



# [687] Paper

## As safe as the Bank?

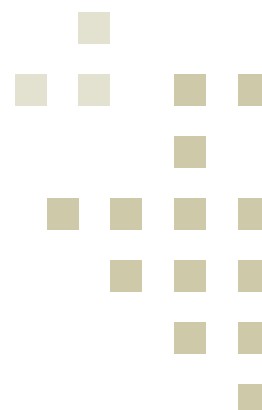
Household financial behaviour and economic reasoning in post-soviet Russia

Nils August Andresen

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# As safe as the Bank?

Household financial behaviour and economic reasoning in post-soviet Russia

Nils August Andresen

**[Abstract]** This study examines the financial behaviour of Russian households from the collapse of communism to the financial melt down in August 1998. By transforming savings into investment, financial intermediaries are important to economic growth. In post-Soviet Russia, financial intermediaries were increasingly unable to attract new household savings, as people turned to foreign currency. What determined the allocation of household savings? The study considers the three main alternatives households could turn to: The state savings bank; commercial financial companies; and foreign currency, mainly dollars.

But how do we go about to explain the behaviour of millions of individuals over time? Economists usually assume that people maximise returns on their assets. Financial behaviour would then reflect economic variables such as interest rate, exchange rate and inflation. Such a view fits uneasily with observed behaviour in post-Soviet Russia. However, why would people not allocate their savings in the most profitable way? This study holds that to understand why people do what they do, we should listen carefully - although not uncritically - to what they say and how they say it. On this view, we can explain the behaviour of individuals only if we can understand them. And - since social phenomena are constituted by the behaviour of individuals - such understanding is crucial to the causal explanation of macro level phenomena. The historical narrative thus becomes an important vehicle for explanation of the contemporary world.

Through analysis of discourses on financial institutions, as they appeared in newspapers of the day and as I have been able to gather from interviews conducted in 2004, this study identifies certain dramatic events that altered the way Russians perceived different financial institutions and their view on trust, risk and profitability, and finds that such changes in perception go a long way to explain the changes in observed behaviour in this period.



Front-page photo (by the author, May 2004): Main entrance of the office of a private pension fund in Nizhny Novogord. The name of the fund is Doverie, which means “trust”.

Savings constitute the backbone and the most important indication of the health of an economy. [...] Household savings should be the most important source of investment, as the temporarily superfluous resources of citizens should be deposited with banks and other financial intermediaries, and through them go into production, trade, services, house building.

*Boris Fëdorov, former minister of finance, deputy of the Russian State Duma, to Izvestija, 24 January 1995*

“I’d like to open an account in your bank. Whom should I see?”  
“A psychiatrist.”

*– Russian joke*

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NUPI, October 2005

Nils August Andresen

## ABSTRACT

*This study examines the financial behaviour of Russian households from the collapse of communism to the financial meltdown in August 1998. Because they transform savings into investment, financial intermediaries are important to economic growth. In post-Soviet Russia, financial intermediaries were increasingly unable to attract new household savings, as people turned to foreign currency. What determined the allocation of household savings? The study considers the three main alternative allocations: the state savings bank; commercial financial companies; and foreign currency, mainly dollars.*

*But how do we go about to explain the behaviour of millions of individuals over time? Economists usually assume that people maximise returns on their assets. Financial behaviour would then reflect economic variables such as interest rate, exchange rate and inflation. Such a view fits uneasily with observed behaviour in post-Soviet Russia. However, why would people not allocate their savings in the most profitable way? This study holds that to understand why people do what they do, we should listen carefully - although not uncritically - to what they say and how they say it. On this view, we can explain the behaviour of individuals only if we can understand them. And - since social phenomena are constituted by the behaviour of individuals - such understanding is crucial to the causal explanation of macro level phenomena. The study draws on insight from Russian economic sociology, but insists that a chronological understanding be maintained. The historical narrative thus becomes an important vehicle for explanation of the contemporary world.*

*Through analysis of discourses on financial institutions, as they appeared in newspapers of the day and as I have been able to gather from interviews conducted in 2004, this study identifies certain dramatic events that altered the way Russians perceived different financial institutions and their view on trust, risk and profitability, and finds that such changes in perception go a long way to explain the changes in observed behaviour in this period.*

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## 1. Introduction: Stating the Problem

On 8 July 2004, the Russian banking system was rocked by a new crisis, as thousands of customers gathered outside the offices of Al'fa Bank,<sup>1</sup> the fourth largest bank in the country, to empty their accounts – even as the bank introduced a 10% commission to discourage withdrawal. By all normal measures, the bank was liquid and healthy; and both Visa and Master Card attempted to reassure Al'fa Bank's customers by issuing statements that they would accept credit cards issued by the bank. The panic, it appeared, was a reaction to a rumour about the bank's liquidity. That a mere rumour can bring about such massive loss of trust in the face of official reassurances is incomprehensible unless one knows the history of interaction between banks and ordinary Russians in the formative period of the post-Soviet Russian financial market.

This was a time marred by great financial instability and ensuing crises of trust on the part of the population. The expression “as safe as the bank” would probably have been interpreted more as a joke than as a proverb. However, although the period as a whole witnessed an erosion of trust in financial intermediaries, various saving alternatives did enjoy popularity at various points in time. The present study examines the causes of household financial behaviour in Russia starting in 1991, when the state savings bank, Sberbank, experienced its first major crisis of trust following a monetary reform, and ending with the financial crisis in August 1998, a time when cash dollars had come to dominate as the most popular savings alternative. But if this is an inquiry into the *causes* of household financial behaviour, the *interest* in the subject is inspired by the *effects* of household financial behaviour on the Russian economy on the one hand, and, on the other, the significance of household financial behaviour as a *prism* through which light can be shed on important questions about social interaction and economic reasoning.

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<sup>1</sup> Note on transcription: Where there exist well-established English spellings, I have used these. That includes names of places and the following well-known people: Leo Tolstoy, Nikita Khrushchev, Leonid Brezhnev, Mikhail Gorbachev, Boris Yeltsin, Yegor Gaidar, Viktor Chernomyrdin and Sergei Kirienko, as well as chairman of the State Property Committee Anatoly Chubais, and oligarchs Mikhail Khodorkovsky and Roman Ambramovich. Otherwise, I have used phonetic transcription. All translations from the Russian are the author's.

*Why study Russian financial behaviour?*

Savings are fundamental to the functioning of the economy. According to standard economic theory, in order to be able to invest, a society has to set aside some part of its production which could otherwise have been consumed.<sup>2</sup> Investment allows a society to expand its productive capacity through the purchase of capital goods – in economic terms, gross fixed capital formation – and thereby its output. Total saving in an economy is composed of household saving, corporate saving and government saving. It may matter less whether it is households, the government or businesses that save, but it does matter how savings are allocated. If savings are not put into circulation, they will not have the expected beneficial effect on productive activity. (See for instance Munthe 1980: 89–94.)

In Western market economies, households rely on financial intermediaries to put their savings into circulation – and to their most efficient use. (See Allen & Santomero 1996.) The most important of these have traditionally been commercial banks, which borrow from households and lend to enterprises.<sup>3</sup> Several studies have indicated a strong correlation between the development of the banking system and economic development.<sup>4</sup> The rise and fall of commercial banks in Russia, and the ensuing dollarisation – in effect, capital flight (Abalkin & Whalley 1999: 5) – is therefore significant for overall economic development.

If the relationship between households and financial intermediaries is important because it is an indicator of economic growth, it is interesting also because it is an indicator of a fundamental characteristic of a functioning market economy: impersonal trust in people and institutions. All market transactions depend on a certain minimum of trust, but depositing money with a financial intermediary is a special leap of faith: You give away your money, and get no good back immediately; you simply receive a credit with the bank. Indeed, the word “credit” derives from Italian *credere* – “to believe”. In his seminal work on civic traditions and democracy, Robert Putnam found the rise of

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<sup>2</sup> In an open economy, resources for investment can be obtained from abroad. This implies running a trade deficit, which is usually unsustainable in the long run. An exception from this rule is the trade deficit in the USA, which is possible due to the unique position of the dollar in international financial markets.

<sup>3</sup> A large literature discusses the relative importance of various financial institutions in different countries historically, where Great Britain, which traditionally had a dispersed financial system, is counterpoised to Germany, which had fewer but larger banks. See for instance Gerschenkron 1962.

<sup>4</sup> See Levine 1998 for an overview.

banking in Northern Italy in the 13<sup>th</sup> century to be an integral part of the development of a society where people could trust that their counterpart would honour a contract, or that, in the case of disagreement, the contract would be enforced impartially by a third party. (Putnam 1993: 128)

In the Soviet system, households did not compare the terms of different institutions; and only to a limited degree did they make decisions regarding the trustworthiness of their counterpart, which, at least in theory, was always the state. A third party to enforce agreements had no place whatsoever in the system. What, then, happened with financial intermediation when the Soviet system was modified and dismantled?

*Brief sketch of the Russian financial sector, 1991–1998*

At the beginning of perestroika, the Soviet Union had a 'monobank' system, which differed fundamentally from what we think of as the banking sector in the West. In market economies, banks channel funds into those areas of the economy that offer the best returns. But in the centrally planned Soviet economy, the state made all major allocation decisions. The economy was quantity-oriented rather than value-oriented, and the money plan was simply the counterpart of the quantitative production plan; money was needed as an accounting unit. All banks were part of the State Bank – *Gosbank*. Thus, resource allocation depended not on viability criteria, but on five-year plans and politically set interest rates. (Prill 1995: 11; Keiding & Pitzner-Jørgensen 1988: 54f ) For households, saving alternatives were limited to deposits in Sberbank. Most people had an account with Sberbank, which had been a stable and trusted institution ever since the 1960s (after the Great Patriotic War and until 1957, the state had forced households to buy government bonds). (See Spicer & Pyle 2003: 6.)

When Mikhail Gorbachev came to power in 1985, the Soviet economic system was in deep crisis, culminating with a shortage of even basic food products in 1990 and 1991, following a poor harvest. Gorbachev set out to speed up the economy by introducing market incentives and private initiatives, and the banking system was an integral part of this reform programme. In 1988, the monobank system was divided into two tiers – a central bank, and specialised banks in various sectors of the economy (*ibid.*). In 1989, the Russian Socialist Federative Soviet Republic (RSFSR) decreed that all banks were to be

reorganised into commercial banks, followed by all-Union legislation in 1990 on the formation of joint stock companies. Hundreds of branches of the former specialised banks split off to become private companies. (Spicer & Pyle 2003: 6ff.) When Yeltsin assumed power in the RSFSR in June 1991, there were already some 1200 banks registered in Russia, although they did not yet deal with household clients. The hope was that the new banks would increase efficiency in mediating savings into productive investment.

That did not happen. Privatisation was expected to lead to greater economic efficiency – instead, vouchers were collected by a privileged few. State subsidies to industry continued almost unabated, which meant that bank credit was still not allocated on the basis of the economic viability of the projects; and corruption reached unprecedented levels. The legal framework was underdeveloped in all sectors of the economy. Property rights were insecure; honesty and transparency remained unsupported by law. Neither the media nor the public had any experience with commercials, and fraudulent advertising became widespread. Between 1991 and 1998, the Russian economy contracted by some 50% (Khanin & Suslov 1999). The proportion of the population living below the official subsistence level skyrocketed from 2% in 1990 to more than a quarter of the population in 1995, peaking at almost 40% in 1998 (Tersman 1998). Unemployment soared, as the Soviet system – reflected in the joke “They pretend that they pay us, we pretend that we work” – was at least partially abandoned as a way of absorbing unemployment, and was only very inadequately replaced with social security nets. Life expectancy decreased dramatically, especially among the male population, as alcoholism spread at alarming rates. When Western advisers in the early 1990s advocated “shock therapy” to create a successful market economy, surely these were not the kind of shocks they had in mind. Some of the most painful shocks for ordinary Russians concerned the fate of their savings.

In January 1991, Soviet Prime Minister Valentin Pavlov<sup>5</sup> initiated a reform that received his name. In effect, the Pavlov reform froze that proportion of household savings which was held in cash, in an attempt to undertake partial price liberalisation and at the same time curb inflation. The government introduced new rouble bank-notes,

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<sup>5</sup> Valentin Pavlov later joined the failed *coup d'état* in August that year.

and citizens were given a three-day deadline to exchange all their old bank-notes in Sberbank, but not more than 500 roubles – roughly one month’s wage at the time – per individual. Officially, this was done to combat the shadow economy, but it is clear that it was hoped that this confiscation of money would reduce the so-called monetary overhang, and thereby reduce inflation. These reforms sparked outrage, and became associated with Sberbank where the exchange took place. The reform programme linked with Yeltsin’s acting Prime Minister Yegor Gaidar moved to a fuller liberalisation of prices in January 1992, setting off a period of high inflation and negative real interest rates which wiped out much of the population’s life savings.

At the same time household income dropped, and a greater share had to be devoted to everyday needs (Nikolaenko 1998: 503ff). However, in times of uncertainty, many people also feel a need to save to prepare for the worst – economists call this ‘precautionary saving’. Savings as a share of net household income dropped from above 20% in 1991 to about 10% of disposable household income – or about 5% of GDP in 1995; most of the decrease came as the monthly growth of cash rouble holdings was reduced as inflation went down (Ivašinenko 2002: 63).<sup>6</sup> Saving in cash roubles was extraordinarily high during hyperinflation – although rouble holdings devalued quickly, households had to have enough cash available to buy food and other necessities at a higher price than when they received pay checks, a phenomenon known as consumption of money services. According to economic theory, the need to hold cash increases when inflation is high. Unfortunately, there is no easy way to distinguish such consumption from other saving activity. However, surveys asking about preferred forms of saving showed that holding rouble cash was the least popular saving alternative until 1995, which suggests that the large increases in rouble cash holdings were not intended as *saving* (Strebkov 2001: 7). From 1995, household savings stabilised at about 10% of income until August 1998, when the government defaulted on government bonds. This led to a doubling of the exchange rate over night, a burst of inflation and devaluation of rouble savings, terms of trade shocks, a 12% fall in GDP, *en masse* bankruptcies among commercial banks, and low saving rates for several years as families tried to cope with the shock (Ivašinenko 2002: 63). The political and economic discontinuities associated

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<sup>6</sup> Goskomstat operates with much higher figures; for a critique of the measures employed by Goskomstat, see Gregory, Mokhtary & Schrettl 1999 and Nikolaenko 1998.

with the crisis make August 1998 a natural point at which to end this review of the formative phase of the Russian financial system.

At the start of 1992, when the institutional basis for private savings was established, Sberbank had 99.7% of the household deposit market. But the institution was no longer ubiquitously trusted after the Pavlov reforms. Hundreds of commercial banks were ready to offer competition, and when voucher privatisation started in 1992, a multitude of investment funds and semi-banks were created to compete for vouchers and money from households.<sup>7</sup> These companies often offered high returns through aggressive marketing, and were able to attract a rising share of household deposits. By the first half of 1994, that share amounted to 4.5% of disposable household income – more than Sberbank’s 3.3% and far more than the share of foreign currency cash.

However, in July 1994 one of the largest commercial financial companies, MMM, crashed and defaulted on its obligations to depositors. In the end, it was exposed as a simple financial pyramid. According to various estimates, somewhere between 5 and 15 million people suffered from the crash of MMM alone.<sup>8</sup> That marked the start of a flight from commercial financial companies. The same autumn saw the infamous Black Tuesday – 11 October 1994 – when the rouble depreciated 27% against the dollar, in a single day (Library of Congress Country Studies 1996). This exchange rate shock caused problems for several other financial companies (Ivašinenko 2002: 62). The commercial financial companies never recovered. By the second half of 1995, when there was a liquidity crisis on the interbank market, they were already attracting less than 1% of household savings, a figure that further declined towards the end of the period studied here (Spicer & Pyle 2003: 10).

Sberbank’s share of the market, having dropped to a low of 3.3% in the first half of 1994, remained stable around 4% until 1996, although Sberbank constantly offered lower interest rates than private competitors.<sup>9</sup> But starting in late 1996, this changed. In the two

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<sup>7</sup> In the meantime, Sberbank also reorganised, became a joint stock company and tried to modernise its operations. In this study, Sberbank will be treated separately, for three reasons: First, it was still majority state-owned, and as the only bank, Sberbank had government guarantees behind its deposits. Second, it was a colossus, larger than all its competitors taken together. Third, most people continued to see Sberbank and commercial banks as two separate kinds of institutions.

<sup>8</sup> “Pocemu Mavrodi ne sbežal za granicu”, *Komsomol’skaja Pravda*, 03.02.2003

<sup>9</sup> A March 1995 comparison between Sberbank and eight commercial banks shows that Sberbank offered lower interest rates than all other leading banks. For instance, whereas Sberbank offered 50% interest on six-month deposits, the other banks varied between 54% and 86%. (Spicer & Pyle 2003: 11) Figures from



years preceding the financial crisis of 1998, rouble deposits plummeted from almost 60% of total household savings to less than 15%. Instead, people increasingly turned to foreign currency. This was not new – the proportion of household savings directed towards buying foreign currency had hovered around 20% in 1993 and 1994, before it dropped in 1995 (Ivašinenko 2002: 63).

That people bought currency in 1993 and 1994 is unsurprising, given the extremely high inflation and the volatility of the rouble exchange rate,<sup>10</sup> as well as negative real interest rates on rouble deposits.<sup>11</sup> During most of the time from the liberalisation of exchange and throughout the period under review, inflation was higher than the devaluation of the rouble measured against the US dollar – which meant that the purchasing power of dollars decreased over time. However, holding cash roubles was infinitely worse; and, until the summer of 1995, the exchange rate fluctuated so sharply that currency also served as insurance against sudden terms of trade shocks – such as the latter half of 1992, or the above-mentioned Black Tuesday. That the share of foreign currency cash in household portfolios dropped in 1995 is also not surprising: The government was able to stabilise both the exchange rate and the inflation rate through the introduction of a currency corridor, which set goals for the development of the exchange rate and established some degree of fiscal responsibility in the state budget. In 1995, the rouble actually revalued for some time (Brodsky 1997: Figure 1).

What is more surprising is the trend starting in the second half of 1996, running right through the financial crisis in August 1998, when the share of currency in total household savings increased significantly, despite positive real interest rates and the fact that inflation equalled devaluation in 1996, and substantially outweighed it in 1997 and the first months of 1998 (Shorrocks & Khokhlova 1999: Table 16). Still, the proportion of

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July 1996 showed a similar situation. (“Kuda vložít’ den’gi, esli oni “lišnie”?”, *Argumenty i Fakty*, 23.07.1996)

<sup>10</sup> Inflation reached 2520% in 1992, 840% in 1993 and 224% in 1994. The exchange rate worsened from 144 roubles per dollar when trade was liberalised in July 1992, to about 5000 roubles per dollar by mid-1995. The 1995 budget tried to reimpose fiscal discipline, and in May 1995, the government introduced the so-called currency corridor, which aimed to keep the exchange rate at between 4,300 and 4,900 roubles per dollar. Later, this was changed into a “crawling band”, starting from between 5,000 and 5,600 roubles per dollar sliding down to 5,500 and 6,100 roubles per dollar. Together, these measures helped to curb both inflation and devaluation of the rouble: In 1996, inflation was down to 21%; in 1997 it reached 10% per annum, and stayed at that level until the financial crash in August 1998. The devaluation of the rouble was down to 20.0% against the US dollar in 1996, and 7.25% in 1997. (Calculations based on figures from Shorrocks & Khokhlova 1999, tables 8, 15 and 16.)

<sup>11</sup> Real interest rates were negative for most of the time until mid-1995, but turned positive thereafter. In 1996, the average deposit rate was 55.1%, substantially higher than inflation; in 1997, the deposit rate averaged 16.8% compared to a 10% price rise. (Calculations based on figures from Shorrocks & Khokhlova 1999, tables 8 and 15.)

foreign currency cash in total household savings rose to 20% in 1996, reaching 50% in 1997 (Ivašinenko 2002: 63). From 1996, it also became possible for households to open foreign currency accounts, although this was not a significant factor before the August crisis.<sup>12</sup> Surveys measuring preferred (not actual) saving found a similar trend from the second half of 1996 throughout 1998: Whereas 37% of the population preferred currency in June 1996, that proportion increased steady over the next two years, reaching 50% by December 1998 (Strebkov 2001: 7). By that time, however, actual foreign-currency cash savings had turned negative, as households were forced to use their savings to cope with the consequences of the August crisis – inflation, the freezing of bank accounts and loss of purchasing power.

#### *Main questions*

Starting almost from scratch in 1992, commercial financial companies increased their share of the market rapidly until first half of 1994, when they attracted more funds than Sberbank, or about a third of total household savings (Spicer & Pyle 2003: 10). Then the tide turned. First, the share of income going to private commercial companies sank rapidly. Initially, Sberbank compensated for that loss, so that the proportion of household savings going through financial intermediaries remained stable until 1996. Then Sberbank too started to lose ground. By 1998, both Sberbank and commercial financial companies were hard-pressed to attract new savings at all, as Russians increasingly made their savings in foreign currency cash, overwhelmingly in dollars. These developments prompt three groups of questions, which serve as point of departure for this study:

First, why were commercial financial intermediaries initially so successful compared to Sberbank? Why did the trend turn in 1994? And why, from 1996 onwards, did Russians hesitate to entrust their money to financial intermediaries of any kind? These questions form the basis for the empirical analysis in this study, and structure that

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<sup>12</sup> The share of foreign currency deposits in household savings apparently increased in 1998 – not because people used a larger proportion of their rouble income to buy currency, but because dollars proved to be a very good investment: As a result of the rouble crash, the dollar almost doubled its purchasing power between July and December. (Shorrocks & Khokhlova 1999: Table 16)

analysis around these three discontinuities in the financial behaviour of the Russian population.

Second, there are methodological questions which need to be addressed before embarking on the empirical study. The substantive questions about household financial behaviour in Russia concern the aggregate, observable and measurable results of the economic decisions of millions of individual Russians with differing means, norms and motivations. How can we explain the behaviour of millions of individuals? In answering the substantive questions above, I examine how people reasoned about economic phenomena, following the discourses on financial events and institutions among ordinary Russians as they appeared in newspapers and in contemporary folklore throughout the period, and as I have been able to reconstruct them on the basis of interviews. A major objective of the study is to demonstrate why a better understanding of economic reasoning in the societies we study is essential to causal explanation of economic phenomena in general, and in post-Soviet Russia in particular.

Finally, an implicit question is what the study of the relationship between households and financial institutions can tell us about the relationship between events and discourse in general, and in Russian society and polity in particular. And can the study of this relationship in the 1990s make the hysteria surrounding Alfa Bank in June 2004 comprehensible?

### *Structure of the study*

Part I deals with the second sub-group of questions: How can we explain aggregate behaviour? To examine discourses and to present the explanation as narratives is, to the best of my knowledge, a highly uncommon approach to explaining financial behaviour, so we need to consider the existing approaches in detail, and see why this study takes a different path. Chapter 2 reviews the explanations of the Russian developments in the existing academic literature, focusing as much on how the analysis is built up as on what it says. Chapter 3 scrutinises the conceptualisations of social phenomena and human behaviour underlying much of the work reviewed in Chapter 2. How do different academic disciplines conceive of economic behaviour? Has a historical approach anything new and meaningful to offer the study of financial behaviour? This study

propounds that it does, because in order to explain action we must understand the actors – real people who live real lives through time. Much of the existing literature on Russian financial behaviour has paid insufficient attention to these people. Chapter 4 goes on to build a methodological framework on that basis, proposing that individual experiences and collective perceptions are an integral part of decision-making, and that to study them, we must deal with the medium through which they present themselves to humans: language and narratives.

Part II deals with the first sub-group of questions posed above, applying the framework established in Part I to the financial world of Russian households, exploring to what extent interviews, newspapers, literature and popular belief can help to explain the changes and continuities in Russian financial behaviour. Chapter 5 covers the period from 1991 to 1994, and considers the problems which Sberbank experienced in the first years of reforms, contrasting it to the initial success of commercial financial companies. Chapter 6 deals with the demise of the commercial financial companies from 1994 through 1996, again contrasting with Sberbank. In Chapter 7, I explore the use of dollars as a medium for saving from 1996 to 1998, a period when both Sberbank and commercial financial companies were struggling.

Part III concludes the study. Chapter 8 summarises the discourses presented in Part II, offering a more general interpretation of the relationship between events, discourse and behaviour in post-Soviet Russia. Finally, Chapter 9 considers what kind of explanation this study has provided; what such explanation can tell and what it cannot tell; and what this way of writing history has to offer more generally.

## Part I: Philosophy of Science and Methodology

### 2. Approaches to Russian Financial Behaviour in the Existing Literature

In the analysis of post-Soviet Russian financial behaviour, economics and sociology are the dominant academic disciplines. The Anglophone literature on Russian financial markets usually fits the economist's rather than the sociologist's paradigm, whereas in the Russian literature, economic sociologists dominate the field. We need to take a closer look at the differences between these approaches in general, and the significance of the choice of approach for choice of topic, formulation of questions and causal analysis regarding financial behaviour in Russia.

#### *Economic approaches*

Economists explain economic decisions that lead to economic outcomes with quantifiable economic variables. In order to explain the developments in Russia, economists would seek to identify changes in the economic environment corresponding to changes in behaviour over time.<sup>13</sup> They do not claim that subjective reasons do not exist; but they posit that they can be adequately described by standard assumptions. Of these, the most prominent assumptions include stable preferences and rational choice (Spicer & Pyle 2003: 10).

In order to allow for rational behaviour, neo-classical economic theory usually also posits the existence of full information, zero transaction costs and homogeneous goods. Economists dealing with saving behaviour have usually modified these latter assumptions. The reason is that in the original Arrow-Debreu model of resource

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<sup>13</sup> Changes in *the distribution of wealth* would also be interesting if there were different social norms in different groups, as suggested in the sociological literature reviewed below. Such changes could then lead to changes in aggregate saving patterns even if every individual stuck to the same strategy throughout. However, I have been unable to investigate this in detail: this alternative is hardly mentioned in the literature, and I have not found any data on the income development among groups with different perceptions of the financial environment over time. Moreover, actual allocation corresponds to general surveys about *preferred* saving forms – which do not measure *how much* each respondent saves, only *what alternative* they prefer, indicating at the very least that behavioural changes were important in their own right. See for instance Ibragimova 2001: 5 and Strebkov 2001: 7 – with the exception of the figures for foreign currency cash and deposits in 1998, as explained above.

allocation there was no room for financial intermediaries: complete information and perfect markets connected saver and investor directly. In the real world, however, asymmetric information, transaction costs and risk considerations have promoted intermediaries taking deposits from households and making loans to firms for investment.<sup>14</sup> The time-consuming task of evaluating risk and profitability opportunities in innumerable enterprises is then replaced by the relatively simple task of comparing interest rates in banks, on state bonds or investment funds. Apart from this modification, the central tenets of neoclassical theory are retained.

Economic literature on post-Soviet Russian saving has not been directed to answering the questions posed in this study – that is, they usually lack the diachronic perspective, tracking development over time. Instead, the literature seems to have been guided by the questions which existing models can generate. We should distinguish between models trying to explain how much people save and models dealing with the allocation of saving portfolios. Only the latter explicitly relates to this study. However, the former family of models also merit attention, because it is often more explicit about how economists conceptualise financial behaviour in post-Soviet Russia. Such models include life cycle and the precautionary saving hypotheses. The central idea in both is that households save in order to stabilise income in the long run. The life cycle hypothesis deals with differences in savings between generations. Households, the theory goes, allocate more resources to saving during the periods of life when they enjoy relatively high incomes – usually when they are middle-aged. Students and pensioners, who usually have lower incomes, engage in dissaving (Modigliani and Brumberg 1954). The precautionary saving hypothesis deals with different overall saving rates in different places or times; on this account, households save more when economic forecasts are dire, and less when they are bright (Gregory, Mokhtary & Schrettl 1999).<sup>15</sup>

Using the life cycle framework, Gregory, Mokhtary and Schrettl have discovered that Russian saving patterns in the 1990s deviated from expected patterns, and displayed a U-shaped saving-age relationship, where the very young and the very old saved the most, whereas adults in their peak years engaged in dis-saving (Gregory, Mokhtary &

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<sup>14</sup> For an overview over theories of financial intermediation, see Allen & Santomero 1996

<sup>15</sup> There are theories of this kind that have more elaborate psychological foundations. My point here is to show the importance of standard assumptions for the analysis.

