Contested Currency: Russia's Rouble in Domestic and International Politics

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The 1990s were a difficult decade for the rouble, the Soviet currency that in 1991 became the common currency for all 15 post-Soviet states, and by 1995 had become Russia's currency alone. Within Russia the rouble was systematically rejected by firms and citizens in favour of complicated barter arrangements, leaving many important sectors of the Russian economy essentially demonetized. Several of Russia's provinces issued their own currencies, and many financial institutions and firms issued monetary surrogates, undermining the Russian state's monopoly on the definition of money. The rouble fared little better outside Russia. It was subject to severe exchange-rate instability and repeated speculative attacks. Several post-Soviet governments rejected the 'occupation rouble' in early 1992 and introduced their own national currencies. The experience of the rouble during the first post-Soviet decade illuminates three of the most important issues in the politics of Russia and the former Soviet Union. First, money was a critical nexus between economic reform and state building within Russia. Second, Russia's internal debates about the rouble zone mirrored broader debates about Russian national and state identities, particularly as they related to the rest of the post-Soviet Eurasia. Third, the decline and fall of the rouble zone reveals a great deal about how the other 14 successor states, and the societies living within them, viewed their relations with Russia and among themselves.

The 1990s were a difficult decade for the rouble, the Soviet currency that in 1991 became the common currency for all 15 post-Soviet states, and by 1995 had become Russia's currency alone. Within Russia the rouble was systematically rejected by firms and citizens in favour of complicated barter arrangements, leaving many important sectors of the Russian economy essentially demonetized. Several of Russia's provinces issued their own currencies, and many financial institutions and firms issued monetary surrogates, undermining the Russian state's monopoly on the definition of money. The rouble experienced prolonged bouts of severe inflation, its most recent period of stability ended by the financial crisis of August 1998. The Central Bank of Russia (CBR) in July 1993 announced, without warning,

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PUBLISHED BY FRANK CASS, LONDON
that all rouble notes printed between 1961 and 1992 would no longer be legal tender, leading to a crisis of Russians’ confidence in their monetary system. The behaviour of the second director of the CBR, Viktor Geraschenko, led the Harvard economist Jeffrey Sachs to call him, famously, ‘the world’s worst central banker’. The rouble fared little better outside Russia. The currency was subject to severe exchange-rate instability, and to repeated speculative attacks. Several post-Soviet governments rejected the ‘occupation rouble’ in early 1992 and introduced their own national currencies.

Although the International Monetary Fund (IMF) counselled post-Soviet governments to maintain their monetary union, the so-called rouble zone, the monetary relations among them were both chaotic and discordant until the union finally fell apart in the autumn of 1993. The experience of the rouble during the first post-Soviet decade illuminates three of the most important issues in the politics of Russia and the former Soviet Union. First, money was a critical nexus between economic reform and state building within Russia. Second, Russia’s internal debates about the rouble zone mirrored broader debates about Russian national and state identities, particularly as they related to the rest of the post-Soviet Eurasia. Third, the decline and fall of the rouble zone reveals a great deal about how the other 14 successor states, and the societies living within them, viewed their relations with Russia and among themselves. Analysis of the rouble thus offers insights into the nature of political and economic institutions, as well as social identities, in Russia and the other 14 post-Soviet states.

In this article I address all three of these issues. I observe, first, that Russia’s demonetization reflected the broader failure of Russian state institutions. In the next section, on Russia’s policies towards the rouble zone, I suggest that Russia’s ambivalence towards the monetary union reflected contrasting interpretations of Russian national and state identity: political elites within Russia could not agree whether Russia was a ‘Western’ or ‘Eurasian’ power, and whether its priority should be economic reform within or political influence outside Russia. Ultimately, Russia was forced to abandon the rouble zone because it could not afford such expensive influence.

Finally, in the third section, I show that the other post-Soviet governments themselves had contrasting interpretations of the rouble zone. Some, such as Lithuania, viewed the rouble zone as an instrument of Russian imperialism, while others, such as Belarus, operated as though the rouble zone was a mere convenience. These interpretations were derived from the identities of post-Soviet societies, and their national identities in particular. The content and contestation of the national identities of post-Soviet societies, I conclude, led to their contrasting policies towards the
rouble zone. Their national identities also, therefore, influenced their perspective on the independent currencies all of them had introduced by 1995. For some post-Soviet states an independent currency was a source of pride and autonomy, as well as a symbol of sovereignty. But for others an independent currency was seen almost as a liability that hampered their efforts to reintegrate the post-Soviet economic space.

**Money, Capitalism and the State in Russia**

The conventional wisdom about Russia's transition from state socialism to capitalism is that the Russian government did not go far enough in its efforts to reform the economy. This view is at best incomplete. An alternative view has emerged among a number of political scientists, namely, that the central problem of Russia's attempt to create capitalism was the weakness of its state institutions. In this way of thinking about the problem, some of Russia's reformers, as well as the Western economists advising them, had mistakenly assumed that institutions would be generated spontaneously by the process of reform. Indeed, the reformers' efforts to tear down the institutions of the Soviet state without building new institutions for the Russian state emerging in their stead was perhaps their single most consequential decision of the early 1990s. Regardless of whether or not Russia's reformers, by taking a different approach to reform, could have built new state institutions quickly enough to accommodate the profound economic changes under way, by the middle of the 1990s the Russian state clearly was unable to perform the most basic tasks of the modern state— to collect taxes, enforce laws and contracts, pay the salaries of bureaucrats and the military, provide social services, create infrastructure, project authority across the entire territory, and maintain a monopoly on the legitimate use of force. Modern states have almost always attempted to maintain a monopoly on the definition of money within their territories, and the vast majority have assumed the sole responsibility of issuing currency as well.

