CHAPTER-II

HISTORY OF THE RUSSIAN BANKING SYSTEM
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BANKS IN PRE-REVOLUTIONARY RUSSIA

The history of Russian banking from the beginning of organized banking in the 1750s to the 1860s is an uninspiring recital of the vicissitudes of a small variety of government organized and government operated banking institutions which in the main confined their activity to granting long term credit on mortgages of landed estates, or rather of their serf working force.¹

Up to the middle of the 19th century, these banks served not so much to facilitate the development of capitalist relations as to strengthen the serf economy. The main function of banks in Russia was to provide loan to landlords. These operations were performed by the bank of the Dvorianstvo (Nobles’ Bank: 1754-86), the State Loan Bank (1786-1860), and others.² Crediting for trade was carried out on an immeasurably smaller scale. Commercial and industrial activity was credited by the bank under the auspices of the commerce college (1754-

82), by the discount offices (1797-1817), the commercial bank (1818-60), and by the Astrakhan Bank (1764-1821). The only bank with specific purpose of granting commercial credit was the government owned State Commercial Bank, which was founded in 1817.

In the first half of the 19th century the banking system—which remained unchanged—consisted of the State Loan Bank and the State Commercial Bank in St. Petersburg safe Treasury, the Moscow safe Treasury, and the offices of Public Charity in Provincial cities. The monopoly on credit held by the state and the dominance of the serf system, which restricted the transformation of ‘idle’ capital into functioning capital, led to the accumulation of large cash deposits in the State Banks. In addition to the issue of long-term loans to landlords, deposits were used by the government (since 1810) as loans and made up the overwhelming percentage of the internal state debt. On the eve of the reform of 1861, the government was forced to liquidate all the banks enumerated above. This step furthered the development of the capitalist bank system in Russia.

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1 Ibid.
2 Crisp, n.1, p.117.
State Bank

In 1860, the State Bank was established which was the only institution authorized to issue bank notes (Paper currency) from 1896-1897 and the gold standard was introduced. It was established when Capitalism was gaining ground in the Russian Empire and it became the first 'great reform', carried out by Emperor Alexander II. Considerable state interference in the economy, necessitated by the specific conditions of Russia’s economic development, pre-determined the genesis of the State Bank as an institutional element of the government’s economic policy.

The State Bank was a short-term commercial Credit Bank and, as its aim was ‘to boost trade turnovers and strengthen the monetary system’. Its functions were to discount bills of exchange and other government and public interest-bearing securities and foreign bills, buy and sell gold and silver, receive payment on bills and other fixed-term monetary documents for the account of trustees, accept deposits, extend loans and buy government securities for its own account.

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7 Ibid.
The activities of the State Bank of the Russian empire may be divided into two periods during the first period (from 1860 to 1894) the State Bank was largely an auxiliary institution of the finance ministry. Most of the State Bank resources were absorbed by direct and indirect financing of the treasury. It was vested with the functions pertaining to the Finance Ministry apparatus; conducting the buy-out transactions and handling all paperwork related to them, propping up the state mortgage banks, and so on until 1887 the State Bank settled the accounts of pre-reform banks. 

All settlement operations were conducted at the state Treasury’s expense, which was debtor to these banks, but since the budget deficit made it impossible for the treasury to provide the necessary funds, until 1872 the State Bank annually used a large part of its commercial profits for these purposes. Government debt to the State Bank was settled during the second period of the State Bank’s activities (in 1904). Throughout the entire pre-revolutionary period the State Bank being an instrument of government’s economic policy participated in establishing and subsequently supporting Commercial Banks for example, it extended unstatutable loans to them. Besides the State Bank as a bank of issue and Central Bank of Commercial Credit, the Russian credit system included two State banks for agrarian credit: the

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9 Ibid.
Noblemen’s Bank (established in 1885) and the Peasant Bank (established in 1882).  

In the early 1880s, the State Bank began to prepare a monetary reform, which was launched in 1895 and ended in 1898 with the introduction of gold monometallism in Russia.  

The currency reform of 1897 converted the State Bank into a Central Bank by making it the only bank of issue in Russia.

The State Bank’s second period began with the adoption of its new charter in 1894. After the monetary crisis of 1905-1906 caused by the Russo-Japanese war and revolution, the State Bank began to be transformed into a bank’s bank. By the beginning of the first world war the State Bank had become one of the most influential lending institutions in Europe. It had vast gold reserves, whose ratio never fell below 93%, except in the crisis year of 1906, and on average exceeded 100%. The State Bank regulated Russia’s money circulation and foreign exchange settlements and through commercial banks actively participated in crediting industry and trade.

During the First World War, the State Bank mainly financed Russia’s war effort and on the eve of the October 1917 revolution the

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10 Herman, n.6, p-702.
12 Crips, n.1, p-121.
lions' share of its assets was represented by treasury bills and loans against interest-bearing securities. The pre-revolutionary history of the State Bank ended on October 25 (November 7) 1917, when its Soviet history began.\textsuperscript{13}

During the period of world war-I, the State Bank and joint stock commercial banks were the most important of the commercial banks of Russia. Many banks in Russia advanced loans to industrial bourgeoisie. These banks took the form of mutual credit societies and municipal public banks belonging to the local organs of self-governments. By 1914 joint-stock commercial banks had invested vast resources in credit trade and in financing industrial and other enterprises. The concentration of capital in joint-stock commercial banks was extremely high and exceeded the level attained in the chief Capitalist countries.\textsuperscript{14}

The largest bank shareholders were transformed into monopolists, the masters of the internal monetary market and the St. Petersburg stock exchange and the main intermediaries between foreign money markets and Russian enterprises. They played an active role in the formation and consolidation of syndicates and trusts in Russia. During the industrial upsurge of 1909-13, bank monopolies invested

\begin{itemize}
\item \textsuperscript{13} http://www.ebr.ru/eng/today/history/emprise_bank.asp., n.8.
\item \textsuperscript{14} Great Soviet Encyclopedia, vol.2, n.2, p.630.
\end{itemize}
hundreds of millions of roubles in the extension of large enterprises, particularly in heavy industry. On the other hand, when industry was switched over to military deliveries during World War I, it was financed primarily by the state treasury. In this regard, the parasitism of the Russian bank monopolies increased sharply, they utilized their resources for the financing of military spending of the state, unbridled speculation in commodities and shares, and expansion of their control over various enterprises. By 1917, control or influence by large bank monopolies had been extended to many industrial and non-industrial enterprises.15

Joint-stock commercial banks enjoyed government support. The establishment of new joint-stock banks was strictly limited by the government. Land-credit in Russia was represented by two State Banks in 1914. The bank of the Dvorianstvo and the Peasant’s Bank and also by 8 local Dvorianstvo (nobility) Banks, 10 joint-stock land banks and 36 municipal credit societies.

In the course of the great October Socialist Revolution, on Oct. 25(Nov. 7), 1917, the Red Guard and revolutionary soldiers seized the State Bank, which became the property of the Soviet State. The State land banks were eliminated by the decree of the council of People’s

15 Ibid.
Commissars of Nov. 25 (Dec. 8), 1917. By the decree of the All-Russian Central Executive Committee of Dec. 14, 1917, all private banks were nationalized and merged with the State Bank, and banking was declared a state monopoly.\textsuperscript{16}

Even before Lenin took power, he envisaged the banking system as becoming the backbone of the socialist state's administrative apparatus. Nationalization of private banking and establishment of a government monopoly of all foreign exchange transactions were among the first economic measures taken by the Bolshevik government in 1917.\textsuperscript{17} The table 2.1 shows how the Russian State Bank evolution its deposit between 1875 to 1914.

