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ABSTRACT

A phenomenal spread of unconventional means of payments has been one of the most controversial features of Russia's post-socialist economic development. Orthodox analyses tend to trace the causes of the non-monetary economy to the inconsistency of political reforms, to the legacy of the past, and to endemic corruption. This article challenges such accounts. From the perspective of international political economy, the proliferation of nonpayments, severe liquidity squeeze and the structural disjuncture between Russia's financial and productive circuits are the outcomes of the country's pursuit of the paradigm of the Washington Consensus. In this light, barter and nonpayments in Russia are neither the 'inevitable' features of the market restructuring, nor simply the residue of the command system. The non-monetary economy in Russia is a peculiar reaction to the politico-economic imperatives brought onto the country by the deregulated financial markets and by the neoliberal political ideology that underpins their global expansion.

KEYWORDS

Barter; financial crisis; capitalism; neoliberalism; Washington Consensus; Russia.

INTRODUCTION

The emergence of barter trading, payment arrears and monetary surrogates to an unprecedented degree has been one of the most peculiar and controversial features of the post-Soviet transformation in Russia. Since 1993, taxes and budget revenues have been accepted in various kinds of IOUs; enterprises use barter trading with each other to clear transactions; at the regional level, pensions and wages are either being delayed by months, or are paid in kind. The non-monetary economy creates colossal problems for

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the functioning of the national budget system; it obscures the efficiency of the productive economy; most crucially, it has detrimental consequences for the lives of ordinary workers and pensioners. The degree of demonetisation in Russia reached levels unprecedented in an industrial society. The nadir occurred in 1992, when barter accounted for only 4 percent of industrial sales. In 1997, more then 50 percent of all sales by industrial enterprises were non-monetary, and over 40 percent of all taxes paid to the federal government were made in non-monetary form. The share of barter in total transactions reached its peak of 54 percent in August 1998. The rate of demonetisation in local and regional budgets was even higher. As of 1 January 1998, the average industrial worker was owed nearly two months of back wages, and in agriculture the average delay was 4.1 months (Ershov, 2000; Aslund, 2002).

Due to its singular nature and complexity, the phenomenon of the non-monetary economy has been difficult to address amply. The analyses that have emerged to date tend to fall into the general framework of transition economics. The orthodoxy views nonpayments as an outcome of discrepancies between micro- and macroeconomic reforms, and the lack of political discipline to pursue radical industrial restructuring. As the World Bank (2000: 5–6) argues, if Russia's macroeconomic policy during the 1990s explicitly aimed at fiscal and monetary stabilisation, microeconomic policy priorities were not so clearly defined. Thus nonpayments emerged as a consequence of the contradictory budget policy, which contained soft budget constraints for the enterprises and rapid disinflation. Economics of transition also typically traces Russia's non-monetary economy to the legacy of the command system. In this interpretation, market-oriented reforms of the 1990s were insufficient, both for the state and the industrial sector, to abandon the centralised pattern of capital and labour allocation. Compounded by the troubles of the reform period, a systemic liquidity crisis disguised the real dimensions of bankruptcies and unemployment, ultimately forcing workers to wait for months to be paid (Makarov and Kleiner, 1997; OECD, 2000; Yakovlev, 2000).

This article scrutinises and challenges such approaches. Two major objections can be addressed to the mainstream interpretations of nonpayments in Russia. On the one hand, generally economic readings of the post-socialist 'transition' are framed around a rather narrow, reductionist approach to the reform, which is strongly underpinned by the paradigm of neoclassical economics. Specifically, transitology holds that by controlling the proper value of key macroeconomic indicators, such as low budget deficit, low inflation and a stable exchange rate, the government can decisively influence real economic development (Bezemer, 2001: 19). Such vision not only sidelines the problem of a discrepancy between financial and 'real' economic performance prevalent in the age of the globalising financial markets. Most significantly, it does not account for the variety of the historical, institutional and social factors that shape the outcomes of economic restructuring and political reforms in the emerging economies.

On the other hand, alternative formulations of Russia's 'transition', often originating in the scholarship of area studies or (post)-Sovietology, often tend to overestimate the significance of the command economy remnants and/or the idea of Russia's 'historical exceptionalism' for the country's contemporary problems. From the perspective of transitology, the impact of global politico-economic factors is mediated by, and largely is secondary to, stable institutional architecture and domestic political stability (Robinson, 1998). In this, conventional studies of post-communist Russia tend to neglect the actual implications of the processes of globalisation and international integration on the trajectory of capitalist evolution in Russia.

This essay attempts to overcome these fallacies by adopting an international political economy framework to the analysis of Russian capitalism. It unpacks the controversial developments in Russian financial and real economies during the 1990s in light of the country's pursuit of neoliberal restructuring and deregulation. As many critics maintain, a central problem of the current phase of world capitalist expansion lies in the dangerous incongruity between the will of democratic constituencies, which is constrained by the boundaries of their nation-states, and the international private and corporate actors that exercise power over the former, while largely beyond the reach of democratic institutions and often outside public control. In particular, the productive resources of the real economy, which are tied to a given territory, remain at permanent disadvantage relative to the extremely fluid financial capital (Reddaway and Glinski, 2001: 82; Soederberg, 2002).

The global ascendance of deregulated financial markets imposes a regime of microeconomic rationality on politics, subordinating democratic, internally oriented policies to 'the new constitutionalism' of international capital and its institutions (van der Pijl, 2001: 13–4; Gill, 2002; Soederberg, 2002). The critical attributes of neoliberal finance-driven globalisation – arbitrage, speculation and the attendant weakening of the real economy – have embraced most nations that strive to become part of the global capitalist system (Altvater, 1998; Bello *et al.*, 2000). The resulting dichotomy between financial and productive economies exposes both mature and emerging markets to endemic financial instability, speculative investment booms and financial crises.

The self-destructive nature of speculative investment is inherent in the nature of financial capitalism, and as the collapse of 1998 showed, the new Russia is no exception. The August financial crisis came as the outcome of the disjointed development of the Russian economy. As this article shows, paradoxically, despite the ostensibly 'transition-related' nature of the problem of nonpayments, the Russian experience fits well into the general framework of global financial capitalism. By 1998, the country had a highly lucrative, but fictitious in its nature securities market, dominated by government treasury bills. Yet the growth of the financial sector did not have any foundations in the real economic performance, and instead was based on a cash-struck productive sector that nonetheless continued to function. As this essay argues, barter and nonpayments emerged as an endogenous reaction of Russian economic agents to the direct consequences of financial liberalisation: a climate of restricted credit conditions, the deflationary vector of monetary policy, and the severe demonetisation of the real economy. In effect, nonpayments evolved in a peculiar, self-reproducing mechanism of industrial financing in Russia that not only has helped sustain the production capacities during the 1990s, but has also in many ways stipulated the post-crisis industrial recovery.