Schrettl 1999: 695). They offer two possible explanations for this puzzle: First, since life expectancy sunk drastically during the transition – reaching a low of 57 years for males in 1994 (Shorrocks & Khokhlova 1999: 4) – saving for retirement did not make sense. Second, because housing was privatised in the early post-Soviet period, many older heads of household owned their own flats. Their disposable income after housing costs therefore increased, which in turn enabled them to save more.

Interestingly, although the Russian case did not yield the expected empirical results, the immediate response was not to question the theory embodied in the model – that differing saving rates in different age groups reflect an attempt to provide stable income over the life course. Rather, attempts were made to save the original theory by positing various *ad hoc* hypotheses, without investigating them empirically. However, Russian economic sociologist Olga Kuzina finds it highly unlikely that changes in life expectancy could have had this impact on saving rates: First of all, she argues, most people are not aware of these statistics. Second, even those who know of them do not believe that they apply to their own lives (Kuzina 2003: 3). Although not prepared to abandon the life-cycle hypothesis altogether, Kuzina points out that “there is a heterogeneity of savings motivations and saving practices across cohorts” – for instance, she argues that the precautionary motive is more important among older cohorts, especially those who have experienced wartime rationing or other crises.

A recent development in resource allocation theory allows precautionary motives to affect not only the formation of savings, but also their allocation: it postulates that, faced with uncertainty regarding future income, people will tend to allocate place savings in secure, liquid assets. A study from the United States shows that the greater the earning uncertainty, the more likely it is that people put their savings in banks, which are deemed secure and liquid (Chakraborty & Kazarosian 1999). I know of no similar study on the precautionary motive as a factor influencing saving allocation in Russia; however, according to the logic of that model, people should save more in dollars under conditions of increasing uncertainty about earnings, insofar as dollars were more secure and more liquid than Russian banks. However, it does not appear that changes in income or job security could have made the precautionary motive increasingly important from 1995.

Models concerned with the allocation of household saving portfolios assume that households want to maximise return, given certain risk considerations. Because preferences are taken to be stable – as are, by way of omission in the model, perceptions of profitability and risk – changes in resource allocation must be explained by changes in the relative profitability or risk between different alternatives – due to changes in interest rates, exchange rates, inflation expectations, or the legal framework – or changes in the economic situation of households, as this could affect risk considerations. In the literature concerned with general macroeconomic problems such as money supply, macroeconomic indicators such as the interest rate and exchange rates are often cited as explanations for households' willingness (or lack of it) to make bank deposits. However, the treatment of household financial behaviour is often superficial and not empirical in nature. An example is found in Jacek Rostowski's account:

(...) the willingness of households and firms to hold bank deposits [declines] as the inflation tax increases, with nominal interest rates falling relative to the inflation rate. Thus such a flight from bank deposits will not occur if real deposit interest rates do not fall as a result of the increasing inflation. Fleeing bank deposits, households and firms shift into foreign currency, foreign currency deposits, and in some cases – paradoxically in cash. The shift into cash can occur when payment delays through the banking system are such that the effective inflation tax on using cash is lower than on bank deposits.<sup>16</sup>

Written in 1995, Rostowski's article neither anticipated that the shift away from banks to dollars would actually accelerate when the real interest rate turned positive following the introduction of the currency corridor, nor does it offer any insights regarding the shift from commercial banks towards Sberbank between 1994 and 1996. In *A Fistful of Rubles*, Juliet Johnson explains the shift towards Sberbank by the deposit insurance in that bank (Johnson 2000: 112). Others point to distrust in the commercial banking system, but most stop short of carrying out empirical investigations into the matter.<sup>17</sup>

Among Western economists, the most extensive literature on Russian saving is probably that on capital flight. However, household savings are only occasionally the focus in this literature, and much of what is said on the issue is more relevant to

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<sup>16</sup> Rostowski 1995: 60ff. Similar examples focusing on negative real interest rates can be found in Åslund 1995: 100 and Bernstam & Rabushka 1998: 39.

<sup>17</sup> See for instance Bernstam & Rabushka 1998: 96. The most important exception in the Anglophone literature, Spicer & Pyle 2003, will be dealt with below in the section on sociological approaches, because they reject some of the central assumptions of neo-classical economics.



corporate than to household financial behaviour. For example, in a report on capital flight from Russia listing five main causes for capital flight, only two relate to households: That there were “large perceived political risks associated with maintaining wealth in Russia in a regime with frequent and seemingly arbitrary changes in economic policy” and “a high level of country credit risk (...) at all levels of the Russian economy.” (Abalkin & Whalley 1999: 426ff.) Again, an investigation into the determinants of trust is lacking.

An IMF report by Prakash Loungani and Paolo Mauro lists the following root causes: Macroeconomic instability, an arbitrary and confiscatory tax system, lack of confidence, weakness of property rights and opportunities for managers of privatised or privatising enterprises to take part in asset grabbing, and hide the proceedings abroad (Loungani & Mauro 2000: 4ff). These causes are then related to different aspects of economic reforms in transition countries. Through cross-country regression analysis, Loungani and Mauro find that capital flight correlates with inflation, lack of structural reform and budget deficits (ibid.: 9). However, whereas studies of other transition economies, as in Lithuania and the Kyrgyzia, have shown a strong correlation between dollarisation and real interest rate differentials between foreign and domestic currencies, the results for the transition economies in the data set used by Loungani and Mauro are less impressive, with an adjusted R-square of only 0.20.<sup>18</sup>

Boris Brodsky also finds that the effect of interest rates on dollarisation is weak, and hypothesises that the difference between the exchange rate and the inflation rate differentials can explain dollarisation – if the exchange rate deteriorates more rapidly than prices rise, it becomes rational to buy currency (Brodsky 1997: 55f). Testing a data set from May 1994 to June 1996, he finds a correlation between these differentials and dollarisation. However, if Brodsky had written his article one year later, he would have found that dollarisation accelerated even as devaluation sunk to 7.25% against an inflation of 10% in 1997.<sup>19</sup>

Alla Friedman and Alexey Verbetsky accept that explanations relying on inflation and exchange rates are insufficient to explain the dollarisation – or the lack of de-dollarisation – between 1995 and 1998 (Friedman & Verbetsky 2001: 12). In fact, lack of

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<sup>18</sup> Ibid. For Lithuania, see Korhonen 1996; for Kyrgyzia, see Mongardini & Mueller 1999.

<sup>19</sup> Calculation based on Shorrocks & Khokhlova 1999, tables 8, 15 and 16.

de-dollarisation has been observed in many countries that have managed to stabilise their economies after periods of high inflation and dollarisation, and economists have constructed various hypotheses to explain this conundrum. One approach views shifting to a new currency and learning to operate with it as a costly investment; once this investment has been done, people will continue to use dollars even when inflation falls. Friedman and Verbetsky note that such practices in Russia could include double bookkeeping and grey schemes in businesses. Another approach suggests that if the domestic currency is crowded out by the dollar, it will be difficult for consumers to find a counterpart that will accept the domestic currency. However, the rouble remained the common means of payment in Russia, so Friedman and Verbetsky judge this hypothesis not to have much explanatory power.

Instead, they apply the theory of money services. This theory explains why people hold cash at all, given that they could earn interest on depositing in a bank. The main point is that because there are transaction costs (including both use of time and actual charges) in converting deposits into cash, people keep a certain amount of cash for their everyday needs. In periods with declining exchange rates, it might be rational to hold a certain share of one's cash in dollars for liquidity purposes. Using data from the Russian Central Bank, they find that for a specified utility function for consumption of money services and the actual levels of currency substitution in Russia, dollars could produce between 38% and 57% of money services in the period of the currency corridor from mid-1995 until the August financial crisis (Friedman & Verbetsky 2001: 35). However, as their concern is more with the effects of dollarisation than with its causes, they provide no evidence on whether this was actually the reason why people hoarded dollars. Interestingly, they also touch on other elements in their discussion, such as public trust in the sustainability of stabilisation programmes, but do not include such factors in their model (*ibid.*: 12).

Most of what has been written on banking and capital flight has aimed at policy prescription; the key variables chosen tend to mirror that interest and are most frequently at the macro-level. From this perspective, it is at first glance understandable that less is said about household financial behaviour than needed to answer the questions posed in this study. However, when economists do comment on actual changes in capital flight, many relate those changes to ideographic events, rather than to

macroeconomic conditions. For instance, in their summary of peaks and troughs of dollarisation, Abalkin and Whalley mention a period of liquidity shortage and speculative attacks as factors making people less willing to hold dollars; sharp increases in the willingness to keep dollars are attributed among other things to the 1996 presidential elections and Yeltsin's illness later that year (Abalkin & Whalley 1999: 428, Figure 1).

Finally, economists have undertaken some case studies at the micro-level. The most important for our purposes is a study by Alexis Belianin and Olga Issoupova using game theory to explain the rise and fall of financial pyramids in Russia in 1993 and 1994.<sup>20</sup> Their starting point is the following:

Individual behaviour is perhaps the most puzzling problem of modern Ponzi games [i.e. financial pyramids], for their behaviour can hardly be treated as rational. One possibility would, of course, be to say that individual participants of the pyramids were *irrational* subjects of transitional economies, essentially different from the rational subjects in the rest of the world. (...) Nevertheless, we are unaware of any convincing evidence which might suggest that people with different national, cultural, historical backgrounds tend to be *systematically* more or less rational in their behaviour under risk. (...) Therefore, we think that a proper explanation for individual involvement in the Ponzi schemes is to be sought elsewhere, and in particular, in different perceptions of economic institutions and related beliefs. (Belianin & Issoupova 2001: 23)

In their theoretical model, Belianin and Issoupova relax the substantive rationality assumption. They divide the population into two groups: naïve players, whose behaviour is guided by bounded rationality; and sophisticated players, who are initially assumed to be substantively rational. Bounded rationality, a concept pioneered by Herbert Simon, allows for some of the known aberrations from rational choice – such as satisficing rather than maximisation, incomplete information and weakness of will (Simon 1978). In Belianin and Issoupova's game, the naïve players have incomplete information about the pyramid. They do not understand the principle of a pyramid – that it is the deposits of newcomers that pay the dividends of the initial participants. The only information they have about the pyramid is the observed fact that participants

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<sup>20</sup> The central idea of game theory is that when the results of our actions depend on the actions of others, a rational actor must anticipate those actions, and engage in strategic thinking. Game theory has been important in explaining free-rider problems, collective action and problems in resource management (Olson 1971). Using the tools of neoclassical economics and rational choice theory, game theory can yield complex mathematical models.

receive the promised dividends. Sophisticated players, by contrast, know that the pyramid will collapse at some point – but they believe they will be able to withdraw before then.

Given certain assumptions, Belianin and Issoupova are able to reconstruct the development of a pyramid. This development, however, will depend on the proportion of naïve and sophisticated players, and on a psychological component describing the utility function of the players. These values are unobservable, according to Belianin and Issoupova; furthermore, there are no data available on the development of actual financial pyramids, so the results cannot be tested empirically. However, the development shows that there exists no equilibrium where it is substantively rational to invest in the pyramid, even if one knows that it will collapse. Belianin and Issoupova suggest that when the sophisticated players, assumed to be rational, invested anyway, this must be due to an erroneous belief that they could find an optimal solution – whereas in fact no such solution existed (Belianin & Issoupova 2001: 31). Unwilling to give up the rationality assumption, they conclude by asking:

(...) in reality many [still played these games]. This raises the following, natural questions: 1) which economic circumstances have created incentives for them to do so, paving the way for the pyramids' growth; and 2) how did the market for savings evolve after having experienced Ponzi games, and in particular, what did this experience teach them. (2001:56)

One could think that the logical next step from Belianin and Issoupova's concept of bounded rationality would be to generalise the question: Instead of asking which economic circumstances made people act as they did, they could simply ask: Why did people act as they did? Rationality is an empty concept unless filled with people's perceptions and values. However, perhaps because relaxing the rationality assumption in this direction would make mathematical modelling impossible, Belianin & Issoupova seem unwilling to explore this option fully.

Most of the explanations referred above run into problems with empirically observable behaviour. Explanations with reference to real interest rate are consistent with observed behaviour for certain periods, especially from the introduction of the Yeltsin reforms in 1991 until the introduction of the currency corridor in July 1995. However, such explanations have less predictive power in the subsequent period. Similarly, the lack of legislation protecting deposits in commercial banks is consistent

with a preference for Sberbank, but it fails to account for the dynamics of the development whereby a growing proportion went to commercial banks until mid-1994; and it does not explain the problems Sberbank itself encountered from 1996 onwards. Friedman and Verbetsky explore the economic consequences in terms of money services holding dollars; but they do not investigate whether this was the *cause* of individuals or companies actually holding dollars. Indeed, economists at the time recommended rouble deposits in commercial banks and Sberbank alike.<sup>21</sup> If non-economists acted differently, they could hardly be calculating along the same algorithms for portfolio allocation.

That macroeconomic instability, problems with state finances and lack of structural reform correlate with capital flight should come as surprise to none, even if the causality remains unclear; but that these factors, even when combined, explain so little, and that they fail to explain some of the dramatic shifts in capital flight trends – that should prompt further questions. The issue of trust could potentially have explanatory power, but remains unexplored, and is often used as a black box when other explanations do not work.<sup>22</sup> A consequence of the economic approach to decision-making in relation to saving behaviour is that the actual allocation of savings at all times is seen as optimal given existing conditions. When these explanations seem to fail, it suggests that Russian households did not act according to the ideals of *homo economicus*, either because preferences and perceptions differed from those of that ideal, or because decision-making mechanisms differed from those described by rational choice.

### *Sociological approaches*

In contrast to the economic approach, Russian economic sociologist Denis Strebkov has claimed that household savings in Russia “are used inefficiently, from a private, as well

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<sup>21</sup> For one of several examples of such advice in the media, see “Kuda vložit’ den’gi, esli oni “lišnie”?”, *Argumenty i Fakty*, 23.07.1996

<sup>22</sup> Perhaps lack of trust is seen as self-evident in the light of rapid socio-economic transformation, high inflation and the devaluation of people’s savings. I believe it should not. A comparison with other countries experiencing times of crisis can be illuminative in this regard: After the Second World War, the Japanese found their country humiliated, their social institutions questioned and their living standards depressed. Money printing during the war led to subsequent hyperinflation, the erosion of household savings and the freezing of saving deposits by the state in March 1946. (Garon 2000: 8f) However, as inflation was brought down, confidence in the country’s financial system was restored. By 1949, a state-led campaign to encourage savings led to a rapid increase in bank deposits, even as most of the population struggled in poverty. High household savings channelled through financial intermediaries became an important source of investment and growth in the Japanese economy. (Ibid.: 12) If trust is an issue, it must be understood in light of the specifics of the Russian case.

as from a macro-economic point of view” (2001: 1) In his view, the failure of scholars to grasp this can be related to “a lack of systemised information about the specifics of the investment behaviour and the financial behaviour of the population.”

Such a view suggests that behaviour cannot be inferred from the economic environment alone – it is necessary to have information on the social world of Russian households. Sociologists approaching saving behaviour do not have a unified framework like that provided by neoclassical economics. However, they have in common an interest in the interaction between groups, between groups and individuals, and an interest in both macro- and micro-level analysis; and they usually want to explain behaviour with reference to various social variables.

On the basis of numerous surveys, economic sociologist Nina Ivašinenko (2002) divides household economic behaviour in the Russian financial markets into three main groups: 1) Economically active (characterised by an attempt to make well-informed decisions) 2) Routine-based (characterised by a passive attitude, a lack of interest in information about the financial system) and 3) Status-driven behaviour (characterised by conspicuous consumption of financial services).<sup>23</sup> On the basis of extensive empirical evidence from post-Soviet Russia, Ivašinenko analyses how motivations for saving and preferred ways of saving varied systematically between these groups. In fact, in some respects the attitudes of different groups move in opposite directions in response to new challenges.

For instance, Ivašinenko finds that in the active group, the percentage preferring to place their saving in commercial banks decreased from 21% in 1992 to 11% by late 1994, before disappearing completely by 1996. The 1994 figures probably disguise a rise in the share before the crash of many financial pyramids in the summer of that year. In the group featuring conspicuous consumption, on the other hand, the same percentage remained stable, between 36% and 39% throughout this period. It is suggested that those belonging to the active group took their decisions on the basis of experiences in the market place, whereas those belonging to the group of conspicuous consumers to a

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<sup>23</sup> The latter group was in earlier surveys labelled conformists. The categorisation of groups depends on the views of whom people believe they can rely on for their economic security (Ivašinenko 2002: 147). According to Ivašinenko’s research, the size of the groups remained relatively unchanged over these years – about 10% each belonged to the active group and the group characterised by conspicuous consumption. The passive group grew, but mostly at the expense of people earlier not belonging clearly to either of the groups.

larger extent tried to emulate the financial behaviour of the rich. Another interesting example is the changes in the preferences of the passive groups - which again is subdivided into two groups, according to the economic situation of the family. The "better off"-group shows a 100% readiness to place money in Sberbank in 1992 and 1994, sinking to 71% in 1996. This group probably includes those who had a relatively favourable view of the Soviet state. Those worse off show an increase in the preference for Sberbank from 36% to 72% over the period. Among conformists, too, the share preferring Sberbank increased, from 24% to 40%, whereas active individuals constantly displayed a very low preference for Sberbank, declining from 12% in 1992 to 6% in 1996. The preference for buying dollars increases among all groups from 1992 to 1994, but declines from 1994 to 1996 - which is more or less in line with what one should expect from an inflation and exchange rate perspective. Unfortunately, these figures do not extend to 1997 or 1998, when dollarisation increased despite low inflation, stable exchange rates and the positive real interest rate on rouble deposits.

Ivašinenko's book provides the perhaps most thorough monograph on the relationship between the Russian population and the financial sector. The compilation of figures on the macro-level prompts entirely different questions than those asked by economists. Why do different groups behave so differently? Why do they react diametrically different to changes in the economic situation?

From surveys on reasons for choosing a specific investment strategy, Denis Strebkov has found significant correlations between financial behaviour and factors such as the level of trust in the state, individual experience, the general perception of the situation in the country, the propensity to risk and knowledge about financial institutions and sources of information. These are all concepts that are not easily translatable into economic modelling. Strebkov also found that the willingness to engage with the formal financial sector - banks, investment funds or the stock market - was higher among young people, among students, among the relatively well off, and among those who had had positive experiences with the financial sector previously (2001: 10). Others have found that important factors when choosing saving strategy were being able to withdraw money quickly (in Russian banks, this could be a complicated procedure) (Ivašinenko 2001: 41), and the behaviour of other individuals (Kuzina 1999: 2; Ivašinenko 2001).

Neither Ivašinenko nor Strebkov provides an explicit micro-level perspective, tracking individuals and their experiences through time. How do changes relate to specific events? Other economic sociologists have engaged in empirically based micro-studies. However, this research is limited to specific episodes or specific financial companies. An example is Ol'ga Kuzina's participant observation in the queues outside the branches of the financial pyramid company MMM. Her case study among investors shows how an initial belief on the part of investors that they understood the logic of the market was subverted when the pyramid crashed. Kuzina notes that

The formation of trust in financial institutions is to a large degree influenced by collective perceptions, that, on the one hand, develop in the public discourse, such as the mass media, and on the other hand in the private sphere, where personal experience and the opinion of friends are important. (1999: 11)

Vadim Radaev (2002) has suggested that the logic of decision-making was altered when the financial pyramids turned from just another investment alternative into a mass movement. The actions of other participants then became much more important than the economic calculus which initially triggered the interest of the participants.

Kuzina's approach is developed further by Andrew Spicer and William Pyle, who argue that the crash of MMM – and other financial scams – in 1994 permanently changed the way Russians perceived the financial market, and their trust in information about it, in particular with respect to commercials.<sup>24</sup> For financial institutions, it therefore became rational to engage in fraudulent activities in Russia; since no one trusted anybody, they did not expect anyone to trust them, and all long term economic activity, dependent on trust, became very risky. This in turn reinforced distrust, because all the players knew that the other players had an incentive to shirk on their obligations. Because the operation of a firm has “reputational externalities” there is too little incentive to invest in trust-producing activities, and too much incentive to shirk (Spicer & Pyle 2003: 4). Spicer and Pyle's approach is interesting because they explain the shift in trust levels among the households not through formal models of adaptation of preferences, but rather through identification with defrauded customers. However, their empirical research focuses on how banks adapted to a situation where customers did not trust them; they

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<sup>24</sup> Spicer & Pyle constitute an exception to the Western literature discussed above.



do not present too much empirical data on how trust to the bank evaporated in the first place.

#### *Unanswered questions*

The economic literature reviewed here has not really helped to answer the three questions in the first sub-group of questions posed in Chapter 1. Partly, this is because this literature has not focused specifically on *household* behaviour. But even when economists have had something to say on that matter, they have not dealt directly with those questions, or not answered them satisfactorily. They have pointed out that inflation, interest rate and exchange rate matter to a certain extent at some points in time – but that should not be a surprise, and does not help to solve the conundrums: If legal security and interest rate were the most important factors affecting the choice between Sberbank and commercial financial companies, why did the latter grow rapidly between 1992 and 1994, and why did Sberbank gain compared to commercial financial companies between 1994 and 1996, given that the best among the commercial banks offered higher interest rates throughout the period, whereas Sberbank enjoyed government backing of deposits throughout the period? Why were dollars increasingly popular from 1996 onwards, the period when rouble was stable and real interest rates positive? Furthermore, economists have concluded that, since household economic behaviour appears irrational, there must be some other economic incentives, which we are unable to detect, but which, had we known them, would have made behaviour rational – and thus the question of *how* we can explain the behaviour of households is circumvented by assumption.

The sociological literature indicates that the questions one can ask on the basis of economic models might be the wrong questions altogether. We cannot assume universal rationality because there appears to be many different logics of action among the population. Specific events seem to merit specific attention, both to understand those events in themselves, and because they might have had consequences for financial behaviour more generally. The sociological literature thus helps formulate questions for this study: Why did different people have different logics of action; how and why did these logics change through time; and what was the relationship between specific events

and such changes? However, this literature also does not answer my questions as such, partly because it does not have a temporal aspect, seeing the developments as part of one process.

A fundamental reason for these holes in the literature is that Western social science models have problems dealing with a transition economy with economic and social institutions quite different from those which have served as the point of departure for Western social theory. Analysis of the contemporary West usually makes more or less uncontroversial assumptions about institutions and behaviour, thus allowing the researcher to concentrate on specific variables taken to unknown. But in the case of post-Soviet Russia, I argue that we simply know too little about the financial environment, and, more importantly, about how it was perceived; we know too little about norms and heuristics regulating financial behaviour; and we cannot take any specific decision-making procedure for granted. Furthermore, perceptions and procedures might well have changed profoundly over time, and a temporal perspective is therefore essential to understanding the development. It is therefore difficult to answer the unanswered questions within the most common social scientific paradigms. When dealing with social phenomena in societies where we cannot make the expedient assumptions we (rightly or wrongly) make in Western societies, we need to take one step back and more explicitly conceptualise the fundamental characteristics of the problems we are dealing with.

### 3. How Do We Explain Social Phenomena?

It is striking that, although essentially grappling with the same questions, the different disciplines of the social sciences often provide explanation in terms of very different variables. Partly, this difference reflects legitimate differences in interests and aims. Economists, for instance, often focus on variables that politicians can influence through economic policy. Partly, however, the difference reflects different assumptions about the nature of social phenomena and the nature of explanation. These differences should be scrutinised when we evaluate different approaches. Before locating explanatory variables among all the potentially available data, then, we should have some clear ideas of how we conceive of the phenomenon at hand at an ontological level.

What is a social phenomenon? Most approaches belong to one of three schools of thought: individualism, which focuses on individual agency; elisionism (or structuration), which conflates individuals and social structures, though retaining the importance of agency; and collectivism (or holism), which attributes agency to social structures (Gimenez 1999: 19). In my view, history as well as the social sciences studies phenomena which are fundamentally constituted by the behaviour of individual human beings. Thus, no social structures, no changes in interest rates, exchange rates or bank legislation, could have causally affected the development of Russian financial markets but through the mechanisms of human decision-making at the individual level.<sup>25</sup> This appears, perhaps, to be a truism, but here I aim to demonstrate that such an ontological understanding of social phenomena is often not reflected in the methodologies used to explain economic behaviour.<sup>26</sup>

The methodologies employed in this study – which I shall describe in more detail in the next chapter – include life stories of individual Russians and analyses of the discussions and discourses related to the financial sector. However, as such an approach has been more or less absent in the study of financial behaviour, I have found it

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<sup>25</sup> I should point out that I do not consider the question about whether the physical world actually exists: I assume a realist ontology and the existence of the physical world. My interest is in the social phenomena created by physical actors.

<sup>26</sup> One could perhaps argue that the goal of the social sciences should *not* be causal explanation, but rather prediction or the discovering of non-causal or not necessarily causal regularities. But this is rarely done – indeed, the motto of the London School of Economics and Political Science, for instance, is *CAVSAS RERVM COGNOSCERE* – “to understand the causes of things”. The following discussion assumes that a major goal of social inquiry is to demonstrate causality.

necessary to consider at some length the approaches I have *not* chosen. Life stories might appear to be individualist in nature; discourse analysis might appear to be collectivist or structural. However, in both instances my focus will be on the links between the situations an individual is a part of and the actions which that individual takes. In this chapter, I consider why especially the economic literature, but also the sociological literature has been unwilling or unable to specify these links when examining financial behaviour. Through this discussion, I also aim to demonstrate why these links are particularly important when we study a social phenomenon – post-Soviet Russian financial behaviour – where both the individuals and structures might differ from what Western theories have become used to assume.

The criticism levelled below is not an attack on the usefulness of economics or sociology in general. Economists and sociologists alike might further feel that what I say is not representative for their approach, and to a certain extent this is indeed an attack on straw men. Within sociology, for example, many scholars are in fact quite close to the approach of this study, as the intellectual heritage of Max Weber, with its focus on methodological individualism and historical context, remains vibrant. Indeed, the sociologists reviewed in this study are no crude collectivists at all. These straw men are not used to cast judgement on any academic discipline, but to demonstrate why it is important to be aware of methodological and ontological assumptions. And, to be sure, it *is* suggested that although useful in many respects, much work within the social sciences *does* have a problematic relationship with causality – so too the literature on financial behaviour in Russia reviewed above. Insofar as they make causal claims, this is reason for concern. The argument is that by blurring correlation and causality, prediction and explanation, social scientists often run the danger of *assuming* individual behaviour, the very phenomenon I argue is what needs to be explained.

### *Homo Economicus*

Given that economic theory usually assumes individual utility functions and a decision-making procedure at the individual level, economists appear to adhere to methodological individualism. However, by way of the assumptions embodied in *homo economicus* – that the utility function takes the form of maximising consumption of

commodities and that the decision-making procedure follows that described by rational choice – economists look at economic variables rather than individuals when they give causal accounts of social phenomena. *Homo economicus* has been criticised throughout his existence. Economist and philosopher Nobel laureate Amartya Sen (1977: 336) has claimed that “The *purely* economic man is indeed close to being a social moron.” But *homo economicus* has also had many supporters. I shall here consider critically some of the best-known justifications for his use.

*De gustibus non est disputandum*

One defence of *homo economicus* is to assert that it is the best approximation of human behaviour we can give: Neoclassical economic theory works because people *are* rational maximisers. Nobel laureates George Stigler and Gary Becker have championed this line of thought. Critics of neoclassical theory have argued that behaviour varies between individuals or over time due to differences or changes in tastes or preferences. Explanation of differences and changes must be left to psychologists or anthropologists. In their famous article “De Gustibus Non Est Disputandum”, Stigler and Becker explicitly turn the Latin proverb on its head – there is no disputing over tastes, not because they are too diverse and without any criteria to judge them, but because they are universally similar! They explicitly reject that explanation be left to psychologists or anthropologists, and argue that economists should *never* accept non-economic explanations of differences in economic behaviour; instead, they should continue “to search for differences in prices or incomes to explain any differences or changes in behavior”, seeing tastes as both constant and universally similar (Stigler & Becker 1977: 76). Stigler and Becker assert that this approach is analytically more useful than other approaches. In support of this proposition, they cite “all of the existing corpus of successful economic theory” (p.77).