The Russian state lost its monopoly on the definition of money within its territory during the early 1990s. After the government freed most prices on 2 January 1992, barter, which had been common in the Soviet economic system, declined. Only two years later, however, barter re-emerged as a central feature of the new Russian economic system. Remarkably, the forms of barter had changed; Russia's emerging problem with barter was uniquely post-Soviet.

While Soviet-era barter networks had emerged to deal with shortages of goods, the post-Soviet barter networks arose apparently in reaction to shortages of cash. And the demonetization of the Russian economy was unmistakable. In January 1992, less than ten per cent of industrial sales were
completed by barter. But in January 1999, almost 50 per cent of industrial sales involved barter, with some estimates ranging as high as 70 per cent. Professional intermediaries began to organize the barter trade. Even more problematic, from the perspective of Russian federal authority, was the emergence of monetary surrogates, which existed primarily as local currencies. Political scientist David Woodruff astutely analyses Russia's problem of monetary consolidation, which he defines as 'state building in the monetary realm - the process whereby a state acquires a monopoly over the means of payment that is used across the territory it rules.'

The rise of barter in Russia was in large part a consequence of the centre-regional conflicts that plagued the Russian federal system. A complicated chain of events led to Russian firms' and local governments' departure from the rouble. In the middle of 1993 monetary policy changed substantially: the CBR attempted to tighten its control over the money supply within Russia and the entire post-Soviet region as well (of which more later). The moment of the CBR's most generous extension of credit to the country's ailing firms was ending, as was its very institutional authority to ensure its credit ended up in the appropriate accounts. In addition, when direct subsidies from the state to firms were cut, the demand for most industrial products collapsed. Partly as a result of these factors, many firms had accrued debts to suppliers, especially of energy and transport, that they could not afford. Firms, most decisively in the energy and transport sectors, began to accept payments in kind for debts; they were forced to make estimates of the worth - in roubles - of these transactions.

Of course, these firms' transactions created tax obligations, also denominated in roubles. Local governments began to accept payments in kind for taxes as well. They were forced to do so in part because these firms provided infrastructure and social services, in addition to employment, for the regions in which they were located. Legacies of Soviet industrial planning, these firms were integral to their local economies, much more than mere producers of goods and consumers of energy and transport services. Most could not simply go out of business. In addition, a number of commercial banks and firms, particularly influential fuel and power companies, began to deal with what they considered to be a serious shortage of cash roubles by issuing their own pseudo-currencies, including promissory notes called vekselya. Some regional governments, such as Tatarstan's, issued their own money substitutes as well.

Once this practice was institutionalized at the regional level within Russia it was almost inevitable that the federal government would have to deal with it in one way or another. Eventually, in late 1994, the federal government began to accept tax payments in kind as well. In 1996 this new federal practice reached its height when more than one-quarter of the
government's revenue was 'non-cash'. The federal government encountered considerable difficulty weaning itself off of in-kind tax payments during the latter half of the decade.

Thus, according to Woodruff, 'it was Russian provincial governments that challenged the central state's exclusive claim to monetary sovereignty'. That is, monetary innovation in the regions undermined the Russian state's authority over what citizens and firms considered money. Not only was the state's power thereby undermined, but these troubles of the rouble encouraged disintegrative trends in the Russian economy. Economic policy-making in general, including monetary policy, was in turn made enormously difficult, since the Russian economy never became a single monetary space. This struggle between the centre and the regions appeared in other areas of the economy as well, more visibly in the federal government's authority and ability to collect taxes. At the end of the 1990s it had become clear that the challenge to rebuild the authority of the Russian state was daunting, to say the least. The Russian state lacked autonomy (the independence of state institutions from societal pressure), capacity (the ability and effectiveness of the state to perform its basic political and economic functions), and legitimacy (society's belief in the state and consent about its social purpose). Russia's trouble with the rouble was one of the most visible symptoms of state weakness. Demonetization and the other negative consequences of declining state capacity were, unfortunately, mutually reinforcing.

**Russia and the Rouble Zone**

The rouble zone – the monetary union shared by all 15 post-Soviet states in 1991 – collapsed in fits and starts during 1992 and 1993, finally disappearing in May 1995. The monetary union disintegrated for two primary reasons. First, several post-Soviet governments considered their membership in the rouble zone illegitimate, a limitation on their newly acquired sovereignty. So, in the middle of 1992, these autonomy-minded governments exited from the rouble zone and introduced independent currencies. Still, nine post-Soviet states remained as late as July 1993, when Russia destroyed the monetary union. The governments of many of these states indicated that they were quite content with their membership of the zone. Clearly the monetary union could, in one form or another, have lasted for a while.

