

This PDF is a selection from an out-of-print volume from the National Bureau of Economic Research

Volume Title: Money, Financial Flows, and Credit in the Soviet Union

Volume Author/Editor: George Garvy

Volume Publisher: NBER

Volume ISBN: 0-884-10475-3

Volume URL: <http://www.nber.org/books/garv77-1>

Publication Date: 1977

Chapter Title: Front Matter to "Money, Financial Flows, and Credit in the Soviet Union"

Chapter Author: George Garvy

Chapter URL: <http://www.nber.org/chapters/c4152>

Chapter pages in book: (p. -13 - 0)

2056362
GARVY

Money, Financial Flows,
and Credit
in the Soviet Union

Mon

in

NATIONAL BUREAU OF ECONOMIC RESEARCH

Studies in International Economic Relations

1. Problems of the United States as World Trader and Banker *Hal B. Lary*
2. Price and Quantity Trends in the Foreign Trade of the United States *Robert E. Lipsey*
3. Measuring Transactions Between World Areas *Herbert B. Woolley*
4. Imports of Manufactures from Less Developed Countries *Hal B. Lary*
5. The Responsiveness of Demand Policies to Balance of Payments: Postwar Patterns *Michael Michaely*
6. Price Competitiveness in World Trade *Irving B. Kravis and Robert E. Lipsey*
7. Money, Financial Flows, and Credit in the Soviet Union *George Garvy*
8. Foreign Dollar Balances and the International Role of the Dollar *Raymond F. Mikesell and J. Herbert Furth*

VICE P

F

NATIONA

BA

A

Money, Financial Flows,
and Credit
in the Soviet Union

GEORGE GARVY

VICE PRESIDENT AND SENIOR ADVISER (RETIRED)

FEDERAL RESERVE BANK OF NEW YORK



PUBLISHED FOR THE
NATIONAL BUREAU OF ECONOMIC RESEARCH, INC.

BY
BALLINGER PUBLISHING COMPANY
A Subsidiary of J. B. Lippincott Company

CAMBRIDGE, MASSACHUSETTS

1977

RESEARCH
ations
er and
e of the United
s *Herbert*
ed
alance of
Michaely
ng *B. Kravis*
viet
Role of the
Herbert Furth

211
4/21/86
P. 621

NA

Arthur F. Burns, *Honorary*
James J. O'Leary, *Chairman*
Eli Shapiro, *Vice Chairman*
Martin S. Feldstein, *President*
Victor R. Fuchs, *Vice President*
Palo Alto Office
Philip J. Sandmaier, *Director*
Charles M. McLure, *Director*
for Research

Moses Abramovitz, *Senior Advisor*
Atherton Bean, *Intern*
Corporation
Andrew F. Brimmer, *Advisor*
Inc.
Otis F. Brubaker, *United*
of America
Arthur F. Burns, *Board*
the Federal Reserve
Wallace J. Campbell, *Advisor*
Cooperative Housing
Solomon Fabricant, *Advisor*
Martin S. Feldstein, *Advisor*
Eugene P. Foley, *Pan*
New York
Edward L. Ginzton, *Advisor*
David L. Grove, *Intern*
Machines Corporation
Walter W. Heller, *United*
Walter E. Hoadley, *Advisor*



This book is printed on recycled paper.

Copyright © 1977 by the National Bureau of Economic Research, Inc.
All rights reserved.
Printed in the United States of America.

Library of Congress Cataloging in Publication Data

Garvy, George.
Money, financial flows, and credit in the Soviet Union.

(Studies in international economic relations: 7)
Bibliography: p. 204
Includes index.

1. Finance—Russia. 2. Money—Russia. 3. Banks and banking—
Russia. 4. Credit—Russia.

I. Title. II. Series.
HG186.R8G37 332'.0947 76-58491
ISBN 0-87014-518-5

D
Gardner Ackley, *Michigan*
G. L. Bach, *Stanford*
Charles H. Berry, *Princeton*
Otto Eckstein, *Harvard*
Walter D. Fisher, *Nor*
John H. Kareken, *MIT*
J. C. LaForce, *Californ*
Robert J. Lampman, *MIT*