Empirically, however, economic theory fails too often for it to be left unquestioned. Philosopher of economics Alexander Rosenberg (1986) has compared economics to other sciences and concluded that laws failing as often as those of economics would have been abandoned in the hard sciences, where failure is seen as falsification. Indeed, economic theory sometimes works. But sometimes it does not – and if we do not know why it does not work when it does not, we also do not know why it does when it does, or if it

actually works at all. Why, then, is the *homo economicus* assumption not subject to more scrutiny? Quite bizarrely, Stigler and Becker assert:

[differences in tastes] along with the assumptions of unstable tastes, have been a convenient crutch to lean on when the analysis has bogged down. They give the appearance of considered judgement, yet really have only been *ad hoc* arguments that disguise analytical failures. (1977:89)

In their view, then, searching for a new hypothesis when the original one fails, amounts to *ad hoc* constructions, whereas keeping one's hypothesis, searching for data that fit better, changing the definitions and making additional assumptions, does not. This practice leaves the central tenets of economic theory unfalsifiable. This study takes the diametrically opposite view: It is Stigler and Becker who encourage economists to engage in the production of innumerable *ad hoc* hypotheses, the aim being to save the *homo economicus* assumption, and the method being to disregard evidence contradicting it. Belianin and Issoupova's conclusion regarding why people engaged in financial pyramids as reviewed in Chapter 2 seems inspired by Stigler and Becker: The evidence suggested that behaviour was not substantively rational – so Belianin and Issoupova suggest that there must be economic factors that have not yet been uncovered.

Since the publication of Becker's article in 1977, Nobel laureates in economics ranging from Amartya Sen, through Douglass North, representing New Institutional Economics, to psychologist Daniel Kahneman have challenged the behavioural assumptions of neoclassical economics.<sup>27</sup> Neil Smelser and Richard Swedberg (1994) claim that the unrealistic modelling of social interaction in neoclassical economics gave rise to the field of economic sociology, which they spearheaded together with Mark Granovetter. Many economists today accept that people do not always deliberate alternative actions rationally, and that they do not have stable, transitive preference orderings or perfect information in the way described by *homo economicus* assumptions. In the case of Russian financial behaviour, it seems highly questionable that individuals conformed to these assumptions, a claim many of the economists reviewed in Chapter 2 implicitly or explicitly accept. Still, they seem reluctant to modify the models that follow from these assumptions. Why is that?

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<sup>27</sup> See for instance Sen 1977, North 1990 and Kahneman 2002.

### The "as if"-approach

A tradition dating back to Armen Alchian (1950) and Milton Friedman (1953) argues that neoclassical theory should be judged by its ability to yield good empirical predictions, and not by the plausibility of its assumptions. Friedman offers the example of the behaviour of leaves on a tree:

(...) leaves are positioned as if each leaf deliberately sought to maximize the amount of sunlight it receives (...) as if it knew the physical laws determining the amount of sunlight that would be received in various positions and could move rapidly or instantaneously from any one position to any other desired and unoccupied position. (...) Is the hypothesis rendered unacceptable or invalid because, so far as we know, leaves do not "deliberate" or consciously "seek," (...) the "optimum" position, and cannot move from position to position? Clearly, none of these contradictions of the hypothesis is vitally relevant (...) the hypothesis does not assert that leaves do these things but only that their density is the same *as if* they did.(1953:20)

Can we therefore use that hypothesis to predict, regardless of the implausibility of its assumptions? Economists like to bring forth the body of successful economic theory as proof that the theory works. In the case of trees, the answer is probably yes (although the predictions would only be approximations). The reason why Friedman's hypothesis "works" as a predictive theory is precisely that leaves *do not* deliberate or seek, they "do" what they are genetically programmed to do. In Jon Elster's words, it relies crucially on "the truth of a certain causal theory, viz. the theory of evolution by natural selection" (Elster 1983: 19). It has no explanatory power on its own.<sup>28</sup> Economics has not traditionally explicitly posited any such theory, and the "as if" approach thus seems suspect if people are in fact not rational – but sometimes the market mechanism has been used to suggest that rationality is ensured because only those who in fact maximise profits will survive.

Alexander Rosenberg (1992) has forcefully argued against relying on some sort of survival of the fittest as a mechanism that would ensure rationality. To say, for example, that rational producers survive is an *ex post* rationalisation of a situation. If rationality should be given any substantive content *ex ante*, which we would need to do to predict, looking at survivors is not necessarily relevant at all. In complex decision-making

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<sup>28</sup> Questions about functional explanation can be raised in biology and zoology too. Pranab Bardhan notes that "path dependence is assigned an important role in biological processes," and that (quoting Gould) "organisms have a history that constrains their future in myriad subtle ways." (Bardhan 1989: 1392)

situations, it can be rational to be irrational, as Elster (1992) has pointed out, “if all the evidence happens to point in the wrong direction”. To say that *only* rational firms survive (which would be needed to warrant the argument that existing firms are efficient) in an ever-changing world is simply not credible. All we can say, then, is that existing firms survive. Or, in our case, all that we can say is that those who save, save, and they save precisely where they save.

### *Homo Sociologicus*

The alternative to explanations based on individuals is to say that social facts should not be explained with reference to individual behaviour at all; instead both individual behaviour and social phenomena should be explained with reference to social facts – an approach known as methodological collectivism. This is the approach associated with sociologist Emile Durkheim, who asserted that the aim of the social sciences should be to establish regularities between social facts and individual behaviour or between social facts and other social facts. Only to the extent that such regularities or laws are established, he held, can social research claim to be *scientific*. This methodology relies either on an ontological or a practical justification. I shall first address the ontological question, and then the practical.

### *Individualism or collectivism: Does ontology matter?*

To Durkheim, it is the very definition of social phenomena that necessitates a collectivist methodology: Since the central characteristic of social phenomena “is their power of exerting pressure on individual consciousnesses, it follows that they are not derived from the latter” (1965: 100). Durkheim’s statement implies a rejection of ontological individualism – the view that the ultimate constituents of the world are individuals. This argument has been reformulated and gained credence more recently through Anthony Giddens’ structuration theory, presented as a compromise between ontological individualism and ontological holism and seeing structures and individuals as mutually constitutive of one another.<sup>29</sup> Giddens thus admits that structures are constituted by individuals, but he argues that the individual does not really exist outside of social

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<sup>29</sup> Giddens (1984) is specifically concerned with ontological considerations, not epistemological ones.



relations, and that it is not obvious that one of the two – structures or individuals – should enjoy ontological primacy.<sup>30</sup>

At first glance, this argument seems convincing, and it appeals to our wish to find a compromise between two extremes. However, on closer scrutiny, it appears that the conflict between individualists and structuralists continues also within this theory. Durkheim could be seen to adhere to the thought that individuals and structures are mutually constitutive, but he insists that people have little autonomy. Unlike Durkheim, Giddens finds that individuals have some degree of freedom in relation to social structures. Therefore, despite his insistence that structuration theory is not based on ontological individualism, it is commonly perceived thus by structuralists. (See, for instance, Gimenez 1999.) Furthermore, Giddens' views seem compatible with the views of self-proclaimed individualists, such as Martin van Hees and philosopher of science Jon Elster.<sup>31</sup> If it is admitted that individuals actually do have some degree of freedom, it must by definition be theoretically possible that one individual may change regardless of the structures surrounding him. Thus, whereas individuals suffice to explain ongoing social structures, structures do not necessarily suffice to explain individuals. Structures do not have any freedom with respect to the individuals that constitute them; they cannot change unless individuals change.<sup>32</sup>

In Chapter 2, it appeared from the sociological literature that one important structure in the case of Russian household financial behaviour has to do with different logics of action. Strebkov, for instance, pointed to age, education and income as determinants of

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<sup>30</sup> There are attempts at justifying ontological holism. Philosophers Wright, Levine and Sober introduce a distinction between social types and social events (1992: 116ff) They argue that whereas, say, a specific strike or class struggle is constituted by the specific individuals who are part of that phenomenon, the social types 'strike' and 'class struggle' are not; it can be realised in many different ways. As social science strives to explain the latter and not the former, we must look for explanations at the macro-level, they claim. I remain unconvinced by this argument. If the concept of social types should be meaningful, it must somehow be related to the social events they represent. If not, it is not clear why we have an interest in explaining them. If it is acknowledged that the actual events are constituted by individuals, then social types should be constructed by generalising patterns of individual action. Unless this can be done, it is misguided to group two social events as one social type.

<sup>31</sup> On this view, a particular social phenomenon follows from particular individual consciousnesses, and these are again partly explained by other social phenomena, which in turn could be explained in terms of individuals, and so on *ad infinitum*. Thus, we will never end up with a rock-bottom explanation for a social phenomenon. However, this is a problem neither for ontological nor for methodological individualism, because, ontologically, these social phenomena are still constituted by individuals, and, methodologically, methodological individualists accept reference to social phenomena as a specification of the conditions under which individuals act. See van Hees 1997 and Elster 1992 for a discussion.

<sup>32</sup> If there is *no* autonomy, as implied by Durkheim's methodological advices, changes in one individual imply that social structures have already changed; that it is impossible to tell which change came first; that individual action is an epiphenomenon of social structures. But if structures and individuals are really one and the same, the one cannot be said to explain the other. Collectivism would then work, but it would not explain. However, this view requires a rather dubious conceptualisation of human beings.

financial behaviour. However, if our interest is how people came to adhere to these logics, how these logics changed through time and how they were related to historical events, such variables are not explanatory. Explaining action with reference to, say, income fits well within the Durkheimian paradigm. But people with identical incomes act differently. Identical twins with identical education and incomes act differently. This study maintains that individuals have freedom with respect to structures, and thus that our understanding of social phenomena should be based on ontological individualism.

#### *Correlation or causality?*

Many of today's methodological collectivists seem less insistent when it comes to the ontological questions. Could methodological collectivism be justified without a belief in ontological collectivism? *Methodological* collectivism often seems guided by more practical considerations: Even if one accepts that social phenomena are constituted at the level of the individual, the causal specification, the search for mechanisms at the individual level is often simply too complicated or too time-consuming to undertake. Even if they might disagree with some of Durkheim's ontological positions, methodological collectivists therefore subscribe to his assertion that

We have only one way to demonstrate that a given phenomenon is the cause of another, viz., to compare the cases in which they are simultaneously present or absent, to see if the variations they present in these different combinations of circumstances indicate that one depends on the other. (Durkheim 1965: 125)

This approach has contributed to the development of statistically based research. As statistics have become a more advanced tool, and as numerical data have become more plentiful, statistical analysis has become more widespread also within economics, forming the basis for the field of econometrics. In apparent contradiction with the individualist roots of economic methodology, economists also commonly use correlation and regression analysis to uncover and explain regularities in the economy. Indeed, this was the approach of Loungani and Mauro described in Chapter 2 above.

Durkheim does not, at least in the above quote, seem bothered by the fact that neither statistical correlation nor regression analysis demonstrates causation among tested variables. Although students today learn that correlation does not imply causality, many seem to forget as soon as they graduate. In the non-laboratory setting of real societies

where the researcher cannot control which variables might be at work, it is impossible to rule out that a correlation is in fact entirely spurious.<sup>33</sup> Correlation equals causality only if the model we use can be *known* to be correct. Statistical correlations should therefore not be taken as independent proof that a model has explanatory power unless we have a micro-theory connecting the variables in the correlation. Statistics, then, is a descriptive tool. It can be accompanied by causal theories; it can be indicative that causality exists; and it can alert us to the causal influences of factors taken for granted in ideographic studies. But statistics provides no causal mechanism.

In practice, most collectivists presuppose particular theories linking the macro- and the micro-levels – for instance theories of human socialisation and cognition – when they undertake causal explanation. But should not social sciences try to explain these links, rather than merely presuppose them? Theories about the links between structures and individuals should be subjected to empirical scrutiny, because if and when those theories fail to hold, methodological collectivism itself will fail.<sup>34</sup>

#### *A plea for mechanisms*

Jon Elster has introduced the term “mechanism” in relation to causal explanation. In different works, he uses the term in two entirely distinct meanings – both of them are relevant for my purposes here. The first sense in which Elster (1983) uses the term “mechanism” is as an antonym to the black box that separates correlation from explanation. Instead of saying “if A, then B”, one would say “if A, then C, D, and B”, with the bits in-between providing the story – and including references to the individuals involved. For example, instead of saying that an increase in the interest rate differential between commercial banks and Sberbank would lead to a larger proportion of household savings going to the former, the mechanism approach would require that one specified the linkages between these two phenomena. How was information about

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<sup>33</sup> A well-known example is the relationship between the number of storks and the number of childbirths in Copenhagen in the 15 years or so following the Second World War, showing a consistently high, statistically significant correlation. Worse yet, statistician Robert Matthews has shown that birth rates and the number of nesting white storks correlate across Europe. (Matthews 2000: 36f ) If one did not know better, one could easily accept the correlation as proof that babies are delivered by storks.

<sup>34</sup> See Andresen 2004 for a discussion.

interest rates spread and perceived? Which goals did households pursue? As I have argued above, this kind of specification is crucial to the ontological individualist.

The second sense in which Elster uses the term is as an alternative to scientific laws. Whereas a law states that if a given set of conditions obtain, then a certain effect will also always obtain. A mechanism is somewhat less ambitious, claiming simply that if a given set of conditions obtains, then sometimes a certain effect will obtain. For our purposes, two kinds of mechanisms are of particular importance: Those that affect the formation of perceptions and attitudes, and those that have to do with decision-making. Elster gives the following example: When people would like a certain proposition to be true, they sometimes believe it is true (1998: 47). This is called wishful thinking, and could be seen as a psychological mechanism influencing perception. A mechanism is not just a probability law; the conditions under which it is at work are what Elster calls “generally unknown”. It is difficult to say *ex ante* that a person will engage in wishful thinking, or even the probability of its occurring. But if we observe that it happens, we might recognise it.

#### *Looking inside the black box*

These two understandings of the term “mechanism” together seem helpful as a tool that can address some of the problems that have been pointed out above in traditional social science approaches: It focuses on breaking down the black boxes found in correlation, and it allows for a description of how people actually perceive and make decisions, without abandoning the aim of providing causal explanation. How do mechanisms relate to covering laws? Using mechanisms might sometimes just be a necessity brought about by our ignorance of the actual covering laws. The philosopher Nancy Cartwright comments: “We may insist that there must be some differentiating factor which brings the case under some covering law. (...) On the Day of Judgment, when all laws are known, these may suffice to explain all phenomena. But in the meantime we do give explanations (...)” (Cited in Elster 1998: 45). A mechanism in this sense is compatible with the view that people have some autonomy in relation to laws of different sorts – economic, social or psychological. Indeed, one of the elements of the generally unknown conditions, one of the differentiating factors, might be some sort of free will. Thus, using mechanisms breaks down the distinction between intentional and causal explanation.

This study, then, contends that economic variables, social relationships as well as economic, political and personal events and perceptions of the financial market, all should be analysed as filtered through individuals, and that they should be investigated at that level. This insistence on methodological individualism does not imply that social norms or other social facts should not be taken seriously – although methodological collectivists commonly assume that it does, and although economists like Stigler and Becker give them reason to continue believing it.<sup>35</sup> It merely implies that the links between norms and individual behaviour must be specified. These links will not go away if we do not specify them; instead, we will end up assuming them instead of explaining them.

This should not be read as a rejection of work at the macro-level, or of statistics as a useful tool in social research. Indeed, the statistically based grouping of types of financial behaviour undertaken by sociologists such as Denis Strebkov and Nina Ivašinenko referred above in Chapter 2 fulfils such descriptive tasks very well. This form of pragmatic methodological collectivism, combined with well-informed suggestions with regard to possible mechanisms relating the variables and possible events that influence how they develop over time, is and should be an important part of social inquiry, and the analysis in Part II in this study is inspired by this work. Indeed, the claim that statistics remains descriptive, not explanatory, should not be viewed as a criticism at all. Sometimes we are not able to tell the story that would explain the correlations we observe – we are then left with a black box, but that might be better than nothing. Macro-level research is misguided and misleading only if researchers claim that causality has been demonstrated when no evidence at the micro-level exists – or, worse, when micro-level empirical evidence *does* exist and it flatly contradicts the assumptions made or implied by a correlation.

#### *Prediction or explanation?*

One should think that the latter case is rarely observed among researchers. However, such an approach has recently been proposed in the ostensibly most individualistic of the social sciences – economics. In an attempt at justifying Milton Friedman's "*as if*" -

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<sup>35</sup> For an example of collectivists arguing along these lines, see Sejersted 1993.

approach, Debrah Satz and John Ferejohn – who admit that people often, and probably systematically, do not behave as *homo economicus* – argue that it does not matter whether the behavioural assumptions of economic theory are true, because it is not the psychological states of individuals that lend credibility to rational choice theory.<sup>36</sup> Rather, institutional constraints shape actions *as if* individuals were rational (Satz & Ferejohn 1994). This approach, then, explains *homo economicus* as a result of *homo sociologicus*. Such structures include the organisation of firms and markets, and institutionalised procedures for decision-making, with which actors must abide. This logic allows economists to explain economic actions with economic variables, without direct reference to actual psychological states at all, because a wide range of beliefs and preferences would produce the same behaviour. Satz and Ferejohn posit some sort of causal feedback ensuring efficiency, akin to functionalist Darwinism explaining why existent organisms seem well adapted in evolutionary biology. The most important structure ensuring rational behaviour is market competition, which eliminates irrational actors. According to Satz and Ferejohn, such structures predominate in the West, whereas other societies might have other structures – and in these societies, economic theory based on rational choice might fail.

Satz and Ferejohn would, I presume, agree that rational choice explanations relying on structures rest on shaky foundations in Russia, where the structures they postulate as being at work in the West cannot be taken for granted. But their methodology is problematic in the West as well. As argued above, if we should follow Milton Friedman’s criterion for judging rational choice economics on the basis of its ability to yield good predictions, we would find a mixed record in the West as well. Indeed, there is reason to believe that structures do not always induce rational behaviour, and that even if they do, people still have some autonomy in relation to them, so that their reasons for acting will matter in their own right. We need to specify both people and structures to make a prediction based on such a theory.

Even more serious for our purposes, however, is that if we seek *explanation* rather than *prediction*, Satz and Ferejohn’s approach faces an even worse problem, and even if

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<sup>36</sup> The term “rational choice theory” as used by Satz & Ferejohn, as by most economists, assumes that the utility that firms maximise is profits, and is thus the same as what I call the *homo economicus* approach. Rational choice theory is also used by decision-making theorists who do not assume any particular utility function.

we should agree with their view on the structuration of economic activity in Western societies, an *explanation* of economic phenomena would not follow their logic there either. The reason is that even when outcomes happen to fit the predictions of neoclassical theory, they cannot be explained by that theory unless its psychological assumptions are true. Philosopher of economics Daniel Hausman gives the example of people fleeing from a hotel during a fire, having heard the fire alarm. Explaining the fleeing with reference to the fire, rather than with reference to the people who are running away, is analogous to the reasoning of Satz and Ferejohn. The justification could be that many different psychological states would all result in the same action. An intentional explanation of the same phenomenon would include that the guests heard the alarm; they believed that there was a fire, and that they would die unless they fled; and that they did not want to die. Admittedly, this explanation seems a bit pedantic – for most purposes, it would suffice to say that people fled because of the fire. However, as Hausman points out, that establishing perceptions and values often is trivial, does not mean that it is irrelevant: Had the guests not heard the alarm, nor cared if they did, the fire would not explain their fleeing. If outcomes conform to neoclassical theory, whereas psychological states do not conform to its underlying assumptions, this should “prompt a search for the actual [causal] mechanism” ( Hausman 1995: 100). A less likely story would be that the guests fled the hotel because they thought the alarm was the sound of an ice-cream van, and they wanted to be first in the queue. In this case, the alternative story is quite implausible. But it is not always easy to tell what is implausible and what is not, without examining the case at hand.

When we deal with history, prediction is of particularly little value. We *know* what happened! That does not stop economists from engaging in the same elaborate exercises to show that history can be predicted with different *ad hoc* hypotheses added to rational choice economics. Rosenberg comments this practice thus:

Economists’ satisfaction at the ability of macroeconometrical models to be retrodictively curve-fitted to the interwar business cycles is charming in its naïve view of what counts as predictive success. (1986:130)

To enhance our understanding of the past, we must go beyond *prediction*, and seek *explanation*. In our case, this point is pertinent. Economists’ explanations of Russian financial behaviour do not hold good for the whole period under review. Furthermore,

anecdotal evidence suggests that the perception of financial markets and the motivation behind engagement with them in Russia differed from what economic theory assumes. We have extra reason, then, not automatically to believe that the theories employed actually explain even the outcomes that, in Hausman's words, "fit the predictions". Examining the actual mechanisms, in both senses of that word, at work might be problematic if we want to predict future outcomes – although it is certainly possible to draw on that reasoning to imagine different scenarios. But when we are dealing with a past that has already happened, there is no reason not to heed Elster's plea for mechanisms. We need to move away from Friedman's "as if", and instead try to heed Ranke's call to find out "*wie es eigentlich gewesen*".

Thus far, I have not been very explicit about how these mechanisms can be investigated empirically. Economists often argue that reasons, mental states or world views cannot be accessed directly. But that is no argument for not trying. The next chapter considers to which extent a humanistic approach can deal with social structures, economic incentives and decision-making procedures from the viewpoint of individual Russians who gave consideration to becoming involved in financial markets between 1991 and 1998.



#### **4. Explanation and Understanding in History**

If explaining social phenomena involves explaining individuals, it involves examining people's reasons for doing what they do and how these reasons are constructed. And if explaining social phenomena is about people's reasons for doing what they do, then it is definitely a kind of inquiry where historians should have something to say. I think the ultimate test of whether an action can be considered explained on the view presented in the previous chapter, is whether, upon having read the explanation, we can say: "Yes, that course of action must have made sense to them; I understand why they acted like that." Understanding requires some sort of imagination, some sort of empathy so that we can identify with the characters of historical drama. To some, making imagination part of scientific explanation seems ludicrous. However, in the previous chapter, I argued that we cannot simply assume that the human decision-making process connects behaviour with some objective circumstances through a law-like relationship. Imagination, then, seems just as valid a tool as the strategy of assumption and deduction.

#### *Homo Historicus*

This study is an attempt to fill in some of the gaps between social facts and individual behaviour and to specify some of the mechanisms that served to connect social and economic events with the financial behaviour of actual people of flesh and blood in post-Soviet Russia. Although not always too explicit about ontological and epistemological considerations, I believe that historians have often *de facto* been inclined to attempt to bridge such gaps. One reason might be their focus on identifying *continuity* and *discontinuity*. To historians, people are not only located *in* time and place: they also move *through* time and space, and are shaped by that journey. The question of the relationship between people and events therefore has been an integral part of writing history. The term *homo historicus* is sometimes used, because man is the only creature who takes an interest in history. But that fact also has significance for how we approach behaviour: If an individual's understanding of a situation depends on how that individual remembers

past experiences, an explanation of individual behaviour and thus of social phenomena must take into account past experiences and how they are remembered.

Historians write about ideographic developments. The temporal aspect of an explanation is more difficult to conceptualise when the *explanandum* is a non-temporal *typical* and not a temporal *factual* situation, as is often the case in economics and sociology. To be sure, the temporal aspect is not absent in all sociology, and the difference between different disciplines should not be overemphasised: That historical sociology and social history are two distinct disciplines has as much to do with organisational tradition at universities as with differences in the conceptualisation of human behaviour and the nature of explanation and understanding. Economic sociologist Mark Granovetter, for instance, warns against “over-socialisation” in sociology – which highlights both that currents within sociology *do* take the temporal aspect seriously, and that there is a mainstream that, in his view, does *not*. He stresses that economic decisions take place in a context of *ongoing* social relations; existing relations must take into account the history of interactions. (Granovetter 1985: 485f)

According to Raymond Boudon, however, even when approaching temporal, actual developments, many sociologists have a preference for explaining change endogenously. They prefer, for instance, to explain social change with reference to the social system that is changing, and they are reluctant to include exogenous, ideographic events in the explanation. (Boudon 1986: 123) One reason, Boudon suggests, is that if they did, their disciplinary independence with regard to history would be threatened. There might also be other reasons, which have to do with the aim of research. But if the aim is to explain a historical development, I think we should go one step further than Granovetter: We should take into account not only the history of interactions, but also the wider history of those who interact. This view finds resonance in the view expressed by British philosopher of history R.G. Collingwood (1946) that understanding and explaining history involves the re-enactment of essential experiences.

*Do actions really speak louder than words? Discourse and financial behaviour*

When understanding reasons is the aim, the explanation of a social phenomenon must refocus from actions as such, and to the meaning they have for those who undertake them. This view echoes the epistemological claim that knowledge about the world is

available to us only through discourses that give meaning and structure to the physical world. Note that this argument does *not* say that the *world* is constituted by discursive practices, it is an epistemological strategy to reveal how our “understanding of the world is created, maintained and reproduced.”<sup>37</sup> When the aim is to understand an action, then, words seem to speak louder than the action itself.

The study of the significance of language for social research has been championed by discourse analysis. A common definition of discourse is “a system for the production of statements and practises, which, by being inscribed in institutions and by appearing as more or less normal, is constitutive of reality for its participants and has a degree of continuity with respect to a set of social relations.”<sup>38</sup> However, discourse analysis in general has often not been explicit about the relationship between discourse, decision-making and *action*. The genealogical method associated with Foucault<sup>39</sup> sometimes suggests that discourse is a *condition* for action, but it is not treated as a *variable* entering into the explanation of an action (Neumann 2001: 154f).

The genealogical method is interested in how specific representations of the world have developed historically, and commonly aims to illuminate power relations within society and about the relationship between discourses. I do not approach texts as a genealogist. Mine is not a history of concepts, but a history of how concepts influenced individual behaviour and produced social phenomena in post-Soviet Russia. The question, then, is whether discourse analysis can contribute to the explanation of action. Perhaps as a result of the genealogical legacy from Foucault, discourse analysis has not been a preferred approach in disciplines traditionally dealing with the *explanation* of action. This study thus departs from the most common discourse analysis framework in

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<sup>37</sup> Hønneland 2003: 6. Some discourse analysts proceed from the claim that knowledge is constituted by discourse to the assertion that all discourses are equally valid. I should emphasise that I am not a relativist with relation to discursive practices. Moreover, the idea that the world is merely a discourse is, of course, also merely a discourse. I, for one, believe that some aspects of the world are intelligible to us in an entirely non-lingual and non-discursive way, such as pain, hunger, anger and other emotions; humans are also animals, and to that aspect of our understanding, the concept of discourse is uneasily applicable. I also believe that there are criteria, such as logic, observation, and intersubjectivity, on which the truth-value of statements could be judged, although the ultimate truth might be out of our reach.

<sup>38</sup> Neumann 2001: 18. Translation from the Norwegian by the author.

<sup>39</sup> An outline of his view is given in Foucault 1979.

that the interest in discourse is just one of several possible approaches to *decision-making*. There is therefore not much methodological literature to be guided by.<sup>40</sup>

In fact, I have been able to find no literature in the discourse-analysis vein dealing with financial behaviour, and no research on financial behaviour using tools from discourse analysis – perhaps with one exception: Sociologist Christophe Schinckus has proposed to compare the financial system with a semiotic system – although not drawing explicitly on discourse theory – viewing “the market as a particular language whose signs, signifiers and the relation between these two abstractions depend directly on a cultural code, emerging directly from the lifeworld of the actors” (2004: 18). However, Schinckus’ approach is not directly relevant for my purposes. His interest is more with professional investors than with households, and his focus is on the frequent interaction between individuals; the relationship that arises as a result of that frequent interaction; and the way that relationship affects the signified of the signifiers. The interaction between Russian household and representatives of the financial sector did not conform to this pattern: Personal interaction was infrequent, lasted for a short time; and there was usually little room for negotiation.<sup>41</sup> However, his idea of the signified might be fruitful: In the West, we are accustomed to think of financial intermediaries as precisely that – financial intermediaries. But we cannot take for granted that they served only or even principally that function for Russian households in the 1990s.

