Destructively Independent. The Russian Central Bank Leadership in the Runup to the 1993 Constitutional Crisis

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Abstract

Attempts to get control over the Russian Central Bank are often seen as a key driver of the conflict between the Supreme Soviet and the Russian government in 1993. We argue here that the bank and its leadership were not only an instrument of other power centers but should be considered as active and fairly independent political players with their own interests, stakes, and strategies. In the struggle over monetary policy in the early years of the newly founded Russian Federation, inherited Soviet networks of power were more decisive than legal competences on paper. To the extent that ideas played a role at all in these transitional power struggles, their distinction was not between neoliberal shock therapy and social democratic gradualism, but between different notions of the future realm of Moscow’s financial power. Our paper is based on an assessment of biographical literatures and legal texts as well as a survey of the scholarly literature in economics and history. It shows how, in a phase of post-imperial institutional reconfiguration, different groups of the former Soviet elite competed to preserve their status in the emerging Russian nation state.

Two centers of power emerged during the short-lived Paris Commune in 1871. A weakened national government held out in Versailles, while the rebellious councils controlled the French capital. The Banque de France was in their territory, but the communards cared little about credit, finance and business. The following reassertion of the bourgeois government, Karl Marx and Friedrich Engels later suggested, was the result of this failure to have a handle on the money supply. The Bolsheviks, who modelled their Soviet democracy on the Commune, learnt from history: on the very first day after his coup in October 1917, Lenin sent an armed group to seize the main building of the Russian State Bank in Petrograd.

Control over the national bank, the Russian Communists knew, is a vastly powerful political instrument. It was an insight that they shared with both their predecessors and their successors from the 1990s. Already under the Tsars, the Ministry of Finance called the shots at the technically private Bank of Russia. Lenin soon also nationalized all commercial banks in the country and thus secured not only political control of the ruble, but political control by the ruble. A rigid top-down financial architecture was now the basis of the power of the Communist Party. “The big banks are the ‘state apparatus’”, Lenin had once declared.1 It lasted until Mikhail Gorbachev, in his attempt to reinvigorate the stagnating planned economy, decentralized this financial power in the late 1980s. The entire political system collapsed around him as a consequence. As before in Paris and in Petrograd, two centers of power emerged in Moscow, the capital of newly independent Russia. The president and the government ruled in and around the Kremlin, and the Supreme Soviet in the White House near the river Moskva on the Western outskirts of the city center. Again, the question of control over the central bank was at the heart of the conflict – and also the following discussion about it.

A common view in the vast scholarly literature on Russia’s 1990s, also popular amongst a broader spectrum of Russia observers, holds that Boris Yeltsin’s shelling of the White House was a violent imposition of the “Washington Consensus” against local democratic resistance. Neoliberal “shock therapy”, it is often argued, required not only price liberalization, which Finance Minister Yegor Gaidar managed to introduce, but also fiscal discipline and restrictive monetary policy, which he did not. To halt inflation, goes the argument, the monetarism-inspired government sought to stop the crediting of inefficient companies by wresting control over the Russian Central Bank from the spendthrift Supreme Soviet that sought a gradual transition to a market order.²

A variant of this argument, which has gotten less traction in the public perception of Russia’s transition, focuses more on elite continuities. In remarkable convergence, both leftist revisionists and libertarian economists have portrayed Yeltsin and Gaidar as representatives of the late Soviet nomenklatura who consciously accepted wrecking the Russian economy, if only to preserve their own power, influence, and wealth. The Central Bank, these scholars claim, had actually always remained under government control, and it was politically used to channel funds and thus distribute the USSR’s assets amongst former Soviet elite groups.³

Both lines of argument include valid points. Rampant inflation in 1992 and 1993, when consumer prices rose dramatically, most likely contributed to the government’s desire to gain more control over the Central Bank, which was indeed – at least nominally – accountable to the Supreme Soviet. It is also true that most Russian political and financial elites of the early 1990s were hangovers from the late Soviet nomenklatura, including Yeltsin, a former Central Committee member, and Gaidar, the editor of the Party’s ideological magazine “Kommunist” in the late Perestroika years.

Yet we find the views that the conflict between the president and parliament was either one between democracy and capitalism, or between Western-imposed shock therapy and some sort of social democratic gradualism, not entirely convincing. There is scant evidence for the popular claim


that an ideology-driven neoliberal government “stopped paying pensions and wages to comply with Western budgetary conditions.” While some Supreme Soviet deputies had suggested alternative economic plans, they were not the driving force of the insurrection. Ruslan Khasbulatov, who led the rebellion against his former ally Yeltsin, was himself a self-professed acolyte of Adam Smith. Only in the course of 1993 did he begin portraying the liberal ministers as tools of the West. For most delegates, this was less of an ideological struggle than one over their own relevance and influence. After an exodus of the democratic faction from late 1991, they were mostly provincial industrial directors and bureaucrats, who had a personal interest in maintaining the flow of cheap credits to their home turfs.

