RUSSIAN BANKS AND THE SOVIET LEGACY

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WP 9/2001
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Abstract

The paper considers the legacy of the Soviet banking system, the ways in which privatisation influenced the ownership of banks and the organisation of banks in post-communist Russia. It is contended that a type of banking system has developed which is highly dependent on non-financial enterprises and State organs. A 'depersonalisation' of capitalism in Russia has occurred and this is demonstrated by an analysis of the ownership of financial companies. Under current Russian economic conditions, a tendency is noted for weak budget constraints to reconstitute themselves, and for banks to act as conduits for non-financial companies: they supply short-term credit and also act as intermediaries in the conduct of non-monetary exchange. A typology of banks in contemporary Russia is contrasted with Anglo-American and German systems. It is concluded that Russian banks operate in a context where economic coordinating institutions are weak, they do not create money deposits for investment and that a State managed, corporate-controlled form of accumulation is likely to develop in future.
Introduction

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 legitimation 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.'

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.

Governments and entrepreneurs have a stake in such outcomes and have to be considered as major interests in any financial system. The State provides a legal framework for the issue of currency and attempts to regulate the financial sector. Governments need to raise taxes and loans from the banking system, and their (usual) monopoly over the issue of legal tender impacts on the value of money and its rates of exchange. The economic legitimation of banks lies in their ability to evaluate risk and return and to allocate funds on this basis.

The relative weight and political power of State, industry and financial sector varies greatly between societies and their interconnection shapes the economy and political policy of individual countries. In the twenty-first century, the global dimension is a major constraint on the banking sector. Modern banks, in their role of increasing the supply of money, arise under specific conditions and this article seeks to analyse the rise of banks in post-communist Russia from a comparative perspective.

It is argued that the post-Soviet banking system has been shaped, not only by the policy of privatisation, but by the Soviet monetary institutions which serviced the planned economy. The personal and institutional connections between financial and non-financial institutions have been reconstituted. The footprint of Soviet banks, together with the rapid (and faulted) transition to a market system has created in Russia a new type of economic system, in which the banks are rent-seeking, in which coordinating mechanisms are deficient and in which the state, management and financial companies are leading stakeholders in the commercial banks. One of the major features of commercial Russian banking, it is contended, is the ownership and control of banks by non-financial corporations.
The research is based on Russian secondary sources, bank statistics and annual bank reports as well as interviews with representatives of 163 banks in Moscow, Kaliningrad, Nizhne Novgorod, Tula and Ekaterinburg.

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 and the time horizon of entrepreneurs. His conclusions were 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.'

In the early industrial development of Britain, banks 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. 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.

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. Germany had fewer potential entrepreneurs. Consequently, the German 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.

Important as a legacy to the contemporary scene in Russia is the structure and process of banks in the Soviet period which, in Gerschenkron's terms acted under state control. Socialist countries utilised money and banks - though not in the ways of modern capitalist States. Under central planning an autonomous banking system able to create money was abolished. Hence industrialisation took place without the monetarisation of the economy and accumulation was not influenced by banks. As George Garvy has put it:

'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.'
Money continued as a standard of value and medium of exchange in the Soviet period, but not as an economic regulator, or 'economic lever'.

Soviet 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 - to the development of a market-type society, in the latter, demonetarisation took place. Hence 'remonetarisation' of the economies of post-communist countries has been one of the main, though neglected, tasks of the transition process.

But the 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'. The changes which took place in Russia, in the period of reforms under Gorbachev, 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. 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 thrust of Gorbachev's perestroika policy was not to develop banks as mediators between savings and investment (or determinants of investments). His concern was to weaken the system of central planning and control (including financial control) and to move to a market system in which the major State enterprises were able to divert their surpluses into investment (if they wished). Steps were not taken during this period which would have led to the formation of an autonomous banking sector.

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 without any legal basis.

