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The Bank and the National Economy

Banks are an integral part of the modern money economy; their activity is closely connected with the needs of reproduction. Since banks are at the center of economic life and service the interests of producers, they act as intermediaries in relations between industry and trade, agriculture and the population. Banks are not an attribute of a separate economic region or any one country. The sphere of their activity has neither geographical nor national boundaries. They possess colossal financial power and considerable monetary capital. While banks have enormous power throughout the entire world, in the USSR they have lost the significant role they initially enjoyed.

For quite a long time administrative, frequently unprofessional, thinking replaced the economic approach, and as a result the genuine economic functions of credit institutions became secondary instead of primary. Throughout our entire history, the activity of banks was frequently ignored and their economic purpose was downgraded. And even now, with the transition to a market, we are not giving them the attention they deserve. In other words, the command style of managing the national economy was drummed into our consciousness persistently and for a long time, and banks lost their authority and purpose. And today, the task of restoring their genuine role is paramount.

Our society still lacks an understanding of the place that banks

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should occupy in the economic system for managing the economy. Our entire theory of banks is in fact a retelling of the kind of banks that exist in our country and of the kind of operations they perform. There is need for thorough, more profound ideas about the essence of the bank, for the elaboration of its conception, and for ascertaining its social purpose. All these are difficult questions that are rooted in the history of the development of banking.

On the history of the question

The history of ancient economies has not left us sufficiently complete information about when banks originated, the kind of operations they performed, and the driving force behind their development. Today we possess more interesting information about the first money of ancient peoples (shells, furs, gold bars, primitive coins) than we do about banks. In other words, data attesting to the antiquity of the circulation of money do not as yet indicate the role of the simplest credit institutions in the process. What is more, the very time when banks originated is so uncertain in the economic literature that their true nature becomes unclear. In the opinion of a number of authors, the first banks "originated at the manufactory stage of capitalism in the form of banking houses, which, unlike usurers, extended credit to industry and trade capitalists at a moderate interest rate and later originated in the form of joint-stock banks. Bankers first appeared in individual Italian cities (Venice and Genoa) in the fourteenth and fifteenth centuries."[1] A number of authors believe that the bank originated as a special institution in the commodity economy not in connection with the development of commodity-monetary relations in the early stages of the commodity economy but only in the period of these relations when there was need for a network of special institutions to regulate the involved circulation of money and conduct credit operations on a broader scale. It can consequently be assumed that the bank, according to the position taken by this group of authors, originated only at the stage of

development of credit where capitalist enterprises could not function without its extensive assistance. It is not by chance that individual works characterize the bank exclusively as a phenomenon in the capitalist economy. "The bank," I.A. Trakhtenberg notes, "is a special type of capitalist enterprise."[2]

Another group of authors points to an earlier origin of banks. In their opinion, banks "first originated under feudalism."[3] However, this is still not the initial, the earliest period of the appearance of concrete institutions believe researchers who note that "*the need for the functions of the bank as an intermediary in* making payments originated already in the ancient and feudal economy."[4]

Thus, existing views of the inception of banks differ not by one or two decades but cover almost 2,000 years. The crux of the question of the first banks is not even so much the determination of a certain date in history that would be acceptable to different parties—even though this is also more than a formal question to the science of economics—as to define just what is considered a bank.

Unfortunately, the very word "bank" not only does not make its essence clear to us but complicates still further our judgments and ideas about the first credit institutions. The word "bank" comes from the Italian "*banco*," which means "table." These "bank tables" were set up in squares where trade in goods was brisk. Trade was carried on with the use of various kinds of coins that were minted by states as well as cities and even individual persons. A uniform system of coins did not exist. Buying and selling were based on coins of different form and value, which, moreover, was frequently lower than the nominal value indicated on them. These conditions called for knowledgeable specialists who would know and understand the multitude of coins in circulation, evaluate them, and offer advice on their exchange. These money changers–specialists usually set up their special tables at markets where trade was taking place. If one considers that Italy in the tenth century was the world trade center to which the goods and money of various countries flowed, it becomes understandable

that bankers were invariable participants in trade operations and their "bank tables" became more and more widespread.

