

Grain and empire

Published 4 July 2022, with Scott Reynolds Nelson.

In the final part of my conversation with Scott Reynolds Nelson, author of Oceans of Grain, we move on to empire. The earliest city states in Mesopotamia built their fortunes on their position astride grain transport routes. Still today, the ability to tax grain as it moves – and to control that movement – is a source of political and commercial power around the world. Nations also need to remember the need to feed the forces that exercise their power.

Scott Reynolds Nelson: Yes, it represents energy. It's a circulatory system of humans connected with one another. It represents energy, and in that sense power. It also ... Where those places cross, where you have multiple meeting places, where those black paths, those paths in which trade takes place, it provides an opportunity for empires to build themselves up.

A lot of economists have suggested that well, if you look at the places in the 19th century that are wealthy, they also happen to be nodes along the Roman Empire. Therefore, the Roman Empire caused these things. No, it's the other way around. The Empire itself built itself up on those nodes. It identified those nodes. It lengthened and strengthened them. The Empire depended, in part, on controlling those circuits and controlling those places where you could potentially make sure you tax it and make sure you control it.

Jeremy: You mentioned the Roman Empire but this predates the Romans by quite a way. Predates the Greeks. Probably one of those near Eastern ...

Scott: Mauryan Empire. Yes, if you talk about the city states, that period, the Tigris and Euphrates, those regions, there it's quite simple. It's quite straightforward. You establish yourself along the largest river. That's the source of power. We do have archaeological evidence that suggests that grain growing precedes those empires, and that's why I think it's important to recognise that grain growing and distribution is

a human thing. The empires sit on top of it. They are imposed by it. Perhaps, a thousand years later.

Jeremy: Controlling these nodes, how did the nodes come under the control of an empire? Is it invasion or is it just building up the node? Is there a common pattern?

Scott: I don't think so. We don't know for sure but we can imagine in part by looking at the various explanations of this. It might be a group of families that happens to be near a crossroad that establishes a route around it. It might be that, in the wake of a famine or a plague, that a group of robbers establish themselves and call themselves an empire. Or I can imagine other possibilities; that a trading group becomes a stable gang and no longer moves when it robs but robs by taxing. If you think about robbers, the whole idea of robbers — that's collecting a tribute by moving. An empire is its opposite, in that it is collecting a tribute by staying in one place.

Jeremy: The tribute, though, can sow the seeds of destruction when people feel that maybe the tribute is too much and rise up against the Empire.

Scott: Absolutely. That's what happens with the Ottoman Empire as increasingly it draws harder and harder on the Balkans. You see these Balkan uprisings. You see Greece uprising in the 1820s and things like that. I do think that you'll see a place that taxes too heavily, I think that's a decent explanation for the collapse of many empires, is that their ambit is restricted and they draw too much from the periphery and then they collapse.

Jeremy: Two empires are clashing in the 19th century. You've got Russia and you've got America, both producing large amounts of grain. Both continue to this day to produce large amounts of grain. Did they compete with one another on the matter of grain?

Scott: Absolutely. At first, it's Russia. Catherine the Great, 1780s, she takes over this region, the Black Sea, and starts to sell grain from Odessa. The French Revolution and those Imperial Wars, the Napoleonic Wars, leads her to be the provisionary of Europe. The US is disengaged from that network directly and that. It's providing grain really to the Caribbean. It's not until really the Crimean War, when Istanbul blocks all grain from exiting.

Grain prices increased 40% on that day. The next day, France and Great Britain become allies, of all things, to defeat Russia. France and Britain, combined with the Ottoman Empire, tried to stop Russia's control of the Straits of the Bosphorus. The United States on that day sees an opening. It's then that the grain barons begin to see the tremendous amount of wealth that can be generated from New York, from Philadelphia, from Baltimore. If grain prices go up 40%, suddenly, the United States can provide food to London and Liverpool.

That is extremely exciting. It's that, I think, that makes the Civil War possible. This is why the Crimean War, I think, comes right before the Civil War; just about seven or eight years before, is that the grain barons are like an empire in that they're drawing a small tax from the expansion of a black path all the way to the West. They see the opportunity in providing grain to London and Liverpool, to become a great empire, to become a competitor to Russia. They're willing to fight for it. They're willing to fight over the plains of Kansas.

They're willing to fight for expansion to the West without slavery, because it turns out the grain is better produced in the 19th century by free labourers than by slaves. That is a complicated explanation for why that is, but it has something to do with large estates, relatively little labour, all these sorts of things. It's clear to everybody who's involved in railroads and grain expansion that there has to be free land in the West. That is, no slaves. That becomes the war. That becomes the civil war. It's a war over the expansion of slavery in the West.

Who is going to get those plains? Who is going to provide the food to Europe? Who is going to compete with Russia? That direct competition between the US and Russia takes place during the war a little bit, but then it's after the war that we see this massive transformation of both the United States and Russia.

