

## **The Evolution of Post-Communist Banks in Russia<sup>1</sup>**

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Prior to modern industrial capitalism, banks issued and changed money, but they did not give credit without the collateral of monetary deposits. With the development of modern capitalism, the distinguishing feature of banks as components of financial systems is the activity of aggregating individual savings and, on the basis of liquid balances, the creation of further money deposits, which lead to investment. The economic legitimization of banks, it is claimed, lies in the rational evaluation of risks on returns, and the allocation of funds to the most profitable sectors and firms in the economy, which should lead to the accumulation of capital and to economic growth. As part of a market system of autonomous profit motivated units, banks have become a crucial part of the capitalist system. As Ingham has contended, the creation of credit-money by banks and States is 'constitutive of capitalism'. What fuelled the development of capitalism, he has argued, was the 'capacity to create "mobile" money in a form that integrated the new "private" bill and note credit-money of the banker-traders with the existing forms of "public" coinage currencies' <sup>2</sup>. Essentially, banks are institutions which, through the provision of a supply of money (bank credit) promote, or at least facilitate, the growth of wealth. As well as being a major source of wealth creation for the bankers themselves, the power to issue money gave banks considerable control over the allocation and division of economic resources. By the withdrawal of credit, clients would be bankrupt and by allocating capital between different end uses, banks influence the ways economies develop.

The history of national banks, however, is not unambiguously one of economic development. There may be disparities between the needs of national economies and governments and the economic preferences of banks. Banks may use their resources quite rationally to invest outside the home economy, to export capital to secure returns on deposits and thereby sacrifice the development of the domestic industrial base. They may not be able to make the correct

predictions of risk and potential entrepreneurial return, and their financial conservatism - particularly in the case of large and long-term investment - may deny credit to industrial development. Banks may, through corruption and/or incompetence, create deposits which may be used for profligate consumption leading to the issue of paper money and hyperinflation.

The institution of bank credit may also be dependent on other facilitating conditions. Psychological factors, such as a propensity to invest for future wealth creation, the extent and character of individual entrepreneurship or the capacity of the State to provide an institutional framework. In their absence, banks may not develop as major instruments of capitalist development. In these conditions, '[R]ecent experience strongly suggests that banking systems as intermediaries are not highly essential to the growth process'<sup>3</sup>. Banks may quite rationally act as intermediaries in the export of capital.

This brief introduction indicates that modern banks, in their role of increasing the supply of money, arise under specific conditions and, in the history of capitalism, have not always played a positive role in accumulation of capital in their own countries. This article seeks to analyse the rise of banks in post-communist Russia from a comparative perspective. The footprint of banking practice in the former Soviet Union and abroad has influenced the evolution of banks in post-communist Russia.

### The Footprint of Banking Practice

The present literature on the role of banks in the economy has been strongly influenced by Gerschenkron's comparative insights. Gerschenkron's method was to consider countries with respect to the levels of development at the time of industrialisation. By development, he referred to the level of output, skill of population, the time horizon of entrepreneurs. His conclusion was that

'the more delayed the industrial development of a country, the more explosive was the great spurt of its industrialisation, if and when it came... [T]he more backward a country, the more likely its industrialisation was to proceed under some organised direction; depending on the degree of backwardness, the seat of such direction could be found in investment banks, in investment banks acting under the aegis of the State or in bureaucratic controls.'<sup>4</sup>

In the early industrial development of Britain, the banks played a relatively small role in the provision of industrial credit. They discounted bills but did not perform a major role in the provision of credit. This was because industry in the eighteenth and nineteenth century was comparably small scale, entrepreneurs could and did finance their expansion from accumulated profits and from borrowing from friends. English banks also encountered legal restrictions, which confined partnerships to a maximum of six persons and precluded limited liability<sup>5</sup>. Britain too had advantages in the world market of the day in which the country was hegemonic and power was secured by the strength of the British State. The country had the legacy of a stable currency and a highly developed system of public credit, which had served the government well in the finance of wars<sup>6</sup>. Britain had an indigenous entrepreneurial class and consequently the banks facilitated the industrial revolution, but did not 'induce' growth. Following good banking practice, they lent short-term and secured long-term cash deposits. The British banks had an autonomous presence which had been built up over generations and which gave the banks a higher level of self-regulation than on the continent of Europe and, by the same token, a greater political weight than in Europe. This legacy persists in Britain to the present day.

Germany arrived later on the industrial scene. Industrial production required higher levels of capital investment which individuals could not provide, and the time required to recoup outlays was much longer, so the short-term lending of British banks was inadequate. Due to the 'feudalisation of the bourgeoisie', Germany had fewer potential entrepreneurs. Consequently, the banks became prime sources not only of capital but also of entrepreneurship by taking an active part in investment and in the management of industrial concerns.