The article is organised into four substantive parts. The next section reviews the debate on the evolution of capitalism in Russia. It examines the conflictual interaction of the domestic and global politico-economic processes in shaping the course of the reform, and discloses the role of the 1998 financial crisis as a watershed in the country's path of capitalist evolution. Given the centrality of non-monetary exchange for the 1998 crisis and its aftermath, the rest of the article addresses the phenomenon of nonpayments in depth. Section three critically reviews mainstream economic approaches to the problem of nonpayments in Russia, often fashioned in the so-called 'virtual economy' model (Gaddy and Ickes, 1998, 1999). It shows that although some elements of the nonpayment network do originate in the command economy, the dimensions and the self-reproducing character of the non-monetary economy cannot be fully attributed to government policy misconducts, corporate fraud or the legacy of the past. As section four argues, the primary engine for the proliferation of inter-enterprise indebtedness and hence the non-monetary web has been the severe monetary restriction implied by the IMF conditionality programmes, and the disproportionate growth of the purely speculative financial market which has been the primary mechanism of Russia's international economic integration.

Since the introduction of anti-inflationary policy in 1993, Russian industrial producers have been faced with continuous liquidity shortages; in response, they came to rely on an idiosyncratic mechanism of payments that involved barter trade, various kinds of offsets and monetary surrogates. As section five argues, the profusion of these payment vehicles meant that the destructive effects of financial speculation and asset-stripping were to a large degree offset by the process of endogenous credit creation that took the form of money surrogates issued by the industrial sector. Paradoxically, therefore, while an inefficient mode of trade, ultimately barter and monetary surrogates played a constructive role in Russia's neoliberal transition; the non-monetary economy also explains why the repercussions of the 1998 crisis were not as destructive for Russia itself as they were for the international markets. To anticipate, the paper concludes that the non-monetary economy in Russia emerged as a birthmark of the new, finance-dominated mode of international integration. Its controversial role in the Russian transformation has exposed the fragility inherent in the operation of the deregulated financial capitalism, as well as the fallacies of the principles of the Washington Consensus that underpin its global expansion.

GLOBAL FINANCE AND 'CAPITALISM RUSSIAN-STYLE'

For more than a decade, Russia has been striving to become part of the global capitalist system. The decade of the 1990s has been a painful time for the post-Soviet state, mainly because the attempts to emulate free market capitalism inside the country coincided with the radical removal of external economic, financial and trade barriers. As a result, Russia's endeavours to integrate into the world markets produced a variety of highly segregated and conflictual outcomes. On the one hand, as in other countries where economic liberalisation takes hold of the state's political priorities, financial deregulation and economic openness have exposed Russia to the instability inherent in global financial capitalism. Speculation, short-termism, Ponzi mentality and the prioritisation of financial gains over long-term, productive engagements have come to characterise most economies that attempt to integrate into the global market. The crisis tendencies inherent in the disjuncture between finance and the real economy are endemic in the contemporary nature of financial capitalism, and, as the spectacular financial collapse of August 1998 showed, the new capitalist Russia was no exception. Financial and currency speculation, the deregulation of the financial market and the construction of a stupefying debt pyramid – the endemic features of modern financial capitalism – were at the epicentre of the Russian financial crisis of 1998 (Nesvetailova, 2002).

On the other hand, Russia's internal institutions and structures inevitably mediated the implantation of the 'constitutionalism' of financial capitalism. In many instances, the interaction evolved into a conflict between the new, formalised rules of the laissez-faire capitalism, and the informal and often obscure, but no less significant traditions of politico-economic organisation and practice. As a general tendency, the main immediate result of the collapse of Communist regimes has been to reduce the role of the state by transferring its economic functions to private enterprises and its welfare functions to the market or the emerging civil society (Sampson, 2002: 301). Since the early 1990s, the adoption of an Anglo-American version of neoliberalism has been a rational strategy for new Russian leadership: it legitimated destroying the political and economic base of the old ruling classes as well as the formation of competing units on the domestic market. Global competition was supposed to promote economic efficiency and industrial restructuring on the basis of comparative advantage (Lane, 2000: 486).

Yet contrary to these expectations, a smooth 'transition' to capitalism in Russia never materialised. Externally, the adverse consequences of the ascendance of the financial interests over the real economy are aggravated by the primarily export-oriented, extractive character of the economy, with financial speculation and the raw materials complex being the only vehicles of Russia's integration into the world trade and finance (Gowan, 1999). Internally, successive governments throughout the 1990s, using the ideology of free markets, created a climate in which many citizens feel excluded from their national society; a society which they perceive to be institutionalising unfamiliar inequalities (Gustafson, 1999; Hann, 2002: 93). In the political discourse of the reform, one of the biggest mistakes made by the Russian reformers and their foreign advisers was a persistent dismissal of one critical consideration about a future of capitalism in Russia. What type of a capitalist political economy would be feasible and suitable for Russia? Such concerns, if they were raised in the Russian academic and policy circles, were inevitably muted under the neoliberal dictate that reined the political elites throughout the 1990s. Meanwhile, a deeper inquiry into the nature of Russia's dizzying chances and their place in world history is only beginning (Reddaway and Glinski, 2001: 41). In this instance, several observations about the nature and the impact of the contemporary transformations of capitalism for the post-Soviet terrain come to mind.

Although models of national capitalist organisation continue to vary in the age of globalisation, some fundamental foundations for a capitalist political economy are universal (Gustafson, 1999; Radice, 2000). As Lane (2000) argues, capitalism is a system of production taking place for market exchange utilising money as a key medium of exchange and accumulation. Profit-driven accumulation is a major motive of economic life; and the state establishes an effective legal system that secures property rights of owners over the proceeds of production. In post-Communist Russia, the initial implementation of the neoliberal doctrine, on a scale unprecedented even under Anglo-Saxon capitalism and wedded in monetarism even more firmly than was the case in the West, has not had the intended economic and political effects on the creation of wealth, democracy and stability. The constraints presented by the legacy of state socialism, combined with the shocks of the international economic openness, have exerted their own peculiar character on the transformation (Lane, 2000: 487; Hann, 2002: 320). As a result, evolving Russian capitalism deviates significantly from the 'designer capitalism' ideal envisaged by the reformers in the early 1990s (Hausner *et al*., 1995).