Discourse entails identities – who we are and who others are, and the delineation of self and other; it entails our perception of what a social phenomenon is and how different phenomena are interrelated – how the world works; and it expresses and constitutes attitudes to specific phenomena, given our definition of them. In the analysis of decision-making processes, then, discourse could be understood as a way of *framing* choices. My use of discourse is therefore rather different than that of the genealogist. This does not imply that the historical antecedents of discursive practices have no relevance at all in my account; sometimes a historical context is necessary to understand the meaning of the words that are used, or the way in which the discourse changes.

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<sup>40</sup> For example, a google search for “discourse analysis” and “financial behaviour”, “financial behavior”, “saving behaviour” or “saving behavior” returned a total of only 16 hits – and in none of them are the two terms treated together. (Search on [www.google.com](http://www.google.com) 24 September 2004.)

<sup>41</sup> There could, of course, be some negotiation over the price of dollars, but this hardly changed households’ views (the signified) of dollars (the signifier).

Some discourse analysts might find it misleading that I use the term 'discourse' with relation to the analysis in Part II. Discourse analysis is commonly seen as an analysis of the fight about the meaning of discursive events and practices. My focus, on the other hand, is on discourse as a factor that shapes action; but I believe that these actions might also have non-discursive aspects related to the physical world and to human biology and psychology. I do not believe that discourse is the only way in which we can access the world; nor do I believe that individuals cannot change or choose between discourses: As is the case with other social phenomena, discourses are constituted by the behaviour of individuals.

I share with discourse analysts an interest in how the discursive field structures our subjective world. Language is the predominant medium through which I as a researcher can access how Russians experienced their financial world between 1991 and 1998, and the best way to get an idea about the psychological mechanisms at work and about the physical world people lived in. I therefore approach the texts that are the sources of my analysis mainly as relics,<sup>42</sup> telling something about their author and about the situation in which they were produced, rather than as statements that would give evidence about events external to its author. The reason for doing so is my wish to understand why individuals acted as they did, producing social phenomena external to the text – i.e. aggregated household saving. Discourse and behaviour must therefore be treated as being analytically independent, linked by the decision-making process.

#### *Psychology and financial behaviour*

Another academic discipline that has taken an interest in the significance of framing for economic decision-making is economic psychology.<sup>43</sup> However, this has not so far been applied to empirical studies of financial behaviour; nor has the significance of discourse for framing been explicitly considered. Nobel Laureate Daniel Kahneman is one of the

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<sup>42</sup> The term "relics" translates Norwegian "levning", which is a standard concept in historical methodology in Norway, as opposed to "beretning", which approximately translates as "statement". A relic is a source, or the aspect of a source, which interests us not because of the factual events it describes, but because of what it can tell us about its author (or, in the instance of non-textual sources, its creator), and the situation in which it was created. Statements, on the other hand, interest us because they can give us information about the factual events they speak of.

<sup>43</sup> I distinguish here between discourse and psychology at the epistemological level, because I believe that the psychological statements I use are neutral with respect to the alternative discourses presented here – including the author's own. That does not imply that psychology is neutral with respect to *any* discourse: Rom Harré and Grant Gillett, for instance, have proposed viewing emotions as "psychologically equivalent to statements." (Harré & Gillett 1994).

psychologists who has been most interested in the psychology of economic decision-making, and he has demonstrated how the framing of a problem, and the availability (rather than the existence) of information is important in shaping decisions. The psychology of decision-making often takes the form of mechanisms, as described above in the second sense, as something which is not a law of necessity, but which we can recognise as a causal pattern when we observe it. Kahneman's pioneering contribution to economic psychology is that he has demonstrated the existence of several such patterns not fully recognised before.

Most of these mechanisms are heuristic devices that we use instead of pure logic – such as privileging information that evokes vivid images and strong feelings towards information that does not. Other mechanisms include Elster's concept of wishful thinking and "sour grapes" as ways of reducing cognitive dissonance. I shall not discuss the specifics of these theories here – they will be brought up at appropriate points in the analysis of Russian financial behaviour below in Part II and in the conclusion in Part III.

It is not self-evident that one should rest content with worldviews, perceptions and psychological theories as the building blocks for explaining human behaviour. Perceptions could be dubbed macro-constructs covering neurological mechanisms.<sup>44</sup> Similarly, psychological laws are laws established by correlation; they usually do not specify any neurological link. However, if we do believe in some degree of free will, then reasons seem indeed a reasonable unit to work with. And even if we do not, the alternative – neurological explanations – seems futile.<sup>45</sup>

#### *Narrative and explanation*

If I have given the impression that that this study will be about semiotics and psychology rather than historical events, let me hasten to adjust that impression. Once the inquiry is about actual people, research into discursive practices, into semiotic relationships or into psychological mechanisms takes on an ideographic, historical form. Because their research has always been about actual people, historians have always written about discursive practices, semiotic relationships and psychological

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<sup>44</sup> See Dretske for a discussion of reasons, causes and neurology.

<sup>45</sup> However, if anyone *does* find evidence on that level contradicting the mechanisms I argue to be at work, that would be valid criticism which would have to be taken seriously.

mechanisms, whether using those terms or not. But perhaps because historians have often not cast their accounts in terms of laws, they have traditionally had a problematic relationship to causal explanation. The problem originates in the distinction made by German philosophers between *erklären* and *verstehen* – the former associated with the causal processes of natural science, the latter with the hermeneutic reasoning in the humanities. What is the relationship between the strategy of re-enactment proposed by Collingwood and causal explanation?

The German-American philosopher of science Carl Gustaf Hempel, insisting on the unity of science, argued against this distinction. To him, causal explanation implied reference to universal laws, and he claimed that in so far as historians *do* explain, it is through *implicit* reference to laws, whereas the historical narrative, through its painstaking collection of facts, provides explanatory *sketches*, filling in the conditions for the law to apply, but no full explanation.<sup>46</sup> Historian William Dray took issue with Hempel's understanding of explanation in history, arguing that historians provide *rational* explanations rather than *causal* ones– that is, they invoke an individual's reasons for doing what he did, rather than any universal law that *anyone* would have acted like that given the circumstances. It should be noted here that Dray's concept of rational explanation does not entail law-like rationality in the sense described by rational choice theory – it only implies that people's actions can be rendered so that we understand that they made sense and were reasonable to them at the time. We could therefore speak of *reasonable* rather than rational explanation.

There need not be any contradiction between such reasonable explanation and causal explanation. As Canadian philosopher of science Maurice Lagueux has pointed out, historians often seem to assume some sort of law-like rationality not so much, perhaps, in their explanations as in the very questions they ask (Lagueux 2003: 16). If people had done exactly what anyone would expect them to do, there would be no need to explain their actions. The expectation that we should be able to see the behaviour of other individuals as understandable, and thus in some sense rational, is the reason why we pose questions. If we are not able to do so, their behaviour will indeed be inexplicable. The belief that we usually can understand other people is a fundamental premise for this

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<sup>46</sup> Hempel 1942. On this view, a narrative merely relates the factors in the causal model, locating them in time and space. See Morgan 2001 for a reformulation of this view of the role of narratives in economics.

study.<sup>47</sup> The tool historians have used to create that understanding has been the historical narrative. The narrative lets us imagine how people's worldview develops, how their psyche develops, and provides an understanding of the mechanisms that relate their views and personality to their behaviour. But the narrative then becomes the main vehicle for *explanation*, because discourse, psychology, opportunities and limitations, emotions and deliberations – in short, the sort of rationality that the Hempelian logic depends on – cannot be understood separately from the context described by the narrative.<sup>48</sup> We could thus turn around Hempel's view about narratives as providing explanatory sketches: Laws might provide sketches of causal processes, but – at least when we deal with human beings – these processes are more fully captured through a narrative.

The historical narrative therefore has much to offer causal explanation of the questions posed in this study. At certain points I will refer to psychological theories, general mechanisms, or statistics. But I also wish to appeal to the reader's imagination. In the same way as a joke is not funny if it needs to be explained, an explanation of the view presented here is not entirely successful if it needs too many comments. Although I

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<sup>47</sup> This argument has been central to the sociological and anthropological traditions inspired by Max Weber's methodological individualism. See Boudon 1986: 55 for a brief overview. The argument that this kind of reasonable explanation can be seen as causal depends on the view that there are causal mechanisms at work between reasons and actions. Whether reasons can be said to cause actions has been hotly contested within the philosophy of science. (The notion of causation itself was questioned already by David Hume, because whereas we can observe correlation, we cannot observe causation. The impossibility of observation does not exclude a notion of causality; but that notion remains metaphysical in nature. For a discussion, see Hawthorn 1991: 25f) According to philosopher Donald Davidson (1963), we can think of reasons as consisting of beliefs and attitudes, preceding and causing our actions. The Finnish philosopher Georg von Wright (1969), on the other hand, contends that a reason is not a reason if it is not the reason for which an action is done – but then the relationship between reasons and actions is better seen as a syllogism. He cites the example of the outbreak of the Great War: had we known the relevant facts about the dispositions of the Austrian rulers, we would have known by definition that they would have acted as they did following the shots fired in Sarajevo. Had they not done it, they would not have had the reasons they had, and citing those reasons is just a re-description of their actions in terms that make them intelligible to us. However, Geoffrey Sayre-McCord (1989) has shown that even if actions and reasons are linked conceptually, they could also be linked causally. But reasons in this sense are not something we can observe except through action. However, I do not believe that this is the sense in which historians usually use or *should* use the word "reasons". People usually perceive reasons to be reasons even if it they are not the reasons for which something is done. The causal processes linking reasons – or reasoning – thus understood to the reasons that are the reasons for which we do things, are difficult to formulate as laws. Perhaps the Elsterian notion of a mechanism that has causal efficacy, which we recognise when we encounter it, but which operates under conditions that are generally unknown, can be a fruitful way to think about that relationship. And I do believe that humans have an intuitive ability to recognise when our reasoning translates into the reasons for which we do things. Moreover, if we cannot explain behaviour causally with reference to intentions, we cannot explain them causally at all – unless it turns out firstly that humans have no free will at all and secondly that we can explain all behaviour with reference to neurological facts. This study has therefore no objections to blurring the distinction between causal and intentional explanation.

<sup>48</sup> This view of the narrative as an analytical tool is inspired by Anthony Hopkins' (1978) discussion of analytical narratives.



have found it necessary to include some theoretical considerations in the argument, a part of the analysis of the analysis will be saved for the conclusion in Part III.

#### *Research design and sources*

Reasons and decision-making reflect the sum of personal experiences, which involves socialisation, personal events and human psychology on the one hand; and social experiences, which involve common events and the way they are talked about on the other.<sup>49</sup> Accordingly, I propose two lines of inquiry: The first is to retell stories told by ordinary Russians based on oral accounts relating to financial behaviour. The second is to follow some of the concepts relating to financial behaviour that emerge from these stories and to track their development, and the changes in their content, in the public sphere – mostly in newspapers, but with some use of literature and folklore. The former is done to show actual mechanisms at work at the individual level – because that is the level at which they are at work. The latter is done to show how many of the components that constituted an individual’s horizon were common in nature, and that the mechanisms described may therefore be relevant to a larger segment of the population.

For discourse to be used as a variable, there must exist alternative discourses describing the same phenomenon. If the explanation should be of interest, we should be able to imagine that actors could belong to different discourses and that discourse itself could change. To explain action by a discourse viewing trustworthiness and profitability as superior to risk and loss might be true, but is hardly very interesting. I have therefore been most interested in discursive practices which differ from those known in the West and which sometimes were, or came to be, contested in Russia; and which either changed or would lead to changing behaviour throughout the period under review.<sup>50</sup>

I must here admit that most Russians who lived through this period in their country’s history probably know the discourses I examine better than I can hope to do. However,

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<sup>49</sup> This argument is inspired by Ol’ga Kuzina’s argument on the formation of trust described in Chapter 2.  
<sup>50</sup> A possible, and interesting, bias in choosing which discourses to focus on arises from the fact that Western researchers are more familiar with “rational” and technical discourses than most people within the society which they try to explain. They might therefore end up spending quite a lot of time trying to explain discourses that might be self-evident to some of those concerned. However, many within the “rational”/technical discourses, which often are privileged among powerful decision makers, are unfamiliar with them, and enhancing understanding of them thus seems to me to be a justified priority. For a similar view, discussing how the “rational”/technical conceptualisation of medical conditions can threaten the dignity of patients unfamiliar with it, and the need for medical personnel to understand alternative discourses, see Cameron 2005.

being a foreigner might also be an advantage, because the *specificity* of the Russian discourse becomes clearer. To some of the Russians I have spoken with, many of the points I find fascinating were simply too self-evident to spur any further interest. If, then, the explanations given seem unsurprising and mundane – at least to anyone familiar with Russian economic realities and basic human psychology – this is consistent with my view that explanation of action should be *understandable* to the reader, and – hopefully – *recognisable* to the people I write about; but that it still should give both groups the opportunity to entertain the thought that people could have acted differently.

#### *Interviews and oral history*

One of the two main bodies of sources underlying this study consists of 27 interviews of varying length. The oral accounts are from interviews with the author during a field trip to Nizhny Novgorod in April and May 2004 – a few of the respondents, however, are from Moscow and Saint Petersburg. All the names applied to the interviews are fictional to preserve anonymity. Short biographical information of the respondents I have quoted is given in an appendix. Nizhny Novgorod was chosen because I wanted to hear experiences from cities that were closer to average Russian indicators than Moscow. For example, in July 1993, there were 2294 registered commercial banks in Russia – of these 787 were in Moscow. In January 1996, the corresponding figures were 2578 and 993. (Ivašinenko 2002: 57) Between 30% and 40% of the banks, then, were in Moscow. At the same time, the official population of Moscow was 8,875,600 (Blakkisrud 1997: 123). Even if one makes allowance for illegal residents, Moscow's proportion of the Russian population does not exceed 10%. Also, the average income in Moscow was more than three times higher than the national average – whereas that of Nizhny Novgorod was slightly below, as in most other provinces and cities (*ibid.*). Nizhny Novgorod also had a relatively stable social composition throughout the period (Ivašinenko 2002: 178).

Questions were asked about the respondents' relationship to financial institutions, commercial as well as Sberbank, to the government, to private business, to vouchers, to privatisation. Above all, the respondents were asked to tell freely about their experience of the financial situation in the country following the economic reforms initiated by Yeltsin's government. Precisely which questions were asked and how they were phrased depended on the development of the interview. Care was taken not to ask leading

questions; however, it is difficult to be certain that the way in which the questions were asked did not influence the answers. The interviews were recorded with the prior consent of the respondents, and then transcribed.

In oral history, an important aim with interviews has often been to establish facts about the world that otherwise would have remained unknown, because written sources have disappeared or never existed. That has not been the case with my interviews; instead, the main purpose was more similar to that of qualitative interviews used by sociologists and psychologists, as described by Steinar Kvale: “The purpose of the qualitative research interview is to gather descriptions of the *Lebenswelt* of the interview, especially with regard to interpretations of the meaning of the phenomena that are described” (Kvale 2004: 39). Thus, I was as a rule not concerned with whether or not what an interviewee said about a topic was factually, objectively correct, as long as it was subjectively correct. However, because I am interested in the relationship between that *Lebenswelt* and behaviour, I was also interested in actual behaviour.

An advantage with interviews, as opposed to contemporary written sources, is that the researcher can ask to have elicited precisely the relationships that interest him. Furthermore, if we see interpreting a text as a hermeneutic circle where we bring our own prior understandings to the table, the interview has the advantage that the interviewee often reacts when it emerges that the horizons of the interviewer and the interviewee differ, and is able to point out the differences. However, there are also problems with using interviews as sources for historical writing. I approach the interviews as relics, which should say something not so much about economic events as about the interviewee’s situation; however, the interviews are actually statements I use to make assertions about what I would have been able to obtain as relics, had I been able to interview my respondents during the period under review in this study. Possible distortions between these statements and the relics must therefore be taken seriously. Four such distortions have been considered in particular:

First, people can forget important events and their own reactions: Researchers in Nizhny Novgorod told me that people commonly forgot troublesome aspects of the economic reforms, because they were too painful to think about. Thus, their recollection both of their own views and of their own financial behaviour could be skewed, even when they tried to be honest. Another problem was that some interviewees obviously

confused different events, such as the Pavlov reform in 1991 and the liberalisation of prices in 1992, or the “Black Thursday” in 1994 and the financial crisis in 1998. The best remedy against such distortions in the interviews was to know as much as possible about the topics of the interview.

Second, respondents could have been influenced by their views on different institutions today when speaking about how they viewed them then. People commonly reinterpret and reconfigure their lives as they live them. Several interviewees demonstrated remarkable skill in distinguishing between what they thought now and what they thought then – for instance, by asking: “Are you referring to my views now, or my views then?” (Interview no. 5). In other cases, I had to make judgements based on the totality of what was said.

Third, interviewees might have had other motivations for not telling the truth. This is often a problem in oral history, because people might benefit from a certain representation of the past, or simply because they want to present themselves as good people. In my context, however, this problem seemed manageable, as the interviewees were ordinary people, who could not hope to gain much by not telling the truth, and few seemed to mind to reveal facts about themselves that could be seen as unflattering. And to extent that my respondents did misrepresent past views and reasoning, the bias would probably be towards portraying those views as more “rational” – in the sense of conforming to economic theory – than they were. The bias is then *against* the hypothesis in this study, which is that conceptions of the financial market differing from those of economic theory were important to financial behaviour in post-Soviet Russia, and is therefore acceptable.

Finally, people might be unaware why they change their views or their decision-making calculus, or even that they change at all. The causes of such changes are thus unlikely to be found in direct statements. When respondents had altered their views on different financial institutions over time without knowing why, I have sought to analyse those changes in light of other information, partly drawing on psychological theories and mechanisms.

### *Written sources*

I have also reviewed several hundreds newspaper articles from Russian newspapers from the period under consideration. As newspapers were a source of information, analysis of their content is important in order to understand how knowledge was established. Surveys have indicated that newspapers were the single most important source of information about the financial market (Ivašinenko 2002: 132). For this purpose, I have mainly selected articles that reported on events, to see which aspects of events were related, and how; and articles aiming at enlightening the readers more generally. Second, just as with the interviews, newspapers are used to access arguments from different mental universes and their relationship to behaviour; these articles may correct possible biases in the interviews and do not have the problem of possible confusion of past and present. For this purpose, I have selected articles that relate personal experiences: letters to the editor, interviews and other articles where opinions and views are expressed.

The main reason for doubting the reliability of statements – remembering that it is their subjective truth-value that is my concern – in these articles is if those who write have some personal motive for pretending that they hold different views than they in fact do. I have judged this to be so only in extraordinary cases, to which I will return in Part II. Where I rely on newspaper sources for factual information on events, I have deemed this information to be accurate beyond reasonable doubt.

The main newspapers used are (circulation in parentheses)<sup>51</sup>: *Argumenty i Fakty* (2,985,000), *Moskovskij Komsomolec* (2,245,687), *Komsomol'skaja Pravda* (819,111), *Izvestija*: (234,500), *Kommersant*'' (hereafter transcribed *Kommersant*, 118,551), *Segodnja*: (57,000), *Sel'skaja Žizn'* (92,000). Of these, the most important have been *Izvestija* and *Kommersant*. My approach has been qualitative, with no attempt to quantify how widespread the discourses I discuss were. My main goal is to examine how discourses change and relate to behaviour, and thus to illuminate a new aspect of the causal explanation of financial behaviour at the micro-level. However, since the questions raised in the beginning of the study relate to aggregate behaviour, some considerations are due as to the generalisability of any findings.

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<sup>51</sup> Circulation obviously varied through time – these are figures derived from [www.public.ru](http://www.public.ru).

There are at least two possible objections to this selection: First, the communist and nationalist press is basically absent – papers like *Sovetskaja Rossija*, *Trud* or *Zavtra*. Second, although *Argumenty i Fakty*, *Moskovskij Komsomolec* and *Komsomol'skaja Pravda* were ranked among the five most trusted newspapers before the 1996 presidential elections, *Izvestija* fared considerably worse; *Kommersant* was not included in the sample (Institut social'no-politiceskich issledovanij 2001: 539). However, I believe this can be justified on three grounds: First, all the newspapers contain plenty of examples of people from all sides of the political spectrum. Second, if the discourse on financial markets in these newspapers differed from that of the communist press, it was usually closer to an educated, Western, economic conception of the situation. If I can still show that these discourses conceived of financial markets very differently from what economic reasoning would expect, it seems likely that discourses in the communist press, if they differed at all from what I have presented, were at least not *closer* to an economic reasoning. The clearest examples of such reasoning in my sample usually come from *Kommersant*, which partly serves to demonstrate how discourses could differ. Third, these newspapers were the searchable newspapers that contained the most articles on financial markets. Their use is thus partly a deed of necessity; it also seems reasonable to suspect that precisely because they had more information about financial markets than other newspapers, people would turn to them for information on that particular subject.

Finally, I have to a limited extent used folklore, anecdotes and literature as a source. The advantage with such sources is that they have to take as their point of departure lingual codes that communicate with an audience in a compressed format. Such communication often aims to reveal how we think, what we do and who we are.

#### *New questions: Discourse, psychology and events*

The main function of the epistemological considerations outlined here is not to present a theory of interaction of the Russian financial market. Rather I adhere to the view of those critical institutionalist economic historians who see the role of theory in history as “a device that assists historians to reframe the questions they can ask of their material” (Harris, Hunter & Lewis 1995: 8f). These questions can be outlined as follows: How did the worldview, the discourse and the logic of action of those who trusted

commercial financial companies differ from the views, discourses and logics of action of those who trusted Sberbank, or those who trusted neither? Were different discourses instrumental in predisposing for different actions, or, perhaps, an integral part of those actions? Could different worldviews, discourses and logics of action lead to the same action? How did views change over time? And how should we approach the interrelationship between discourse, psychology and events?

The next part is organised around events that were important in bringing about changes in discourses on financial institutions. The three chapters of the analysis each feature one major discursive paradigm, reflecting the three shifts in behaviour serving as point of departure for the three substantive questions asked in Chapter 1: Why were commercial financial companies initially successful? Why did they then lose ground to Sberbank? And why did they both subsequently lose ground to dollars? The analysis seeks to demonstrate the existence of those paradigms and their relevance for decision-making – examining changes in paradigms as well as decision-making; but also giving space to the many different responses to the situations. In the conclusion, I consider how different discourses related to one another, and how they combined to produce aggregated, observable results. I then reflect on what kind of explanation has thus been provided; what it can tell us and what it cannot tell us about Russian financial behaviour in the 1990s; and what it can tell us about the historian's ability to present causal explanations different from those usually presented in the social sciences.

## Part II: Analysis of Russian Financial Behaviour

### 5. From Sberbank to MMM, 1991–1994

Here I address the first of the substantive questions posed in Chapter 1: why did so many households come to trust the financial companies that emerged in the first years following the break-up of the Soviet Union? Surveys from 1992 have shown that among the more financially active, commercial banks – at that point an entirely new phenomenon – were preferred to Sberbank as a means of protecting savings from losing their value (Ivašinenko 2002: 133). Examining the discursive context of which these attitudes were a part might help us to understand why many people readily trusted dubious financial companies, even in the face of official warnings that these companies were fraudulent. The first section of this chapter investigates how negative attitudes to Sberbank developed and spread. I then show that the perception of new commercial financial institutions depended directly on attitudes to Sberbank. Finally, I note some discourses that did not inspire trust in commercial financial institutions – or at least not in financial pyramids – and discuss their relationship to those presented in the preceding two sections.

#### *The loss of trust in Sberbank and the state, 1991–1993*

At the time of the break-up of the Soviet Union, the only institution known to accept deposits from ordinary citizens was Sberbank. The bank had never defaulted on its obligations, and had been a stable presence in the everyday life of most Russians. And yet, a sociological survey from November 1992 shows that among economically active Russians, and among those characterised by conspicuous consumption of financial services, almost twice as many preferred deposits in the new commercial banks to deposits in Sberbank.<sup>52</sup> To be sure, commercial banks generally offered higher returns. But they had no reputation, no experience and did not enjoy the ubiquitous presence of

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<sup>52</sup> See Chapter 2 for details on this categorisation of the population.



Sberbank. If people trusted Sberbank, its lower interest rates could have been compensated for by low risk and easy access. Indeed, among wealthy, traditionally oriented Russians there was a clear preference for Sberbank.

In his theory of “satisficing man” Nobel laureate Herbert Simon (1957) suggests that rather than constantly looking for the best option, people start to search for alternatives only when current behaviour falls short of their aspirations. They satisfice rather than maximise. An important question, then, is whether those who preferred commercial financial companies did so because they aimed to maximise, or because they had been disappointed with Sberbank. How did they view Sberbank, its policies and its credibility? How and why did these views change? What did they perceive Sberbank to be – a bank or a branch of government? And how did perceptions of the state change in this period?

*Were Soviet-era savings real? The question of indexation*

A comment by Yegor Gaidar, acting prime minister in 1992, that “money in people’s saving accounts [is] not real”<sup>53</sup> can serve as a point of departure. That comment was made in the context of the devaluation of savings as a result of the Pavlov reforms and inflation. From an economic perspective, Gaidar’s comments are understandable enough. In late Soviet times, fixed prices and rising wages allowed people to demand far more goods than could be supplied, and there were constant shortages. This led to a “monetary overhang” – income with no counterpart in real output.<sup>54</sup> Whether the proportion of household income not spent reflected the proportion of real output made available for investment depended on price policy and the government’s commitment to budgetary discipline. Furthermore, saving did not necessarily reflect any decision to postpone consumption. The household saving rate reached 30% in 1991 (Ivašinenko 2002: 63), mostly because there was simply nothing to buy in the empty stores of the late Soviet period, when even basic foodstuffs were rationed.

There were thus plenty of reasons for people to understand that the retail price system needed to change, even if they did not follow or accept Gaidar’s arguments. One

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<sup>53</sup> Referred in Satter 2003: 37

<sup>54</sup> In the classical national accounts framework, income equals output by definition. This definition does not work when prices and wages are not connected through the market place.

respondent told me that food rationing was what had made the single greatest impression on him from this time:

We will always remember the rationing system we had, when meat was sold on rationing cards, when vodka was sold on rationing cards, when butter was sold on rationing cards, when our shops were empty. (*Interview No. 17*)

However, as we shall see, the experience of shortages did not lead people to accept Gaidar's view on the relationship between the monetary overhang and the devaluation of their savings. Indeed, the idea of indexing savings on par with inflation found support at the highest level of government. Here we should recall that inflation was an entirely new phenomenon in the Soviet Union: many Russians neither understood nor accepted the relationship between money supply and prices in a market economy.<sup>55</sup> In November 1991, the RSFSR Supreme Soviet passed a law, "On the indexation of money income and savings of the citizens of the Russian Federation,"<sup>56</sup> aimed to regulate savings upwards using the interest rate, but at a lower rate than inflation.<sup>57</sup> In October 1992, an organisation defending depositor interests<sup>58</sup> demanded that the government should not only index current savings, but also that depositors be compensated for the devaluation of their savings since the start of the Gaidar reforms in January that year, seeing the government as a debtor vis-à-vis those depositors.<sup>59</sup> The Supreme Soviet Commission on Social Policy often complained that the November 1991 indexation law was not implemented adequately. When the Gaidar government and subsequent governments would not index savings to inflation, many saw this not only as a violation of their material interest, but also as a moral failure on the part of the government.

*Were Soviet savings real? Popular perceptions of the devaluation of life savings*

How did the initial perception of a need of reform lose ground to a new perception of price liberalisation as theft and fraud? How were these perceptions developed, sustained and expressed? Let us look at some concrete reactions to the reforms and their results. Four workers from Novgorod complained in *Izvestija* in February 1993:

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<sup>55</sup> For an overview over which purposes price setting had served in the Soviet economy, and how Soviet economies thought about prices, see Keiding & Pitzner-Jørgensen 1988: 47f

<sup>56</sup> "Ob indeksacii deneznykh dochodov i sbereženij graždan RSFSR"

<sup>57</sup> "Vkladciki potrebovali kompensaciju", *Kommersant*, 14.10.1992

<sup>58</sup> Obščestvennyj Sovet po Zaščite Interesov Vkladčikov

<sup>59</sup> "Vkladciki potrebovali kompensaciju", *Kommersant*, 14.10.1992

In 1990 we became the owners of bonds from the State Interest-free Specified Loan for the purchase of a car. Not many such bonds were given out, and they were mainly given to *peredoviki*.<sup>60</sup>

As we know, the State Bank did not fulfil its promises; it passed away, although the State Bank of Russia declared that it was its heir.