The concept of a bank that has been reinforced in our understanding was also equated with money changers and their special tables in ancient Greece, where bankers were called *trapezides* (from the Greek word "*trapeza*" meaning table). Ancient Rome also had its own *trapezides*: *mensarii* (from "*mensa*," the Latin word for table), who exchanged currencies and also performed certain other monetary operations. "The first banks," the authors note, "originated . . . on the basis of money changing—of exchanging money of different cities and countries."[5]

Such equating of the nature of the bank with currency exchange operations veils the true origin of the first credit institutions and naturally cannot be the basis of our ideas about its essence. In itself, the exchange operation is a reflection of commodity exchange; it lacks the credit base that would determine the main direction of the activity of banks in a later period. But this is not the whole story. A purely semantic interpretation frequently leads us to conclude that the bank's origin relates exclusively to the period of economic development when money began performing the function of world money. It follows that banks did not yet exist in the earlier stages, when money circulated only in the domestic market. But it is known that the safekeeping [*sokhrannaia*] operation oriented toward internal circulation is more ancient, and it is the one that brings us closer to discovering the content of credit institutions.

In the opinion of historians, as far back as 2300 B.C., the Chaldeans had trading companies that also granted loans in addition to performing their direct functions. Mention of the first separate credit operations date back to the sixth century B.C. Deposit operations (deposits and interest paid on them) were practiced in ancient Babylon. The same operations were also practiced in Greece in the fourth century B.C. It is noteworthy that in addition to receiving deposits, the ancient Greeks charged a certain fee for exchanging money.[6]

Who performed these first banking operations? According to

historians, they were performed both by individuals and by certain church institutions in which considerable sums of money were concentrated. Enormous monetary wealth accumulated in ancient sanctuaries. Temples were safe places in which to keep valuables. Thieves respected altars and did not plunder them. Deposits, the inviolability of which was guaranteed by the respect for religion, made famous Greek temples (Delphi, Delos, Samos, Ephesus) banking institutions of a sort at the same time. Deposits from the Asia Minor coast were concentrated in the temple to Artemis in Ephesus. Spare money from the entire European part of Greece was concentrated in the temple to Apollo at Delphi.[7]

The first bankers realized that the enormous accumulations of idle monetary wealth were unproductive, whereas they could derive substantial benefit and profit by lending the money out temporarily or by opening up their own trade and craft enterprises. The usual security was ships and goods and, in some cases, houses, precious objects, and even people (slaves). High interest, up to 38 percent annually, was charged for bank loans. The first loans granted in old Russia [*Rus'*] were also extremely expensive. In the times of Iaroslav the Wise, the maximum annual interest rate was set at 20 percent. However, this rate could be raised to 40 percent annually for short-term loans. Punishment for charging exorbitant interest was meted out only when the annual interest rate reached 60 percent.

Together with the credit operations of ancient banks, transactions in the servicing of depositors also began to develop. The transactions were carried out with the aid of so-called "transfer" [*transferit*], i.e., the transfer of money from one tablet (account) to another. Every bank depositor had his own tablet, which bore his name. If clients, as they are now customarily called, deposited their spare cash in the bank, they no longer had to pay out a certain sum personally: the banker, who had the deposit and the tablet (what we today call an account) bearing the depositor's name, made all payments for them. The money from the tablet of one depositor was transferred to the tablet of another, thereby

forming the simplest types of noncash transactions. Typically, the client initially had to give a personal verbal order to transfer money. Later, however, there were "written orders" (the prototypes of today's checks), which facilitated and accelerated reciprocal payments.

The conveniences created by banks could not fail to attract the attention of business people. The banks' clientele gradually expanded. Banks in turn began serving as principal in contracts concluded between clients and acting as intermediaries in commercial transactions. In order to facilitate transactions, ancient banks even issued bank tickets (*hudu*), which circulated on a par with full-fledged money. In the estimation of one of the authors, "we have every reason to believe that even though bankers in ancient times did not deal in promissory notes, letters of credit, which were submitted to the banker for payment, nevertheless did exist."[8]

All this evidence does not in any way confirm the previously mentioned view that the first banks originated in the manufactory stage of capitalism in the form of banking houses, which, unlike usurers, extended credit to industry and trade capitalists at a moderate interest rate and later in the form of joint-stock banks. Bankers appeared first in individual Italian cities (Venice and Genoa) in the fourteenth and fifteenth centuries. Unfortunately, this confusion about the time when banks originated is also characteristic of other works.