As Lane (2000: 428) succinctly notes, two central media of coordination – money and power – are ineffective. Russia lacks a hegemonic capitalist ideology, an effective state apparatus, institutions of coordination and consensual political elites. Money functions imperfectly as a medium of exchange. Market competition does not operate or does so only partially. It is on these shaky foundations of a capitalist system that Russia strived to compete at the world market for international recognition, political weight and financial flows. Little surprise therefore, that in the highly interdependent and fragile environment where even the bigger players fall victim to financial turbulence and economic crises, the new Russia has failed painfully. The financial crisis of 1998 marked the beginning of the end of a short but dramatic era in the new Russian history, an era in which the grassroots movement for radical change during 1987–91 was largely negated by the top-down dictate of reforms Reddaway and Glinski (2001) call 'market bolshevism'.

It is difficult to overestimate the significance of the 1998 financial crisis for Russia's trajectory of capitalist evolution. Academic texts on the Russian reform now describe the transformation of the 1990s in the 'pre-crisis' and 'post- crisis' terms (Florio, 2002). It has to be noted, however, that the financial crisis did not have the same destructive impact on the economic activity in Russia as it had, for example, in East Asia. A steep fall in production did occur immediately after the August default, reflecting severe disruptions in domestic trade. But following the rouble devaluation, a strong recovery surfaced by December 1998 and the output loss was comparatively modest (Perotti, 2001: 16–7).

Since both national capitalism and international integration in Russia were confined to the financial sphere, the 1998 crisis was far more painful for foreigners, investors and 'advisors' alike, than for ordinary Russians. New Russian financial capitalists lost fortunes in the August default, and the young city professionals lost their prestigious jobs. Yet the majority of ordinary people have never related to the shady world of financial trading; the most serious consequence of the 1998 crisis for them was the devaluation of the rouble that had shrunk their wages and pensions. But Russians have long learned how to cope with economic disasters without any support from the government, much less the IMF (Simonia, 2002: 91).

To a large extent, it is the ability of Russian firms and banks to renege on their obligations, the limited development of financial intermediation, and the pervasiveness of barter trade and monetary surrogates that help explain why the financial crisis did not feed through in the real economy in Russia (Perotti, 2001). Given the centrality of the non-monetary exchange for the 1998 crisis and its aftermath, it seems necessary to address the phenomenon of nonpayments in more depth. In what follows, the paper critically examines the emergence and proliferation of barter and non-monetary exchange in Russia, and evaluates the significance on these phenomena for Russia's politico-economic transformation.

MAINSTREAM ACCOUNTS OF THE RUSSIAN 'VIRTUAL ECONOMY'

Orthodox economic analyses tend to examine the problem of barter and nonpayments in Russia from the perspective of the so-called 'soft budget constraints' theory (Berflof and Roland 1995; Aghion *et al*., 2002; Mitchell, 2002). Defined by Kornai (1993), soft budget constraints arise when a paternalistic agent, typically the state, rescues distressed firms from failure by injecting cash in the form of subsidies or additional credit. As many Western economic readings of the non-monetary exchange in Russia maintain, barter is therefore result of the deficient governance mechanisms, both at the level of corporations and the state. On the one hand, with interest rates too high and bank credit being very tight, Russian enterprises reacted by reallocating credit and innovating in quasi-monetary instruments. On the other hand, while phasing out direct subsidies to the enterprises, the state increasingly injected 'soft' credits into the ailing industrial sector by allowing firms to pay their taxes late and in kind (at overvalued prices). As economists believe, such injection of 'soft' credit was partly due to the concerns about employment, but also a result of corruption, fraud and tax evasion that further undermined the state's fiscal position and thus fuelled the rise in interest rates and the crunch of bank credit to enterprises (Commander and Mummsen, 2000: 131; IMF, 2000).

Following the liberalisation of prices and trade in the early 1990s, the Russian industrial sector faced growing liquidity problems as aggregate demand fell and direct credit and subsidies were reduced. In order to keep afloat rather than embarking on market-oriented restructuring, many enterprises responded to these problems by resorting to payments in kind and barter. Initially, the state adopted a rather laid-back and careless attitude to the emerging crisis. In a market economy, the enterprises became free economic agents, and therefore it was not for the government to take the responsibility for the growing inter-enterprise indebtedness. But it was not long before the growing volume of inter-enterprise indebtedness translated into a chronic shortage of federal budget revenues, and thus to arrears in social and welfare payments at the state level (Klistorin and Cherkasskii, 1997: 53). Gradually, the state sanctioned the proliferation of nonpayments by tolerating an increase in non-monetary and late payments for both tax and utility bills and a lax approach to bankruptcy. As non-cash tax payments and 'tax offsets' tend to overvalue the goods delivered to the state, this practice amounted to a significant infusion of implicit subsidies, which became the key reason for the growth of barter and arrears up until the crash of 1998.

Thus to most economists, the essence of the post-Soviet non-monetary economy lies in the reluctance of large enterprises to adjust to new market conditions, and the unwillingness of the state to proceed with radical bankruptcy measures. The competitive effects of the initial market reforms were partly offset by the new implicit subsidies channelled through barter and arrears. A monetised economy is perceived to be transparent and competitive, and it does not offer any advantages for large enterprises over smaller ones. A barter economy, on the contrary, is a system based on close relations between economic agents, where large enterprises tend to exploit greater access to important state officials (Seabright, 2000; Carlsson *et al.*, 2001). By avoiding payments in cash, large enterprises ensure that their relational capital remains of decisive importance. In 1999 in Russia, for instance, loss-making enterprises came to 43.6 percent of the total number of enterprises. They made a loss of 54.5 billion roubles, compared to the 71 billion of profits made by other companies. No government can accept the consequences of such high levels of bankruptcy, and the governments' strategy in Russia has been to maintain political and economic stability (Lane, 2002). Thus, economic theory argues, barter and money surrogates conserve the power and production structures in industry.

A now well-known model attempting to explain the rationale and operation of Russia's non-monetary economy was offered by Gaddy and Ickes (1998, 1999). They argue that Russia has produced a new kind of economic system with its own rules and its own criteria for success and failure. They dub this new system Russia's 'virtual economy', because it is based on an illusion about every important parameter: prices, wages, taxes, and budgets. At its heart is the pretence that the economy is much larger than it really is. This pretence allows for larger expenditures than Russia can realistically afford. It is this pretence, the authors insist, that is the real cause behind the web of wage, supply, and tax arrears (Gaddy and Ickes, 1998: 54). The orthodoxy tends to trace the causes of the non-monetary economy to the legacy of the command system, inconsistencies in the economic policy, and the problems of lagging structural reforms. Specifically, the institutions left behind by the USSR include the old Soviet tradition of barter, the *'beznal'*(cashless) channel of payments clearing, and the relics of the vertical hierarchy of mechanisms for territorial distribution of goods. As Gaddy and Ickes (1999) write, although the Soviet economy appeared to be a large industrial complex, industry in fact was subsidised by underpriced raw materials and insufficient charges for capital. The economy appeared to have a large manufacturing sector that produced value, but, in effect, large parts of the industry sector destroyed value. This fact was masked by arbitrary pricing, and the roots of the 'virtual economy' lie in the maintenance of this pretence.