That Yeltsin's liberal ministers were replaced with former elite Communists after the constitutional crisis seems to corroborate the notion of an elite conspiracy. We agree that the absence of lustration (i.e. a dismissal of former elites, as it partly happened in Eastern Europe) was characteristic for the Russian transition from Communism. Nevertheless, we hold that, first, historical analysis should also pay attention to how people’s attitudes changed while they remained in influential positions, and, second, that the insight about lacking lustration applies not only to the Russian government, but also the Supreme Soviet and indeed to the Central Bank itself. Its leadership, too, was recruited from networks and personal relationships of the top Soviet nomenklatura. In their new positions, they showed remarkable ideological flexibility to adapt to those prerogatives that they deemed best for the preservation of their privileged status.

The dynamics between the Central Bank, the Supreme Soviet and the Russian government before and during the Russian constitutional crisis in the autumn of 1993 is thus best understood as a plain power struggle. In a phase of post-imperial institutional reconfiguration, different groups of the former Soviet elite competed for the control of newly defined institutions, and for personal positions in the emerging Russian nation state. We argue that, first, the

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4 Cohen, Failed Crusade, 204; see also Fritz Bartel’s contribution in this issue.
Central Bank and its leadership were not only an instrument of other power centers but should be considered as active players with their own interests, stakes, and strategies. Second, we posit that in this struggle, inherited networks of power were more decisive than legal competences on paper. Third, we also argue that, to the extent that ideas played a role at all in these transitional power struggles, their distinction was not between neoliberal shock therapy and social democratic gradualism, but between different notions of the future realm of Moscow’s financial power. One camp envisioned a maintenance of the imperial financial order in the former Soviet space. Another camp envisioned the recreation of state order exclusively within a newly built Russian nation state, actively discarding, with the help of financial policy, what was now seen as a burdensome imperial periphery.

We assess the role of the Central Bank leadership in the constitutional crisis by referring to autobiographical texts of the leading Central Bankers Viktor Gerashchenko and Georgy Matiukhin, statements made by financial and political decision makers as well as Russian legal texts. We also contrast the scholarly literature in economics with the historiography of the immediate post-Soviet era. In doing so, we build on existing approaches that study (central) bankers in the post-socialist world. While those studies also discuss a new Western-inspired and globally well-connected generation, we zoom in on the role played by the Soviet-inherited leadership of the Russian Central Bank. Those calling the shots during the Soviet collapse and its immediate aftermath were still deeply shaped by their Soviet upbringing and dedicated to preserving their privileged positions in the new Russia.

We begin with a brief institutional history of Soviet and Russian banking systems during the Soviet collapse. We then discuss the struggles over legal changes on the status of the Central Bank, which we eventually contrast with the role played by individual central bankers and their personal networks. Gerashchenko’s and Matiukhin’s power play captures how the Russian Central Bank was not only a pawn in the power struggle between president and parliament, but one of many institutions of the newly created Russian state where former Soviet elites sought to preserve their status and influence.

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Banking Institutions during the Soviet Collapse

In the Soviet Union, contrary to practice in market economies, the banking system had worked like the bookkeeping department of a giant company. Only the state allocated capital to producers. The Communist Party – via the Central Bank (called “Gosbank”), the Ministry of Finance and the central planning bureaucracy (“Gosplan”) – thus used the financial system as a means of administrative control. Part of Mikhail Gorbachev’s attempts to re-invigorate this politically stable but economically highly inefficient system in the late 1980s was a banking reform. With some inspiration from similar reforms in Hungary and China, decision making on credit allocation was decentralized: five new “specialized banks” (called spetsbanky in Russian) were created based on former departments of the Gosbank system and given more autonomy in their interaction with their respective sectors of the economy; in addition, newly founded “cooperative” banks were allowed to operate freely. Gosbank was supposed to regulate this new system but lacked the expertise and competent staff to do so. The result was financial chaos that crucially contributed to the disintegration of the USSR.7

The financial disorder in the final two years of the Soviet Union was also the result of a political conflict between two levels of political power. The leadership of the Soviet republics used the decentralization efforts of the Union government to expand their own clout. This included some of the elites of the Russian republic, thus far a largely nominal administrative structure. Yeltsin, who had fallen out with Gorbachev, saw the republican structures as a vehicle for his own path to power. Backed by Russian nationalists, large parts of the Russian intelligentsia, and market economists – including his later opponent Khasbulatov – Yeltsin sought to conquer the Soviet institutions on Russian territory.8

Control over the monetary system was key, and it was the republics who prevailed. As head of the Russian Supreme Soviet, Yeltsin decreed that all banks in the Russian republic, with all their assets and liabilities and including all