It would of course be wrong to think that all these operations relating to the circulation of goods and money in ancient times are evidence of the functioning of banks. Releasing and accumulating one's own and others' money (the receipt of money for safekeeping as the most ancient credit transaction) and offering it for temporary use are characteristic of any form of credit, including personal credit, which evidently originated together with the formation of the function of money as a means of payment, i.e., long before the transformation of one of the parties of credit relations—the creditor—into a bank. Consequently, the existence of a creditor and a borrower was far removed from meaning the

birth of a bank but was only its prerequisite. Under what conditions does the possibility of transforming a creditor into a bank become obvious? Where is the watershed between the personal form of credit, its subsequent usurious form, and bank credit, when one of the parties to credit relations is not an individual private person (for example, a usurer) but a credit institution?

Before answering this question, let us turn once again to the way a bank is defined in modern Russian. Reference works unequivocally define a bank as a "large credit institution."[9] Consequently, it seems to us to be a question of the degree to which credits are developed and of the aggregate of operations performed by the creditor in servicing his clients. The usurer outgrows his framework just as soon as the credit operations performed by him (in their aggregate) turn into a system. It is also important that credit, proceeding from its functional purpose, ceases to satisfy the borrower's purely consumerist inclinations and is granted for economic operations. Finally, it is also important that in addition to making credit transactions, the creditor begins to perform payment and other operations ordered by clients. A bank is consequently a degree of the development of the business of credit where credit, money, and payment operations are in their aggregate concentrated in a single center. It can therefore be assumed that the first banks originated long before the manufactory stage of capitalism, in the period when the state was at the stage of quite vigorously developing commodity exchange and money and credit relations. Such relations, as their history shows, already existed in slave-owning society. The fact that primary norms of banking and credit law existed back in ancient Rome should also hardly be ignored. In accordance with these norms, Roman bankers specializing in money changing in the third century B.C. were called *numularii*. They were not, however, allowed to engage in credit operations. *Argentarii*, specializing in credit, were able to make extensive loans to their clients on the basis of their dealings as payment brokers. At the same time, it should be noted that the first banking houses truly did more than service consumer needs. The range of the first banks'

credit transactions was quite broad. According to historians, banks in ancient Babylon extended credit, bought and sold land, supplied female slaves to brothels, and performed a number of other operations.[10]

Another feature of a bank, however, is that credit in its system is provided for a fee. In the process, loan interest covers not only the banking house's expenditures but also requires that borrowers make productive use of resources given into their temporary use.

Modern views of the essence of a bank

What has been said above concerning the origin of a bank is unquestionably of substantial importance for our analysis. While it brings us closer to understanding the essence of a bank, not everything becomes clear, and the essence of a bank still remains a riddle.

The modern picture of a bank's activity does not provide the full answer and only makes matters more difficult. The activity of banking institutions is so varied that their true essence is vague. Banks in modern society perform the most diverse types of operations. They do more than organize the circulation of money and credit relations. They finance the national economy and handle insurance operations, the buying and selling of securities, and in some cases brokerage transactions and property management. Credit institutions offer advice, participate in the discussion of national-economic programs, keep statistics, and have their own subsidiary enterprises. In a word, the impression is created not of the specific but of the multifaceted essence of a bank. It also performs activity that can be performed by other institutions.

The exposure of a bank's essence can be approached from two sides: legal and economic. In the first instance, primary importance is acquired by the concept "banking operations." Their list includes those that in accordance with legislation are related exclusively to banking activity. These operations include taking in deposits, extending various types of credit, purchasing promissory

notes and checks, commission operations involving securities, operations involving assets transferred to the bank's custody, the acquisition of loan obligations prior to the payment due date, noncash payments, and payment services.