Now, the price of the cars we were given the right to obtain in our bonds varies between 1.5 and 4 million roubles. And it continues to rise. From the government's explanations we know that the value of our bonds is increased 20-fold. But such an indexation does not correspond to today's prices.

In our region they are now giving out cars to holders of the coupons "Urožaj 90", and also to those who worked in Jakutija, at the Bajkal-Amur Railroad in Tjumenskaja Oblast'. The difference in value is compensated through the local budget. Why this selective justice?<sup>61</sup>

The Soviet banking system had two main ways in which to attract savings – deposits and bonds. During Soviet times, the government could issue bonds that could be used only to buy specified objects. Given the chronic shortage of products, these bonds served as a right to purchase, at a later date, a product that was not yet produced, and were a way of rewarding the best workers – *peredoviki* – in a situation where the actual products did not exist and where the monetary overhang was increasing. When prices rose and markets became saturated, these bonds were of little value, especially as the goods they were designated for often were among those whose prices soared. In this case, not only was the value of the bond reduced, but the privileged position with regard to the purchase was lost – whereas others who had such privileges had been able to retain them. The relative loss entailed in the changes was therefore subjectively felt as severe.

However, the consequences of the devaluation of ordinary deposits could be just as harsh, as demonstrated by a letter to *Izvestija* from an elderly man from Sakhalin:

My brother Nikolaj is dead. I need to go [to Moscow] to say goodbye, to bury him. But I cannot travel from Sakhalin – the air ticket alone costs 70 000. I have worked at Sakhalin for forty years. In this time, I have managed to save 50 000 for my retirement, but that's not enough. And why not? Because my deposits in Sberbank have melted away. The law on the indexation of deposits is nothing but a law on stealing the savings of the working people. How can that be just?<sup>62</sup>

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<sup>60</sup> A Soviet expression for the most hard-working workers.

<sup>61</sup> "Iz redakcionnoj pocty", *Izvestija*, 26.02.1993

<sup>62</sup> "Iz redakcionnoj pocty", *Izvestija*, 07.04.1993

The negative view of Sberbank was not necessarily connected neither to a negative view of the reforms in general, nor to general distrust in the state. There were those who saw the need for reform of the communist economy, and thus had at least some degree of understanding for the Gaidar reforms, but who remained deeply critical of Sberbank and the Pavlov reforms. When asked about what he associated with the Pavlov reform, Il'ja, a former Soviet mechanic who later went into private business, said:

That was when they screwed<sup>63</sup> the whole of Russia, wasn't it? They screwed the whole of Russia. There were some changes... Perhaps the reform was necessary; perhaps there was no other way... but so many of our people suffered...*(Interview No. 20)*

The understanding for reform was thus undermined by a perception of its unjust implementation. Public reactions to a decision by the Supreme Soviet in December 1991 to raise deputies' salaries in line with inflation, are telling: Once the decision became known through the mass media, crowds gathered outside the Supreme Soviet building to protest that indexation, one of the central concerns of many ordinary workers, was bestowed only on the elite.<sup>64</sup> The Supreme Soviet had spoken out to promote the indexation of the deposits of ordinary citizens – but when it came to implementation, indexation was reserved for the political elite. As a result, many found state financial institutions to have illegitimate motives, like self-enrichment. A fundamental condition for trust was thus lacking.

It thus seems that even some of those who understood the rationale for reform found its consequences and its motives so lamentable and questionable that they associated the reform with fraud. At least the discourse allowed seemingly contradictory views – support for and rejection of reforms – to be expressed simultaneously. In some cases, it seems that personal experiences of hardship were psychologically incompatible with full acceptance of reforms, even with an initial acceptance of reform. Interviewee no. 18, Julija, who worked as an engineer in Soviet times and later became a successful business woman, told me she had never believed in communism, and that the changes that occurred were much needed at that time. However, when it came to the Pavlov reforms, she took a rather different stand. She and her husband were at the time saving to buy a communal flat.

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<sup>63</sup> Pardon my language. I have tried to be true to the Russian original.

<sup>64</sup> "VS RSFSR spasaet'ja ot infljacji", *Kommersant*, 9.12.1991

We lacked just a little bit to make the first payment. Then they changed everything...<sup>65</sup> We bought a tape recorder for that money. A tape recorder! (...) No, I didn't trust Sberbank anymore, I started saving in foreign currency, we kept the money at home. (...) Why? Because it would be too terrible to be left without money again. I was left without a flat, and I lost my family because of Sberbank. Because without a flat, without normal living conditions, it is impossible to have a family, and my husband and I got divorced. That is the reason. (*Interview no. 18*)

Unlike Gaidar, then, she seems not to have viewed the devaluation of savings as an integral part of reform, given her expressed support for reforms in general. The mechanism at work here may have something in common with what is known as adaptation of preferences (Elster 1992). Julija's own experiences made her oppose a reform that she supported in theory. Furthermore, it seems that her more recent experiences suppressed other experiences, such as food rationing or long queues to buy bread and milk. It thus seems that her experiences with the Pavlov reform directly influenced her understanding of the state as an actor in the financial system in general, and her view of Sberbank in particular. She never again placed her money in Sberbank.

Asked how she reacted to the Pavlov reform, my respondent Evgenija replied:

How I reacted? I went to Sberbank and asked what was happening. What is this? They told me that the money had lost their value. It turned out that those who had saved for their children lost everything. To lose one's own money, that's one thing, but your children's? You see, my money just disappeared. (*Interview no. 21*)

For many, then, distrust was directly related to highly specific policies and experiences, and in particular to the devaluation of savings in 1991 and 1992. That this led many to rethink their relationship with state financial institutions might seem surprising, since the devaluation was caused by the Pavlov reform and later by hyperinflation, and had less to do with decisions made by Sberbank and more to do with government policies. However, the stories recounted here suggest that because there was no real distinction between the state and the economy in Soviet times, and because the bank was the physical place where people were confronted with the devaluation of their savings, many associated the devaluation directly with the bank. This is particularly striking in Julija's account.

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<sup>65</sup> This is a reference to the Pavlov reform.

It seems that Gaidar's assertion that people's savings were 'not real' was difficult for people to incorporate into their understanding of the situation. Many, obviously, did not understand the economic rationale for such an assertion in the first place. However, even those who did understand the rationale for reform were unwilling to accept Gaidar's rhetoric: For them, their life savings were real; they were associated with real dreams, hopes and aspirations, and their disappearance had real consequences.

*What is the state?*

Thus far, we have explained increasing distrust in state financial institutions and state initiatives by the perceived injustice in their implementation and the direct suffering from them in the concrete circumstances of the early reform period. But why was the notion of injustice so readily available to Russians? Why was there not more understanding for the inevitable problems any government would have had in transforming the Soviet system – a system that so many realised was crumbling? Intuitively, these notions of the state seem to resemble traditional Soviet views. To see whether continuities from the Soviet period (and indeed from Tsarist Russia) in the view of the state and the bureaucracy were important in the early 1990s, it might be useful to consider the notion of the state in Russia more generally. This also corresponds to an observation made by discourse analysts that specific discourses, such as that on financial markets and savings, usually relate to over-arching discourses, such as that about what the state is.<sup>66</sup>

The description of Russian perceptions of the state offered will necessarily be stereotyped. Although such a stereotype might not provide an accurate description of every individual perception of the state, it nevertheless provides a conceptual apparatus that would be known to Russians in the 1990s, and which served as a backdrop for ways of speaking about other phenomena. The state (*gosudarstvo*) or the authorities (*vlasti*) occupy a unique position in the Russian polity. To a larger degree than in Western countries, the state is seen as, and is expected to be, the driving force for social and economic change. On the other side of the dichotomy are the people (*narod*), who are

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<sup>66</sup> See for example Hønneland 2003: 14. One example from his book on Russian and Western environmental discourses notes how Russians' views on the West in general have been important in shaping their understanding of the scientific support for Norwegian arguments in negotiating quotas for cod.

seen as and expected to be more passive, in politics and in economics. Importantly, the state and the people are not *one*. This corresponds to the dichotomy *us* vs. *them*, reflected in the Russian “our” (*naš*) vs. “other”/“alien” (*cužoj*) or “bottom” (*nizy*) vs. “top” (*verchi*). Reforms and changes are widely perceived as being initiated by the state (Neumann 2004) – and so, many view reforms as a hostile action directed against “the people”.<sup>67</sup>

The notion of the state as separate from the people is of course not uniquely Russian – Abraham Lincoln’s famous phrase “government of the people, by the people, for the people” notwithstanding. But when Russians suffered from the economic reforms from the late 1980s onwards, views of the state as a separate institution, pushing its own agenda at the expense of the people, were reinforced. This tendency was particularly manifest among the peasantry, where Yeltsin’s market-oriented policies were frequently compared to Khrushchev’s campaign for growing maize in Siberia or even to Stalin’s collectivisation efforts (Andresen 2003). But such a discourse was clearly present also among urban dwellers in the 1990s. Here, the state was commonly associated with corrupt bureaucracy and incompetence.

The pervasiveness of the dichotomy state/people is seen by the vitality of these constructs even among liberals. In an interview with the newspaper *Segodnja* in April 1993, Jurij Afanas’ev, a liberal member of the Supreme Soviet and a proponent of privatisation, accepts this dichotomy as a premise for political discourse, describing the Russian polity thus:

On the one side, you have the mass of people, not structured into any civil society; and on the other side, you have power. This is the traditional Russian society.<sup>68</sup>

Discourses on the state were readily connected with discourses on economic reform. Answering a question about whether he saw the ruling government in Russia as a break or a continuation of what had been, he comments:

In my view, the power of the bureaucratic market has consolidated in Russia. Power is now in the hands of a neo-Soviet nomenklatura. It is not the nomenklatura which we had under Stalin, Khrushchev or Brezhnev.

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<sup>67</sup> For a similar discussion on the significance of this dichotomy in the Stalin era, see Davies 1997.

<sup>68</sup> “Jurij Afanas’ev: Revanšu totlitarizma mogut pomešat’ tol’ko nezamedlitel’nye glubinnye reformy”, *Segodnja*, 06.04.1993

They enjoyed privileges thanks to the leading positions they occupied. Now privileges are supported by cash. It is not enough for those in power to have a position: they need to create companies, get title to land and so forth. Privileges are being capitalised. (Ibid.)

A view of government as incompetent and self-serving was here natural even to a person who supported reforms. Afanas'ev's remarks also demonstrate how the new reality was understood in terms of past experiences and concepts.

### *Voucher privatisation*

The discrediting of Sberbank and of the state happened at a time when new financial companies were mushrooming. Many Russians first encountered the financial market in connection with voucher privatisation. As there was no real financial market in Soviet times, these initial experiences were important in shaping the initial understanding of and expectations to financial markets in general.

Before voucher privatisation was launched, the measure had been debated for about half a year following the Yeltsin decree of 21 August 1992. What impression did people have before the privatisation auctions started? First of all, it was clear that the voucher programme was a central part of the government's economic policies. The chairman of the State Property Committee, Anatoly Chubais, commented on the programme thus:

The might of the economic ideas that are the basis of the construction [of the programme] is so great that it will overcome all the doubts people have about this process.<sup>69</sup>

According to the government, the voucher auctions gave people from Kaliningrad to Vladivostok the opportunity to become owners of objects across the country. Chubais commented that this "unites Russia in the most solid way possible: that based on ownership."<sup>70</sup> Furthermore, Chubais portrayed vouchers as an opportunity for everyone to share the expected economic gains following the introduction of a market economy. At a press conference on 30 July 1992, he addressed concerns about financial firms making lists over elderly women prior to the distribution of vouchers, planning to buy their vouchers; the elderly women could not be expected to know how best to use their

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<sup>69</sup> "Brifing Anatolija Cubajsa", *Kommersant*, 09.12.1992

<sup>70</sup> "Vladel'cy vaucerov stali akcionerami, no dividendov im ne obeščajut", *Finansovye Izvestija*, 11.02.1993. These comments must be understood in the context of a very real fear of disintegration in Russia - the disintegration of the Soviet Union was followed by declarations of independence by Tatarstan and Chechnya.



vouchers, he said, and all parties would gain from such arrangements.<sup>71</sup> The logic of the argument was that the laws of the market thus would ensure optimal returns to everyone, and optimal use of resources available for investment. The government rhetoric was thus placed within an economic discourse that resembled the views underlying theories on financial intermediation discussed in Chapter 2.

Two interesting expressions that later came to be used as points of reference were coined in this period. The first – “golden vouchers” – derived from a slogan in advertisement campaigns promoting privatisation: “Make your voucher golden.” In a letter to *Izvestija* in November 1993, a reader asks:

They tell us that if we exchange our [vouchers] for shares in investment funds, we will become owners of state property, and the voucher will become “golden”. Explain how that can be, when a voucher with a nominal value of 10,000 roubles as a result of the inflation now is worth some 20 dollars?<sup>72</sup>

But dividends did not materialise, and the real value of the vouchers became undermined by inflation. The promises that had been made – by the government, and by various private financial companies – boomeranged, as did the expression “golden voucher”. The performance of companies was measured against the expectation of golden vouchers.

Five years after voucher privatisation, during the financial crisis in 1998, the following message was posted to the website of the liberal party *Jabloko*:

So, this circle of promises–fraud, promises–fraud – that is the circle of a dictatorship. This is no better than Stalin’s regime (as I can imagine it). (Mel’nikov 1998)

The message refers specifically to the state bonds, on which the government had just defaulted. But the “circle of promises–fraud” evidently refers to the history of the Yeltsin government’s involvement in attracting and protecting household savings throughout its tenure. This construction of government behaviour suggests that traditional Russian concepts of what the state is and how it operates must have been present throughout the period under review in this study, shaping perceptions of specific actions on the part of the government.

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<sup>71</sup> “Predprinimateli i babuški budut dovol’ny”, *Kommersant*, 03.08.1992

<sup>72</sup> “Otcego naš vaucer možet stat’ zolotym”, *Izvestija*, 20.11.1993

The other expression concerns the elderly women mentioned by Chubais. “Chubais’ grandmothers” (*‘Cubajsovy babuški’*) became a symbol of the ordinary person’s inability to take advantage of the voucher programme. The following is a comment in *Kommersant* following a statement issued by AvtoVAZ, a major car producer, changing the rules for how the company should be privatised. AvtoVAZ wanted to give more shares to its own workers – in particular, to its own managers – and to this end they devised new “principles” for privatisation.

Let’s repeat this unique principle: “Applications seeking to buy less shares than the average number sought by all applicants should not be granted. [...] Let’s imagine that one thousand “Chubais grandmothers” present applications to buy shares for two vouchers each. And then, someone applies to buy shares for two thousand vouchers. The average number turns out to be four – and the women will have brought their vouchers in vain, whereas “someone” collects as many shares as he wants. And there will be no such trickling down of capital as the Supreme Soviet has talked so much about.<sup>73</sup>

Practices resembling those devised by AvtoVAZ eventually became widespread (Andrésen 1998). However, although the shortcomings of voucher privatisation often had to do with malpractice within companies, many people saw the failure of voucher privatisation as the government’s responsibility. Nikolaj, a respondent in Nizhny Novgorod, recalled:

*Nikolaj:* As the people always have said: Before going through with something like that, the government should have explained to people what to do with the vouchers.

*Interviewer:* So no one explained what to do?

*Nikolaj:* No, they handed them out and said: Do what you want with them. Many sold them right away; someone immediately offered to buy them. And now these “someone’s” – Abramovich and all the rest – own everything.

*Interviewer:* So no one told you that you could find a suitable object to invest in?

*Nikolaj:* Perhaps they did, but we didn’t understand. After socialism, capitalism did not really exist for us. (*Interview no. 14*)

In this statement, the government is blamed, even though it is not directly accused of trying deliberately to fool people. This also fits well within a dichotomised understanding of society, where the interest of the people is counterpoised with the interest of the state or of an elite.

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<sup>73</sup> “Priviatizacija Avtovaza”, *Kommersant*, 29.11.1993

The perceived centrality of the state was underlined by the way words connected to the reform programme were captured and transformed by those opposed to the government. Examples include notably the substitution of *prichvatizacija* – a non-lexical word implying grabbing or theft – for *privatizacija* – privatisation. The word *prichvatizacija* had become a cliché already by early 1993.<sup>74</sup> This construct had antecedents to the word *kukuruzacija* – a term used derogatorily to describe Khrushchev’s ill-fated maize campaign. This word reflected the Russian word *kukuruza* – maize – but with the added connotations to the sound made by the cuckoo bird, which also in Russia denotes something stupid or disorderly. This construct, in turn, was used in a fashion resembling Lenin’s famous slogan, “communism was Soviet power plus the electrification of the entire country”, a project which also – or so many perceived – came to naught. The use of the word *prichvatizacija* thus allows for an understanding of capitalism as “democracy plus the theft of the entire country’s assets by a privileged few” – and supports an interpretation of society as a dichotomy consisting of rulers and ruled, and an interpretation of the rulers as incompetent and fraudulent.

Frustrated officials tried to convince people that this was not the case. Commenting on why the price of vouchers was falling, Valentina Cernjavskaia said:

That’s because of ignorance. No one trusts anyone. But mark my words: If current policies remain in place and if the government is not changed, I’ll show people like you what the voucher can do. Anyone who entrusts vouchers to me will become rich. And very soon.<sup>75</sup>

This is a clear attempt to change the discourse on voucher privatisation. It suggests that the dominant discourse, or at least an important one, was that voucher privatisation was a failure.

I have so far attempted to demonstrate that a lack of understanding and acceptance of the processes of inflation and the devaluation of savings made the question of indexation of savings urgent for many Russians. Even those who initially showed some understanding of the reforms drifted towards a more negative understanding as events unfolded and as the consequences were felt directly. The earlier Russian conceptualisation of government as an institution separate from the people, plagued by

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<sup>74</sup> According to journalist Aleksej Tarasov in the article “Prizrak kommunizma voskresae v kraju stalinskich lagerej”, *Izvestija*, 25.02.1993

<sup>75</sup> “Kto mne poverit, to razbogateet”, *Izvestija*, 04.05.1993

incompetence and corruption, was thus revitalised through perceived state practice at the early stages of reforms; and Sberbank was seen as part and parcel of the corrupt state institutions which seemed indifferent to the problems of ordinary men and women.

I started by asking why, in the light of Herbert Simon's theories of "the satisficing man", people who through most of their lives had used Sberbank now came to choose unknown companies with no reputation. Sberbank was seen as defaulting on its moral and financial obligations in this regard; voucher privatisation was generally perceived as fraud; and rampant inflation reduced the value of household savings day by day – under such conditions institutions that addressed these concerns could attract attention, sympathy, and, crucially, money from disappointed depositors. It is therefore likely that many would at least consider alternatives to Sberbank, which had proven unable or unwilling to protect their interests.

The question then became: Who could?

#### *The rise of commercial financial companies, 1992–1994*

As we saw in Chapter 1, the proportion of savings directed to buying dollars and to investment in commercial banks and investment funds increased rapidly in this period.<sup>76</sup> Nina Ivašinenko has ascribed the initial success of private financial companies to "market euphoria" or "market romanticism" (2001: 101; 2002: 38). David Satter describes the companies as taking advantage of "the weakness and gullibility of Russian citizens" (2003: 75). But a fascinating aspect of the early success of commercial companies is how widespread engagement with private financial companies was even among people who did not initially have a positive view of the market. Although such behaviour was perhaps naïve, in the sense that it was built on a simplistic understanding of the situation, popular views of private financial companies were not *automatically*

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<sup>76</sup> The shift to dollars is predicted by economic theory, as seen in Chapters 1 and 2. Dollarisation in such circumstances is also well known from other economically instable countries. Interviews and newspaper articles confirm that Russian households used dollars to avoid devaluation of rouble holdings, because the dollar was seen as stable and safe in this period of rapid inflation and political instability. Thus, motivations conform to rational choice, and people's perceptions of the risks and profits involved in dollars and rouble savings respectively conform to those of economists. I shall not, therefore, deal extensively with dollars as an alternative to Sberbank before 1995. More surprising is the fact that dollarisation continued and accelerated *after* the 1995 stabilisation programme; this will be dealt with in Chapter 7.

positive. I here offer an alternative explanation of why people still engaged with the financial market.

*Between a rock and a hard place?*

When private financial companies appeared in the late Soviet state for the first time in more than 70 years, they could not draw on a golden past to inspire trust. Russian history had not portrayed private banks and bankers favourably. Bankers were distrusted in Tsarist Russia, and did not exist in the Soviet understanding of the economy. Economic historian Alexander Gerschenkron wrote about banking in the late 19<sup>th</sup> and early 20<sup>th</sup> centuries:

(...) the standards of honesty in business were so disastrously low, the general distrust of the public so great, that no bank could have hoped to attract even such small funds as were available (...) (Gerschenkron 1962: 19)

That commercial financial companies did not enjoy any automatic, euphoric trust at the dawn of the post-communist state seems apparent from an interview with the chairman of the financial company *Russkij Dom Selenga*, Aleksandr Astanin, in the Moscow-based newspaper *Tribuna*:

*Russkij Dom Selenga* not only has never ever planned to fool anybody – on the contrary, in April of last year we indexed the deposits of the population by 30%. And spare resources we invest in property and other assets that you simply cannot transfer abroad.<sup>77</sup>

It is interesting to note how two aspects of the company's activities are highlighted: That the company indexes savings; and that it invests in property, and thus cannot transfer money abroad and steal it. Such a comment would make sense only in a context where the question of indexation was a big concern, and where people feared that financial companies would steal their money by transferring it abroad. The question of indexation has been raised above; it was a natural concern given rising prices, and its prominence in discourse could thus be related to events experienced at the individual level. But why did people fear that financial companies would steal their money and transfer it to foreign bank accounts?

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<sup>77</sup> "Intervju Asleksandra Astanina predsedatelja soveta direktorov "Russkogo Doma Selenga"", *Tribuna*, 12.04.1994

At the time of Astanin's comments – April 1994 – there had been few bankruptcies among banks, and few clients had therefore suffered from possible fraud (Spicer & Pyle 2003: 14). Such perceptions would thus have had to be shaped not by personal experiences on the financial markets but by public and personal discourse.

Both the question of criminal activity linked to money in foreign bank accounts and the question of fraudulent bankers existed even before commercial banks started collecting household deposits in earnest in 1992 – although they had not been directly linked. In 1991 and 1992, the press wrote a lot about the billions of dollars presumably held by the Communist Party abroad. Money abroad was subsequently closely associated with criminal activity, and arguments to the effect that ordinary, non-criminal citizens or companies held money abroad were in need of explanation:

According to various estimates, Russians hold between 7 and 25 billion dollars in foreign bank accounts. But contrary to public opinion, it is not first and foremost the mafia that keeps money in foreign banks. Ordinary Russian companies, obtaining currency profit from foreign trade, make up the majority of the owners of foreign bank accounts.<sup>78</sup>

It should here be noted that many of the largest newspapers did not always give much voice to the crudest popular perceptions of economic actors. It is therefore not surprising that there are few statements directly saying or implying that bankers almost by definition are criminals. Those newspapers that did reflect these attitudes tended not to write much about the banking sector – the rural newspaper *Sel'skaja Žizn'*, for example, provides abundant examples of negative perceptions of all trading activity (“posrednicestvo”). One farm worker wrote to the newspaper:

I support those who get rich through honest work. But I'm against those who produce little themselves, and earn their money (...) through buying and selling. The Russian nation hates such people, and the government defends them.<sup>79</sup>

Similar sentiments were expressed in interviews when I asked respondents how they viewed the new commercial structures following Yeltsin's reforms. Svetlana, a musician from Moscow, explained:

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<sup>78</sup> “Ukrytie rossijskimi predprinimateljami i castnymi licami valjutnych sredstv za granicej priobretaet massovyj character”, *Rossijskie Vesti*, 24.12.1992

<sup>79</sup> “Stroki iz pisem”, *Sel'skaja Žizn'*, 16 October 1992. See also Andresen 2003: 45.

People started making money, as we say, out of thin air. And these air-traders were associated with the new regime. I even remember a friend of mine... an acquaintance, who already as a 14-year-old bought himself a car, although he lived with his mother, who was a pensioner, it was obvious that he didn't get the money from her. In his spare time he was involved in business – bought some sort of boots, and resold them to the girls in school under different labels. They had a stamp: Made in Italy, but were probably made in some basement somewhere – and not by professionals. People could not even trust the goods they bought. (*Interview no. 1*)

In Svetlana's understanding, private business placed itself squarely on the wrong side of the dichotomy *us/ them*. Bankers were commonly seen as the most prominent among the new business elite; the best known of the later oligarchs, Mikhail Khodorkovsky, for instance, started his career with the bank Menatep. If people did not trust state financial institutions, why should they trust the new commercial structures?

#### *Identifying with ordinary people*

But it seems that the success of financial companies depended on their ability to make people identify with them to a certain extent. The government failed in communicating a concern for the everyday problems of people. How, then, did some companies succeed in building an image that led people to trust that their services would help them solve their mundane problems?

An article about the commercial bank Toribank, one of the first banks to accept household deposits, can serve as a point of departure: On 3 November 1992, the newspaper *Kommersant* published an article about an indexation that had taken place the previous day.<sup>80</sup> The director of Toribank, Andrej Želamskij, commented:

The indexation aims to defend the little that people have managed to save up during their lives.<sup>81</sup>

This echoed very well one of the main concerns for people otherwise sceptical to the financial system: The threat that inflation posed to their life savings. Aleksandr Astanin in *Russkij Dom Selenga* followed the same strategy responding to the concerns of the population, as we have seen above.

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<sup>80</sup> 'Indexation' in this case meant that the bank added a certain value to deposits, in theory linked to inflation, but, as it did not reflect inflation directly, it was distinguished from the normal interest rate mostly at the rhetorical level.

<sup>81</sup> "Toribank opjat' indeksiroval vklady", *Kommersant*, 03.11.1992

In an interview with *Izvestija* in March 1994, Sergej Mavrodi, the president of MMM, the most successful commercial financial enterprise of the day, took a similarly clear stand concerning indexation:

When the rouble exchange rate is falling constantly, talk about dividends “paid according to the results of the financial year” is useless for people, because the value is eaten by inflation.

That’s why we have decided to index the price of our shares – twice a week we gather the board, and on the basis of the results of the company for the previous period we establish a new price. And this price is guaranteed (...). I want to stress that we are not talking about some abstract “market price of the share”, which God knows who is going to pay in the market place, as no one usually wants these shares. We’re talking about a completely real price that we guarantee and at which we buy without making trouble at any time.<sup>82</sup>

The phrases in inverted commas mimic official rhetoric concerning the voucher privatisation scheme. In an interview with *Pravda* in November 1993, Sergej Mavrodi scorned voucher privatisation, claiming that most investment funds were managed by amateurs. For this, he faulted not so much business as the government. When choosing where to invest, he admonished readers, the important thing was that the leader of the company should be competent and honest.<sup>83</sup> Interestingly, Toribank was owned partly by MMM.<sup>84</sup> That these companies evidently succeeded in getting portrayed as being concerned with the well-being of ordinary people suggests that they understood the discourses of many people better than the government.

#### *Advertisement campaigns*

Mavrodi, Želamskij, Astanin and others tried to appear in interviews as business leaders who were truly concerned about the misfortunes of the people. But sporadic appearances in newspapers with limited circulation could hardly have resulted in a thorough change of the discourse, so the big financial companies had broader marketing strategies. The most successful, best-known advertisement campaign was that of MMM. Even though it was not actually registered as a bank, for the remainder of this chapter I will concentrate on MMM, because it seems to have been central in shaping perceptions

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<sup>82</sup> “Prezident ob’edinenija “MMM” Mavrodi S. P.”, *Izvestija*, 04.03.1994.

<sup>83</sup> “Interv’ju izvestnogo predprinimatelja, prezidenta ob’edinenija “MMM” S. P. Mavrodi”, *Pravda*, 05.11.1993.

<sup>84</sup> “Toribank postavil na castnych lic”, *Kommersant* 20.01.1992



of the banking sector in general – precisely because it was so successful, and so well-known through its advertising campaigns.