Thus, the second reason the monetary union disintegrated was Russian policy itself, and in particular its reversal between the end of 1991 and the middle of 1993. Russia initially sought to hold the monetary union together. This policy reflected the Russian government's intention to maintain
influence in the near abroad, influence for which Russian policy-makers were prepared to pay. The Russian government linked its trade in energy to the region’s monetary politics. After the collapse of Soviet institutions, Russia continued to subsidize production in the other successor states with hugely discounted energy and raw materials, by some estimates at 60 to 70 per cent below world prices. Russia offered this deal only to rouble-zone members, however, a fact that created incentives for nearly all post-Soviet states to remain in the union. Russia’s policy was the classic monetary diplomacy of great powers, which have often sought to cultivate what the political scientist Jonathan Kirshner calls the ‘monetary dependence’ of less powerful states for the sake of increased influence.¹⁰

Rouble-zone membership turned out to be materially beneficial to the non-Russian members also for reasons having to do with its institutional design, a fact that created another problem for Russian policy makers. The problem turned out to be straightforward: a single currency shared by 15 independent monetary authorities.¹¹ The CBR controlled the printing presses, so it alone could create cash (nalichnye) roubles. Before 1991 the Soviet state bank, Gosbank, had local branches in all the republics. After the dissolution of the Soviet state, those local branches of Gosbank became the central banks of the newly independent states and could create non-cash (beznalichnye) roubles by emitting credit. This institutional structure not only led to a competition for seigniorage among post-Soviet states, problem enough for a monetary union: the non-Russian successor states also found that they could finance their trade deficits with Russia by issuing credit to local commercial banks, which could extend it to local importers, with the resulting rouble credit balances ending up in the accounts of the CBR. Because Russia had a trade surplus with all the other post-Soviet states in 1992, these 14 financed their deficits with roubles they created themselves. The result was a transfer of real resources from Russia, in addition to the implicit subsidies Russia already offered the successor states with its energy and raw materials discounts.¹²

Another problem was the lack of a single Russian policy towards the monetary union. The executive branch of the government and the CBR expressed contrasting views and undertook divergent policies on the rouble zone, operating frequently at cross-purposes. President Yeltsin and his economic team, as the political scientist Juliet Johnson shows, ‘increasingly began to regard the rouble zone as an economic liability, as it became clear that most other rouble-zone members preferred to reform their economies at a relatively slower pace’. Meanwhile, the CBR under Geraschenko sought to maintain the rouble zone under its own authority.¹³

The first Russian attempt to restrain the largesse of the other rouble-zone states came in the summer of 1992. On 21 June 1992 President Yeltsin
warned rouble-zone members that they would have to accept CBR control over their credit emissions and issued a decree that the Soviet-era rouble was now Russian.\textsuperscript{14} Still Gerashchenko's CBR regularly exceeded the limits the Yeltsin government tried to impose on the credits extended directly from Russia to the other states.\textsuperscript{15}

A little later, on 1 July 1992, the CBR began keeping separate rouble accounts for each state.\textsuperscript{16} This meant that, although the central banks of the other states could still create credit, the CBR would begin to keep track, bilaterally, of which banks issued how much and where it ended up. The beznalichnye roubles were no longer all alike: Belarusian credit, for example, was distinct from Ukrainian credit, and clearly distinct from CBR credit. In August 1992 the Russian government announced that other post-Soviet states could now trade directly with Russian exporters through commercial banks rather than through their respective central banks. Importers of Russian goods now needed credit issued by the CBR. Credit created by the other central banks became useful only within the state whose bank created it. Each state had its own version of the rouble circulating in banks, though all shared the same rouble circulating as cash. Finally, in April and May 1993, the CBR suspended altogether other rouble-zone members’ power to create credit.\textsuperscript{17}

During the first half of 1993, as the Russian government and the CBR were attempting to rationalize the credit emission of the other central banks in the rouble zone, the CBR was also issuing new rouble notes. These new notes were distinctively Russian roubles, in contrast to the Soviet roubles, with their picture of Lenin and 15 languages of the constituent republics, that had been circulating until then. The CBR kept nearly all these Russian roubles within Russian territory, continuing to send the old notes to the other rouble-zone members. On 24 July 1993, the CBR announced that all roubles printed before 1993 would no longer be legal tender in Russia as of 26 July, and that they could be exchanged at a set rate within Russia.\textsuperscript{18}

It is not yet clear whether President Boris Yeltsin or Prime Minister Viktor Chernomyrdin approved Gerashchenko’s move in advance, but Finance Minister Boris Fedorov was apparently caught unawares.\textsuperscript{19} Fedorov complained publicly and bitterly about the currency exchange, calling it ‘stupid, scandalous, and senseless’.\textsuperscript{20} The fact that the president’s and prime minister’s offices immediately issued separate statements with revisions both to the timetable and to the limits on the currency exchange, and also different logics for the move, suggests that the CBR had not fully coordinated its actions with other institutions within the Russian state.\textsuperscript{21} The parliament was caught completely unprepared and complained about the move.\textsuperscript{22} Perhaps most surprised were the other rouble-zone members themselves, since Russia had agreed to inform them before adopting any
currency reforms. In any case, the purpose of the currency reform was the subject of much debate within Russia and abroad. Fedorov, for example, assumed that Gerashchenko had sought to undermine popular support for the reform process and demanded his resignation.23