Close ties between government officials and economic agents, as well as heavy subsidisation and a disjointed monetary realm were indeed key elements of the command economy. In this way, barter does have certain linkages with the old system: the prime participants are the large enterprises from the Soviet period. Soviet industrial prices were denominated in the fractured and partitioned circuits of the command economy. As Woodruff (2000: 453) notes, this legacy of contorted and frustrated numerical abstraction is one of the reasons the Russian economy has been so resistant to the imposition of universalising models of the free market. Thus institutional causes of nonpayments – such as significant overvaluation of 'official' prices – are indeed the remnants of the Soviet cost-based model (Yakovlev, 1999; Kuznetzov, 2000).

However, although these surviving elements may help account for the longevity and distribution of barter chains, they do not give comprehensive answers to the question of why barter has intensified dramatically since 1994; neither do they explain the extensiveness of the non-monetary network (Litvak and Sutherland, 2000). In three crucial respects non-payments are a novelty of the post-Soviet times and cannot be traced to the previous centralised system. First, the Soviet economy was based on centralised, vertical commands, whereas barter is essentially a form of trade. In many instances, barter serves as a means for large industrial enterprises to force smaller ones to accept products the latter do not want as payment for their output: 40 percent of barter is involuntary (Aukutsionek, 1998; Aslund, 2002). Second, those observers who over-estimate the influence of the command economy on barter tend to ignore the fact that industrial organisation in Russia, however imperfect by market standards, had undergone significant changes during the 1990s. For example, a Russian car company today is not just something called *Avtovaz*. In fact, *Avovaz* is a part of a larger conglomerate, which incorporates financial and trade firms, off-shores, informal networks of middlemen, etc. These elements of the group, typically controlled from outside, deal only with about 15–20 percent of cash flows of the conglomerate, which is usually sufficient to pay wages and partly taxes. In order to clear the rest of the payments within the group, cash may not even be necessary – a mechanism of offsets is sufficient (Kuznetsov, 2000).

Third, and crucially for the argument of this paper, non-monetary exchange has arisen continuously since the sharp monetary squeeze of 1992–93 (Aslund, 1999: 98–101). Up until 1998, the strong anti-inflationary vector of monetary policy, endorsed by the conditionality of the IMF credits, had been a decisive factor in aggravating liquidity shortages in the real sector of the economy. A comprehensive consideration of the effects of international financial liberalisation on barter in Russia suggests that 'nonpayments are not the legacy of the Soviet times, they are a birthmark of the new Russian economy' (Kuznetsov, 2000). Therefore, the non-monetary economy in Russia is a uniquely modern phenomenon: while barter is generally thought of as primitive, naturalised form of exchange, many of the non-monetary transactions which take place in Russia would be impossible in any but a highly complex economy (Tompson, 1999: 257).

An important question in this respect is why the situation in Russia appeared to be so different from the experience of other post-socialist economies? Mammsen (2000) identifies four major reasons why most other transition economies have avoided the depth of the nonpayment problems that currently exist in Russia. First, very few governments actually do accept taxes and utilities payments in a non-cash form. In Russia this practice remained practically unchanged, although recently it has shifted to regional and local levels. Second, unlike their CIS counterparts, enterprises in Central and Eastern Europe have the opportunity to export their products directly for hard currency. Third, throughout the 1990s many post-socialist governments continued to grant credit to industrial giants, partly passing their problems onto state banks. In Russia, however, starting from January 1992 the central bank stopped extending credit to suppliers' banks, and instead of crediting the real sectors of the economy, Russian banks switched to financing the budget deficit (Ivanenko and Mikheyev, 2002: 413). Fourth, while Eastern European countries might have benefited from the growth of new small and medium businesses, the key socio-economic functions of production and distribution in Russia still belong to large industrial conglomerates (Zolotareva *et al.*, 2001; Aslund, 2002).

It is clear that barter and nonpayments are a burden for the Russian economy. Delayed payments and accumulated debts worsen both the conditions of individual companies and the federal budget; non-monetary exchange obscures national accounts. In this, economists are quite right to direct attention to the importance of accountability and governance mechanisms in the microeconomic organisation. However, mainstream analyses show scant appreciation of the role of the international political economic processes for the evolution and deepening of the non-monetary exchange.

First, Western economic literature tends to overemphasise the role of nonpayments as an instrument of tax evasion. While corruption and tax fraud are undoubtedly endemic in Russia, and the state's administrative capacity limited, persistent revenue shortfalls are not entirely the result of the authorities' lack of either political will or coercive capabilities. To a great extent, tax shortfalls arise not because managers are hiding vast sums of money but because enterprises lack the cash to pay their bills with (Tompson, 1999: 268). Second, as the analysis of the 1998 crisis shows below, barter and monetary surrogates became a lifejacket for Russia's industrial producers, at the time when their survival was threatened by aggressive tunnelling of financial resources from the real sector of the economy into financial speculation (Yakovlev, 2000).

Third and critically, reconciling competing explanations of nonpayments in Russia requires taking into account the impact of international economic integration on Russia's political economy. In particular, the repercussions of rapid trade and financial opening of the early 1990s, along with the continual demands of the IMF and the World Bank to maintain rigid monetary discipline created a situation of a monetary vacuum in the industrial economy. The massive issuance of government securities (GKOs) up until August 1998, as a consequence of the cut in monetary financing of the budget, crowded out private capital, both in physical terms and by raising interest rate. Furthermore, the delay with which the government has met its obligations and the widespread practice of budget sequestration, through which expenditures contained in the budget law have been subsequently postponed or cancelled altogether, has certainly had an amplifying effect on the build-up of arrears among enterprises and on the adoption of monetary surrogates by private agents (Gara, 2001: 10).

In this light, a central motive for industrial producers to employ monetary surrogates and barter has been a profound disjuncture between the growth of the financial markets and a slowdown in the severely demonetised real sector of the economy. Therefore, the web of barter, arrears and non-monetary operations became a vivid manifestation of a peculiar, self-reproducing mechanism of industrial finances that come into existence in Russia in the 1990s and that was at the epicentre of the 1998 financial crisis.