This interconnection between the entrepreneurial role and paternalistic character of banks in German industry is still in marked contrast to the ways in which British and American companies are financed and controlled. What these three countries do share in common, however, is a State which was able to monopolise the issue of money.

The features of pre-revolutionary Russia have also been sketched by Gerschenkron. 'Its entrepreneurs were far too few; their time horizon was often limited, their commercial customs backward, and their standards of honesty none too high'<sup>7</sup>.

The autonomous role of a bourgeois class in the development of nineteenth century Russia was

weak; the early banks played a major role in providing finance for the landed gentry and the purchase of land by peasants; the banks and the State played an influential part in the development of industry. Foreign capital also had a significant position as owner of bank assets. Russia was characterised by entrepreneurs with a short-term time horizon.

### Banks Under State Socialism

Even more important as a legacy to the contemporary scene in Russia, is the structure and process of banks in the Soviet period. Socialist countries utilised money and banks - though not in the ways of modern capitalist States. They abolished an autonomous banking system able to create money. 'Centrally planned economies [were] money-using, but quantity-maximizing economies. They require money to avoid the cumbersomeness of barter, but not a financial system beyond an elementary transfer mechanism for investment funds. Holding of money makes sense only in a world of uncertainty; an adequately functioning planned economy needs no money balances, except as required by the specific payments mechanism in use'<sup>8</sup>. Money continued as a standard of value and medium of exchange, but not as an economic regulator, or 'economic lever'.

Banks had no role in the appraisal of risk, either in the production of commodities, or with respect to enterprises which produced them. Management of enterprises experienced no economic or market risks as all risk related decisions were taken by those responsible for the economic plans. In this context, a system of banks existed to exercise financial control over enterprises. Credit was allocated to enterprises and channelled through the banks which were responsible for the expenditure of money in accordance with the plan allocated to enterprises.

A major distinction may be made between industrialisation under capitalism and in the state socialist societies: in the former, monetarisation of economies was part of the movement from feudalism to capitalism, in the latter, demonetarisation took place. Hence 'remonetarisation' of the economies of post-communist countries has been one of the major tasks of the transition process.

This stark picture of a centrally controlled economy was changing even before the 1980s in the USSR and particularly so in the other state socialist economies of Eastern Europe. One of the

most important ideological developments under Khrushchev was that with the movement to communism, there would be a development of 'commodity-money' relations (rather than as hitherto of 'product-exchange'). It is possible that greater monetarisation could have occurred, with banks being given a greater role in risk management in the context of a more decentralised economy of 'finance socialism'<sup>9</sup>.. The changes which took place in Russia did not raise significantly the role of the banks in the hierarchy of economic control.

Under Gorbachev, proposals were made to reform the banking system<sup>10</sup>. After study of banks in market transitional societies (such as India, Yugoslavia and China)<sup>11</sup>, in July 1987, a reform of the banking system was made<sup>12</sup>.. Consequently, in 1988 and 1989, the State banks were reorganised into a central bank (Gosbank USSR) which controlled the management of money and credit and oversaw a system of unified monetary policy; it supervised and determined the level of credit operating in the other banks. There were five specialist banks - Vneshekonbank (Foreign Trade), Promstroibank (Industry and Building), Agroprombank (Agro-industry), Zhilsotsbank (Communal Services) and Sberbank (Savings Bank). Also, and of great importance, new non-state banks were allowed to be formed.

The formation of 'new' banks were part of the establishment of 'cooperative' businesses (as well as other forms of individual private enterprise). These concerns, which were outside the economic plan, needed credit and gave an impetus to the formation of private banks, which initially operated with no legal basis.

The thrust of Gorbachev's perestroika policy was not to develop banks as mediators between savings and investment (or determinants of investments), but to move to a market system in which the major State enterprises were able to divert their surpluses into investment (if they wished). No steps were taken which would have led to the formation of an autonomous banking sector.

The 'new' banks evolved in a spontaneous manner. One head of a now prosperous provincial bank explained to me that as a communist functionary he saw that the old system was on its way out, he looked for an alternative and thought of going into financial services. He phoned some of his colleagues and, working out of his office, began trading in money. The first non-state bank emerged spontaneously in the summer of 1988<sup>13</sup> and, by the end of 1989, 150 non-state banks had been founded<sup>14</sup>.. Policy encouraged the formation of business outside the State sector

and, to further new business, the government allowed the printing of money and an increase in bank credit. The interaction of new business and finance is illustrated by Vladimir Gusinsky, who later was to lead Mostbank, he founded the companies Metall in 1986 and Infeks in 1987, in 1989 (with Arnold and Porter) he formed a joint venture, Most, of which he was General Director.

Such banks, however, under Gorbachev were relatively small-scale. Their credit at this time was a relatively small part (approximately 2 per cent of the total of the banking system).