The first non-state bank emerged spontaneously in the summer of 1988 and, by the end of 1989, 150 non-state banks had been founded. The 'new' banks evolved in a spontaneous manner. One head of a now prosperous provincial bank explained to me that, in the late 1980s, 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. Policy encouraged the formation of business outside the State sector. 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 creation of markets. 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. 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. In December 1990, 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 also 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 over the capital of the previous State banks. The largest bank, Savings (Sberegatelnny) Bank of Russia, was privatised and became a joint-stock bank and the Russian Central Bank became a major shareholder. A characteristic of these 'old banks' was that many had firm links with the regional administrations and also with the enterprised they had serviced enterprises in the Soviet period. These connections continued - often, as we shall consider below, in an institutional form.

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 central government budget deficit and to provide the commercial banks with funds which enabled them to extend credit to companies. By 1995, there were 2517 credit organizations; (The number had fallen to 1349 in 2000 - on any comparative basis an excessive number of companies). 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 break up 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 their own money. Unlike under successful Western capitalist States where often, even before capitalism had 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. Partly as a consequence of these changes, from December 1992, the Central Bank of Russia began to take over the functions of control and inspection of the commercial banks. Furthermore, as the agent of the Ministry of Finance, it organised the sale of government stock (GKOs) and became a major source of lending to the commercial banks.

The Operations of Banks in Eltsin's Russia

The move to a market and the initial monetarisation of the economy, in the early 1990s, 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; firstly through the privatisation cheques or vouchers issued by the government to the population and, secondly, through short-term government bonds (GKOs), on the other. The rise in the share of government debt is shown on Table 1.
Table 1. Assets of the Russian Banking System.

<table>
<thead>
<tr>
<th>BILLIONS OF RUBLES</th>
<th>1993</th>
<th>1995</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claims on General Government</td>
<td>0.8</td>
<td>62.6</td>
<td>194.7</td>
<td>259.4</td>
<td>437.7</td>
</tr>
<tr>
<td>Claims on Nonfinancial Public Enterprises</td>
<td>15.6</td>
<td>62.5</td>
<td>33.2</td>
<td>33.1</td>
<td>46.9</td>
</tr>
<tr>
<td>Claims on Private Sector</td>
<td>20.2</td>
<td>133.8</td>
<td>236.4</td>
<td>346</td>
<td>521.6</td>
</tr>
<tr>
<td>Claims on other financial institutions</td>
<td>-</td>
<td>0.5</td>
<td>8.1</td>
<td>7.3</td>
<td>13.1</td>
</tr>
<tr>
<td>TOTAL</td>
<td>36.6</td>
<td>259.4</td>
<td>472.4</td>
<td>645.8</td>
<td>1019.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>AS PERCENTAGES</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>General Government</td>
<td>2.1</td>
<td>24.2</td>
<td>41.3</td>
<td>40.2</td>
<td>42.9</td>
</tr>
<tr>
<td>Nonfin. Pub. Enterprises</td>
<td>42.7</td>
<td>24.1</td>
<td>7.0</td>
<td>5.1</td>
<td>4.6</td>
</tr>
<tr>
<td>Private Sector</td>
<td>55.2</td>
<td>51.6</td>
<td>50</td>
<td>53.6</td>
<td>51.2</td>
</tr>
<tr>
<td>Claims on other financial institutions</td>
<td>0.1</td>
<td>1.7</td>
<td>1.1</td>
<td>1.3</td>
<td></td>
</tr>
<tr>
<td>TOTAL %</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>


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). 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\(^xv\), 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) came to 43.6 per cent of the total number of factories (data for first quarter 1999). They made a loss of 54.5 milliard rubles, compared to the profits made by other enterprises of 71 milliard\(^xvi\).

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. The financial authorities, pressurised by the IMF, curtailed the supply of money. In these circumstances, a further demonetarisation of the economy took place and barter and
other forms of debt settlement characterised relations between enterprises. Rather than allow factories to close, with the subsequent social and political problems of unemployment and poverty, they kept employees at work and bartered production or offset debts for inputs.

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\textsuperscript{xvii}.