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|c|c|c|}
\hline
\textbf{Year} & \textbf{Treasury deposits} & \textbf{Current accounts of Savings Banks} & \textbf{Private deposits} & \\
 & & & \textbf{Long-term} & \textbf{Current} & \textbf{Total} & \textbf{Together} \\
\hline
1875 & 30.3 & 0.7 & 92.5 & 132.2 & 224.7 & 255.7 \\
1876 & 48.2 & 1.0 & 94.6 & 166.9 & 261.5 & 310.7 \\
1877 & 60.0 & 0.1 & 95.6 & 134.0 & 229.6 & 289.7 \\
1878 & 38.8 & 0.5 & 106.1 & 159.5 & 265.6 & 304.9 \\
1879 & 30.3 & 1.0 & 115.7 & 142.3 & 258.0 & 289.3 \\
1880 & 42.1 & 0.8 & 124.5 & 100.3 & 224.8 & 267.7 \\
1881 & 88.9 & 0.8 & 123.5 & 99.9 & 223.4 & 313.1 \\
1882 & 69.5 & 0.4 & 124.1 & 105.0 & 229.1 & 299.0 \\
1883 & 58.4 & 0.2 & 135.8 & 123.9 & 259.7 & 318.3 \\
1884 & 78.8 & 0.5 & 145.4 & 119.3 & 264.7 & 344.0 \\
\hline
\end{tabular}
\caption{Development of deposits of the Russian State Bank (Jan 1875-1914, in m. roubles)}
\end{table}


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<th>Year</th>
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<th>Value 2</th>
<th>Value 3</th>
<th>Value 4</th>
<th>Value 5</th>
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<td>1.5</td>
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<td>83.4</td>
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<td>226.5</td>
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<td>198.6</td>
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<td>53.0</td>
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<td>255.1</td>
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<td>289.8</td>
<td>-</td>
<td>59.5</td>
<td>204.3</td>
<td>263.8</td>
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<td>1907</td>
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<td>66.2</td>
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<td>51.3</td>
<td>64.1</td>
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<td>231.1</td>
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<td>57.5</td>
<td>252.2</td>
<td>309.7</td>
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<td>37.7</td>
<td>55.9</td>
<td>217.8</td>
<td>273.7</td>
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<td>1911</td>
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<td>48.9</td>
<td>212.4</td>
<td>261.3</td>
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<td>18.3</td>
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<td>1914</td>
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<td>13.9</td>
<td>28.5</td>
<td>234.6</td>
<td>263.1</td>
</tr>
</tbody>
</table>

Joint Stock Commercial Banks

The first joint stock commercial bank was the St. Petersburg Private Commercial Bank, founded in 1864. By 1873, there were thirty-three joint stock banks and forty-nine branches in the provinces. The slump of 1873 and difficulties connected with the Russo-Turkish war of 1877-78 led to the collapse of six of the newly created banks. In 1900, these were forty-three joint stock Commercial banks, of which six accounted for 46.6% of the total liabilities. Before 1890, the largest bank was the Volga-Kama, which, with its vast network of branches, reached into the most remote centres of European Russia.

Municipal Banks

The Municipal banks were organs of the municipal administrations, which were given limited self-government in the 1870s. They accepted both current account and time deposits. They granted short-term credit, made loans to municipalities and district councils, and also granted loans secured by real estate. In general, these banks were located in towns with poorly developed trade where they were the sole credit institutions.

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18 Crisp, n.1, p.123.
19 Ibid.
20 Ibid., p-125.
21 The first of these banks was founded in 1809.
22 Crisp, n.1, p.127.
State Savings Banks

Although legislation introducing saving banks goes back to 1841, there were only two such banks in 1862. Until the 1880s, development was very slow. The expansion of the savings banks owes much to the drive initiated by Finance Minister N.K.Bunge. In 1881, he raised the interest rate on deposits to 4%. In 1884 the State Bank was authorised to open savings banks in each agency of the State Bank without waiting for the introduction of post office savings banks, where by the rural population would be reached. These were introduced in 1889, and they led to a vast increase in savings, which continued even after interest was reduced to 3.6%.

Table -2.2, shows the evolution of savings in the state savings banks.

<table>
<thead>
<tr>
<th>Year (1 Jan)</th>
<th>No. Of banks</th>
<th>No. Of books (thousands)</th>
<th>Balance of money deposits</th>
<th>Balance of deposits in securities</th>
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</thead>
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<tr>
<td>1870</td>
<td>64</td>
<td>67</td>
<td>4.8</td>
<td>-</td>
</tr>
<tr>
<td>1880</td>
<td>75</td>
<td>97</td>
<td>7.6</td>
<td>-</td>
</tr>
<tr>
<td>1890</td>
<td>871</td>
<td>638</td>
<td>111.3</td>
<td>-</td>
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<tr>
<td>1900</td>
<td>4,781</td>
<td>3,145</td>
<td>608.3</td>
<td>90.0</td>
</tr>
<tr>
<td>1910</td>
<td>7,051</td>
<td>6,940</td>
<td>1,282.9</td>
<td>279.0</td>
</tr>
<tr>
<td>1911</td>
<td>7,365</td>
<td>7,436</td>
<td>1,396.8</td>
<td>287.0</td>
</tr>
<tr>
<td>1912</td>
<td>7,705</td>
<td>7,973</td>
<td>1,503.0</td>
<td>300.0</td>
</tr>
<tr>
<td>1913</td>
<td>8,005</td>
<td>8,455</td>
<td>1,594.9</td>
<td>318.0</td>
</tr>
<tr>
<td>1914</td>
<td>8,553</td>
<td>8,992</td>
<td>1,835.4</td>
<td>349.0</td>
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</tbody>
</table>

Source: Same as that of Table 2.1,p-131.

References:
23 Ministerstvo Finansov, 1802-1902, II, p.53-5, Quoted in Ibid., p.131.
24 Otchety gosudar stvennykh Shiberegatyel'nykh kasi, p.16, quoted in Ibid, p.131.
Life insurance through the savings banks was introduced in 1905. Less than 13,000 people were insured in 1912; nearly a quarter of those insured, the highest proportion for any group, were government officials. Until 1910, savings banks deposits were invested in securities (chiefly state funds) mortgages and railway loans guaranteed by the government. In 1912, the proportions were 39.2% in state funds, 38.2% in mortgage bonds, and 22.6% in guaranteed railway bonds.25

The Mutual Credit Societies

The mutual credit societies were institutions of a co-operative character. Their capital was composed of members subscriptions and served as security for the societies operations. Liability of a member for the society’s business was ten times the amount of his contribution. As a rule no outside resources were attracted and credits were granted to members only. No individual member could receive a credit larger than ten times his entry fee.26

The societies conducted all types of short-term credit operations. Several of them, especially in the two capitals owned very large resources and closely resembled joint stock commercial banks.

