, 16; Hjerppe 1989, 193].

When the imports of German grain collapsed, Finland attempted to increase imports from Russia. It has been estimated that Russia had enough grain, but its transport appeared to be a problem, because railway equipment was needed to transport war supplies. These difficulties created a serious food crisis in Finland. Food rationing came into force June 2, 1917. It continued after the war because the international political stature of Finland was unclear. Only on February 24, 1919 was Finland accepted as a neutral country, and foreign trade was liberalised. Food rationing was completely finished April 1, 1921. Finland was classified as a famine country in 1918 [Bane and Lutz 1942].

9. Revival

It is obvious that the cultural contrasts between Russia and Finland became more significant when Russia started the Russification campaign in the 1890s. However, it cannot be
claimed that independence was a result of systematic work of the nationalistic movement, which was developing during the 19th century. Rather, Finland gained its independence because of the chaotic developments in Russia, and by using the window of opportunity that suddenly opened. Furthermore, there had clearly been no systematic planning on how to manage Finland’s newly gained independence.

The economic goals of the new government were the revival of the economy – including foreign trade – keeping the population from starvation. The food shortage was a burning question. In the longer run, the goal was to be self-sufficient in food with protected home markets and government support for agriculture. The protection plan was alleviated by the need to keep strong export markets and export relations, as the trade needs of the country continued to be considerable.

As for the private sector, the Russification campaign had not seemed to affect directly private business relations. Trade and other economic activities continued as usual. Businessmen did not refuse trade relations because of this. After the declaration of independence, goals of the business elite were to open up trade relations and get their businesses going. National sentiments hardly interfered. The Finnish companies who had traditionally exported to Russia were in no way unwilling to continue trade. The business elite were hoping that old well-known business relations could be re-established with the Russians. That turned out to be impossible, mainly because of Russia’s new policy orientation. During the first decade of independence, Finnish business continued efforts to buy raw materials from the Soviets. During the New Economic Plan (NEP) period Finnish companies were eager to get concessions to open up economic activities in the Soviet Union. It is also clear that some right wing politicians opposed ideas of trade with the neighbour to some extent. [Hjerppe and Lamberg 2000, 389–391].

The economy recovered relatively soon with the help of newly revived post-war western demand for supplies from the old customers and establishment of new trade relations. The GDP grew over 5 % a year in the 1920s. The structural development of the economy continued in many ways in the same direction as it had before World War I. Foreign trade maintained its relative importance, except for a few critical years during the war, but the Soviet market lost its significance and Western markets came to dominate. Regarding commodities, Western markets demanded less-processed goods, and accordingly, the commodity structure of exports came to be almost entirely dominated by timber products, pulp and paper. Pressure groups representing the main industries emerged in western European style, and they came to exert power in economic policy decision-making.

10. Discussion

When Finland was separated from Sweden in 1809 and was formed as a Grand Duchy under Russia, it had no dramatic economic consequences. Tsar Alexander I gave to the Grand Duchy its own administrative structure and autonomous rights in state finances, customs and postal services. Finland was then an area dominated by agriculture, exporting mainly some tar and timber.

During the first half of the 19th century, economic connections to Russia started to increase. Many Russian entrepreneurs settled in Finland. Russian exports to Finland were duty free, and Finland had some duty free or lower duty privileges in its exports to Russia. The first modern factories in textiles and paper industry found their markets in Russia.

From the middle of the century on, many reforms started to liberalise the economy. At the middle of the century, half of the foreign trade was with Russia. Finland adjusted well to the international division of labour importing grain and selling sawn timber to the west, and some industrial goods to Russia. Russian economic connections can be seen mostly favourable to the Finnish economic development.

At the end of the century, political tensions between the Grand Duchy and the Empire increased along with the Russification campaign. During this time, trust in the Finnish currency deteriorated, but most trade relations and other economic connections continued uninterrupted.
Finland did not participate in the World War I, but was economically disturbed by it all the same. Exports to the main Western export countries were halted for many years. Imports from Germany, including the all-important grain, collapsed altogether. Grain imports from Russia also suffered from transport problems. This started the food crisis. Finnish metal, paper, textile and shoe industries, however, benefited in 1914–1916 from the demand of more war materials from Russia.

The Russian Revolutions in 1917 opened the path to Finnish independence, which was declared on December 6, 1917. Trade relations with Russia, however, collapsed and a civil war ensued in Finland, partly inspired by the Russian Revolution in October 1917. In 1918, a serious food crisis broke out, foreign trade collapsed to 10% of the pre-World War I level and the GDP reached its bottom level.

The economic revival started in 1919 when import channels opened again. Finnish exports turned from east to Western markets. The economic revival was relatively rapid, but it took until 1922 for the GDP to reach its pre-World War I level.

**LITERATURE**


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