DIRECTORS

Richard M. Bird, *Canadian*
Association
Eugene A. Birnbaum, *Management*
Associations
Carl F. Christ, *American*
Association
Robert G. Dederick, *Association*
of Business Econom
Franklin A. Lindsay, *Economic Develop*
Paul W. McCracken, *Association*

Percival F. Brundage
Emilio G. Collado
Frank W. Fetter
Thomas D. Flynn
Gottfried Haberler
Albert J. Hettinger,

NATIONAL BUREAU OF ECONOMIC RESEARCH

Arthur F. Burns, *Honorary Chairman*
James J. O'Leary, *Chairman*
Eli Shapiro, *Vice Chairman*
Martin S. Feldstein, *President*
Victor R. Fuchs, *Vice President, Director*
Palo Alto Office
Philip J. Sandmaier, Jr., *Treasurer*
Charles M. McLure, Jr., *Executive Director*
for Research

Douglas H. Eldridge, *Executive Secretary*
Sam Parker, *Director of Finance and*
Administration
Edwin Kuh, *Director, Cambridge*
Computer Research Center
Robert E. Lipsey, *Director New York*
Office
Joel Popkin, *Director, Washington Office*

DIRECTORS AT LARGE

Moses Abramovitz, *Stanford University*
Atherton Bean, *International Multifoods*
Corporation
Andrew F. Brimmer, *Brimmer & Company,*
Inc.
Otis F. Brubaker, *United Steelworkers*
of America
Arthur F. Burns, *Board of Governors of*
the Federal Reserve System
Wallace J. Campbell, *Foundation for*
Cooperative Housing
Solomon Fabricant, *New York University*
Martin S. Feldstein, *Harvard University*
Eugene P. Foley, *Pan American Building,*
New York
Edward L. Ginzton, *Varian Associates*
David L. Grove, *International Business*
Machines Corporation
Walter W. Heller, *University of Minnesota*
Walter E. Hoadley, *Bank of America*

Roy E. Moor, *Becker Securities Corpora-*
tion
Geoffrey H. Moore, *National Bureau of*
Economic Research
J. Wilson Newman, *Dun & Bradstreet*
Companies, Inc.
James J. O'Leary, *United States Trust*
Company of New York
Peter G. Peterson, *Lehman Brothers*
Robert V. Roosa, *Brown Brothers Harri-*
man & Co.
Richard N. Rosett, *University of Chicago*
Bert Seidman, *American Federation of*
Labor and Congress of Industrial Or-
ganizations
Eli Shapiro, *The Travelers Corporation*
Arnold M. Soloway, *Jamaicaway Tower,*
Boston, Massachusetts
Lazare Teper, *International Ladies' Gar-*
ment Workers' Union

DIRECTORS BY UNIVERSITY APPOINTMENT

Gardner Ackley, *Michigan*
G. L. Bach, *Stanford*
Charles H. Berry, *Princeton*
Otto Eckstein, *Harvard*
Walter D. Fisher, *Northwestern*
John H. Kareken, *Minnesota*
J. C. LaForce, *California, Los Angeles*
Robert J. Lampman, *Wisconsin*

Maurice W. Lee, *North Carolina*
Daniel L. McFadden, *California, Berkeley*
Almarin Phillips, *Pennsylvania*
Lloyd G. Reynolds, *Yale*
Robert M. Solow, *Massachusetts Institute*
of Technology
Henri Theil, *Chicago*
William S. Vickrey, *Columbia*

DIRECTORS BY APPOINTMENT OF OTHER ORGANIZATIONS

Richard M. Bird, *Canadian Economics*
Association
Eugene A. Birnbaum, *American Manage-*
ment Associations
Carl F. Christ, *American Economic*
Association
Robert G. Dederick, *National Association*
of Business Economists
Franklin A. Lindsay, *Committee for*
Economic Development
Paul W. McCracken, *American Statistical*
Association

Douglass C. North, *Economic History*
Association
Rudolph A. Oswald, *American Federation*
of Labor and Congress of Industrial
Organizations
Philip J. Sandmaier, Jr., *American Institute*
of Certified Public Accountants
G. Edward Schuh, *American Agricultural*
Economics Association
James C. Van Horne, *American Finance*
Association

DIRECTORS EMERITI

Percival F. Brundage
Emilio G. Collado
Frank W. Fetter
Thomas D. Flynn
Gottfried Haberler
Albert J. Hettinger, Jr.