26 Ibid., p.128.
Other Banks of Private Commercial Credit

Not enough is known about the other banks of private commercial credit banking houses or offices that are sometimes known as 'bourse banks.' Several of them emerged in the first half of the nineteenth century, mainly in the Baltic and Polish regions: they were merchant firms that had turned to banking activities. New ones gradually made their appearance throughout the period, especially during the promotional booms of the early 1870 and from 1908 to 1914.27

It is difficult to assess the role of the offices in banking activities, as they were registered as commercial firms. It is known that they were very active in stock exchange speculation. The largest among them amalgamated with or were absorbed by joint stock banks, or turned themselves into joint stock banks. For the period, 1903-14 several such cases are known. The Junker Banking Office became the Moscow Industrial Bank, Ryabushinsky and Brothers became the Moscow Bank, and Wave berg became the St Petersburg Bank of trade and industry. Several went into liquidation; a few turned into commission offices undertaking all manner of bourse and commercial transactions. Some of them specialised in currency exchange, but this line became much less

27 Ibid.
profitable once the rouble became stabilised and the State Bank concentrated the bulk of foreign exchange transactions in its hands.

**Small Credit Institutions**

The small credit institutions in Russia were comprised of variety of popular co-operative banks which served rural districts. The majority of them fell roughly into two main types: loan and saving co-operatives and credit societies. The co-operatives served both peasants and rural cottage workers, and even urban craftsmen, while the credit societies served peasants only: There were also differences in the composition of their capital: in the societies it was made up from deductions from profits, while in the co-operatives it consisted of members fees. In both types the members were mutually liable for their obligations. A portion of their working capital consisted of subsidies from the treasury.

Life insurance through the savings banks was introduced in 1905. Less than 13,000 people were insured in 19.12 nearly quarter of those insured, the highest proportion for any group, were government officials.²⁸
Mortgage Bank

In 1914, long-term credit operations on real estate were conducted by fifty-six institutions. Two were State Banks for particular classes—the peasants’ Land Bank founded in 1882, and the Land Bank for the Nobility, founded in 1885—one was a Zemstvo (district council) bank and ten were joint stock banks. The remainder were chiefly the co-operative banks of land and property owners. The rise in agricultural prices and the growth of the urban population led to an expansion of long-term mortgage credit, especially after 1906.29

BANKS IN POST-REVOLUTIONARY RUSSIA

Money in the Soviet Union played a somewhat neutral or passive role as against the active role it plays in the capitalist countries. There were no money markets or capital markets in the Soviet Union.30 Lenin wrote, on the eve of the October revolution, adhered unconditionally to the traditional view of the role of the banks under Socialism:

"Without the big banks Socialism would be unrealisable. The big banks are the ‘State apparatus’ which is necessary to us for the realisation of socialism and which we take ready-made from capitalism..."31

29 Ibid.
State Bank (Gosbank) was the single Soviet cash, issue and clearing center, the main bank for crediting and financing the national economy and the population. Until 1923, it was called Gosbank of the Russian Soviet Federated Socialist Republic (RSFSR). It was founded on the initiative of V.I. Lenin, who on Oct. 4, 1921, signed a decree of the Council of People's Commissars (Sovnarkom) on the establishment of the Gosbank of the RSFSR. The decree was ratified by the fourth session of the All-Russian Central Executive Committee on Oct. 7, 1921. By a decree of the Central Executive Committee of the Union of Soviet Socialist Republic (USSR) on July 6, 1923, the Gosbank of the RSFSR was reorganized as the Gosbank of the USSR.  

The State Bank (Gosbank) of the RSFSR was an economic organisation established 'to assist by credit and other banking operations the development of industry, agriculture and goods turnover and also the concentration of monetary turnovers and the implementation of other measures designed to establish proper money circulation'. The bank had the right to extend loans to industrial and commercial enterprises based on different forms of ownership, farms and self-employed handicraftsmen 'only if they were solvent and their

financing was economically justified'. The State Bank was a part of the People’s Commissariat of Finance (Narkomfin), directly accountable to the People’s Commissar (Minister) of Finance.

During the period of war communism the Tsarist system of banking and finance was wiped out and a new system was organised. In November 1921 the State Bank of the RSFSR, the Gosbank was organised it latter became the USSR State Bank. Tasks assigned to the Gosbank were many but the most important ones dealt with the stabilization of the national accounting system and the development of a new credit system with appropriate measures for safeguarding against misuse of credits by individual borrowers. The Gosbank was empowered to collect money for all the government and to regulate the amount and velocity of money within the country. It was intended that the Gosbank would be the only credit agency in the country. 33

In addition of Gosbank there were four specialized banks occupied primarily with the problems of long-term investment. These were the Industrial Bank (Prom bank), the Agricultural Bank (selkhozbank), the Trade bank (Torgbank), and the Municipal Bank (Tsekobank). There was also a national network of savings banks, in which individuals may keep their own savings. In addition there was

the Bank for Foreign Trade (Vneshtorgbank), which played a role in the Soviet government’s foreign trade and credit transactions.\footnote{Harry Schwartz, \textit{Russian Soviet Economy}, (New Delhi, Prentice Hall of India Pvt. Ltd., 1963), p. 505.}


- To make short term loans for working capital
- To oversee enterprise plan fulfilment
- To monitor payments to the population as a centre for all accounts and
- To create money.

The State Bank was the basic source of short-term credit for all enterprises and institutions in the USSR extending this credit in accordance with the credit plan for each part of the economy as approved by the council of Ministers. All transactions between government enterprises and institutions requiring the transfer or money passed through the State Bank’s books by means of credits for sellers and debits for purchasers. The State Bank performed as the government’s fiscal agent, receiving all taxes and other payments to the state and paying out budgetary appropriations to enterprises and
institutions within the limits provided by the budget. The State Bank issued money and withdrew it from circulation, thus regulating the volume of currency available to individuals and organizations at any time in accordance with the Cash Plans approved by the Council of Ministers. All supplies of precious metals and foreign currencies owned by the Soviet government were entrusted to the State Bank, which also made settlements with foreigners through its accounts with correspondent banks abroad. 36

During the first year of its activities, Gosbank performed only credit and clearing operations. It was granted the right to issue bank notes by a decree of the Sovnarkom on Oct. 11, 1922. Other credit institutions of the USSR did not have this right of issue. Gosbank was also charged with the issue of treasury notes and coins. 37

Many tasks were assigned to the Gosbank, but the most important ones dealt with the stabilization of the national accounting system and the development of a new credit system with appropriate measures for safeguarding against misuse of credits by individual borrowers. The Gosbank was empowered to collect money for the government and to regulate the amount and velocity of money within the country. It was

36 Schwartz, n. 34, p. 506.
37 Ibid.
intended that the Gosbank would be the only credit agency in the country.

The first major monetary step toward a stable currency was taken in October 1922, when the State Bank was empowered by government decree to issue a new unit of currency, the chervonets, which was declared equal to 10 Czarist gold roubles.38

Two re-denominations conducted in 1922 and 1923 for increased the face value of Soviet paper money, which Narkomfin issued at that time to cover the budget deficit. During the first re-denomination the new rouble of the 1922 issue exchanged for 10,000 roubles of all issues that were in circulation in the country; during the second re-denomination the new rouble of the 1923 issue exchanged for 100 roubles of the 1922 issue. On October 11, 1922, the State Bank was granted the right to issue the chervonets (banknote) and became the issuing centre. The issue of the chervonets marked the beginning of the monetary reform that ended spiralling post-war inflation.