In retrospect it seems that the CBR’s primary reason for the currency reform was to settle the issue of authority within the rouble zone once and for all.24 ‘Russia appears to have achieved the main objective of its currency reform’, the Financial Times’s John Lloyd reported: Gerashchenko ‘said yesterday that the forced exchange of pre-1993 roubles had compelled former Soviet republics still using the Russian currency to opt in or out of the rouble zone’.25 Gerashchenko continued to explain the currency reform as a policy directed towards rouble-zone members that had not either accepted CBR authority or introduced their own currencies.26

In addition, the Russian government’s and CBR’s view of the function of the rouble had been changing in the months leading up to the July 1993 decision. In 1992, the CBR under Gerashchenko, the directors of industrial firms, and some members of the Russian government argued that monetary policy should be used to maintain the links among firms. A prominent view held that some of the country’s economic problems stemmed from the fragmenting of links among Russia’s and the post-Soviet region’s otherwise productive firms. Eventually the CBR recognized its limited ability to maintain the production links among firms by providing money. When the rouble’s role in Russia’s economy came increasingly to be seen in more conventional – and capitalist – terms, the maintenance of the links among Russian and other states’ firms also lost importance as a goal of the CBR’s policy. Thus, the diminishing influence of what Woodruff calls the ‘national productivist project’ undermined one logic the CBR might have used to support the rouble zone.27

After several weeks of monetary chaos, during which four former republics announced their plans to issue independent currencies immediately, Gerashchenko and the Russian government offered the five post-Soviet states still using the old Soviet rouble a reconstituted monetary union. This rublevaya zona novogo tipa (‘rouble zone of a new type’) was to be orderly and centralized. In exchange for the material benefits of a currency union with Russia, governments that joined the new-type rouble zone agreed to let the CBR make monetary policy for them all.28

The terms the government demanded of prospective members of the new-type rouble zone called Russia’s commitment to monetary union into question, however. The new cash roubles would indeed be given to rouble-zone members, but as state credit; the central banks of member states would be obliged to pay interest to the CBR as if the rouble notes were a loan. Russia also insisted that rouble-zone members deposit at the CBR hard
currency or gold worth 50 per cent of the value of the rouble ‘loan’. Prospective members considered the rate of exchange from old roubles to new to be, at three for one, confiscatory. And members of the new-type rouble zone were required not to introduce an independent currency for a period of five years.²⁹

Almost all the prospective members of the reconstituted monetary union interpreted these conditions as ‘impossible’, not least because they simply did not have hard currency or gold worth 50 per cent of the value of the rouble notes. Even if they had, they would have had difficulty affording imports, with so much of their foreign exchange deposited at the CBR. The prospective members complained that Russia had intentionally destroyed the rouble zone and any chance for its resurrection. Except for Tajikistan, mired in its civil war, they all introduced independent currencies, protesting that they had been forced to do so. It is still not clear whether the Russian government and CBR really expected the prospective members of the new-type rouble zone to accede to their demanding conditions or, for that matter, which of them designed the conditions in the first place. Whatever the case, one incontrovertible conclusion is that the debate within the various institutions of the Russian state, including the executive branch and central bank, was by autumn 1993 settled in favour of those who did not want to continue to pay such a high price for the influence given by the rouble zone.³⁰

Thus, the evolution of Russia’s relationship to the rouble zone was closely related to two important debates within Russian society and government, the first of which directly implicated the rouble zone. Members of the political elite differed sharply on the rouble zone, particularly as it related to Russia’s attempts to transform its own economic institutions. Clearly Yeltsin and Gerashchenko did not always agree on monetary relations with other post-Soviet states, but neither man’s motivations seemed clear. The debate was perhaps epitomized best by the disagreements between Yegor Gaidar and Boris Fedorov, on one side, and Viktor Chernomyrdin, on the other. Gaidar and Fedorov, liberal reformers, argued that the rouble zone complicated Russia’s economic reform and stabilization, and that Russia should shed the economic burdens of empire to concentrate on the creation of capitalist economic institutions. By contrast, Chernomyrdin sought to hold the rouble zone together in order to institutionalize Russian regional hegemony and its influence in the near abroad.

This debate over the rouble zone was necessarily linked to a broader foreign policy debate within Russia over its status in relation to the other post-Soviet states. At issue was the meaning of both the Russian nation and the Russian state. The theoretical distinction between national and state identities is important in general, and crucial for understanding the
conceptual challenges facing the Russian political elite after the collapse of the Soviet Union. National identities are informed by domestic societies, whose identities refer to the population of a state rather than to the state itself. State identities are informed by international norms, which specify how certain categories of states (for example, civilized states, European states, welfare states) are both regulated and constituted by the practical content of international society. The political scientist Peter Katzenstein summarizes the position thus: ‘State identities are primarily external; they describe the actions of governments in a society of states. National identities are primarily internal; they describe the processes by which mass publics acquire, modify, and forget their collective identities.’

For Russia, as for the other 14 post-Soviet states, debates about the content of societal – and especially national – identities were consequential for their international relations. National identities vary – from society to society and over time – in two primary ways: in their content and contestation. The content of a national identity includes definitions of membership of the nation, the fundamental purposes of statehood, and the states that threaten those purposes. A national identity’s content is inherently directional, not least because nations are often imagined to have a most significant ‘other’, against which they are defined. Because nationalist movements arise in interaction with (and in opposition to) other nationalisms and states in the international system, the formative contexts of nationalisms influence their goals. The other variable, contestation, is closely related, because societies collectively interpret their national identities.