For all the importance of the legal aspect, the essence of the bank still remains open. The clarification of this essence goes beyond correlating the bank's activity with the law. It is not the juridical law that determines the essence of a bank as such, not operations that are allowed them, but the economic aspect of the matter, the nature of a bank that gives it the legislative right to carry out the corresponding transactions. It is no accident that the law covers operations performed by other institutions. It is therefore doubtful that the operations of investment companies, the acquisition of surety and guaranteed obligation bonds, consulting, and other services should be considered purely banking operations. The Law "On Banks and Banking Activity in the RSFSR," for example, includes such features as factoring (the purchase of accounts receivable), forfeiture (the purchase of export accounts), and financial leasing (the transfer of investments to enterprises whose risks are borne by the leasing company until the investment capital is entirely repaid).

When analyzing the essence of a bank, it is important to take into account historical patterns and stable, traditional transactions previously noted (safekeeping, currency exchange, extending credit, payments) on the one hand and to identify those that are associated with economic conditions and peculiarities of a certain stage of social development on the other. On the whole, understanding the essence of a bank, as with any other phenomenon, requires answering questions not about what it does, what kind of operations it performs or has performed, but about what qualities it possesses that express its essential definiteness, about what are its specific features, and about what kind of operations stemming from its essence a bank should predominantly perform.

The view of the bank as an institution, as an organization, is most widespread. "Banking institutions and organizations" is a term that is quite widely used. It can frequently be found both in

serious scientific as well as educational literature, in banking legislation, in banking documents, and in the press. Here and subsequently it should not be forgotten that the term "organization" refers us to a certain aggregate of people. "Organization (Fr. *organisation* from late Latin *organizo*—I communicate a harmonious form, I arrange) . . . An association of people jointly carrying out a program or pursuing a goal and acting on the basis of certain rules and procedures."[11] What kind of association it is, what it does in accordance with its rules—all this remains hidden with respect to a bank as an institution or organization. As was shown above, historically the bank as an organization, as an association of people, was not such; it was rather the lot of a private person, and only later, with the development of banking, especially under modern conditions of management, was it transformed into large, medium-sized, and small associations.

Yesterday and to a considerable extent today as well, we view a bank as a part of the management apparatus whose principal task is to monitor and oversee the activity of economic organizations. Accordingly it is said that a good bank is a bank that effectively detects errors in the work of enterprises and that issues warnings concerning the violations it detects and demands their elimination. No less tenacious is the view of a bank as a brokerage organization that performs payment and credit operations and does not create its own product. "A bank is the organizer of payments in the national economy, the redistributor of uncommitted money"—this is the main property that has been assigned to it in the restructuring of society.

All kinds of things have been attributed to a bank—the largest bank in the world, the most democratic in its interest policy, and excellent at managing the economy—but it has never been recognized as exerting a fundamental influence on the economy. It was thought that "big banks and small finances" where characteristic of capitalism and that the situation was, as always, the opposite for socialism.

Such views are rooted in ideology. The idea of increasing the wealth of the state, which ensures the people's well-being, was

advanced to the forefront. The idea of equality in property was persistently propagandized, and people were instilled with a *revulsion for hoarding. But banks by their nature cannot exist without* the savings of the people and the economy. They have at all times been primarily gatherers of accumulations and capital. Their strength is that they accumulate small and large savings into a single whole from which they feed the national economy additional "energy" resources.

The development of banks has been and is now impeded by the poverty of the people and of a considerable percentage of the enterprises. If we consider that the average deposit is 1,802 rubles, it becomes clear that the possibility of accumulating the population's resources for credit needs is extremely limited.

As regards managing the accumulation of enterprises' money, this problem has not been posed at all. Under the influence of command-type pressure, uncommitted money that was not being used by the enterprise was either confiscated by a higher-level organization or was planned as a source of working capital as a part of so-called "stable" liabilities (this primarily concerned the temporary underutilization of payroll funds). This naturally could not fail to affect the scale of banks' accumulation of uncommitted funds. *Modern commercial banks are still experiencing* a great shortage of funds with which to extend credit for entrepreneurial activity.