NON-PAYMENTS AND THE 1998 FINANCIAL CRISIS

Long before the financial collapse of 1998, there had been warnings about an insufficient level of capitalisation in the Russian banking sphere. (The overall volume of the banking capital, even before the 1998 crisis, was around $10 billion, which was less than a capital base of a single large American bank). There were also indications of the linkage between low aggregate demand that was caused by monetary restriction, and the economic slowdown (Ershov, 2000: 277). By 1998, only about 20 percent of the economy was serviced with cash roubles; the other 80 percent was operating without it.

In accordance with the IMF's stabilisation packages of the early 1990s, Moscow had to cut back on the monetary emission. The roubles printed by the central bank had to be matched by Russia's foreign trade earnings, and thus be anchored in the central bank's foreign exchange reserves. The monetary squeeze led to an almost complete dismissal of the need to balance domestic monetary supply with the existing commodity flows, and hence the needs of the national productive turnover came to be neglected (Rodionov, 1999). Since money as an economic mechanism had no role in the command system, one of the major objectives of the movement to capitalism had to be the 'remonetisation' of the real sector of the economy (Lane, 2002). Yet conversely, following the radical monetary tightening of 1993–95, the money supply shrunk to as low as 15 percent of Russia's GDP (Table 1). In advanced countries this figure is usually within 60–100

Table 1 The share of the money mass in GDP, 1991–97*

	1991	1992	1993	1994	1995	1996	1997
Russia	0.94	0.45	0.22	0.17	0.14	0.13	0.15
UK	0.88	0.86	0.86	0.93	0.88	0.92	0.92
USA	0.57	0.55	0.54	0.51	0.50	0.50	0.50
France	0.42	0.40	0.40	0.41	0.42	0.41	0.45
Italy	0.57	0.54	0.54	0.52	0.47	0.46	0.41
Germany	0.35	0.36	0.38	0.39	0.35	0.35	0.35
Colombia	0.31	0.33	0.36	0.39	0.39	0.39	—
Brazil	0.23	0.37	0.48	0.21	0.17	0.21	0.23

*The M2/GDP ratio indicates the sufficiency of money in the economy.
Source: Ershov (2000: 279, *op.cit*).
M2 = M1 (currency plus demand deposits adjusted) + time deposits.

percent, and in other transition economies 25–30 percent. It is therefore highly indicative that the most pronounced growth in barter and other non-monetary transactions since 1994 has occurred against a background of an attempt at macroeconomic stabilisation built around a sharp tightening of monetary policy, some fiscal correction and a fixed rouble exchange rate (Commander and Mummsen, 2000: 116; Aslund, 2002: 246–8; Lane, 2002).

What exacerbated monetarism-related difficulties in Russia was the fact that after the privatisation programme of the early 1990s, the existing money supply had to service not only the old-style economic operations (inter-enterprise trade, consumer market, etc.) but a whole host of new market segments: stock and securities market; the expanding financial and banking sector, currency exchange. Nobody in the governments of the 1990s seemed to think that as these attributes of a market economy had not existed in the Soviet system, they therefore were never part of monetary circulation, and that credit emission should be adjusted sufficiently to service these new elements.

As the credit environment tightened, especially from the middle of 1993, many Russian firms found that they had run up debts to suppliers that they were unable to repay. As Woodruff (2000) notes, this was especially true in 'base branches' – energy and transport. Firms' in-kind income, which had an official value denominated in roubles, incurred tax obligations likewise denominated in roubles – without generating any roubles to pay them. As the barter trade expanded, so too did debts for taxes. Local governments, faced with the revenue shortage, quickly developed mechanisms for in-kind taxation. As the vast fiscal implications of barter became clear, the federal government too found itself forced to concede to the use of alternative means of payment of taxes, which it began to do from the fall of 1994.

From that point onwards, non-monetary exchange and taxation became ever more prevalent (Woodruff, 2000: 460–1).

The IMF tried to get the Russian government to send credible signals that it would not tolerate barter, nor adapt to its consequences. Yet the sheer size of this trade – by 1998, it was estimated that 50–70 percent of sales of industrial enterprises were in kind, made the idea that the federal tax authorities could simply refuse to make some accommodation to non-monetary trade absurd. By 1996–97, non-cash tax collections accounted for around 40 percent of federal revenues and over 50 percent of provincial budgets (Woodruff, 2000: 462). At the same time, expenditure control, demanded by the IMF programmes, was achieved primarily through sequestrations that were in turn linked to large accumulations of government arrears – over 5 percent of GDP by early 1998. Over the period of monetary tightening of 1995–98, the source of deficit finance changed sharply: money creation was replaced by debt, both domestic and foreign (Table 2). The growth of the GKO market substituted domestic debt finance for money creation and led to a dramatic increase in the domestic debt (Commander and Mummsen, 2000: 117).

If in 1994 the internal sources represented 90 percent of the federal budget deficit financing, in 1998 the internal debt was financed almost entirely from external borrowings. By mid-1998, the GKO market turnover yielded over 300 billion roubles; while the existing money mass M2 was only 370 billion roubles. With the growing portion of the debt financed through foreign borrowings (Table 2), a collapse of the pyramid was inevitable, if unpredictable as to timing (Erickson, 1999; Ershov, 2000: 289; Federal Council 1999). On 17 August 1998, the Russian government had to repudiate on its outstanding debt, and the rouble collapsed four-fold.

The Russian financial crisis of 1998 came as an international shock, as the reality of a default on sovereign bonds stunned the investment world into a radical reappraisal of credit risk in many other dimensions (Warburton, 2000). Yet paradoxically, the August crisis had relatively little destructive impact on the real sector of the Russian economy. In essence, the nature of the 1998 financial crisis coincided with the very nature of Russian capitalism itself: vertical and highly uneven, mainly evolving around urban financial centres, and largely cosmetic in its constitution. Accordingly, the 1998 crisis has shifted the balance between the Russian real economy and the financial sector to the benefit of the former. As some economists argue, it was the network of barter and non-monetary trade that not only helped Russia face the tremendous challenges of the financial liberalisation and speculation and sustain relative socio-economic stability; the 'virtual' economy also accounts for much of the post-crisis recovery in the Russian industry (Moody, 1999; Ivanenko and Mikheyev, 2002). In what follows, the paper evaluates the role of the non-monetary economy in Russia's evolution to an open capitalist system.

Table 2 Sources of federal budget deficit financing

	1994		1995		1996		1997		1998 (January–July)		1998	
	Trillion roubles	Percent of the deficit	Trillion roubles	Percent of the deficit	Trillion roubles	Percent of the deficit	Trillion roubles	Percent of the deficit	Trillion roubles	Percent of the deficit	Trillion roubles	Percent of the deficit
Total financing	71.8	110.0	43.1	100	74.3	100	93.2	100	54.6	100	86.5	100
Including:												
Internal	63.6	97.5	19.7	45.7	41.0	55.2	39.7	42.6	−8.4		−3.6	
External	5.6	8.6	23.4	54.3	33.3	44.8	53.5	57.4	63.0	115.4	90.2	104.3

Source: Ershov, M. (2000) *Valyutno-Finansovye Mekhanismy v Sovremennom Mire*, Moscow: Ekonomika: 290–1.