### Economic liberalisation, the beginning of an independent banking sector

The evolution of an independent banking sector has to be considered as part of two different but related strategies of transformation: the formation of governments in the Republics which broke away from the USSR, and the concurrent economic transformation leading to the privatisation of State assets and the move to the market.

In December 1990, the law 'On the State Bank of the USSR' took Gosbank out of the control of the Council of Ministers (USSR) and made it accountable to Parliament. Gosbank USSR had the functions of maintaining a unified currency in the Soviet Republics, the regulation of money supply and control over the exchange rate. However, developments in the Republics seriously weakened it. In July 1990, Eltsin, declared that all the branches of All-Union (i.e. USSR) banks located on the territory of Russia, were independent of Gosbank USSR<sup>15</sup>. Branches or departments of specialised State banks were registered as independent banks. For example, in Tula in 1990, Priupskbank was formed out of the regional branch of Promstroibank USSR, KSERT Bank from Zhilsotsbank USSR, Tulaagroprombank from Agroprombank USSR and Baltika from Promstroi bank<sup>16</sup>.

Also in December, a law on the Central Bank of the RSFSR (The Bank of Russia) made it the main bank of the Russian Republic subordinate to the Supreme Soviet of the RSFSR. After the collapse of the USSR, the Central Bank took over all the functions of Gosbank - control over the supply of money, the level of credit, the printing of money and the exchange rate of the ruble. It regulated the financial aspects of the economy of the Russian Republic and took charge of the network of Gosbank USSR's institutions.

The 'reform' of the previous Soviet banks, led to the creation in 1990 of some 800 independent banks taking the capital of the previous State banks<sup>17</sup>.. The largest bank, Savings (Sberegatelny) Bank of Russia, was privatised and became a joint-stock bank, a major shareholder becoming the the Russian Central Bank.

A characteristic of these 'old banks' was that many had firm links with the regional administrations and also, as they had serviced enterprises in the Soviet period, these connections continued - often, as we shall consider below, in an institutional form.

From December 1992, the Central Bank of Russia began to take over the functions of control and inspection of the commercial banks. As the agent of the Ministry of Finance, it organised the sale of government stock (GKO's) and became a major source of lending to the commercial banks.

Demand for the services of the banking sector came from the newly founded and privatised companies who not only sought banking services but also credit. The Central Bank printed money to finance the government budget and the commercial banks who, in turn, lent to companies. By 1995, there were 2517 credit organizations<sup>18</sup>. The founders of the 'new banks' were people from diverse backgrounds. Many had been officials in the administration of the Party and State, others were employees of financial departments of enterprises and banks. In Most bank, for instance, the leading personnel came from the offices of Vneshekonombank USSR and Promstroibank USSR.

An effect of the breakup of the USSR and the formation of banks under the early post-communist governments was that the power of the central government over the monetary system was considerably weakened. Republics of the former USSR (later sovereign States) took over control of the supply of money. Unlike under successful Western capitalist States where often, even before capitalism been established, robust government had been secured and provided an institutional framework for a (usually unitary) monetary system, governments in the Republics were weak. In Russia, Eltsin's economic policy destroyed the previous bank system because of its pivotal political and economic position as an agent of the USSR.

### The Operations of Banks in Eltsin's Russia

The move to a market and the initial monetarisation of the economy led to high profitability of financial operations consequent on the high level of inflation and the fall of the value of the rouble against the dollar. Speculative opportunities in financial markets also arose through the privatisation cheques or vouchers issued by the government to the population, on the one hand, and through short-term government bonds (GKO's), on the other. The rise in the share of government debt is shown on Table 1.

Table 1. Assets of the Russian Banking System.

BILLIONS OF RUBLES	1993	1995	1997	1998	1999
Claims on General Government	0.8	62.6	194.7	259.4	437.7
Claims on Nonfinancial Public Enterprises	15.6	62.5	33.2	33.1	46.9
Claims on Private Sector	20.2	133.8	236.4	346	521.6
Claims on other financial institutions	-	0.5	8.1	7.3	13.1
TOTAL	36.6	259.4	472.4	645.8	1019.3
AS PERCENTAGES					
General Government	2.1	24.2	41.3	40.2	42.9
Nonfin. Pub. Enterprises	42.7	24.1	7.0	5.1	4.6
Private Sector	55.2	51.6	50	53.6	51.2
Claims on other financial institutions		0.1	1.7	1.1	1.3
TOTAL %	100	100	100	100	100

Sources: International Financial Statistics. International Monetary Fund. 1996, 2000. Washington D.C.

Clearly, by 1997, loans to the government had grown enormously since 1993 (a percentage rise from 2.1 per cent to 41.3 per cent) and, following privatisation, the claims on the non-financial public sector had decreased. The high level of government debt later became a major factor in the financial crisis of 1998.