Of the total quantity of exchanged goods and services, in industry in February 1999, 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\textsuperscript{xviii} and Aukutsionek\textsuperscript{xx} are based, not strictly on barter, but on what are called 'non-monetary' settlements. These include veksels and mutual indebtedness. However, Veksels, often traded on the secondary market, are forms of money and have proved profitable for many banks\textsuperscript{xx}, and should not be bracketed with 'barter'. The use of veksels by banks illustrates that banks were beginning to become independent sources of money, though Russian banks as noted above have played, in the post-Soviet period, a small role in providing accumulation in the private sector. The arrangement of barter deals is something new in the evolution of modern banking systems, and in contemporary Russia is part of the legacy of the Soviet system of procurement of supplies outside the economic plan.

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

In 1992, the 'new' banks, comprised about a third of the total number of credit institutions. Table 2 shows that the capital of the commercial banks was largely owned by non-financial companies. In 1995, as much as 62 per cent of the authorised 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**

<table>
<thead>
<tr>
<th>TYPE OF SHAREHOLDER</th>
<th>TOTAL SAMPLE OF BANKS</th>
<th>FORMER STATE BANKS</th>
<th>NEW BANKS</th>
</tr>
</thead>
<tbody>
<tr>
<td>SOE* and other State institutions</td>
<td>14%</td>
<td>15%</td>
<td>13%</td>
</tr>
<tr>
<td>Privatized enterprises</td>
<td>26%</td>
<td>31%</td>
<td>21%</td>
</tr>
<tr>
<td>New private companies</td>
<td>38%</td>
<td>31%</td>
<td>48%</td>
</tr>
<tr>
<td>Individuals</td>
<td>18%</td>
<td>18%</td>
<td>18%</td>
</tr>
<tr>
<td>others</td>
<td>4%</td>
<td>6%</td>
<td>1%</td>
</tr>
</tbody>
</table>

\*State-owned enterprises

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 evolving to facilitate industrial development. In terms of capital ownership, the major beneficiaries of privatisation were employees (31.5 per cent owning stock in 1999), managers (14.7%), outside individuals (18.5%), other enterprises (13.5%), financial enterprises (10.4%), the State (7.1%) and other shareholders (4.3%). At 10.4 per cent in 1999, the ownership share of financial companies in Russian industry indicates that 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. For the Russian economy it also had an undesirable consequence because non-financial companies with a stake in, or ownership of, a bank ('pocket' banks) could transfer profits abroad. 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 3,999 million dollars inward investment (for 1998), compared to 15,194 million dollars outward payments for the same year. 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.

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

Such 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. 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'. What then was the interpenetration of the banks into non-financial companies? We consider ownership and control at two levels: the Board of Directors and the Executive Board.

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.

Popular literature defines control of Russian companies in terms of 'oligarchs'. These are people who it is claimed have bought into privatised property and consequently wield immense
personal power over the Russian government\textsuperscript{xxvi}. However, the power of these individuals in the taking of decisions and particularly their authority over companies has not been specified empirically.

Levels of ownership of financial companies by individuals is relatively small. 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 percent, including a stake of 7 per cent by Kreditanstalt-Grant (which in turn is owned by CA IB Investment Bank, Austria). Other firms own 8 per cent and individuals, 11.9 percent\textsuperscript{xxvii}. 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 Executive Board of the Moscow branch of this bank and 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 Kreditanstadt-Granit, and one from the Russian Electrical Company (EES). These directors were representatives of institutions rather than being large shareholders themselves: 13 directors did not have any 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 Russian Federation 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 Sperbank from 1995)\textsuperscript{xxviii}. 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) been vice-president of the Russian Sberbank and President of Moscow Bank. These figures put the role of managerial capital in the leading cadres of the new state banks clearly into perspective.