Every society has nationalists, who seek to define the content of their society’s collective identity. Not everyone in society, however, always agrees with how the nationalists seek to construct their identity. Nationalists can only offer proposals for the content of societal identity; they cannot dictate the content. Specific interpretations of the goals of the nation are sometimes widely shared in a society, and sometimes less widely shared. The further apart the contending interpretations of national identity, the more that identity is fragmented into conflicting and potentially inconsistent understandings of what the goals of the nation should be.

Within Russia debates about the meaning and purpose of the nation implicated both history and foreign policy. The process of contestation was clear, as the Soviet Union was unraveling in the late 1980s, and continued throughout the decade. At the centre of these debates was how Russia would deal with what many inside and outside the country considered to be the end of its empire. Should Russia attempt to maintain its influence, formal or otherwise, in the former Soviet Union, or should it concentrate on its domestic troubles? The debate was complicated by the fact that ‘Russia’, as the territorial state it was in the 1990s, never existed before 1991. Prior to
1917, ‘Russia’ was Tsarist Russia, an empire ruled by the Romanov dynasty. That empire covered most of the territory that, after the Russian Revolution, became part of the Soviet Union. The ‘Russia’ that existed in Soviet times was one of 15 constituent Soviet republics. And according to some observers, most clearly in Soviet republics that did not accept Soviet authority, the Soviet Union was itself a kind of renewed Russian empire.33

One of the main problems facing Russia, then, was to define itself as a nation-state for the first time, after a history of being at the centre of the tsarist empire and the Soviet Union.34 Russia’s debates about its national and state identities have been dissected in a variety of ways. In 1989 the historian Roman Szporluk distinguished between ‘empire-savers’ and ‘nation-builders’.35 Political scientists have offered more complex divisions.36 Karen Dawisha and Bruce Parrott explicated five categories of Russian foreign policy attitudes: Westernist; Eurasianist; Great Power; Isolationist, or Slavophile; and Extreme Nationalist.37 Astrid Tuminez, in her analysis of Russian nationalism, identifies four distinct traditions: statist nationalism; liberal nationalism; Westernizing democracy; and national patriotism.38 And, most recently and specifically on this relationship, Ted Hopf distinguishes four conceptualizations in the debate about Russian identity: New Western Russian; New Soviet Russian; Liberal Essentialist; and Liberal Relativist.39

It is beyond the scope of this article to review these distinctions, but clearly there was little agreement within Russia about the purposes and scope of its nation, or about what kind of state post-Soviet Russia ought to become. A defining issue in these debates was the appropriate relationship between Russia and the other former Soviet republics. The rise and fall of approaches to that issue within the government influenced how the Russian government understood its role in the near abroad, both directly – by offering specific interpretations of and motivations for Russian influence in the region – and indirectly, because the very lack of agreement prevented Russia from undertaking a consistent foreign policy over the course of the decade. The lack of a coherent approach to the rouble zone was symptomatic of a lack of agreement on how and whether to pursue Russian regional hegemony.

**Other Post-Soviet States and the Rouble Zone**

In the previous section I argued that Russia itself destroyed the rouble zone in the summer and autumn of 1993. But Russia’s cannot be the entire story of the decline and fall of the rouble zone; the other post-Soviet states also influenced how and when the monetary union disintegrated. Before Russia’s policies towards the rouble zone changed in 1993, five post-Soviet states –
Estonia, Latvia, Lithuania, Ukraine and Kyrgyzstan – had already left. The rest reacted differently to the 1993 currency reform. Four – Azerbaijan, Georgia, Moldova and Turkmenistan – reacted to Russia’s destruction of the rouble zone by rejecting the possibility of currency union, while the other five – Armenia, Belarus, Kazakhstan, Tajikistan and Uzbekistan – attempted to reconstitute it with the new-type rouble zone. Thus, the post-Soviet monetary union collapsed during three distinct moments. This raises another compelling question regarding the rouble: what accounts for the variety of post-Soviet governments’ policies towards the rouble zone? Why did some post-Soviet governments leave the rouble zone immediately, while others intended to delay introducing an independent currency indefinitely?

The First Wave: Summer and Autumn 1992 and Spring 1993

There was never any chance that Estonia, Latvia and Lithuania would remain in the rouble zone. The political elites in the three Baltic states had been planning to introduce independent currencies since the late 1980s. In 1989, all three adopted plans for increased economic autonomy, plans that outlined their intentions to create their own currencies.40 With the collapse of the Soviet Union in 1991, the governments of all three states made more concrete plans to leave the rouble zone. The IMF’s ominous warning – that departing from the rouble zone was tantamount to ‘economic suicide’ – mattered little to the newly independent states. Nor were they dissuaded by the IMF’s threat that any post-Soviet state introducing a new currency would not be entitled to IMF financing.41 Highly dependent on energy and raw materials imports from Russia, and therefore three of the largest beneficiaries of rouble-zone membership, Estonia, Latvia and Lithuania ‘were expected to experience very large immediate income losses’ as a result of their monetary choices.42 The Baltic states had a great deal to lose, in material terms, by their policies of monetary autonomy. The prospect of economic sacrifice for a national goal added drama to what might have appeared to be a technical decision.

