bulletin

Newsletter from the EABH

1/2012

European Association for
Banking and Financial
History e.V.

Dear Colleagues,

While the whole world maintains a close eye on the big international financial centres such as New York, London or Tokyo, another Eastern metropolis has been working hard on its ambitious aim to join the prestigious list of IFCs. Ever since 2010, when President Medvedev announced the 'obvious' interest in this goal, Moscow has started on its admittedly 'long way to […] a truly competitive financial centre'. And while Troika has been supervising the progress in Greece, the Russian government, chief economists as well as Mayor Sergei Sobyanin have initiated their own internal battle towards better economic policies and advanced living conditions in Moscow. 'If we make Moscow comfortable for our own people then it will resolve the problems for creating an international financial centre,' Mayor Sobyanin reasoned shortly after his appointment in 2011. Thus, this volume of our *EABH bulletin* will serve as a vehicle to introduce EABH members and friends to Russian financial history. How far Moscow has come on *'the way to an international financial centre*' is subsequently discussed by four Russian economists from Samara State Economic University, who were not afraid to take an optimistic but also critical approach on this long-term project and the current developments in Russia.
EABH is also delighted to further deepen the historic cooperation with the Central Bank of Russia and to present another numismatic contribution from the established Russian expert Sergey V. Tatarinov, who has kindly provided new research material about *'The History of the Unique Financial Operation of the State Bank of the Russian Empire and Banque de France.'* To round off this Russian introduction young scholar Vladimir Bakhtin elaborates on *'Russia's Finance and War's in the nineteenth century'*.
Furthermore, while EABH and the National Bank of Romania are doing last preparations for the eagerly awaited annual conference on *'Public Policies and the Direction of Financial Flows'* from 7-9 June in Bucharest, young scholar Ann-Kathrin Prior already offers a little Asian excursus on this theme and introduces the reader to '*A Dual-Track Reform of China's Banking System in the 1980s and its Consequences on the Direction of Financial*' in this edition of the bulletin.
Retrospectively, this volume offers EABH members and friends a little insight on the symposium '*The Euro: (Greek) tragedy or Europe's destiny*', which united numerous experts in Bayreuth in the beginning of the year as well as at the EABH's successful 3rd Young Scholars Workshop, kindly hosted by GREThA Research Centre in Bordeaux. Last but not least we are happy to have Catherine Eagleton introducing the new project of the British Museum along with other news and latest book reports.
Trusting that you will enjoy the latest and already 29th edition of our EABH Newsletter, I look forward to meeting you in Bucharest.

Manfred Pohl
Deputy Chairman

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Moscow: the Way to an International Financial Centre?

Introduction

In the course of market transformation of the Russian Federation the country faces the big challenge of integration in the global economy. One aspect of such an integration is the full-scale participation in the world financial system. The country has already done a lot in this direction – both the government and the private sector. High rates of economic growth in the 2000s created new opportunities for financial development in Russia via high liquidity from the boom in commodities markets and inflows of private capital. Russia accumulated substantial international reserves and sovereign wealth funds which should be invested and efficiently managed.

Moscow has firmly established itself as the nation's financial centre, where the bulk of the financial industry and financial flows are concentrated. However from the international perspective, the country is still dependent on the global international financial centres – primarily London and New York, then Frankfurt and now Hong Kong – with regard to big financial business (IPOs, long term borrowings via syndications and Eurobonds, important M&A transactions). Moscow is still placed very low by the Corporation of London research team in the Global Financial Centres' Index. Therefore the Russian authorities have put forward the objective to develop a Russian financial centre of international standing which will be based in Moscow and probably later partially in St. Petersburg.

The present paper intends to start the discussion on the feasibility of such intentions and tries to assess critically the perspectives of the programme from the present situation. The authors hope that such discussion will help the official circles in Russia and the international financial community to better understand the challenges and opportunities, and find an efficient way forward. It proceeds as follows: Part 1 provides the literature review on the processes of emergence and development of international financial centres. Part 2 provides the brief overview of the Russian official programme on the international financial centre. Part 3 discusses the present level of Russia's involvement in international finance. Part 4 deals briefly with the issues of development of the Russian banking system. Part 5 goes on with the discussion of perspectives of further development of Russian banking and other financial sectors to meet the challenge of the international financial centre. Part 6 deals with the specific issues of taxation and tax administration of the financial sector which is critically important for the endeavour of development of international finance. Finally, there is a brief conclusion.

1. Literature on International Financial Centres: an overview of problems, solutions and gaps

A developed post-industrial economy's key feature is a leading International Financial Centre (IFC) located within its territory. Yet there is no single opinion on what constitutes an IFC. A financial centre is, as Y. Cassis and J. Collier put it, a number of financial services grouped together in a certain urban area. Indeed, it seems a pretty simple thing. A more functional definition is also given: a financial centre is "the place where intermediaries coordinate financial transactions and arrange for payments to be settled".[1]

An IFC is characterised by:

- a favourable business environment,
- efficient markets,
- diversified financial activities,
- professional services (technological expertise as well),
- skilled workforce,

- reliable high-quality information accessed at once whenever it's needed.

Likewise explicit definitions of a "tax haven" and an "offshore financial centre" are absent, the widely used and generally synonymous terms.

Based purely on its macroeconomic features, Ahmed Zorome defines an offshore centre as follows: a country or jurisdiction that provides financial services to non-residents on a scale that is incommensurate to the size and the financing of its domestic economy.[2] Offshore facilities for non-resident clients may include investment and trust management, and tax-free bank deposits. The list is surely not exhaustive.

A "world city" is another term (introduced by the University of Chicago Professor Saskia Sassen) closely linked to our theme.[3]

There is no clear cut off point as to what a world city is. J. Friedmann[4], S. Sassen and M. Castells[5] are the authors of the key concepts, discussed and criticised (for weak empirical validation) by P. Knox and P. Taylor[6].

Summing up the above concepts, a world city is basically a multi-dimensional space of interaction (financial interaction being of major importance) in globalisation.

An explicit hierarchical order of world cities is proposed by the Globalisation and World Cities Study Group (GAWC) from a British University at Loughborough. A city's "world city-ness" is assessed depending on the development level of the four services available in the city. These include accountancy, advertising, banking/finance and law. The cities are in four classes (alpha, beta, gamma and delta) and twelve ascending categories.[7] GAWC group distinguishes 55 world cities with London, New York, Paris and Tokyo on top. 67 cities are potentially world cities with Moscow placed seventh within beta class.

A huge amount of literature is devoted to an appropriate ranking of IFCs.

The American economist H. Reed is the author of a pioneering IFCs' ranking.[8] This provides a quantitative rather than qualitative approach: the criteria used (the number of foreign and multinational banks plus the share of non-residents' banking deposits in a financial centre) allow a comparison of a number of centres though they provide scarce information on the centres' true nature. G. Jones distinguishes national, regional and global financial centres.[9] This gives a more qualitative insight. R. Roberts generally shares Jones's position yet he is more specific about the categories of financial centres – offshore centres are added.[10] G. Dufey and I. Giddy organise financial centres in a more functional way: traditional financial centres, financial entrepots and offshore centres.[11]

However to find information on Moscow-like cities (those with the evident world city/IFC perspectives) is relatively difficult.[12] This is the gap we attempt to fill.

"How do IFCs emerge?" is another problem discussed in the international literature. The different fortunes of the world's two major IFCs – London and Paris – are under detailed consideration in a book of Y. Cassis and E. Bussiere.[13] A historical and comparative analysis of IFCs is undertaken in another Cassis' research "Capitals of Capital".[14] Here IFCs' rise and decline are particularly emphasised. The case of Moscow is almost unique in this sense as it allows us to witness the entire process of an IFC formation from the very beginning and further through its development.

Experts agree on the list of IFCs: London and Paris; Berlin and later Frankfurt[15]; Zurich (plus Geneva); Brussels[16] and Amsterdam; Luxembourg; New York; Tokyo; Hong Kong and Singapore. Yet some points remain arguable. Zurich, for example, is present on the list but it's considered an IFC to a far less extent. Amsterdam used to be a leading IFC up to the beginning of the nineteenth century and later during the 1920s.[17] Luxembourg is a pure off-shore centre. IFCs' shifting to Asia is particularly emphasised today. Tokyo, Hong Kong and Singapore are a vivid illustration of the trend. Shanghai also performs well and is believed to become as important as Hong Kong and Singapore.[18]

There is no single opinion in the international literature regarding benefits and troubles IFCs bring. Moreover advantages and disadvantages of having an IFC may vary for developed countries and emerging market economies (Russia, for example). Authors agree to the point of IFCs' benefits: jobs, wealth concentration and poverty reduction, business-friendly environment – to mention just a few. The troubles IFCs bring are hardly discussed to date. Strengthening of inequalities, asset stripping and local corruption (the last two being particularly characteristic of Russia-like countries) are mentioned but scarcely analysed. This constitutes another serious gap in the literature on the theme.[19] However making Moscow an IFC requires careful pre-consideration of all "for" and "against" arguments. Making any city an IFC is a long-term challenge. Thus a serious theoretical analysis and efficient policies are equally needed.

2. Official plans of the Russian authorities.

The goal of development in the Russian Federation of the new international financial centre was put forward by President Dmitry Medvedev in his first Presidential Address to the Federal Assembly of the Russian Federation in November 2008. Following the outbreak of the global economic and financial crisis the Russian authorities expressed the intention to open up new opportunities for financial innovation in Russia and try to increase the role of Russian ruble in international settlements.[20]

The starting point of official thinking is based on the view that Russia faces a dilemma: *either it develops the financial market in line with the international standards and integrates it into the global financial market as one of its important parts or it loses the national financial market completely since the majority of financial transactions (including those of the Russian residents) move to other financial centres.*

Since this is a complex task the more concrete policy guidelines were set in several official documents of the Russian government. These documents provide in-depth analysis of the practices of international financial centres and pre-requisites for their development and set the guidelines for the development of an international financial centre in the Russian Federation. We will briefly outline the most important measures which Russian authorities must consider on the way to achieve this goal.

The official documents specify the following pre-requisites for the development of a Russian international financial centre:

- the large size of the national economy and its dynamic nature which should potentially create demand for the financial services;
- the high level of human capital which could be used in the financial services industry (since Russia has high level of education in mathematics, computer science, engineering and natural sciences, the people with such educational background should be able to successfully employ their skills in the most advanced areas of modern finance);
- the geographical location of Moscow between the European and Asian financial centres;
- relatively high level of development of national financial market which already trades a number of financial instruments including many derivatives, has two exchanges;
- relatively close links with CIS countries and the absence of language barriers which opens the door for access of securities from those countries to the financial centre in Russia.

However there is yet much to be done on the way to a financial centre of international standing.

First, Russia should further develop its legislation and regulatory framework for financial markets and financial transactions. The most urgent laws which should be approved and implemented are those on exchanges, clearing, securitisation and anti-inside measures. The Russian legislation should also be developed with regard to derivatives, collaterals, infrastructure of the financial markets.

The development of a financial centre in Russia requires substantial development of national tax legislation and further improvement in tax administration. The financial sector is characterised by the relatively large scale of the volume of transactions in comparison with the financial result therefore the tax rules should be adjusted accordingly to put the tax burden on profit and not on turnover. Special measures should be taken to stimulate the long-tern savings of the population via the financial market which should create the long-term funds in the system to finance investments.

The functioning of the financial market is interlinked with the stability of property rights and the system of corporate governance. There is really much to be done in this area in Russia both in legislation and implementation via the judiciary system. The high concentration of ownership in the hands of large shareholders necessitates specific regulation of the relations between these subjects in addition to the protection of the interests of minority shareholders.

Second, Russian authorities find it important to stimulate the further development of the national market in terms of both variety and sophistication of financial instruments and financial market infrastructure. The wide range of measures includes such steps as IPOs in Russia, and an increase in the free-float of shares of Russian companies (including those with the government controlling stake).

The country needs the modernisation of exchanges, clearing and depositary institutions, more technically advanced payment systems, centralisation and transparency. However this could not be achieved efficiently via administrative pressure or legislative changes (ex., forced merger of MICEX and RTC) but should be the logical outcome of the step-by-step development in line with the global trends.

Third, the Russian financial market should be gradually integrated in the global capital market. Foreign participants should get easier access to the Russian financial market, in particular to exchanges. At the moment such access is possible via two regimes – either registration of issue under Russian law or Russian depository receipts (RDRs). The Russian authorities don't see any distinctive advantage of either of these regimes and therefore will promote them both equally.

At the moment, however, in order to trade at the Russian exchanges, foreign participants are required to register a legal entity under the Russian civil legislation and obtain the license of the professional participant of the securities market (otherwise they have to use the service of brokers). In the age of Internet and sophisticated IT this may create obstacles for foreign participants who wish to get the direct access to the Russian exchanges from their offshore offices and therefore undermine the competitiveness of Russia in the global financial market. The possible solution might be to grant the licenses of the professional participants to certain types of institutional investors which meet the requirements of the Russian legislation so that they escape the establishment of Russian subsidiaries.

Fourth, certain steps should be taken to provide qualified personnel for the financial centre. It's necessary to improve the quality of education in economics and finance in accordance with the modern international standards since at the moment only several advanced higher education institutions provide training of international standing. At the same time Russia needs to make immigration of foreign specialists easier and make steps to further improve quality of life in Moscow (rental costs, transportation, English-speaking personnel, etc.).

The Russian official documents don't set any quantitative targets for short-term perspectives since the global economic and financial crisis causes a lot of uncertainty at the financial market developments. The short-term priorities are focused on the technical issues of the financial infrastructure. However in the medium-term perspective (to 2012) the following economic and financial targets are set:

- one of the Russian exchanged should be in top 12 exchanges in the world;
- the share of foreign securities at the Russian exchanges should be not less than 10% in terms of turnover;
- the share of financial sector to GDP should rise to 6%;

Further impetus to the project came from President Medvedev in April 2010 when he had a special meeting with leading foreign financiers doing business in Russia and Russian officials in charge of economy and finance. The special task force led by former Chief of Presidential Administration and current Chairman of Board of Norilsk Nickel Alexander Voloshin was established to facilitate the legislative and regulatory changes and maintain the dialogue with the market actors.

3. Russia in international finance.

The period of market transformation in Russia started in 1992 and was marked by development of international economic relations with the rest of the world, growing economic and financial openness and integration of the country in the global economy. These developments led to the growing role of the Russian Federation – through different institutional sectors – in the world finance.

The main features of Russia's financial international links by the start of the global economic and financial crisis could be described as follows. First, Russia accumulated the third larg-

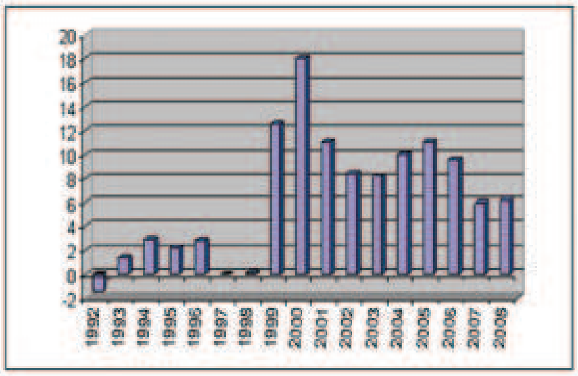

Chart 1. Russia's current account as % of GDP, 1992-2008.
Source: International Monetary Fund, World Economic Outlook Database

est foreign currency reserves in the world (after China and Japan) which amounted to 582 bln. USD as of 1 September 2008.[21] The high energy and raw material prices allowed the Russian government to improve substantially the state of public finances, reduce the level of foreign debt and accumulate substantial reserves in the Reserve and National Wellbeing Funds. Second, the Russian financial institutions and non-financial companies substantially increased their presence at the world financial markets via both share issuance (including IPOs) and borrowings. This caused the sharp increase of the foreign debt obligations of the Russian private sector especially in the period of 2005-2008.

It's worth noting that during the whole period of market transformation Russia was the net creditor of the world economy since it maintained the positive current account balance (which means that gross national investment was less than gross national saving). In terms of gross figures the capital outflow from Russia in the

	2001	2002	2003	2004	2005	2006	2007	2008
Assets	248 752	259 498	288 480	336 825	406 635	516 412	731 590	1 099 335
Liabilities	184 207	215 587	251 301	332 901	417 270	547 860	770 133	1 244 651
Net IIP	64 545	43 911	37 179	3 924	-10 635	-31 448	-38 544	-145 316

Table 1. International Investment Position of the Russian Federation, 2001-2009 (mln.USD), Source: Central Bank of Russia

past nearly two decades was more that 400 bln. USD.[22]

The evolution of the international investment position of the Russian Federation is shown in Table 1. The data shows the significant increase of the Russian involvement in the global finance.

4. Russian banking system: difficult ways of development.

The commercial banking system turned out to be the first sector of the financial system which developed in the course of the market transformation in the Russian Federation.[23] This trend was characteristic for all transition economies and lies in line with more general trends of financial development in the world economy. The financial market is characterised by the informational imperfections (e.g. information asymmetry) which require development of certain institutional arrangements and regulatory regimes to allow them to function properly.[24] The current global economic and financial crisis shows that even developed countries are far from a perfect solution of this challenge.

The development of Russian banking system was subject to numerous criticisms in the past years. However it's worth noting that the development path of the banking system in Russia followed the same pattern as that of more advanced transition economies (Poland, Hungary and Czech Republic) but with less involvement of foreign financial institutions. Russia managed to develop its national banking system which withstood both liquidity and systemic crises in the last nearly two decades and rebuilt itself in the post-crisis periods.

The distinctive features of the Russian banking system are:

- the large number of credit organisations;
- the small size of the banking system relative to the economy.

These features really give ground for doubts on the capabilities of such a system to perform

Chart 2
Source: World Bank, Financial Development and Structure database.

all functions of financial intermediation in the growing economy and were the milestones of critical remarks of observers and researchers.

However the available data shows that the conventional financial depth indicators of the Russian banking system steadily increased in the course of market transformation. This process became even more pronounced in the 2000s when Russian authorities under President Vladimir Putin launched important institutional and legal changes in Russia and the boom in the commodities markets increased the available liquidity in the system.