How and to what extent did MMM succeed in being identified as a trustworthy defender of the people and their savings, or otherwise as a profitable and attractive savings alternative? Excerpts from an interview with Bachyt Kilibaev, director of the TV commercials that formed the backbone of MMM's advertisement campaign, made just before the crash of MMM in late July 1994, can serve as a point of departure for such a discussion:

Before [our film people started making commercials], there existed certain professional standards, defined by the development of the American advertisement tradition. (...) Western television commercials were based on certain technologies, which we didn't have. And everyone then tried to do whatever he or she could to achieve the same standards, without the necessary technology. (...) But such work is directed towards professionals or towards those who ordered the commercial. (...) They say: "This – this is first-class material, this is America!" In MMM, we're doing something principally different.<sup>85</sup>

Interestingly, this notion of other commercials somehow not connecting with, even not being directed towards, ordinary people is mirrored, and taken to the extreme, in Viktor Pelevin's novel *Generation P* from 2001, which has gained status as one of the novels that best capturing the generation coming of age during the late 1980s and early 1990s. The following dialogue between the boss of an advertising agency and an employee shows how the advertising business could be perceived:

– And then, why do people advertise here in Russia?'  
Tatarskij shrugged his shoulders.  
– Go on, tell me what you think.  
– To sell their goods?  
– To sell their goods – that's in America.  
– Well, to feel cool, then.  
– That was three years ago. Now, our client wants to show the big guys, who follow closely what's going on both on TV and in real life that he has a million dollars to throw away as garbage. The worse the ad, the better.  
(Pelevin 2001: 124)

The most interesting quote here is "to feel cool" – identified by Tatarskij as the dominant motivation for advertising among businessmen a few years prior to the events in the novel, which is set in the late 1990s. To be sure, this is not evidence of the actual

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<sup>85</sup> "Ja i Lënja Golubkov – takie, kak vse", *Segodnja*, 09.08.1994

motivation of business people, but it spells out in a very direct form how the whole phenomenon was perceived or could be perceived by some intellectuals of the time. A similar perception of how the advertising world related to customers led Kilibaev to contemplate the nature of his audience:

I started thinking: 'Who are these people? How can I communicate with them?' And I understood: No one has ever engaged with them. It is like these people don't even exist for our mass media.<sup>86</sup>

This is not the place to explore whether Kilibaev's evaluation of the media's attitudes towards ordinary people in Russian history is correct. The important point here is how these commercials were perceived. Were MMM and certain other financial companies able to earn themselves a place on the right side of the dichotomy relating to state and people? What aspects of their commercials could contribute to such a result? First of all, what did the best-known commercials actually contain?

Kilibaev wanted to create a person people could identify with. The MMM commercials featured a man called Lënja Golubkov, his brother Ivan and some friends. Svetlana, who was a teenager when the commercials first appeared, recalls:

Then you had this commercial – Lënja Golubkov. He was sitting there, perhaps with a friend, saying that the price of MMM shares had gone up by this or that much... And on the next clip, perhaps he returned from the United States, or he was sitting there with a girlfriend, everything from this money. Everyone watched these commercials. (*Interview no. 1*)

Sergej Mavrodi, president of MMM, offered his evaluation of the extent to which people identified with Golubkov and the other characters:

The very well-received characters of the MMM commercials are not actually imagined. The thousands crowding at Warsaw Chaussé [*the main office of MMM*] – they *are* Lënja Golubkov, his brother Ivan, the lonely Marina Sergeevna, the students Julija and Serëža or the pensioners. This is not only a small segment of the population; it is today the majority. And that is why President Yeltsin's phrase about "this Lënja Golubkov that I'm so sick and tired of" is insulting to people, and that is why they react to Prime Minister Chernomyrdin's vow to deal with the same Lënja with anger: Deal with whom? With us?<sup>87</sup>

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<sup>86</sup> "Ja i Lënja Golubkov – takie, kak vse", *Segodnja*, 09.08.1994

<sup>87</sup> "Zajavlenie prezidenta "MMM"", *Izvestija*, 20.04.1994

Coming from the president of a company, such a statement might be unsurprising. However, the identification with Golubkov and the estrangement from the government was mirrored in statements from investors in the company. The following account comes from an old woman in a letter to Mavrodi, printed in *Izvestija* in August 1994.

Highly respected Mr. Mavrodi, Sergej Panteleevic!  
I am an old friend of MMM, I believe in MMM, and MMM has now helped me buy a fridge. I was planning to buy a washing machine and a TV – although not quite as big as the ones Lěnja Golubkov bought.

(...) I'm appalled that starting from our president and ending with those journalists, people harass MMM, both orally and in writing.

(...) On the 26<sup>th</sup> of July, when this new attack on MMM started, I bought 20 tickets for MMM, costing 24 000 roubles, just in spite!<sup>88</sup>

The logic that connects a company's image of relating to the very concrete, very mundane concerns of ordinary citizens to the decision-making processes that lead them to entrust their savings to commercial institutions, is also suggested by another letter to the president of MMM, written by a pensioner from Moscow:

Greetings, MMM!  
My wife and I are pensioners. First of all, we trust MMM 100%, and believe that what the company does is necessary, great and just. Especially for us pensioners. Judge for yourselves. Until the 1st of January 1992, my wife and I had enough money "on the book" [a reference to the Sberbank bank book] to pay for decent funerals for both of us (it is necessary to think of this in time). And then the so-called reforms took everything. They robbed us.

In March of this year I heard the commercials for MMM. I believed them, and bought a few shares. And I wasn't mistaken. Today, in July, my wife and I again, thanks to MMM, have the means required for the purposes explained above. We are sincerely grateful to MMM, we believe in you and hope for the best. (...) <sup>89</sup>

This quote comprises both the dichotomy between the state and MMM – interaction with the state associated with theft and interaction with MMM associated with the restoration of dignity, and of the importance of commercials for associating the resolution of the everyday problems of ordinary people, and MMM. This association to resolving problems featured in what became the most known slogan for MMM: "MMM – no problem" (MMM – *net problem*, which rhymes in Russian). The slogan was virtually

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<sup>88</sup> "Pis'ma v "MMM"", *Izvestija*, 20.08.1994

<sup>89</sup> "Pis'ma v MMM", *Izvestija*, 06.08.1994

ubiquitous, being played even when people dialled 100 to get the exact time, together with the latest prices of the MMM shares (Satter 2003: 77).

These news articles are so favourably disposed towards MMM and its president that one could have suspected the letters of being false – written, perhaps, by MMM officials or planted in the newspaper. In fact, there is little reason to suspect anything of the sort. Interviewing people in the queues outside MMM's main office in Moscow in the spring of 1994 as part of her sociological fieldwork, Ol'ga Kuzina overheard the following comment on 16 June:

The state cheats and has always cheated, we can't expect anything good from the state, but here there are people who want to and who are able to help. That's why I took everything I could here to buy shares in MMM, and I don't regret that for a second. (Kuzina 1999)

A month later, she heard the following comment, which further underlines the differing ability on the part of the state and of MMM to communicate trustworthiness to the people:

MMM officials explain the situation so we can understand it – the government never does that. (Ibid.)

Thus it seems reasonable to believe that the letters posted in *Izvestija* are authentic expressions of how people thought. My respondent Stanislav, who was critical to MMM, also accepted that Lënja Golubkov was indeed a symbol that people could identify with:

Lënja Golubkov – that was... a good trick for those who organised it. I remember... it was this Mavrodi, wasn't it. Golubkov, that's a name I do not like, because our people believed in this company, because he was such an ordinary guy, ready to invest his money there. (Interview no. 5)

And some members of the government used Lënja Golubkov as an example of ordinary men and women. Discussing the lack of a sound legal basis for financial companies such as MMM, foreign minister Andrej Kozyrev<sup>90</sup> promised:

...the population, Lënja Golubkov, should not suffer from the lack of a legal basis, the situation in MMM should not be dramatised or politicised.<sup>91</sup>

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<sup>90</sup> Why it was the *foreign* minister who commented on these matters remains outside the scope of this study, though I am sure it reveals *something* about the Russian polity and economy.

<sup>91</sup> "AO "MMM" pogibaet, no ne sdaetsja", *Segodnja*, 29.07.1994. However, at the same time, the Deputy Prime Minister Sergej Šachraj declared that "easily earned money is always risky, and the government cannot take responsibility for shares in unregistered companies."

In the article, the journalist reports that the government has decided to take steps to prevent their actions against MMM from having negative consequences for ordinary “Lënja Golubkovs and Marina Sergeevnas” – the plural of these two most prominent characters of the commercials, “ordinary people” (ibid.).

Let me provide one slightly more extended example of the circumstances in which individuals were motivated to invest in MMM: Pavel (*interviewee no. 4*) was one of those who invested in MMM. In an interview with the author he related how he came to put his money there, and how he subsequently viewed commercial banks and information about them. By the early 1990s Pavel had amassed considerable savings, especially because there had been little to spend his money on as a result of the increasing shortages on basic products in the late 1980s. These savings were lost in the Pavlov reforms, when the government limited the exchange of old rouble notes to 500 roubles.

Well, what can one say? We were used to that stuff. My parents were in their time forced to buy state bonds, this was during Stalin, and I remember from my youth different money reforms – not to our advantage, I'll tell you.

Pavel was 47 years old at the time, and worked as an engineer in a state factory. Facing falling real wages and rising job insecurity, Pavel decided to start independently as a taxi driver. For this, he had to buy a car, and needed both to save the little money he had and to borrow. It was at this time that the financial company MMM appeared, with a commercial campaign promising high returns. Pavel explains his attitude to the commercial thus:

At that time, just out of inertia, we still believed what they said on radio and television. With some doubts, perhaps, but... I still trusted it, a habit from Soviet times.”(*Interview no. 4*)

It might seem surprising that people trusted mass media in Soviet times, given that the communist press inspired the “In *Pravda* (which translates “truth”) there is nothing true, in *Izvestija* (which translates “news”) there is nothing new.” To be sure, some people were sceptical. But whereas many would, perhaps, be sceptical to political statements, it seems that certain kinds of mundane information were deemed reliable. It should be noted that Pavel did not trust or take into consideration all the information that was available in the mass media at the time. As suggested in the following, analysts knew full well that MMM was not a sound financial company, and the respected newspapers

*Izvestija* and *Kommersant* both ran pieces to this effect before the crash of MMM.<sup>92</sup> Of course, Pavel might not have read these pieces. But it is likely that many who were aware of this information simply trusted the information in the commercials more, perhaps because the language of MMM more closely resembled their own views than government or expert information, which to many was discredited by what they saw as the cynical approach of Gaidar's team.

These successful commercial campaigns aimed at creating identification and appealed more to emotions than to rationality. MMM became by far the largest of the commercial financial companies of the day, although it is difficult to estimate exactly how big. But there were also advertisement campaigns focusing less on identity and more directly on profits. AKB Mosimportbank, for example, ran ads in the newspaper *Nezavisimaja Gazeta* on a semi-daily basis in the spring of 1994, promising 30,000% annual interest rate on deposits.<sup>93</sup> The content of the ad was simply:

AKB "Mosimportbank": Licence No. 2165. Deposits on demand – the most profitable allocation of capital today: 30,000% annual interest rate – for your children and grandchildren on the threshold of the 21<sup>st</sup> century.<sup>94</sup>

Such "rational" ads were by no means more reliable than their more emotional counterparts. The ad does not reveal, for example, that the figure 30,000% is *not* the interest rate a depositor would receive in one year; it is the compound interest rate paid on ten-year deposits *without* adding interest every year, and the ad is thus highly misleading. Moreover, the bank itself was not much more reliable than the financial companies described above: It had its licence revoked on 3 November 1995, which marked the beginning of a long bankruptcy procedure.<sup>95</sup> This was the kind of ad that would appeal to naïve individuals suffering from market euphoria. But I hope to have shown above that many of the successful financial companies succeeded by connecting to people *not* by exploiting their naïve belief in the new market economy, but rather by presenting themselves as guardians that people could trust and identify themselves with in a time when the state was failing to deliver on its perceived obligations.

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<sup>92</sup> "Sverchdochodnye vloženija", *Kommersant*, 29.03.1994, "P'janyj gost' na vašej krovati", *Izvestija*, 18.03.1994

<sup>93</sup> *Nezavisimaja Gazeta*, 06.04.1994–24.06.1994.

<sup>94</sup> For example *Nezavisimaja Gazeta*, 05.05.1994, p. 7.

<sup>95</sup> "Mosimportbank i "Industria - Servis" - bankrot", *Segodnja*, 15.09.1997

### *Voices of caution*

On the other hand, not everyone believed in these advertising campaigns. Examining discourses that were critical of the dubious financial companies provides a contrast and a better understanding of those that were not. Some commentators have argued that there were few warnings in the newspapers regarding the incredible promises made in commercials. Especially for the spring of 1994, I believe to have found enough articles critical of these commercials to remain unconvinced that such information was unknown to those who nevertheless chose to disregard it. An investment expert commented to *Izvestija* during the advertising campaign for AKB Mosimportbank described above:

Don't rush to invest your money, especially if they promise you 30,000 percent interest rate. People call in to our desk almost every day to ask: Where should we invest our hard-earned money?<sup>96</sup>

In January 1994 the financial newspaper *Finansovye Izvestija* published an article by Michail Charšan, chairman of the board of the financial company *First Voucher Fund*. Charšan wrote:

In 1994, after mass bankruptcy among smaller funds, and scandals because of the expectations of shareholders in the companies who have promised their clients the earth, we should expect major structural changes in the operation of investment funds, a more civilised behaviour and openness among those who are in the market for the long run.<sup>97</sup>

Charšan was candid about which companies he thought risked bankruptcy or scandals:

The unheard marketing expenses have made “Moskovskaja Nedvizimost” (“Moscow Real Estate”), “MMM” or “Neft’almazinvest” more famous than, say, IBM or Macintosh, which is quite ridiculous.

[These investment funds] often use marketing tricks that are completely inadmissible in the civilised world, and that amount to fraud, promising their shareholders 750% or 1,000% annual interest rates. These tricks have remained within the law, but they are morally completely unacceptable.

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<sup>96</sup> “Cudes v bankach ne byvaet”, *Izvestija*, 09.04.1994

<sup>97</sup> “Bor’ba za castnogo vkladnika v minuvšem godu osnovyvalas’ na mošennicestve”, *Finansovye Izvestija*, 13.01.1994

The views expressed by Charšan were not exceptional. In an interview in *Izvestija* in March 1994, Mark Masarskij, president of the Council of Entrepreneurs under the Mayor of Moscow,<sup>98</sup> warned people against getting involved with MMM:

- If friends or family ask me where to invest their voucher (...) I answer them: Put the question more simply: Don't trust someone who promises you 50% interest rate in three days! Do you remember the following commercial: A woman who doesn't trust anyone, bought shares in MMM, returned three days later and got one and a half time her money back. In three days!
- So you say this is plain fraud?
- It's insane fraud!<sup>99</sup>

Financial analysts understood well that MMM was a pyramid – however, they did not necessarily warn against participating. In an overview of investment opportunities *Kommersant* commented on the promises MMM gave in their commercial thus:

As soon as a large chunk of the shares are sold – that is, when the original source of the pyramid is gone – the price of the shares will, in the best case, stabilise, or go into steep decline. (...) But then you have the reserves in the periphery. It is still early to expect the end of the game, and it should be possible to make money on the advertising-driven rise in the price.<sup>100</sup>

This reasoning is reminiscent of what Belianin and Issoupova dubbed “sophisticated players” in the financial pyramids – those who realised that MMM and other companies were pyramids eventually doomed to crash, but believed they could beat the system.<sup>101</sup>

What made people willing to participate in pyramids even if they realised the companies actually were fraudulent, and their commercials were inaccurate or plain lies? An example is perhaps provided by one respondent, Alla, a young mother in the early years of reforms. Alla's husband had lost large sums in MMM. She was herself “categorically against it, knowing that money is not made of thin air” (interview no. 9), but her husband, a mathematician by training, tried to find the right moments for entry and exit – just like the “sophisticated players” described by Belianin and Issoupova.

Alla said that she and her husband saw commercials as objects of art rather than sources of information. That Alla did not, as Pavel quoted above, “out of inertia” believe the commercials, is not explained by her profound knowledge about the financial

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<sup>98</sup> Russian: *Sovet predprinimatelej pri Mere Moskovy*

<sup>99</sup> “P'janyj gost' na vašej krovati”, *Izvestija*, 18.03.1994

<sup>100</sup> “Sverchdochodnye vloženija”, *Kommersant*, 29.03.1994

<sup>101</sup> Cfr. Chapter 2. People knowing they were participating in a pyramid are also described by Kuzina 1999.



market – before this she had worked as a florist, and had been at home with two children – but by the fact that she had never believed what was said on television, especially not in Soviet times. Alla had long dreamt about a new regime, because she saw the old one as corrupt, oppressive and manipulative: “I spent my youth in the Soviet regime, and it seemed then that this would last for ever, that it would never end; and suddenly it was ending, it was so exciting, so joyous”. Still, asked what hopes she nurtured for the future during perestroika, this “exciting and joyous time”, Alla answered calmly that she “nurtured no such hopes, we were adults, we understood that this was going to be very difficult.”

Embracing the new opportunities, she took courses in the fashion industry, but found out that the market for this outside Moscow was limited, and she was jobless for a while. Still, her story was not one of broken promises, as is so widespread in Russia, because she did not have any high hopes that could be dashed. Similarly, she did not see her husband’s loss in MMM as fraud; he was a mathematician, he gambled and lost – “he was a grown man, and should decide for himself.”

Alla’s husband thus was the prototype of the “sophisticated player”. It seems clear that the motivation for those who participated in MMM, knowing it was a pyramid, was consistent with that postulated by neoclassical economics: To maximise returns on investment. The article in *Kommersant* above explicitly aims at locating investment opportunities that balance risk and profit. However, it is not equally clear that their decisions were made according to rational choice. Belianin and Issoupova find that, at least in the “game” constructed in their model, they are unable to demonstrate that the behaviour of the “players” is substantively rational, because there are no circumstances under which participation is optimal. “Those who succeeded in playing this strategy”, they note, “did so only by *luck*.” (Belianin & Issoupova 2001: 27) Their research proposal for dealing with this paradox was, as we have noted, to look for further economic incentives that would render participation rational.

However, a less dogmatic attitude to rational choice theory opens for an alternative representation of decision-making. When does one stop looking for or calculating information? A possible interpretation is that rather than making a conscious decision in that regard, attention was simply focused on variables that seemed important, because they intuitively seemed relevant, and because they were present in the public space. One

such variable could have been total participation throughout the country, or as the article in *Kommersant* put it: “But then there are the reserves in the periphery.” The “sophisticated” discourse was thus completely different from the discourse focusing on identification described in the previous sections.

However, even people who neither believed in MMM nor had high thoughts about their own chances to “beat the system” placed their money there. Boris, a former engineer who had turned to private business in the early 1990s, had lost large sums in the Pavlov reforms, as a consequence of which he according to himself lost faith in the financial system. He similarly took a negative view on the prospects of MMM:

It was clear right away that this was not going to last. (*Interview no. 24*)

Nevertheless, Boris bought shares in MMM for his voucher money. But when I asked him if he bought the shares in an attempt to beat the system, he replied:

No, absolutely not... But there were no other options out there – and we had learnt the lesson from the Pavlov reforms... You had to put your money somewhere.

One final aspect of Boris’ statements deserves mentioning: When saying that the Pavlov reforms had taught him that he needed to put his money *somewhere*, he evidently did not consider Sberbank. Such disastrously low levels of trust in Sberbank led Boris to invest in a company he did not trust, perceiving it at least comparatively safer.

A widespread myth about Russian economic behaviour is that it is risk-averse. According to the theoretical foundation for this analysis, it is not meaningful *per se* to say that Russians are risk-averse; risk aversion cannot be distinguished from concrete experiences and circumstances, and it might be that circumstances rather than culture have made Russians cautious. At any rate, the behaviour described in the previous paragraph seems paradoxical if Russians are assumed to be risk-averse: Putting your money somewhere you know there is a good chance you will lose everything does not fit with that paradigm. Economic psychologist Daniel Kahneman (2002) has suggested a psychological mechanism that could explain this paradox: People are much more prone to take risk when the default option – the result of doing nothing – is lower than what they already have. If the default option brings some gain or leaves you with what you have, your willingness to take risk decreases significantly. This can explain why people

were willing to take greater risk when inflation was high, viewing MMM as an attempt to “win back” the inevitable losses that ensued from inflation.

## **6. From MMM to Sberbank, 1994–1996**

The pessimists were right. On 29 July 1994, MMM crashed. *Russkij Dom Selenga* reneged on payments in August, and others followed suit during the summer and autumn. Estimates vary, but tens of millions of Russians were directly affected, losing virtually all the savings they had deposited with these companies.<sup>102</sup> Simultaneously, there was a significant negative shift in the proportion of household savings going to commercial financial companies.

### *The collapse of the financial pyramids and its consequences*

The directly affected by the collapse of obscure financial structures amounted only to a relatively small proportion of the population. Ivašinenko finds that some 5% of the population of Nizhny Novgorod, for example, were directly affected, a figure that could perhaps be multiplied by three to take account of the families of those affected (Ivašinenko 2001: 41). Two questions arise: What were the effects of these crashes on the rest of the financial sector? And how did they affect people who did not suffer directly from them?

### *Commercial banks? You mean MMM and that stuff?*

The scandal around MMM seems to have tainted the entire banking sector. Furthermore, the fall of the financial pyramids – MMM in particular – changed the whole discourse on banks and the financial sector. Furthermore, as we shall see below, it changed the perception of commercial ads as well. Why did the fall of a company that was not even formally registered as a bank have such a wide-ranging effect? For one thing, this distinction was unknown to many Russians, as indicated by the following excerpt from an interview with a young woman from Moscow:

*Svetlana:* People stopped trusting banks.

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<sup>102</sup> It could seem nonchalant not to scrutinise the figures more at this point. However, the “facts” in this sense are not the concern of my argument in this chapter.

*Interviewer:* When?

*Svetlana:* After MMM, I think.

*Interviewer:* Why? MMM was not a registered bank?

*Svetlana:* (*Uncertain*) I don't know, are you sure it wasn't a bank?

There were probably many who did not know the difference between various kinds of banks. This information could be found in the newspapers, but to many the legal distinctions were unclear. Furthermore, the voices of caution reviewed above were often not heeded in any case. But even if MMM were considered to be a bank, could there not be other more honest players in the market? The following excerpt from an interview with Vladimir suggests that this question was often not considered seriously at all:

*Interviewer:* Do you remember the appearance of the first commercial banks in Russia?

*Vladimir:* Not very well... You're talking about MMM and companies like that, right?

*Interviewer:* Well, yes.

*Vladimir:* Financial pyramids... I have never trusted banks, ever. And when this robbery of the people started... It is better to keep your money in Sberbank, that is, in state structures rather than in commercial structures.

(*Interview no. 8*)

MMM could not only be *seen* as a commercial bank; it became the very *symbol* of commercial banks. MMM received the most attention both in media and in public discourse. When thinking about whether or not to deposit money in a commercial bank, the image that came to mind would, in this reasoning, be that of enraged defrauded depositors massing outside MMM's main office at Warsaw Chaussé 26.

Of course, there were also those who knew the difference between financial pyramids and real commercial banks. Aleksandr was one of them; he explains why he still did not trust banks:

How can I explain? The thing wasn't that I distrusted them: But the only thing we heard was this bank crashed, another went down, a third one was a pyramid. (...) Even if I wasn't defrauded, there was not trust either.

(*Interview no. 17*)

Aleksandr found that in the chaotic information situation, it was difficult to know for sure which bank was real and which was a pyramid. But since he had not suffered directly himself, his impression of banks seems to come from public discourse – or, as he puts it, such information was “the only thing we heard”. In other words, his view of

banks was in this respect stereotypical: He substituted stereotypes for the specific information he did not have.

In this context, jokes and anecdotes constitute possible sources, because they often use stereotypes which do not work unless people recognise them. Let me therefore refer to jokes that were told by Pëtr, a retired police officer from Nizhny Novgorod, as a response to a question about how the crash of financial pyramids affected trust:

- I would like to open an account in your bank. Whom should I see?
- A psychiatrist.

Another anecdote highlights the Russian love of punning:

- Where do you have your money?
- In a bank, of course.
- Which bank?
- In a piggy bank in my bedroom.<sup>103</sup>

These jokes seem to reflect a mental world where putting money in a commercial bank is simply ruled out as an alternative. But some people kept on using commercial banks. I distinguish between those who continued to use commercial banks even though they belonged to the discursive paradigm just described; and those who had an entirely different conceptualisation of commercial banks.

Pëtr serves as a good example of the first category. Having said twice that he did not have contact with commercial banks, it emerged that he had used a commercial bank, NBD Bank, precisely at this time - 1994-1996 - for making currency deposits in Deutsche Mark.

I put aside money in a bank, in Deutsche Mark, because that would help me obtain a visa to Germany. It was in NBD Bank. The bank went in some years later, during the August crisis in 1998. I lost some money, but there wasn't much left at that time. (...) I chose NBD Bank because their headquarters are right next to me at work, and a lot of our guys, policemen, have started working there as guards. It's just the most convenient. But in general, I try not to have anything to do with banks. (*Interview no.11*)

That this justification for involvement with commercial banks could have been quite widespread is suggested by a survey from Nizhny Novgorod, albeit from 2001, where

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<sup>103</sup> Ibid. The Russian original here is slightly different: In Russian, the word 'bank' means "bank", whereas the word 'banka' means jar. In the grammatical form in which they are used in the anecdote - the prepositional - they are identical.

32% of those who had bank accounts said that they were forced to have one in order to receive their pension, salary or other transfers. Only 11% said they had bank accounts because it was profitable. (Ivašinenko 2002: 162) Thus, a sceptical discourse on commercial banks did not automatically preclude any cooperation with such banks; other concerns could override that scepticism. However, it also seems clear that even to many among the sharply diminishing proportion of the population who deposited their savings with commercial banks, trust in these institutions remained low or non-existent.

*Here in Russia, they only advertise the worst products*

Let me return to Pavel from Chapter 5, who had invested in MMM. How did the crash affect his views on the financial sector? Pavel was lucky. It so happened that he cashed in his shares to buy a car before the pyramid crashed – and got three times as much out as he had put in. However, he had many friends who lost large sums.

Well, a lot of financial structures went down around that time, and we started to be a bit more critical towards commercials. Life has taught us this much: They always advertise – here in Russia, at least – the worst products. It's because it wouldn't sell otherwise. (*Interview no. 4*)

As discussed above in Chapter 2, Andrew Spicer and William Pyle have proposed that the MMM crash led to the erosion of trust not only in the banking system, but also in the use of commercial ads as a source of reliable information. Which processes can have made for such an outcome? In Chapter 2, I also referred to the finding of Russian economic sociologist Denis Strebkov, that previous experience in the financial market could predicate current views. However, Pavel's case offers us an opportunity to reconsider the causal mechanisms relating past experience and current views, because his views, as expressed in my interview with him, in many respects are the opposite of what one should expect if one considered only Pavel's own experiences in the financial market: He lost his savings in the Pavlov reform, and he benefited from his interaction with MMM, a commercial financial company. Still, when asked what he associated with the word "commercial bank", he answered without hesitation: "An unreliable bank". Similarly, Pavel's view of commercials as promoting the worst products is not readily understandable in terms of his own experiences, as he personally got what was

promised from MMM; and, he said in the interview, he could not remember any other commercials for bad financial products.

It should immediately be pointed out that Pavel's views are more complex. He saw private business as the prime mover in society, and commercials in general as "the prime moving force in the economy". But he found that commercial ads were advertising the *wrong* products:

Well, commercial ads are the engine of trade. But I think that, here in Russia at least, they only advertise the worst products. Because people don't buy them otherwise.<sup>104</sup>

Still, the question remains how Pavel came to feel such distrust in institutions from which he had not suffered any loss, whereas he actually had regained some trust in institutions where he believed he had suffered. How did the fraudulent commercials, or bank malpractices, translate into distrust on the part of the population? There was, of course, considerable fraud, bankruptcy and other economic shocks. However, confidence in these institutions could also be disastrously low both among those who had never had contact with them, and among those who had, but had not suffered, such as Pavel. The hypothesis that an individual's experiences from interaction with the system suffice to explain his relationship to it therefore seems suspect.