The command system gradually obliterated the people's concept of banks as powerful commercial institutions. It in fact restricted their purpose and transformed them into accounting and transaction centers that distribute credit on the basis of established ceilings: "cards." And while banks have now started being called commercial, many of them do not know how they will "restructure" themselves further.

At the same time, a bank is an autonomous, independent, commercial enterprise. This is the most important point in understanding its essence. Of course, a bank is not a plant, it is not a factory, but like any enterprise it has its own product. A bank's product is primarily the formation of means of payment (the

money supply) and various services in the form of extending credit, guarantees, surety, advice, and property management. A bank's activity is of a productive nature. The more banks there are, the larger is their product. This is not a superstructure, not the subtraction of administrative costs from the national product for the management of the banking sphere, but a substantial addition to the national product.

The activity of banks cannot be examined using old, administrative yardsticks. As we know, with the advent of a market and hence decentralization, the producer earns his own money. Additional allocations can be obtained only from other enterprises or from a bank. Money and credit are becoming immeasurably more important. They are essentially becoming the only source for accelerating production. Banks are becoming a key link that feeds the national economy additional monetary resources. Modern banks not only trade in money but at the same time are analysts of the market and the output of commodity producers. In their role, banks are closest to business, to its needs, to changing business conditions. The market thus inevitably makes the bank one of the basic, key elements of economic regulation.

One more delusion must be dispelled. As we know, banks provide enterprises, organizations, and the population with additional means of payment. Bank activity, therefore, has a direct impact on the circulation of money, including cash money. The market, while restoring the leading role of money, at the same time demands that our minds be freed of the perception that money is exclusively an element in exchange and buying and selling. Money is a reproductive phenomenon that is equally important for all stages of the reproductive process. This, however, means that we cannot confine ourselves to making declarations about the importance of the circulation of money, the necessity of eliminating inflation, of stabilizing the ruble, etc. Money as an element of reproduction has substantial significance for its initial phase—production itself—and hence for the stimuli of its development. The weakened action of the ruble destabilizes not only the market but also production itself. People lose the incentive to

work; inflation is accompanied by declining productivity of social labor. This is why, when we raise the bank's role, we must first of all abandon the inflationary road our economy is following. What is more, if we really want to improve our economic situation, we must begin taking real steps toward stabilizing the circulation of money. We can continue to adopt all manner of economic stabilization programs, but unless measures are taken to strengthen the circulation of money, these programs, like their predecessors, will prove to be impracticable and doomed to fail. Inflation threatens not only to devalue efforts to extricate the economy from crisis but also to raise the population's poverty line and to aggravate the action of social factors.

A tough, massive offensive against inflation is needed. Structural changes in social production and the saturation of the commodity market are required. Specific recommendations on the given question have already been named (the development of entrepreneurship; privatization; the sale of land, houses, apartments, small and medium-sized enterprises, and means of production to the population; the conversion of capital to joint stock; the issuance of stocks and bonds and the organization of a stock and bond market; the expansion of the service sphere; the conversion of military production; cutbacks in capital investments; the organization of special deposits for the purchase of durable goods; purchases of imported goods, etc.). All these measures together can have a serious stabilizing impact on monetary circulation. It is important that they all finally begin to be implemented.

The practical side of the matter

The development of a bank should also be based on the solution of a number of other extremely important problems. In our view the most important among them are interrelations between banks and state authority; antimonopoly policy and the development of competition in the banking sphere; the bank and property; the interaction between commercial banks and the Central Bank; directions of

banking policy; banks' cadre potential; and scientific principles of banking activity.

What can and should the state do to develop banking activity? What should banks' obligations be toward the state? According to the law on banks, they "are not liable for the state's obligations, and the state is not liable for banks' obligations unless otherwise provided for in RSFSR laws." This does not mean that the state and banks are separated by the "Great Wall of China." To the contrary, they closely interact with one another.