The increasing sophistication of the banking system in Russia, which now offers a wide range of services to both companies and private individuals, forms the solid basis for further integration of the sector in the global financial market. At the same time these opportunities requires further critical assessment which is provided below.

5. The Russian banking system as part of international financial centre: how realistic?

Talking about the banking system we must remember that it is only a transmitter, an economy pump for forcing investment, savings, and money funds and for transforming them. Such a system helps to create an interconnection between government (an emission centre and regulator), non-financial economy, financial market and general public. These connections should bring effective and rational economic growth, balanced economic structure, innovative development and a rise in standard of living. That's why banking system status can tell us about the development of the whole economy. From this perspective we can state that Russian economy is seriously ill. Its heart – the banking system – does not put the Russian Federation in the position of one of the global financial centres and economic leaders. Russia is like Hercules, who cannot stand up and walk normally because of a weak heart. Our short research makes it its objective to answer this question – will Hercules be able to walk easily and if so, when and why will it happen.

We'll try to compare the Russian banking system with the behaviour of an International Financial Centre introduced in part 1 of our research. For better understanding first we will determine the opportunities of the Russian Federation, both existing and potential; afterwards we will emphasise obstacles on the formation of powerful international financial centre in Russia. Let's make a reservation: the only megalopolis to be such a centre is Moscow (64% Russian banking assets), other big Russian cities are not able to compete with Moscow and Russian officials have no plans of creation artificial megalopolis. It is a Russian tradition that the capital is the incontestable political and administrative hub together with the economic and financial centre. In our opinion, it is the country's "cancerous growth", but to change this government position seems impossible (it is the object of a different research). We should also mention that we will take into consideration only the banking system, because non-bank financial institutions in Russia are undeveloped and have no real influence on the economy. Therefore it's impossible (at least until a powerful banking system will be formed) to enter the global financial market and to occupy an advantage-ground with such institutions (investment funds, pension funds, insurance companies).

Opportunities:

1) The Russian Federation attained status in geopolitical and geo-economical space.

Russia as an active member of G8, G20, World Bank, Paris Club of Creditors, FATF, APEC, BRIC and others international organisations. This constructs the necessary institutional environment for the future international financial centre. In spite of all disproportions Russia is acknowledged as a country with market economy and year in year out the Russian Federation penetrates deeper into the global economic process. Undoubtedly Russian banks receive a favourable institutional environment for a rise in their capitalisation and widespread expansion on the world financial markets.

2) Significant factors of national wealth – background of banking system's generating.

Expert judgements show that nowadays Russia uses only 8 – 10% of its national wealth. It includes rich deposits of mineral wealth, land, agricultural holding, real estate and intellectual property. If all these resources are involved in financial turnover particularly with the help of pledge mechanism used when crediting and issuing money supply, the banking system will be able to raise its assets promoting qualitative economic growth of the whole country.

3) Favourable macroeconomic and financial situation in the country.

A brief description of the favourable situation:

- available considerable gold and exchange currency reserves (448.6 bln USD on 15 April 2010);
- huge amount of state savings (about 190 bln USD)[25];
- effective and consistent government policy: budgetary and fiscal, monetary and financial, capital flow regulations – on the one hand aimed at maximum liberalisation of capital and operating balance of payment transactions, on the other hand, the government's

support of national banking system;
- permanent reduction of bank rate and inflation controls (Central bank inflation forecast of 6.5 – 7.5% in 2010)[26];
- relatively stable rate of exchange has sturdy consolidation factors; opportunity of transforming Russian oil and gas payments into rubles, creation of the raw materials exchanges (first – oil exchange in Saint-Petersburg) and movement towards free convertibility of rubles; possible creation of ruble zone in CIS countries and use of rubles as means of payment in BRIC;
- good perspectives of private banking (the rich Russians have 300-350 billion USD)[27]

In 2009, the Russian banking system resisted crisis in many respects owing to proactive government intervention particularly Central bank that allotted unsecured credits. Central bank efficiency is performed not only by stabilised system, but also by its income on such credits – about 200 billion rubles (net profit of all Russian banking system in 2009 – 205 billion rubles)[28]. According to the Head of Central Bank Sergey Ignatiev the banking system is being restored and nowadays it has no serious system risks.

4) Foundation of significant universal state banks (banks with primary state interest) – Sberbank, VTB group, Rosselhozbank, Gazprombank.

These state banks form the base of the Russian banking system; they own significant capital and assets together with confidence. Sberbank and VTB carried out successful IPO, actively entering the world money-market and market of capitals, and carrying out direct investment in foreign markets, including acquisition of nonfinancial assets (e.g. Sberbank purchasing claims in consortium with Magna to Opel, as a result of which GM voluntarily decided to pay an indemnity to Sberbank for a fouled-up bargain). Listed Russian banks are able to compete with the key transnational banks from developed countries.

In addition, the Government plans an VEB IPO together with other development banks, which today are state corporations.

5) Pent-up potential demand for bankroll from the direction of the nonfinancial sector under the circumstances of essential thorough modernisation of Russian economy and capital renewals.

President Medvedev declared this problem the issue of the day for our economy. Russia needs tremendous investment expenditures into industry, infrastructure, non-manufacturing business, housing and communal services. The banking system together with public and foreign investments at this juncture is supposed to become a basic funding source while such sources as profit, depreciation and portfolio investment within the next 5-10 years right up to 2020 are not foreseen to be of great importance in the investment process. The need for technoparks and technopolises, commercialisation of intellectual products, continuation of space technology, power engineering, and medicine and education development are of great concern for the Russian Federation. In this case the appeal of the Russian market for transnational banks of USA, France, United Kingdom, Switzerland, Italy and others is obvious.

6) Intense interest of first-rate world private banks in Russian credit market.

The number and weight of non-residents in the Russian banking system continually increases and at the end of 2009 made up 24.53% of the market. With all this going on, according to Russian laws, foreign banks and insurance companies are not allowed to open branches and representative offices. Undoubtedly, foreign banks first of all give credits to ultimate consumers, the general public (population), and especially banks that are affiliated with transnational corporations. It is statistically corroborated. At the same time a rise in standard of living and satisfaction of increased needs remain one of the critical goals of Russian economy. Therefore this factor cannot be solely be due to unfavourable factors.

Of course, the aforementioned opportunities do not represent a complete set; we emphasised only those of vital importance from our point of view.

Now let's turn to obstacles. They are greater and more serious than opportunities because they already have chronic substance starting with the transfer of the Russian economy to a market system in the 1990s. All obstacles can be divided into external and exceptionally internal obstacles.

A major external obstacle is a global financial crisis. In recent times Russia felt already two shocks in the years 1998 and 2009. In 1998 our economy and its financial system found itself on the verge of collapse and default, however in 2008-2009, as shown by Central Bank statistics and forecasting information of the World Bank, the Russian financial system held out and became stronger than industrial and human services sectors of the economy. As some world-famed analysts mentioned, Russia has come out of crisis to become stronger than before. In many respects it was possible owing to accumulated state funds and reserves and the weak dependence of the Russian financial market on portfolio investment, derivatives and compound financial instruments. There is no significant financial market in Russia in respect of the world market; our financial market takes up only approximately 1% of the global financial market. On the one hand, this situation deprives Russia of many financial shakes, and the downfall of the Russian stock market and ruble devaluation related overall to declining oil prices. Russian's financial market and economy have fallen deeper than any global key countries (financial market approximately by 30%, economy by 7.1%), but have shown a faster recovery (for example, the capitalisation of the Russian stock market has doubled in 2009; in 2010 an increase of the MICEX index is expected at the rate of 15-25%). The Russian market and economy have shown extreme volatility. Even during the last months the forecast concerning Russian economic growth are being constantly revised towards an upwards trend. At the beginning of February it has been about 2%, but now, at the end of April, the official forecast of Ministry of Economic Development is 3.1%; but in the opinion of the Head of Citigroup in Russia and CIS countries Zdenek Turek it's already 5-6%[29]. S&P has revised the long-term rating changes forecast from "negative" to "stable" for 14 Russian financial institutes recording the stabilisation of their business conditions and going through the peak of non performing loans (according to Reuters from 1 April 2010).

We may be glad to it. But in our opinion the last crisis has shown the weakness of the Russian economy, first of all in the financial sphere and banking system, which couldn't support the industrial sector (downfall of industrial production in 2009 of 19.8%). The banking system was obliged to go with an extended hand to the Central Bank and the Government itself. As mentioned S&P forecasts that, in spite of positive movements the process of recovery of the banking sector in Russia will be a long one, taking at the least 2 years. If we continue comparing Russia with Hercules, then Hercules has been presented with "the bludgeon" in the form of state reserves but he cannot pick up this bludgeon for the present. His heart is pinking. But on the whole, it will be well to note that the Russian Government has realised a certain maturity in the fight against the consequences of global financial crisis. Reserves were used correctly although it has led to a lowering in the living standards of a large quantity of Russian citizens. As an example, for the welfare of the banking system, considering only operations with credit instruments, 785 billion rubles of the state budget was spent, compared with 275 billion rubles of all budget expenditures in 2009 on the provision of pensions and only 75 billion rubles for the recapitalisation of banks[30].

Now let's turn to internal obstacles, which prevent the creation of a Russia international financial centre.

Internal obstacles.

1) Excess dependence on the banking system from state banks.
This dependence can break the development of private banking sector and direct credit resources to inefficient and state-controlled firms. In this way there will come a time of new Russian stagnation – "zastoi" (the so-called "scenario 70-80"). In international practice already there is the example of Japan. Japan suffered from so-called "lost ten years" in 1990s, which were triggered by the creation of a large quantity of zombie-firms with the aid of the state-banking credit mechanism.

2) Big share of bad debts (non performing loans) and overcrediting of Russian borrowers.
Based on assessment of S&P bad credits amount to 40% over the banking system (coupled with restructuring credits). As a result of this the agency expects the rising of the credit portfolio in 2010 on a level of about 10%[31], although the Head of the Central Bank Sergey Ignatiev expects 15%. Undoubtedly it will seriously break the process of new crediting and will force banks to take on big transaction costs for improvement to the current situation. This will entail a rise in a value of credits. On the other hand, because of overcrediting, demand on credits is falling, in spite of even a severe lack in investment resources. It happens because business has to waste a certain amount of time and reserves on the readjustment of current debts.

3) The absence in Russia of a remarkable investment banking sector.
On a global financial scale the Russian investment banking sector is absent. On the one hand, Russian Government has not to puzzle over the decoupling of commercial banking and investment banking, nor to feel the direct consequences of crisis by way of failure within national investment banks. On the other hand, without remarkable investment banking the transformation of Russia into an international financial centre is impossible. The accelerated economic growth on the basis of innovation, technological advance and development of small and middle -sized business is also impossible. In our opinion it's one of the key obstacles.

4) Poor development of institutional investors and lack of a wide range of financial instruments in Russia.
Unfortunately, in the Russian financial market the proportion of investment funds, pension funds and insurance companies is utterly small (about 10-15%). It hampers the allocation of household's savings and transformation of these into the investment resources. At the same time the lack of many contemporary financial instruments and the small number of security's issuers are leading to the view that Russian market is not attractive for global portfolio investors. Russian financial market is entirely oriented around the raw materials sector, energy and communication (10 first-rate issuers, which has occupied 80% of the market). As mentioned by the President of Samara Currency Interbank Exchange Professor Dr. Mescherov, in the last 10 years the number of issuers in the Russian stock market practically didn't change, which is a catastrophe on a local scale, and led to the "lost ten years" of the Russian stock market. It's also one of the key obstacles.

5) Low level of household's savings, distrust for financial institutes and stagnation of consumption.
Distrust for financial institutes in Russia is

deeply rooted; it was formed particularly after the currency reform in 1991 when the depositors of Sberbank lost their savings. Despite the fact that these savings were returned it didn't offset even half of the damage. Another blow to trust happened in 1998 when the Government created the financial pyramid of short-term obligations itself. As a result of this the technical default and ruble devaluation was three times more than previously. Therefore the hope that today the trust for banks has been restored is not founded. Households actively invest in real estate overheating the market; or in foreign currency which leads to withdrawal of these funds from the national investment process. The number of households which have securities or shares in investment funds amounts to 8-10%. The banking system remains a sole alternative to consumption and quasi-investment demand, but household's savings are decreasing (25% of households have bank deposits – about 10% of all household's incomes) because of low incomes (average wages – 6500-7000$ per year) and low yield on savings deposits (keep within inflation). And it's also one of the key obstacles. There are also other obstacles which we could mention.

In conclusion, we can say that there are no chances for Russia to create an international financial centre before 2020. In the best case it'll be possible to form a regional financial centre for CIS and East Europe. The majority of opportunities are potential, and our society, business and Government must work day-by-day, and roll up their sleeves in order to transform potential into reality. As mentioned by Joseph Eugene Stiglitz, the objective is not to simply create strong healthy banks, it is necessary to create strong healthy banks which supply credit for the economic growth. As an example, Argentina has shown that an inability to do this can lead to macro instability in itself. Russia has no right to do something similar.

6. A short note on bank taxation in Russia

Development of an effective financial infrastructure within the concept of an international financial centre in the Russian Federation contemplates a reform of tax rules and procedures in respect of financial institutions, in particular, of the banks. At present there exist a number of issues of bank taxation that have a negative impact on the Russian banking system.[32]

First, in the opinion of a majority of Russian economists, the main problem of bank taxation is an absence of effective mechanisms that can stimulate banks to invest in a real sector of economy. The solution to this problem will provide a gain to the taxable capacity of the economy and certain regions and industries, increase banking industry assets, and enhance income of banks that will ultimately result in extra tax revenues received by Russia's budget system.

For increasing an interest of banks in long-term loans to the real sector it is necessary to define an opportunity for banks regarding tax deductions of income received from long-term loans to the priority industries.

Second, it is essential to amend the tax procedure of recognising an interest income on overdue loans originated by banks. The question at issue is a continuation of interest accrual in tax accounting on credits originated by the banks, even if the borrowers have stopped returning loans or paying interest. According to that, a tax charge on uncollected profit and effective banks would yield decreases.

This problem becomes especially relevant in a period of crisis, when a lack of liquidity becomes pronounced and it is important to adhere to the Central Bank standards (especially, the bank standard of capital adequacy). There exist a number of methods to stop accrual of interest on overdue loans in tax accounting of credit organisation, but each of them has its own disadvantages. These disadvantages can result in a worsening of the bank's financial statement (e.g., as in the course of write-off of non-received income by way of increasing the loan loss provisions (LLP) or in case of the transfer of receivables to closed investment funds that requires extra LLP creation as well) or in recognition of severe losses on loans (in case of sale of lending portfolio to collection agencies) or in a very long and difficult process of recognition of overdue loans as non-recoverable in tax accounting.

Third, the financial derivatives play a key role in hedging of interest and exchange risks and contribute to financial result of banks. However, before 2010 there existed an uncertainty in the Tax Code of the Russian Federation with regard to the taxation of derivatives. The Tax Code did not contain an exact definition of a derivative or an explanation of the differences between the derivative and the co tango transaction. The taxation of them differed, e.g. in respect of losses received from the execution of these operations: losses on co tango transactions reduced taxable profit of bank, losses on derivatives did not. The statutory tax provisions incompletely explained a market price determination of unquoted derivatives and a classification procedure of deals as hedging operations. These disadvantages have often resulted in tax risks rising in banks.

Furthermore, the revaluation procedure for derivatives was not clearly defined in the tax legislation; in particular, there existed an ambiguity of the liability to revaluate derivatives on the reporting date. In this case, the banks face the tax risk in the case of unrealised loss on derivatives.

At the end of 2009 the legislative act amended derivatives taxation procedures as follows:

- A derivative definition has been introduced (including the definitions of a deliverable derivative and an estimated derivative);
- The derivatives taxation procedure has been improved (thus, the banks can reduce taxable profit on the amount of received loss on unquoted derivatives since 2010);
- The tax procedures of revaluation of claims and liabilities in respect of derivatives have been adjusted;
- The transfer pricing rules with regard to derivatives have been introduced.

These adjustments, that became effective on 1 January 2010, shall simplify the computation of taxable base on derivatives and significantly lower tax risks in case of detailed analysis of the advantages of mentioned amendments. However, there still remains a probability of tax risks increases in banks on derivatives operations in the period from 2007 to 2009 (the time period that can cover a field tax audit).

Fourth, banks in Russia are the main participants in the securities market. Effective taxation of securities trading can facilitate an establishment of friendly tax climate for investors, competitive growth of the national securities market and the international financial centre development in the Russian Federation. Before 2010 the statutory tax provisions have not clearly explained the tax assessment in respect of operations with quoted and unquoted securities as well as market price determination of unquoted securities.

Changes in the legislation brought in by the law at the end of 2009 and coming into effect on 1 January 2010 have amended these issues, improved transfer pricing rules in relation to securities trading, the securities netting (clearing) procedure and the methods of sold securities cost deduction.

However, some ambiguities still remain. For example, the Tax Code of the RF doesn’t clarify the possibility to use the securities prices fixed in negotiated deals mode & address orders of bidding process organiser for the purpose of market price determination when there are no deals in prime deals mode. Furthermore, it isn’t clear if it is possible to consider the price of sale or another disposal of security as the market price based on the price of a security deal that was only registered by the bidding process organiser on that specific day.

Fifth, trading of precious stones and metals in the form of ingots by banks to legal entities and individuals is subject to VAT. This suppresses the development of domestic physical precious metals market that is an instrument of currency risks hedging and making profits (e.g., in case of arbitrage and exchange transactions) for the investors. Tax legislation of the RF provides VAT exemption of precious metals sale by banks only in the case that purchased ingots are placed on the metals account of the selling bank or, in other words, to the special bank storage. In such a case, when carrying out a physical transaction with the precious metal purchased to the account (e.g., a transfer of precious metals by client from the metals account in one bank to metal account of another bank or delivery of ingot to a client in a physical form), the bank shall ask for a VAT charge. This procedure isn't clearly explained by the tax legislation and often it is very hard to work this in practice, since tax risks usually appear in banks. As a result, banks often include VAT in initial price of precious metals to secure themselves from the risks mentioned. Investors are usually not interested in investment in precious metals and stones in the form of ingots since losses occur at return sale to the banks, because a purchase by banks of precious metals and stones is not subject to VAT regardless of seller.