'VIRTUAL' CAPITALISM, REAL ACTION: RUSSIAN FINANCIAL INNOVATION VS. THE WASHINGTON CONSENSUS

In order to fully assess the significance of the non-monetary economy for Russia's economic development in the 1990s, it is necessary to inquire how monetary surrogates should be understood. Can they be regarded as a form of money? If yes, are they susceptible to the conventional instruments of monetary regulation? Non-monetary trade is a complex phenomenon. It involves the circulation of bills of exchange and other debt management instruments that do not involve the circulation of legal tender or money. The definition of liquidity is not unambiguous in any economic system with a variety of channels of financial intermediation; it is even more difficult to reconcile it in the context of a 'transition' economy. Liquidity is generally associated with the debtor's ability to pay in cash on request. Thus the attention of an orthodox economist tends to focus solely on the availability of money to the debtor. But the orthodoxy is uncertain on the issue of whether debtors can be constrained in their access to money (Ivanenko and Mikheyev, 2002: 408–9). However, there is no doubt that as a result of a strong deflationary bias of monetary policy in Russia the private productive sector of the economy has become progressively illiquid, due either to the scarce supply of credit or to the high costs, both open and hidden, attached to it (Gara, 2001: 10–29).

The unprecedented expansion of the non-monetary economy in Russia shows that the overwhelming focus of Western assistance on monetary stabilisation, funded by foreign aid and loans, was terribly misplaced. The principles of the Washington Consensus that have been forced onto Russian governments and readily accepted by the teams of reformers prioritise the focus on fiscal and monetary policy set. At stake in the politics of stabilisation is whose hand will be on the money valve, since only a credible commitment to monetary restrictions can promote effective restructuring (Woodruff, 1999: 13–4). Yet the major problem with this approach is that it assimilates the Russian experience to a vision of politics drawn from countries with established capitalist institutions, principles of organisation and a consolidated monetary order. In Russia, however, the decades of the command-economy principle of closed and fractured rouble circuits left the legacy of highly segregated (consumer and producer) monetary circuits (Woodruff, 1999, 2000). Combined with the shock of radical financial liberalisation, this prohibited the realization of political consolidation of a new, market-based monetary system.

Financial liberalisation prioritises speed at the expense of institutional and structural balance. This leads to the creation of financial investment opportunities in the absence of tangible productivity increases in the real sector. A dominant view on economic restructuring in which financial intermediation is assigned a central role, as has been common in emerging markets, is particularly conducive to escalation of such disparity (Bezemer, 2001: 17). In Russia in 1991–92, consumer prices, foreign trade and financial variables were the first economic aggregates to be liberalised. This was a crucial policy mistake, since the other facets of the economic system, not least the rigid industrial complex inherited from the command economy, were left far behind the rapid changes in the sphere of consumption, external trade and finance. This gap led first to hyperinflation in the early 1990s, and then to the disjointed development of the economic and financial sectors, ultimately bringing the feeble progress of reforms to a halt.

Indeed, 'transition' to capitalism in Russia in the early 1990s was naively understood as a cocktail of economic liberalisation, privatisation at all costs, and stern restriction of the aggregate demand. Such vision led to the emergence of a mutant, quasi-market type of political economy. As a result, Woodruff argues, Russia's efforts to become integrated into the world economy have had some real, but shallow success. They have produced market institutions that function like their international models on the transactional level, but not on the juridical level. Stock in many corporations can be bought and sold, but does not reliably guarantee participation in corporate governance. Financial markets and the banking system had been established, but up until 1998 they were pure legal fictions used primarily for money laundering and speculation. The rouble is widely desired and employed as medium of exchange, but many legally defined obligations are settled by the state (Woodruff, 2000: 439; Perotti, 2001).

What emerged, mainly as a self-defence mechanism, was a pseudo-market, with huge virtual credits and debts among companies, and very little market competition. A logical, however unsustainable adaptation of the old system, that in a sense worked as designed, and fought to survive because it had no viable alternatives (Florio, 2002: 396). Attempts to regulate such a system with tools consistent with the paradigm of the Washington Consensus produced paradoxical results: decrease in government spending led to a further shrinkage of federal revenues and rising budget deficit; monetary restriction led to the explosion of nonpayments and barter (Nekipelov, 2001).

In the context of this article, the most significant outcome of the IMF-imposed monetary and fiscal discipline has been the proliferation of liquidity shortages at all levels of the economic organisation. During 1994–98, as inflation rates were falling, barter grew steadily: from 20 percent in 1995 to two-thirds of trade during the first half of 1998, in tandem with tax and wage arrears (Perotti, 2001). The significant fall in the inflation rate observed up until August 1998 was achieved by dramatically curbing the rate of growth of the money supply. This reduction coincided with a noticeable decrease in the monetisation of the government budget deficit, often attained by simply withholding payments (Gara, 2001: 6). The correlation between monetary restriction and the rise in non-monetary exchange highlights the fact that non-monetary exchange has been growing as financial stabilisation has proceeded. Therefore in a comprehensive politico-economic analysis, the emergence of a non-monetary economy in Russia cannot be considered a substitute for the depreciating rouble, nor is it a mere instrument for tax evasion by company directors. As commercial credit was becoming increasingly difficult for enterprises to obtain, barter ceased to be a means of coping in individual cases of indebtedness or illiquidity, and instead has become a widespread, self-reproducing web of inter-enterprise relationships (Brana and Maurel, 1999; Lines, 1999).

It is certainly true that barter can help sustain liquidity positions of some enterprises and thus prevent unprofitable production units from bankruptcy. But the line between illiquidity and insolvency is indeed fine even in the advanced economies (Chang and Velasco, 1999; Velasco, 1999; Pettis, 2001). In the Russian environment of obscure national statistics and companies' accounts, distinguishing between temporarily liquidity-struck firms and the ones that are *de facto* bankrupt is practically impossible. While the use of barter indeed helped sustain some unviable firms, it is not true for all those involved in offsets and multilateral barter transactions. For instance, the share of nonpayments in machine building was typically higher than in other sectors, suggesting that non-monetary exchange had been used as a means of selling otherwise uncompetitive produce. However, a number of studies found that gradually, the difference in the scale of nonpayments in profitable and unprofitable firms had been eroding (World Bank, 2000).