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deposits of the population, were the property of the republic.\textsuperscript{9} In addition, the department of the Soviet State Bank that dealt with the Russian republic was turned into a separate Central Bank of the Russian Republic of the USSR, initially also called Gosbank, in July 1990. This institutional struggle led to the absurd situation of having two central banks in one territory. That meant two sources of money creation and a lack of clarity over which central bank was responsible for banking regulation. Gerashchenko, the head of the Soviet Gosbank commented: “I have never seen a more stupid economic pearl in my life.”\textsuperscript{10} Eventually, the republics succeeded in winning control over the financial institutions after the failed putsch of the Soviet old guard in August 1991. They also lured the commercial banks onto their side with lower tax rates and laxer regulation. The Union was now bereft of a key power instrument and of large parts of its budget, which more than anything else led to the collapse of the Soviet Union four months later – and contributed to an unstable banking sector in the years to come.\textsuperscript{11}

After the collapse of the Soviet Union, most of the political leadership in Moscow, both on the side of the Supreme Soviet and the government, agreed that higher standards of living could only be achieved with a Western-type market economy.\textsuperscript{12} This required the creation of private non-state institutions that created money and allocated capital, but also of state institutions that regulated those new commercial banks. Accordingly, the Perestroika-era specialized banks and cooperative banks were declared private enterprises, and the Russian Central Bank took over the premises and competences of the Soviet Gosbank.\textsuperscript{13}


Yet the decade-old institutions of the planned economy did not turn capitalist overnight. Many now nominally commercial banks were still closely linked to the industrial ministries from which they were made technically independent. Large parts of the Russian economy were, as the head of the Central Bank later recalled, in the “hands of three monsters”, the former specialized banks Promstroibank, Zhilsotsbank and Agrobank.\textsuperscript{14} The cooperative banks were children of big state enterprises. On the one hand, continued entanglement with the state meant that the operational success of these new banks depended much more on political connections than, as in a Western-styled banking system, on elaborate investment strategies and risk management. On the other hand, in times of hyperinflation, these faux-new banks relied on the Central Bank to provide them with liquidity. They were expected to supply companies with credits below inflation, that is at negative real interest rates, lest the whole productive sector collapse. At the same time, the Russian Central Bank lacked the expertise to regulate all these new banks, whose owners often abused or embezzled its offer of cheap credits.\textsuperscript{15}

Amid the backdrop of financial and economic chaos, the political struggle over Soviet institutional legacies did not end with the implosion of the Union. By late 1992, it had transformed into a conflict between the executive and the legislative of the newly founded independent Russian state. The Supreme Soviet, democratically elected in 1990, initially survived the collapse of the USSR and, at least on paper, inherited much of the enormous power of the central organs of the Communist Party. Yeltsin, the democratically elected president of the Russian Soviet Republic in 1991, became Russian president after the Union’s demise, hiring a group of young liberal economists as ministers and advisors to run his government. The Supreme Soviet had granted extraordinary powers to the president for a year from November 1991. When this period expired, the Supreme Soviet – bereft of most of its democratic minority, which by then had gone over to Yeltsin’s camp – tried to reassert its own power.

Once more, two power centers sought to get hold of finance and banks. This struggle has often been depicted as an ideational conflict between the radical neoliberalism of an authoritarian government, which tried to wrest control over the Central Bank to dismantle the moderate gradualism of the parliament. While it is true that the government tried to install ideologically compatible people at the helm of the Central Bank, and to influence its


decisions – somewhat ironically thwarting the neoliberal tenet of central bank independence –, they failed to do so. Both the liberal ministers and Western advisors had very little to say in this conflict that dominated Russian politics in 1992 and 1993. Predominantly, this was a conflict within the post-imperial Russian elite. That included the leadership of the Central Bank, which was more than just a passive scapegoat or a pawn.16

The state of evidence refutes the notion in some of the scholarly literature that “the Central Bank was never independent of Yeltsin in fundamental questions.”17 The weak government did indeed have enormous problems implementing its program against massive resistance from both the Supreme Soviet and the Central Bank. Gaidar failed to install a favorable candidate as head of the Central Bank in late 1991, as Yeltsin’s executive order was blocked by the Supreme Soviet. The government then failed to stop dubious large cash transfers by the Central Bank to separatist Chechnya in 1992, apparently on order of the Supreme Soviet.18 The government even failed to get statistical data from the Central Bank, and had to rely on data provided by the IMF, as the vice-finance minister later recalled.19 The only policy that the government could push through against the interest of the Central Bank leadership was a discontinuation of so-called “technical credits” to central banks in other post-Soviet republics; these had secured payments to Russian companies that exported to republics but contributed to hyperinflation. These technical credits were transformed into bilateral state debt in June 1993, after a referendum in April had briefly increased Yeltsin’s legitimacy.20

The Central Bank, it appears, successfully used the struggle between the Supreme Soviet and the government to get more autonomy and influence for itself. Without bothering to involve either Yeltsin or the liberal ministers, the Central Bank cleared the inter-enterprise debts of thousands of state enterprises, and it introduced a new – rather dysfunctional – payment