The Russian Bankers' Association is deeply involved in the process of reforming bank taxation legislation by virtue of providing the roundtable discussions with the participation of the representatives of the Ministry of Finance and the banks members for the purpose of discussion of aforementioned and other issues, working out draft laws and returning them to the State Duma of the RF for appraisal. It ought to be noted that these actions positively affect the tax legislation.

Conclusion

The development of an international financial centre in the Russian Federation – the goal which was set by President Dmitry Medvedev – is really a big challenge. Though the Russian government put forward a well-defined programme its practical implementation faces serious difficulties. A project of such scale and scope affects various sides of the functioning of the public and private sectors.

The most important obstacle is the insufficient level of financial development in the Russian Federation. Even the Russian banking system – the most advanced part of the national financial industry – provides less intermediation than its counterparts in developed and advanced emerging economies. Other sectors of financial industry – especially those providing the vehicles for long term saving and financing – are even less developed. The other obstacle is the low level of public services and public administration (including corrupt practices of all level of state bureaucracy) which is a big issue for the whole Russian society.

However the 2000s also allowed us to look forward with some optimism for the project. Gradually the Russian financial sector is developing and increasing its technical and instrumental sophistication. Russian government and business become more and more involved in the international financial markets – both as creditors (investors) and borrowers. There is no doubt that the commitment to such an ambitious goal will have its own positive impact of the further financial development in Russia and the arrival of serious big international business will put drive more discipline in terms of both national business practices and national administration.

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Endnotes

1 See 3, p. 3.
2 See 50.
3 See 32, 33, 34, 35, 36.
4 See 11.
5 See 4.
6 See 23, 30, 44, 45.
7 The necessary information is available free at 48.
8 See 27.
9 See 21.
10 See 28, 29.
11 See 9.
12 See 16, 25.
13 See 2.
14 See 3.
15 See 1.
16 See 10.
17 See 43.
18 For more precise data and the Global Financial Centres Index rankings check 26.
19 7, 8, 17 fill the gap to some extent.
20 The principal official documents are the following ones (13; 14; 15).
21 Central Bank of Russia
22 See 24.
23 The overview of the research on the Russian banking system is provided in 37.
24 See 42.
25 See 6, table10.
26 See 18.
27 See 38.
28 See 41, p.4 -7.
29 See 47.
30 See 39.
31 See 40
32 The discussion is based on the following sources (12; 19; 22; 31; 46)

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Gold to Silver, 1861
The History of the Unique Financial Operation
of the State Bank of the Russian Empire and Banque de France

This article was completed as a result of the cooperative efforts to research the history of the Bank of Russia and Banque de France. We would like to gratefully acknowledge the help and support provided by the Head of Historical Research unit of Banque de France Mrs. Muriel Bordogna.

Many collectors, coin collectors in particular, might not even be aware which steps have to be taken before a coin, already familiar to them, comes into circulation. The collection of the Museum and Exhibition Fund of the Bank of Russia comprises a 10-kopeck silver coin of 1861. Unlike other coins of this denomination struck during the same period, the abbreviation MI formed from the initials of the mint-master of the St.-Petersburg Mint Michail Ivanov, who was in charge of the mint from 1861 to 1863, do not appear on the above-mentioned coin. This is not a mere chance. The coin is not counterfeit. The fact that it has no initials of the mint-master is indicative of its foreign origin. The coin was struck, to be more precise re-struck, outside Russia, somewhere abroad – in Paris or Strasbourg.

Striking Russian coins abroad was not rare; however, the case of 1861 seems to be special after all. The given instance was not set out in great detail in the national banking history. Thus, the 1861 report of the State bank (i.e. the report covering the first year of its operation) mentions the fact that Banque de France proposed an operation for the exchange of gold coins to silver coins worth over 30 million francs. Additionally the report specifies that the above-mentioned operation was conducted with the kind permission of his Imperial Majesty Alexander II. It also states that the silver francs were re-struck into Russian kopecks soon afterwards.

The author of the article had at his disposal historical documents provided by the Archives division of Banque de France casting new light on the 1861 deal for the exchange of over 7 million rubles in 5-ruble gold half-imperials to over 30 million French francs in silver Ecu.

However, before addressing the detailed chronology of the deal we should note one specific feature of this operation. Undoubtedly, both the parties could have done without the deal in question. Nevertheless, both of them derived certain benefits from the exchange in the end. Moreover, the benefits that Russia enjoyed from the deal were of a more future-oriented nature.

The half-imperial («poluimperial») is the Russian gold coin that had been struck since 1755. It derived its name from the 10-ruble gold coin (from Latin «imperialis»-imperial). Half-imperials had been struck by St.-Petersburg Mint (half-imperials struck by Moscow Mint in 1763 are extremely rare) from 1755 to 1897. Prior

10 kopeck

15 kopeck

The half-imperial was hardly ever found in circulation. Given that the half-imperial was an attractive coin for saving, from 1886 onwards it became equivalent to the French gold 20-franc coin in terms of the metal fineness and its gross and net weight (as well as corresponding, similar gold coins: 20 Belgian franc coin, 20 Swiss franc coin, 20 Italian lira coin, etc.). As the new value of the imperial, 7 rubles 50 kopecks, introduced in the course of the 1895-1897 monetary reform, was not a convenient means of payment it was discontinued in 1895. Since then they had started minting gold 5-ruble (1/3 imperial) and 10-ruble (2/3 imperial) coins until 1911. Today one can find half-imperials worth 7 rubles 50 kopecks minted only in 1897.

The word 'ecu' (from Fr. «ecu» – shield) refers to the French gold and silver coins, and the coin was so called because its design included a shield bearing a coat of arms. Ecus had been issued since 1266 as 4g gold coins. The trial silver ecu was issued during the reign of King Francis I of France (1515-1547), and was equivalent to the gold ecu. The first silver ecus were struck in 1641 by the standard of the European thaler with a gross weight of 27.19 g (24.93 g of fine silver). In the sixteenth and eighteenth centuries ecus were silver coins used in France for making high-value payments. In 1795 France adopted the decimal monetary system and the «franc» was established as the national currency. However, ecus were in circulation up to 1834. Later on a 5-franc silver coin was commonly referred to as 'ecu'. The 5-franc

Charles Gabriel Lebégue (10 June 1857-15 May 1863 – Governor of Banque de France), count de Germiny, was born on 3 November 1799 in Cliponville, province Seine Maritime. Since 1832, he was a member of the French state council; from1843 onwards, he was in charge of tax revenues in Sonna and Loire provinces, and worked at the Prefecture de Seine-et-Marne as a counselor of the Chamber of Accounts. Later on, he became head of the tax authority in Rouen. In this capacity he participated in establishing the Discount bank and a number of credit institutions. On 31 January 1850 he succeeded Alexis Andre Dosne as the regent in Banque de France. On 6 July 1854 he was appointed Governor of the Mortgage bank. From 24 January to 10 April 1851 he was Minister of Finance in France. On the day of his resignation he was awarded the French Legion of Honour. On 10 June 1857 he succeeded Count D'Argout as Governor of Banque de France. He served in this capacity till 15 May 1863 and then joined the Senate. He was highly acclaimed for his «extremely posh reception parties», the art of «fine cuisine» and his personal chefs. In the twilight of his life he greatly enjoyed spending a lot of time on lunches with friends, which involved tasting exquisite fine dining. He was the author of a few dishes, including the well-known potage soup Germiny made with sorrel and sour cream, «which is served cold in a bowl». He died in Le Havre on 22 February 1871.

silver coin was used for both domestic and foreign payments. Along with gold coins this silver coin was included into the coin stocks to ensure that banknotes of Banque de France were exchangeable for gold or silver (its place as one of the principal French coins was secured when in 1865 the Latin monetary union was established). In the nineteenth century 5-franc coins were struck with 900 fine silver with the gross weight of 25 g (22.5 g of fine silver); these characteristics had remained unchanged throughout the whole century.

Let us consider the exchange operation in more detail now. On 24 January 1861 the Governor of Banque de France Charles Gabriel Lebégue notified the General Council of Banque de France about the deal of the exchange of 30 million francs in silver coins to 30 million francs in gold coins that was concluded in Paris with the banking house Dutfoy, Kinen et Cie. The latter was operating under the instruction and on behalf of the Russian Finance ministry.

The arrangements between Banque de France and the banking house Dutfoy, Kinen et Cie were finalised on the grounds of a wire received from St-Petersburg on 16 January 1861:

«Postal item №576
St-Petersburg, 16 January 1861
Dutfoy, Kinen et Cie, Paris

The Finance minister (the Russian minister here – Author's note) accepts the proposal made by Banque de France, however, the minister considers it necessary to conduct this exchange operation with bullions instead of gold imperials. You are allowed to carry out the operation with both bullions and gold coins within the limit of 7 700 000 rubles. According to the minister the gold transaction must be conducted at the market rate without paying out the premium for the equivalent amount in ecu. Our banking house takes responsibility for transporting gold, i.e. Banque de France will reimburse us for the transportation costs above the gold price per kilo, which accounts for 3434,44 francs. Gold will be dispatched as soon as we receive your reply by telegraph.

Wyncken»

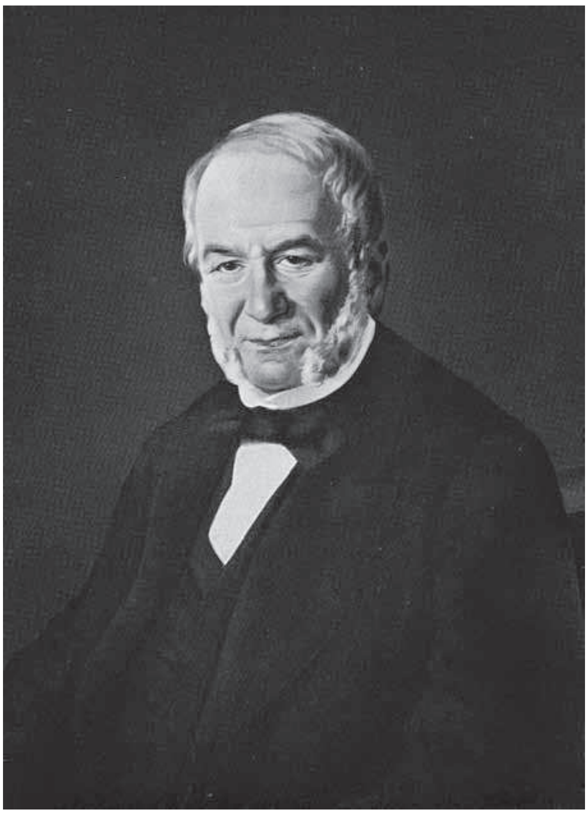
The dates of the transaction completion attract attention. Given the facilities for communication in place at that time, we can claim with good reason that the transaction was effected highly efficiently and promptly.

The monetary committee authorised by the General Council of Banque de France to manage the gold stocks approved this transaction without any further delay. In accordance with the terms for the delivery of 30 million francs in gold coins to Paris, the expenses incurred by Banque de France as commission charges to the banking house Dutfoy, Kinen et Cie, who took all the transportation risks, accounted for 5/8 %. In line with the agreement reached the dispatch of gold from Russia was supposed to be made prior to the dispatch of silver to Russia. Thus, until the silver coins were delivered to the banking house Dutfoy, Kinen et Cie Banque de France had been, in fact, safekeeping cash holdings. However, troubles began right after that.

As early as 18 January 1861, Governor of Banque de France notified the General Council about the force majeure event that had occurred in the course of the transaction where the banking house Dutfoy, Kinen et Cie was one of the parties: the completion of the deal was suspended due to the fact that the Russian emperor had not approved the transaction. It seemed hardly possible for the French party to gather more detailed information on the reasons for his rejection. The Russian documents that are available do not shed any more light on this matter either. According to the French, Banque de France did not suffer much from this refusal since its gold reserves «had somewhat grown by that time due to some other transactions». However, that was not the case with the banking house Dutfoy, Kinen et Cie, who may have incurred heavy losses since they had taken all the transaction risks. Meanwhile, Governor of Banque de France notified the General council that the negotiations had not broken off completely and the banking house Dutfoy, Kinen et Cie had not given up hope of removing all the impediments to the exchange operation. On 7 February 1861 Governor of Banque de France reported to the General council that he had notified the Embassy of Russia in Paris that as a result of the difficulties that had caused the break-down of the agreement other parties to the talks suffered more severe complications than Banque de France. In its turn the Russian government recommended that Banque de France should hold direct talks with the State bank of the Russian Empire with a view to negotiating the terms of resuming the operation.

One should pay attention to an important detail: for the first time the State bank was mentioned in the correspondence. This move was an obvious attempt by the Russian government to attract the attention of the major central bank in Europe to a new participant in economic reforms in the Russian empire – the recently established State bank, an institution that was not well-known in Europe at that time. As a matter of fact, the State bank only started its operation as late as autumn 1860.

However, Banque de France insisted on the co-operation with the banking house Dutfoy, Kinen et Cie, who was operating «on behalf and under the instruction from the Russian ministry of finance». Certain arrangements had already been made with the above-mentioned banking



Baron Alexander Stieglitz, born in St.-Petersburg in 1814. The first Governor of the State bank of the Russian Empire (1860-1866). Alexander was home-schooled, continued his education at Dorpat (Tartu) University and during his travels in Europe. In 1843, after his father's death, Alexander inherited a vast fortune (18 million silver rubles) and a banking house. From 1843 to 1860 he served as the court banker of the Russian government and the placement agent in Europe for Russian foreign loans. From 1846 to 1860 A. Stieglitz was Chairman of the St.-Petersburg Exchange Committee; he established a stock exchange partnership, which was named after him. In 1860 A. Stieglitz liquidated his banking house and was appointed Governor of the State bank of the Russian Empire. In this capacity he focused mainly on foreign payments and currency circulation. In 1862 he established a savings and loan fund for the State bank employees. He was discharged as Governor of the State bank in 1866, after which he continued to serve as an honorary member of the Board of Trade and Manufactory under the Ministry of Finance. A. Stieglitz was one of the richest people in Russia and founder of several companies and enterprises. He was known as a philanthropist and a patron of arts. He died in 1884.

house, which served as a starting point for the agreement to be finalised, thus they had to be fulfilled.

On 14 February 1861 Governor of Banque de France notified the General council about the telegram received from St.-Petersburg which said:

«St.-Petersburg, 11 February 1861
To: Count de Germiny, Banque de France

I hereby agree that we sign an agreement with the banking house Dutfoy, Kinen et Cie in the best interests of the State bank. We take responsibility for the whole amount. We are ready to leave the cash funds intended for the transaction in Banque de France for the time being.

Baron Stieglitz»

The terms of the agreement were approved once again and the banking house Dutfoy, Kinen et Cie was selected as an intermediary in accordance with the terms originally agreed upon. Banque de France consented that the State bank should participate in the deal subject to the restriction that they would be allowed to keep silver coins in Banque de France until 31 December 1861. Thus, the parties found the optimal solution for that moment.

Only a month later, from 13 to 21 March 1861, the State bank delivered to Banque de France cash funds in gold coins worth 30 883 084, 05 French francs.

«The State bank
St.-Petersburg
26 February 1861

Monsieur Count,

With regard to your telegram as of 14 February on behalf of the State bank I have approved and signed the agreements between the two institutions about the delivery of half-imperial gold coins worth 7 725 000 rubles in silver coins.

These agreements signed on 15 February and approved by Banque de France contain only two clauses that differ from the original agreement which was supposed to be signed with the banking house Dutfoy, Kinen et Cie.

After 1.5 million (rubles here – the Author's note) in gold half-imperials is transferred to Banque de France, the State bank does not require an instantaneous transfer of 5-franc silver coins for the equivalent amount to its account and reserves the right to place these funds on deposit without any charge till the end of this year.

Bank receipts worth 2 million each will be issued for the whole amount paid out in silver coins, including the premium, on behalf and under the authority of the State bank. Officers of the State bank authorised to deliver gold, Messrs. Rofsy and Damish, will be honored to provide you with the written agreements along with the specification sheet indicating the number of boxes and bags of 1000 coins each.

Would you please be so kind, Monsieur Count, as to hand over to our representatives a copy of the agreements signed on behalf of Banque de France, the statement of gold reconciliation in terms of its weight and value in the national currency of France, as well as bank receipts for the whole equivalent amount in silver coins after doing the inspection of weight and appraisal of the gold delivered, pursuant to the

above-mentioned agreements.
I would like to express my hope, Monsieur Count, that this exchange operation would contribute to establishing close relations between the two banks and lay a sound foundation for future direct and mutually beneficial cooperation, which I would be pleased to strengthen and develop.
Please accept, Monsieur Count, the assurances of my highest consideration.

Believe me to be,
Yours sincerely,

Baron Stieglitz»

«State bank
St.-Petersburg
26 February

Agreements as of 15 February 1861

Banque de France receives without compensation gold half-imperials of the Russian Empire worth the equivalent of seven million seven hundred and twenty five thousand rubles payable in silver coins calculated in accordance with the gold content 916, which corresponds to approximately 30-31 million francs.
The gold value for Banque de France will account for 3437 francs per kilo by the official rate plus the premium of 5/8 %.
Banque de France agrees that it will credit the account of the State bank after every delivery of gold.
Banque de France commits to ensure the safekeeping, till the end of 1861, of the premium stipulated by the agreement totaling 5/8 %, as well as silver 5-franc coins received by the State bank as a result of the exchange operation for the amount equivalent to the value of gold half-imperials delivered to Banque de France.
Banque de France agrees that it will pay out cash funds to the designated persons acting on behalf and under the authority of the State bank in accordance with the bank receipts worth a minimum of 1-2 million francs each, issued for the whole amount placed on the free-of-charge deposit.
On presentation of the bank receipts cash funds shall be paid out in silver 5-franc coins subject to the average weight requirements accounting for 4983 ½ g per 1000 francs.
The present agreement has been concluded between Banque de France and the State bank in St.-Petersburg and signed.