The decision was anything but technical in Estonia, the first state to leave the rouble zone in June 1992 when it introduced the kroon.43 On June 22, at the Viljandi ‘Ugala’ Theatre in Tallinn, Estonians held the Kroon Ball to honour the symbol of their monetary sovereignty. Stories circulated of Estonians buying new wallets for their new kroons.44 Latvia quickly followed Estonia’s move. After having introduced a parallel currency, the Latvian rouble, the government withdrew Russian roubles from circulation and established an independent monetary authority by the end of July 1992.45 And Lithuania issued the talonas as a provisional currency in October 1992, simultaneously withdrawing roubles from circulation.46 The primary difference among the Baltic states’ monetary strategies was their
choice of external nominal anchors. The Estonians pegged the kroon to the German mark; the Lithuanians pegged the litas to the US dollar; and the Latvians let their lat float. Otherwise, these three governments were similarly motivated to reject the ‘occupation rouble’, a symbol, they suggested, of Russian imperialism.\footnote{47}

Ukraine was next to leave the rouble zone, in November 1992. But the Ukrainian government appeared less decisive than the Baltic governments had been. Originally Ukraine had made ambitious plans in the spring of 1992 to introduce an independent currency and reorient the economy away from Russia and towards the West. As early as March 1992 President Leonid Kravchuk had outlined a plan to achieve economic autonomy from Russia.\footnote{48} Politicians lacked consensus on the move, however, and powerful economic actors vigorously opposed the plan. In the end Kravchuk’s radical autonomy plan was tempered, and the new currency was postponed.\footnote{49} Ukraine’s temporary currency, the karbovanets, lasted from November 1992 until September 1996, when the hryvnia was introduced.

Kyrgyzstan introduced its som in May 1993, but not as part of an attempt to achieve greater economic autonomy from Russia. Rather, the IMF convinced President Askar Akaev to introduce a new currency as part of an economic reform package.\footnote{50} Obviously the IMF had dramatically changed its approach to the rouble zone, and by the middle of 1993 was urging independent currencies on all post-Soviet states.\footnote{51} The IMF’s policy reversal undermined its credibility among post-Soviet governments, and it was able to convince only Kyrgyzstan to follow its new lead.

\textit{The Second Wave: Summer 1993}

Russia’s surprise currency reform in July 1993, described above, forced the remaining nine rouble-zone members to choose their monetary futures more decisively. Azerbaijan, Georgia, Moldova and Turkmenistan reacted to Russia’s decision by moving to introduce independent currencies.\footnote{52}

Azerbaijan, like Ukraine, had planned to introduce an independent currency much earlier but was delayed by internal political disagreements about the decision. In June 1992, after Abulfaz Elchibey, head of the Azerbaijani Popular Front, was elected president, the Azerbaijani government withdrew from the Commonwealth of Independent States (CIS) and proposed ambitious plans for economic autonomy, including, of course, a new currency. In August 1992 Azerbaijan introduced the manat as a supplemental currency and planned to abandon the rouble completely in June 1993. However, when, a few days before the currency changeover was to take place, rebels overthrew Elchibey’s government and returned the former communist boss Heidar Aliiev to power, Azerbaijan delayed the move until after Russia forced a decision. Aliiev’s return to power signalled
a broader rapprochement with Russia, as Azerbaijan also re-entered the CIS. Similarly, Georgian and Moldovan nationalists had intended to introduce independent currencies and leave the rouble zone in early 1992, only to have their plans delayed by a lack of domestic political consensus and their eventual fall from power as well. The Georgian menati and Moldovan leu were introduced in August and November 1993.

For Turkmenistan the monetary disorder unleashed by Russia in July 1993 was a crucial moment, helping to convince the government that Russia was essentially an unreliable economic partner. Turkmenistan reacted by announcing that it would leave the rouble zone as quickly as possible and would not consider monetary reintegration. The manat was introduced, finally, in November 1993.

The Third Wave: Autumn 1993

Armenia, Belarus, Kazakhstan, Tajikistan and Uzbekistan reacted to the July currency reform by insisting that they would remain in the rouble zone. In practice this meant that these five states continued to use the old, pre-1993 rouble notes that were no longer legal tender even in Russia. They could not print more of the Soviet roubles, though several had issued currency supplements to provide enough liquidity for their economies to function. Still, the governments of these states hoped that Russia would offer a way to reconstitute the monetary union.

These hopes were ostensibly and momentarily realized in August and September 1993 when they, along with Russia, agreed to create the above-mentioned ‘new-type’ rouble zone. When it became clear that Russia’s conditions for membership in the new monetary union were unacceptable, primarily because these states could not afford the hard-currency deposit, Armenia, Belarus, Kazakhstan and Uzbekistan introduced independent currencies in November 1993, complaining bitterly all the way out of the rouble zone. As President Nursultan Nazarbaev of Kazakhstan explained to his parliament, “We made all possible concessions, but now Moscow has asked us to do the impossible – hand over billions of dollars.” Russia had, by their assessments, forced these governments to introduce independent currencies. Only Tajikistan, in the chaos of its civil war, continued to use the rouble until May 1995, by which point Russia had distributed the new rouble notes to the war-torn country for ‘humanitarian’ reasons. And although Belarus continued to negotiate its return to the Russian rouble throughout 1993 and 1994, even agreeing in principle to monetary union with Russia periodically between 1996 and 1999, by the end of the first post-Soviet decade only Russia continued to use what was now a distinctively Russian rouble.
National Identities of Post-Soviet Societies

Debates within post-Soviet societies about their national identities influenced their governments’ interpretations of and policies towards the rouble, and these varied quite dramatically. After 1991, nationalist movements in each post-Soviet state offered proposals for the content of their society’s national identity. Among post-Soviet states levels of nationalist mobilization were uneven, as was the success of nationalist political parties in winning popular support for and implementing their agendas.