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17 Hough, 20; 40; similar: Illarionov.


system between itself and commercial banks in 1991 and 1992.\textsuperscript{21} The Central Bank undertook a monetary reform in July 1993, replacing the Soviet ruble and Russian rubles of 1991 and 1992 with a new Russian one. The reform had dramatic consequences. It de facto destroyed the ruble zone, and once more confiscated large amounts of savings from the population. All this happened without involvement of or even informing the government or the Supreme Soviet. Finance Minister Boris Fyodorov read about the reform in the New York Times during a trip to the United States, and could only watch the ensuing panic queuing in front of bank branches from afar.\textsuperscript{22} The Central Bank then offered other post-Soviet states the use of the new Russian ruble – again without consulting the finance minister.\textsuperscript{23} While the liberal ministers demanded that all subsidies for the Russian economy should be allocated through the budget, to show the extent of any imbalance, the Central Bank kept financing state companies with gigantic sums of cheap credits via its network of commercial banks.

2 What the Law Said. The Central Bank in the New Russian Constitutions

The power struggle over the inherited Soviet institutions was also visible in the drafting of legal texts. The competing power centers each sought to codify the distribution of competences and responsibilities according to their own interests. The Soviet constitution was amended multiple times. So was the 1978 constitution of the Russian Republic, which was never intended to serve as the basis for an independent state. As a result, it was inefficacious. With the collapse of the Union, there was widespread agreement that a new Russian constitution was needed, but the government and the Supreme Soviet rejected all proposals from the other side. The resulting legal chaos encompassed


\textsuperscript{23} Krotov, \textit{Put Gerakla}, chapter “Vzyaimootnosheniya so stranam SNG”.
the legislation of finance and banking – and increased the autonomy of the Central Bank.\textsuperscript{24}

The Soviet Gosbank was, on paper, a powerful institution in its own right. Originally accountable to the Council of Ministers since the 1950s, it was initially meant to be transferred to the remit of the Supreme Soviet of the USSR in 1990. The head of the Council opposed this transfer of competences. Gosbank was instead made autonomous at the end of the year. With this strengthened legal status, the Soviet Gosbank tried to reassert its status as “the central bank of the country” that “together with the central (state and national) banks of the Union republics and autonomous regions forms a unified system of central banks based on a common monetary unit and performing the functions of a reserve system”, as the new law put it. Between 1990 and 1991, Gosbank, remained the only institution with the legal authority to issue the Soviet ruble. It was also the only proprietor of Soviet citizens’ savings on accounts of the so-called Sberbank.\textsuperscript{25}

The problem for the Soviet Gosbank was that the Union was increasingly losing its political power to the republics – who in turn strengthened their political clout by claiming legislative power over the banking system. According to Soviet law, the newly founded republican central banks were only allowed to issue booking money for state enterprises, not actual cash. They could take over savings from Soviet accounts, but only if they also took over the liabilities.\textsuperscript{26} As leaders at the republican level lacked influence on Gosbank’s decisions and Union legislation, they simply ignored them, and created their own financial legislation instead.

In July 1990, the Russian republican leadership declared the independence of its own central bank, which took over the local Gosbank branch. It also declared that all the Soviet specialized banks on Russian territory were now property of the republic. And to be able to issue their own rubles, a breach of Soviet law, the Russian Supreme Soviet took control over Goznak, the printing

\textsuperscript{24} See the contribution by Sylvia von Steinsdorff in this issue.


\textsuperscript{26} “O Gosudarstvennom banke SSSR”, “O bankakh i bankovskoy deyatelnosti v SSSR”; \textit{USSR Law N 182–1 “O Gosudarstvennom banke SSSR” (“On the Gosbank of the USSR”) and USSR Law N 182–1 “O bankakh i bankovskoy deyatelnosti v SSSR” (“On banks and banking activities in the USSR”) (both signed by M. Gorbachev, 11.12.1990), esp. § 12 “O gosudarstvennom banke SSSR”.

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authority for coins, banknotes, and official documents. The Russian republic, even as the Soviet Union still existed, thus began printing Russian ruble bills – without Lenin’s portrait and with Matiukhin’s signature instead. Even before the new Soviet banking law of December 1990 came into force, a law on the Russian Central Bank and the banking system was passed. Thus competing laws on central banking were introduced on two levels. The Gosbank leadership complained that the republican Central Bank stole their wording of the law and appropriated its competences by pushing it through the Russian Supreme Soviet, appropriated its competences; Gerashchenko described this situation as a “war between two banking laws.”

On paper, the Russian Supreme Soviet now held all political control over finances in the Russian republic. A resolution in July 1990 declared the Central Bank “accountable to the Supreme Soviet of the Russian Republic”; the president of the Bank was “nominated and dismissed by the Supreme Soviet”; and its council of directors was to be suggested by the president of the Bank, but approved by the Presidium of the Supreme Soviet. After the 1991 failed putsch, control over the financial system proved a very powerful political tool. All Russian banks were forbidden from dealing with the Communist Party’s money, thus utterly disabling the once all-powerful institution that had run the country for more than 70 years.