The overwhelming majority of privatised Russian banks at this time were directed to short-term

speculation<sup>19</sup>, particularly in currency dealing and later in government stock. These developments in the banking system were concurrent with the dismantling of the centrally organised economy, the move to a market system and exposure to the global market.

From a financial point of view, most Russian enterprises became effectively bankrupt. By 1999, loss making factories and organisations (excluding small businesses) in the first quarter of that year, came to 43.6 per cent of the total number of factories. They made a loss of 54.5 milliard rubles, compared to the profits made by other enterprises of 71 milliard<sup>20</sup>.

No government can accept the consequences of such high levels of bankruptcy, and policy has been to maintain political and economic stability. Enterprises -even bankrupt ones- continued to function. In the monetary sphere, however, international factors limited the government's choices, a low level of internal inflation and stability of its exchange value with other currencies was crucial for Russia to enter the global economy and also to attract foreign firms and investment. In these circumstances, a further demonetisation of the economy took place and barter and other forms of exchange characterised relations between enterprises. Rather than allow enterprises to close, with the subsequent social and political problems of unemployment and poverty, factories kept employees at work and bartered production for inputs and the banks played a role in these exchanges.

Many local banks (whose stakeholders included non-financial companies and government interests) started to facilitate the exchange of products and services between enterprises and institutions. By arranging barter deals (direct exchange) and issuing limited veksels or bills of exchange they promoted production in the ailing Russian industrial sector and enabled State taxes to be collected<sup>21</sup>.

The rouble lost its role as a medium of exchange between enterprises and in wholesale trade. In February 1999, in industry, of the total quantity of exchanged goods and services, 47.3 per cent were settled through money, and 52.7 percent by other means: 12.1 percent were resolved through bills of exchange (veksels), 27 percent through settlement of mutual demands, 7.8 percent through barter, (there was a residual of 5.8 percent).

The total value of such bank involvement is significant, but not really very large. The generalisations made by Woodruff<sup>22</sup> and Aukutsionek<sup>23</sup> are based, not strictly on barter, but on

all non-monetary settlements including veksels and mutual indebtedness. Veksels, often traded on the secondary market, are forms of money and have proved profitable for many banks<sup>24</sup>.. Such figures are related to wholesale trade, and ignore small business and retailers, Woodruff's argument, therefore, exaggerates the role of barter in the economy.

### Interdependence of Banks, Non-Financial Companies and State Organs

In 1992, the 'new' banks, which had been formed quite independently of the branches of the State banks (which themselves had been transformed into commercial banks), comprised about a third of the total number of credit institutions.

This enabled the directors of enterprises (whether privatised or not) to control flows of finance of their companies. Here, obviously, is a possible source of corruption, as the management was able to procure the proceeds of production for themselves.

In terms of capital ownership, the major beneficiaries of privatisation were employees (31.5 percent owning stock in 1999)<sup>25</sup>, managers(14.7%), outside individuals (18.5%), other enterprises (13.5%), financial enterprises (10.4%), the state (7.1%) and other shareholders (4.3%). As indicated by Table 2 the capital of the commercial banks was largely owned by non-financial companies. In 1995, as much as 62 per cent of the authorized funds of the former State banks ('old banks') and 69 per cent of the new banks belonged to non-state enterprises and companies.

Table 2. Bank Ownership (Percent of share capital), February 1995

TYPE OF SHAREHOLDER	TOTAL SAMPLE	FORMER STATE BANKS	NEW BANKS
SOE* other State institutions	14%	15%	13%
Privatized enterprises	26%	31%	21%
New private companies	38%	31%	48%
Individuals	18%	18%	18%
others	4%	6%	1%

\*State-owned enterprises

E. Belyanova, 'Commercial banking in Russia: evidence from economic surveys'. *Russian economic barometer*. Vol. IV, No 4. 1995. p. 34.

The formation of the new Russian banks illustrates the tendency of industrial concerns to create banks rather than, as in the experience of Western capitalism, banks being initiators of industrial development. As noted above, the ownership share of financial companies in Russian industry in 1999 amounted to only 10.4 per cent. Non-financial companies owned the assets of commercial banks, rather than the other way around. Such developments are similar to the early stages of industrial capitalism in England, but the formation of 'company banks' on such a scale is a new phenomenon. An implication here is that non-financial companies, with a stake in or owning a bank ('pocket' banks), could transfer profits abroad leading to significant national capital loss. While the banks certainly provided money changing facilities, they did not create deposits for the accumulation of capital in Russia. On the contrary, they facilitated capital flight. Official estimates of capital exports give figures (for 1998) of 3,999 million dollars inward investment, compared to 15,194 million dollars outward payments<sup>26</sup>. Western estimates confidently claim that foreign capital outflows are much larger than those declared: Fitch IBCA in 1999 estimated that \$136 billion of capital was exported from Russia between 1993 and 1998<sup>27</sup>.