First of all, every state creates the legal basis of banking activity. The state's task is to make the laws "work." But in reality, these laws are not fully realized: the Central Bank is not performing its main task of securing the stability of the ruble (as already noted, the state has essentially embarked on an inflationary path contrary to the law); in violation of the law, commercial banks are dependent on the authorities in their decision making concerning banking operations. The legislative and law-enforcement functions of the state should be observed in full measure. Otherwise, what need does society have of laws that are not carried out in practice? Banks can develop normally only when the country's system of monetary circulation is solid and there is a stable political state power that does not legally and economically infringe upon the interests of the economy and banks.

Commercial banks need to have their business activity developed rather than restrained. They need considerable support—not only administrative support but chiefly economic support on the part of state structures as well as central banks. At the present time, commercial banks service the clientele they have "inherited." As we know, in addition to enterprises whose financial situation is good, there are also weak economic units whose creditworthiness is low. Credit relations with such economic organizations are unreliable and risky. In a word, from the standpoint of a bank as an enterprise, they are not highly desirable clients. From the standpoint of the national economy, however, a number of structures are vitally necessary; their functioning is essential to the normal existence of society, and hence they require the support

of the bank. What is the way out of this contradiction? There unquestionably is a way out, and traditionally this dilemma is resolved not through a commercial bank by forcing it to extend credit to a client or to perform various operations "at a loss to itself" but through the support of the state. The state, which is interested in the development of the production of foodstuffs, light industry, and agriculture, for example, takes additional material guarantees upon itself. There can be several of them. First of all, there is the category of cheap credits. Organizationally, in such cases a commercial bank extends credit to enterprises at a lower interest rate, and the state (the budget) compensates it for the difference between the low interest rate that enterprises can afford and the market interest rate. There is also another possible variant, when the budget transfers to the commercial bank certain resources designated for special investment credits. In the former case, the state compensates the bank's payment for credit; in the latter, the state gives the bank money. Both cases involve a special state-approved program (national or regional) financed by banks receiving appropriate government support. No one is the loser: the national economy receives the additional impetus to develop vitally necessary branches; commercial banks not only do not lose their commercial interest but to the contrary, upon receiving additional state guarantees, are more willing to interact with such clients.

In a normal economic situation (and especially in an inflationary situation), banks relate to the budget's needs cautiously and participate to a limited degree in extending credit to defray its costs. Banks assist state programs for the economic development of the country not by extending credit indiscriminately to defray the greater part of the budget's expenditures and its colossal deficit but by acquiring securities and other state obligations and also on the basis of credit that must be repaid within the specified time, and, as already noted, the search for sources from which to compensate the commercial bank's reduced profitability.

Tax policy has also always been an important instrument for stimulating banking activity. On the whole, it should be based on

the same principles that are contained in the system of taxing all other types of enterprises. Intensified tax pressure designed to curb bank profits will ultimately affect the development of enterprises' activity.

It would accordingly make sense to differentiate the tax rates that are applied to individual banks, particularly at the initial stage of their activity. Significant economic support can also be rendered by tax exemptions for profits used to expand activity, to acquire equipment, and to invest in production and by a revision of the statutes that regulate the list of expenditures classified as banking costs. In view of the increased urgency of modernizing the national economy's fixed capital, it is advisable to extend the favorable terms established for enterprises and organizations in respect to the repayment of innovation credits from profits before taxes.

Finally, in the transitional period, banks have particular need for direct state innovation programs that include the development of banking, *inter alia* through the formulation and implementation of new scientific recommendations appropriate to the needs of developing a market at individual stages of its functioning.

Naturally, banks are also responsible to the state. They contribute to the economy by accelerating production through money and credit instruments. Banks are answerable before the law in two ways: first, they must have mandatory reserves in the RSFSR Central Bank as well as their own insurance and reserve funds, and they must observe the established economic norms; second, they must maintain confidentiality concerning the bank's operations, accounts, deposits, clientele, and correspondents. There must be no illusions here: banks are strictly monitored everywhere in the world.