Ol'ga Kuzina has argued that trust is developed as a result of personal experiences and of communication and language in the public sphere. In this context, a Russian joke which I heard from a 44-year-old journalist, Vjaceslav, in the aftermath of the MMM crash, can perhaps be informative:

So, Lěnja Golubkov dies, and meets Saint Peter at the gates of heaven. Saint Peter asks: "Where do you want to go, hell or heaven?" Golubkov answers "I don't know, can I have a look at the two places before I decide?" Saint Peter nods, and takes Golubkov to heaven, where he sees choirs of angels praising the Lord. "Hmm, I don't know" – Golubkov watches the praising sceptically; "What is hell like?" The two men walk off, and Saint Peter shows Golubkov hell: Dancing women, barely dressed, wine and food as much as you please, relaxation under palm trees. "I choose hell," Golubkov finally decides. "As you wish," replies Saint Peter.

Suddenly Golubkov finds himself in burning sulphur, with forks sticking his aching body, while the screams of tortured men and women penetrate his ears. "What is this?" he shouts to Saint Peter, "this is not what I was

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<sup>104</sup> Interview No. 4. Russian: 'U nas reklamirujut samyj plochoj tovar' which translates: "It is the worst products that they advertise here."

shown!" "What you were shown?" replies Saint Peter scornfully. "That was just the commercial, stupid." (*Interview no. 10*)

The idea that commercial ads mostly advertised bad products which could not otherwise hope to be sold – a view reflected in the above anecdote – was found among several of my respondents. The following statement is an excerpt from the interview with Julija, a business woman described above in Chapter 5. Her understanding of commercials is strikingly similar to that offered by Pavel:

I know that commercial ads are the engine of trade – but that's the trade of goods that are too old, that don't sell, goods of low quality, or goods that have been taken in store in too large quantities. (*Interview no. 18*)

Vladimir, asked how he viewed commercials, commented:

To me, it seems that they only advertise products that don't enjoy any demand in the market place. (*Interview no. 8*)

It thus seems that Pavel did not base his view on commercials from his own experience alone. The point is not that he could not have adopted a negative view based on these experiences; but rather that the specific negative view he adopted was the one common in the public sphere and was reflected in folk culture through anecdotes. Interestingly, both Pavel and Julija take more or less ironically as a point of departure that commercial ads are the engine of trade, which seems to reflect some sort of a slogan, which they then criticise. Both Pavel and Julija had experience from private business, and had many positive attitudes towards business phenomena and the market economy in general; but they were highly critical of the operations of big business in Russia, and of phenomena associated with these operations.

The loss of trust in commercials should not be explained solely in terms of the advertising for MMM. Commercials for other products, insofar as they proved, or were perceived to be, inaccurate, also contributed to the erosion of trust. The ability of financial companies to build trust through commercials, then, can be influenced by events in other markets. Svetlana explains:

Those who have money, who want to sell their products, they'll say in the ad that it's a good product even if it's lousy... but no one will believe that. But in the beginning... I remember a brand of toothpaste, Blend-a-med, in the commercial they talked about what white teeth you get from using it. Everyone was afraid of dentists, and we, of course, thought that if they say



in TV ads that this is the best remedy against cavities, then that's the way it is. In virtually every home I saw the toothpaste Blend-a-med. I bought it too, thinking that our scientists probably hadn't invented such toothpastes yet, and that you had to pay more to get it, because it was more expensive than our Russian toothpastes. (*Interview no. 1*)

Svetlana thus displayed the same inclination to believe in certain kinds of information as Pavel, quoted in Chapter 5 as believing the commercials for MMM "out of inertia". In the West, we have come to expect less from advertised products. When Svetlana associates Blend-a-med with dubious commercials, that indicates how easily the public can be disappointed if expectations are too high: According to odontological research, Blend-a-med *was* a better remedy against caries than most Russian brands.<sup>105</sup> Moreover, during late Soviet times there was simply not enough good toothpaste on the market, to the extent that this fact featured in anecdotes of the time (Zadornov 2004: 154). The mechanism relating the use of Blend-a-med to a negative view of commercials seems to be that people who used Blend-a-med thought they were immune to dental problems; if they still got cavities, they were disappointed, and lost confidence not only in the brand, but also in the channels through which it was promoted. It should be noted that Blend-a-med came on the Russian market at a time when almost all adults had problems with their teeth, and most Russian-made toothpastes did not contain fluoride.<sup>106</sup> Dental problems therefore constituted a serious concern for many, which might explain why the commercial clips for Blend-a-med became so well known and remembered; and why disappointment with that one particular brand could have contributed to the erosion of trust in commercials more generally.<sup>107</sup>

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<sup>105</sup> "Po dannym mnogocislennym issledovanij, pocti 100% naselenija Rossii posle 30 let stradajut ot zabolevanij zubov", *Moskovskaja Pravda*, 22.09.1994

<sup>106</sup> "Po dannym mnogocislennym issledovanij, pocti 100% naselenija Rossii posle 30 let stradajut ot zabolevanij zubov", *Moskovskaja Pravda*, 22.09.1994.

<sup>107</sup> Another question, which I can only touch upon, is how the disappointment with commercial ads affected the medium through which ads were communicated – the mass media. As Pavel suggested in my interview with him, people had been used to believing what they read, and they were not used to distinguishing between different forms of information – articles, editorials, commentaries or commercial ads. It would therefore not be surprising if people came to view the whole media sector more critically. Surveys conducted by the Institute of Socio-Political Research under the Russian Academy of Science support this hypothesis: The proportion expressing distrust in mass media increased from 41% in May 1994 – before the MMM crash – to 57% in May 1995. (Institut social'no-politiceskich issledovanij 2001: 431) Of course, many other processes might have made for this development, such as the general news coverage (including the coverage of financial companies). But it seems at least plausible that the crash of financial pyramids could have contributed to the erosion of trust in a wide range of social institutions.

### *A brief respite for Sberbank*

We have looked at how the perception of – and the money flow to – commercial financial companies changed when promises were broken or remained unfulfilled, and have argued that commercial companies found themselves unable to inspire trust either through promising high returns or through commercial campaigns. But how did the loss of trusts in commercial banks affect trust in Sberbank? As described in Chapter 1, the proportion of household income going to Sberbank remained relatively constant in the two years following the MMM crash in August 1994; and the proportion of household *savings* allocated with Sberbank increased.<sup>108</sup> A survey from early 1995 showed that whereas only 17% of the population trusted commercial banks, the figure for Sberbank was an impressive 53%.<sup>109</sup> How was Sberbank different from the commercial banks?

### *What is a commercial bank?*

Firstly and most importantly, this difference suggests that Sberbank was perceived as something *separate* from the commercial banks. This was not a given: By 1994, Sberbank's operations had become more similar to those of other banks. To many financial analysts, there were differences in degree concerning profitability and reliability between Sberbank and the other banks; but fundamentally, they constituted the same kind of saving allocation, an alternative distinct from financial pyramids, but not from each other. Some two weeks after the MMM crash, *Izvestija* had an article evaluating alternatives to the financial pyramids, dealing only with banks considered to be reliable:

Those who want to earn interest rate even in a month or in three months have a broad range of options. This service is provided now by Promstrojbank, Sberbank, Inkombank, Vozroždenie, Al'fa-bank, Orgbank, Unikombank and others. The majority of these banks not only offer a monthly interest rate, but if the client does not withdraw his money, they add them to the initial deposit, and interest rates for the next period is calculated from this new, larger sum.<sup>110</sup>

This discourse encouraged involvement with *all* these banks; both Sberbank and other banks should be judged on the services they provide and on their reliability (the article cites bank ratings) – not on images of defrauded depositors on Warsaw Chaussé.

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<sup>108</sup> Spicer & Pyle 2003: 10 (based on *Bulletin of Banking Statistics* issued by the Central Bank of Russia).

<sup>109</sup> "Naselenie vsë men'se doverjajut Sberbanku i vkladyvajut den'gi v valjutu i zoloto", *Finansovye Izvestija*, 28.03.1995

<sup>110</sup> "Kommerceskie banki obostrajut bor'bu za den'gi melkich vkladnikov", *Izvestija*, 16.08.1994

But to many who lacked in-depth information about interest rates and bank ratings, a better heuristic for evaluating different banks could have been whether a given bank was associated with the state or with private business. A survey from Nizhny Novgorod showed that the proportion who preferred financial companies backed by the state to private financial companies rose from 53% in 1994 to 69% in 1996 (Ivašinenko 2002: 113). Let us repeat the following excerpt from the interview with Vladimir:

I have never trusted banks, ever. And when this robbery of the people started... It is better to keep your money in Sberbank, that is, in state structures rather than in commercial structures. (*Interview no. 8*)

In this discourse, commercial banks and Sberbank are two entirely separate phenomena; there is no contradiction between distrusting the former and trusting the latter. It is difficult to be certain that this distinction between commercial banks and Sberbank depicts the respondent's view in 1994–95, and is not of later origin, as the interview was made in 2004. But assuming that it does reflect his views at the time, it seems clear that there were at least two alternative ways of categorising financial companies after the collapse of the financial pyramids: distinguishing between Sberbank and other commercial banks on the one hand and financial pyramids and other dubious schemes on the other; or distinguishing between Sberbank on the one hand, and commercial banks and financial pyramids on the other. This difference in categorisation would naturally have impact on saving decisions.

Even Pavel, who had suffered economic loss in the Pavlov reform and who had gained from participating in MMM, preferred Sberbank after 1994. Whereas his first association to the word “commercial bank” was “an unreliable bank”, his association to the word “Sberbank” was that it was “more or less trustworthy”. Asked to explain that in terms of his own experiences with the bank, he said:

You see, holding back our money – that could happen in any bank in this country. I still think Sberbank is safer than the others. (*Interview no. 4*)

Again, the case of Pavel questions Strebkov's findings that personal experiences *explain* attitudes, as people who had turned to commercial financial companies when Sberbank had seemed unable to protect their savings, now seemed to have forgotten their distrust. It is tempting to invoke a psychological mechanism called “the availability heuristic” concerning how phenomena that evoke easily accessible images make us overestimate

the likelihood of their occurrence (Kahneman 2002). It was easier to invoke images relating to the crash of MMM than images relating to the Pavlov reform several years before; consequently, the likelihood of commercial banks crashing appeared greater than the likelihood of problems in Sberbank.

*Why was Sberbank more reliable?*

Whereas neither Vladimir nor Pavel cited any hard facts to explain their preference for Sberbank, facts were available – but they required more knowledge about the operation of the financial system. For instance, a newspaper article from March 1995 explained Sberbank's prominent position with reference to the state guarantees for deposits:

The prominent position held today by Sberbank is based on the old deposits of the whole population of the Soviet Union, when Sberbank was a monopolist. Today, only the poorer segments of the population (pensioners and the working class) use Sberbank. Rich people and young people prefer commercial banks. The only reason why anyone would continue to deposit their money with Sberbank is that the deposits are guaranteed by the state – in other words its reliability. Surveys show that Sberbank scores three times as high as commercial banks when it comes to reliability.<sup>111</sup>

Although the picture of Sberbank painted here was not wholly flattering, it is admitted that Sberbank was safer. These state guarantees are also cited by Juliet Johnson, as seen in Chapter 2. However, many of those I interviewed seemed unaware of the existence of such guarantees. One of my respondents used a different measurement to evaluate reliability: Since MMM appeared to have crashed because it had promised too much, smaller promises could be used as a heuristic of reliability. Asked how people viewed Sberbank and commercial banks after the crash, Svetlana commented:

My impression was that people did not trust such [commercial] banks, they trusted only Sberbank, because it was stable. The interest rate there was very, very low, but the money would be stable. (*Interview no. 1*)

In the West, too, investors accept lower interest rates if the risk is known to be low. The logic here, however, seems somewhat opposite: That *because* Sberbank offered less favourable conditions, one should expect it to be more reliable and honest. This logic must be related to people's disappointment with the false promises made by the

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<sup>111</sup> "Naselenie vsë men'she doverjajut Sberbanku i vkladyvajut den'gi v valjutu i zoloto", *Finansovye Izvestija*, 28.03.1995

financial pyramids and other financial schemes, and their subsequent distrust in advertising.<sup>112</sup>

#### *Alternative views*

What about those who had been sceptical to the commercial ads all along? To them, the crash of MMM came as no surprise, and did not necessitate a change in how they perceived commercial ads or business practices. Alla, quoted in Chapter 5, continued to see commercial ads as “objects of art”. That they proved not to contain correct information, changed her view of neither commercial ads nor commercial banks; and she remained deeply sceptical of all Soviet-era institutions, such as Sberbank.

*Interviewer:* What do you think about Sberbank?

*Alla:* I don't trust Sberbank, because so many of my friends lost their money there, during the Pavlov reforms. And they have never got this money back (...)

*Interviewer:* And commercial banks, are they better or just the same?

*Alla:* Those who work in commercial banks are just completely different people, a different generation, young people who don't treat people as if... as in Sberbank, where they think that people are worth... nothing. (*Interview no. 9*)

Alla, then, distinguished clearly between Sberbank and commercial banks, but favoured the latter. An article in the respected and popular weekly *Argumenty i Fakty* from July 1996 presents a different discourse – one also positive to commercial banks, but for different reasons. Discussing various savings alternatives – such as stocks, currency, and gold – the article has the following to say about rouble deposits:

ROUBLE DEPOSITS in commercial banks. No matter what they say, rouble deposits in commercial banks are today the most popular and the most attractive. In Sberbank, for instance, you get 42.5% interest and high reliability. However, its clients complain that the bank retains the right to lower interest rates unilaterally. The profitability of the most reliable banks varies from 54% (Promstrojbank) to 81% (Stolicnyj bank sbereženij).<sup>113</sup>

This discourse had existed before and after the collapse of the financial pyramids, but dominated mainly among those who followed the financial markets closely, as it

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<sup>112</sup> In other countries, not offering good terms is rarely seen as a sign of honesty. In Norway, a survey of consumer trust stated: “Banks are among the companies people dislike the most. A major reason is that they feel that the banks are greedy – much due to high fees on banking services.” (“Riktig pris på banktjenester”, *Nettavisen*, 21.09.2003, downloaded from: <http://pub.tv2.no/nettavisen/nettpaasak/article137608.ece?execute=viewComments>, 21.12.2004).

<sup>113</sup> “Kuda vložít' den gi, esli oni “lišnie”?”, *Argumenty i Fakty*, 23.07.1996

required knowledge of interest rates and reliability ratings. The *Argumenty i Fakty* article did not distinguish between commercial banks and Sberbank. Indeed, the statement that commercial banks are the most popular is correct only if Sberbank is included. However, at the time that article was written, things were about to change, as even Sberbank started experiencing serious problems in attracting new funds. Given financial analysts' positive evaluation of the prospects of rouble deposits, the question is: Why?

## 7. Dollarisation, 1996–1998

Dollarisation, obviously, did not start in 1996. As seen in Chapter 1, dollars were popular as a means of saving throughout the period under review. However, from the second half of 1996, there was a marked increase both in the proportion of dollars of actual household saving and in the proportion of the population preferring dollars. Sberbank suffered the converse development. Why did the balance between dollars and Sberbank shift so markedly in favour of the former? And why did this shift come when it did – the second half of 1996? This has been difficult to answer. At the end of the previous chapter I mentioned an article from *Argumenty i Fakty* describing a financial analyst's view on commercial banks. Here is what he had to say on savings in cash:

Up until now, the question about where to place your savings has not bothered anyone. The answer was given – in currency. Dollars are dollars everywhere always. But the election campaign fever is ending, and with it, we have to believe, the rapid devaluation of the rouble. During the first half of this year, average monthly inflation has come down to 2.5%, and in June, it was only 1.2%. The situation, it appears, is improving. Thus, what kind of savings are today the safest and most profitable?

DOLLARS IN THE MATTRESS:<sup>114</sup> That won't bring any interest whatsoever. And even worse, the dollar will decline in value by the size of inflation in the industrially developed countries, about 2.8% to 3.4% per year. And, as the Chairman of the Central Bank of Russia, Sergej Dubinin, declared in a speech, the value of the dollar compared to the rouble will increase less than average inflation in Russia.<sup>115</sup>

The logic in this article is that of the economist, and it further underlines the conundrum described in Chapter 1: Households increasingly bought dollars when the macroeconomic situation stabilised – when there were, in fact, good reasons *not* to buy dollars. And few of my respondents were able to recall a sudden deterioration in Sberbank's position that affected their preferences. Kuzina has pointed to Sberbank's unilateral cut in interest rates in June 1995 – a concern also mentioned in the *Argumenty i Fakty* article, in the section on rouble deposits (cited in Ivašinenko 2002: 65). But how would lower interest rates matter if bank savings were still more profitable than dollar savings?

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<sup>114</sup> The Russian expression is “in the sock” – and several of my respondents testified that this could at least in some cases be taken literally.

<sup>115</sup> “Kuda vložit' den'gi, esli oni “lišnie”?”, *Argumenty i Fakty*, 23.07.1996

### *The decline of Sberbank*

In Chapter 6, we saw how commercial banks came to be associated with fraud and dishonesty. This perception came to dominate as certain expectations were disappointed. Sberbank was trying to build trust on fragile ground – the Pavlov reform was still associated with the bank, although people’s memories seem to have been slumbering somewhat after the collapse of the financial pyramids.

### *A new trust crisis for Sberbank*

Kuzina points out that Sberbank’s unilateral lowering of interest rates hurt trust with clients. This is a good starting point. In May 1997, *Komsomol’skaja Pravda* published letters from a depositor who was frustrated by Sberbank’s interest rate policy.

My story is banal (...) Some time ago I – like 75% of our population – gave in to the temptation to place my hard-earned savings in a Sberbank account. And together with the rest of them, I started getting less and less back – they lowered interest one percent, then one a half more, then...

Then they gave me a choice: You can get a measly 1.4% a month – or you can collect your money and leave. But that’s not all: A few days ago, Sberbank lowered the interest rate yet again.

I am not an economist; I’m just an ordinary depositor. I want to share some thoughts with other troubled depositors like myself. Did you know, my dear friends, that the central office of our Sberbank has moved into a new building on Profsojuznaja Street in Moscow? It is quite a sight: A whole little city of glass and concrete, 85,000 square meters, which strikes you with its exquisite details and its picturesque fountains.

This fairytale building cost 7 (!) billion roubles. In comparison: To compensate all the devalued deposits made by pensioners, the Ministry of Finance needed 4.5 billion roubles last year.

The interest rates continues to fall (...) But last year’s revenue was gigantic – 14 trillion roubles. Sberbank is feasting, and there are no serious competitors, in the provinces Sberbank is an absolute monopolist, dictating its rules (...)

And they have already come up with a new interest rate on demand deposits – which are the most common. And it is... one percent per month.



On the other hand, my dear fellow depositors, we have a different source of wealth: The best marble offices in the world in the Russian people's own bank.<sup>116</sup>

The person who wrote this letter seems very well informed about details surrounding Sberbank's project. One could, perhaps, suspect that he had some hidden or personal anti-Sberbank agenda. However, the question of Sberbank money spent on luxurious buildings was also raised by several of my respondents. And indeed, Sberbank did invest a lot in new, modern buildings in 1995 and 1996. The buildings in Moscow were only two among more than twenty large projects in Moscow, St. Petersburg, Pskov, Tomsk, Orenburg, Nizhny Novgorod and others.<sup>117</sup> This attempt to modernise seems in fact partly to have aimed at improving trust relations with the public. At the bank's general assembly on 5 May 1995, the building projects were displayed. A newspaper article reporting from the general assembly (so favourably disposed towards the bank that it seems more like a commercial than a neutral report) underlined that the bank employed foreign, European companies of the highest quality. In a country where the term "Eurolux" was used to signify high quality – and high price – pointing out this fact must have signalled to the audience that the projects were very expensive.<sup>118</sup>

Sberbank might have had many motives for upgrading its properties – but it seems clear that to many, such use of money did not inspire the trust the bank had hoped for. Alla, who had been sceptical of Sberbank ever since the Pavlov reform, and who criticised them for retaining a Soviet mentality, was not impressed by the company's attempt at modernising:

At the same time, look at the buildings Sberbank has built. In my city they have built three such buildings. Where do they get the money to build these enormous things...? Very beautiful, very modern, very expensive buildings. And no one got their money back, no one. (*Interview no. 9*)

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<sup>116</sup> "Sberbank stroit dvorcy, a vkladcikam ne chvataet procentov na chižinu", *Komsoml'skaja Pravda*, 27.05.1997

<sup>117</sup> "Iz ničich sberkass my prevratilis' v krupnejšej bank", *Izvestija*, 16.05.1995. The information that the Sberbank buildings in Nizhny Novgorod were built also in 1995–1996 was obtained in interview no. 17; I have been unable to verify it through other sources.

<sup>118</sup> *Ibid.* An example of the tone of the article is its treatment of whether or not the bank is trustworthy: "Briefly put, the main tasks for the bank should be to be reliable, reliable and reliable. In this regard, the speech given by the president of the bank, Oleg Jašin, should reassure every potential client."

Whereas people were generally more likely to use a bank if they knew someone who worked there, the opposite could be true if the impression given by that employee was negative. Nikolaj's mother worked in Sberbank, and this was his impression:

*Nikolaj:* The only contact I have with Sberbank is that my mother works there.

*Interviewer:* But still you don't trust them?

*Nikolaj:* I'll tell you why I don't trust them. My mother has shares in Sberbank, from the voucher privatisation, and she doesn't get any dividends. She works there, and they promised profits. But now, for her dividends they build these enormous buildings, look only here in Nizhny Novgorod. There you have it, all her money...*(Interview no. 14)*



Sberbank's main office in Nizhny Novgorod, where Nikolaj's mother worked.

Photograph by the author, May 2004.

These buildings served as constant, visual reminders that Sberbank had entered the same world of fast money, big cars and crime as the oligarchs who owned the private banks.

*The government guarantees for Sberbank – but who guarantees for the state?*

Still, there was one important difference between Sberbank and commercial banks: Deposits in Sberbank were guaranteed by the state. As mentioned above, many of my respondents were unaware of the existence of the guarantees. Still, they might have felt that the reliability of Sberbank was intertwined with that of the state. And that image

was often less than reassuring. Thus, even those who were aware of the guarantees were not reassured by them.

That the image of the state was important for people's relationship with Sberbank is suggested by the following interview with Pëtr. Asked if he trusted Sberbank, he replied:

How can I trust a government that allows four million children to live on the streets? I use Sberbank only because I get my pension there." (*Interview no. 11*)

Pëtr had several other accusations to level against the state. Working in the special police, he had been ordered to Chechnya in late 1995. He commented:

That alcoholic [*President Yeltsin is meant*] and his team... I would not let them send me to that damn war. They should have read "A prisoner in the Caucasus"<sup>119</sup>, that's what they should've done, and they would've understood that we would get stuck there. (*Interview no. 11*)

Distrust in the government can also be seen in the households' reluctance to buy government bonds (GKO). After the introduction of the currency corridor, the government started issuing bonds promising extremely high returns. When cash privatisation failed to generate the expected revenues, this seemed the best way to finance the budget. Indeed, the government bonds did succeed in bringing in cash for the government, but hardly any of this came from households. The overwhelming proportion came from a few well-connected banks. Why did people not respond to the calls to buy government bonds? The bonds were supported by generous loans from the International Monetary Fund, and investors thought that Russia was "too big - or too nuclear - to fail" (Åslund 1999: 23). However, in an article titled "The Government is taking Mavrodi's place", *Komsomol'skaja Pravda* warned against government bonds, comparing them with MMM and the financial pyramids:

"We are the safest and the most profitable borrowers!" – that's the central point of vice-minister of finance, Andrej Kaz'min, and the head of the government department for stocks and bonds, Bella Zlatkis. Their argument is the promised 102.74% interest rent that the holders of the four-quarter bonds will receive on December 27<sup>th</sup>. (...) Why the Ministry of Finance is playing this game with the population just now seems clear enough. The cash privatisation programme, which had so many hopes attached to it, has now successfully crashed. The deficit in tax revenue is increasing,

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119 "A prisoner in Caucasus" is a novel by Leo Tolstoy.

disproving even the darkest forecasts. (...) It is now becoming clear why the Central Bank, in cold blood bordering on cynicism, held back their support during the latest crisis on the inter-bank market, thereby helping small and medium-sized banks on their way to bankruptcy, which, among other things, removed competition in extracting money from the population. And why the same Central Bank reacted so nervously to the report of the Federal Commission for Stocks and Bonds, which said that the actions of the Central Bank on the market for short-term government bonds in effect is comparable to the organisation of a new financial pyramid.<sup>120</sup>

Even Sberbank did not have too much faith in its principal owner: The president of Sberbank, Oleg Jašin, said that the question of whether or not the state could guarantee household deposits depended on state finances, and that knowing the condition of those finances, Sberbank was relying on its own resources, and not on state backing.<sup>121</sup>

The scepticism to state guarantees was expressed explicitly by my respondent Konstantin, a well-educated businessman.

*Konstantin:* I only save in the mattress.

*Interviewer:* And why not in Sberbank?

*Konstantin:* First of all, I don't like the interest rate they offer.

*Interviewer:* But in the mattress, you don't get any interest rate?

*Konstantin:* You see, if you have been burned once... If we'd had foreign banks, I wouldn't have hesitated, even if the interest rate were low, because the deposits there are insured. Here in Russia, they are also discussing a law on deposit insurance.

*Interviewer:* And then you will trust the banks? (...)

*Konstantin:* But it doesn't help – today we have Putin, tomorrow someone else. And then there is no guarantee. (*Interview no. 22*)

1996 was the year that President Yeltsin was re-elected. But the re-election was marred by scandals that linked the government ever closer to dubious financial structures, especially through the loans-for-shares programme, where the major state companies were sold at giveaway prices to selected companies who supported the president with money for the election campaign. The war in Chechnya was going badly, ending in a humiliating defeat in 1996. The economy was still contracting, and if people initially had some patience regarding the necessity of painful transition, it was starting to wear thin. The one thing that *was* working, was the macroeconomic stabilisation following the introduction of the currency corridor in July 1995. Paradoxically, this stabilisation might

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<sup>120</sup> "Na smenu Mavrodi prišlo gosudarstvo: Obligacii sberegatel'nogo zajma", *Komsomol'skaja Pravda*, 26.09.1995

<sup>121</sup> "Privatizacija bankov", *Kommersant*, 16.05.1995

actually have made people less keen to earn interest rates, instead favouring dollars as a medium of saving.

### *Hard currency*

As seen in Chapter 5, the main concern of depositors in the period of high inflation from 1991 to 1995 was to guard their money against devaluation. They wanted indexation, and they were willing to take risks to get it. Economic psychologist Daniel Kahneman (2002) has found empirically that people are more prone to take risks when faced with the possibility of absolute loss. They are less willing to take risks to make a profit. If Kahneman is right, then Russians would naturally be more risk-averse *after* 1995, as the loss from inflation was significantly reduced. In particular, it seems that many Russians did not bother about earning two or three percent interest on small amounts, and a common answer to the question why they do not have money in the bank is “Why should I?” As Olga explains:

I put 2000 roubles in the bank once, not so long before the crisis. In half a year, they brought me only about 100 roubles. What’s the point? So, I withdrew my money. Now I just have dollars at home, it is much easier.<sup>122</sup>

The rate of return is not so bad according to Western standards, well above 10% p.a. (as interest was added several times a year) or probably just above the inflation rate. But not enough, evidently, to bother, or to take the risk. It was easier to have dollars at home.

### *Dollars – not just money*

The special status of dollars was established before the disintegration of the Soviet Union, although people then held dollars for different reasons: Dollars could buy foreign goods, sold only in special outlets. When inflation kicked in at the end of the Soviet period, people already had some experience in seeing dollars as a stable currency. But dollars were to many more than just a currency. Il’ja, a private businessman and taxi driver who suffered from expensive gambling habits, told me:

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<sup>122</sup> Interview No. 13. 2000 roubles at this point was probably roughly equal to 300 USD, and it is likely that the deposit took place late 1997, after the new rouble was introduced, changing its value from about 1/6000 of a dollar to 1/6 of a dollar. Olga could, however, be using the new denomination for the previous period. If this was indeed in the autumn of 1997, the inflation rate was about 10%.