The previous administrative linkages between the Soviet State banks (particularly those such as Sberbank which has remained in State ownership and control) and their clients (non-financial companies) continued in a new context. 'De-statisation' often involved government institutions taking shares in companies. Organs of government retained ownership and control over local enterprises because there were no purchasers. This, in turn, led to involvement in the privatised

banks. As noted in Table 2 above, the State-owned enterprises and government institutions possessed some 14 per cent of the capital in the sample of banks under consideration.

The banks were also a source of credit for local government (regions and city) administrations. Powers had been devolved to regional administration allowing them to 'authorize' banks in their localities. 'Authorized' banks were formed which had a special relationship with organs of State power and gave a material base to regional governments<sup>28</sup>.

The interpenetration of government interest and private corporate capital in the new corporations, though different in origin, was not unlike the evolution of corporations in the early days of the industrial revolution in the West. In Britain, for example, the corporations of the eighteenth century were '..effective mechanisms for blending the economic interests of the state and of private groups in mutually beneficial ways'<sup>29</sup>.

What then was the interpenetration of the banks with non-financial companies?

### Ownership Profiles of Financial Companies

Russian companies are structured in a similar way to those in continental Europe rather than as in the UK or USA. There is a Sovet Direktorov (Board of Directors) (sometimes called the Nabyudatel'ny Sovet (Supervisory Board), in addition to the Pravlenie or Executive Board. The former is constituted from the major owners of the company and it makes the strategic decisions. The Executive Board is composed of full-time employees of the company responsible to the Board of Directors; the Chairman of the Executive Board is able to, and often does, sit on the Board of Directors. While it is asserted that 'oligarchs' 'control' large segments of Russian industry, the ways this 'control' affects the strategic commercial and industrial decisions of individual companies is unspecified.

Ownership by individuals is relatively small. and the denial of large personal holdings by 'oligarchs', such as Chernomyrdin, is probably authentic. Vladimir Potanin, for example, President of Interros and Uneximbank and reputedly one of the most powerful of the 'oligarchs', has no recorded personal share of ownership in excess of 5 per cent of the companies in this group. Typically, as far as published data are concerned, members of the Boards of companies

own less than 5 per cent of shares in the authorised capital. Sberbank is the largest bank in Russia. It remains 58 per cent in the ownership of the Central Bank of Russia, making it effectively state owned. Investment companies own 21.4 per cent, including a stake of 7 per cent by Kreditanshtal't-Grant (which in turn is owned by CA IB Investment Bank, Austria), other firms own 8 per cent and individuals, 11.9 percent<sup>30</sup>.. Control is maintained by the Central Bank through its representatives on the Sovet Direktorov. In January 2001, there were 17 people on the Sovet Direktorov, eight had positions in the Central Bank and another represented the Moscow Executive of this bank, four were representatives from the Executive Board of Sberbank, there was one representative from the Ministry of Finance, one from the Metallurgy Investment company, one from Kreditanstalt-Granit, and one from the Russian Electrical Company (EES). These directors were representatives of institutions rather than being large shareholders themselves: 13 directors had no shares at all, the remaining four had a total of 0.1061% of the capital: the President of the Bank, Andrey Kazmin (former Deputy Minister of Finance of the RF from January 1995 to February 1996) owned 0.037 per cent and the largest shareholder (with 0.045%) was Aleksandr Solovev, deputy Chair of the Pravlenie (Executive Board) (previously Chairman of the Voronezh Bank of Sberbank from 1995)<sup>31</sup>. Share ownership of members of the Pravlenie is much higher. All were share holders, with a total of 0.313 per cent of the shares. The largest stake was owned by Gennadi Soldatenkov, with a holding of 0.052 percent, followed by Andrey Kazmin also a member of the Sovet, above. Soldatenkov, a Deputy Chairman of the Pravlenie, had previously (1995 to 1996) had been vice-president of the Russian Sberbank and President of Moscow Bank. These figures illustrate nicely the role of managerial capital in the leading cadres of the new state banks.

State involvement may also be defined in terms other than ownership of the major state banks (such as Sberbank). It may take the form of control by the administration at the level of President of the Republics, the ministries and lower level regional State powers. Examples are Zheldorbank (the Ministry of Railways)<sup>32</sup>, the City of Moscow (Bank of Moscow)<sup>33</sup> and the republic of Tatarstan<sup>34</sup>.

Provincial banks follow a similar pattern of corporate ownership. By 1999, the bank Ekaterinburg had 11 corporate members owning over 85 per cent of its assets<sup>35</sup>.. As to board membership, in Zoloto-Platina Bank, of nine members, two owned shares which totalled only 0.008 per cent of authorised capital. Typically, board members represent corporate interests

which own large packets of stock<sup>36</sup>.

