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The Banking System

The State Bank

THE State Bank is an "adjuster," not a "steerer"; its role—to borrow Robert V. Roosa's terminology (coined in a different context)—is defensive rather than dynamic. The Bank is an administrative, not a policy making, agency which, unlike central banks in nonsocialist countries, does not use such indirect tools as rediscounting and open market operations. Indeed, it cannot exert any significant influence on enterprise behavior, since enterprises are unable to change their prices, can adjust other terms of sale only marginally, and vary output and its composition only within narrow limits to correct deviations from the planned path. The Bank is not expected to make any overall contribution by changing credit conditions other than preventing spending in excess of stipulated amounts, granting individual enterprises credit or special terms to help break a bottleneck (or meet some other specific situation), and promote productivity through differential credit terms related to efficiency.

The State Bank is responsible for the regulation of note circulation, and for servicing the currency, credit, payments, and household savings needs of the country. In close cooperation with the Ministries of Finance and Foreign Trade, it also manages the gold and foreign exchange reserves and foreign payments.

The role of the State Bank is discussed within the larger framework of the entire money and credit picture in the Soviet Union in Chapters 3 and 6. In this chapter the structure and the main activities of the State Bank other than extension of credit are discussed, as well as the role of the Savings Bank. The activities of the Bank for Foreign Trade—the second specialized bank, considering Savings Banks as part of the State Bank—are described in Chapter 7.

The ultimate responsibility for money and credit rests with the Council of Ministers, which appoints its board of managers, approves its operating plans, and issues all regulations regarding money and credit, including those involving technical operating procedures of the Bank. Overall direction and supervision is exercised by the Ministry of Finance, which also supervises the Investment Bank and from which the State Bank was dependent directly prior to 1954.

While the monobank is thus essentially an implementing agency, it is an active participant in all phases of national and regional economic planning. It has a close relationship with such government agencies as the industrial ministries and the State Planning Board, which develops and coordinates financial and physical plans. Bank representatives participate in all major economic discussions and in the work of such policymaking bodies as the price-setting boards. The chairman of the board of the Bank attends meetings of the Council of Ministers.

In sum, the State Bank performs macroeconomic as well as microeconomic functions wherever planning and administration involve value aggregates and payment flows. As far as the overall economic performance is concerned, however, the State Bank's contribution has been only marginal, even since the initiation of the Reform.

This, of course, does not detract from the Bank's key position in the administration of the economy. Its close and continuous contact with the entire socialized economy gives it an advantage over the various ministries and *glavks* which are organized on a segmented industry basis.

As the fiscal agency of the government, it performs all the usual functions of the central banks in nonsocialist countries. The collection, allocation, and disbursement of government revenue (called the "cash execution of the budget") represents one of the main activities of the Bank.

As the all-encompassing center of the nation's settlements and clearing mechanism, the State Bank keeps track of all payments flows involving credit transfers.[1] It also allocates individual pay-

[1]For a description of the head office, see Poskonov [70].

ments between special-purpose funds, thus acting as a social accounting center. Finally, its control function—supervising the financial performance of all socialized enterprises—makes Gosbank the key agency in monitoring the performance of the entire economy.

STRUCTURE

The organizational structure of the State Bank reflects the centralized nature of the Soviet economy. A strong headquarters organization is the apogee of a network of local offices numerous enough to bring bank officials into intimate contact with all state enterprises (including state farms), *kolkhozes,* and municipalities.

All policies originate at the head office and are uniformly applied throughout the entire national territory. Regional and local offices merely apply regulations and directives issued at the center, and make loans and issue currency within the overall and specific quotas assigned to them. More than a year after the Reform was launched, B. Chlenov and V. Rybin wrote in Izvestia (Feb. 5, 1967): "The basic shortcoming of the present system is that it requires from the offices of the State Bank merely close following of instructions and, as a practical matter, does not induce them to seek out possibilities for a more effective use of credit. In fact, local offices of the Bank are transformed into technical executors of instructions emanating from higher-level offices and they can only signal conditions existing in the economy, instead of using the granting of credit as a means of improving the production performance." In Holesovsky's words, the Soviet banking official is a "civil servant at the instruments of control."[2]

The territorial structure of the State Bank involves two levels of supervisory offices—"principal" and "regional." There is a principal office in the capital of each of the fifteen constituent republics (the "Republican" Office), and there are several such offices in the largest republic, the Russian Federation. Each principal office supervises several regional offices. Principal offices are concerned only with industries and services of national signifi-

[2]In Grossman [118], p. 97; see also [116].

cance, while regional and local offices deal with enterprises of regional or local importance.

Regional offices are staff organizations concerned mainly with credit planning and supervising of local offices. Regional offices have been given greater flexibility in credit policy in recent years, for instance, they may be made responsible for reallocating unused credit lines (quotas) among local offices.

Since all activities of the Bank are directly related to the socialized sector's administration, any organizational changes there lead to corresponding changes in the Bank's internal structure.[3]

The numerous activities of the State Bank require an extended network of branches. Normally, there is at least one State Bank in each of the lowest territorial units (*rayon*). On January 1, 1971, 4,134 offices were in operation, virtually the same number as ten years before; in the earlier post-World War II years, the number reached close to five thousand.