In addition to ownership in major state banks (such as Sberbank), state involvement may also be defined in other ways. 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), the City of Moscow (Bank of Moscow) and the Republic of Tatarst\textsuperscript{xxix}. Provincial banks follow a similar pattern of corporate ownership. Investbank of Kaliningrad was owned by 8 companies who held 80 per cent of its shares\textsuperscript{xxx}. Atlantanbank of Kaliningrad was owned by 6 enterprises.\textsuperscript{xxxi} By 1999, Bank Ekaterinburg had 11 corporate members owning over 85 per cent of its assets.\textsuperscript{xxii} 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.\textsuperscript{xxv} 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 insufficient to facilitate this. In 1995, Uralpromstroybank, which traditionally serviced heavy industry in Sverdlovsk, advanced 93 per cent of its credit in the form of short-term loans - principally to allow the payment of wages. Only 1 per cent of credit advanced was directed to long term investment and 5 per cent went to discounting of bills.\textsuperscript{xxvi} These patterns of ownership impact
on the activity of banks. In my own survey of 163 banks\textsuperscript{xxvii}, I asked what influence representatives of non-financial companies had over the taking of strategic decisions of their banks. Twenty per cent of the respondents said 'a large influence, 26 percent 'some influence', 15 per cent reported that such companies were not represented on their Boards\textsuperscript{xxxviii}.

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 individual ownership of shares, which overall are not great, but by the representatives of corporate capital, particularly non-financial companies, and government organisations.

**The Banking System and the Economy**

Russian banks, ten years into the period of transformation from 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 often 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 assets of the state banks and also to found new ones. Banks then became settlement centres rather than generalised credit institutions, in effect continuing the weak budget constraints characteristic of state socialism. In other words, company banks found ways to raise credit (or to do deals) to keep enterprises running. 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 through overlapping 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. But how may one generalise about the banking system in a transitional economy of the Russian type?

A typology of types of economy under capitalism is suggested in Chart 2. It shows the familiar models of Anglo-American and German capitalism. German capitalism distinguished by its long-term investment horizon, its coordinating mechanisms of business associations and banks, by stakeholders made up of owners, the state and employees, and the source of investment being
profits and bank credit. Anglo-American capitalism characterised by market coordinating institutions, particularly the stock market, with its short term time scale and the dominant role of owners as stakeholders. Russia falls into neither of these dominant patterns. The coordination of the economy is performed neither by market nor banks, coordination is ‘chaotic’ - an extreme case of ‘disorganised capitalism’⁹. The major stakeholders are derived from the elites of state socialism - management, the state and to a much smaller degree individual owners. As to the investment horizon, this is negative in the sense that the overall level of accumulation is negative. The main sources of finance are profits, and these are very small, given the high level of company bankruptcies. The coordinating mechanisms of money is also deficient as witnessed by the relatively high level of non-monetary settlements of debt.
### CHART 2. TYPES OF ECONOMY

#### LEADING COORDINATING MECHANISMS

<table>
<thead>
<tr>
<th>INVESTMENT</th>
<th>STAKEHOLDERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>HORIZON</td>
<td>Business Associations/</td>
</tr>
<tr>
<td></td>
<td>Deficient</td>
</tr>
<tr>
<td>Long term</td>
<td>German</td>
</tr>
<tr>
<td>Short term</td>
<td>Anglo-American</td>
</tr>
<tr>
<td>Negative</td>
<td>Russian</td>
</tr>
</tbody>
</table>

#### SOURCE OF FINANCE

* 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. Under state socialism, banks did not foster investment. The post-Soviet 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, they have also coordinated non-monetary (non-ruble) forms of exchange as a means enabling enterprises to continue to work. Non-financial companies, having been formed prior to the banks, themselves became 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 and consequently the 'weak budget constraints' which a market society were to have eliminated have reappeared in a different form.

In these developments, we witness a tendency of the Soviet system to 'reconstitute' itself, though in quite a different market context. What does this analysis imply for the dynamic of capitalism. In terms of Figure 1, the Russian economy, under President Putin, is likely to move in the direction of the German model, except that State institutions are likely to play a more important role in Russia guiding investment at a macro level. Banks are likely to be used to channel funds to non-financial companies, and state-dependent enterprises will accumulate capital from profits. In this respect banks have played, and in the future are likely to play, a relatively unimportant autonomous role in the development of a Russian quasi capitalist economy.
References and Notes

i. 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.


v. According to Gerschenkron this was because of the 'feudalisation of the bourgeoisie'.


ix. Leningradskiy kooperativniy bank 'Patent' was licensed on 26 August 88, and the Moskovskiy bank Moskoopbank on 29 September 88.