Roubles I just spend, I don't give a damn about them. But dollars are dollars. I still have respect for them. I have them in my sock, and I know that I can go and change them at any time. The exchange rate will at least not get worse. (*Interview no. 20*)

Dollars were able to serve as a means of precautionary saving, in a way bank deposits never had. Grigorij, a 35-year-old businessman, commented:

Of course, it is necessary to buy dollars, to have some amount hidden away for a black day. (*Interview no. 19*)

One effect of the fact that "everyone" had some dollars hidden away, and of the rampant inflation in the first half of the 1990s, was the practice of issuing private loans in dollars. Most Russians who needed loans did not turn to financial intermediaries – and often those who did were turned down. Acquaintances, business associates or employers often provided such services instead. It was in such relations the practice of issuing loans in dollars developed.

This could impact the saving decision. For acquisitions of valuable consumer durables, such as cars, or even for real estate, it is common in Russia – and in most Western countries – not to wait until one has saved enough, but rather to take up a loan. This implies that saving takes place only after the acquisition. A consequence of the volatile rouble was that people started to give and take loans in currency.<sup>123</sup> Many consumer durables, if bought from individuals rather than in stores, were bought and sold for dollars (*Interview no. 8*). Even in regular stores, prices were often given in *u.e.* – "agreed units", which were conveniently equal to the dollar. It was therefore logical to make those savings in dollars, according to respondent Oleg:

Loans were given in dollars, and you had to pay back in dollars, no matter what the exchange rate was. That is the way it works here. And then it was logical to make those savings in dollars. (*Interview no. 4*)

Of course, from a *homo economicus* perspective, it would still be rational to make those savings in rouble deposits, and buy dollars only in order to pay the loan back. But Oleg, evidently, did not share that perspective.

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<sup>123</sup> I have been unable to find statistics on loans through informal channels. Anecdotal evidence suggests that it was quite common to borrow money from acquaintances or from firms to buy stereos, cars and even apartments.

As dollars came to dominate in the economic sphere in Russia it seems plausible that many saw dollars as the natural medium for saving, or the natural thing to buy for spare money. It is difficult to investigate this empirically, or to describe the exact causal effect of the existence of dollars in the public and private economic sphere – the latter would amount to making a counterfactual claim about decision-making in a world where, say, prices were indicated more often in roubles and less often in *u.e.* than was actually the case, and where loans were issued more frequently in roubles and less frequently in dollars.

### *Epilogue*

In August 1998 the country woke up to a government default on the government bonds. It took a week before the currency market realised what had happened. Then the rouble crashed: The price of one dollar skyrocketed from about 6 roubles to about 30 roubles. Inflation followed. Banks, which had large shares of their money in bonds, were the first to suffer. Commercial banks as well as Sberbank had no chance of honouring their obligations. Government guarantees to Sberbank applied only to parts of the deposits; and, with the new wave of inflation, depositors lost most of their rouble deposits even if they got them back. It turned out that Russia was neither too big nor too nuclear to go bust. Again, million of ordinary depositors lost out. However, it could have been worse. If Russians had behaved “rationally” in the two years preceding the crisis, if they had heeded the advice of analysts, or if they had for a second believed that Russia was too nuclear to be allowed to fail – then they would have lost much more.

And more than five years after the crash, and after a long time of decline for the dollar, Vladimir still does not hesitate to describe the two currencies thus:

Hundred roubles... Today they work, tomorrow they don't. But dollars remain dollars. (*Interview no. 8*)

In Chapter 3, I used Elster's argument that we cannot deem something to be rational only because it succeeded: In complex decision-making situations, it can be rational to be irrational “if all the evidence happens to point in the wrong direction” (Elster 1992). The corollary must be that we cannot deem something to be irrational only because it is not optimal *ex ante*. The discourses of ordinary Russians that I have followed in Chapters 5,

6 and 7 have clearly not conformed to rational decision-making, and have often been based on a less than full understanding of the situation. Frequently, Russians made choices that were suboptimal from their own point of view, as well as that of broader society. The logic of these discourses nevertheless appears to have its own rationality. It was that logic that made people anticipate the crash in the summer of 1998 – a crash that depended on a host of factors they could not foresee, including the Asian financial crisis in 1997 and specifics of Russian political decision-making. And it was the same logic that allowed rumours about one of the most solid banks in the country to lead to mass panic in June 2004. Perhaps that logic was not rational that time. But what will be rational the next time around is something only time will tell. And until then, social scientists as well as politicians need to take people’s rationality seriously, if they are to anticipate and understand the responses of the Russian population today and in the future.



## **Part III: Conclusions**

### **8. Discourses and Explanation**

Part II has provided answers to the substantive questions posed in Chapter 1: Why were commercial financial companies relatively successful from 1992 to 1994? Why did they lose to Sberbank between 1994 and 1996? And why did both commercial financial companies and Sberbank lose to dollars between 1996 and 1998? We have identified some major events that, through their impact on people's perceptions of trust, identity and profitability, marked turning points in the discourses on financial institutions, and thus influenced the decision-making processes relating to financial behaviour.

In this chapter, I sum up the various discourses discussed in Part II, noting what insights they provide regarding the interrelationship between discourse, decision-making and historical events. Although the discourses discussed were overwhelmingly dominant both in the media surveyed and in my interviews, there is reason to believe that some discourses might be underrepresented in these media, as indicated in Chapter 4. There might be discourses which I have not described or only touched upon: Some people preferred Sberbank all along; some never trusted anybody but themselves and invested in their own business; others were faithful to US dollars, Deutsche Mark or gold. The discourses that have been described here are the ones I deem most important for my purposes, for three reasons. First, they were discourses that changed considerably through the period, relating to behaviour that changed. Second, their changes relate to events, which makes it possible to think about how they could have been different. Finally, they represent different positions that can mutually illuminate one another.

In Part II, I presented discursive phenomena as they appeared and changed chronologically. Here I shall attempt to systematise these discourses by discussing basic assumptions, basic concepts and entities, and a major storyline which gives a discourse

cohesion and continuity, and which can be distinguished from other discourses.<sup>124</sup> Most of the voices presented in Part III can be seen to form what I call the “emotional discourse”, while the contrasting voices represent the “rational discourse”. For most of the period, I have further divided the emotional discourse into two sub-categories: Optimist and pessimist.

#### *The emotional discourse*

The major assumption of the emotional discourse is that the financial system objectively could and morally had an obligation to protect savings against devaluation; if the system failed, that was tantamount to fraud. This assumption would often be accompanied by the assumption that economic exchange is a zero-sum game – loss suffered by one party implies gain for another party – which again could be related to a dichotomous view of society: *we*, the people, against *them*, the state or the economic elite.

From the Pavlov reform in 1991 until the crash of the financial pyramids in the summer and autumn of 1994, the emotional discourse was characterised by a focus on the question of indexation, the rising costs of living, the belief that the government did not do what it could to correct the wrongs, and the hope that somebody else would. The main entities were thus state financial institutions on the one hand, and a hope for something else on the other. The optimists found that something in Sergej Mavrodi and Lënja Golubkov of MMM or in another financial company – such as Pavel above in Chapter 5. The pessimists did not find anybody to trust – such as Julija.

The distrust in the state seems to have been brought about or aggravated by an attempt to reduce the cognitive dissonance that emerged as a result of losses incurred either in the Pavlov reforms, or during the period of hyperinflation. There is not much analysis of consequences of different policy alternatives found in this discourse: People simply could not reconcile their own anger and frustration with a belief that the government was competent and benevolent. Focusing on indexation could solve this. The concept was originally introduced in connection with plans about gradual changes in relative prices between products – before the Pavlov reform. The first article I have

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<sup>124</sup> Such analysis is inspired by Hønneland 2003.

been able to find dates from 19 March 1990.<sup>125</sup> The government wanted to change relative prices so that they better reflected the cost of production; however, when the goal was to reduce the monetary overhang – and with it, the shortages that had plagued the Soviet economy – indexation was clearly unsuited to the task. The whole point was to reduce demand relative to supply. Nonetheless, President Gorbachev issued a decree on indexation of savings following the Pavlov reforms – with the catch that the added money could not be used until 1994. Experts agreed that the law would not actually stop savings from devaluing.<sup>126</sup>

But the expectation seems to have been created, and was easy to use for opposition politicians, as seen by numerous statements by the Supreme Soviet. Lack of knowledge of the economics of reform thus seems to have been a factor in people's accepting this discourse;<sup>127</sup> but knowledge could be overridden by strong feelings. That clearly seems to have been the case with Julija, who demonstrated insight into economics, but claimed to have lost her family as a result of the Pavlov reform, and concluded that she would never trust the state again. (Interview No. 18, cited in Chapter 5.) This account might provide one glimpse into the “black box” provided by the correlations between previous experiences in the financial market, education and current views found by Strebkov (2001; see also Chapter 2 above).

After the crash of the financial pyramids, the identity of the entities in the emotional discourse changed. Optimists had believed that figures like Mavrodi could guard their savings – but he now appeared as the villain. Interaction with commercial financial companies had been built on trust, not analysis, and that trust was now gone. However, the distinction between Sberbank and other banks was maintained. Sberbank was still associated with incompetence, but not necessarily with malfeasance: “The interest rate there was very, very low, but the money would be stable” – as Svetlana put it (Interview No. 1) – was a typical perception. Pavel was also an optimist – he found Sberbank “more or less trustworthy”. Others were still pessimists – like Julija.

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<sup>125</sup> “Ekonomiceskaja reforma: Sovmin naraščivaet oboroty”, *Kommersant*, 19.03.1990

<sup>126</sup> “Indeksacija vkladov: Cto oni sdelajut s našimi den'gami? Nu kak cto”, *Kommersant*, 18.03.1991

<sup>127</sup> Knowledge does not imply “possession of objective truth” – only an understanding of the economic problems in the country on the basis of economic models, which in this case was close to how the government analysed the situation.

However, the pessimists seem to have attracted new followers as irritation and anger became directed both at the state in general and at Sberbank in particular. Again, some sort of reduction of cognitive dissonance seems to have been at work: Sberbank was constructing all these huge buildings, it was making huge profits – and still it did not treat its clients better. And how could one trust a state that allowed four million children to live on the streets, as Pëtr argued. This meant that entities changed within the discourse. Banks were banks, and they were all bad. Instead, a contrast was made between the dollar, which would always remain liquid and full of purchasing power, and the feeble, domestic rouble. This vocabulary was well developed: The word “wooden rouble” (“derevjannyj rubl”), used derogatorily to denote how unstable the rouble was, had at least been employed at least January 1990, and had developed during the macroeconomic calamities from 1992 through 1994. Increasingly, the choice seems to have been “dollars or roubles” rather than “Sberbank or something else”.

#### *The rational discourse*

The rational discourse made almost directly opposing assumptions. The risks of the financial markets were well understood, and financial companies were assumed to be working for their own interest. On the other hand, there could well be mutually beneficial interactions between households and financial companies – economic exchange was seen as a cooperative game rather than a zero-sum game.

The rational discourse in the first period accordingly focused on interest rates rather than indexation, bank ratings rather than the owner or a commercial. If people participated in MMM, it was to beat the system. Arguments were constructed logically and aimed explicitly at maximising profits. This does not imply that the discourse *was* in fact entirely rational. In the case of MMM, for instance, the important concept to follow was whether there were regions to which the pyramid could still spread, although closer scrutiny would have shown that, logically, such knowledge would not increase the chances of beating the system. But rationality, as understood by Western science, constituted the norm for the discourse.

The contrast to the emotional discourse is also striking in the two ensuing periods. While the emotional discourse, distinguishing between Sberbank and commercial

financial companies, came to see commercial financial companies as fraudulent, the basic entities in the rational story seem simply to have been all the actors in the financial market, which were judged according to the risk and profit characteristics, and there is hardly any dichotomy between the people and elite. Similarly, the dollar is treated just like any other currency. The article about dollars in the mattress in *Argumenty i Fakty* is illustrative: Mimicking more vulgar conceptions in the beginning of the article – “dollars are dollars everywhere always” – the article continues: “That won’t bring any interest whatsoever. (...) The value of the dollar compared to the rouble will increase less than average inflation in Russia.”<sup>128</sup> Articles giving advice about saving allocation are the main bearers of this discourse in my analysis; but it can be recognised in some official rhetoric and in Western analyses as well. And they are reminiscent of the logic behind economists’ attempt at explaining financial behaviour – indeed, many of those writing were probably economists themselves.

However, education, even in economics, did not necessarily lead the individual to accept the “rational” discourse. This study says little about the relationship between sociological variables – age, sex, education etc. – and discourse. This does not imply that I do not believe that there are no links between such variables and discourse – and establishing such links quantitatively might be a fruitful avenue for further research. Similar investigations could be made into the relationship between Ivašinenko’s quantitatively based categorisations of Russian financial behaviour and the different discourses described here. When such considerations have not figured here, it is partly because an important point in this study, in keeping with its methodological individualism, has been that an individual’s discourse affects decision-making directly, whereas for instance education does not – its effect on decision-making is a result of its impact on perceptions and values.<sup>129</sup> Indeed, many highly educated Russians did not adopt a “rational” discourse. Similarly, lack of education did not prevent Russians from picking up a more “rational” discourse. Take, for example, Alla, who seemed to have picked up a mathematical way of viewing financial pyramids from her husband, a

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<sup>128</sup> “Kuda vložit’ den’gi, esli oni “lišnie”?”, *Argumenty i Fakty*, 23.07.1996

<sup>129</sup> Partly, of course, the qualitative nature of the study would render useless any generalisations in this regard on the basis of my small sample of respondents; and the necessary information about the people who wrote in newspapers is missing altogether.

mathematician. If we do not first understand the link between discourse and behaviour, knowledge of sociological variables cannot provide us with an explanation of behaviour. It is my hope that this study has made some progress towards such understanding.

This treatment of the subject might give the impression that whereas the emotional discourse was profoundly changed by the dramatic events to which I have drawn attention, such non-economic events played less of a role in the "rational" discourse – and that discourse might therefore appear more autonomous. However, sociologist Tore Sandven (1995, 1999) finds that the dichotomy rational/irrational (and intentional/causal) is often not particularly useful. There are instances where an attempt to be instrumentally rational can be directly harmful, for instance attempting to control one's preferences, because it might interfere with vital psychological and emotional processes. But this does not mean that we are unaware of these processes, or that we cannot influence or even stop them. Sandven argues that there are many forms of human action, which although not entirely autonomous, are not irrational or "purely causal". We are not "the mindless playthings of hidden forces" (Sandven 1995). Moreover, rationality also depends on psychological mechanisms. Why do we consider being rational as autonomy in the first place? Although Jon Elster often has insisted on the distinction causal/intentional, Sandven's view fits better with the concept of mechanisms, because some of the conditions which trigger a mechanism remain unknown, in the interstice between psychology, intentionality and external events.

## 9. Discourse and Counterfactual History

Is a causal account based on reasons and discourses interesting? Does it teach us anything valuable about our societies in the way that explanations based on economic and social facts claim to do? British historian Geoffrey Hawthorn has proposed that an explanation gains its strength from the counterfactuals it is able to suggest.<sup>130</sup> To say that a factor is important is to say that, without it, the situation would have been different in a way that is interesting to us. If we accept that, which counterfactual worlds have been implied by this study? And how can thinking counterfactually illuminate the differences between the account presented here and alternative explanations of household financial behaviour?

To answer that question, we need to consider what counterfactuals are and which role they play in the writing of history. To Hawthorn, the point of using counterfactuals in history and the social sciences is to increase our understanding of what actually is or what actually was, by comparing it to what might have been. We consider a causal influence important if its absence would have led to a very different world. To say that a certain cause produced a certain outcome is interesting insofar as the outcome would have been significantly different if the cause were removed. The counterfactual historian can change factual causes and entertain speculations about their effects. It is then important that the world in which we introduce the counterfactual is our own, and not a different universe with different facts and different rules: We must not unwind the past or alter the present in ways that require an implausible past. According to this view, the central problem of making a counterfactual is to identify when things could have become different from what they are. There is a paradox in presenting counterfactual alternatives to explanations, because the latter attempt to demonstrate how the world became how it actually was. However, looking at counterfactual alternatives implies only that the explanations we give were not deterministic. This view depends on the premise that history depends on contingencies – that at least certain things, and thereby

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<sup>130</sup> Hawthorn 1991: 16. See also Elster 1983 and Sørensen 2004 for discussions about the role of counterfactuals in history.

all things, were not predetermined to be as they were; that there is a role for chance and for personal choice – which is in agreement with the views put forth in this study.<sup>131</sup>

*Could things have been different?*

What counterfactuals suggest themselves depend on the way in which the story is presented. My story has focused on individuals in their interaction with the financial sector and their perceptions of this sector and of the interaction. The actual narrative describing these perceptions is an integral part of explanation; providing a full counterfactual would imply providing an entirely different narrative. I shall not embark upon such a task. However, we can suggest counterfactuals for how discourse could have taken different turns by looking at how events influencing such perceptions could have been different. Such events include the introduction and spread of dollars as a unit of accounting, the construction of luxurious Sberbank buildings, the crash of the financial pyramids, or the Pavlov reforms.

I shall not look into all possible counterfactual stories; rather I want to draw attention to how my account differs from model-based explanation by sketching some counterfactuals to a few aspects of what I have called the emotional discourse between 1991 and 1994 – the discourse distrusting the state and believing financial pyramid commercial ads. First, people's initial attitudes could have been different; they could for instance have been less sceptical to the competence of the state; they could have been more critical to official or semi-official information and commercial ads. On the first count – trust in the state – one could quite easily imagine that a different handling of the Pavlov reforms, of the price liberalisation, the communication of the reform programme and voucher privatisation could have made for different conceptions of state competence and trustworthiness – even if economic outcomes had been similar.

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<sup>131</sup> Economic historian Deirdre McCloskey has argued for a slightly different view on the role of counterfactuals in history. Her point of departure is that social science models are closely intertwined with counterfactuals, as they make statements about the relationship between different phenomena that may or may not be factual. (See e.g. McCloskey 1994) In principle, we could choose to alter any variable in the model, and then derive the consequences – this is indeed what we do when we use models to explain. McCloskey therefore allows the counterfactual to change structural phenomena – thereby altering the present and unwinding its past. A model that says that people chose not to save in Sberbank because real interest rates were negative implies that *if* real interest rates had been higher, *then* more people would have placed their money in Sberbank. However, such a model remains silent about what steps would have needed to be taken to ensure positive real interest rates; how this would have affected other parts of the economy; and whether such a scenario is plausible or even possible historically. We should note that this kind of counterfactual does not explain how the world came to be as it actually is.



Considering the respect the Yeltsin government enjoyed immediately following the 1991 August coup, it seems plausible that the government could have communicated its programme in a way which people could comprehend and accept to a greater extent than what they did. This draws attention to the role of specific events and the way they were talked about in the formation of popular perceptions.

On the second count – how people judged information in newspapers and on television – we would probably have to go further back to find a likely branching point; explanation of what commercials are could have been communicated more effectively; newspapers could have been more critical towards leading figures behind the financial pyramids – recall the interviews with Sergej Mavrodi in several newspapers, where he was allowed to present his views without critical questions. More critical media coverage, presenting Mavrodi as an oligarch using advanced commercial tools to increase sales of his own product, would have made people's discursive identification with Mavrodi less likely. We could also imagine an entirely different relationship between the press and the public altogether, but that would probably require a very different Soviet past.

However, if a different relationship would require a different world at the macro-level, focusing on individual reasons for behaviour might allow us to think counterfactually about this relationship. More journalists and editors could have – as some did – warned against fraudulent companies in newspapers and on television. More people could have – as some did – believed the warnings that were actually issued. Although it is implausible that the relationship between the press and the public could have been different from what it was, it is not implausible that some people could have come to change their view on the press – because many did. If more people had changed their views, outcomes could have been different from what they actually were. To find branching points for macro-level change might be difficult; but to find branching points for individuals might still be possible.

Let us return to the economic explanations reviewed in Chapter 2, and imagine counterfactual worlds with positive real interest rates throughout the period and better legislation, by identifying branching points where decisions were made that affected interest and exchange rates and legislation. Such counterfactuals would also increase our understanding of why the world was as it actually was; but they do not directly increase

our understanding of why households acted as they actually did, given that world. The reason is that in the actual world, real interest and exchange rates and banking legislation on household financial behaviour were not the main reasons households had for their financial behaviour. Accordingly, explanations of household financial behaviour based on variables not entering into the discourses and the reasons of actual households, can tell us something not so much about actual financial behaviour itself as about the world that made that behaviour possible.

This view does not imply that such explanations are not interesting in their own right or that they are not relevant to the questions posed here. But it does mean that it is difficult to say too much about how households would actually have acted in a counterfactual world with different macroeconomic policies, because it is difficult to know how such changes would have affected the reasons that people actually had. Would, for instance, stable, positive real interest rates have had any significance for whether people perceived Sberbank and commercial banks as one and the same, or as two completely different phenomena? Or for whether they thought that the important distinction was that between rouble deposits and dollars, or that between earning profits from interest or profits from exchange rate differentials? We cannot even identify counterfactuals for such model-based explanation if we do not know why people acted as they actually did in the real world.

This study has held that, when explaining economic phenomena in the past, we should not explain the actors of that past *as if* they were *homines economici*. We should do our best to see them as they actually were. But if this is so in the past, the same must apply to the present and the future. When situations are complex and when motivations and decision-making procedures cannot be taken for granted, model-based explanation is not only inadequate for explaining the past: it might not be very useful in guiding the present and predicting the future. Contemporary history therefore has a role to play in helping economists heed John Maynard Keynes' plea that it is better to be "vaguely right than precisely wrong".

### *As safe as Al'fa Bank?*

Let me briefly return to the story of clients who fled Al'fa Bank in June 2004. The crisis of trust towards Al'fa came after a month when several smaller banks operating in the grey market had experienced problems in the interbank market and with law-enforcement agencies. Then Viktor Zubkov, head of the Federal Service for Financial Monitoring, issued a statement revealing that an additional 10 banks were on a blacklist of banks that could be in trouble. Against this background, rumours about Al'fa Bank – which in fact was *not* on the list – flourished. A leading Russian banker, Aleksandr Grigor'ev, dismissed the notion that the events of the spring of 2004 represented a crisis in the banking system thus: “The events of May and June 2004 did not constitute a crisis in the Russian banking system, there were no and are no macroeconomic reasons for a crisis.”<sup>132</sup> On this view, a bank crisis is something connected to objective economic factors. However, Grigor'ev went on to fault Zubkov's statement about the blacklist for the developments: “It was very unwise to state that there was a black list, which could not but evoke the reactions that followed among bankers and depositors.” (ibid.) This statement accepts as natural, reasonable and thus in a sense rational the hysteria and the rumours that followed Zubkov's statements.

To explain how a mere rumour almost led to the liquidation of one of the most solid banks in Russia (the bank was saved by its shareholders), we could propose the following explanation and counterfactual consideration: If Zubkov had not made the comments about the existence of a blacklist, there might not have been fertile soil for planting rumours. And even as Zubkov had made his comments, Al'fa Bank might have gone through the disturbances in the financial market unscathed if rumours had not been planted about that specific bank (it has been suggested that enemies of the bank deliberately did so to hurt the bank). To Grigor'ev, the comments and the rumour constituted a full good explanation, probably because to him, there was no need to explain why comments about a blacklist would lead to rumours, or why the existence of rumours would lead to panic. Sharing the experiences and the perceptions of Al'fa Bank's customers, Grigor'ev had no need for a further analysis of why rumours flourished or why they led to panic.

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<sup>132</sup> “Bankovskoe delo postepenno civilizujetsja”, *Ekspert*, 18-24 October, 2004

However, to an outsider, the blacklist and the rumours are a bit like the shots in Sarajevo. Without them, there might not have been a war, but they still do not quite explain why there was. The discourses described in this study show how people came to see banks as dishonest; rumours asserting that a particular bank was in legal trouble or could not support its deposits fit in with this discourse, and could easily be accepted as true. Furthermore, we have seen how the state was not trusted in matters financial. Government officials who denied that Al'fa Bank was on any blacklist could therefore not be trusted; they might have had their own motives for saying so – just as, by the way, those who put the rumours out in the first place allegedly had. Without a discourse expecting fraud both in business and in government, the events of May and June 2004 could hardly have had such drastic effects. A study of discourse thus connects past and present events in a way that can make behaviour intelligible.

Discourse is about concepts, and conceptual history is usually about the long run. This is logical, since concepts are relatively stable; if they were not, we could not use them for communication. Most of them thus belong to what Ferdinand Braudel (1972) would call *conjunctures*, whereas our deepest held and least questioned beliefs perhaps could be considered as belonging to the realm of the *longue durée*. On the other hand, the events that affect discourse are mere *evènements*. When we deal with individuals, the different modes of historical time come together: Braudel's *longue durée*, *conjunctures* and *evènements* exist only *within* them at any particular point in time. An explanation of the crisis in Al'fa Bank in terms of the arguments brought forth in this study would thus connect beliefs and previous experiences about what the state is, what a bank is, and what bank bankruptcy implies, with the specific events in the spring of 2004. How many experiences would need to be recounted would depend on when the combination of past experiences and current events would make behaviour intelligible. An explanation should be able to convey to us how, when, and under which circumstances Russians are willing to consider a bank to be as safe as the bank.

It is my hope that this study can contribute not only to making intelligible aspects of financial behaviour in early post-Soviet Russia, but also to providing insight into more general patterns of social and economic interaction in the post-communist world.

## Appendix – List of Respondents

No. 1 – Svetlana

Age: 30 years old

Marital status: Unmarried

Education: Music academy

Occupation: Musician

No. 4 – Pavel

Age: 60 years old

Marital status: Divorced, one son

Education: Vocational training

Occupation: Worked at a Soviet plant until 1991, after that he has alternated between petty trade and working as a taxi driver.

No. 5 – Stanislav

Age: 36 years old

Marital status: Married, two children

Education: Army academy, bachelor's degree in economics

Occupation: Served as an officer until 1993, has worked in private business since, is now the head of an internet café.

No. 8 – Vladimir

Age: 35 years old

Marital status: Unmarried

Education: Secondary school

Occupation: Bus driver/taxi driver/chauffeur

No. 9 – Alla

Age: 42 years old

Marital status: Married, three children

Education: Vocational training: Fashion institute

Occupation: Fashion industry/florist/housewife

No. 10 – Vjaceslav

Age: 44 years old

Marital status: Unmarried

Education: Bachelor's degree in history

Occupation: Journalist

No. 11 – Pětr

Age: 62 years old

Marital status: Divorced, two children

Education: Police academy

Occupation: Worked as police officer until retiring in 1995.

No. 13 – Ol'ga

Age: 49 years old

Marital status: Married, two children

Education: Secondary school

Occupation: Works as a shopkeeper.

No. 14 – Nikolaj

Age: 33 years old  
Marital status: Unmarried  
Education: Secondary school  
Occupation: Bus driver.

No. 17 –Aleksandr  
Age: 38 years old  
Marital status: Married, one child  
Education: Secondary school  
Other: Grew up in Baku; worked there in a video store, in a restaurant, and in a casino. Moved to Russia in 1994. Was unemployed for a while, then started a truck company.

No. 18 – Julija  
Age: 39 years old  
Marital status: Divorced, two children  
Education: Polytechnic/economics  
Occupation: Manager of a fashion retailer.

No. 19 – Grigorij  
Age: 35 years old  
Marital status: Unknown  
Education: Army academy/economics  
Occupation: Worked as an officer until 1995, since then for a private cement dealer.

No. 20 – Il'ja  
Age: 47 years old  
Marital status: Unknown  
Education: Vocational courses  
Occupation: Worked as a mechanic in Soviet times, then got involved in various business enterprises, driving taxi in-between.

No. 21 –Evgenija  
Age: 52 years old  
Marital status: Married, no children  
Education: Vocational courses  
Occupation: Worked in a Soviet car plant until 1995, since then in shops.

No. 22 – Konstantin  
Age: 45 years old  
Marital status: Divorced, two children  
Education: Polytechnic  
Occupation: Worked as a television mechanic in the Soviet era, has worked in private business since 1995.

No. 24 – Boris  
Age: 57 years old  
Marital status: Unknown  
Education: Polytechnic  
Occupation: Worked as an engineer in a Soviet car plant, started a private engineering company in the early 1990s.

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