The policy of the State Bank and all its activities are directed by a board (*upravleniye*) consisting of a chairman and several vice-chairmen and other members, including heads of the principal departments of the head office. The savings bank system, while a part of the State Bank, maintains a separate, but parallel, organizational structure, and—since 1973—has its own board.

The internal structure of the head office contains four major subdivisions: policy departments, concerned with such matters as credit and foreign exchange planning;[4] loan departments, structured to correspond to the administrative structure of the economy, each division supervising credit extension to a given economic sector or territory; other operations departments (currency issue, fiscal function, et cetera); and staff departments

[3] Thus, the 1957 reorganization of the administration of the economy required a restructuring of the Bank to tie it to the newly organized territorial economic organizations (*sovnarkhoz*). In each *sovnarkhoz*, one bank office was designated as the principal office of a given economic region, and made responsible for financial planning. During the entire period 1957–1965, in which planning and economic administration were organized on a territorial principle, the State Bank remained an important organ of central control and enforcement. See Barkovky [167].

[4] These are concerned primarily with planning and operations rather than research. Creation of a research institute within the State Bank that would deal with problems of monetary circulation has been advocated in recent years by several Soviet economists, among them Levchuk (a member of the Bank's staff) [53], p. 213.

(personnel, legal, building operations, et cetera). Through the entire organizational pyramid, down to the local branches, State Bank offices duplicate, in a simplified form, the internal structure of the head office.[5]

THE BANK AND ITS CLIENTELE

The relationship between the State Bank and its clientele bears little resemblance to the corresponding relationship in nonsocialist countries: it is administrative rather than contractual. The State Bank is, in effect, the representative of the state as well as an agent of the depositor. It protects the interests of the state by debiting the depositor's account—in most cases, automatically—with the various payments due the Treasury. If necessary, it extends credit to assure that such payments are made on time.

The individual client has no banking alternatives. He can obtain from the Bank standard services only. For state enterprises, the use of bank deposit facilities is not a matter of convenience but an obligation; it carries with it constraints and rules of behavior designed to enforce compliance with centrally determined plans. Bank control of economic activities is further facilitated by the requirement that each enterprise, unit of government, or membership organization keep its accounts with one designated banking office in whose territory it is located. This arrangement, however, does not exclude the use of (temporary or permanent) auxiliary collection or disbursement accounts at other branches in locations where the given enterprise receives or makes a large volume of payments, but control over these payments flows remains with one single office.

While, on the one hand, the bank is one of the central authorities' enforcement agencies, it serves, on the other, as a channel through which the individual enterprise may, under certain circumstances, obtain relief and assistance. This is true, in particular, in the case of local industries, enterprises, and organizations whose operations significantly affect the economy of a given area. It is, indeed, quite usual for a local or regional branch of the State Bank to intercede for enterprises located in its jurisdiction (to back up their requests for additional credit or more lenient treat-

[5]Further details on the organization of the State Bank are given in Appendix A.

ment) and otherwise to operate as an important channel through which local or regional problems, complaints, and aspirations filter through to the central authorities.

The State Bank maintains four broad categories of accounts:[6] for economic units whose activities involve business accounting to achieve economic self-reliance *(khozraschet);* for the government; for collective farms *(kolkhozes)* and other cooperatives; and for organizations of a public ("social") character, the expenses of which are met from public funds ("budgetary") or from membership fees and similar contributions ("voluntary organizations"). Collective farms (and other cooperative and membership organizations) may keep their free funds at the State Bank, in savings bank accounts, or in currency.

About two-thirds of all deposits are held by state enterprises engaged in production and distribution. These deposits represent the bulk of their cash resources, since they are permitted to hold only negligible amounts of currency; no time deposits or other near-money assets are available to them. Balances of manufacturing enterprises at the start of 1967 totaled 10 billion rubles, for an average of roughly 40,000 rubles per account (if the total is allocated in full to clearing accounts only). These are very low in comparison with balances maintained by U.S. corporations at commercial banks in terms of percentage of output. They are equivalent to a wage bill of about two weeks or to 5 percent of the value of the enterprises' annual output at factory prices. An annual volume of domestic trade exceeding 177 billion rubles is supported by deposit balances (if the beginning of the year can be taken to approximate average balances) averaging less than one billion rubles.

Since the post-Stalin remonetization of agriculture in early 1953, collective farms have been receiving a considerable amount of cash payments from the sale of their output. As a result, at the end of 1969, the *kolkhozes* held close to one-third of all deposits at

[6]Considerable detail is available on the number and structure of accounts carried by the State Bank, but their analytical value is limited, since changes over time mainly reflect changes in the rules and procedures of the Bank and in the organization of the economy. Such data are summarized, for selected years, in Tables 1 through 3 in Appendix A.

Reserves of the Social Security Fund as well as of the State life and property insurance corporations are deposited with the State Bank rather than invested in Government securities.

the State Bank (see Appendix Table A.3), partly as a result of a relentless campaign to induce them to make maximum use of banking facilities.

Deposits of clients are equivalent to only a small fraction of the loans outstanding. (See Appendix A.) The main counterpart of loans issued by the State Bank consists of current deposits of the budget, accumulated past budget surpluses (including gains from currency conversions), funds deposited by the budget for long-term lending to collective farms and to compensate the Bank for loans canceled or reduced by government order, and, most importantly, currency issued.