Baron Stieglitz
Governor of the State bank»

On 20 June 1861 Governor of Banque de France notified the General council about the decision taken by the Russian party to take advantage of the right for safekeeping silver coins (i.e. till 31 December 1861). Governor of the State bank baron Alexander L. Stieglitz sent a written notification to his French colleague about the endorsement of 31 bank receipts issued by Banque de France for the funds it holds worth 31 077 009,85 French francs payable to the banking house Dutfoy, Kinen et Cie and two special agents of the State bank authorised to receive these funds. This silver was intended for the production of Russian coins in Paris and Strasbourg.

«State bank
St.-Petersburg, 25 May 1861
To: Banque de France

We hereby inform you about the endorsement of 31 bank receipts worth a total of 31 077 009, 85 French francs payable to the banking house Dutfoy, Kinen et Cie in Paris and two agents of the State bank, Colonel Count Olkhovsky and collegiate assessor N. Galushev. We kindly ask you provide the above-mentioned messieurs with an opportunity to make use of the funds should the necessity arise beginning in June to September this year.
Please accept my sincere wishes for fostering friendly relations between our banks and the assurances of my highest consideration.

Baron Stieglitz
Governor of the State bank»

The above-mentioned amount was paid out from the account on 19 June - 11 October 1861 in accordance with the given schedule. The 1861 Annual report of the State bank mentions re-striking French silver coins into Russian ones: *«In France small silver coins were struck by Paris and Strasbourg mints under the continuous surveillance of two officers from the Mining department assigned by the Russian Government and control of the French government coin committee. Special stamps («matochniki») for coining dies of 10-, 15- and 20-kopeck coins were produced by the St.-Petersburg mint. As soon as the coins were struck, they were delivered to St.-Petersburg by sea . Thus, the exchange operation was successfully completed»*.

S. V. Tatarinov
Bank of Russia

Russia's Finance and Wars in the 19th Century

In the nineteenth century developments in the field of finance, monetary circulation in Russia and wars that the country waged were closely interlinked.

A high impact of wars upon the Russian financial system is proved by the figures of military expenses and their share in the country's total expenditure. A thorough analysis of the state expenditure reports reveals that the share of military expenses in Russia's total expenditure remained at a steady level of around 30% throughout the century[1]. In fact it could hardly be otherwise as military conflicts and wars were almost a permanent phenomenon for Russia at the time.

Whatever importance might be attached to other conflicts by different authors, the three major wars that had the highest impact on the Russian economy and finance in particular were The War of 1812 (1812-1814), The Crimean War (1853-1856) and The Russian-Turkish War (1877-1878).

Notwithstanding the ever high military expenditure it increased dramatically during the war periods both in absolute and relative terms.

- in 1812 the military expenses accounted for 54% of total expenditure growing by 34% as compared to the previous year (see Annex 1)
- in 1813 the military expenses accounted for 67% of total expenditure and grew by another 55% as compared to 1812 (see Annex 1).

The military expenses during the Crimean War followed the same pattern (see Annex 2).

Although the share of military expenses even decreased (24%) by comparison to the pre-war period (34% in 1852), the actual military expenses grew by 11%. Going further one notices that in 1854 the military expenditure even decreased compared to 1853, however it continued to grow in 1855 (by 77%) and 1856 (by almost 38%). The reason for the decrease in 1854 was that some military expenses were not registered in the periods they fell in but were written off later on.

As is clear from Annex 3 the Russian-Turkish war of 1877-1878 was not an exception. Against the background of high military expenses in 1877 they grew by almost 65% in absolute terms and remained at this level till the end of the war.

The link between wars and the state finance is evident. In particular the three wars examined did play a crucial a role in economic and financial development of the country. However the ways in which wars affected the state finance are ambiguous.

In order to unveil the financial mystery of the major Russian wars that shook up the country's economy in the nineteenth century it may be expedient for illustrative purposes to distinguish between *explicit influence* and *implicit influence* of wars on the state finance.

The *explicit influence* can be traced through the sources of financing military expenditure. The main one being *Borrowings* and *Paper money issuing.*

The *implicit influence* can be traced through the financial phenomena that resulted from the war constraints and should be regarded as *paradoxical* because the wars brought about chaos such as monetary distortions while financial "know-how" would appear in wartime.

The War of 1812

The beginning of the nineteenth century for Russia was marked by a number of wars with France (two campaigns in 1805-1807), Turkey, and Sweden.

Russia had hardly finished signing a peace treaty with Turkey in May, 1812 in Bucharest when another war with France broke out. That war is known in Russia as the War of 1812.

The main task for the Ministry of finance was finding money to cover the war expenses. Getting loans abroad was very hard, because Russia had not repaid its previous debt (see Annex 4) fully and the country's credibility had been undermined.

In 1798 the Polish debt was incorporated into the Russian debt. The overall debt reached 93 million guldens or 70.350.000 rubles (the Russian part of the debt totaled 56.500.000 guldens borrowed from Holland plus 5.500.000 guldens borrowed from Genoa, resulting in a total amount of 62 million guldens or 46.5 million rubles (the rate of the time being 1 gulden = 0.75 ruble). The Polish part of the debt equaled 31 million guldens or 23.850.000 rubles).[2]

According to the Decree issued in 1798[3] the total debt (amounting to 93 million Dutch guldens) was to be repaid in 12 years, i.e. in 1810. Obviously the Government had been unable to find extra finance to reimburse the debt due to excessive military expenditure required for waging wars during the period of 1805-1811, and 82.6 million Dutch guldens were still outstanding.

Thus the Ministry of finance borrowed money from the State (Zaemniy) Bank of borrowings and other state institutions.

The importance of borrowings from these institutions can be determined by comparing the state debt outstanding to these institutions on the eve of the War of 1812 (in 1810) with that after the War (in 1817). The stock of borrowings grew by 170 million rubles and their share in total debt reached 21.4%.[4] This figure reflects the amount of money whose repayment period was not fixed and that would hardly ever be repaid thus undermining the state's credibility. Besides, a significant part of this sum was provided by the State (Zaemniy) Bank of borrowings that accumulated money deposited by the population on a non-fixed term basis, so the money could be reclaimed anytime, thus making this source of finance very unstable. If the money had been reclaimed it would have entailed a collapse of the Bank.

However large the debt mentioned above was, paper money issuance played an even greater role in financing the War. This is proved by the "assignations" (paper money of the time) stock increase during that period.

It grew at a rapid pace from 1802 till 1817 (see Annex 5) while different wars were waged and the post-war economy restored. Again these figures reflect a growth of state debt outstanding to the population. While authorising their holders to receive precious coins in exchange, in fact "assignations" could not be exchanged into silver, thus every paper ruble issued added to the non-repayable debt of the Russian Government.

The results of the War of 1812 can be summarised as follows:

- the non-repayable debt (including paper money issued) grew by over 240 million rubles;
- due to excessive issuance of "assignations" the prospect of restoring their exchangeability into precious coins was postponed for the distant future.

In conclusion, therefore there was an obvious need for reforms.

The Crimean War (1853-1856)

The Crimean War was to a large extent financed by borrowings. The following borrowings were undertaken during the war period[5]:

- Two external 5% loans amounting to 90.56 million rubles.
- Loans provided by the state banks amounting to 218.4 million rubles (non-repayable) – this money was borrowed with no repayment term fixed which meant they would hardly ever be repaid.
- Borrowings from the Commission for state debt reimbursement amounting to 12.3 million rubles (non-repayable) – this was a double blow for the financial system as, on the one hand, borrowings were made on a non-fixed term basis and, on the other, money was borrowed from the institution that was supposed to repay the state debts thus depriving other creditors of

their lawful proceeds.

- Treasury bonds issue amounting to 90 million rubles (non-repayable) – those initially were bonds with an 8-year maturity period that were prolonged on a permanent basis and never repaid.
- Total borrowings accounted for 411.26 million rubles including 320.7 million rubles of non-repayable debt.

The monetary system was rather stable on the eve of the Crimean war. The paper money (credit notes or in fact short term public loans to the government) were exchangeable into silver and used as the main means of payment. The decade after the reform was a time of relative stability for the monetary relations.

In 1853 credit notes worth 225 million rubles (see Annex 6) were in circulation while the exchange fund (golden and silver coins collected and brought together specifically to support the paper money rate) contained coins worth 146.8 million rubles. Therefore only 78.3 million paper rubles were not backed by coins. It should also be noted that precious coins worth only 5.4 million rubles out of 146.8 million rubles within the exchange fund belonged to the State Treasury. The rest, i.e. 141.4 million rubles belonged to individual depositors who had exchanged their coins for credit notes.[6]

By the end of 1857 the amount of credit notes in circulation grew to 735.3 million rubles (see Annex 6) while the exchange fund diminished by 5.3 million rubles to a cost of 141.5 million rubles. Therefore the sum of credit notes not backed by precious coins reached 593.8 million rubles. The Government "prompted into action" firstly withdrew its minor portion of precious coins out of the exchange fund. Secondly, it restricted the exchange of credit notes into coins. A specialist permission issued by authorities was now required for individuals to exchange credit notes into coins. The restriction (or in fact abolition) of exchangeability was to the detriment of trust in the official means of payment (credit notes).

The results of the Crimean War can be summarised as follows:

- The non-repayable debt (including paper money issued) grew by over 530 million rubles

(The consolidated part of the debt had scarcely augmented. However the non-repayable part of the public debt had swelled and accounted for almost 80% of the overall debt. This was a phenomenon never observed before in the Russian history of finance).

- Due to excessive issuance of "credit notes" their exchangeability into precious coins was abolished;

In conclusion, taken together these new difficulties brought about by the War were an impetus for reforms.

The Russian-Turkish War (1877-1878)

Extensive borrowings were required for the Russian-Turkish war. However these borrowings were based on actual credit principles (i.e. on conditions of repayment, interest payment, maturity and security). Although the state debt augmented considerably, its non-repayable part didn't grow due to borrowings.

The following borrowings were made[7]:

- 5% bonds - 91.8 million rubles (domestic);
- 1st "oriental" domestic loan – 174.6 million rubles;
- 2nd "oriental" domestic loan – 276.1 million rubles;
- 3rd "oriental" domestic loan – 255.5 million rubles;
- Receipts from railway bonds – 69.4 million rubles

Total domestic finance – 867.4 million rubles

External loan – 106.4 million rubles.

The military expenditure associated with the Russian-Turkish war totaled 1.021 million rubles. Therefore 85% (867.4 million rubles out of 1.021 million rubles) were covered using domestic credit resources. That fact distinguished this War from the previous wars of the nineteenth century.

No matter how successful those borrowings were they became a large financial burden for the country's economy and did not prevent the Government from printing paper money.

A dramatic increase in paper money stock during the Russian-Turkish war was another major financial consequence of the war (see Annex 7).

First and foremost credit notes were required as a source of short term loans supporting extraordinary military expenditure since long-term instruments cannot provide finance as quickly as that.

However the Russian Government could not rely as much on the credit notes as it did during the Crimean War. In 1853 full-fledged money that could be exchanged into precious coins was in circulation. By issuing credit notes worth 400 million rubles the Government did get financial resources in amount of 400 million rubles. In 1876 non-exchangeable paper money was circulating. Thanks to the high credibility of the authorities the paper money rate remained steady at the level of 85% of its face value in peace time. However once the War broke out the rate plummeted (1876 – 80% of the face value, 1877 – 67.5%, 1878-1879 – 63%). Besides the growth of paper money stock increased the state non-repayable debt.

The results of the Russian-Turkish War (1877-1878) can be summarised as follows:

- the state debt was managed in a better way than before, its non-repayable part only grew due to paper money issuance;
- however excessive money issuance made the currency rate fall and prevented the Government from restoring the exchangeability of "credit notes" into coins;

In conclusion, there was an obvious need for reforms.

The implicit influence should be discussed separately. Two opposite examples of implicit influence are given below.

Monetary circulation distortions

Since paper money was one of the main sources of financing military expenditure during the War of 1812 it had to be stable and accepted by the population as an official means of payment. Otherwise the government would not have been able to get what it needed: armaments, food etc.

Based on this assumption it can be suggested that it was in anticipation of the war and tremendous military expenditure that could not be provided for other than by printing paper money that the Russian government issued a Manifesto as of 9 April, 1812[8], proclaiming "assignations", the official obligatory means of settlement to be used for all payments and deals within the territory of the Russian Empire.

In accordance with the Manifesto all taxes denominated in silver had to be levied in "assignations" at the rate of 2 rubles in paper money for each silver ruble. Other duties such as postal duty, state land duty and some others at the rate of 3 to 1. The payments (whose amounts were denominated in silver) by the State Treasury to individuals had to be performed in paper money at the rate of the day. All the settlements between individuals had to be executed in "assignations" only. It is obvious that the official setting of different exchange rates of "assignations" along with a free rate for everyday life of commercial dealers and ordinary citizens could only bring about chaos in the monetary relations. Notwithstanding the intention of the Ministry of finance to support the "assignations" price, the Manifesto instilled confusion in monetary relations. The fluctuating "assignations" rate difference came to be known as the "folk agio" that was not ousted from the monetary relations until the reforms of Kankhrin.

It is not an assertion, rather a suggestion that the "folk agio" was a side effect of preparation for the War of 1812. Since the state needed financing to provide for the extensive military expenditure it resolved to find ways of supporting the paper money where unlimited issuing was expected.

Curious facts about the "folk agio"

The "folk agio" existed in two forms: Although the official exchange rate of "assignations" remained at the level of around 28 kopeks (denominated in "assignations") per silver ruble the circulating silver and golden coins had a mark-up over the price of "assignations". The second form of the "folk agio" was even more curious: the "assignations" of large denominations (such as 100 rubles) had a mark-up over the price of copper and small denomination silver coins.[9] However strange this situation may seem at first sight the underlying reason for the second form of "folk agio" was pretty simple. If someone in Russia had to pay a high price for some goods or services one would generally have two options: either bring to the provider of goods or services a "large" sack of copper or small denomination silver coins or just pass to the aforementioned person a sheaf of "assignations". The latter seemed to be more appealing. However the stock of large denomination "assignations" was not enough to provide for all the payments of that kind. Thus the supply of large denomination "assignations" did not meet their demand.

Besides the "folk agio" was continuously fluctuating and varied depending on the part of the Russian Empire. This was the reason for a tremendous amount of speculations that benefited the cunning and made others lose their money. For example in Nijniy Novgorod (a major Russian city) one could buy goods at the price of 100 rubles in copper or small denomination silver coins or at the price of 80 rubles denominated in "assignations" (in case the "folk agio" equaled 20%). Then those goods could be transported to Siberia and sold at the price of real 100 rubles denominated in "assignations" because the "folk agio" did not apply there.[10]

Financial "know-how" of the time

The opposite example (that of positive implicit influence of a war on the Russian financial system) is evident in the Russian-Turkish war. Intensive railway construction had to be suspended during the war but it was not stopped completely. The amount available (in the special fund) for railway construction in 1876-1879 reached 131.5 million rubles. However, the actual amount spent was much higher at 286.5 million rubles.[11] That sum exceeded the funds available by 155 million rubles necessitating supplementary paper money issuance. Thus usefulness of paper money as a bridging instrument of financing railway construction until receipt of proceeds under long-term loans was revealed.

Conclusion

The wars, while making matters far worse for the economy and the financial system in particular, were to some extent drivers for reform. Such war consequences as increases in non-repayable debt aggravated the bad state of the financial system and made it difficult to manage the state debt. This problem absolutely required resolution. At the same time excessive issuing of paper money either made the latter non-exchangeable into precious coins or made it impossible for the Government to restore paper money exchangeability into coins even if it so desired.

The wars were a "stress test" for the financial system highlighting its weaknesses thus showing the way for reforms (follows from the previous statement).

The wars were a controversial phenomenon for the financial system since, on the one hand, they spawned monetary circulation distortions such as the "folk agio", and, on the other, they brought about financial "know how" as evidenced by the experience of railway construction during the Russian-Turkish war (1877-1878).

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Annex 1. Income and expenses of the Russian Empire in 1809-1817

Year	1809	1810	1811	1812	1813	1814	1815	1816	1817
Income, millions of rubles	305,92	335,2	355,6	415,4	531	596,1	571,6	617,2	626,15
Expenses, millions of rubles	278,45	279	272,2	342,2	423	457,2	391,3	428,2	438,52
Military expenses, millions of rubles	136,04	147,5	136,9	183,8	285	301,1	230,8	254,1	202,2
Share of military expenses in total expenditure,%	49	53	50	54	67%	66	59	59	46
Military expenditure growth rate,%		8	-7	34	55	6	-23	10	-20
Balance, millions of rubles	**27,47**	**56,24**	**83,39**	**73,19**	**108**	**138,9**	**180,3**	**189**	**187,63**

Source: The author's calculations based on the State expenditure reports of the years 1809-1817

Annex 2. Income and expenses of the Russian Empire in 1850-1858

Year	1850	1851	1852	1853	1854	1855	1856	1857	1858
Income, millions of rubles	231	225,2	226,4	227,5	242,4	261,5	264,9	247,2	232,8
Expenses, millions of rubles	263	259,8	261,6	336,3	389,3	544,1	523,3	322,2	257,7
Military expenses, millions of rubles	73,2	88,5	88,7	98,5	93,7	166,2	229	117	93,3
Share of military expenses in total expenditure,%	28	34	34	29	24	31	44	36	36
Military expenditure growth rate,%		20,9	0,2	11,1	-4,8	77,3	37,8	-48,9	-20,3
Balance, millions of rubles	**-32,2**	**-34,6**	**-35,2**	**-108,8**	**-146,9**	**-282,6**	**-258,4**	**-75**	**-25,1**

Source: The author's calculations based on the State expenditure reports of the years 1850-1858

Annex 3. Income and Expenses of the Russian Empire in 1874-1879

Year	1874	1875	1876	1877	1878	1879
Income, millions of rubles	557,7	576,5	559,3	548,8	626	662
Expenses, millions of rubles	543,3	543,2	624,1	1014,4	1037,1	776
Military expenses, millions of rubles	198,7	201,3	260,8	429,3	429,1	132,1
Share of military expenses in total expenditure,%	37	37	42	42	41	17
Military expenditure growth rate,%		1,3	29,6	64,6	-0,3	-69,1
Balance, millions of rubles	**14,4**	**33,3**	**-64,8**	**-465,5**	**-411,1**	**-114**

Source: The author's calculations based on the State expenditure reports of the years 1874-1879

Annex 4. The external debt of the Russian Empire

Borrower, year	Debt outstanding, millions of guldens
Russia in 1798	62
Poland in 1798	31
Total in 1798	93
Non-repaid external debt of the Russian Empire in 1812	82.6

Source: И.Кауфман. Государственные долги России (1-я часть). Вестник Европы, том 1, книга 1-я. - С.-Петербург. 1885 г./ I.Kaufman. State debts of Russia (part 1). Herald of Europe, Vol.1, Book 1. – S. Petersburg: 1885

Annex 5. Paper money stock increase at the beginning of the 19th century		
Year	Millions of rubles	Stock increase rate,%
1802	231	
1805	292	26,4
1806	319	9,2
1807	382	19,7
1808	477	24,9
1809	533	11,7
1810	579	8,6
1811	582	0,5
1816	700	20,3
1817	836	19,4

Source: И.С. Блиохъ. Финансы России XIX столетия. История – Статистика. Том 1. С-Петербург. 1882, ст. 84/I.Blioh. The Finance of Russia in the 19th century.

