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It's Tsar, Not Comrade

February 12th was the 100-year anniversary of the Russian Revolution. Surprisingly, the Kremlin has taken a very low-key stance on the centenary. We believe the government's decision to downplay this historical event offers an insight into Russian President Putin's thinking.

In this report, we will present a history of the Russian Revolution, showing how civil order deteriorated in the years after 1917. We will offer observations of how the Kremlin's treatment of the revolution reflects Putin's worldview. As always, we will conclude with potential market effects.

The Russian Revolution

There were two revolutions in 1917, one in the spring and another in the fall. The first occurred in March¹ and the other in October.² Russia had made halting steps toward modernization and liberalization. At the turn of the 19th century, Russia was the last European autocracy. The government had no representative body; instead, the primary instruments of the state were the bureaucracy and the secret police.

The 1905 Revolution did raise hopes of liberalization. Russia's embarrassing defeat a year earlier in the Russo-Japanese War had weakened national morale. Russia was

¹ Basis the Gregorian calendar; Russia was on the Julian calendar at the time, putting the revolution in February.

² Or in November, again, based on calendar differences.

beginning to industrialize; every nation that has gone through this process suffers through social disruption and Russia was no exception to this pattern. As landless peasants moved to urban areas seeking work in factories, they faced hard and dangerous work under difficult living conditions.

In response to the uprising, Tsar Nicolas II promised reforms that included universal male suffrage and a directly elected representative body. In reality, the Duma turned out to be an indirectly elected legislature that had little power.

Nicolas II was considered to be a weak and stubborn man who nonetheless ruled as a repressive leader, following the policies of his father, Tsar Alexander III. The Russian economy remained backward and, although the serfs were officially freed in the mid-1800s, in reality, the countryside was populated with landless peasants whose conditions remained desperate.

The onset of WWI would expose all the weaknesses of the Russian government. Russia, due to treaty obligations, was tied to France and Britain. When Archduke Ferdinand was assassinated in late June 1914 by a Serbian revolutionary, the Austro-Hungarian Empire sent Serbia a set of demands calculated to be rejected by the Serbs.³ With Serbia's eventual rejection of Austria's demands, the latter prepared for war against the former. Since Russia was an ally of Serbia, it threatened to protect Serbia against an Austrian attack. This threat set in

³ These demands included a full investigation of the assassination in Serbia conducted by Austrian security personnel.

motion a series of actions and mobilizations that led to WWI.⁴

Russia was woefully unprepared for modern war. Because of its poor transportation infrastructure, it was forced to begin mobilizing troops soon after the Austrian threats on Serbia; this action convinced Germany that it faced an existential threat of war. It is estimated that Russian troop strength at the onset of the war was just under six million. Germany only had about 65% of Russia's men under arms but was able to deploy them much faster. In addition, German troops were much better equipped and trained.

Although most of the participants in WWI suffered serious losses, Russia's 2.3 mm military death toll was the largest of any participant. Although the Russian military generally performed well against the Austrians, they were no match for the German military. Despite fighting on two fronts, Germany was able to push Russian troops within 100 miles of St. Petersburg by 1917.

Unsurprisingly, Nicolas proved to be an ineffective war leader. Adding to Nicolas's leadership shortcomings was the fact that the Tsar and Tsarina had come under the sway of Gregory Rasputin, a self-proclaimed monk who convinced the family he could heal the royal family's son, Alexi, from hemophilia. Rasputin's influence grew when the Tsar took control of the military effort by going to the Eastern Front in 1915. According to reports, Rasputin influenced

⁴ Perhaps the most famous book on the conditions that led to war is Barbara Tuchman's *The Guns of August*. See: Tuchman, B. (1962). *The Guns of August*. New York, NY: Macmillan Publishing Company. For a more contemporary analysis (and, in my opinion, convincing), see: Clark, C. (2012). *The Sleepwalkers*. New York, NY: HarperCollins.

the Tsarina, who was essentially running the government at the time, to appoint candidates he favored to various posts. This led to resentment among the political elites in Moscow. In December 1916, a group of nobles assassinated Rasputin; however, the actual circumstances of his execution are uncertain.⁵

In early March, with civil unrest increasing, the leadership of the Duma met with Tsar Nicolas. On March 15, he abdicated in favor of his brother, Michael. Michael abdicated the following day. The Romanov Dynasty had come to an end.

By early 1917, two factors had become abundantly clear. First, the war was extremely unpopular and the Russian people wanted it to end. Second, peasants wanted land reform. The new government vowed to maintain its war participation in order to maintain the support of Western powers. It did try to negotiate with Germany to end the Eastern conflict, but the German terms were seen as overly harsh.