Banking authorities place considerable emphasis on "improving the payments discipline" of enterprises, since failure to pay on time is tantamount to obtaining inter-enterprise credit and disrupts the circular flow of funds (see Chapter 2). When an enterprise's balances with the State Bank are inadequate to meet all obligatory payments, a strict and complex system of priorities comes into play. The use of a small amount (up to 5 percent of daily receipts) of the cash flow for meeting "urgent needs" is permitted. Otherwise, currency withdrawals for wage payments usually have first priority (provided these are within the limits of the planned wages fund, or are related to the above-plan-production). Next in priority are payments to the state, followed by payments into depreciation reserve accounts, loan repayments, and, finally, all other claims, including those of suppliers.

The structure of deposit rates reflects a mixture of policy considerations and bureaucratic convenience. Thus, government deposits draw interest at a lower rate, and those of collective farms at a higher rate, than enterprise deposits. Similarly, voluntary organizations are paid a lower rate by savings banks than individual depositors.

Rates paid on deposits (on current account) were originally established at the time of the 1930–1932 reform at relatively high levels (5 percent for state-owned enterprises and 6 percent for collective farms). They were reduced sharply by 1936, and ultimately abolished for state-owned enterprise and reduced to ½ percent for collective farms. After World War II deposit rates were raised again. In 1965, the State Bank paid ½ percent on balances in settlement and current accounts of enterprises and other holders of such accounts, and 2 to 3 percent on sight and time deposits held by the population, depending on the nature of the account. To encourage collective farms to use banking facilities, their deposits are credited with a ¾ percent rate of interest. Indeed, since the deposit level of state-owned enterprises is largely determined by outside authorities, it is difficult to find a rationale for paying even very low rates of interest on their deposit balances.

The difference between the State Bank and the banks of the nonsocialist countries is reflected in the structure of their balance sheets. In addition to an undisclosed amount of gold and foreign exchange, the State Bank's assets consist almost entirely of loans to the various segments of the socialized economy and contain no government or private securities whatsoever. Liabilities consist of currency and deposits by enterprises, collective farms and other cooperatives, government units, and public organizations. The only counterpart of the interbank balances in nonsocialist countries are the working balances of the two specialized banks.

A discussion of the available estimates of the balance sheet, together with a table showing the structure of the liabilities of the State Bank between 1929 and 1938, is provided in Appendix B.

THE FISCAL FUNCTION

The State Bank collects and disburses all government revenues—or more than half (51–54 percent in recent years) of the national income as measured in the Soviet Union[7] (largely because the bulk of capital formation still is reflected in budgetary flows). Over half of the unified budget is spent by the central government, while the fifteen republics and their various administrative subdivisions, down to the local soviets (municipalities), account for the remainder. As the government's fiscal agent, the State Bank carries accounts for nearly fifty thousand separate units of government, the operation of which involves complexities, such as interaccount transfers of revenues, far beyond those known in Western countries.

To be sure, some of the fiscal techniques used in the Soviet

[7]For a definition of the concept used, see Studenski [148], Ch. 25.

Union (such as revenue sharing, grants to lower-level units, and current collection of taxes based on estimated income with subsequent adjustments) are also found in other countries. As a general principle, revenues are shared in such a way as to provide adequate funds for meeting all expenditures of each republic, avoiding the need for subsidies from the budget of the Soviet Union. Some federal republics directly collect the entire amount of the turnover and income taxes in their respective territories and receive, in addition, transfers from the central budget.[8] What is unique in the State Bank's fiscal function is the volume of auditing (including individual enterprises) involved in the collection of government revenue, and the frequency with which the various types of revenue originating in the state sector of the economy are paid into the budget.

The considerable amount of paper work arising from the verification of documents required for enterprise payments which constitute about 90 percent of budgetary receipts is further swelled by a variety of subsidy and compensatory payments to enterprises with above-average costs. The budget also absorbs all inventory losses resulting from any lowering of prices and, conversely, benefits from any upward revaluations. Similarly, the transportation of certain consumer goods, ranging from flour to vodka, to distant points served by state or cooperative retail outlets, is subsidized. Such retail outlets and reusers of containers must submit claims for reimbursement from the budget once or even twice a month. Moreover, retail outlets, wholesale organizations, and manufacturers of goods affected by a price change must submit detailed claims for offsetting subsidies whenever any given product is being repriced. All such payments require prior verification; obviously the resulting transfers on the books of the State Bank result in a staggering amount of paper work.[9]

THE CONTROL FUNCTION

With few exceptions, all major economic decisions, including those in the field of banking and credit, are originally embodied in resolutions of Communist Party organs, while the specifics are

[8]For specific examples, see Konstantinova [185], p. 28.

[9]See D'yachko, Makhov, and Freiman [24] for details and procedures. The State Bank handles a large variety of additional subsidy payments, such as subsidies to canning factories for the cost of collecting reusable containers.

spelled out in government decrees and operating plans of the State Bank approved at the highest levels of government. Controls by the State Bank (and the Investment Bank, in its sphere) are exercised on behalf of both the government and the party. Bank officials report to both, on the local as well as on the national level. When sanctions available to the State Bank prove inadequate, it has recourse to intervention by government or party authorities.