George B. Roberts
Murray Shields
Boris Shishkin
Willard L. Thorp
Joseph H. Willits
Theodore O. Yntema

RELATION OF THE DIRECTORS TO THE
WORK AND PUBLICATIONS OF THE
NATIONAL BUREAU OF ECONOMIC RESEARCH

1. The object of the National Bureau of Economic Research is to ascertain and to present to the public important economic facts and their interpretation in a scientific and impartial manner. The Board of Directors is charged with the responsibility of ensuring that the work of the National Bureau is carried on in strict conformity with this object.

2. The President of the National Bureau shall submit to the Board of Directors, or to its Executive Committee, for their formal adoption all specific proposals for research to be instituted.

3. No research report shall be published by the National Bureau until the President has sent each member of the Board a notice that a manuscript is recommended for publication and that in the President's opinion it is suitable for publication in accordance with the principles of the National Bureau. Such notification will include an abstract or summary of the manuscript's content and a response form for use by those Directors who desire a copy of the manuscript for review. Each manuscript shall contain a summary drawing attention to the nature and treatment of the problem studied, the character of the data and their utilization in the report, and the main conclusions reached.

4. For each manuscript so submitted, a special committee of the Directors (including Directors Emeriti) shall be appointed by majority agreement of the President and Vice Presidents (or by the Executive Committee in case of inability to decide on the part of the President and Vice Presidents), consisting of three Directors selected as nearly as may be one from each general division of the Board. The names of the special manuscript committee shall be stated to each Director when notice of the proposed publication is submitted to him. It shall be the duty of each member of the special manuscript committee to read the manuscript. If each member of the manuscript committee signifies his approval within thirty days of the transmittal of the manuscript, the report may be published. If at the end of that period any member of the manuscript committee withholds his approval, the President shall then notify each member of the Board, requesting approval or disapproval of publication, and thirty days additional shall be granted for this purpose. The manuscript shall then not be published unless at least a majority of the entire Board who shall have voted on the proposal within the time fixed for the receipt of votes shall have approved.

5. No manuscript may be published, though approved by each member of the special manuscript committee, until forty-five days have elapsed from the transmittal of the report in manuscript form. The interval is allowed for the receipt of any memorandum of dissent or reservation, together with a brief statement of his reasons, that any member may wish to express; and such memorandum of dissent or reservation shall be published with the manuscript if he so desires. Publication does not, however, imply that each member of the Board has read the manuscript, or that either members of the Board in general or the special committee have passed on its validity in every detail.

6. Publications of the National Bureau issued for informational purposes concerning the work of the Bureau and its staff, or issued to inform the public of activities of Bureau staff, and volumes issued as a result of various conferences involving the National Bureau shall contain a specific disclaimer noting that such publication has not passed through the normal review procedures required in this resolution. The Executive Committee of the Board is charged with review of all such publications from time to time to ensure that they do not take on the character of formal research reports of the National Bureau, requiring formal Board approval.

7. Unless otherwise determined by the Board or exempted by the terms of paragraph 6, a copy of this resolution shall be printed in each National Bureau publication.

(Resolution adopted October 25, 1926, as revised through September 30, 1974)

Preface

1 Introduction
 Backgro
 Conclud

2 The Origins a
 Historical
 The Sta
 Toward
 Lenin's
 Soviet
 The Cre
 The Eco

3 Money in a C
 Soviet
 The Mo
 Money:
 Financi
 The Lit

4 The Banking
 The Sta
 Savings
 The Inv
 Change
 Resul

5 Payments and
 The Sep
 Financi

Contents

Preface	xi
1 Introduction	1
Background and Summary of the Study	1
Concluding Observations	9
2 The Origins and Evolution of the Soviet Banking System: An Historical Perspective	13
The State and Banking Prior to the Bolshevik Revolution	14
Toward the Concept of a Monobank	18
Lenin's Views on the Role of Banking	20
Soviet Banking Before the Credit Reforms of 1930-1932	23
The Credit Reform of 1930-1932	30
The Economic Reform of 1965	31
3 Money in a Centrally Directed Economy	36
Soviet Monetary Theory	37
The Monetary Unit	39
Money: A Passive Planning Tool	41
Financial Planning	43
The Limited Role of Prices	48
4 The Banking System	52
The State Bank	52
Savings Banks	64
The Investment Bank	69
Changes in the Role of the Banking System as a Result of the Reform	72
5 Payments and Financial Flows	76
The Separation of Payments Circuits	76
Financial Flows	82

is to ascertain and to
tion in a scientific and
ibility of ensuring that
with this object.