However, it is important that central banks not prevent commercial institutions servicing the national economy from performing their functions, that they not interfere administratively. Judging by the commercial banks that are entering the assembly of Russian commercial banks in September of this year, the attempt to command them has not outlived itself. Naturally the

reference here is not to the petty guardianship that emanates from the Central Bank (commercial banks complain, for example, of an ever increasing number of petty requirements in the registration process, of the establishment of humiliating procedure, etc.). For all the importance of these remarks, it must be noted that emission banks frequently change their economic norms, which is substantively reflected in the financial aspect of banking activity. The instability of the Central Bank's behavior and the frequent change of its most important economic norms lead to financial losses by commercial banks and make their money and credit policy uncertain. Commercial banks must be assured equal conditions in the purchase of centralized resources through the establishment of a system for extending credit.

It seems to us that the Central Bank's uncertainty is manifested not only at the level of interrelations with business banks but also at the macrolevel; its monetary (emission) policy can nullify all efforts to disinhibit social development and can destabilize the economy still more. In the years that have elapsed since the reconstruction of our production relations began, state banks have not been successful in adopting strict measures to prevent inflation and have not acted against the "cost-is-no-object" [*zatratnaia*] policy of the state, which exerts political pressure on the bank as the emission center that is supposed to strengthen the circulation of money. The impression is that our emission banks continue to have the status of a "younger brother" that can at any moment be ordered to carry out the center's policy even if it does not strengthen the circulation of money. The possibility is therefore not excluded that society will have to discuss the idea of supervising banks and will have to work on banking legislation more extensively.

The second problem that deserves serious analysis from the point of view of the conception of a bank is antimonopoly policy and the development of competition in the banking sphere. It is our view that in the period of transition the further elimination of monopolism and the destatization of the ownership of bank capital should be a key element of economic policy. Despite the

measures that have been implemented in the two stages of bank reform, the reorganization of the banking system is not entirely complete. There must also be further reform of giant banks with centralized management, with weak cost-accounting independence of low-level credit institutions that impede the development of banking. Such giant banks should be transformed into special structures operating in the form of special state funds for supporting economic units in the period of transition. While not opposing large banking structures in general, it is important to note that their existence is possible only with the total cost-accounting independence of their subdivisions. Medium-sized banks having equal opportunity in the formation of their material base, in purchasing resources on credit, etc., should play the largest part in the regulation of monetary circulation.

It must be remembered that banks as elements of the market structure are by nature competing enterprises. Their network should therefore be substantially expanded. The activity of only a single bank should be prohibited in districts. The operation of several banks in them should be legislated. There is one more condition that is important in the interests of competition.

A market economy can develop fully on the basis of banks that are diversified in their activity (business, savings, and mortgage banks; mutual credit companies; credit cooperatives, etc.). On the other hand, in the interest of increased efficiency in their activities, banks in the future may function as groups incorporating insurance, auditing, and information societies; exchanges; and leasing and brokerage firms.

While it appears that the sphere of state participation in banking should be preserved, it should nevertheless concentrate primarily on the formation of banking structures that implement state programs.

In general it is fundamentally important that a bank, as a commercial enterprise, function on the basis of various forms of property where each of them is equal to one another both when a credit institution is opened and when it is operating. While from the standpoint of property in the nation's banking sphere it is

therefore possible for all manner of banks to develop and for their capital to be converted to joint stock, this must be done at a faster rate by creating more interest in increasing the results of banking activity. It is also important that economic conditions be created for attracting foreign banking capital, for joint banking structures, and for forming free bank zones that promote not only regional development but also the lowering of the burden of state expenditures, that create a stable channel for receiving foreign currency, and that expand the loan fund.

The further development of the structure of ownership in banking is an urgent task. In the future it will obviously be necessary to reduce the share of state ownership (in open and hidden form); to differentiate further the forms of ownership (creating communal, private, and other banks); to develop the mixed form of republic ownership of bank capital; and, what is of no little importance, to increase the share of small stockholders in charter capital.

In the interests of developing competition and greater stability, banks should recognize the advisability of creating support funds on a consolidated basis both at the level of the economic region and the country as a whole. Banking unions and a league of Russian commercial banks that coordinate the effort to implement programs of a general banking nature and that investigate the prospective development of a bank's product are promising at the given stage. However, the creation of banking associations and unions should not result in the strengthening of monopolistic tendencies in the banking sphere but promote to a greater degree the unification of efforts to preserve the unity of the country's economy and the creation of favorable conditions for the development of entrepreneurship. We can agree that banking unions could in many ways promote the resolution of major problems in the development of banking and its integration into the world banking community.