The purpose of the monobank is not to adjust the level or direction of monetary flows in order to achieve appropriate results in economic activity, but to make sure the funds collected, disbursed, borrowed, or repaid coincide with the figures appearing in the applicable financial plan. Since all financial planning represents a translation of material targets into monetary terms, it is assumed that fulfilling the goals set in financial plans is identical with achievement of the targets in real terms. The financial, administrative, and coercive dimensions of controls are closely integrated.

In a centrally planned economy, where lines of authority are complex and sometimes confused, where directives and information flow through multilevel administrative channels, and where performance is evaluated via a multiplicity of badly coordinated indicators, the monobank is in a singularly advantageous position: it is the country's single, all-encompassing accounting center. Deposit money is essentially a tracer of real flows. By analyzing accounts on its books, the State Bank is in a position to have a full and continuous picture of the financial position of each enterprise and of its progress in meeting plan targets set for it.[10] Changes in production and distribution as measured by one common denominator, money, are almost instantly reflected in great detail on its books. Thus, the State Bank is in fact the main source of current information on how the economic plan targets are being met by the entire state-owned sector of production and distribution, and how operating goals of the unified government budget are being achieved in all their details and ramifications. It is thus a major channel through which any failures in the meshing of

[10]Hirsch characterizes money as performing an "evidence function": "Money makes evident the overall significance of individual purposes and means for economic fulfillment of purpose and thus facilitates consistent economic choice." [120], pp. 46 and 73. For a Soviet view of the relationship between real and financial flows, see Lushin [55].

gears and in achieving plan targets come to the attention of the authorities. It raises the flag without cracking the whip: when the signals it transmits call for corrective action, the required policy measures normally emanate from the higher authorities of the state.[11]

The scope of the Bank's control, already broad as a result of the credit reforms of 1930–1932, was widened significantly in 1954, when it was made responsible for evaluating the success of enterprises in fulfilling their economic plan with regard to such key indicators as output, profits, reduction of unit costs, and working capital.

Under the standard system, the strategic position of the State Bank was enhanced by the fact that an enterprise (or any other economic unit) could use its "own" as well as borrowed funds only for the specific purposes detailed in its production-financial plan; the Reform has not significantly modified this principle. Control by the ruble applies to loans as well as to payments from any bank balances and thus to the entire flow of funds (currency payments as well as credit transfers) in the state-owned sector of the economy and at all levels of government. Control by the ruble is facilitated by a complex system of subaccounts designed to separate working capital from amortization and other capital account payments. The widespread use of separate loan accounts helps to insure that funds are disbursed for the specific purpose for which credit was obtained.

One of the main responsibilities of the Bank is to enforce the "financial discipline" of all enterprises in the state sector by making sure that they meet their financial obligations to the Bank and the Treasury and keep all expenditures within limits set by the plan. In fact, an important reason why the "own" (allocated) working capital of economic units is kept low is that they are thereby forced to borrow, thus affording the Bank a better opportunity for monitoring and, when needed, directly influencing their day-to-day activities.

All deposit transfers, cash withdrawals, and credit extensions involve verification that each transaction conforms with the

[11] Note, however, that some of the "financial controls" of the State Bank are comparable to independent audit by certified public accountants and by the bank supervisory authorities in most nonsocialist countries. The best detailed study of the control function by a Western economist is by De Maegh [131].

underlying authorization. The State Bank makes sure that the flow of funds through individual enterprises (and higher-level economic units) is in line with economic plans, and that all required payments, such as those for taxes or loan payments, are made in full on the date due, even from accounts maintained with it voluntarily, such as those of collective farms.

Perhaps the most important area of control entails cash withdrawals for the payment of wages, originally instituted in 1939–1940.[12] Control over disbursements from the wages funds is usually very elaborate, as it is intended to keep labor costs down and prevent a "wage drift." The payroll account ("wage fund") of each enterprise is programmed in great detail, but actual disbursements are contingent on the fulfillment of production goals. This arrangement gives the Bank access to a broad range of production and cost data, since unit cost is one element that is taken into account in establishing the eligibility of the enterprise to obtain additional payroll funds.

Some of the control activities of the State Bank and of the other banking institutions merely involve continuous checking of actual performance, as reflected by the Bank's records, against the financial plans of the individual enterprises and the budget of the various units of government. Others require on-the-spot inspection, performed by a corps of outside inspectors or auditors, whose work involves verification by visual inspection, actual count, or other means.

But the Bank's control function goes beyond mere verification. Payments from, and transfers between, depositors' separate accounts may not be made without their order, approval, or even knowledge. The Bank acts to protect the interests of the state (as to collection of taxes or other payments into the budget), and automatically applies a variety of rules and regulations pertaining to certain interenterprise transfers or payments to third parties. Indeed, in some respects control amounts to the assumption of managerial responsibility—with Bank officials deemed to be better guardians of the state's interest than the state-appointed manager of an enterprise.