In 1922-1924, both the rouble and the chervonets were in circulation. The chervonets was backed by gold, it was equivalent to 7.74232 grams of fine gold, equalling the Tsarist Russia's 10-rouble coin. In 1923, Russia began to mint gold chervonets coins, which were

38 Ibid., p. 472.
mostly used in foreign trade. In March 1924, the monetary reform was completed and the new rouble, which was used as change and equalled one-tenth of the chervonets, exchanged for 50,000 roubles of the 1923 issue or 50 million roubles of the earlier issues.

During the period of the New Economic Policy (NEP) the following types of bank credits were used: the discounting of bills of exchange, demand loans from special current accounts covered by bills of exchange and time loans against bills of exchange. In addition, three years after its founding, the bank began to practise direct target crediting. In October 1924 the State Bank drew up its first consolidated credit plan comprising all branches. As a result of the reform of the cash structure of the State Treasury, conducted in 1925, the cash holdings of the State Bank and Narkomfin were merged.

Soviet Russia’s first commercial banks, including specialised banks and mutual loan societies, appeared in 1922. These banks were to extend short-term or long-term loans to individual sectors of the economy. In 1924, the Committee on Banks was set up under the State Bank’s Board to co-ordinate their activities.

In the latter half of the 1920s, the functions and activities of the State Bank changed dramatically. The change was mainly the result of
the accelerated rates of industrialisation, which required vast capital investment in the basic industries within a short period.

It was impossible to industrialise the USSR by traditional methods, that is, by accumulating financial resources inside the country and using foreign loans. The population lacked the required savings, while foreign loans could not be obtained for economic (the world was in the grip of an economic crisis) and political reasons. As a result, industrialisation in the USSR was financed by money emission. Throughout the entire period of phasing out the NEP the Soviet authorities tried to find the simplest means by which the state could distribute funds between the various sectors of the economy.

In June 1927 as a result of tighter regulation of the short-term capital movement the State Bank was vested with the responsibility of exercising immediate day-to-day control over the entire credit system, while the Narkomfin retained its function of general regulation. The State Bank was to supervise the activities of other credit institutions in compliance with government credit policy directives. Specialised banks were required to keep their spare funds in and borrow from the State Bank only and the latter was granted the right to be represented in their boards and auditing units. In addition, the State Bank increased its share of the specialised banks' equity capital.
As the banking system was re-organised in February 1928; most short-term credit operations began to be concentrated in the State Bank. It also took control of many branches of joint-stock banks, which began to play an auxiliary role in crediting the economy. Long-term lending was conducted mainly by the Bank, for the Long-Term Crediting of Industry and Power Engineering (BDK) especially created for this purpose, the Central Utilities and Housing Bank (Tsekombank) and partly the Central Agricultural Bank (TsSKhbank).

In August 1928, the Central Bank was assigned the task of cash budgeting and that made it possible to concentrate all the cash operations of the socialist economy in the State Bank. In June 1929, the first Statute of the State Bank was adopted, which declared the State Bank an authority regulating money circulation and short-term lending in accordance with the general economic development plan of the USSR.\textsuperscript{39}

In the late 1920s and early 1930s, the USSR carried out a series of reforms aimed at creating an effective mechanism of centrally planned regulation of the material and financial aspects of the reproduction process. Accordingly, a credit reform was carried through in 1930-1932, which resulted in the creation of a mechanism of

centrally planned regulation of the monetary and credit resource flows. In January 1930 as a result of the abolition of mutual commercial credit all direct short-term lending began to be conducted in the State Bank. All specialised banks turned into long-term investment banks and all their branches were closed. Specialised banks were required to conduct all operations through State Bank branches. In January 1931 the acceptance, form of non-cash settlements through the State Bank was introduced. In March 1931 the State Bank's functions as the only short-term credit bank and settlement and cash centre of the Soviet economy were established.

In June 1931 working capital of enterprises was divided into their own capital and borrowed capital, and the main principles of short-term bank crediting were laid down. When enterprises became owners of working capital, it became possible to establish the entities of bank crediting. State enterprises now received short-term loans only to finance en route values, advance payments for seasonal production reserves, the accumulation of seasonal reserves of raw materials, fuel, production and auxiliary materials, temporary increases in investment in unfinished construction projects, seasonal accumulation of finished
goods and products and other temporary needs related to the production and circulation of commodities.40

Since a single banking institution could not be effectively geared to supply the diversified demands of the growing economy, soon many specialized banks were established. Credit reform 1930-3241 added two things, firstly, it gave Gosbank monopoly in granting short-term credits and secondly it took away from Gosbank the tasks of financing investments, transferring this to specialized investment banks, which was created in 1932, i.e., four investment banks; Agricultural bank (Sel‘khozbank), Trade and Cooperatives (Torgbank), commercial and housing bank (Tsekombank, which controlled numerous local ‘commercial’ banks under the Ministry of Finance. Their primary function was to administer investment funds, which reached them from two principal sources, from the state budget and from enterprises.42 The Gosbank became a short-term credit institution, while specialized banks provided long term credits. All the activities of these banks were coordinated by the Gosbank.

As a result of the credit reform the State Bank lost the last elements of a commercial bank and became a typical Soviet State Bank

40 Ibid.
42 Ibid., p.113.
whose main functions were to extend planned loans to the economy, manage money circulation and settlements, do the cash budgeting and effect international settlements. The structure of the credit system that was established at that time would remain in place for 55 years practically unchanged.

Later on all changes in the activities of the State Bank were limited to the introduction of new forms of planned credit to the economy and bank settlements and also new methods of controlling the spending of funds on wages and salaries (80% of the entire cash turnover) and the collection of proceeds from trade. In February 1930 all transactions to sell gold and foreign currency to private individuals for chervonets at a fixed rate were banned, the Soviet currency was withdrawn from foreign exchanges and a quoting commission was set up under the State Bank's Board to set the exchange rates of foreign currencies.\(^43\)

In 1933, the State Bank implemented a series of measures to accelerate settlements, improve accounting, reporting and paperwork and enhance internal banking control. The State Bank balance sheet was restructured on a departmental basis to become comparable with the credit plan. The offsetting of interaffiliate turnovers was decentralised,

while the centre continued to exercise general control. In 1939, the State Bank began to collect cash.

During the Second World War (1941-1945) it issued cash to cover the budget deficit, increasing the money supply fourfold. To normalise money circulation a confiscator monetary reform was conducted in 1947, during which old money was exchanged for new at the rate of 10 to 1, cash accounts in the savings banks were re-evaluated and all state loans, except the 1947 loan, were converted.