The republican level thus won the legal battle, but the legislation it created in this tense political climate was incoherent and imbalanced. As such, it preordained the conflict after the end of Union between Supreme Soviet and Government. The December 1990 law declared the Russian Central Bank “independent from the administrative and executive organs of state power.” At the same time, the Supreme Soviet had established for itself the right to appoint and dismiss the head of the Central Bank. Yeltsin, who personally had little understanding of how banks work, let the Supreme Soviet amass control

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29 Krotov, Put Gerakla.
31 See also Gel’man’s contribution in this issue.
32 Law of the RSFSR, 02.12.1990, N 394 “O Tsentralnom banke RSFSR (Banke Rossii)” (“On the Central Bank of the RSFSR (Bank of Russia)”).
over monetary policy as long as it was on his side. But the new liberal-led Russian government claimed control over Soviet financial institutions on Russian territory.\footnote{Resolution of the Government of the RSFSR, 15.11.1991, N 6 “O merakh po finansovomu obespecheniyu ekonomicheskoy reформy i zashchite finansovoy sistemy RSFSR” (“On Measures for the Financial Guarantee of Economic Reform and the Protection of the RSFSR Financial System”).}

The institutional and legal ambiguities in finance exacerbated the dramatic economic consequences of the Soviet collapse. The Soviet and Russian central banks may have gained more autonomy on paper through institutional competition in the early 1990s. But their own turf wars and limited institutional capacities kept them from helping to orchestrate a smoother transition to a market economy. They lacked the expertise and political clout to efficiently regulate the new banking system. Laws on the taxation of banking institutes, on the functioning of the payment settlement centers, and on bank licenses were introduced only gradually.\footnote{Nadezhda Gerasimova, “My postroili novye zdaniya otdeleniy nashego banka vo vsekh soroka filialakh”, in: Krotov, Istorinya, 290–292.} The Russian Central Bank even lacked the financial means to buy the necessary IT equipment for a new functioning payment system. Dramatic inflation, partly hidden through the maintenance of most price controls until the end of 1991, plagued the economy. Legal texts declaring central bank independence were not sufficient to reach lower rates of inflation and macroeconomic stability.\footnote{See: Yulia Balashova, “The New USSR Banking Laws,” in: Andreas Prindl (ed.), Banking and Finance in Eastern Europe (London: Woodhead-Faulkner, 1992), 156–160.}

3 What People Actually Did – Individual Actors and Personal Networks

Institutional reconstruction and legal uncertainty opened the door to influence via informal networks and individual resolve. Their relevance for the course of historic events becomes more obvious if the analytical perspective changes from institutions and laws to individual actors. The institutional struggle over the legacy of the Soviet Union and different notions of Russia’s future path was indeed also a competition between individuals. The candidacy of Viktor Geraschenko, head of the Soviet Gosbank, to become Russian Central Bank president was initially rejected by both the government and the Supreme Soviet because of his roots in the Communist finance elite. He then personally made sure that, Georgy Matiukhin, who was nominated in his place, was not
only ignored but even refused entry into Gosbank’s impressive neo-classicist building just behind the Bolshoi Theatre. Matiukhin, for the time being, had to work from a dull administrative building.36

Gerashchenko then refused to clear his office when he had been dismissed by the authorities of the Russian republic after the 1991 August Putsch. When the interim authorities of the Russian Republics came to his office and demanded “the keys” of the Central Bank, the sardonic Gerashchenko only handed them a key for his office safe, where he hid his expensive whiskey. Only with the collapse of the USSR later that year were the representatives of the republic, in a replay of the Bolshevik storm troops, able to physically take over the political and financial institutions of the Union in Moscow, including Gosplan and the specialized banks. Matiukhin himself, like erstwhile Lenin, now made his way into the Central Bank.37

Matiukhin was a bit of a mystery to most other key actors of Russia’s transition. The one thing everyone knew about him was that he had a past as a KGB agent. After stints as technical advisor in several Asian countries and as a spy in Latin America in the 1960s, he officially left the security services. Matiukhin became an expert on international capital flows, working as an economist at the Communist bloc’s own International Investment Bank and later at various institutions of the Soviet Academy of Science.38 But it was not his academic expertise that brought him into the center of the struggle over the institutions of the Soviet Union. Instead, it seems to have been his networks. His KGB connections may have played a role, but there is no accessible evidence. What is known is that Matiukhin was well connected with the Plekhanov Institute of Economics. His acquaintances there established contact with Khasbulatov, who spent his entire academic career there as an economics lecturer. When Khasbulatov became head of the Supreme Soviet, he needed someone he could trust as head of the Central Bank. He turned to his networks at the Plekhanov Institute for a recommendation.39