An implication of this high level of non-financial company involvement is that banks are called to give credit not only for investment but also to pay wages when income is low. Uralpromstroybank which traditionally serviced heavy industry in Sverdlovsk, in 1995 advanced 93 per cent of its credit in the form of short-term loans (principally for wages) only 1 per cent was directed to long term investment and 5 per cent went to discounting of bills<sup>37</sup>..

These data would suggest that the greater public visibility of 'oligarchs' amplifies their importance and influence. This is not to deny either that the political elites received support in elections or that they have received preferential treatment with respect to the authorization of contracts, to real estate and to the purchase of commercial and industrial assets. The 'banking elites', however, are to be defined not by personal ownership of shares, but include representatives of other non-financial companies and government organisations.

### The Banking System and the Economy

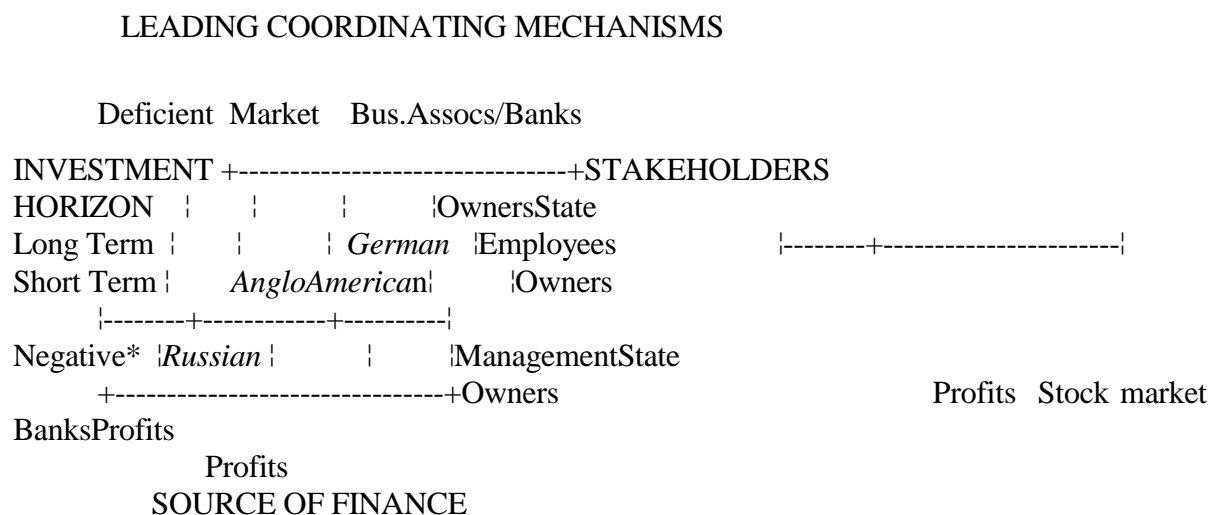
Russian banks, ten years into the period of transformation of State socialism to capitalism, lack the capacity significantly to create 'mobile' money to facilitate the growth of wealth. They do not facilitate the formation of capital accumulation, they only marginally act as autonomous intermediaries evaluating the risk potential of investments. Major activities of the banks, especially before the crisis of 1998, were to speculate in foreign exchange, to provide a conduit for the export of capital, to buy government bonds, to facilitate the interests of client companies by the provision of funds and by facilitating non-monetary exchange of commodities.

The reciprocal ownership of assets by banks, non-financial companies, and State institutions has led to the evolution of a depersonalised and corporate form of capitalism in Russia. The privatisation of companies, both financial and non-financial, led to a dominant pattern of corporate control in which clients of banks are significant shareholders. Individual ownership is small in scale though significant for bank management which is represented on the Executive board. An important conditioning factor of bank development has been the way in which privatisation enabled non-financial companies to acquire the assets of the state banks and also to found new ones. Banks then become settlement centres rather than generalised credit

institutions, in effect continuing the weak budget constraints characteristic of state socialism. This was facilitated (especially in 1998 and 1999) by the Central Bank advancing large amounts of liquidity to the commercial banks. Properly directed such financial support could give a long-term commitment to the non-financial sector - rather in the way in which German banks have sustained industrial development. The legacy of the Soviet system is also apparent in continuing government ownership and control of the major banks (such as Sberbank, Vneshtorgbank and Most-Bank), as well as the interpenetration of ownership and control of commercial banks and non-financial companies by ministries, Republics and local government authorities. The close links between State and non-financial companies, which in turn have stakes in commercial banks, leads to the conclusion that the banking system is not an autonomous economic sub-system of the economy.