In March 1950, the gold content of the rouble was set at 0.222168 grams of fine gold. In December 1949, the second Statute of the State Bank was adopted. From 1954, Gosbank has been independent of the Ministry of Finance, and its Director has ministerial status in the Government. 44

In its organization the Gosbank was similar to the standard type of mono bank. In addition to its policy making head office and its principal offices in the various republics it had two levels (in source of the smaller republics, only one level) of regional office and a network of about 3,500 local branches which were its main points of contact with enterprises, collection forms, and lower level government units. To service the urban population it maintained nearly 2,000 collection

44 Schwartz, n. 34, p.150.
offices (originally part of the network of communal banks abolished in 1959), which received payments for lent and service bills, taxes and other compulsory payments and contributions. The office network also included a small number currently fewer than thirty of special cast service agencies in large industrial establishments and construction projects. Seasonal agencies operated at remote points where large purchases of foreign products were made.45

In April 1959 an overhaul of 1959, the credit system resulted in the transfer of some operations conducted by the Selkhozbank, Tsekombank and municipal banks to the State Bank.

In 1960, the State Bank began to draw up plans to credit long-term investment.

In May 1961, the rouble was re-denominated and devalued. One new rouble exchanged for 10 old roubles. At the same time, the gold content of the rouble was only increased four times to equal 0.987412 grams of fine gold. In October 1960, the State Bank adopted its third Statute and in 1963, all the state savings banks were brought under its control.

In 1965-1969, the economic reform brought about some changes in the activities of the State Bank, which were connected with lending and settlements, money circulation planning and regulation, financing capital investments and organising the savings system. Credits on material assets turnover and wage costs and credits on ordinary loan accounts became the main means of crediting industry.

In July 1987 as a result of the reorganisation of the credit system new specialised banks were founded (Vneshekonombank SSSR, Promstroibank SSSR, Zhilsotsbank SSSR and Sberbank SSSR) and the State Bank began to perform the functions of the country's main bank. It was assigned the task of elaborating the consolidated credit plan and planning the distribution of funds and credit investments among all banks.

In September 1988 the fourth Statute of the State Bank of the USSR was approved, declaring the State Bank the country's main bank and the only issuing centre and organiser of credit and settlement relations in the economy. In March 1989 the transfer of the specialised banks to full cost-accounting and self-financing required the State Bank to provide them with target figures on the volume of credit resources, the amount of household savings taken on deposit, and the volume of foreign-currency receipts and payments on banking operations. In
January 1990 the State Bank was given control over the Savings Bank of the USSR.

On July 13, 1990\textsuperscript{46}, the State Bank of the RSFSR, accountable to the Supreme Soviet of the RSFSR, was created on the basis of the Russian Republic Bank of the State Bank of the USSR. On December 2, 1990, the Supreme Soviet of the RSFSR passed the Law on the Central Bank of the RSFSR (Bank of Russia), which stipulated that the Bank of Russia was a legal entity and the main bank of the RSFSR and that it was accountable to the Supreme Soviet of the RSFSR. The law specified the functions of the bank in organising money circulation, monetary regulation, economic activity and the regulation of joint stock and co-operative banks. In December 1990 the Law on the State Bank of the USSR and the Law on Banks and Banking were passed. Under these laws the State Bank of the USSR and the national banks that were being established at that time on the basis of the republic divisions of the State Bank were to build a single system of Central Banks based on a single monetary unit, the rouble, and fulfilling the functions of a reserve system.

In June 1991, the Statute of the Central Bank of the RSFSR (Bank of Russia), accountable to the Supreme Soviet of the RSFSR,
was approved. The period between July 1990 and December 1991 was a time of conflict between the Russian State Bank and the State Bank of the USSR. In November 1991, owing to the establishment of the Commonwealth of Independent States and the disbandment of Soviet Union structures, the Supreme Soviet of the RSFSR proclaimed the Central Bank of the RSFSR the only body of monetary and foreign exchange regulation in the RSFSR. It was entrusted with the functions of the State Bank of the USSR in issuing money and setting the exchange rate of the rouble. The Central Bank of the RSFSR was instructed to assume, before January 1, 1992, full control of the assets, technical facilities and other resources of the State Bank of the USSR and all its institutions, enterprises and organisations.

On December 20, 1991, the State Bank of the USSR was dissolved and all its assets, liabilities and property in the RSFSR were transferred to the Central Bank of the RSFSR (Bank of Russia).47

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47 Ibid.
Types of Saving Bank Deposits in Soviet Union

The Savings banks in the Soviet Union accepted five types of deposits:

- Deposits payable on demand are the most common. The depositors can withdraw their entire savings or a part of them at any time.

- Fixed deposits are accepted for a period of not less than six months. These deposits ensure greater stability in the balance of the savings banks. But if the withdrawal is made before six months the deposit becomes payable on demand and bears an interest rate less than on that money which was fixed.

- Contingency deposits for particular purposes are governed by specified conditions at the discretion of the deposition. For instance, parents may open deposit accounts in the name of their children, stipulating that the money can only be paid after schooling or university education, etc.

- Lottery deposits have the special features that interest is paid out in the form of prizes, for every one thousands lottery deposits.

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48 Mchta, n.30, p.327.
prize winners receive awards bearing a certain amount of interest on the money deposited. Only winning depositors receive an interest.

- Current accounts in the saving banks are not different from saving account deposit payable on demand, but the saving account depositor himself or some body nominated by him must make any withdrawal in person, where as a current account holder can operate the account by means of cheques, the savings banks pay corresponding sums to the person whose names the cheque is drawn and in case of bearer cheque to the person presenting the cheque.

The State provides a legal guarantee for the secrecy of deposits and unconditional safety and repayments of sums deposited in these banks. The deposits and interest payments are free to tax. Depositors are also free to dispose off their deposits as they deem fit or bequeath them to any person.

Besides accepting deposits, the savings banks also perform a number of other functions on behalf of the state and public organisations. For instance, they collect taxes, state insurance payments and membership fees from primary organisation of the communist party, and make payments of pensions, payments of state allowances to
mothers with large families. They also accept current account deposits of trade-union branches and other voluntary organisations. They also issue demand drafts to facilitate payment. Table 2.3 shows how the shaving bank make increase its deposit from 1940 to 1980 in the urban and rural areas.

**TABLE: 2.3**

**Saving Bank Deposits**

(At end of year)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of accounts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(million)</td>
<td>17.3</td>
<td>14.3</td>
<td>52.2</td>
<td>80.1</td>
<td>142.1</td>
</tr>
<tr>
<td>In urban areas</td>
<td>11.6</td>
<td>10.4</td>
<td>38.3</td>
<td>58.9</td>
<td>106.6</td>
</tr>
<tr>
<td>In rural areas</td>
<td>5.7</td>
<td>3.9</td>
<td>13.9</td>
<td>21.2</td>
<td>35.5</td>
</tr>
<tr>
<td>Total deposits</td>
<td>725</td>
<td>1853</td>
<td>10,909</td>
<td>46,600</td>
<td>156.5</td>
</tr>
<tr>
<td>(million roubles)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In urban areas</td>
<td>576</td>
<td>1647</td>
<td>8728</td>
<td>34,053</td>
<td>114.4</td>
</tr>
<tr>
<td>In rural areas</td>
<td>149</td>
<td>206</td>
<td>2181</td>
<td>12,547</td>
<td>42.1</td>
</tr>
<tr>
<td>Average deposit</td>
<td>42</td>
<td>124</td>
<td>209</td>
<td>581</td>
<td>1102</td>
</tr>
<tr>
<td>(roubles)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In urban areas</td>
<td>50</td>
<td>151</td>
<td>228</td>
<td>578</td>
<td>1073</td>
</tr>
<tr>
<td>In rural areas</td>
<td>26</td>
<td>52</td>
<td>157</td>
<td>591</td>
<td>1189</td>
</tr>
</tbody>
</table>