As domestic political alignments within post-Soviet states emerged in the 1990s, the former communists’ reactions to the nationalists were the most consequential – and revealing – politically. During the first post-Soviet decade, the defining political difference among the 14 non-Russian states was the relationship between the formerly communist elites and the nationalists in each: whether the former communists marginalized the nationalists, co-opted them, or tried to become like them. These different relationships indicated the degree of consensus among them about the purposes of nationhood and statehood after Soviet rule.

These politics of national identity influenced the economic strategies chosen by post-Soviet governments, and for almost all of them monetary choices were part of broader strategic objectives. Almost all nationalist movements and parties throughout the former Soviet Union advocated the creation of a national currency for their newly independent states. Currencies, they tended to argue, would insulate their economies from Russia’s, ensure autonomy from the CBR, and serve as a powerful symbol of statehood. Nationalists also asserted that autonomy from Russia was worth any costs and that appropriate rewards would accrue to future generations of the nation.

Many disagreed with the nationalists’ views of monetary autonomy and sacrifice. Other groups, notably the powerful industrialists and other organized business interests, in every state opposed the introduction of an independent currency and departure from the rouble zone. Monetary union served their interests well, certainly better than the uncertain benefits of a new currency that separated them from their historical production links and, perhaps even worse, ensured that they would face world prices for imports of energy and raw materials. These two basic views of the rouble zone were incompatible. Post-Soviet societies and politicians were forced to choose: they could side either with the nationalists and leave the monetary union, or with the industrialists and accept the authority of the CBR.

Post-Soviet societies can be divided into roughly three groups according to how they resolved these internal debates, which is a preliminary indicator
of the content and contestation of their national identities. First, there are those societies with national identities whose content, proposed by nationalist movements and parties, was widely shared. In Estonia, Latvia and Lithuania, nationalists came to power and influenced public debates about economic strategy so that the entire political spectrum, including most former communists, embraced the nationalist agenda of economic reorientation from Russia. In Armenia, where national identity was also coherently and widely shared, the nationalist agenda also became ascendant, but it was unique among post-Soviet nationalists movements in its generous interpretation of Russia as a historical ally against Muslim neighbours.62

Then there were those societies in which the nationalists' proposals for the content of their national identities was heavily contested, with significant regional variation in mass public interpretations of their collective identities. Azerbaijan, Georgia, Moldova and Ukraine fall into this category, and they demonstrate how the preferences of the first post-Soviet governments were insufficient to achieve their goals. This was true, first, because of a failure of public resolve, since the goals of the governments were not as widely shared as in other societies—for example, in the Baltic region. Also, especially in the case of Azerbaijan, Georgia and Moldova, internal state weakness and contestation of state purpose within the society allowed Russia to influence their domestic politics and affect military and economic outcomes. It was not that the governments of these four states preferred their ambivalent monetary strategies; rather, their erratic strategies and relatively late decisions to leave the rouble zone were the product of the interaction among varying government preferences, the ambivalence of their societies' collective identities, and the limited capabilities of their states to resist Russian influence.

Finally, there were those societies whose collective interpretation of their national identities was either ambiguous, incoherent, fragmented or highly contested: Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. In these states, anti-Soviet, anti-Russian, and anti-CIS agendas proposed by nationalist groups were largely rejected by most other actors, and by former communists most aggressively. In 1992 and 1993, their governments did not interpret monetary dependence on Russia as a threat to state security or economic autonomy. They accepted rouble-zone membership because their leaders believed that it was at least a partial solution to the difficult economic situation they faced, despite the obvious limitations on their monetary sovereignty. The currencies that Russia eventually forced them to adopt after 1993 did little to rally their societies around a renewed, shared vision of the purposes of their nations and states.
Conclusions

The story of the Russian rouble in the 1990s implicated the nationhood and statehood of the 15 former Soviet republics. Within Russia, barter, demonetization and the rise of surrogate monies reflected one aspect of the weakness of state institutions. Russia’s trouble with the rouble epitomized the challenges of state building and institution-creation facing political leaders, and related to some of the other most visible economic problems of the decade, including the government’s persistent fiscal woes and disintegrative trends in the regions. The rouble revealed the incompleteness of Russia’s post-Soviet sovereignty.