The State and Investment Banks are not the only agencies that

[12]For details on bank controls over payrolls, as functioning in 1959, see Batyrev, Kagznov, and Yagodin [12], Ch. 6. For the earlier history of these controls, see Holzman [121], pp. 35–38.

exercise financial control functions. As a rule, financial records of an enterprise are subject to multiple audits, conducted by ministries (in particular the Ministry of Finance) and agencies on various levels of government.[13] These are not only burdensome and time-consuming, but also result in overlapping responsibilities, without necessarily raising the quality of audits.

Savings Banks

Savings banks were started in Russia in the last third of the nineteenth century as government-sponsored institutions. The same Soviet decree which shortly after the October Revolution canceled all debts of the Tsarist regime also proclaimed the inviolability of savings bank accounts. However, the hyper-inflation that followed wiped out the value of savings, and the savings bank system was liquidated in the two years following the Revolution. In the wake of the currency reform of 1922, however, a government savings bank system was recreated in the same year under the name of the "Workers' Savings Banks."

The savings bank system has developed considerably since the end of World War II. In addition to stimulating household savings, it offers the population a certain minimum of banking services. Since its incorporation into the State Bank in 1963,[14] the savings bank system has been administered as a separate department of the Bank. An official monograph identifies the savings bank system as "a component part of the government apparatus."[15]

The savings bank office is the only banking facility available to the population.[16] Its services are much more limited than those

[13]For details, see Plotnikov [68], Ch. 9. See also Shevelev [76].

[14]For a history of savings banks, see Zverev [94], Eremeeva [26], and Illinich and Tkachenko [39]. Current developments are reviewed in articles by Chetverikov, the head of the Savings Bank system, which appear annually in *Den'gi i Kredit*. The latest data used in this section are from [173].

[15]Eremeeva [26], p. 19. On the ideological underpinning of stimulating savings, see Chetverikov [172].

[16]Individuals may obtain "deposit passbooks" from the State Bank for demand and time deposits. They are used mainly by a small number of individuals with high incomes, such as artists, and, probably because the minimum deposit is fairly high, are of very limited significance.

available from commercial banks and savings institutions in Western countries. For example, it does not offer any generalized deposit transfer facilities comparable to postal, personal checking, or giro accounts. In contrast to most other socialist countries, savings banks in the Soviet Union do not make loans.

In organizational structure and procedures the savings banks are more similar to their counterparts in the nonsocialist world than any other part of Soviet banking. The savings bank system consists of a central office for each republic, attached to the State Bank office, and a pyramid of regional and local offices and agencies. It combines a network of full-service offices with a postal savings system and with limited-service facilities at the place of employment. However, 80 to 85 percent of all deposits are concentrated in the larger, fully staffed branches.[17]

Of the about 74,000 offices in operation in the autumn of 1973, most were facilities located in post and telegraph offices. They are operated on a part-time basis by the regular employees of the postal adminstration who received from the savings bank additional compensation for these services. Others are operated as part-time agencies for the benefit of employees in factories, offices, and collective farms, and offer only limited facilities (very much like credit unions in the United States). However, about 35,000 were fully staffed offices and a considerable effort has been made in recent years to convert more facilities into such agencies. For the sake of simplicity, in the following pages all categories are referred to as "savings banks." However, not all savings bank offices offer the full range of services discussed below.

Encouragement of personal savings has been much emphasized in recent years as an important means of reducing excess consumer demand. Newspapers, periodicals, radio, and television are used to advertise account services. Promotional literature stresses the absolutely confidential nature of savings deposits and their liquidity, including the privilege of withdrawing term deposits before maturity by accepting the lower demand deposit rate. Payroll deduction plans for workers and members of collective farms were introduced in 1955, while arrangements for direct

[17]Mechanization of savings bank operations is still in the early stages. There are relatively few automatic machines for passbook entries and many offices are still not even adequately equipped with adding machines.

deposit of certain nonwage payments, such as honoraria and fees, into depositors' accounts had become available even a few years earlier. In 1971, about one-sixth of the total amounts received came from such automatic deposits.

Until recently, the volume of savings deposits has been low (see Table 4.1). By the outbreak of World War II, aggregated deposits amounted only to 720 million rubles, the equivalent of about 135 million dollars at the official exchange rates applicable at that time. The insignificance of this amount, given a network of more than 41,000 offices carrying 17.3 million accounts, reflects low average income and the lack of such incentives to save as the availability of consumer goods of high unit cost. Significantly, the average turnover period of savings deposits was only seven months at that time. Since the savings bank system provides banking services for the population, including transfer and payments services, all (or at least some) of the savings bank deposits should be considered part of the active money supply.

Indeed, the bulk of personal savings is still of a temporary nature, funds being accumulated in savings accounts for the purchase of specific, relatively expensive items (which could be a winter coat or a motorcycle), or to finance a vacation trip. The preferential treatment given to savings accounts at the time of currency conversion in 1947 contributed greatly to their popularity.[18]

The volume of savings deposits has been on the rise since the discontinuance of forced government bond purchases in 1957. Nevertheless, total balances in 1961 were still less than 11 billion rubles despite a significant increase in the number of savings bank offices. The number of accounts did triple between 1950 and 1961, however. The sixties saw a rapid rise in savings as a result of a higher standard of living, the increased availability of durable consumer goods and the official encouragement of cooperative housing construction in the cities and of private construction in the countryside (see Table 4.1). With a growth of 15–20 percent a year between 1965 and 1971, deposits exceeded 46.6 billion rubles at the beginning of 1971, or an average passbook balance (with 80

[18]The paucity of information and analysis on the subject of savings patterns in the Soviet Union has been discussed by Gekker in [149], particularly p. 21, footnote 11.