Here, it is important to realise that while there is no historical precedent for the scale of de-monetisation in Russia in the 1990s, and while it is the nonpayment of taxes and wages that attracts attention, it is not the full story. Payments are being made, just not in cash. The use of money surrogates, principally *veksels*, has been a major feature of the Russian economy of the 1990s. While the motives behind recourse to monetary surrogates have varied and with it the degree to which such surrogates have been liquid, their usage played a major role in the development of the Russian credit system, and in the evolution of an open economy as a whole. Three sectors in the Russian economy can issue monetary surrogates. There are (a) government money surrogates; (b) commercial money surrogates; and (c) other (veksels, coupons, etc.) (Genkin 2000). Among these three groups, there are four large forms of non-payments and their derivatives (Commander and Mummsen, 2000: 115):

- Barter, where the transaction involves goods for goods.
- Money surrogates – primarily commodity or financial *veksels*, which are promissory notes issued by enterprises, banks or government with specified maturities and discount rates.

- Offsets or *zachety*, where the dominant transaction involves debt for goods.
- Debt swaps, sales or roll-overs.

As some critics argue (Beljaev and Buzyev, 1998; Moody, 1999; Genkin, 2000), it is the use of monetary surrogates, rather than barter *per se*, that offers the real explanation for the demonetised state of the Russian economy and the discrepancies among GDP, money supply and bank credit. Although face values of monetary surrogates are calculated with reference to the Russian legal tender, the rouble, in much of the productive sector of the economy, nonpayments essentially are accounts payable. In the industrial sector, monetary surrogates perform both the function of means of circulation *and* the role of a means of payment. Therefore, in the Russian real economy, monetary surrogates are none other than money. While monetary surrogates are not accepted as the economy's currency unit, they do function as a means of payment between enterprises, and between enterprises and the state.

An insight into the internationalisation of the Russian credit system suggest that barter, *veksels*, coupons and offsets in Russia in fact emerged as a form of endogenous financial innovation, albeit in a direction opposite to the channels of financial innovation in developed capitalism. While in the advanced financial systems derivative and speculative financial products tend to dissociate farther and farther from their anchors in the real economy, in Russia the forms of nonpayments and their derivatives maintain a much closer relation to the channels of exchange in the productive economy, mainly because they are designated to service these channels. The crisis of 1998 has shattered the country's financial sector – by and large the only element of the Russian political economy that functioned according to a capitalist logic. But for the rest of the economic system, trapped in a mutant quasi-market condition, the first crisis of Russian capitalism entailed much less disruption.

It is largely due to the binding role that the non-monetary web played in the real economy that the country has managed to avoid a large-scale economic breakdown and social upheaval in the aftermath of the 1998 crisis. Non-payments and monetary surrogates have shielded the economy from a complete collapse and provided the continuity in transactions, even if not by 'civilised' methods. Apart from effectively sponsoring the development of the financial and legal institutions, barter trade led to the appearance of numerous intermediaries specialising in the construction of complex schemes of trade and debt settlement. The trade infrastructure remaining from the Soviet period was rudimentary and the benefits of cutting barter transaction costs stimulated its development. In an inflationary environment, whether anticipated or actual, non-monetary trade was often the only way to maintain the existence of an enterprise. It made sense to pay wages with food items, construction materials, subsidised catering and transport services rather than laying workers off. It was more efficient to employ complex equipment producing the simplest merchandise, later bartered, than to keep it idle. Thus barter and other forms of non-monetary trade mitigated financial, commercial and legal problems unleashed by the neoliberal restructuring, saving a significant number of enterprises from total collapse, and the post-1999 industrial expansion in Russia is testimony to that (Gaddy and Ickes, 1998: 63; Ershov, 2000: 284; Ivanenko and Mikheyev, 2002: 415). In this, Moody (1999) argues, enterprise 'nonpayments' are not, as the IMF contends, the root of Russia's poverty; they are its primary source of wealth.

Endogenous financial innovation on the part of Russia's industrial producers is a birthmark of the new capitalist Russia. While its configuration was unavoidably determined by the legacies of the command economic organisation, and while the sheer scale of the non-monetary exchange is unprecedented, the explanation for the non-monetary economy lies first and foremost in the imperatives of the finance-driven mode of international integration and the paradigm of the Washington Consensus that underpins it. Although the formation of capitalism in Russia remains highly contentious and uneven, with institutional and legal pillars of a new politico-economic organisation either absent or malfunctioning, the exposure of the economy to the logic of the financial globalisation have unleashed the discipline of global capitalism in Russia. Without commanding an appropriate framework of economic governance at the national level, Russia became subjugated to the laws and dynamics of a highly interdependent and crisis-prone regime of global finance. A regime where the autonomy of the state power is in constant tension with private economic interests, where the pursuit of instantaneous financial gains increasingly takes over the priorities of production and socio-economic equality, and where participants of the credit system by-pass the norms and tools of centralised financial regulation and control.

Like elsewhere in the global economy, there has emerged a highly differentiated structure of the money mass in Russia that lies outside the reach of the central bank's control. Like elsewhere, the central bank's tasks of monetary control are seriously complicated, as most of the newly emerged money aggregates do not respond to traditional instruments of monetary regulation. Therefore, rather than being a result of transition policy mistakes or a remnant of the Soviet system, the innovation in unorthodox credit instruments in Russia is best perceived as the economy's way of adapting to the shocks of the radical financial deregulation. This may not seem a very rational way to face up to the new rules of the global financial casino, but it nonetheless did help the economy survive the shocks of monetarism-inspired credit squeeze, to keep enterprises functioning and jobs sustained. In this regard, it is notable that even mainstream economists admit that the

Russian 'virtual economy' is not entirely detrimental. As Gaddy and Ickes (1998: 63) note, it is Russia's social safety net. The most important contribution it makes is jobs, albeit at minimum wages. It is because of this function of the non-monetary economy that Russia has enjoyed relative social stability: in no other industrialised country have workers suffered such a degree of non-payment with such resignation (Perotti, 2001).

Barter and monetary surrogates not only temporarily substituted for malfunctioning financial institutions in Russia, but also showed ways to fix them. A few enterprises found that they were interlinked and could get together without resorting to financial intermediation. This discovery was not obvious because Soviet technological chains were based on criteria of optimality that differed from those of market efficiency. Successful development of non-monetary exchange institutionalised relationships, leading to vertical integration of independent firms. Paradoxically therefore, while an inefficient mode of trade, barter and monetary surrogates played a constitutive function in the formation of capitalism in Russia. The network of nonpayments offered ample opportunities to earn profits from trade and financial intermediation. The latter mushroomed and at the time of the 1998 default the Russian economy had sufficiently developed trade, financial and legal systems to afford a switch from barter to money trade (Ivanenko and Mikheyev, 2002: 415).