In addition to what the rouble indicated about the state as such, Russia’s ambivalent policies towards the rouble zone resulted from ambivalence about the specific role of the Russian state – in short, its identity – in international relations, as well as contending interpretations of the social purposes ascribed to Russian nationhood. Debates within Russia about how to define a historically unique Russian nation-state, particularly in relation to the near abroad, influenced the government’s and CBR’s approaches to the monetary union that all post-Soviet states inherited. Central to these debates was the decision – implicit in the debate about whether to focus on domestic reform and abandon the rouble zone or to subsidize its continued existence – to cultivate economic influence in the other Soviet successor states. It became increasingly necessary, in the face of declining resources, to clarify and justify the underlying reasons for constructing Russia as a ‘Eurasian’ great power.

Finally, the rouble’s place in the region revealed a great deal about the political and economic relations between Russia and the other 14 former Soviet republics. The monetary arrangements of post-Soviet Eurasia were characterized by a complex mixture of disintegration, proposals for reintegration, and ultimately the proliferation of 15 new currencies – some of which were cherished by the societies that chose them as markers of their sovereignty and enhancements of their autonomy, and others of which were treated with scepticism by the societies on which they were forced. At the centre of it all was the rouble, which post-Soviet governments interpreted in contrasting ways. Some considered the rouble a symbol of Russian imperialism, while others saw it as a useful mechanism for economic reintegration with Russia and the rest of the post-Soviet region. The national identities of post-Soviet societies decisively influenced their governments’ interpretations of the rouble and preferences for the economic future of the region.

Those national identities also influenced the identities they tried to choose for their new states. The international community considered them
all merely ‘post-Soviet’, but some of them insisted they were ‘European’. In a number of Soviet republics, nationalist movements in the 1980s had not only been anti-Soviet and anti-Russian, they had been pro-European as well. This was especially true in the western borderlands, as nationalists in Belarus, Estonia, Georgia, Latvia, Lithuania, Moldova and Ukraine insisted that their cultures were inherently European and that their states should ‘return to Europe’.

For many of these nationalists, an orientation away from ‘Eurasia’ and towards ‘Europe’ were equivalent. In Lithuania, for example, a member of the Lithuanian parliament, the Seimas, explained to the historian Timothy Garton Ash that ‘Europe is ... not-Russia’. Drawing a mental map of Europe that excluded Russia involved some creativity, however, because Lithuanians, like their neighbours, tended to commemorate their state’s location in the ‘centre’ of Europe, not its ‘east’. Just north of Vilnius is the Europas Parkas, ‘Open-Air Museum of the Centre of Europe’. Founded in 1991, the Europe Park is located at the geographical centre of Europe, at least as it was determined by the French National Geographic Society in 1989. Of course, the Europe Park can only be at Europe’s centre if its eastern boundary is the Ural Mountains in Russia. Despite the inconsistency, both meanings of Europe – Russia’s exclusion and Lithuania’s centrality – were important to Lithuanian national identity in the 1990s, because they suggested that the nation lived in a ‘European’ state. And Lithuania, along with Latvia and Estonia, sought to enter the EU and join Europe’s monetary union. They may, in the medium term, succeed in acquiring the European currency, but if so they will probably be the only three of the 15 to have exchanged the Soviet rouble for the euro in the space of a generation.

NOTES


15. Johnson, Fistful of Rubles, p.89.


19. In his memoirs Boris Yeltsin claims that he knew about the currency exchange in advance: see his Struggle for Russia (New York: Belka, Times Books, 1994), pp.218–22. Of course, some sort of currency exchange had been considered for some time, so one might speculate that Fedorov strategically overstated his objections to Geraschenko’s move.


27. On this ‘productivist’ logic in Russian monetary policy, see Woodruff, Money Unmade, Ch.3.

28. The agreement, negotiated for little more than a month, was ‘Soglashenie o prakticheskikh merakh po sozdaniyu rublevoi zony novogo tipa’ [Agreement on Practical Measures for the Creation of a Rouble Zone of a New Type], Moscow, 7 Sept. 1993.


30. For a perceptive argument that Russia’s fiscal constraints have systematically prevented it from reasserting its influence in post-Soviet Eurasia, see Henry Hale, ‘Russia’s Fiscal Veto on CIS Integration’, Program on New Approaches to Russian Security Policy Memo No.15 (1997).


32. For further elaboration of these ideas, see Abdelal, National Purpose, Ch.2.


46. In June 1993 the litas, the permanent currency, was introduced: see Yuri Stroganov, 'Litva vvodit svoyu valyutu' [Lithuania Introduces Its Own Currency], Rossiiskaya gazeta, 24 June 1993; Andrius Uzkalnis and Peter Morris, 'Litas to Replace the Talonas', Baltic Independent, 25 June 1993; and Abdelal, National Purpose, Ch.4.

47. See 'Kroons, Lats, Litas', The Economist, 3 July 1993.


52. See, for example, 'How the Republics View the Ruble Purge', Associated Press, 26 July 1993.


59. For more on Belarus's foreign economic policy, see Abdelal, National Purpose, Ch.6.

60. This explanation for the politics of the rouble zone departs significantly from existing scholarship. Elsewhere I show that neither the theory of optimum currency areas, nor the institutional design of the monetary union, nor the differential material incentives resulting from post-Soviet energy trade can adequately account for the timing and motivation of the three moments of the rouble zone's collapse: see Abdelal, 'National Strategy and National Money'.


62. See, for example, Nora Dudwick, 'Armenia: Paradise Lost?' in Bremner and Taras (eds.), New States, New Politics.