From 1990, Matiukhin was the man behind the transformation of the Russian branch of Gosbank into an independent Russian central bank and

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36 Matiukhin, TsB Rossi, 53; the Soviet Gosbank was on Neglinnaya Street 12, where the Russian Central Bank resides now; the administrative building is on Zhitnaya Street 12.
38 Amongst his books were: Georgy Matiukhin, Goryachie dengi, Problemy spekulativnogo bluzdayushchegoe kapitala (Moscow: IFO, 1974); Georgy Matiukhin, Problemy kreditnykh deneg pri kapitalizm (Moscow: Nauka, 1977); Georgy Matiukhin, Mirovye finansovye tsentry (Moscow: Mezhdunarodnye otnosheniya, 1979).
39 Matiukhin, TsB Rossi, 53.
a two-tier banking system in the Russian Republic. Like many other Russian elites of both liberal and conservative bent around that time, he supported the creation of an independent Russian nation state and a friendly divorce from the other Soviet republics. They saw a weakening of the Union as a chance to speed up market reform while Gorbachev hesitated. They considered the imperial periphery of the USSR as a financial burden for Russians. And they, including Matiukhin and Khasbulatov, saw the hitherto decorative or now newly founded institutions of the Russian republic as career springboards. Once more, control over the financial system was seen as a key power tool, and the Central Bank and the Russian ruble became a symbol of Russian sovereignty.

In this struggle between the Union and the Russian Republic, the latter won after the self-destruction of the Union with the failed putsch of August 1991. A couple of months later, when Matiukhin stormed Gerashchenko’s office in January 1992, the Russian Central Bank absorbed the staff, offices, and some of the functions of the old Soviet Gosbank.

Once in office, however, Matiukhin tried to expand his own power and independence from the Supreme Soviet and the government, both of which tried to exert influence over the Central Bank. He turned out not to be Khasbulatov’s puppet after all, as the people around Yeltsin had thought.\(^{40}\) Repeatedly, he ignored the Supreme Soviet’s instructions: he did not follow orders to bring inter-bank interest rates below inflation, and he refused to hand over reports on its balance sheets or on its monetary and credit principles. He also appointed high-ranking staff himself, although this was within the legal remit of the Supreme Soviet.\(^{41}\) As Matiukhin recalled in his memoirs: “The conflict with Khasbulatov began because I opposed his direct interference in the affairs of the bank.”\(^{42}\) But also the government had little influence over him. Against the preference of the liberal ministers, Matiukhin increased the volume of money supply in circulation and kept channeling cheap credits to some of the new commercial banks.\(^ {43}\) While he accepted the liberal Sergei Ignatiev, a member of the Gaidar team, as deputy, Matiukhin repeatedly criticized advice from the IMF and Western advisors as unsuitable for the Russian economy.\(^ {44}\)

Without Khasbulatov’s backing, personal networks and power base, Matiukhin, who was widely perceived as incompetent, could not save his

\(^{40}\) Gaidar, 162.
\(^{42}\) Vladimir Nazarov; Kirill Rodionov, Mify o 90-kh (Moskva: Delo, 2013), 77; Matiukhin, TsB Rossii, 69.
\(^{43}\) Nazarov/Rodionov, 80.
\(^{44}\) Matiukhin, Ya byl glavnym, 141.
position. The liberal ministers were skeptical given his KGB connections. The Supreme Soviet deputies felt he had infringed on their legal rights. Many commercial bankers, amongst them Mikhail Khodorkovsky and Alexander Smolensky, were unhappy about his way of regulating and licensing them.\(^{45}\) The former specialized banks did not like him because he was too strict and too restrained about granting credits.\(^{46}\) The Association of Russian Banks wanted a share of power via seats on the council of the Central Bank. When Matiukhin rejected that request, it stoked resentment. Without his own strong power base, Matiukhin had to resign upon Khasbulatov’s request in July 1992.\(^{47}\)

His successor had an even more illustrious pedigree in the Soviet elite. Viktor Gerashchenko’s father had been a leading figure in the banking system under Stalin, even accompanying the Soviet leader to the Potsdam conference. Viktor pursued a career as a Soviet bank representative abroad, spending much of the 1960s and 1970s in London, Beirut, Frankfurt, and Singapore. Like many of his generation, education, and exposure to the world abroad, Gerashchenko developed a good sense of the deficiencies of the Soviet economic mechanism and by the 1980s was convinced that some sort of a market system, with a reformed price mechanism and new forms of property, and with an integration into global financial institutions, would be needed to overcome them. At the same time, he was very familiar with Soviet cadre politics and did not flaunt such ideas until it became expedient to do so by the end of the decade. Yet, as with Matiukhin, it was less his ideas than a personal connection that secured him a position at the top: ‘Gerakl’ (Russian for “Hercules”), as his friends called the jovial and sociable banker, had played basketball with Valentin Pavlov when both studied at the Moscow Finance Institute. Gorbachev nominated Pavlov as Minister of Finance, and Pavlov, who needed someone he could trust as head of the Soviet Gosbank, bounced the ball onto Gerashchenko.