l of Directors, or to its
als for research to be

until the President has
ended for publication
accordance with the
abstract or summary of
ors who desire a copy
ary drawing attention
of the data and their

e Directors (including
e President and Vice
ide on the part of the
l as nearly as may be
e special manuscript
posed publication is
manuscript committee
signifies his approval
be published. If at the
lds his approval, the
roval or disapproval
ose. The manuscript
oard who shall have
all have approved.

ember of the special
mittal of the report
norandum of dissent
member may wish to
published with the
each member of the
rd in general or the

poses concerning the
ities of Bureau staff,
ational Bureau shall
l through the normal
tee of the Board is
ure that they do not
au, requiring formal

rms of paragraph 6,
lication.

eptember 30, 1974)

Financial Flows of Enterprises	89	
6 The Role and Structure of Credit	106	
Volume and Composition of Credit	106	
Credit Policy	114	
Credit to State Enterprises	119	
The Reform and Credit	124	
Credit for Agriculture Under the Reform	127	
Interest Rates	131	
7 Banking and the Foreign Sector	134	
Foreign Exchange and the Exchange Rate	134	
Foreign Trade and Payments	137	
Foreign Credit and Investments	147	
The Bank for Foreign Trade	152	
8 Stabilization Policy and Monetary Equilibrium	156	
Sources of Inflationary Pressure	156	
Policy Objectives	157	
The Tools	158	
From Inflation to Price Stability	168	
Factors Contributing to Price Stability	181	
9 The Reform Ten Years Later	183	
Appendix A—The Organization and Operations of the State Bank	190	
Appendix B—Availability of Monetary Data	199	
Bibliography	204	
Index	219	
		3.1 Sources and
		rized in
		4.1 Savings Ba
		4.2 Sources of
		Disbur
		5.1 The Budget
		5.2 Uses of Pro
		6.1 Credit Outs
		States,
		6.2 Loans by A
		6.3 Short-term
		Segme
		6.4 Short-term
		1971, S
		6.5 Credit Sale
		1965, a
		6.6 Structure o
		6.7 Annual Ra
		7.1 Estimated
		7.2 Financing
		Sales
		7.3 Soviet Gol
		7.4 Balance Sh
		as of
		8.1 The Share
		Receip
		8.2 Indexes of
		8.3 Disposable
		8.4 Indicators
		1940-
		A.1 Number of
		A.2 Number of

89

106
106
114
119
124
127
131

134
134
137
147
152

156
156
157
158
168
181

183

State Bank 190

199

204

219

Tables

3.1	Sources and Uses of Funds of an Enterprise, as Summarized in Its Financial Plan	45
4.1	Savings Bank Deposits, Selected Years	67
4.2	Sources of Financing of Centralized Fixed Investment Disbursed by the Investment Bank	70
5.1	The Budget of the USSR, Selected Years, 1940-1971	87
5.2	Uses of Profits After the Reform	92
6.1	Credit Outstanding in the Soviet Union and the United States, 1969	108
6.2	Loans by All Banks, Selected Years	110
6.3	Short-term Loans of the State Bank, 1926-1971, by Major Segments of the Economy	111
6.4	Short-term Loans of the State Bank, by Purpose, 1941-1971, Selected Years	112
6.5	Credit Sales of Consumer Goods, by Category, 1960, 1965, and 1971	113
6.6	Structure of Working Capital of State Enterprises	127
6.7	Annual Rates of Interest on Short-term Loans	132
7.1	Estimated USSR Hard Currency Balance of Payments	146
7.2	Financing of the Convertible Currency Deficit by Gold Sales	147
7.3	Soviet Gold Production and Reserves	148
7.4	Balance Sheet of the Bank for Foreign Trade of the USSR as of January 1, 1974	154
8.1	The Share of Turnover Taxes in Total Budgetary Receipts, Selected Years	166
8.2	Indexes of Retail and Related Prices	172
8.3	Disposable Money Income, Selected Years, 1950-1972	179
8.4	Indicators of Inflationary Pressures, Selected Years, 1940-1971	180
A.1	Number of Clients of the State Bank	196
A.2	Number of Accounts at the State Bank, by Category	197

x

Tables

A.3	Bank Balances by Category of Depositor	198
B.1	Liabilities of the State Bank, Selected Years, 1923-1938	200