A typology of types of economy under capitalism is suggested in Chart 2. For Russia, the major stakeholders are management, the state and owners, the main sources of finance are profits, the investment horizon is negative, the coordinating mechanisms (power and money) are deficient.

## CHART 2. TYPES OF ECONOMY



\* Negative balance between export of capital and internal capital investment.

The process of transition from state socialism in the context of a globalised economy adds a new dimension to the Gerschenkron paradigm. The Russian economy, when pitched into the

global one, faced widespread bankruptcies giving rise to economic collapse. The mutually reinforcing interests of State, financial and non-financial companies have countered market tendencies which would have led to the bankruptcy of enterprises and to the collapse of local economies. Not only have the banks, with State support, given short term loans to meet wages, but also non-monetary (non-ruble) forms of exchange became a means enabling enterprises to continue to work. Non-financial companies, having been formed prior to the banks, themselves become important stakeholders in, and owners of, banks. In the macro economic context of imminent large scale bankruptcies, the Central Bank has allowed weak budgetary controls of commercial banks. We witness a tendency of the Soviet system to 'reconstitute' itself, though in quite a different market context. Russian capitalism is likely to develop to a more corporate state-centred type with State institutions guiding investment at a macro level and state-dependent enterprises accumulating capital from profits. In this respect, banks have played and, in the future, are likely to play a relatively unimportant autonomous role.

## References and Notes

1. This work was financed from Grant R000222954 of the British Economic and Social Research Council. I acknowledge research assistance of VEDI (Moscow), P.Kuznetsov and Heiko Pleines who provided some of the sources used in this article. The author also acknowledges advice, assistance and materials given him by bank executives and local government officials in Moscow, Kaliningrad, Tula, Nizhny Novgorod and Ekaterinburg.
2. Italics in original. G. Ingham, 'Capitalism, money and banking: a critique of recent historical sociology' *British Journal of Sociology*, Vol 50, no 1, (March 1999), p.79.
- 3.. John g. Gurley, *American Economic Review*, LVII (1967). p. 953. Cited by Rondo Cameron (Ed), *Banking and Economic Development*, Oxford University Press, 1972 p.6. Taiwan, Israel, Venezuela, Kuwait, Libya and socialist countries are noted by Cameron.
4. Alexander Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays*. New York and London: Praeger. 1962. p.44.
5. Rondo Cameron, 'Introduction' in Rondo Cameron, *Banking and Economic development*, New York: Oxford University Press, 1972, p.12.
6. The English victory at Waterloo, for example, is attributed to the success of the country's public finance enabling the state to raise taxes. See P.G.M. Dickson, *The Financial Revolution in England: A Study in the Development of Public Credit 1688-1756*, Macmillan 1967, pp. 8-11.
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9. See Gregory Grossman, 'Introduction', in Gregory Grossman (Ed.), *Money and Plan*, Berkeley: University of California Press 1968, pp. 15-16.
10. Zotov, M.S. "Kommertsializatsiya bankov -vplot' do 'partizanskikh' metodov", in *Rozhdenie kommercheskikh bankov ili moment istiny rossiyskoy bankovskoy reformy (svidetel'stva uchastnikov)*, edited by, Krotova A., V Lapshova. *Bankovskoe delo*, 1998, p.32.
11. 'O razvitii reformy bankovskoy sistemy' (On developing reforms of the bank system) submitted on 6 June 86 to the CPSU Central Committee and USSR Council of Ministers by M.S.Zotov, Chairman of the Board of the USSR Stroibank.
12. The initiators of the reforms were M.S.Zotov (the Chairman of the Board of USSR Stroibank), Prime Minister Ryzhkov and Dementsev (then Chairman of the USSR Gosbank).
- 13.. Leningradskiy kooperativniy bank 'Patent' licensed on 26 August 88, and the Moskovskiy bank Moskoopbank on 29 September 88.
14. M.Yu. Matovnikov i dr. *Rossiyskie banki: 10 let spustya*. M. MakTsentr, 1998. p.5.
22. *Ekspert* 1999, No 38. p.3
16. *Byulleten' bankovskoy statistiki*, No 11 1998, pp. 77 and 78.