Annex 6. Paper money stock increase in the 1850s		
Year	Millions of rubles	Stock increase rate,%
1852	170	
1853	225	32
1854	235	4
1855	294	25
1856	509	73
1857	690	35
1858	735	7

Source: The author's calculations based on data from the works of Blioh and Kauffman

Annex 7. Paper money stock increase in the 1870s		
Year	Millions of rubles	Stock increase rate,%
1872	716	
1876	797	11
1877	1097	38
1878	1297	18

Source: The author's calculations based on data from the works of Blioh and Kauffman

Endnotes

[1] The author's calculations based on the State expenditure reports

[2] И.Кауфман. Государственные долги России (1-я часть). Вестник Европы, том 1, книга 1-я. - С.-Петербург: 1885 г./ I.Kaufman. State debts of Russia (part 1). Herald of Europe, Vol.1, Book 1. – S. Petersburg: 1885

[3] Полное собрание законов Российской империи, I, том 25/ Complete Collection of Laws of the Russian Empire, I, Vol.25

[4] И.Кауфман. Государственные долги России (1-я часть). Вестник Европы, том 1, книга 1-я. - С.-Петербург: 1885 г./ I.Kaufman. State debts of Russia (part 1). Herald of Europe, Vol.1, Book 1. – S. Petersburg: 1885

[5] Data from the works of Blioh and Kauffman

[6] И.Кауфман. Государственные долги России (2-я часть). Вестник Европы, том 1, книга 2-я. - С.-Петербург: 1885 г. / I.Kaufman. State debts of Russia (part 2). Herald of Europe, Vol.1, Book 2. – S. Petersburg: 1885

[7] Data from the works of Blioh and Kauffman

[8] Полное собрание Законов Российской империи, № 25.080/Complete Collection of Laws of the Russian Empire, № 25.080

[9] П.А. Остроуховъ. Изъ исторіи русскаго денежнаго обращенія. Прага: Русский свободный университет. 1941 г., с. 2/ P.A. Ostrouhov. Some facts about the Russian monetary circulation. Prague: The Russian Free University. 1941, p.2

[10] Ibid., p.4

[11] И.Кауфман. Государственные долги России (2-я часть). Вестник Европы, том 1, книга 2-я. - С.-Петербург: 1885 г. / I.Kaufman. Public debts of Russia (part 2). Herald of Europe, Vol.1, Book 2. – S. Petersburg: 1885

A Dual-track Reform of China's Banking System in the 1980s and its Consequences on the Direction of Financial Flows Insight from China's Countryside

China's development strategy has been influenced and characterised by the aim of *yindizhiyi* i.e. adapting measures suited to local conditions. Central government policy making has often been in the form of guidelines and directives that set a general framework and left room for local interpretation and developments. Considering the size of the country, its geographic, cultural, social and economic divergences, this is a reasonable and pragmatic approach. As a country in transition with an incomplete institutional setting, China furthermore has made use of this strategy to allow for an evolutionary approach, which includes limited local experiments, a dual-track price system and a certain amount of opportunity for bottom-up developments. The latter creates opportunities to eventually adopt changes on the micro-level and incorporate them into central policy directives.[1] However, this evolutionary approach to development has resulted in frictions within the hierarchy of power and in the inherent risk of power collusion. Policy guidelines issued by a central government run the risk of causing deviating developments on the micro level which could even counteract the original intention. Given the situation of China's 'fragmented authoritarianism'[2], where the power relationship not only includes market and state actors but also involves local government acting as strategic players, these consequences were to be expected.

Against this background the paper analyses how the interaction between top-down instructions and bottom-up responses has shaped the evolution of China's banking system in the 1980s[3]. The paper shows how decentralisation of capital allocation to lower levels resulted in economic growth as intended, eventually though at the cost of central control over financial flows and excess credit expansion. Inflation in the post-reform period in China has been subject to a number of macroeconomic studies.[4] The present paper takes a different approach and focuses on developments on the micro-level that responded to macroeconomic and monetary policies. The decentralising of lending decisions to lower levels took place at a time when financial institutions had no means to independently assess their clients to evaluate their credibility but had to rely on local arrangements of non-market forces to manage lending risks. On the other hand, as financial institutions were put on a dual-track lending system comprising both commercial and policy lending, loopholes for local collusion were created making non-market interference possible in the first place. Micro level arrangements influenced financial flows at the local level and eventually impeded central government's intention. Subsequent adaptions of the banking system were partially a result of these developments and thus were induced bottom-up.[5]

Setting the framework: Implementation of a two-tier banking system

Towards the end of the 1970s, it became obvious that microeconomic decisions could not be controlled and coordinated from offices of government administration at the central level alone.[6] When China's reform and opening-up policy was launched in 1978 by the Third Plenum of the Eleventh Central Committee of the Communist Party changes in the real economy were introduced that gave enterprises the right to make their own production and investment decisions.[7] Subsequently, reforms in the 1980s aimed to establish a financial system that organises and directs financial flows more effectively and efficiently to enhance the productivity of the real economy.[8] Yet, market based mechanisms were supposed to act "under the guidance of one plan"[9].

Central government objective: decentralisation of the financial system to comply with economic reforms

At the beginning of the reform era in 1978, deciding what role state actors should play within the capital allocation process and what should be left to be directed by market forces was highly controversial: Shih (2008) analysed various internal government and banking documents and concluded that the more traditional faction favoured a rather bureaucratic system that regarded the banking sector as a means to achieve policy tasks, to maintain social and economic stability, and to reduce costs for monitoring and evaluating state-owned enterprises. The other faction saw banks as a source of funds to fuel local economic development and increase investment autonomy at local levels. Banks would be a means for local government to circumvent the central budgetary granting process and direct financial flows according to local conditions.[10] The latter faction, which was headed by Deng Xiaoping, eventually prevailed. The reformers hoped to increase efficiency on the micro-levels, as banks would act more selectively in allocating their funds, as they would be able to collect and incorporate local information when giving out loans and thus would monitor the performance of the recipient enterprises more closely. Efficiency induced by market mechanisms was expected to be brought at comparably lower costs than it would have been if responsibility for loan distribution had remained with central government offices.[11] Moreover, bank credit was supposed to lead to a hardening of budget constraint, a problem well known in the pre reform era.[12] It will be shown below, that the resulting system, however, still contained elements of both positions on the role of banks.

Corresponding changes in the monetary policy: bogaidai - bank loans instead of budgetary grants

Before 1979 the distinction between fiscal and financial assets was rather artificial, as the People's Bank of China (PBC) de facto functioned as a fiscal agent to the Ministry of Finance and the mono-banking system controlled the flow of government budget, which included the financial flows for investment decisions, enterprise finance and funds for government projects.[13] The main role of monetary policy was to control the implementation of the physical plan, which required a financial counterpart, i.e. the credit plan that provided the amount of liquidity necessary to realise it. The task of supplying funds was divided between the budget and the banking sector. The budgetary plan defined by the Central Planning Committee funded all fixed investments plus most permanent working capital required by enterprises in the form of grants. The PBC supplemented these funds with short-term working capital when enterprises temporarily needed more than the centrally allocated quota.[14] Cash circulation for enterprises was furthermore tightly controlled: maintaining an account with the PBC was required and withdrawal could only be done when expressly authorised.[15] Bank operation as such was not decisively determined by risk considerations. As long as the banking system followed the instructions of the planning commissions and other bodies it had mostly accounting functions to perform.[16]

The first steps to reforming the banking sector were taken in 1978, when the PBC was separated from the Ministry of Finance and granted the status and authority of a central bank in 1983. In a second step, four banks were authorised to undertake commercial operations: Industrial and Commercial Bank (ICB), Agricultural Bank of China (ABC), China Construction Bank (CCB), and Bank of China (BoC). A two-tier banking system arose with these four

banks and the PBC as the central bank. The widely used practice of zero-interest government budgetary grants for investment projects was phased out in favour of interest-bearing bank loans for both working capital and fixed asset investments. This policy was implemented in 1979 and was officially labeled as *bogaidai*, i.e. loans instead of allocations.[17] Between 1979 and 1984 the share of investments into fixed assets financed outside the state budget increased from an estimated 35 percent to about 60 percent.[18] Along with this transformation of the banking system, decisions involving the issuing of loans were decentralised, so it was only logical that the PBC stopped granting direct loans to enterprises altogether in 1984.[19]
This required certain changes in monitoring policy. When the PBC lost its ability to channel budgetary grants and financial assets to enterprises and to government favoured projects directly, the credit plan from the pre-reform period was kept in place as one of the monetary instruments of the central bank. Its formulation changed though, as the calculation of the overall money supply was supposed to incorporate micro level data: Based on expected economic growth, the total volume of new loans and the allocation of specific loan ceilings for each of the specialised banks were tentatively communicated by the central bank to the headquarters of the respective banks. After consulting their provincial and regional branches, the branches on a provincial level submitted a revised plan to their headquarters to mutually formulate the final credit plan, eventually approved by the State Council.[20] The PBC then issued and ratified loan quotas for each of the four specialised banks and set the rediscount rate to which banks were able to borrow from the central bank.[21] The credit plan was the basis to achieve the national investment plan targets and determined the allocation of funds provided either indirectly by the central government as "directed credit" or by lending granted from the banking institutions themselves.[22]

Among the monetary instruments with which the central bank was furthermore endowed , was the authority to centrally set interest rates for both loans and deposits, which varied according to their classification, e.g. lower rates for agricultural and infrastructural loans. Furthermore, the central bank issued reserve requirement ratios for the four specialised banks as a means to control liquidity in the market.[23]
Originally set at 20% for enterprise deposits and 25% for rural deposits, including the redeposit of the rural credit cooperatives at the Agricultural Bank of China, the reserve requirements were reduced to a uniform 10% for all types of deposits and all specialised banks in 1985. In 1985 the rate for bank lending from the central bank was set higher than for deposits placed at the central bank. Moreover, rates were set differently for lending within the credit plan and for lending needed for additional lending, the latter one being higher. [24]
Despite these indirect instruments, the credit plan remained the main instrument for the central bank to control the amount of money supply. Unlike the pre-reform era it, however, aimed to also stimulate microeconomic incentives in the actual allocation of capital.

New incentive structures within the banking sector: duocun duodai - more deposits, more loans!

With the switch from non-interest bearing budgetary grants to bank loans, banks were facing a new situation: They were the primary channel through which investments were financed, but also had inherited the responsibility for the proper allocation of capital within the economy from the PBC and the Ministry of Finance. In addition they were supposed to make their own lending decisions and became responsible for their own profits and losses.[25] At the beginning of the 1980s the central government replaced the traditional system of centralised management of deposits and allocation of loan quotas with a new system of "central planning and decentralised administration, linking deposits with loans and controlling their differentials" (*tongyi jihua, fenji guanli, cundai guagou, cha'e baogan*). The central plan was 'devolved' and quotas were allocated to branches at the local levels. The local branches of the PBC were still assigned goals for total deposits and total loans that were derived from the overall credit and cash plans, but were given greater leeway in their lending decisions: The volume of loans was linked to the volume of deposits and the difference between loans and deposits became the constraint the banking system had to meet.[26] The year-end planned deposit volume was to be added to the appropriated funding volume from above and stood against the total outstanding loan volume planned.[27] This led to what was eventually described as *duocun duodai* (i.e. more deposits – more loans). Branches that succeeded in attracting more deposits could extend more credit rather than having to remit these funds to a higher level of the PBC.[28]

Applied reform approach: Dual-track price system

A dual-track price system comprises two different allocation mechanisms: one track functions on the grounds of fixed input prices and fixed outcomes, the other track is based on market prices. When combined they form a strategic option for a country to gradually develop from a planned to a market economy. Such a dual-track system is often cited as a alternative for the so called big-bang strategy; it is considered to be socially less costly as the old system can remain and gradually transform while the market oriented system slowly grows.
The loan allocation in China in the first reform years was determined by two types of loans. One type of loans was part of the mandatory plan (*zhilingxing jihua*) and was supposed to support national priority projects, among them construction projects and policy loans for rural development. These loans were not given out on the basis of economic principles but were justified by political priorities. As such, these loans featured positive externalities, as those that benefitted often did not bear the cost for funding, namely state-owned enterprises.[29] The provision of these loans was jointly worked out by the provinces, the respective ministry and eventually the State Planning Commission as well as the PBC.[30] The other type of loans consisted of working-capital for local projects and commercial loans. These loans were supposed to be granted by the financial enterprises on the basis of economic principles. Hence a dual-track lending system was established: on the one hand banks had to provide funds for government-endorsed investment projects – the so-called policy lending (*zhengce daikuan*) – which most often were priced at lower interest rates than commercial loans so that banks received less return from supporting these projects.[31] At the same time banks were expected and encouraged to attract funding, i.e. deposits, themselves, so that they could extend a substantial volume of loans at their own discretion in addition to the so-called policy lending (*zhengce daikuan*).[32]

Insight from the local level: The development of China's financial system in the countryside as an example for the consequences of the reform

The economic reforms of the late 1970 embarked first in the rural areas. The households became the basic production unit and when labour was released from collective units, capital was needed for both agricultural production and industrial development in the countryside. In the years 1978 to 1984, the annual growth of per capital rural household income reached 73% and industrial production in the countryside grew by 1,188% and thereby outperformed the national industrial production, which grew by only 227% in the same period.[33] The diversification of production and the emergence of a vibrant non-agricultural sector led to a more complex demand for financial services in the countryside. So-called township and village enterprises (TVE) emerged and significantly contributed to China's rural development. By the late 1980s, these enterprises produced over two-thirds of rural industrial output.[34]

Institutional setting: state-owned agricultural bank and rural credit cooperatives

Among the measures of financial liberalisation and decentralisation, the State Council reestablished the Agricultural Bank of China (ABC) in 1979.[35] The bank was made a direct subordinate of the State Council and initially functioned as a representative of the central bank (PBC) in the countryside. The ABC thus was put in charge of managing the countryside's financial situation and of appropriating government funds.[36] Policy lending included loans to collective agricultural organisations, for the purchase of agricultural and sideline products and for the purchase of grain.[37] Although the reforms of 1984 also introduced competition among the four specialised banks and allowed them to lend outside their originally allotted business scope, the ABC was usually the only banking institution in many townships in the countryside. Furthermore, the bank obtained the control over the local rural credit cooperatives (RCCs).[38]

The RCCs have been in existence since the 1920s and had developed into a large national system of local cooperatives during the 1950s, when around 90 percent of farmers' households were members by either holding shares or as depositors. During the Great Leap Forward (1958-1961), these institutes were converted into the financial management units of the people's communes at the cost of their independence, thus deviating from the cooperative principles of serving individual households.[39] With the banking reform in 1984, RCCs were pushed to resume their original role of a cooperative financial institution. Thus, they were nominally member-owned and had the status of independent legal entities. [40]

This independence of the RCCs was only superficial, though. When the setting of differentials between loans and deposits was extended to the RCCs, it proved to be impossible for them to follow these rules in their operation given the highly seasonal nature of agricultural loans.[41] Therefore the RCCs were put under the authority of the ABC so that loans and deposits of the two institutions could be pooled and the fluctuations over the year could more easily be counterbalanced by interbank transfers between branches of the ABC and local RCCs. While both types of institutions continued to maintain separate account books[42], funds were in reality often combined and large amounts of rural household deposits were channeled to the ABC. Until 1984 more than 50% of the deposits held by the ABC were transfers from RCCs. Although this percentage decreased in 1984 when guidelines were issued to strengthen the collective structure of the RCCs, the system contained the source of a long-lasting conflict of interests between the two financial institutions.[43] While the ABC commanded a widespread system of local branches and reached down to the township level, it remained nevertheless a central government organ and an instrument of central policy. RCCs on the other hand operated on a rather limited network and were more embedded in the local community structure.

Initial impact of banking reform: credit expansion based on unconventional lending and risk management methods

In the 1980s the total loan volume of the ABC increased by more than 370 percent, with the loan book of the RCCs growing by 1300 percent in the same period. During that time the increase of the volume of loans extended to township and village enterprises (TVE), the successor of the former commune-brigade enterprises, by far exceeded the above figure: Almost 700 percent for the ABC and 1800 percent for the RCCs.[44] In 1984 the ABC extended around 15 percent of its loan volumes to TVEs, which considerably exceeded the originally intended amount of loans to rural enterprises.[45] These figures are surprising when taking into account unclear ownership structure of these enterprises: They were neither owned by private individuals alone nor were they state-owned.[46]

They began in a legal white spot and developed in political and economic niches.[47] As their status was unsecured given the fragmented and lagging legal and administrative structure at that time, their property rights were ambiguous and thus made it impossible for banks to rely on these property rights exclusively when making loan decisions. While central government attempted to improve the integrity of the banking business by requiring working capital to be backed by 30 percent of the company's own fund, rural enterprises were often able to obtain loans even though they did not meet these requirements.[48] Apparently, rural financial institutions applied other measures to address their clients' credibility. Unconventional methods to mitigate lending risk became necessary as no reliable external or third party existed to audit corporate financial data and thus made it possible for companies to "fool the banks"[49] through 'creative accounting'. Moreover, as most assets of these township and village enterprises were held collectively or by local government, liquidation costs in case of non-repayment would be relatively high. According to Park and Shen (2003) the word collateral did not even appear in ABC documents until 1985.[50] Even if collateral was available in rural enterprises, the financial institution was often not able to get hold of it in case of failed repayments. Although the bankruptcy law was passed in 1986, it was often difficult to have it enforced.