xx. 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.


xxiv. Banks with this status included Menatep and Most-bank authorised by Moscow in 1992 and Bank of Moscow in 1995/96. Others were: Stolichniy, Promradtechbank, Delovaya Rossiya, Orbita, Sayani, Technobank and Natsionalny Kredit.


xxix. Zheldorbank is composed of a coalition of railway organisations and the Ministry or Railways. Ministry of Railways constituent railway companies - Gorkovsk Railway, Eastern-Siberian Railway, Oktyabrsk Railway, Zabaykal Railway, Privolozh Railway, Moscow Railway South-Urals Railway.

xxx. 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. There are a further two subsidiaries under the bank of Moscow: Ren TV and TV Tsentr.
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. The details are: Tatneft has interests in Bank ZENIT and AK BARS; AK BARS (Holding Company) controls as subsidiaries Chelny Bank, Volzhsko-Kamski Bank. In turn, Naberezhnychyelninsk Furniture factory, Kazankomprssormash, Kazan Motor Engine Factory, Tataro-American Investment and Nizhnekkamskneftekhim have interests in AK BARS and Tataro American Investment are represented in AKBars, Nizzhnekkamskneftekhim, Nizhnekkamskshine, Interkamabank and Nishnekkamski Refinery.

Tsenpruss, Baltikom Mobile, Rossban, AJG Investment (Hong Kong), Oithuania AIB, Belbiznesbank (Belorussia), MazhorDom (Ukraine). Source: Tsennye Bumagi data base, 1992-99.

Transbeyd (27.5%), Zapbunker (20%), Sherbis (20%), AMLi (5%), Eko-Agrotechnik (5%) and Intertras (20%). Source: Tsennye Bumagi data base.

Ekaterinburg City administration (22%), Municipal Enterprise Upravlenie Kapital'noe Predpriyatie (5%), Betfor Zavod (10%), Uraluglesbyt (6.5%), 'Mir Med Layn' (5%) and 'Sangis' (5%). Source: Tsennye Bumagi data base.

In 1996, Uralpromstroibank's Board of Directors was composed of a chairman from Uralelekromel, a Deputy Chairman from Sverdlovskglavsnab and Uralenergstroy, a Secretary from Sverdlesprom. Other represented Sinarski Trbny Savod, Mettalurgichieski Savod Imeni Serova, the Kirovgradski Medepravil'ny Kombinat, the Ekaterinburgskoe Kommerecheskoe Obshchestvo, the Egorshinsk Radiozavod, the Reshski Nikeleski Zavod, Uralvagonzavod, Sredneuralski Medevplavilny Zavod, 'Mikhalgum', and one director was from Uralpromstroibank itself. Source: Godovoy Otchet Promstroybank Za 1995 g. Ekaterinburg 1995.

Uralstroybank Godovoyu Otchet, 1995

104 were located in Moscow, 18 in Tula, 19 in Ekaterinburg, 14 in Kaliningrad and 9 in Nizhny Novgorod. Interviews carried out in the autumn of 2000. These are initial findings and are subject to further data analysis.

Proportions for all answering the question, including those with no representation on the Boards.

"The Soviet Union was always buying grain, we were one of the largest buyers of grain, wheat. I would like to mention that today Russia is the largest supplier of wheat to the world market, we are number one. We are ahead of the United States and Canada," the Russian leader stressed. Putin has also compared the volumes of cargoes transferred in the country’s ports in the Soviet and present periods. "On an aggregate basis 600 mln tonnes were transferred in all ports of the Soviet Union, whereas now it is 1.104 bln. Those facilities have been created over the past decade," he The contributors explore the legacy of the Soviet past and current functions of the Russian banking system, contrasting these with those in other post-communist societies and describing peculiarities such as informal networks and corruption. The book also discusses the economic and global aspects of Russia's reform, focusing on financial crises, foreign depositors to Russian banks and the implications for Russian foreign debt. This up-to-date and comprehensive account of commercial banking in modern Russia will appeal to those concerned with the economics of transition or comparative bank...