Jeremy: It's interesting because at the same time that the US is fighting a war on slavery, Russia is doing the same and getting rid of serfdom.

Scott: My point is, in part, this is a story about how you collateralise debt that the ...

Jeremy: You're going to have to explain.

Scott: [laughs] ... Oh, sorry. The question is, how does Russia and the United States borrow from Europe, which is the capital centre of the world at this point?

How does Russia borrow? Russia has a Russian Land Bank. It provides loans to large serf owners. Those serf owners grow grain. It goes down to Odessa and it goes out to the rest of the world. This process is actually not [laughs] ... It doesn't work especially well, because those large serf owners tend to gamble a lot. If you think ... the land bank is lending to the serf owners, the land bank itself is then borrowing from British orphanages and capitalists in the north of England and things like that, through Russia itself. Russia is the go-between.

This whole complicated scenario, it doesn't actually work especially well, because the people that are the best producers of this grain are actually people who are quite close to the Black Sea. They don't actually need as much lending as you'd expect. They're not maybe getting it from the land banks, because some of them are ? They're former soldiers. They're descendants of soldiers who've gotten a thousand hectares of land for their military service. They don't have that many serfs. They're actually producing a great deal of grain. This whole system is a bit rickety.

United States comes along in 1850 and says, "We have an idea. We'll collateralise the debt differently. We'll provide collateral in a different way. The collateral will not be on serfs." In fact, this whole system depends on the collateral of serfs, because serf owners say, I have 500 serfs, I'll get 500 roubles a year and I'll continue to grow.

What the United States does with land grants is it collateralises Western land. How does it do that? The Congress controls all Western land. It makes treaties with Indians and native communities in the West. It buys the land. It then owns it, and the railroads are given the land in a checkerboard pattern. Imagine a checkerboard laid out alongside a railroad like a snake with checkerboards. All the black spaces belong to the railroad. All the white spaces belong to Congress. They can sell that land. When a railroad goes through that land, it generally doubles the value of the land. This effectively pays off Congress for allowing the railroad to settle in this region.

The railroad, then, is an extremely expensive instrument, impossibly expensive. \$2 million, \$3 million, \$4 million. How do you pay for this?

The way you do this is you offer bonds to London bankers, who then sell it to London pensioners, and Liverpool pensioners, pensioners in Scotland and elsewhere, orphanages, and things like that. They buy these railroad bonds, which provide the upfront capital, then that money for the railroad is paid off over a space of 10 years, as the railroad is completed. That's one way of generating capital. The second way of generating capital is to take the land and collateralise that.

What the railroads do is, they create separate land railroad bonds, which say, "You'll give us the money, the collateral will be in the lands, and we'll pay you off over the space of 10 or 20 years". That land is then sold to people who settled in the West, that's how they pay off the bonds. The people who settled in the West are Europeans as well. The whole process, basically, depends on Europeans settling there and paying off in chunks. Sorry, it's a complicated storey. [laughs]

That collateralising of land, rather than serfs, is an important difference and it provides, in a way, an engine of economic development in the American West and an engine for the payoff of bondholders in Britain that's new, and very different, and works exceptionally well. So well, that white southerners start to worry because the West is getting filled with people. All these western railroads are filling with people and they're producing tremendous amounts of grain, they're selling it in cities at this point. This clash too, is the Civil War.

Jeremy: I did say at the beginning that things would get complicated and from empire, transport, and finance, they all come together. Then the other thing is, the settlers, who are going to these bits of land in the West, they need to borrow money too. Where does that come from?

Scott: All right, [laughs] you asked for it. Okay. We need to start back a little bit further because the US, as a nation, expands in large part by credit. This is mostly through what are called country stores. A store, before 1820, means just a place where you hold things. A store, after 1820, means a place where you buy things on credit. It stores plough points, and thread, and shirting, and woollens.

A farmer goes in and says, "Let me borrow these goods, I have 40 acres of land here in the West and I'm going to provide you with butter, ten and a half pounds of butter, and I'll pay you when the milk comes in." That process of lending through country stores starts

around 1820 and expands in the United States afterwards. The trouble is that the interest rate works out about somewhere between 18% and 24%, if not more. That system is the system we have in the United States until the Civil War.

Then, when the futures market comes along, when we get a futures market, there's a new way of borrowing. That is to promise to pay in future grain. For, say, a May 1st delivery, and it's October now, you will sign over 1,000 bushels, let's say. That goes to a line agent. A line agent is a representative of a sort of a bank slash grain trader. That bank slash grain trader person provides you cash, they take that promise to deliver; they package them up and then the line agent sells futures on the futures market, immediately, on the same day, by telegraph, so that there's no risk. We've established that we're going to lend this much to the farmer, who has, in fact, the number of acres that he says, and can grow the amount of grain that he says. The line agent is the person who converts that into a future, the future is then sold on the market. There, the margin shrinks. It's not an 18% to 24% interest rate, it's something like a 5% to 6% interest rate, that's charged to the farmer.