Park and Shen (2003) argue that despite their institutional and legal short-falls, it was the collective characteristic of these rural enterprises that made rural financial institutions willing to lend to them in the end: Lending to TVEs contained the key features of joint liability lending, where the problems of adverse selection and moral hazard are overcome by group sanctioning and monitoring abilities.[51] Sanctioning mechanisms were however exerted by the local government on the collective enterprises within their jurisdictions. This was possible because managers of these collective enterprises were mostly native local residents who usually had well-developed personal relationships with the local government. They were nevertheless highly dependent on the local government for career advancement. So in the end, it was often the local government which made collective lending reliable.

One aspect of the intermediary role of local governments was their advantage in collecting and providing information, as they were able to extract inside information and to provide monitoring capacity over township and village enterprises and their management. As local governments had an interest themselves in influencing the allocation of capital according to economic principles, they collected information on enterprises and created credit ratings to identify creditworthiness themselves. Chen (2006) furthermore observes that this construction resembles a relationship-based contract where a "senior community member replaces the functioning of the market as a means of identifying entrepreneurial talent" [52]. Given the special position of local governments in the rural industry, local banks used the information contained in these credit ratings when extending loans to the local industry, because they could assume the ratings to be fairly reliable.[53]

Another aspect of the intermediary role of local government was the provision of guarantees. According to the Chinese law, a guarantor was required to be an economic entity with its own independent source of income. Interviews by Whiting (1996) reveal, however, cases where local government offices resumed the function of a guarantor: While the township industrial corporation, the successor of the rural enterprise bureau, was a government office with the official function to supervise the TVE, it was simultaneously working as an economic and legal entity, similar to a financial conglomerate or a holding company, and managed profit remittances.[54] Within this construction, local government frequently placed levies on the retained profits of the successful enterprises under its jurisdiction in order to repay delinquent loans of enterprises that are performing poorly.[55] This made it possible for a bank to lend to rural enterprises despite their lack of reliable financial statements and marketable assets to pledge as collateral.[56]

Local government in some cases also used its fiscal budget to pay back loans in case of delinquencies.[57] This can be seen as part of a reputation mechanism, when it is anticipated that any default will put an end to future lending by the banking institutions. As there was low competition in the rural financial market, financial institutions were endowed with some monopolistic power and could place a hard budget constraint on the rural enterprises. Financial institutions drew additional power from the fact that only loans to state-owned enterprises were administratively mandated as part of the state credit plan.[58]

The ABC and the RCCs extended mainly short term working capital loans to the rural enterprises, because these loans were less restricted by central planning, but also because rapid repayment in principle reduces the monitoring costs for the financial institutions.

The local government: rent seeking eventually counteracted initial market enhancing functionality

Whiting's in-depth analysis of how tax and evaluation systems function as incentives for local administrators at the grassroots level provides a further, though less positive view, on the intermediary function of local government.[59] During the pre-reform era, enterprise profits and tax receipts were transferred to the central government and budgetary grants were centrally allocated to the lower levels given the system of "unified income and expenditure" (*tongshou tongzhi*). Exceptions were made for profits and tax receipts of commune and brigade enterprises, which accrued to their de facto owners, i.e. the commune, and not to the central government. Fiscal reforms in 1980, which were subsumed under the slogan of "eating in separate kitchens" (*fenzao chifan*), made local government primarily responsible for their own revenues and expenditure. Whiting (2000) thus notes that this system made "township government the de facto owner of the collective enterprises under its jurisdiction with a claim on the profits of these enterprises, while at the same time it was a tax collection agent of the central government".[60] While this constellation has been subject to extensive research with contradicting conclusions[61], it nevertheless serves as a strong incentive of local government to support the growth of rural enterprises. Adding to this, the cadre evaluation system as issued of 1979 emphasised quantifiable indicators of performance: Besides education and other public goods, it was the growth of rural industry by output, profit or sales that determined the bonuses of the local cadres. Given these incentives, local governments put a lot of effort into securing as much loan volumes as possible from the banks to finance new enterprises, because it was easier to increase output value by setting up new enterprises than by improving the performance of the existing ones. Efficiency considerations were eventually not among the most important factors directing financial flows in the countryside.[62]

Thus, rural financial institutions did not only have to deal with the problem of incorrect statements by local enterprises, but also with local government personally intervening so that enterprises received a higher rank in the bank's own credit rating system.[63] This situation was exacerbated by the fact that the bank management often depended on the local government for its career development. Given the dual leadership of banking governance, local party authorities were able to influence the appointment of township bank officials and were able to make use of party channels to govern them.[64] More subtle examples of this type of influence include the supply of water, electricity or housing as well as providing access to better schooling for children of bank officials.[65]

A World Bank study covering that time points out that towards the end of the 1980s rural industries could retain less and less of their gross profit for their own investments and were thus increasingly dependent on credit finance. Instead higher shares of profit were transmitted to township government and local cadres.[66]

Eventual reform outcome: increase in demand for funds and loss of control over the allocation of these

Bank credit was, however, still subject to the central credit plan and to the policy of 'more deposits, more loans'. More leeway in lending and thus capital flow outside the state budgetary plan was thus only possible when banks could absorb more funding from household savings than necessary to fund central government projects.

Household savings was one source of funding and its increase was intended and anticipated by the financial reform policies in the 1980s. The deposit of the RCCs rose from RMB 21.5bn in 1979 to RMB 214.5bn in 1990; during that time the proportion of household savings placed with the RCCs increased from 36% to 86%. The ABC was not able to reach down to the household level to mobilise funding to the same extend.[67] Until 1984 the ABC was, however, able to extract a large amount of household deposits from the RCCs. When the RCCs strove for more independence, though, the ABC branches had to adjust their loan-to-deposit ratio increasingly on their own.[68] As expressed by a respective bank manager, the ABC was squeezed between "pressure from above and leakage from below" (*shangya xialou*): While the ABC was burdened to comply with policy lending targets and state project funding standing as high as 70% of the total loan volume, the liquidity foundation, i.e. deposits from RCCs were dripping out of their realm, as the latter insisted on their status of a cooperative entity independent from the remaining banking system.[69]

Hence, the ABC tried to lobby for more funding, so-called re-lending (*zaidaikuan*) from the central bank. The practice of re-lending officially encompassed earmarked funds for special purposes and to support financial institutions, in case they were given loan quota but had not acquired enough funding.[70] Earmarked funds were given to the ABC, for example, in order to supply funds to state procurement agencies. As part of the national development strategies, the procurement price paid for agricultural products began to increase; however, the increase in prices was not reflected in the urban consumer prices as they had yet to be subsidised. The accrued losses of the procurement agencies were left to be funded by the PBC via bank lending by the ABC.[71] Thus, in order to acquire more funding, the ABC in some places tended to strategically underfund this rather 'rigid' demand for loans: An example cited by Huang (1996) shows that the ABC exceeded its allotted loan quota by 48 percent in the months between January and August 1988 to ask the central bank for additional funding for the autumn procurement of agricultural products.[72]

Other means to extort funding from the central bank were so called white notes (*dabaitiao*). When the ABC was unable to pay for these agricultural procurements, as it had already used its funding for commercial lending, it tended to extend informal notes of debt obligation when farmers came to deliver their harvest.[73] When

the peasants eventually came to redeem these notes, the central bank felt obliged to cover them by providing more funding to the branch in order to prevent social unrest.[74] In the end, this led to the overall operational principles of "what the budget cannot cover should be covered by bank credit, what bank credit cannot cover must be covered by the PBC"[75]. The ABC was able to take advantage of the fact that the PBC had no other means to direct funding to national priority projects than by channeling funds through the banking system itself. Eventually, the PBC functioned as the de facto lender of last resort.
As set out above it was furthermore in the interest of local government to increase the loan volume available within their jurisdiction. Thus, local bank branches tended to collude with local government for higher credit and investment plans. As the PBC was subject to the system of dual leadership, its branches on the local level were exposed to local government intervention and a weakening of central control. According to Montes-Negret (1995) this often took place in an "implicit quid pro quo"[76] where the employees of the local PBC branches were rewarded for funding local projects with higher status and benefits. It was moreover difficult for the head-quarters of the PBC and the State Council to obtain ex post verifiable information about the diversion of credit undertaken by the local banks.[77] Thus, it was possible for local banks to allocate credit across projects and together with the local government arbitrage the dual-track loan system.[78] The fact that the central government did not have any independent source of information when formulating the central credit plan, which determined the funding provided for the investment plan and influenced the amount of centrally directed funds through the banking system, increased the potential for diverting funds on the local level. The assessment of provincial investment demand had to be based almost exclusively on the information submitted by the provinces and was thus strongly influenced by the local officials themselves.[79]

Conclusion

The actual loan volume in the 1980s constantly exceeded the credit plan[80] and thus undermined the main monetary instrument of the central bank. Given asymmetric information, local financial institutions were able to allocate credit across projects and thus channel financial flows to purposes and projects which were not necessarily those put down in the central credit plan. This development was initiated by the dual price system within the lending business.
The dual-track lending system opened potential for bargaining, so that in the end, the amount of loans which banks were required to extend as part of policy lending did not necessarily match the amount of directed credit by central government in order to fund them. The control over credit allocation had the potential of power struggles between banks, central and local government. The credit plan, and therefore also the amount of government granted loans, was a product of top-down estimations and bottom-up aggregation of local data with a natural information advantage of the local level parties. On the other hand, central government could strategically underfund the policy projects and leave it to the banks to fill the funding gap as a precondition to commercial lending and to create an incentive to prudent capital allocation. However, despite the fact that the banking institutions are state-owned, their governance has been – similar to other government bureaucracies in China - under the dual leadership of the state and the Chinese Communist Party. While the PBC, as a more state-oriented institution, monitored the banking system and influenced the selection of bank management staff, bankers on all levels also relied on the respective level's party officials for career perspective.[81] This opened potential for local officials to intervene in the banking industry. Furthermore, the price differential between commercial and policy lending eventually weakened the central

bank's power to issue binding credit plans. Local banks used their own funds as well as centrally directed loans for commercial activities and tended to underfund state priority projects, because they were less profitable. The central government, which was not able to extend loans itself anymore, was thus forced to make up for this structurally induced underfunding by infusing constantly more capital into the banking system. As long as central government was committed to supporting state-owned enterprises and projects as part of the overall credit plan, more and more money had to be provided. Eventually, the central government had succeeded in establishing market incentives within the banking system; the allocation of capital was, however, determined by investment preferences that did not necessarily accord with the original intention of the credit plan.

Outlook: In an attempt to regain control of the system, the Chinese government followed a threefold strategy in the 1990s:

1) the task of giving out 'policy loans' was transferred from the existing four state-owned banks to institutions specially founded for that purpose (China Development Bank, the Export and Import Bank of China, and the Agricultural Development Bank of China)
2) This made it possible to push the four existing banks further on the road to becoming 'normal' commercial banks because interference by local governments was greatly reduced and further banking institutions were allowed on the market as competitors.
3) The People's Bank of China was strengthened in its role as a central bank responsible for monetary control and financial stability.

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Endnotes

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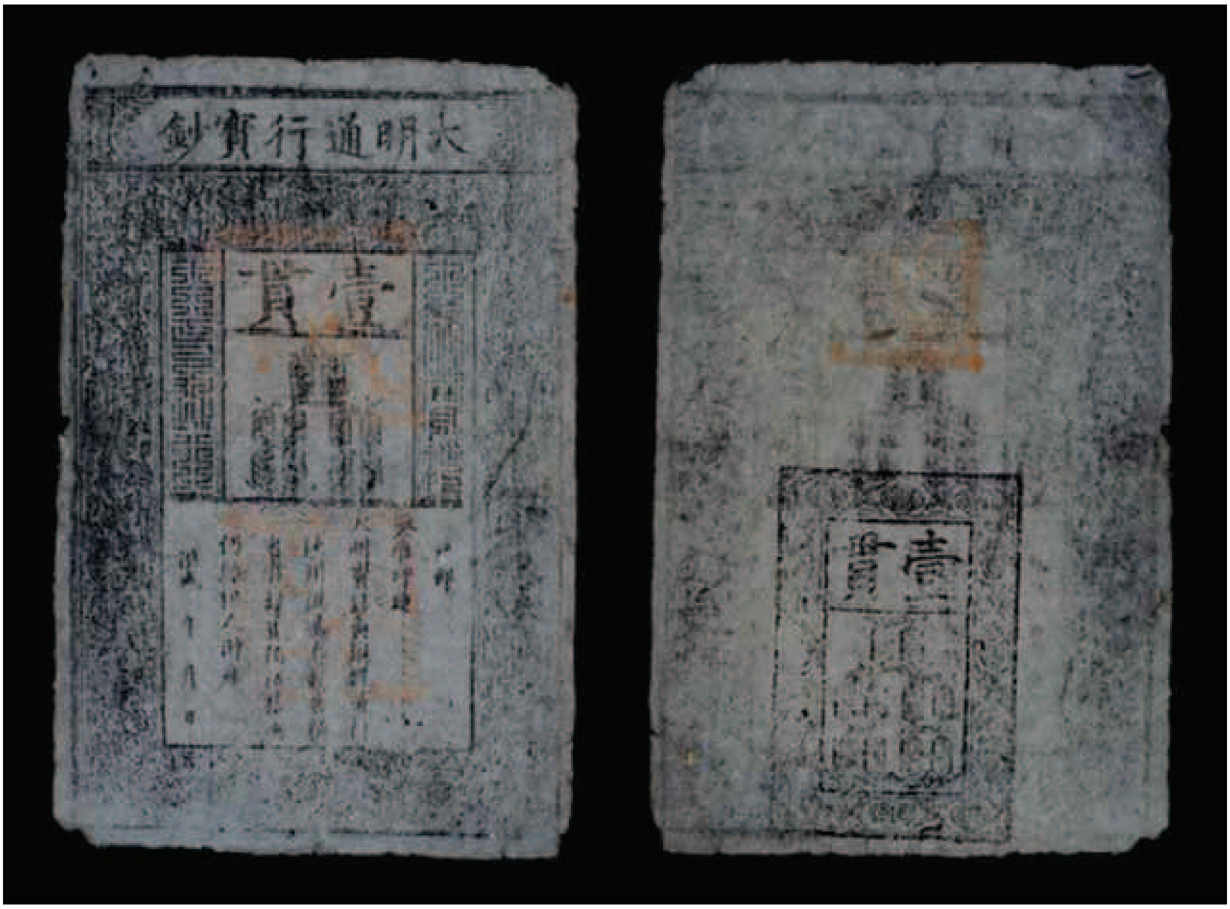
Money Stories: the Development of the Citi Money Gallery

Money is a very familiar thing in the modern world, and something we use every day. It is perhaps not often that we stop to think about these small metal, paper and plastic objects. Where did money come from? How does it work? What is it that makes us all trust that currencies are worth what they say they are? How has money and the ways that people use and abuse it changed over the last 4000 years, and how might it change in the future? These are some of the questions that the new Citi Money Gallery at the British Museum will answer.

The Money Gallery at the British Museum opened in 1997, and since then the thematic approach taken by the gallery, telling the story of money rather than creating a display of coins and paper money, has been imitated in money museums around the world, and has been extremely influential. So, it was with some trepidation that we began the project to redisplay it, creating a new permanent display of the history of money at the British Museum. At the same time, it was clear from that what was needed was more than a simple refresh of the existing displays, as evaluations carried out over the years had given clear pointers for the ways in which the Money Gallery could be improved. Thanks to support from Citi, we were able to begin work on redisplaying the money gallery early in 2011. Working with the team of specialists in the Department of Coins and Medals and with members of the Interpretation team, we defined a set of key messages for the gallery, which could tell this 4000-year global story with fewer objects, more clearly.

We decided very early on to keep the existing chronological structure of the gallery, so that visitors can literally walk through the history of money. The gallery is a long, thin, space, so we decided that each side of the gallery would have a different main message. One side of the gallery will look at the authorities behind money – the rulers, governments, and institutions, who issued, backed, and guaranteed the value

El-Amarna hoard, Egypt, about 1350–1300 BC of money in circulation. The other will focus on individuals, and what they used money for, including the social and cultural significance that money has had, as well as its financial uses. Each of these main stories is told through 6 wall cases, each of which uses 4 case studies to look at a particular theme or key idea. To give just three examples, at the beginning of the gallery, there will be a case on the beginnings of coinage, which includes Lydian electrum coins, alongside Chinese bronze spade money and knife money, and Indian punch-marked coins, looking at what we know about the authorities that issued them, and the ways that the tradition of coinage developed differently in different parts of the world. In the middle part of the gallery, one of the cases will be on individuals' ritual and religious uses of money includes case studies on burying coins with the dead, on pilgrimage, on alms-giving, and on amuletic uses of coins. In the modern part of the display, there will be a case linking to bigger economic institutions, including sections that look at banking, at financial crises, at what backs the currency in circulation, and at communism and money. Each case features one object in it particularly clearly – mounted on a vibrant raspberry-red fabric panel. These 12 key objects, which we call 'gateway' objects can each in some way tell the whole story of the case, and provide a way into the key themes of the gallery. In addition to the wall cases, there are a number of cases along the centre of the gallery, and these will show the ways that money is made, and the ways that it is counted, accounted for, saved, and hoarded. The central case in the gallery will look at the problem of forgery – which has existed for as long as currency has, which authorities have tried to stop in order to maintain the value of the currency in circulation.