In the final three years of the USSR, during Gorbachev’s half-baked attempt to save the planned economy by decentralizing economic and budgetary decision-making, Gerashchenko held sway over Soviet finances. Under his watch, the inefficient but stable financial architecture on which Soviet power rested collapsed, but Gerashchenko pulled all strings to keep his privileged position. He sided with the putsch of much of the Soviet government against Gorbachev in August 1991. When it failed, the champions of Russian sovereignty around Yeltsin began taking over Soviet institutions in Moscow and dismissed him – a move he flatly rejected. A couple of days later, most likely thanks to his

\(^{45}\) Reddaway, 386.
\(^{47}\) Matiukhin, TsB Rossii, 226–240.
excellent contacts, Gerashchenko was back in the office and stayed put until the end of the year. Only with dissolution of the Union, and Matiukhin’s personal conquest of the Central Bank’s premises, did he comply and resigned.48

The liberal government would have preferred an ideologically like-minded successor as head of the Central Bank. In preliminary talks with the Supreme Soviet, however, they had to concede that their candidates Sergei Ignatyev and Boris Fyodorov faced too much resistance. The deputies from the new Russian Communist Party wanted their old comrade Gerashchenko. Gaidar, in what he later considered the gravest mistake of his political career, gave in, trusting in Gerashchenko’s ample experience.49

It was not his ideas that brought Gerashchenko back as head of the Russian Central Bank. It was his expansive personal networks, and it was for these networks that he re-adjusted the bank’s policies. He raised credits for the newly privatized, but de facto state-run, commercial banks, whose bosses he had all known personally for many years. He then wrote off credits to the tune of billions of rubles for company directors, whom he knew as well. It was not only power politics that drove Gerashchenko. He had a sense of himself as an irreplaceable landlord of the Russian economy, not just as the head of an institution which ensured the stability of the currency.

Economic ideology thus played only a secondary role in this transitional institutional struggle. Even if one considers as ideological drivers the different visions of development, within a continued reformed Union or in separate nation states, these too were directly linked to political survival strategies. For Matiukhin and others who propagated a path of Russian sovereignty, the active discarding of the former imperial periphery with the help of financial policy were also a strategy to outmaneuver their competitors at the Union level. For those who initially defended the financial order of the entire Union, like Gerashchenko, control over former republics by ways of maintaining a common currency preserved the interest of importing and exporting Russian companies, and their larger sphere of personal influence. Gerashchenko called the subsequent abandoning of the ruble zone “a loss of what has been won.” That goes some way to explain why he tried to convince other republics to use a separate Russian currency when he introduced it in the summer of 1993.50

Transitional elites consistently strove to preserve their status and influence during and beyond the period of market reforms. As head of the Soviet Gosbank, Gerashchenko refused to let new commercial banks settle their

48 Ibid., 65.
49 Gaida, 164.
50 Kroto, Put Gerakla.
payments directly, defending a payment system which maintained control over all finance flows in the hand of the Central Bank – that is: his hands. As head of the Russian Central Bank, he drew the ire of new commercial bankers, who resented his “Soviet” meddling in their affairs, and of the liberal government, whose attempts at financial stabilization he thwarted. He did not respect the authority of the liberal ministers, less for their liberal views, more because he considered them clueless 30-year-olds who did not play in the same league of the former Soviet elite. “He thought he could replace the government with his own decisions”, one of the liberal ministers later recalled.

That the liberals in government could not do much about Gerashchenko’s politicking clearly testifies to the limits of ostensible ‘neoliberal radicalism’, and to the perseverance of Soviet power networks. Late Soviet elites like Gerashchenko and Matiukhin still called the shots when the Russian Federation was created in 1992. These were not anti-reform forces per se. Both were familiar with the workings of market economies through first-hand experience from the 1950s, and aware of the deficiencies of the Soviet planned economy. They were no opponents of market reforms, but their prime goal was to preserve their own status. Irrespective of competence or economic ideology, those who prevailed in this power struggle usually had larger networks and better connections. Matiukhin’s brief career in high finance ended in 1992, and his ventures into commercial banking in the Russian regions ended in failure. String-puller Gerashchenko was more powerful than ever.

4 The Central Bank Leadership during the Constitutional Crisis

The constitutional crisis in the autumn of 1993 was primarily a showdown of a lingering conflict over central power in the weak institutional framework of post-Soviet Russia. The president and government were on the one side, the Supreme Soviet on the other. Gerashchenko’s tactical maneuvers during the crisis, however, exemplify our claim that the Central Bank and its leadership were not only an instrument of other power centers, but should be considered as active players with their own interests, stakes, and strategies.