Figures

5.1	Financial-Credit System of the USSR	84
-----	-------------------------------------	----

THIS study can describe the cr terms familiar organic links w study was sugg dent of the Nat by a grant from

A Reading C mond W. Golds Gregory Gross John M. Mont detailed versio structre sugges Hal B. Lary on

Dealing with imposes serious broaden the sul the essential ch omy: this woul the resources a with the basic number of mor the underlying only to the deg cesses and poli that the reader financial proces to make compa

I have avoid Soviet econom

198
200

3-1938

84

Preface

THIS study carries forward earlier endeavors of the author to describe the credit and banking system of the Soviet Union in terms familiar in nonsocialist countries while emphasizing its organic links with the centrally directed planned economy. This study was suggested by the late Harry Scherman, a former President of the National Bureau of Economic Research, and financed by a grant from the Harry Scherman Foundation.

A Reading Committee, consisting of Phillip Cagan and Raymond W. Goldsmith of the National Bureau's staff and Professors Gregory Grossman of the University of California, Berkeley and John M. Montias of Yale University read an earlier and more detailed version of the manuscript and made valuable and constructive suggestions. Its present form owes much to the advice of Hal B. Lary on focus and organization.

Dealing with only one aspect of a complex economic system imposes serious limitations. The temptation had to be resisted to broaden the subject and to sketch out, at least in a broad outline, the essential characteristics and mechanisms of the Soviet economy: this would have increased the scope of the project beyond the resources available. I have assumed that the reader is familiar with the basic characteristics of the Soviet economy, on which a number of monographs are available. I have made reference to the underlying real processes and administrative arrangements only to the degree necessary to elucidate how the financial processes and policies related to them. I have furthermore assumed that the reader is familiar with the role of money, credit, and financial processes in the United States and that there is no need to make comparisons in order to emphasize contrasts.

I have avoided semantic discussions about the nature of the Soviet economic system which is variously described as a "cen-

trally-directed," "command," "socialist," or "communist" economy. Applying the word "socialist" to an economic—and political—system which has reduced freedom and choice to a minimum will be, no doubt, repugnant to some readers. I am using "socialist" merely because it is now more widely used than any of the alternative terms.

When a comparison is made with institutional arrangements in the "nonsocialist" world, the U.S. is the obvious point of reference, even though arrangements prevailing in the United States are not necessarily typical for the "free world" nor are adequately identified as a "free enterprise" system. The reader familiar with banking in France or with financing of capital formation in Italy will readily recognize that contrasts can be easily overdrawn, since the U.S. and the Soviet Union represent extreme cases in their respective spheres.

This study is based almost exclusively on Soviet sources. Use of Soviet statistics always requires lengthy discussion of their makeup, limitations, and meaning, so therefore statistical material is included mainly for illustrative rather than analytical purposes. The data shown in the tables serve mainly to establish the order of magnitude and broad trends—hence the use of selected years rather than presentation of continuous time series. Throughout, in the tables as well as in the text, except where specific statements to the contrary are made, the new (1961) ruble is used, into which all data for earlier years are converted.

Mc

“communist”
economic—and
and choice to a
e readers. I am
widely used than

arrangements in
s point of refer-
e United States
” nor are ade-
m. The reader
of capital forma-
s can be easily
nion represent

et sources. Use
ussion of their
tistical material
ytical purposes.
ablish the order
f selected years
s. Throughout,
e specific state-
ble is used, into

Money, Financial Flows, and Credit in the Soviet Union

Back

UNTIL quite among the featur
ern analysts, w
subordinate rol
tries. Many stu
and credit and
banking system
students of the
price stability s
successful mana
taining stability
surges in specu
other socialist
monetary mana
needs of the ec
of currency in
income.

These two vi
disclaimers to
objectives othe
with the concl
played an impo
policy aimed
resources avail
authorities hav
quantity and di
lation of purch