Great Ming circulating treasure note, China, AD 1375

Within this framework, and given that this will be a permanent display, we wanted to find ways to be able to update the content. The Department of Coins and Medals is very active in the processing of finds, working closely with the Portable Antiquities Scheme and with the Treasure recording process. This means that there are often new finds and new hoards coming in to the department, which we will be featuring. The Department is also very actively engaged in contemporary collecting, documenting the ways that money in the modern world is changing. New technologies are being introduced, and these can have unexpected impacts on people's lives, so we are working with the Institute for Money, Technology and Financial Inclusion at University of California, Irvine, to feature some stories about the ways that money is changing lives. The first featured case study, for the opening of the gallery, will be about mobile phone payments in Haiti, which after the earthquake in 2010 suffered the almost complete destruction of its banking infrastructure. Since then, the use of mobile money has increased dramatically, and a group of researchers in Haiti undertaking ethnographic fieldwork on this are collecting objects for the British Museum and for this display, and a package of objects arrived only a few weeks ago.

The new displays will open on 1 June 2012, and although there is still much work to do before then, our trepidation at taking on this huge topic and redisplaying a much-loved gallery has changed into excitement, as well as renewed interest in parts of the collection that had perhaps not has as much attention as they might have done in the past. The 1200 objects in the new displays, from around the world, drawn from across the British Museum's collections, and supplemented by a small number of loans, all tell fascinating stories about money. The Citi Money Gallery will give a historical context to money, at a time when the contemporary global economic situation is never far from the headlines. From the earliest evidence, more than 4000 years ago, to the latest developments in digital technology, money has been an important part of human societies. Looking at the history of money gives us a way to understand the history of the world.

Catherine Eagleton
Curator of Modern Money
Department of Coins and Medals
British Museum

Electrum coin, Lydia (modern Turkey), about 650 BC

A Collection of Architectural Plans
Bank of Spain
An Excellent Sample of Spanish Banks´Architecture of the Last 130 Years

Volume: 1,799 plans grouped in 173 projects
Materials: canvas, paper, vegetal paper
Designs: drawings, ornaments, plants, fences, outdoor sculptures, floorings, furniture…

The Architecture Collection brings together the most relevant construction and remodelling projects of the buildings previously owned by the Bank of Spain. Of outstanding quality, these projects were carried out by prestigious Spanish architects (Eduardo de Adaro, José María de Aquilar, Severiano Sainz de la Lastra, José A. Santullano, Pedro Caselles, José de Astiz, Pedro R. Mariño, Antonio Illanes, Julián Apráiz, Secundino Zuazo, José Yarnoz, Javier Yarnos, Romulado de Madariaga, Luis Menéndez Pidal, Juan de Zavala, Rafael Moneo...).

Creation of the Collection
Beginning in 1991, the Historical Archive of the Bank of Spain assembled the plans from different offices and its own archival documentation. The final Collection was agreed in 2009, after the important task of selecting those projects that have, without a doubt, significant cultural, artistic or historical relevance and should therefore be integrated within the documentary heritage. In 2010, the contents of the Collection was restored, assembled and digitised in order to facilitate consultation without the necessity of handling.

Structure of the Collection

Central Building in Madrid:
Plans of the different construction stages of the building in the Cibeles environs, inaugurated in 1891 and extended for the first time in 1934. A further extension followed in the 1970s, and was completed in 2006. Renowned architects have given Madrid one of its most emblematic buildings.

Buildings of Branches:
Architectural plans of the seventy-three branches and agencies that the Central Bank, which began its territorial expansion with the concession of the banknotes emission monopoly in 1874. Only a few yet valuable modification plans of the leased buildings used for the establishment of the first branches are preserved. In the beginning of the twentieth century a policy of new constructions was implemented. These buildings were adapted to the particular operative requirements of the Bank of Spain, creating a particular style that identifies its buildings in every Spanish region.

Other Projects:
Plans of other buildings that belong or have belonged to the Bank of Spain, and additionally buildings that did not belong to the bank but which, for various reasons, have been found in the documentation of the Archive, for example the ‘Pajar de la Puerta de los Pozos’ (Roof of the Fountain Door’)’ by Sabatini

Other data of interest
Highlighted for its curiosity, among other things, is the reform of the water sewerage network of the Prado Avenue, which was necessary in order to start the construction work of the first building and the construction project of the ‘Cámara del Oro’ (‘Golden Chamber’) in1932, located 35 metres underground and with a total surface area of 2.500 square meters.

www.bde.es

Branch of Bilbao, longitudinal section. Julián Apraiz. 1918.

Branch of Jerez, detail of the façade. José de Astiz. 1904

The Euro: (Greek) Tragedy or Europe's Destiny?
Economic, Historical and Legal Perspectives on the Common Currency
Symposium Held in Bayreuth, Germany, 11–12 January, 2012
(generously sponsored by the Volkswagen foundation)

More than 100 academics, central bankers, doctoral and post-doctoral students from Europe and North America discussed the past, present and future of European monetary integration at a symposium co-organised by Prof. Bernhard Herz (University of Bayreuth, Germany) and Dr. Matthias Morys (University of York, UK) and held in Bayreuth, Germany, 11–12 January, 2012. The symposium focused on an economic, historical and legal analysis of the current financial crisis in the euro area; this was framed through the provocative (and stimulating) question "The Euro: (Greek) Tragedy or Europe's Destiny?"

The symposium was motivated by two fundamental shortcomings of the current debate: We are not experiencing a pan-European debate on EMU but rather a multitude of (highly diverse) national debates. Both economic analyses and policy suggestions follow well-established national fault lines which mirror earlier divisions between "soft" and "hard" currency countries. Policy-makers and the media target their national audience rather than embark on a genuine exchange of views. Moreover, we are not yet drawing sufficiently on the rich experience of past monetary unions in helping us master the present and the future of EMU.

The two-day symposium addressed both weaknesses. The participants (who combined a total of 18 different nationalities from Europe and North America) absorbed lessons from the past, i.e., explaining the conditions under which monetary unions have worked well and

Matthias Morys (University of York), Niels Thygessen (University of Copenhagen), Bernhard Herz and Markus Möstl (both University of Bayreuth) (from left to right) appreciating the importance of monetary history in shaping the attitudes of different countries towards EMU. This part of the conference was organised through a Call for Papers. We also attempted to explain why economic analyses of the current crisis and policy suggestions to overcome it differ so fundamentally across countries; this was achieved by inviting five leading economists from different European countries (Prof. Agnès Bénassy-Quéré, University Paris I Panthéon-Sorbonne and CEPII; Prof. Morton Hansen, Stockholm School of Economics in Riga; Prof. Manfred Neumann, University of Bonn; Prof. Niels Thygessen, University of Copenhagen; Prof. Thanos Skouras, Athens University of Economics and Business), one of the leading economic historians of the interwar economic crisis (Prof. Albrecht Ritschl, London School of Economics) and a judge from Germany's powerful constitutional court (Prof. Andreas Paulus, Federal constitutional court and University of Göttingen). A panel discussion on the subject "Quo vadis Euro?" completed the two-day programme.

Following from this dual weakness of the current debate, a first approach was to bring together the multitude of (highly diverse) national debates to promote a genuinely pan-European debate on EMU. In a second approach, we explored possible options for resolving the crisis, mainly by drawing lessons from the rich history of past monetary unions.

As part of the first approach, Prof. Albrecht Ritschl (London School of Economics) brought together in his keynote lecture (titled *"Does Germany owe Greece a debt? Long term perspectives on the European debt crisis")* economic and historical analysis and showed, based on the examples of Germany and Greece, how debt problems were handled after World War I and II. He pointed to the parallels between the (mis)handling of German war debts in the 1920s and the current crisis where he sees too little emphasis on growth orientated policies. Prof. Niels Thygessen (University of Copenhagen) related the discussion on European Mone-

Albrecht Ritschl (London School of Economics) delivering his key note speech titled "Does Germany owe Greece a debt? Long term perspectives on the European debt crisis" tary Union in the 1990s (when he was involved first-hand in preparing the blueprint for EMU as member of the so-called Delors-Committee) to the current discussion on the adequate policy response among euro area member countries. He highlighted that many of the current conflicts parallel Franco-German differences in the pre-EMU period, e.g. enforcement of national budget rules and the degree of (a)symmetry in national policy adjustments.

Four of the invited speakers discussed specifically the "national" perspective on EMU as exhibited by their country. Particular interest and attention was naturally reserved for understanding a typically "Greek" view which was outlined by Prof. Thanos Skouras (Athens University of Economics and Business). Interestingly, it was the question of the adequate therapy which was most controversial, while his diagnosis of the crisis differed to a much smaller degree from how it is analysed from abroad. Prof. Thanos Skouras followed the "standard" economic diagnosis of the Greek debt problems, i.e., in particular a lack of reforms and sound budgetary policies. Concerning therapy, however, he diverged markedly from his French, German and Latvian peers in calling for stronger support from the European Central Bank; advocating more ECB bond buying as a "lender of last resort", he also outlined why, from his perspective, neither an internal devaluation via wage reductions nor an exit of Greece from the euro zone posed suitable alternatives.

In contrast, Prof. Morton Hansen (Stockholm School of Economics in Riga) and Prof. Karsten Staehr (the discussant of Prof. Hansen's paper from the Tallinn University of Technology) presented lessons learned in Latvia and Estonia during the 2008/09 recessions; both Latvia and Estonia wanted to maintain their exchange-rate peg to the euro and demonstrated that "internal devaluations" can work. People in both countries accepted severe wage and budget cuts followed by deep but short recessions. Prof. Hansen and Prof. Staehr suggested that the "Baltic" way of adjustment contained valuable

Quo vadis Euro? Agnès Bénassy-Quéré (University Paris I Panthéon-Sorbonne and CEPII), Morton Hansen (Stockholm School of Economics in Riga) and Karolina Nessel (Tischner European University Kraków) during the panel discussion lessons for countries such as Greece.

In her presentation of a “French” view, Prof. Agnès Bénassy-Quéré (University Paris I Panthéon-Sorbonne and CEPII) emphasised the problems in the banking sector in the current financial crisis and proposed to concentrate banking regulation on the European level. She also stressed the necessity of institutional reform in the EU and further steps towards a political union. This would allow the introduction of new financial instruments such as Eurobonds; at the same time an exit from monetary union should be allowed for. The proposal for more integration was strongly opposed by Prof. Manfred Neumann (University of Bonn), whose task was to outline a quintessentially “German” view on the crisis. Prof. Neumann emphasised, among others, problems of moral hazard involved with many proposals calling for solutions on a European level. He strongly critised the ECB’s policy of buying government bonds as providing wrong incentives to governments (and indeed investors) and claimed that the ECB had violated the limits of its mandate. He considered an exit of Greece from the monetary union as the only sustainable solution.

Prof. Andreas Paulus (Federal Constitutional Court and University of Göttingen) added a fascinating legal perspective on the European debt crisis. As a judge at Germany’s Federal Constitutional Court and a professor for European and International Law, he was particularly well placed to explore the legal restrictions for policy-makers in their attempts to stabilise the common curreny.

As part of the second approach outlined above, the symposium asked which lessons could be drawn from the rich history of monetary unions. The papers selected from the Call for Papers were manifold but we were able to group them into three fairly homogenous sessions. We were delighted that several of the papers were presented by doctoral and post-doctoral students which had been a specific target group of our Volkswagen foundation sponsored symposium.

In the first session “Doomsday Scenarios”, Scott Urban (University of Oxford) took the interwar gold standard as a natural benchmark to analyse the European Monetary Union; in both cases a large influx of capital and later a sudden stop were observed and similar restrictions to monetary policy and the lender of last resort financing hold. Drawing from the experiences of the interwar gold standard he suggested for countries like Greece to leave the euro area, as the first countries to leave the gold standard in the Great Depression were the first to recover. Dr. Tobias Straumann (University of Zurich) and Prof. Peter Kugler (University of Basle) analysed the collapse of the interwar gold standard by using an ordered probit model and focused on the differences between core and periphery. They find that core countries were capable of maintaining the gold standard in the face of negative GDP growth, banking crises and government instability, while countries of the periphery were characterised by high vulnerabilities on these dimensions. Prof. Patrick van Horn (New College of Florida) discussed possible transatlantic contagion effects during the financial crisis of July 1931 (when Germany ceased foreign payments). He suggested that it was the contractionary behaviour of the New York Federal Reserve in response to the outflow of gold after Britain had abandoned the gold standard (in September of that year) that led to the transmission of the European crisis to the United States but not investor sentiment per se.

The second session was concerned with “Policy responses to the Great Depression”. While Prof. Margarita Dritsas (Hellenic Open University*)* focussed on the analogy of the 1920s and 1930s to the present crisis, Dr. Catherine Brégianni (Academy of Athens Research Center for the Study of Modern Greek History) derived lessons for Greece’s current travails from the gold-exchange standard and the great depression. Both researchers emphasised the difference between leaving the euro and leaving the gold standard; in the latter case, national currencies had been maintained and interest rate policy had never been delegated to a supranational level. Dr. Alexander Rathke (University of Zurich) analysed Sweden's Monetary Policy in the 1930s. He and his co-authors argued that Sweden actually followed a rather conservative policy. By keeping the krona undervalued to replenish foreign reserves, Sweden's exchange rate policy unintentionally contributed to the growth miracle in the 1930s which was clearly export-led.

"Lessons from the post-WW II monetary systems" were drawn in the third session on historical perspectives. Prof. Pierre Siklos (Wilfrid Laurier University, Waterloo, Canada) pictured how policy makers' overreach had provoked repeated economic crises from the Bretton Woods era to today's euro crisis. He pointed out how in the 1940s policy makers promised too much and did not adequately account for the actual functioning of the monetary regimes. In particular, they failed to instill the logic of collective action among its members and neglected the importance of governance issues. He argued that today's problems are not purely of the economic type and that the development of an international regime would require a political economy approach. Eric Monnet (Paris School of Economics) analysed monetary and credit policy in postwar Western Europe. He demonstrated that some important differences in monetary and credit policies across European countries remain to this day but he also showed that they have narrowed down considerably over time. The session was closed by Prof. Jonas Ljungberg (University of Lund) discussing asymmetric trends and European monetary policy in the post-Bretton Woods era. He argued that the current euro area problems are not caused by non-sustainable fiscal policies in the periphery but are mainly due to a sub-optimal monetary policy in a non-optimal common currency era.

The two-day symposium closed with a panel discussion (open to the public) on the question of "Quo vadis Euro?". Prof. Agnès Bénassy-Quéré, Prof. Morton Hansen, Prof. Karolina Nessel (Tischner European University Kraków), Prof. Manfred Neumann and Prof. Thanos Skouras debated alternative future scenarios for the euro area. Bringing together national perceptions and historical experiences (again) provided the basis for a most lively discussion. The exit of a country, for instance Greece, from the euro zone was intensely – and controversially – discussed but was seen by all as an important policy option clearly on the table. While Prof. Agnès Bénassy-Quéré considered an exit as a possible step, Prof. Manfred Neumann declared it as the only sustainable solution. In contrast, Prof. Thanos Skouras and Prof. Clemens Kool (Utrecht University School of Economics) rejected this option as this could lead to a loss of credibility and a destabilisation of EMU as a whole. From a historical point of view, the discussants agreed that leaving a monetary union of the past, such as the gold standard, was not the same as leaving the euro. Several other possible solutions were discussed and evaluated both from a current as well as a more historical perspective. A highly diverse discussion on Eurobonds did not, probably unsurprisingly, lead to a clear result.

Throughout the two days, discussions were animated, lively and often controversial, but never confrontational. We could thus avoid any of the not-so-pleasant undertones which, for instance, the German and the Greek media have occasionally embarked on over the last two and a half years.

Dr. Matthias Morys
Lecturer in Economic History
University of York (UK)

3rd EABH Young Scholars' Workshop
In Cooperation with GREThA
Bordeaux, 16 March 2012

The yearly workshop of the *EABH* dedicated to young scholars in banking, finance and insurance history was held this year 2012 in Bordeaux-Pessac, on the site of the *Bordeaux University.*

On behalf of the *EABH*, the team from Frankfurt contributed greatly to the preparation of the event, and the chairman of the academic council, Prof. Peter Hertner attended the workshop, as did Profs.Niels Viggo-Haueter and Hubert Bonin, also members of the council.

From the university research centre *(UMR CNRS) GREThA,* its general secretary, Christelle Bellanger, and Sandrne Robert, one of its assistant, contributed to the organisation under the guidance of the chairman of the centre, Prof. Marc-Eelandre Sénégas, who also delivered the welcome speech.

In addition to the sponsorship of the EABH, financing was supplied at the *Bordeaux University*, partly by the *GREThA* centre, and partly by the middle-term research programme *Aquibanque*, financed by the *Région Aquitaine* and headed by Prof. Bonin.

Eight young scholars had been selected to deliver papers at the workshop by Profs. Apostolides, Battilossi, Bonin and Hertner, with the help of a few members of the academic committee organising the Bucharest conference in June 2012.

Two sessions where held, beginning with the papers and followed by an active discussion. For the latter, Profs. Battilossi, Bonin and Hertner were joined by Prof. Dominique Lacoue-Labarthe, from the *LAREFI* research centre at *Bordeaux University*, a key specialist in banking economics.

Alas, only two paper-givers could be selected to deliver their papers at the 2012 Bucharest conference. After a transparent and decisive vote by the discussants, the "winners" were: Katharina Gärtner ("The US mortgage market in a period of transition, 1932-1940"), and Marius-Constantin Apostaie ("The interest rate

Speaker Dr. Catherine Brégianni and Discussant Prof. Hubert Bonin pass-through from policy rates to interbank interest rates in the Romanian financial system"). They will attend the conference with the focus: "Public policies and the direction of financial flows".

The other six young scholars, Catherine Bregianni, Carlos Brando, Niels Krieghoff, Nathan Marcus, Simone Fari, Thibaud Giddey, were congratulated on their excellent papers.

Beyond the discussants themselves (Cyprus, France, Germany, Italy/Spain), the "international" scope of the workshop was reinforced thanks to the origins of the paper-givers: Columbia (and *London School of Economics*), Germany, Greece, Israël (and *European University Institute*), Italy, Rumania, Spain, Switzerland, and the US.

The papers and various data are available in the EABH member section (www.eabh.info).