The Gosbank functioned as the government’s fiscal agent. It received all revenues payable to the government and paid out budgetary appropriations to enterprises and institutions having approved budgets. In addition to issuance or withdrawal of money from the money market,
the Gosbank performed all the transactions between State-owned enterprises and institutions and maintained accounts of every enterprise having a budget. It was also entrusted with purchases of precious metals and foreign currencies and with settlement of foreign accounts. And the undivided funds of collective farms were received by the Gosbank.19

Its status was enhanced in 1954 when it was separated from the Ministry of Finance and promoted as the director of ministerial status.50 In January 1957 the commercial banks were abolished, and in April 1959 the long term credit functions of the agricultural, municipal and commercial banks were transferred to the Gosbank and the Industrial Bank was renamed the Construction Bank (Stroybank).51

The Gosbank was the largest financial institution in the world. In 1957 it employed 7728 persons having college degrees in economics in 90 regional offices plus 4690 branches throughout the Soviet Union. It maintained correspondence with almost 300 foreign banking institutions located in 60 countries.52

80 Katkoff, n. 33, p. 244.
81 Nove, n. 41, p. 111.
82 Katkoff, n. 33, pp. 243.
83 Ibid., p. 244.
Since 1963, the savings bank system (with over 70,000 branches) has been incorporated into Gosbank's operations. The only other banks in the Soviet Union are the specialized banks—the Investment Bank (Stroibank) and the Foreign Trade Banks (Vneshtorgbank).

The Soviet Government used Gosbank as an important economic institution at all stages in the development of the Soviet State, to eliminate capitalist elements and strengthen the socialist system, to further industrialization and collectivisation of the country, and to ensure the victory of Socialism. The credit of comprised Gosbank about 40% of all working capital in the economy. However, the division between own and borrowed working capital varied greatly in different sector of the economy. Thus, the role of credits was much greater in trade and in light industry than it was in heavy industry. Quarterly credit plans were submitted by Gosbank to the government, since these carefully geared in with the general economy plans for which these bodies were responsible. The importance of the Gosbank was as an organ capital of enforcing centrally determined financial and credit policies. Its monetary resources came partly from deposits of enterprises partly from deposits transfer to the bulk of budget surpluses, partially from budgetary grants. The bank also retained a portion of the profits, which it made.

53 Novc. n.41, p.112.
Gosbank played an important role during the Great Patriotic War (1941-45) and in the post-war reconstruction and subsequent development of the nation's economy.\textsuperscript{54} Under the economic reform carried out in the USSR beginning in 1966 and the rapid expansion in the use of the credit method of national economic financing, Gosbank played an important role in solving economic and political problems and in building the material and technical bases of communism. In 1971 the Twenty Fourth Congress of the Communist Party of Soviet Union (CPSU) assigned Gosbank the task of promoting a more complete mobilization of the reserves of social production efficiency. Gosbank issued cash and managed money circulation in the USSR, carried out short-term crediting of the national economy and implemented financing and long term crediting of capital investments for consumers cooperatives, like forestry and water management bodies, rural populations and agricultural, procurement, and other types of enterprises and organizations. Gosbank also managed savings, performed national economic calculations and carried out cash fulfilment of the state budget, international credit and cleared operations, with precious metals and foreign currency.\textsuperscript{55}

\textsuperscript{54} Ibid.
Gosbank also played an important role in carrying out international account and currency transactions. Correspondent relations of Gosbank and the Bank for foreign Trade of the USSR with foreign banks, including Soviet banking operations abroad with Gosbank as the principal shareholder were being expanded. The legal status of the bank was determined by its charter, which was approved by the Council of ministers of the USSR. The bank was a rigidly centralized system. It was under the directions of a board and had a central apparatus, with state labour savings bank bureaus and administrative offices in the union republics. 56

The Basic Postulates of the Marxian Monetary Theory

- Money is a 'measures of the value of commodities' i.e., a measure of that specific substance which Marx defines as the “Social Labour 'embodied in each good sold and purchased'.

- Only a commodity which has its own 'value' may serve as a measure of other values, hence, only a commodity, such as gold, can fulfil this purpose – bank notes or any other currency meet the task only by virtue of their connection with gold, i.e., only to the extent to which they represent or substitute for gold.
• Prices of goods do not necessarily correspond to the respective values, but the sum of all commodity prices equals the sum of all values.

Thus, in the Marxian definition, money is a measure of values, or a unit of account serving as a general equivalent in commodity of exchanges, because it has both a use value and an exchange value.57

Marx also wrote that

‘The credit system will serve as a powerful lever during the transition from the capitalist method of production to a production method of associated labour, but only as an element related to the other great organic changes in the very method of production’58

Principles Underlying the Organisation and Activity of the Socialist Banks

The State Bank is the bank of issue, the ‘Commercial bank’ of the economy, and the government’s agent for fiscal operations. The Chairman of the bank is appointed by the Supreme Soviet and has a seat

in the Council of Ministers. The State Bank's head office was in Moscow. The head office of the State Bank had departments organized along functional departments. They were planning (with subdivisions) for Credit plan, Currency plan, and Statistics, Central bookkeeping, and Auditing, as well as Capital construction, Material-technical supply, labour and wages, and some other areas. Among the operational departments were Credits (with subdivisions for economic councils and local industry, defence, transport and communication, and trade), Foreign operations, Currency issue, and budget operations. Each of the main offices and branches were organized on the same pattern.60

As in a bank of similar standing in the west, the State Bank's assets consisted of gold, foreign exchange, and deposits, its net worth of its charter capital and its reserves. 'The deposits of the Gosbank was two types: clearing or settlement accounts, reserved exclusively for the state enterprises operating on a commercial basis, and current accounts opened for all other customers, such as institutions and organisations, including state agencies, saving banks collective farms and cooperatives, and individuals.

Each enterprise has its basic settlement account in the State Bank and, if needed, special subsidiary accounts, e.g., for important repairs.

"Ibid.
Payments could be made through the ‘acceptance’ method, letter of credit, special account, or cheque. The acceptance method was most widely used. The seller dispatched the goods to the buyer and presented the invoice to his own State Bank office, of the buyer so that it could be submitted for his approval. In case of ‘acceptance’, debits were given to the buyer through his account and credit went to the seller, in case of refusal, the goods remained under the case and responsibility of the buyer until new instructions were sent by the seller. In the letter of credit and special account systems, the buyer established beforehand an account to the order of the seller, who was thus assured of payment as soon as he dispatched the goods. Payments by letters of credit or by cheque accounted for only a small percentage of all transactions.

The State Bank was the basic source of legitimate short-term bank. No enterprise could extend credit to another, although in practice, numerous cases of mutual indebtedness occurred between enterprises and continued to amount to significant sums. In extending credit, the State Bank, like any western commercial bank, created new purchasing power. Its loans were made for goods in transit, increased inventories of a seasonal character, and planned loans over and over and above the working capital requirements granted to the enterprises by the state.