Certain changes in banking (credit) policy are also required. Unfortunately, current credit policy does not have a stabilizing influence on the circulation of money. It is to a considerable

degree directed toward supporting budget expenditures and the enormous budget deficit. Budget emission that saturates economic circulation with surplus money even though there is nothing to spend it on continues today. The printing press is operating at full capacity, and if it is not turned off, the ultimate result may be new disproportions in social development.

However, the credit normalization program should contain more than prohibitions. The latter should primarily apply to credit for budget needs, but as regards credit policy in general, only the emphasis should be shifted. The fact of the matter is that the current conception of extending credit espouses exclusively the all-round curtailment of credit investments because emission bank workers believe that the participation of additional means of payment in economic circulation through credit only fans inflationary tendencies. According to this logic, the less credit, the better. Hence the increase in the norms of emission bank reserve funds, the establishment of a maximum interest rate on commercial bank credits, and higher charges for emission bank credits. All these measures are intended to keep commercial banks from expanding their credit operations and thereby to restrict the growth of the money supply. The restriction of credit at the same time affects the development of entrepreneurial activity as a factor in saturating the market with goods. The result is that a tight credit policy operates in just one direction: it restricts the receipt of means of payment but also restricts the growth of commodity production and circulation at the same time. If we consider that approximately one-third of the money in circulation is used for the needs of credit and the population while the majority of it is used to defray the state's domestic debt, it will become clear that restrictions on credit to enterprises and the population are doubled. It is obviously necessary to curb not credits used to develop entrepreneurship but loans that service the needs of the budget.

Consequently, on the whole there is need not so much for a tight credit policy as for a regrouping of forms of credit, including the development of commercial credit and credit to the population for individual entrepreneurial activity.

The examination of the given problem does not, of course, exhaust all aspects of the development of banks with the transition to a market. The interaction of a bank with clients, the organization of monetary payments, the strengthening of the cadre potential, and, finally, the development of banking science merit our persistent attention. Each of these problems merits independent analysis, and only if they are addressed as an integrated package can we hope that Soviet banks will be reborn and can become truly commercial enterprises.

Notes

1. M.Iu. Bortnik, *Denezhnoe obrashchenie i kredit kapitalisticheskikh stran* (Moscow: Finansy, 1967), p. 47; Professor L.N. Krasavina et al., *Denezhnoe obrashchenie i kredit kapitalisticheskikh stran* (Moscow: Finansy, 1977), p. 61.
2. I.A. Trakhtenberg, *Sovremennyi kredit i ego organizatsiia* (Moscow–Leningrad, 1931), p. 191.
3. *Ekonomicheskaia entsiklopediia. Politicheskaia ekonomiia* (Moscow, 1972), vol. 1, p. 124.
4. *Bol'shaia Sovetskaia Entsiklopediia.* 2d ed., vol. 4, p. 189.
5. *Denezhnoe obrashchenie i kredit kapitalisticheskikh stran* (Moscow: Finansy, 1977), p 61.
6. A.B. Bimman, *Istoriia bankov* (Petrograd, 1917), pp. 7–8.
7. Over the years respect for the inviolability of church property was lost. Robberies of temples became more frequent. The current assumption is that the "insane" Herostratos burned down Diana's renowned temple in Ephesus not so much to immortalize his name as to cover up his robbery.
8. Bimman, *Istoriia bankov*, pp. 7–8.
9. S.I. Ozhegov, *Slovar' russkogo iazyka* (Moscow, 1978), p. 36.
10. Evelin Klengel' Brandt, *Puteshestvie v drevnii Vavilon* (Moscow: Nauka, 1979), p. 107.
11. *Sovetskii entsiklopedicheskii slovar'*, 3d ed. (Moscow: Sovetskaia entsiklopediia, 1987), p. 945.