TABLE 4.1

Savings Bank Deposits, Selected Years
(in millions of rubles at end of year)

	Total	Urban	Rural
1940	725	576	149
1950	1,853	1,647	206
1960	10,909	8,728	2,181
1965	18,727	14,028	4,699
1970	46,600	34,053	12,547
1971	53,215	38,744	14,471
1972	60,400	—	—

SOURCE: [86] 1972; p. 313.

NOTE: Savings deposits in the State Bank proper declined from 181 million rubles in 1950 to 154 million in 1971.

million account holders) of about 510 rubles. Of the total volume of deposits, about one-fourth were in offices located in rural areas.

Several types of accounts are available, ranging from passbook demand accounts and limited checking accounts drawing 2 percent to term accounts on which 3 percent is paid.[19] Accounts participating in a twice-a-year lottery drawing (on which no interest is paid) are also available. About two-thirds of all deposits are term deposits. Savings banks issue letters of credit to their depositors which are honored by any office throughout the Soviet Union (similar to our travelers' checks), as well as special passbooks from which withdrawals can be made at any office within a specific region and, since 1973, checks which are used mainly to make payment for large purchases, such as motorcycles.

In addition, savings banks also maintain current accounts for the benefit of collective farms, the lowest-level municipal entities (such as village Soviets), and trade unions branches and other organizations.[20]

[19] For a description of the various types of accounts (which may not be fully up to date), see Zverev [94], pp. 244–245.

[20] Accounts of hospitals, children's homes and camps, municipal housing, and mutual aid societies and similar associations are frequently held at a savings bank office. In fact, at

Collection and payment activities on behalf of the government form an extensive part of savings banks activities. This includes payment of old-age pensions and various social security benefits, such as aid to dependent children, and collection activities for various communal services and membership organizations.[21]

Finally, the savings bank system is in charge of placing the national 3 percent lottery bonds, the only security available to the Soviet citizen since the obligatory subscriptions to government loans or "mass loans" were discontinued.[22] No financial assets other than those bonds, savings deposits and money are available to Soviet citizens. Only 2.6 billion rubles of these bonds were held by the population at the beginning of 1971. More importantly, savings banks are in charge of redeeming the consolidated bonds (see Chapter 8, page 166). Savings banks also sell tickets for lotteries that various republics, municipalities, and official organizations have been operating since 1958. The total value of such lottery sales in recent years amounted to roughly two-thirds of (gross) purchases of the 3 percent bonds in 1970 (or 300 million rubles a year—$1.50 per head of the population).

Prior to the transfer of the savings bank system to the State Bank, the net inflow of savings represented a source of budgetary revenue. Now, however, savings deposits have become one of the sources of bank funds, while the relative importance of cumulative Treasury surpluses, previously accounting for 40–50 percent of the Bank's resources, has declined.[23]

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the beginning of 1970, the savings bank system had 415,000 accounts belonging to organizations rather than to persons. Furthermore, in remote locations, savings bank branches with a full-time staff frequently provide not only limited banking facilities for the local administration (Soviet), but may also act as agents for the State Bank in servicing enterprises of local scope which are normally supervised by municipal authorities (for instance, by providing currency for payroll purposes).

[21]Rent and utility bills and trade union dues and various contributions and fees, even Communist Party membership dues, can be paid at savings banks offices. Efforts to provide better banking services to the population include widening of the range of payments which can be made at full-service branches. Depending on the classification or location of the office, these may include payments for certain educational facilities that are not free (such as music schools), for municipal nursery schools, and for the state insurance institution (*gosstrakh*).

[22]The only other security held, but no longer purchasable, by Soviet citizens is the 2 percent loan into which all previously issued "mass loans" have been consolidated.

[23]Barkovskiy and Kartacheva [9], p. 203. Purchases of small amounts of government bonds were made by the savings bank system in the fifties, but discontinued subsequently. These are examples of switches in the Soviet financial circuit which have little, if any, policy significance but complicate meaningful long-term comparisons of financial flows.

The Investment Bank

The role of banking in providing long-term credit prior to the 1965 Reform is best described as marginal. In fact, shifting financing of capital investment to the banking system and to self-financing was one of the chief objectives of the Reform.

Prior to 1959, long-term investments were administered by four separate banking institutions, designed to serve industry, agriculture, trade and construction, respectively. In 1959 these banks were consolidated into a single bank—the All-Union Bank for Financing Capital Investment (Stroybank); it is now the only bank authorized to finance capital investment, except certain agricultural investments handled through the State Bank.[24] In recent years the bank maintained accounts for over 100,000 clients and disbursed about 300 billion rubles a year. (For comparison of sources of financing centrally directed fixed investments in the years 1959, 1966 and 1971, see Table 4.2.)