The line agent makes a little bit of cash and he works with multiple farmers. This futures market is a place which is, effectively, a bank. Because anyone can go in on any day, who knows that May 1st wheat futures are going to be worth about 6% more at the end of the season than they are right now, will buy that and hold onto it, and it will increase over time. That's an old thing that goes back to the Venetians and the Genoese. He or she can take that future and if they need cash right away, walk into the Chicago Board of Trade, sell it, and in three or four days, have the cash that they need to buy whatever they want. The Chicago Board of Trade becomes a bank that lends to farmers.

This is a complicated storey but the Chicago Board of Trade makes good on the deal. It provides credit to the line agent, who in turn provides credit to the farmer, who in turn can borrow much more, at a much more reasonable rate, for future expansion. This bypasses the country store and is a brilliant institutional innovation, in terms of making it possible to expand more rapidly in the West. This dynamic allows the United States to expand much more rapidly across the plains than Russia can do, in the 1860s and 1870s.

Jeremy: What is the Russian equivalent? Is there one?

Scott: There is a Russian equivalent to this. As you can imagine, people in Odessa are shitting themselves between 1860 and 1872, about this rapid expansion, all of this credit that's being provided, the fact that United States is so much further away from these European markets, and yet, it can sell cheaper. Partly, that's a technological thing, but partly, it's this technology in the terms of financial institutions. They try to recreate this.

This is where Bunge, Dreyfus, these other grain traders come in and they say, "All right, we can find people who can provide loans to farmers. We need to find our own line agents". And those line agents become Jews, mostly, in Odessa. It's in this period, in the 1860s, where the Greek traders, who had pretty much dominated the grain trade, and have been the primary operators right around 1865, 1866, are displaced by on the one hand by the ABCD grain traders, who establish themselves in Odessa and set up warehouses, and a number of Jews, who have recently been liberated by the end of serfdom in Russia, who no longer have access to postal routes, no longer have access to postal roads.

There were a few monopolies that Jews were allowed to be involved in, that are closed to them once serfdom is over. They then go out into the countryside and make arrangements with farmers and provide them with loans.

What's new about this, and interesting about this, is the Russian Land Bank is not involved. These Jews in Odessa, and elsewhere, know who's a good farmer. They look at the fields, they inspect them, they have a sense.

The people who benefit by this are the people that are called kulaks. These are mostly former peasants who have 500 acres, maybe 1,000 acres, and they have leased land, they're producing grain on a large scale, they're fixing their own ploughs, those sorts of things. They are not the old serf owners, who [laughs] have quite a bit of capital but not a lot of capacity. It's clear that the people who are the real innovators in this environment are these kulaks.

Jews in Odessa become the intermediaries, and this is important, valuable, and necessary, and it allows Russia to compete with the United States, but also is going to, down the road, lead to a blaming of

Jews for anything that goes wrong, in the sense that Jews are the intermediaries, Jews are always benefiting. When we talk about German antisemitism, when we're familiar with that, with the Holocaust, and those sorts of things, we're actually talking about eastern European antisemitism.

Russian antisemitism is in some ways, arguably, the origin of German antisemitism. This sense among Russians that Jews are benefiting is really foundational, it's basically how the economy breaks down and is reconstructed after serfdom ends. Jews become the people who are involved in this trade and they become, ultimately, the targets of the pogroms.

Jeremy: Pogrom is a Russian word?

Scott: Yes, grom is Russian for thunder. Pogrom is the thunder of the hooves of the Cossacks, travelling through. It's not that the Russian empire is directly involved in the pogroms, but they are. I mean, they're indirectly involved. It's mostly the Russian Orthodox Church, mostly Cossacks, together. They tend to be little fights that turn into these violent attacks on Jewish regions. They do not attack, by and large, the relatively wealthy Jews that are involved in the grain trade. They attack just Jews. It's mostly poor Jews that are the targets, actually, of these pogroms. It's Jews that become, in the minds of the pogromers, if you will, the source of their problems, the source of their difficulties.

Jeremy: I want to switch back to Istanbul on the Bosphorus. I didn't realise, till I read your book, that in the middle of the First World War, France and the UK, promised Istanbul to the Russians.

Scott: That's right. France and the UK, in the agreements that are building the Alliance in World War I, yes, they effectively promise that Russia will get Istanbul. This is a fateful alliance and it's one that ultimately depends on a clear path between Russian grain, grain and soldiers on the Russian side, and you've got kit and technology and soldiers, but with not a lot of grain, on the France side.