Germany wanted Russia to quit the war; this would allow the Germans to shift the soldiers on the Eastern Front to the Western Front and increase the likelihood that Germany could win the war before America's participation, declared on April 7, 1917, would have a material impact. To help facilitate Russia's exit from the war, Germany allowed Vladimir Ilyich Ulyanov, otherwise known as V.I. Lenin, to leave Switzerland in a specially sealed train car

⁵ And, to a great extent, the stuff of legend. He reportedly survived poisoning and several gunshots only to die of drowning when his body was thrown in the river. Given the degree to which the government was losing control of civil order and the lack of reliable sources, it is difficult to separate fact from legend.

and pass through German-controlled territory on his way back to Russia.

Lenin led a group of socialists called the Bolsheviks, which is Russian for “majority,” a rather odd title given that his group was by no means in the majority among Russian leftists. However, unlike the other assorted groups in Russia at the time, Lenin knew exactly what was necessary to take control.

Lenin’s plan was to first accept peace at any cost from Germany. Second, he would promise land reform and distribute property to the peasants. Third, he used a growing movement, called “soviets” or “councils” of workers, soldiers and peasants who were developing spontaneously to create some local government structure in the power vacuum that had developed after the fall of the Tsar. Lenin’s agitation and promises to end the war, give out land and empower the soviets were popular enough that he was able to bring about a second revolution in October 1917 and end the provisional government headed by Alexander Kerensky at the time. The provisional government failed because it was unable to end the war and control the Petrograd Soviet, which had fallen under the sway of Lenin.

Soon after taking control, Lenin sued for peace with Germany. The Germans demanded harsh terms; the Treaty of Brest-Litovsk ended Russia’s participation in the war and was signed by the new Soviet government, even though it had not completely established control of the country. In the treaty, Russia gave up the Baltic States to Germany. Ukraine became independent.

The nearby map shows how costly the treaty was for Russia. The broken line shows when the new communist government declared an end to hostilities. The solid line

shows how much Germany demanded to end the conflict. In addition to taking this territory, Russia was expected to pay Germany six million gold marks in reparations.



(Source: Wikipedia Commons)

Land reform took some time to execute. Eventually, he implemented the New Economic Program in 1921 that allowed the peasants to sell their produce freely. The following year he enacted the Fundamental Law, which gave the peasants security of land tenure; however, ownership remained with the state.

Finally, Lenin leveraged the soviets across the country to gain control of the state. The local soviets gave the regime some degree of legitimacy even though they became a tool of communist dominance.

It should be noted that there was a counterrevolution against Lenin and the Bolsheviks. A civil war between the White Russians and the communists ran from November 1917 to October 1922. There were numerous groups who opposed Lenin and his new government. Former Tsarist military figures, independence movements in various areas and leftist groups who opposed the communists among others

fought the new government. There was also widespread foreign participation on the side of the White Russians, with Eastern and Western European nations, the U.S., Japan and Australia all sending troops. However, the Red Army, masterfully led by Leon Trotsky, was able to overcome these different groups, in part because Trotsky kept the Red Army unified and in part because the opposition groups were unable to unify at all. Although Lenin was able to fend off these groups, it did give the air of being besieged and colored how the evolving Soviet government viewed the world.

What Does Putin Fear in this History?

Here are some of our observations surrounding Putin's decision not to promote the Russian Revolution.

There are two kinds of people in this world: those who think there are two kinds of people and those who don't.

- Robert Benchley

Observation #1: Putin is uncomfortable with disorder. With respect to Benchley's observation, one of the key distinctions in personality is the ability to cope with change. In my observation, it's mostly a continuum; at one extreme, people despise any change, and at the other, they welcome change for change's sake. This period of Russian history was chaotic, with the fall of the Tsar and two revolutions in the same year followed by a five-year civil war. The fact that Putin and the government are choosing to ignore this significant anniversary suggests he doesn't want to highlight a period of tumult.

Observation #2: This is a period with no heroic figures. Unlike anniversaries and historical figures from WWII, which the Russian regime has honored with great

fanfare, the Russian Revolution is a cast of flawed personalities. Tsar Nicolas was weak and stubborn. Alexander Kerensky failed to hold the new government together. Lenin, though crafty, was ruthless in taking power and yet vacillated in policy by implementing the New Economic Program. Trotsky was the hero of the war against the White Russians but became an enemy of the state and was executed on Stalin's orders while in exile in Mexico in 1940. The only person from this period that Putin has shown any affinity for is Stalin, but it seems that was only from his period as a WWII leader and not as a revolutionary. None of the revolutionary leaders apparently project the notion of Russian greatness that Putin is trying to emulate.