All "centralized" funds for financing fixed capital formation in industry, transportation and communications, trade, educational, health, and recreational facilities, construction of municipal housing, and all research facilities are channeled through the Investment Bank. In 1959, roughly 70 percent of disbursements for centralized investment were received from the Treasury and the remaining 30 percent were funds accumulated by the investing enterprises themselves, including depreciation reserves. In some previous years, the share of the budget was even higher. The overwhelming bulk of these funds goes to projects included in the "project list" *(titularnyi spisok),* which is an integral part of the economic plan for a given year. The Investment Bank also administers and disburses certain funds for "decentralized investment" (formed by individual enterprises and considerably enlarged as a result of the Reform) for projects financed through budgets of municipalities and of the federal republics, and funds for stimulation of housing construction. The Bank is, in fact, the depository of all funds that individual enterprises are allowed to retain from profits and depreciation reserves for "decentralized investment." Since enterprises participate with the Treasury in

[24]Some writers abbreviate the title as "Construction Bank" rather than "Investment Bank." See also Zavalishchin and Shor [211].

TABLE 4.2

Sources of Financing of Centralized Fixed Investment Disbursed by the Investment Bank (selected years, billions of rubles)

	1959		1966	
	Amount	%	Amount	%
Resources of enterprises				
depreciation allowances	2.8	14.9	7.9	27.9
profits	2.5	13.4	3.0	10.5
other	0.4	1.9	1.0	3.7
Total	5.7	30.2	11.9	42.1
Budgetary appropriations	13.2	69.8	16.4	57.9
Grand total	19.0	100.0	28.4	100.0

SOURCE: Poskonov [70], p. 255 for 1959 and 1966.
NOTE: Total may not add up because of rounding. Figures are smaller than gross investment because some part of expenditures from depreciation reserves spent on "capital repairs" is not included with reported investment.

the financing of housing and various social amenities, disbursement of funds through one single agency facilitates coordination and control. As late as 1966, "decentralized" investments were still equal to less than 10 percent of centralized investments; this percentage increased significantly as the changes in investment financing introduced by the Reform gathered momentum.

The Investment Bank deals almost exclusively with the construction industry. Its clientele includes enterprises specializing in the construction of public works, factories, and all other structures, and those that specialize in site preparation and the rigging and installation of all types of machinery and equipment.[25] About two thirds of the Bank's disbursements go to the first group of construction enterprises and about one third to those supplying machinery and equipment. The Bank supervises delivery of and makes payments for all machinery and other equipment installed. It also disburses all funds for project development and for research benefiting the construction industry.

The Investment Bank has regional offices (149 at the beginning

[25]The State Bank carries the accounts of some construction firms and extends short-term credit to them, although in principle all construction firms must deal with the Investment Bank.

of 1967) that supervise a network of local offices (355), many of which are located near areas of substantial construction activity, such as major power projects and industrial complexes. When the volume of construction does not justify a local office, agents of the Investment Bank are attached to State Bank offices, which disburse about 15 percent of all funds for which the Investment Bank is responsible.

The control powers of the Investment Bank are far-reaching. They are exercised even before a project is started: for example, the Bank can reject a project even after it has received final approval by the highest authority if the estimates submitted are insufficiently detailed or if financing of the project is not fully assured by funds already deposited with the Bank or to be received according to an approved time schedule. Original cost estimates are analyzed by the Bank to ascertain that all charges conform to applicable Government-established prices. (Comparative cost studies of similar projects and various standard ratios, or "norms," are used to arrive at such judgments.) The Bank can also reject the financing of a project if it expects it to be unprofitable or to fall short of technical efficiency standards. Rejection, on whatever grounds, apparently merely establishes the right of the Bank to participate in the revision of the original plans to meet its objections.

In addition to auditing bills from construction firms and suppliers of machinery and equipment, the Bank's main activity is to verify that bills conform to approved cost estimates, thus preventing cost overruns in cases where some flexibility exists, and placement of equipment orders in excess of planned amounts. In addition, the Bank also oversees the progress of construction by sending its inspectors to building sites frequently to make sure that no waste of materials and labor takes place. In general, it analyzes the performance of construction enterprises with a view to enforcing high standards of performance.

The shifting of at least part of plant and equipment financing from a grant to a loan basis under the Reform makes the Investment Bank the manager of a growing revolving fund, continuously augmented by additional budgetary appropriations as well as by its own earnings. Instead of being almost exclusively a disbursing agency, it has become considerably more involved in project appraisal, and is more concerned with the prospective profitability of the projects to be financed, with lending terms (including maturity and rates), and with cash flow projections of enterprises. The shift toward partial loan financing and the changes in the method of payment for construction work have required considerable alterations in the *modus operandi* of the Investment Bank.

Long-term financing is now more evenly distributed between the Investment Bank and State Bank with the second accounting for about 40 percent of all long-term credit in 1969. While its new long-term lending activities, previously limited to agriculture, required considerable changes in the State Bank, the spheres of activities of the two banks are not clearly delineated and properly coordinated. So far there is no indication that the Soviet Union plans to follow the example of some other socialist countries which have abolished investment banks and transferred their functions to the state banks. This puts all credit activities within a single institution and makes it possible to assess the global credit needs of each individual enterprise by making the financing of its fixed and working capital the responsibility of the same institution.