The two of those need to be in coordination and Istanbul is ultimately the place that transfer has to happen, that's the black path that has to work for this alliance to work. When Turkey allies with Germany, then that pinch point becomes crucial for understanding the war. A lot of people will talk about Flanders Field and the

trenches and all that stuff, and that's all important in World War I, but Gallipoli is a really crucial story for understanding World War I.

The fact that France and Britain are, after a year or so, oddly, starving, cut off from access to food, France is producing food, but there's much fighting in France, the fact that they are in dire straits, the Russian army is sadly under-equipped in terms of kit and military capacity, and so a lot of Russian advances on Germany end up being just horrific. Millions of deaths. Istanbul is a crucial and important part, it's promised to Russia and it becomes, in a way, the source of a great deal of pain and suffering.

Jeremy: The end of the Ottoman Empire, kind of?

Scott: Kind of, right. Let's see, this is a complicated story again, but we have an Ottoman Empire. Let's go back to 1905, 1910, we see the Young Turks emerge in the Ottoman Empire. They have a rapprochement with the Ottoman Empire, but gradually they're trying to build a Turkish state and build Turkish identity. There's an incident in which there's a direct conflict between the Empire and the Young Turks. The Young Turks win that conflict. The committee and union progress becomes the vessel for a new Turkish state that's building itself up inside the Ottoman Empire, even as the war is starting, Attaturk is replacing the old imperial sultan.

Jeremy: It's fun talking about what seems to be ancient history, and right now we've got something unfolding on the north of the Black Sea. I don't want to prognosticate about what might happen there, but one of the really interesting things you say in the book, is that Russia's weakness depends on its separation from Ukraine. I'm not familiar with everything that Putin has said, but he doesn't seem to have mentioned grain specifically. It's all about some nebulous golden age in which Ukraine was part of Russia. You can't know what he's thinking ...

Scott: I can't know what he's thinking, but I think absolutely that Putin understands. Putin's master's thesis is on strategic resources in Russia and Ukraine. Historians and geographers throw around the term agro-industrial complex to describe how it is that agriculture is the foundation of industry; that's what Putin writes about in his master's thesis. This is not speculative, this is in fact how he sees and understands the fundamental foundation of Russia's future is in grain.

Khrushchev argued that, it's such a part of Soviet understanding, that it's the grain provider for this second world. It's also in Putin's understanding that grain is the centre of this. You can read his master's thesis, he talks about the agro-industrial complex, he talks about strategic resources.

I think that we're talking about ancient history as well, World War I. Let me go back a little bit further to 1890, 1891. The famine is a famine that happens in the course the centre of Russia. At this point when it happens, when it starts in 1889, there's a drought, but by the time that it's clear that Russia is starving, Ukraine has already — what's then Southern Russia, little Russia is what it's called then — has already exported all of its grain to the world market. This suggests, at a relatively early period, that Russia is actually a grain absorber, that it's not actually producing as much international grain as Ukraine is. Ukraine is actually flat fields, freshwater, deep ports close to the Black Sea.

It's the place that is providing food. The peasant economy that's further North is not really the centre of exports. There are exports that come from these places, but it's a fraction, it's a smidgen. This idea that the Russian Empire has, that it's peasants that are producing this grain, no. It's people that are on large estates, peasants are absolutely planting and peasants that are harvesting, but they're doing it one month out of the year for each, the planting and the harvesting. As early as 1889, if not earlier, Ukraine is a place where food is coming from in Russia. That doesn't answer your question about Putin.

Lukashenko shared with the press — and he shouldn't have, I don't think, but for our purposes is very interesting — he shares with the press Russia's plan for control of the northern part of the Black Sea. It doesn't stop at Odessa, it covers all the major ports in Ukraine. It's not just Crimea, it's a whole corridor along the northern edge of the Black Sea that Russia wants. It's clear that further invasions are likely, at least in Putin's head, about what it is that Russia requires. That I think is important for understanding this long term strategic objective.

The other thing that's important to recognise is that — you can see this if you go to Odessa or before the conflict, you could see this —

is there's a lot of Russian grain that goes out through Odessa, that for the western part of Russia, the only efficient route to the world market is via Ukraine.

Putin tries to build a grain export place at Tuapse, which is on the other side of the Black Sea near where the Olympics were. It doesn't generate nearly as much grain as everybody had expected, because it's such a long, circuitous route all the way to Tuapse on the eastern side of the Black Sea. Odessa is the perfect port.

Catherine the Great was a brilliant strategist when she thought that Odessa would be the most important part for Ukraine. You look at where the chernozem belt is, all this beautiful black soil, it's two wings that spread out and dip down and the place they end is Odessa. If you're going to pick a place in the world, the most important grain centre of the world, it would be Odessa, not by anyone's choice, but absolutely by where the food is.

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