When Yeltsin, with his infamous Decree 1400, dissolved the Supreme Soviet on 22 September 1993, he was fully aware of the political risks of this breach of the Soviet-era constitution. He urgently needed support from other

institutions, most importantly the military and security apparatus, but also the Central Bank. Hence, he issued another decree the same day that appointed the already incumbent Gerashchenko as head of the Central Bank. In regard to economic ideology, this was a rather contradictory move. But as this was a conflict about power, it made perfect sense to offer the influential Gerashchenko a future under his oversight. The Supreme Soviet was equally aware of the important role of the Central Bank and, issued a resolution on that same day which tried to cut off the government from Central Bank credits: “the financing of the federal executive authorities of the Russian Federation must be carried out subject to a corresponding decision of the Supreme Soviet of the Russian Federation.”

Gerashchenko, as he had done during the August putsch of 1991, signaled support to both sides – and then went with the winner. He accepted Yeltsin’s nomination, but also, the day after, handed out huge sums to the radical minority of the Supreme Soviet that cleared its accounts at the Central Bank to arm itself. When their rebellion failed, however, Gerashchenko immediately accepted a decree by Yeltsin that subordinated the Central Bank to the executive until new parliamentary elections. He preliminarily lost the autonomy of his institution, but again preserved his own influential position in it.

Yeltsin, with his violent resolution to the constitutional crisis, did manage to wrest control over the Central Bank from the Supreme Soviet. Yet if this was his attempt at an imposition of the “Washington Consensus”, then it failed. The same person with Soviet notions of monetary policy, whom the Harvard economist Jeffrey Sachs had called “the worst central banker in the world”, was still head of the Russian Central Bank when the dust settled around the White House. After the Duma election at the end of year, the independence of the Central Bank was indeed re-established. The new Russian constitution of 1993 and a separate banking law in 1995 now stated that the Central Bank was independent but under supervision of the parliament. Its head was to be appointed by parliament, but upon suggestion of the Russian president. Still, it did not

54 Fyodorov, 145–146.
55 Johnson, Priests, 75.
57 The 1995 banking law states in §5 that the Bank of Russia shall be accountable (“podotchetchen”) to the State Duma, while the 1993 Russian constitution states in §75 that the
tighten its credit lines to commercial banks until the autumn of 1994, when Gerashchenko was preliminarily dismissed after the ruble suddenly declined in value. Monetary financing of the government even increased considerably, until the IMF insisted on reduction before releasing a credit package in 1995.\(^5\)

If this was an elite conspiracy, then it was one in which the liberals were not particularly successful: Both Gaidar and Fyodorov left the government a couple of weeks after the elections. With Boris Yeltsin as president, Viktor Chernomyrdin as Prime Minister, and Viktor Gerashchenko as head of the Central Bank, the late Soviet high-level apparatchiki were again firmly in control of Russia. More plausible than the scenario of a grand conspiracy, however, is the assumption that the Russian government backed Gerashchenko because it was too weak and had to compromise with him. The limited capacity of the executive thus allowed other institutions and elites to turn into active players in the post-imperial struggle, often providing them room for maneuver to further their personal agenda.

Gerashchenko’s career path and ideological adaptability is telling: a high-ranking Soviet apparatchik, he immediately embraced market reform rhetoric when it became expedient to so in the late 1980s. As head of the Soviet Gosbank, he heavily criticized Matiukhin for his approach to conquering the institutions of the Russian Republic – until he took over his rival’s office and followed similar policies. As head of the Russian Central Bank, Gerashchenko criticized the neoliberal course of the Gaidar group – until his next and final comeback as head of the Central Bank after the financial crisis of 1998. Still under Gerashchenko, the Central Bank replaced credit financing with lucrative treasury bills that large commercial banks were cajoled to buy to supply the Russian state with capital. When this pyramid scheme collapsed in 1998, Gerashchenko took over again – now himself following a conservative monetary policy, putting an end to cheap central bank credits, and turning into a defender of fiscal and budget discipline. Upon his retirement in 2002, he pulled some strings again and received a lucrative position at the recently nationalized Yukos company.

While scholarship that focuses on elite continuities is correct about the absence of noteworthy lustration in the Soviet-Russian transition, it should also be pointed out to which extent these elites themselves changed their outlook over the years. It seems to be a reasonable assumption that these ideological

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adaptations were not usually heartfelt convictions but primarily career strategies. The weak institutions of the newly created Russian Federation were used to further personal ambitions. The conflicts at the top, first between the Union government and the leaders of the republics, then between the Supreme Soviet and the government, opened political possibilities for ostensibly secondary actors – from Central Banks bosses to Russian regional leaders to constitutional judges.59

During the turmoil of the 1990s, many former Soviet elites thus turned their social capital into political power (and actual capital). The ideological flexibility of this last Soviet generation is quite striking, and it has continued throughout the various incarnations of the Putin regime as well. It gives currency to our argument that the post-Soviet institutional struggles like the one over the Central Bank were more about power than about different political and economic ideas.

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59 See also the contribution of Caroline von Gall in this issue.