Prof. Hubert Bonin
Sciences Po Bordaux & GREThA

Speaker Carlos A. Brando and Discussant Dr. Stefano Battilossi

Workshop participants

Speaker Katharina Gärtner (Free University Berlin)

Prof. Peter Hertner and Dr. Stefano Battilossi

Catherine Brégianni

Neoelliniko Nomisma. Kratos kai Ideologia apo tin Epanastasi eos to Mesopolemo

[Modern Greek coins. State and ideology from the Greek Revolution to the interwar period]

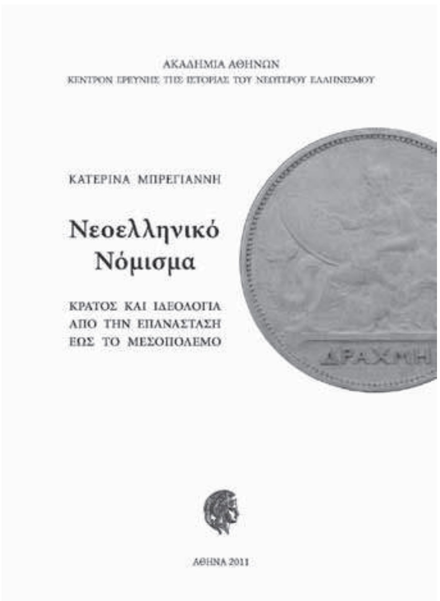
Athens, 2011. 362 pages. ISBN: 978-960-404-210-4

The research topics of this publication address the economic policy of the Modern Greek State during the years from 1828 to 1940, within the European framework, the numismatic facts (i.e. the minting history of Modern Greek coins) and the numismatic representations of ideological issues. It studies the interconnections between political structures, economic mechanisms and ideological conditions. Thus, there are conceptual axes which are relative both to economic and political history. Certain aspects of cultural history are also analysed as components of the Modern Greek society.

The Greek monetary policy and numismatic history are examined within the wider European atmosphere of economic liberalism, which dominated the European system until the end of the nineteenth century. The adoption of the bimetallic monetary standard and later on of the gold standard, the enlargement of the European market and the growth of the banking sector are reflected in the state of affairs in Greece. The international depression of the interwar period and the subsequent unsuccessful efforts of the leading European states to restore the gold standard suspended the monetary and economic modernization of Greece. Thus, in the 1930's the generalised protectionist policy of the European countries was followed by the First Greek Republic (1924). At the end of the 1930's the Metaxas dictatorship adopted a more interventionist economic policy. Consequently, the Greek monetary and financial policy can not be analysed beyond the wider European economic "atmosphere".

Regarding the financial level, the analysis of the Greek case demonstrates that the function of the markets is not autonomous from the surrounding economic and political system. The construction of monetary zones in the past had led to the flow of resources from the economic periphery to the European centre via financial measures, which tended to maintain the stability of the currency or of the monetary standard. Thus, during the last decades of the nineteenth century the public dept continues to increase through an excessive programme of national loans; the productive purposes of these loans were only partially assured. In this way, the tertiary sector of the Greek economy (and its parasitic nature) was enlarged to the detriment of the development of productive structures. In general, during nineteenth century the Greek monetary policy is connected with the State's needs, while during the twentieth with the function of the market.

The representations on the coins –and on the banknotes- reflect, through the numismatic types, aspects of the dominant ideology. The use of Classical Greek themes should be incorporated in the wider west-European atmosphere, in so far as neoclassicism was the dominant visual communication of the major European countries during the nineteenth century. Consequently it was brought to Greece as a cultural transfer.



The Money in Slovakia

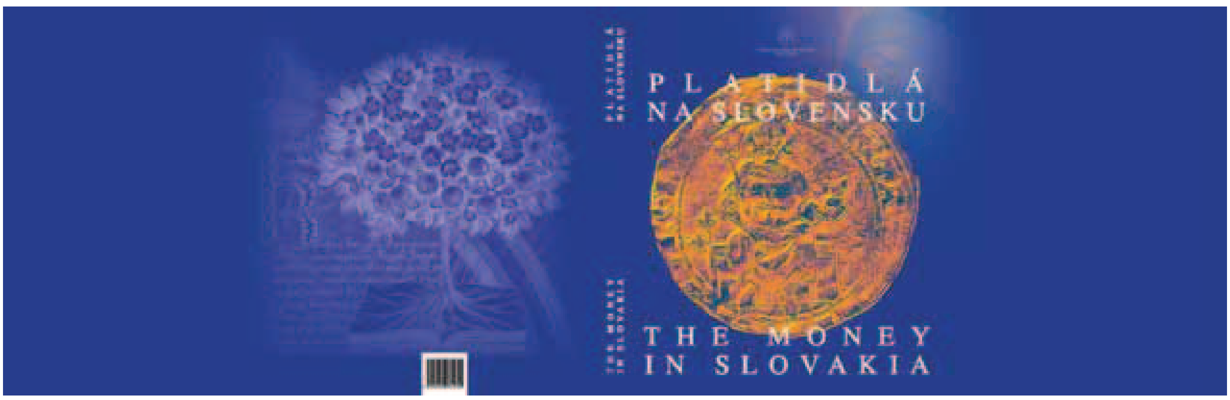
This book, written by prominent Slovak numismatists and historians, offers an opportunity to stop momentarily and take stock of the past. Slovakia is presented here as an ancient economic area with an age-old tradition of precious metal mining and coin minting, whether it be the advanced Celtic coin-making, or the minting tradition at Kremnica town, which has an uninterrupted history dating back to 1328. Coins, as symbols of the power and sovereignty were produced not only at the Kremnica Mint, but also in other mints in Slovakia, for example in Bratislava and Košice. Paper money first appeared in our territory in the second half of the eighteenth century, alongside new institutions – central banks. Their main tasks were and remain to issue currency and to maintain a sound and strong currency. After the introduction of the crown currency in 1892, we found ourselves on the threshold of the hectic and turbulent twentieth century, during the course of which Slovakia became part of different geopolitical and monetary areas.

The establishment of the Slovak Republic in January 1993 saw the introduction of a new Slovak currency called the Slovak koruna (crown). The banknotes featured key figures in Slovak history. There were in total seven banknote and seven coin denominations, and they remained in circulation for sixteen years, until the introduction of the single European currency in Slovakia.

The remarkable history of money in Slovakia is not, however, finished yet. With the adoption of the euro, a new chapter has started to be written. The idea of a strong and stable single European monetary system is not new; it can be traced back to the 1950s. Our country reached another historic landmark on 1 January 2009, when the euro became its legal tender. National Bank of Slovakia sharing responsibility for the single currency and monetary policy along with the euro area, the euro has become a solid economic basis for Slovakia.

This representative book not only maps the evolution of money in our territory, it also attempts to shed light on the complex historic and economic context in which Slovakia and the Slovaks have developed. It is, above all, a book about the people who lived and live in this territory, people for whom money was and is a prerequisite for the fulfilment of a decent standard of life.

Maria Kačkovičova
National Bank of Slovakia



Banking and Finance in the Mediterranean
A Historical Perspective

This volume presents a panoramic picture of the many national and international trends and developments, factors, customs, and events that have characterised banking in the Mediterranean area over the past two centuries. During this period banking in the Mediterranean evolved distinct characteristics, several going well beyond the restricted realities of colonial relations. The range of issues covered by the book is extensive and includes both national banking evolution and pan-regional topics. The chapters touch upon various aspects of Iberian, Italian, French, Greek, Maltese, Moroccan, and Ottoman banking history, focusing particularly on issues relating to central banking, numismatics, archival recording, and pan-Mediterranean economic dynamics. The history of certain specific institutions is also considered, including the Imperial Ottoman Bank, The Ionian Bank, The Banque d'Etat du Maroc, and others.
Bringing together papers by leading banking and finance historians which were first presented at the European Association for Banking History conference held in Malta in June 2007, this volume offers an invaluable insight towards a wider and more detailed understanding of the roles of banking and finance in Mediterranean economic history. Seen in a context of what has hitherto been something of a historical vacuum in terms of the coverage of much writing on European banking and financial history, and the importance given to the Mediterranean region's banking history in its own right, this is an innovative book that both contributes towards our knowledge the subject, and establishes a pattern for further work in this important area of European economic history.

Contents: Introduction; Part I Insights into Malta's Banking and Monetary History: A small, open Mediterranean economy – then and now, Michael C. Bonello; Malta's banking history, overview and observations, John Consiglio; Outlines of Malta's numismatic history, Joseph C. Sammut. Part II The Rise of Modern Banking and Finance in the Mediterranean: The Mediterranean banking systems: convergence or path dependence?, Massimiliano Affinito and Riccardo De Bonis; Stability against all odds: the Imperial Ottoman Bank, 1875–1914, Edhem Eldem. Part III Finance and Intramediterranean Economic Relations: Non-bank financial corporate start-ups, 1830–1909: a note on Greek banking history, Ioanna Sapho Pepelasis; Diversity in banking systems. France, Italy and Spain,19th and 20th centuries, Juan Carles Maixé-Altés; Banking expansion, success and failure in the British Mediterranean: the Ionian Bank, 1840s–1920s, Alexandros Apostolides and Athanasios Gekas. Part IV Money and Currency Developments in the Mediterranean: National states and central banks in the Mediterranean world in the interwar period, Nuno Valério; Central banking in the Iberian peninsula: a comparison, Pablo Martín-Aceña; A Mediterranean 19th century. Economic dynamics of the Mediterranean area during the first two-thirds of the century, Gérard Chastagnaret. Part V Banking and Finance Archives: Second-rate imperialism. The Banque d'Etat du Maroc, viewed from the archives of the Bank of Spain, Maria Teresa Tortella and Gabriel Tortella; How French banking archives document Mediterranean history (c.1850–1960), Catherine Dardignac and Roger Nougaret; The historical archive of the Banco di Napoli. A primary resource for social and economic history in a Mediterranean view, Paola Avallone and Giovanni Lombardi; Bibliography; Index.

About the Editors: John Consiglio, The University of Malta, Malta; Juan Carlos Martinez Oliva, Banca d'Italia, Italy; and Gabriel Tortella, Universidad de Alcalá, Spain.

BNP PARIBAS DEEP AUSSIE ROOTS

BNP Paribas commemorated last year its 130th anniversary in the Australian soil. To mark this anniversary, the bank published a book "The History of BNP Paribas in Australia & New Zealand 1881-2011", narrating the history of the Australian branches of the bank since 1881.

The Australian history of BNP Paribas started in 1880 when some important bank's customers asked the Comptoir d'escompte de Paris (one of the ancestor of BNP Paribas) to open branches in Australia in order to facilitate the import and the financing of the wool trade to France.

Charles Phalempin, the first manager of the Australian branches and the bank in the 1930's

And this wool trade remained almost the sole business of the bank until the 1940's. This trade business allowed the bank to cross safely all the crisis of the Australian market, especially the one of 1893.

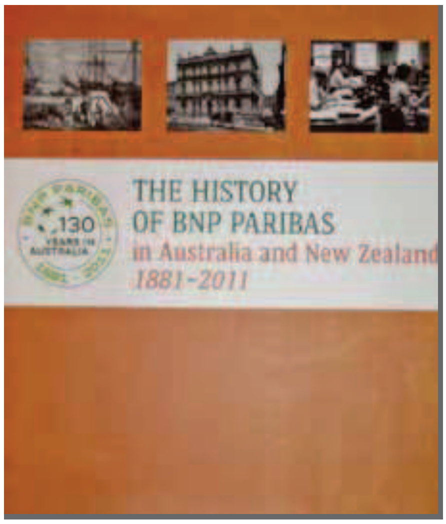
This book contains also a remarkable account of the difficulties of navigating the Second World War on Australian soil which demonstrates how careful diplomacy by the bank's managers secured their footing in Australia. The Australian branches were part of a French bank and fell under the scope of the *Trading with the Enemy Act*. The managers of the bank made at that time the right decisions by complying strictly with the instructions of the Australian Authorities and thanks to the excellent relationship maintained with the Commonwealth Bank of Australia, they managed to keep the bank active in Australia. As a matter of fact CBA was extremely helpful during this period and helped the bank to overcome this difficult situation. As the financing of the wools imports were totally stopped the bank had to find new business operations and it is what they did and successfully.

Another interesting fact worth to be mentioned is the fact that the Comptoir d'escompte, established at a time where there was no regulations, was the only foreign bank in Australia for over a century, from 1881 until 1985 when sixteen foreign banks were granted full banking licences.

The book gives also a lot of details on the managers of the Comptoir d'escompte; they were carefully chosen to represent the bank in this country and all of them, during the period 1881 – 1966, remained more than 10 years in Australia.

This history mentions also the role played by the banks which were later integrated into BNP Paribas Group; for example the book reminds the financing proposal made by Paribas in 1901 for the construction of the Sydney Harbour Bridge.

This very long experience in Australia is the reason which explains the development of the bank in the country through various business lines such as the project financing, the asset management, the securities services and the asset finance.



If you would like to receive a copy of the book « *The History of BNP Paribas in Australia & New Zealand 1881-2011* », please contact the Heritage & Historical Archives of BNP Paribas : geoffroy.delassus@bnpparibas.com

For more information on BNP Paribas, please visit www.bnpparibas.com

The Financial History Review
Volume 19, Issue 01

Edited by Prof. Stefano Battilossi.
Associate Editor: Prof. David Weiman.

Established in 1994, *Financial History Review* has earned a solid international reputation as an academic journal committed to research of high scholarly standards. The Review deliberately seeks to embrace a broad approach to financial, banking and monetary history, which appeals to a wide audience of historians, economists and practitioners. We welcome different perspectives including analytical narratives, theoretically-inspired research, advanced empirical analysis, and the interrelations between history, finance, policy, culture and society. FHR is keen to provide a global perspective on national and international financial history and publishes research articles dealing with any historical period and country or regional area. The Reviews, through its section "The Past Mirror", is also an assiduous advocate of the relevance of history for a proper understanding of present financial and monetary developments, and no less importantly for informed and educated policy responses to them.

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EABH Archival Workshop
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&
The National Bank of Romania

Programme Draft

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František Chudjak (National Bank Of Slovakia Archives)
Shine and Poverty of the Slovak Bank Official in the First Half of the 20th Century

Attila Gábor Hunyadi (Babes-Bolyai University Cluj)
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Living History: Engaging With the Past at the Baring Archive

Laure Quennouëlle-Corre (Centre National De La Recherche Scientifique)
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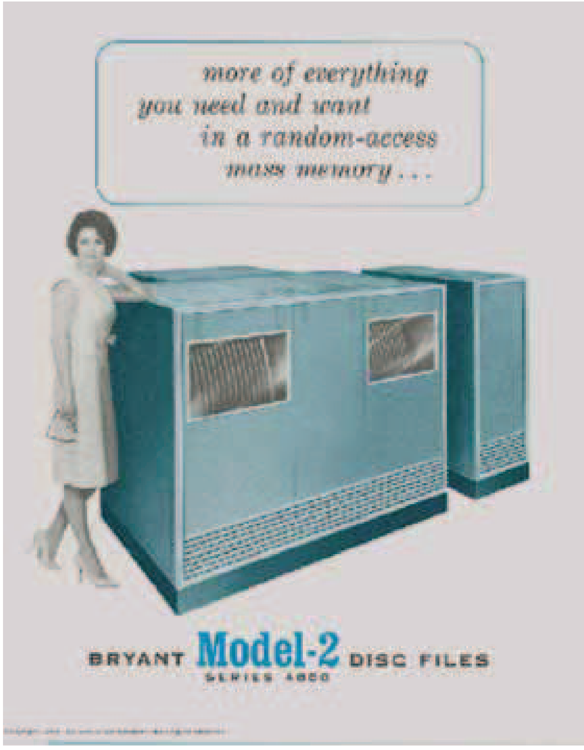


Title: Bryant Model-2 Series 4000 Disc Files
Date: 1965

Title: Control Data 160-A Computer
Date: 1962

Title: Executive Guide to the IBM 1440 Data Processing System
Date: 1962

Title: Ferranti Argus Process-Control Computer System
Date: 1961

Selling the Computer Revolution in the 1960s

Marketing Brochures in the Collection of Computer History Museum

By the mid 1960s the computer was seen as an information processor, as part of a management information system. Advertisers stressed the “flexibility, versatility, expandability, and …the capacity of the computer to make logical decisions.”

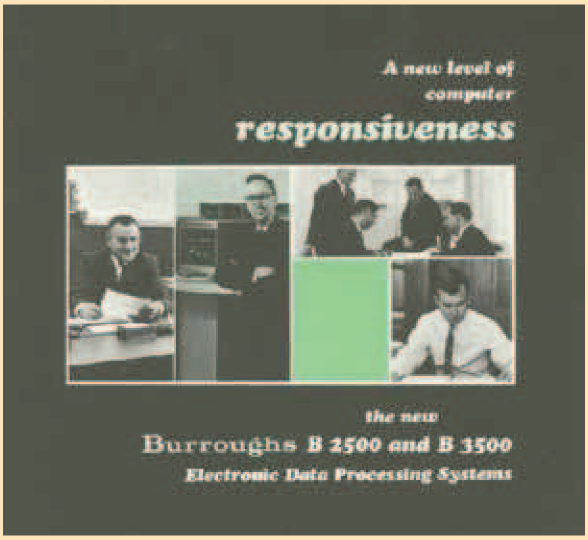
IBM in particular was very successful during this decade. Its System/360, controlled almost 70% of the computer market and there was a long wait for their mainframes. IBMs advertising strategies soothed consumers who were concerned about and unfamiliar with computer technology. This was particularly effective in 1960, when IBM machines were used to tally election votes. Afterwards, IBM began a print campaign asking “Who won the computer battle last night? You did.”

Women's labour force participation was expanding along with the use of computers. Women were increasingly portrayed as keypunch operators, card loaders or assistants taking orders from a male supervisor. Office automation marketing strategy used accepted stereotypes and reinforced conventional occupation roles to present the unfamiliar (office computers) in the context to the known and familiar especially in terms of occupational and sexual roles (Aspray p.137). During the 1970s ads slowly began to change and by the 1980s, as computers become more commonplace, women started appearing in nontraditional roles.

IBM targeted their ads at secretaries as a way of influencing their bosses by promising that electric typewriter would drastically improve efficiency.

Read more at:

www.computerhistory.org



Title: A New Level of Computer Responsiveness. The New Burroughs B 2500 and B 3500 Electronic Data Processing Systems.
Date: 1966

Title: EAI 640 Digital Computing System
Date: 1966