Observation #3: Putin is a nationalist, while the leaders of the November Revolution were communist internationalists.

Putin has grabbed the mantle of Russian nationalism. He is adopting the trappings of Russian culture, including projecting a robust, masculine image,⁶ claiming Russia's long control of Crimea as a reason for invading it and attending Russian Orthodox Church services. Lenin and the communists represented an international socialist movement inspired by Karl Marx, a German who lived in London much of his life. It almost appears that Putin views the Soviet period as a diversion from the Tsars, who better represent Russian grandeur.

Observation #4: Putin is no Marxist.

Although Putin came of age in the Soviet system and was a member of the KGB, he appears to have jettisoned the communist "religion." His regime hasn't taken steps to support the poorest Russians. He is apparently not an atheist, a tenet of

⁶ <http://www.businessinsider.com/39-photos-of-vladimir-putin-2013-3>

Marxism. And, unlike the internationalist goals of Marxism, Putin is all about expanding Russian influence, not spreading socialism. If anything, Putin is probably a fascist, in that he believes in state control of key industries but otherwise allows private markets to exist.

Observation #5: Putin strongly dislikes revolution. Revolutions upset the existing order. They remove governments from power and create chaos (as noted in Observation #1). A recent *New York Times* article⁷ suggested that the Russian Revolution has been lumped into the recent spate of “color revolutions” that Putin loathes not just because of the unrest they bring but also because they are seen as being sparked by outside forces. Thus, the Rose and Orange revolutions in Georgia and Ukraine are, in Putin’s estimation, an example of U.S. manipulation designed to put compliant regimes in place. To some extent, the Germans clearly had a hand in the Russian Revolution when they sent Lenin back to St. Petersburg in a sealed train car. The foreign military participation of White Russian forces also confirms Putin’s worldview that revolutions come with outside influence.

Ramifications

Although it has become fashionable to see Russia as a threat to the U.S., it’s important to understand that the Russia of today isn’t the same problem as the Soviet Union. The Soviet menace was that, as communist, it represented an alternative system to democracy and capitalism. Putin is a Russian nationalist. Although he wants his country to be taken seriously on the world stage, he really doesn’t care if there is peace in Africa and other far-flung regions. Simply put, Russia is no longer a

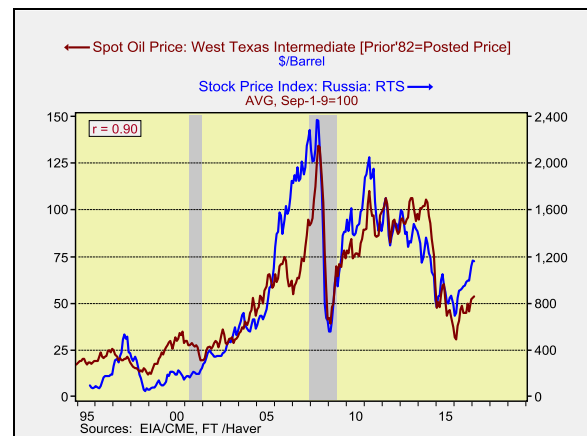
⁷<https://www.nytimes.com/2017/03/10/world/europe/russian-revolution-100-years-putin.html>

superpower. But, that doesn’t mean it isn’t a problem. Putin will try to follow the same security playbook that the Tsars and Stalin followed, which is to expand influence and control in Russia’s near abroad to create a buffer zone from invasion. That is his first and foremost goal.

In dealing with Russia, it will be important for the U.S. to avoid following the Cold War framework which would tend to overestimate the threat that Russia presents. Russia doesn’t want to invade the U.S. In reality, it probably couldn’t invade Ukraine successfully. The U.S. must determine how much of a buffer it is willing to grant Putin. Although there is a tendency to say “none,” the reality is that there is no U.S. president willing to go to war over Ukraine or Georgia. The real question is whether one is willing to go to war over Poland.

Thus, Russia’s hacking and propaganda is designed to undermine America’s ability to prevent Russia from expanding in its near abroad. These issues are threats but they are not the same threats that international communism represented.

From a market perspective, Russia’s primary influence is in industrial metals and oil. We usually recommend that investors interested in Russian investing simply buy oil instead.



This chart shows the Russian RTS Index and oil prices. Since 1995, the two series are correlated at the 90% level. Thus, investors interested in investing in Russia can nearly duplicate the position by holding oil positions and avoiding the potential

problems of expropriation and corruption that pervade the Russian economy.

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