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The minimums were periodically re-examined and revised on the basis of certain norms related to the enterprises activity. Because of seasonal changes in the supply of agricultural produce and raw materials to food processing, light industry, and trade and procurement agencies and because of the resulting sharp fluctuations in their inventories and working capital required over and above 'minimum' levels, the State Banks short-term credits gave to these industries and purchasing agencies, rather than to heavy industries, consistently over the years, up to as much as 75% of the short-term credit outstanding gone to the light industry and trade agencies.

The State Bank charged and paid interest, except on budgetary accounts, the difference between charges and payments represented its income. Rates charged were differentiated according to type of credit and cost of handling. During the 1960's the bank charged 1% for loans on 'goods in transit', 2% for all other short-term credit, and 3-5% for loans overdue. For its past, the bank paid 0.5% on the deposits of enterprises and 1.5% on the government's fiscal farms.

As the government's fiscal agent, the State Bank discharged numerous duties, including collection of taxes, disbursing expenditures, and controlling the execution of specified budgetary tasks for all-union or republic ministers of finance. Because of the Soviet custom of sharply differentiating each account according to its purpose and
because of the variety and complexity of operations connected with the soviet budget, more than one-quarter of the State Bank's total accounts were budgetary accounts.

The bank of foreign trade was a subsidiary of the State Bank. Vneshtorgbank, the commercial credit institution-providing credit for USSR foreign trade. Currency operations, and settling of accounts on exports and imports of goods and on rendering of services.

It began to operate in 1924 on the basis of the reorganized Russian commercial Bank, which was created as a joint-stock company in 1922. The USSR Vneshtorgbank is a joint-stock company operating on the basis of a charter. Among its stock-holders of the banks were, the USSR Ministry of Finance, the USSR Ministry of Foreign Trade, the USSR State committee of the Council of Ministers on Foreign Economic Relations, the USSR Foreign State Insurance Committee, the USSR Ministry of the Merchant Marine, the USSR Construction Bank, the foreign-trade amalgamations exports, Soiupromexport (All-union Industrial Export Agencies), Tekhmashimport (Technical and Machinery Import Agency), Soiuzpushnina (All-union For Agency), and others. For its clients and correspondents, the bank carried out cash, letter-of-credit, and money-order commissions involving payment and credit operations on the export and import of goods and the rendering of services, as well as handling non trade payments abroad.
and from abroad, performed operations involving promissory notes and bills of exchange, undertook guarantees on monetary obligations in favour of Soviet and foreign currency, payment documents, and funded paper issued in Soviet and foreign currency, carried operations with traveller’s cheques, accepted foreign currency, precious metals, securities and other valuables for safekeeping from clients, and carried out other banking operations. Around 1960’s the bank had about 1200 correspondents in more than 90 countries of the world. The word key element of the Soviet banking system was the investment bank. This bank was part of the Ministry of Finance, which controlled and supervised its activity according to the directives of the Council of Ministers.62

The Investment Bank was organised on the familiar Soviet pattern with the usual functional departments and a number of departments specialized by economic sectors, Industrial Branches, and forms of ownership. Its assets were those of the super sited banks, augmented periodically by budget appropriations, specific parts of depreciation allowances (excluding the shares earmarked for important repairs), and shares in the profits of enterprises. The budget grants represented the most important part of these funds and accounted for some three-quarters of yearly disbursements. The Investment Banks

extended both grants and long term credits. Grants went to state enterprises, credited at low interest rates, to collective farms, cooperatives, local industries, and to investments for building houses. The bank made direct payments to the contractors for materials, transportation, and related charges on the basis of orders from the recipients of grants or loans.

The last in the banking system was represented by savings agencies. They handled accounts for individuals and various organizations and institutions (hospitals, municipalities, mutual aid societies, and others). Savings were kept in the form of time deposits or currents, which were used for payments for utilities and state services. The savings banks were authorized to organise the construction and to finance the investments of cooperative apartment buildings. The savings bank branches, which were the only banking facilities available to the population at large, became lending institutions as well as depositors. Investment rates on savings deposits, differentiated in favour of the longer maturities.⁶³

The financial relations between the Gosbank and individual enterprises were regulated according to the principle that every

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⁶³ Spulber, n.59, p.171.
enterprise an account at the Gosbank and must depend on the Gosbank for part of its working capital.64

Planning Function of the State Banks

The State Bank’s basic responsibilities were adjusting the supply of money to the ‘real’ transition needs of the economy as determined by the economic plan and preventing expenditures outside planned purposes. Both economic growth—embodied in the planned targets of any given period and economic stability—embodied in the planned equilibrium between such magnitudes as payroll and consumers goods output, state retail trade volume and ‘accumulation’ level could be endangered by any diversion of resources outside the planned channels. In order to avoid such dangers, the State Bank aimed systematically at keeping both enterprises and households as illiquid as possible and strived to ensure that all scheduled transactions are carried out with minimum monetary means. Thus, the bank’s task required that it exercised both planning and controlling functions.

The State Bank’s planning embraced currency needs and credit expansion. Currency needs were determined by wage-bill requirements and pattern of wage earners’ expenditures. If wage-bill requirements were estimated correctly, any currency surplus or deficit at the end of a

64 Gregory and Stuart, n.35, p.150.
planning period could obviously arise only from shifts in the pattern of expenditures. It follows that the transaction velocity of currency could be estimated within narrow margin during any short-term period (from fifteen to thirty days).

The currency requirements are projected in a set of monthly and quarterly currency plans which aimed at bringing into balance receipts of currency—mainly from state retail trade and transport. Taxes, social security, and loans- and disbursements of currency, mainly in the form of wages, salaries, transfers, and advances for state agricultural purchases. Thus, the currency plans dealt with gross flows of currency to, and from, the socialist sector, excluding transactions among households. Generally, receipts from trade represented up to 80% of the currency inflow, and payroll payments account for at least as much of the outflow. The State Bank’s All-union currency plan was drawn up on the basis of the observed trends in currency turnover in the country as a whole and on the plans of each of the bank’s offices, branches, and agencies, those in turn were based on general trends in their respective republics, regions, or districts and on the quarterly currency plans submitted to them. By each state enterprise pertaining to its sphere of operations. The currency plans were thus closely tied both to fulfilment
of consumers goods output plans and retail trade and to movement of the wage bill in all enterprises.\textsuperscript{65}

In order to keep the quantity of currency at a minimum and to permit the enforcement of tight controls, each enterprise was ordered to hold as little currency as possible, and each socialized shop was required to deposit its daily receipts. The balance between inflows and outflow of currency is made up by the issuing or withdrawing of currency with the express approval of the Council of Ministers. In order to cope with urgent currency needs and eventual transport problems, each main bank office was provided with a certain amount of special reserves of paper money and coins which it could inject into the circulation at the appropriate moment upon approval of the head office. The impact of such factors as the time element in income formation, redistribution of income through transactions among persons, and propensities to save and consume could be ascertained both through the variation in the fulfilment of the currency plans and through correlation of other data groped in the closely related balance of income and expenditures of the population.