- 17.. Matovnikov, M.Yu. i dr. *Rossiyskie banki: 10 let spustya*. M. MakTsentr. 1998. p. 5
18. *Byulleten' bankovskoy statistiki za 1994-96 gg.* Moscow 1997. See also: *Bankovskaya sistema Rossii: problemy i perspektivy razvitiya*. Edited by V.A. Zhebrak, Moscow, 1999. p.147.
19. See Delyagin, M. 'Bankovski krizis v svete osnovnykh tendentsiy ekonomicheskogo razvitiya Rossii'. *Voprosy ekonomiki*, 1995, No 11. pp. 129-135.
20. *Sotsial'no-ekonomicheskoe polozhenie Rossii (Yan-Apr 1999)*, Moscow, Goskomstat: 1999, p. 217. In 1997, 50.1 percent of enterprises had made a loss. *Rossiyski statisticheski ezhegodnik*, Moscow, Goskomstat: 1998, p. 672.
21. This process is documented by David Woodruff, *Money Unmade: Barter and the Fate of Russian Capitalism*. Cornell University Press, 1999, esp. pp. 155-161.
22. David Woodruff, *Money Unmade*, Ithaca: Cornell, 1999, especially pp. 146-149.
23. S. Aukutsionek, 'Barter: New Data and Comments', *The Russian Economic Barometer*, No 3 1999, pp.1-8.
- 24.. See for example, the annual report of Forte Bank, which records that the bank issued notes with the face value of 90 million rubles in 1998, they carried out transactions of 30 million rubles for their clients. *Annual Report Forte Bank 1998*, Moscow 1999, p. 14.
25. R.I. Kapelyushnikov, 'The Largest and Dominant Shareholders in Russian Industry: Evidence of the Russian Economic Barometer Monitoring', *Russian Economic Barometer*, No 1 2000. pp. 9-45. Data based on a sample of 100 enterprises.
26. *Sotsial'no-ekonomicheskoe polozhenie Rossii (jan-apr 1999g)*. M. 1999, p. 153.
27. 'Robbery of Nations', by J. Thornhuill and C. Clover, *Financial Times* (London) 21 August 1999, p. 6.
28. Banks with this status included Menatep and Most-bank authorized by Moscow in 1992, Bank of Moscow in 1995/96, others were: Stolichniy, Promradtechbank, Delovaya Rossiya, Orbita, Sayany, Technobank and Natsionalny Kredit.
29. J.B. Baskin and P.J. Miranti, Jr. *A History of Corporate Finance*, Cambridge University Press 1997. p. 132.
30. Annual reports of Sberbank available on [www.sbrf.ru](http://www.sbrf.ru) (2001).
31. Data from [www.cbr.ru](http://www.cbr.ru), January 2001.
32. Zheldorbank is composed of a coalition of railway organisations and the Ministry of Railways. Ministry of Railways of Russia constituent railway companies - Gorkovsk Railway, Eastern-Siberian Ry, Oktyabrsk Ry, Zabaykal Ry, Privolozh Ry, Moscow Ry, South-Urals Ry.
33. The City of Moscow has a controlling interest in the Bank of Moscow and AFK Sistema. In turn, AFK Sistema has the following subsidiaries: Komstar, Moscow mobile telephones, Moscow Oil Refinery (partner), Health Insurance Co (ROSNO), Radio Page-Plus, Sistem Galo (Construction), Petrovskoe podvore, Tourist Agency Roza Vetrov, Tourist Agency Begem OT, Guda Bank, Moscow Bank of Reconstruction and Development. And under the bank of Moscow are two other subsidiaries: RenTV, TV-Tsentr.

34. The government of Tatarstan has controlling interests in Tatneft. AK BARS and Tataro-American Investment and Finance.

These in turn have overlapping ownership and representation as follows: Tatneft in Bank ZENIT and AK BARS.

AK BARS (Holding Company) controls the following subsidiaries:

Chelny Bank, Volzhsko-Kamski Bank. In AK BARS are representatives from: Naberezhnychelninsk furniture factory, Kazankomprssormash, Kazan motor engine factory, Nizhnekamskneftekhim.

Tataro-American Investment have representatives on:

AK BARS, Nizhnekamskneftekhim, Nizhnekamskshina, Interkamabank and Nishnekamski refinery.

35. Ekaterinburg City administration (22%), municipal enterprise Upravlenie kapital'noe predpriyatie (5%), Betfor zavod (10%), Uraluglesbyt (6.5%), 'Mir Med Layn' (6%), Ural Domstroitelny kombinat (5.5%), Uralelastotekhnika (5%), Uraltransspetsstroy (5%), and 'Sangvis' (5%). Tsennye Bumagi data base.

36. In 1996, Uralpromstroibank's Board of Directors was composed of a Chairman from Uralelekromel, a Deputy Chairmen from Sverdlovskglavsnab and Uralenergstroy, a Secretary from Sverdlesprom, and other directors represented Sinarski trubny savod, Metallurgicheskii savod imeni Serova, the Kirovgradski medepravil'ny kombinat, the Ekaterinburgskoe kommercheskoe obshchestvo, the Egorshinsk radiozavod, the Reshski nikelski zavod, Uralvagonzavod, Sredneuralski medeplavilny zavod, 'Mikhalgum', and one director was from Uralpromstroibank itself. *Godovoy otchet Promstroybanka za 1995g.* p.9. Data for 1 Jan 1996.

37. *Uralstroybank Godovoyu otchet.* 1995. pp. 21-24.