As a result, the 1998 crisis has created less damage than could have been expected at the time. Indeed, 1999 was the first year the economy has not shrunk since the beginning of transition; and since 2000 the GDP has been growing on average by 4.5 percent a year (EBRD, 2002: 49–51). Enterprises' financial conditions have improved since the dramatic devaluation of the rouble forced agents to replace imported items with cheaper domestically produced ones, while also boosting rouble-denominated revenues of the domestic oil producers – together with the rise in world prices (Gara, 2001: 21). Since July 1998, the share of barter has been decreasing; the enterprises' share of sales for cash has grown from an average 15 percent in 1998 to 27 percent in October 1999. In 2000, the scale of demonetisation declined to 21 percent.

Russia's post-1998 industrial expansion appears to refute the contention that barter simply masks deceptive pricing among enterprises, and that its primary benefit to practitioners is tax evasion. To the contrary, it appears that barter has allowed Russian industry to capitalise on the economic benefits of the August devaluation, channelling redirected Russian consumer spending into real increases in capacity utilisation and even import substitution (Moody, 1999). Here, it is notable that the authors of the reform blueprints for Russia emphasised the necessity of restructuring the industrial sector and encouraging a new institutional structure of the economy. A reformed economy, they argued, should be based on small and medium-size private companies that through individual profit-seeking strategies would promote market efficiency. But in Russia it is precisely the large industrial complexes and enterprises that perform most of the vital 'city-building' and even 'country-building' functions (Makarov and Kleiner, 1997). The industrial scenery that has emerged as a result of liberalisation is highly fragmented, and does not accommodate the requirements of the economic and technological organisation in Russia. Therefore, the objective of re-structuring policies has to be not the de-monopolisation and de-composition, but instead, a targeted strengthening of production links and the enlargement of industrial companies and complexes. The existing barter and non-payments chains can provide efficient pathways around which such corporate complexes can be grouped. Personalised economic contacts, trust and mutual interests – key elements of the non-monetary economy – are also the necessary ingredients of corporatism, and there are many reasons to believe that it is the corporate character of the politico-economic organisation that has the potential to revive the socio-economic climate in Russia (Mennicken, 2000; Sakwa, 2000).

This is not to suggest that barter and the reliance on money surrogates in the payment cycle needs to be sustained and encouraged. On the contrary, money and credit is the bloodstream of the economic system, and the lack of liquidity obscures the foundations of any economy. Financial intermediation and an efficient banking system are vital for balancing the needs of financial and real economies, as well as for the stability of national currency. In Russia, despite the upsurge in liquidity in the aftermath of the August crisis, there are very few feeble signs of recovery in investment. Commercial bank credits to the economy have remained at consistently low levels – 10–15 percent of GDP (Gara, 2001: 23). Moreover, the problem of nonpayments did not evaporate completely. Even in 2002, the energy monopoly *RAO UES* had wages overdue of up to two months. The total volume of wage arrears was more than 800 billion roubles. During the first half of 2002, the share of money surrogates stayed at some 18–19 percent of the sales of the largest taxpayer enterprises and monopoly firms (Gaddy and Ickes, 1999: 80; Ershov, 2000; Aslund, 2002; Bank of Finland, 2002).

These trends are troublesome not only for the people who are owed money; irregularities in the payment cycle hinder the inflow of long-term investments, both domestic and foreign, that are so needed in Russia and therefore need to be eliminated by a thorough approach to industrial re-structuring and monetary policy. But probably like no other feature of the post-communist Russia, the phenomenon of the non-monetary exchange in Russia has exposed profound flaws in the neoliberal economic paradigm and practice. At the very least, it highlighted the necessity of a balanced, gradual approach to economic and financial deregulation. Increasingly, the crisis potential inherent in the liberalised financial markets does not discriminate between national economies. Particularly in a capitalism as young as Russian, its destructive impact calls for the priority of anchoring external liberalisation in the place- and time-specific needs of political, economic and social institutions and practices.

CONCLUSION

Russia is often conveniently described as a 'basket case', as a land of multiple contrasts, where extreme wealth coexists with astonishing poverty, where violence and corruption are intertwined with extraordinary generosity. The analyses of the politico-economic and social devastation that has overwhelmed the country during the 1990s are also often fashioned around such 'basket case' scenarios. While mainstream economists believe that Russia cannot or does not want to conform to the new rules of the free market capitalism; slavophiles insist that for some mysterious reason that is unique to Russia, the rules are not workable there. As this essay sought to demonstrate, Russia may well be the land of contrasts, but these contrasts are by no means confined to Russia. Rather, their presence suggests that the country has become a participant of larger system of the global market, in which unevenness and conflict are both endemic and necessary prerequisites for a global expansion.

The key aim of this article has been to disclose the controversial processes of the evolution of capitalism in Russia in the age of global finance. However imperfect and one-dimensional the country's international integration may be, its implications are as far-reaching for Russia as they are for any other constituent of the global economy. Therefore in order to understand the phenomenon of nonpayments in Russia – a phenomenon seemingly unique to a 'transition' country – it is necessary to take a full account of the external dynamics that have spurred its growth. Within an international political economy framework, the emergence of the non-money economy cannot be solely understood by references to the incoherence of Russian neoliberal policies, to the supposedly unavoidable costs of 'transition', or the legacy of the Soviet economy. Rather, Russia's non-monetary economy is a peculiar reaction to the imperatives of the globalising financial system; the imperatives strongly underpinned by the dictate of the Washington Consensus.

The monetarist drive of the 1990s reform programmes, accompanied by radical financial liberalisation, precipitated a severe liquidity shortage in the real economy. As a direct result of the diversion of funds into the financial markets and the crowding out of capital, industrial finance in Russia evolved in a peculiar, endogenous mechanism of non-monetary exchange. Faced with continuous credit shortages, industrial producers came to rely on an idiosyncratic mechanism of payments that involved barter trade, various kinds of offsets and monetary surrogates. Paradoxically, in the long run, the profusion of these payment vehicles meant that the destructive effects of financial speculation and asset stripping were to a large degree offset by the process of endogenous credit creation in the Russian real economy.

However unorthodox by free market standards, such endogenous financial innovation on the part of Russia's industrial producers mirrored the pattern of a new politico-economic organisation in the country. Although the processes of the formation of capitalism in Russia remain incomplete and superficial, they are increasingly being shaped by the structural reach of global financial capitalism. As this paper argued, while notorious deficiencies in the economic and political governance have clearly allowed the network of barter and nonpayments reach dimensions unprecedented in a modern society, the non-monetary economy would not have propagated so widely without the impetus of the neoliberal financial regime that has swayed Russia.

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