The currency plans, which was operational, the balances of income and expenditure with long-range plans drawn for one year or

more and their coverage was wider, they aimed at encompassing all incomes generated and expanded both within and outside the socialist sector. Transaction among the persons may, not necessarily, affect total effective demand for state produce.\textsuperscript{66} The income created returns to the state shop's either directly, via purchase by wage and salary earners or, after a certain detour, via purchases by peasants. Changes in the distribution of income could, however, affect the velocity of currency balances, the pattern of effective demand for state goods, and possibly, the consumption saving ratio. Because of the difference in payment and spending habits between wage and salary earners and the peasants, a shift in the relative share of peasant income in total income – due either to higher price for obligatory deliveries or larger scales to town population or both-well cause a slowing down of velocity of circulation, i.e., an increase in currency issue. Other things being equal, a rise in the relative share of workers incomes did bring about an increase in velocity, further a rise in peasant income could condition shift in the pattern of demand for state produce and possible a change in total demand, given differences in saving and investment marginal propensities. Peasants preferred to buy more construction materials than wage earners. Assuming that the plan forecasts a given ratio of consumers to investment goods to be sold to the public, a situation could arise in which consumers goods retained on the shelves while

\textsuperscript{66} Ibid.
peasants could not be able to purchase the direct investment goods and end up with unplanned currency holdings. Thus, the currency account rapidly revealed any imbalances between gross inflows and outflows to, and from, the State Bank, but this account alone did not identify directly and clearly the sources of these imbalances. The letter was disclosed in the balance of income and expenditure of population.

Closely connected with the currency plans were the credit plans, both reflect in specific ways the functions in money supply. Each credit plan aimed at balancing in each planning period, estimated 'credit resources' and scheduled credit needs arising from the planned transitions concerning material goods. The plans were drawn quarterly by the State Bank on the basics of forecast receipts and expenditures of each of its offices, branches, and agencies, and of each of their respective customers. After approval by the Council of Ministers, the plan was broken down by republic, regional and district bank offices, which in turn established 'limits' of the credits to be granted to their clients for the end of each giving plan period.

The State Bank could expand loans to the extent of its reserves and of the 'idle' resources at its disposal. The latter was defined as:

- Currency budgetary surplus.
• Previously accumulated budgetary surplus held by the bank for the treasury.

• Portions of all other deposits not currently in active use.

The State Bank estimated deposits not in current use because of the minimum balance on hand at the end of an operational planning period. Variations in the minimum balances of enterprises were estimated by the State Bank from the plans of the enterprises. Consequently any error in the output plans had monetary effects. Since it could result in an overestimate of the idle resources at the disposal of the State Bank. The amount of loans to be made during any operational planning period could be equal to planned “credits resources” of which the idle resources were the chief component. If planned credit resources and planned credit requirements were not equal, the bank could reduce either one or the other or both. If at the end of a planning period actual idle resources exceeded planned idle resources, actual transaction had fallen short of planned transaction or the State Bank has erred in its estimated of credit requirements for the execution of the plan. The Gosbank also played a role in macro-economic planning. It provided financial authorities with valuable data on disposable income-information which was vital in micro-planning, especially in the
planning of the production of consumer goods. In case of a projected imbalance, the Gosbank will act to limit the flow of wage payments to the population as much as possible within the limits of the plan. This was accomplished primarily by restarting the convertibility of enterprise accounts into cash and wage payments in excess of the planned waste will... 

The States Bank treats credit as essentially a revolving fund. It created new deposits on the basis of its estimated idle resources. In the United States, new deposits were created based on addition to reserves. In the Soviet Union, no reserves were required, the idle resources set the ceiling of credit to be created by the State Bank: In a tight situation, this rule was flexible since a new deposit generated an idle resource-if it did not generate a demand for currency. This process could be easily grasped if one considers how the State Bank could meet some unplanned needs i.e, increase purchase of agricultural surpluses. The State Bank could credit the state procurement agencies without idle resources on hand since the very increase in the liability of the procurement agency could be matched by a corresponding increase in the current accounts of the collective farms, i.e, in the State Bank's 'crediting' means. If, however, the collectives withdrew part of these

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67 Mehta, n.30, p.325.
68 Gregory and Stuart, n.35, p.152.
new deposits in currency, a corresponding increase in currency issue could follow, hence no increase in idle resources would occur.\textsuperscript{69}

Western Economists stressed that the Soviet practice of achieving a yearly budget surplus acts as an offset to undue credit expansion. Soviets however, deny that budgetary surplus offset crediting since, according to them idle budgetary resources were the main source of credit expansion. Actually both the western and the Soviet arguments are meaningful but on completely different plans; on one hand, other things being equal every increase in tax collections reduced the means available to consumers, on the other hand, ‘idle’ budgetary resources were viewed as a ‘source’ of credit availability in the Soviet frame of reference.

Before the 1960 bank loans, provided only in response to current expenditure required after that expanded as a result of decentralization of certain investment decisions, the shift to various credit-financed investments, and the expanded role of interest.

**The State Bank’s Controlling Functions**

The State Bank ensured that, within the framework established by the plan, its main objectives would be carried through without

unplanned increases in costs, wage bill, or currency holdings of either wage earners or peasants. In order to fulfil this task, the State Bank was charged with the control of the ways in which each enterprises fulfilled the plan and was instructed to make systematic efforts to minimize the quantity to money need to support the prescribed transaction in the economy.\footnote{Ibid.}

The State Banks offices were supposed to exercise a detailed control over the financial activity of each of the enterprise belonging to their respective spheres of operation. In particular the State Bank closely watched the movement of the enterprises, wage and their fulfilment of the cost and output plans in the quantitative as well as qualitative terms prescribed. The segregation of settlement and current accounts, and of currency and credit flows, the specificity of each account, and of each operation were all helpful devices for the establishment of a comprehensive financial control, or as the Russians called it ‘control by the rouble’. The bank was supposed to treat enterprises which carried out their planned obligations leniently and delinquent enter prices severely. The bank refused any credit to delinquent enterprises unless their superior administrative organs of ministry or branch administration-endorsed the loan. The bank further
required the delinquent enterprise to use the acceptance payment from only for in-town transactions, and letters of credits, special accounts, or special cheques for all out of town payments. The bank also prevented the lagging enterprise from using unpaid shipments until payment was made, under certain conditions, the bank ultimately proclaimed the deficient enterprise insolvent-no enterprise could take such an action itself and thus provoke a full-scale inquiry into the affairs of the negligent client by some ad-hoc party and state organs.

In order to insure economic stability, the State Bank imposed 'financial discipline' on enterprises by the controls over described. The disciplines itself by the cumbersome practices of 'mobilizing idle resources' and then matching its credits to them, granting each loan in response to 'real goods' movements, etc. inflation increases meant 'unplanned liquidities' which had an adverse effect on the plan, that is danger was its chief causes in the Soviet economy and faulty planning and faulty plan implementation. It was also one of the main reasons by which Soviet Union collapsed in 1991.
CONCLUSION

The State Bank was the basic source of legitimate short-term bank. It was established in 1860. This was the only institution authorised to issue bank notes, it performed its function as government's fiscal agent. It received all revenues payable to the government and paid out budgetary appropriations to enterprises and institutions having approved budgets. In addition to issuance or withdrawal of money from the money market, it performed all the transactions between State owned enterprises and institutions and maintained accounts of every enterprise having a budget. It was also entrusted with, purchases of precious metal and foreign currencies and with settlement foreign accounts.

The Soviet government used State Bank as an important economic institution at all, steps in the development of Soviet state to eliminate Capitalist elements and strengthen the socialist system to industrialisation and collectivisation of the country, and to ensure victory of socialism.