Changes in the Role of the Banking System as a Result of the Reform

The State Bank has followed the official line of de-emphasizing the Reform, in particular in recent years. This shift is reflected in statements by its officials and in its publications. In the period immediately following the October 1965 "Plenum," the publication of the State Bank referred to the new policies in terms of an economic reform. Subsequently, the term disappeared from the publications, and by 1971 the word "reform" was eschewed completely. Thus, the usual lead articles in two successive issues of *Den'gi i Kredit* (April and May 1971) following the XXIVth Congress define the objective of the financial and banking authorities as "a fuller mobilization of reserves in industry and increasing its efficiency; broader use of the financial-credit mechanism to accelerate technological progress and intensification of production." The achievement of the State Bank during the 8th Five-

Year Plan following the introduction of the Reform is summarized as having "provided for the regulation of circulation of money in the country, extension of credit and financing of the economy and clearing of payments, and also for the control by the ruble of the economic and financial activities of enterprises and organizations"—a statement that could have been made twenty years earlier. The term "reform" appears nowhere in these articles.

The Reform has increased the role of the banking system in channeling investment funds, without changing its other procedures to any significant extent. Even though credit has been elevated to the position of a key "economic lever" and is expected to play a major role in improving the performance of the economy, it is to be a tauter string rather than a looser leash, to be used under a modified set of objectives and criteria. Under the old system, the extension of credit on the basis of uniform, centrally determined criteria (designed to facilitate the fulfillment of production plans rather than influence the allocation of real resources) resulted in almost automatic credit availability. This, again, encouraged wasteful use of resources through the accumulation of excessive stocks of materials and parts. Under the new system, the effectiveness of credit was expected to increase and its volume to expand. The broad categories of credit used continue to be centrally planned in order to maintain a balance between resource availability and demand for resources and thus to preserve monetary equilibrium. Financial planning has not been abolished, but has been reduced with regard to details and made somewhat more flexible.

Although the new policies give greater latitude to the local bank official, they have by no means changed his position as an agent of the state. His power remains limited, as most important decisions require approval by higher-echelon offices.

Greater flexibility in granting short-term loans has reduced the rigidity of credit planning. Basically, the quarterly credit plan remains the operational document, but the response to credit requests is no longer automatic. Now the State Bank may refuse to extend loans for carrying inventories of items for which consumer demand has shrunk or is nonexistent, thus compelling the enterprise to change the composition and quality of its output to increase consumer appeal. On the other hand, the Bank may also grant inventory loans to stimulate production of additional quantities of articles in great demand, or to initiate production of new articles, above the limits set in the plan, provided the enterprise has actually received orders for such additional output. The greater discretion given the Bank tends to increase the scope of its activities at the lower levels.

When the cost of a given project exceeds the amount of the enterprise's funds available for investment purposes, the Bank may and normally will grant long- and medium-term credit to state-owned enterprises as well as to *kolkhozes*. The State Bank and the Investment Bank now have more latitude in dealing with loan applications even for centrally approved projects of state enterprises; individual enterprises have to justify the profitability of the projects to be financed.

It is not yet clear to what extent the elaborate mechanism of financial controls is to be ultimately dismantled. The emphasis on the use of credit as a means of controlling operations of individual enterprises remains undiminished. No doubt the rigidity of control exercised by the State Bank has been relaxed somewhat. For instance, within certain limits, individual branches on their own can now determine the frequency as well as operational detail of various audits and verifications to be undertaken.[26] The degree to which administrative interference by the State Bank, the ministries, and the other supervisory organizations has been reduced and controls shifted from the center toward organizations in closer touch with the production process (*ob'edineniye,* other intermediate organizations of enterprises, bank branches, et cetera) is a measure of the true significance of the Reform, but little information on this is available.

The role of banking controls is still conceived as pre- and post-auditing. It continues to be conducted according to centrally determined, uniform procedures, and enterprises remain accountable to a number of separate supervisory authorities. Simplification of accounting and reporting procedures introduced as part of the Reform (for example, quarterly instead of monthly determination of profits to be transferred to the budget) is of a marginal nature. Altogether, the role of the State Bank under the Reform

[26]See report on decisions of its Board of Managers in *D.K.*, December 1966.

falls far short of what those advocating the use of economic stimulation instead of administrative methods have proposed.[27]

However, in the new "system of economic steering" the importance of banking is bound to grow, with the rechanneling of financial flows and with the banks' increased authority in dealing with requests for financing investments as well as working capital needs. But will bank officials be able—assuming that they are given greater latitude—to undergo the mutation from inventory checkers to project and risk appraisers? Will they have sufficient incentives to make the changes necessary to optimize the use of bank resources? One of the issues raised by the Reform is how to make the State Bank and its staff directly interested in the profitability of the enterprise to which it extends credit.[28]

[27]See, for instance, Belkin and Iventor [13]. The authors discuss in detail how data internally available to the State Bank could be used to improve planning. Their earlier articles (*Pravda*, December 21, 1966 and *Novyi Mir*, December 1967) had attracted considerable attention and were interpreted by some to go so far as advocating replacement of the State Planning Commission by the State Bank, rather than merely giving more scope to the latter. The authors also advocate creation of state commercial banks for major industry branches and transformation of the State Bank into a true central bank.

[28]In discussing financial means for obtaining desirable economic results, it has been proposed to make State Bank officials financially responsible for shortfalls and losses sustained due to their negligence or bad judgment. See Tatur [84].