BOOK REVIEWS

Socioeconomic Systems of Russia since the 1850s
Ernest Raiklin
Council of Social and Economic Studies, 732 pages, 2007

The book describes the economic and some of the political developments in Russia and the Soviet Union since the start of the 20th century. In some cases, the author discusses the causes of these developments, but mostly the book provides a description of events rather than their analysis. Finally, the author suggests possible scenarios for the future of Russia.

The most interesting part of the book is the analysis of Soviet ideology and its evolution. It would be worth reading for those interested in Russian and Soviet history. The author persuasively argues that the Soviet version of Marxism, while impossible to define precisely, was a form of religion. It displayed many qualities of a religion and its followers behaved like disciples of a religion. This is an interesting take on the Soviet ideology, which helps in getting a fuller picture of Soviet life.

When describing the evolution of the Soviet economic model the author illustrates how moral and ethical values changed in the Soviet Union over time. He shows how and why the 'faith' in the new religion of communism morphed and eventually faded. The ensuing corruption, in all meanings of the word, is what eventually brought down the Soviet system. The picture painted by the author is vivid and the analysis is interesting and informative. The evolution of ideology and of ethical and moral values likely was a nontrivial contributor to the changes in Soviet economic system. The author presents an intriguing description of these changes, which would be of interest to those studying Soviet history.

The majority of the book, however, is devoted to presenting statistical data about the Soviet and Russian economy. As an economist, I expected the data and its analysis to be the most interesting part of the book. Unfortunately, in many cases, the data presentation in the book is extremely confusing, the reliability of data is suspect, the interpretation of data is often missing or misleading, and some data are simply

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inaccurate. In addition, the author seems to have a poor grasp of economic theory. As a result, the quality of the economic analysis in the book is questionable.

On several occasions, the author makes statements regarding economic theory that are simply untrue. For example, in the introductory chapters the author claims '… the theory of markets is a theory of *free* markets, of the interchange between *free* economic individuals, *regardless* of the degree of market imperfections. … This type of reasoning denies the existence of markets, for instance, in Soviet-type societies' (p. 9, italics in the original). Economic theorists never claimed that markets cease to exist in a Soviet-type economy. Economists were well aware of the existence of markets not only in Soviet-type societies, but even in much more restrictive circumstances, such as in P.O.W. camps (see R. A. Radford, "The Economic Organization of a P.O.W. Camp", *Economica*, vol. 12, 1945).

In fact, one of the central messages of economics is that market forces always exist and people respond to incentives no matter which political system they live under. To the extent that the Soviet Union was unable, or unwilling, to completely restrict human behavior, market forces manifested themselves. This is a well known and completely unsurprising fact.

There are other instances of similarly inaccurate claims. For example, 'Countries of mixed capitalism, as a rule, had and have as their goal the attainment of a positive trade balance' (p. 343). This is simply untrue and has no basis in economic theory. The author also claims that, 'true to the law of free markets,' export licenses should be sold to the highest bidder (p. 623). It seems to not have occurred to him that, true to the spirit of free markets, free trade is preferred and export licenses should not exist at all.

An example will illustrate more fully the problems with the quality of data and economic analysis in the book. This example comes from the part of the book which discusses the post-Soviet transition years. On the next page is an exact reproduction of Table 8.3 from the book (p. 598), omitting only the references to the endnotes.

Table 8.3 Real GDP and Money Supply, 1995-2003

Years	Nominal GDP, bln. rubl.	GDP deflator, times to 1995	Real GDP, bln. rubl. (nominal GDP to GDP deflator)	M2, bln. rubl.	M2 to real GDP, percentage	M0, bln. rubl.	M0/M2, percentage
1	2	3	4	5	6	7	8
1995	1428.5	1.0	1428.5	97.8	6.8	36.5	37.3
1996	2007.8	1.5	1338.5	220.8	16.5	80.8	36.6
1997	2342.5	1.8	1301.4	295.2	22.7	103.8	35.2
1998	2629.6	2.16	1217.4	374.1	30.7	130.3	34.8
1999	4823.2	3.672	1313.5	453.7	34.5	187.7	41.3
2000	7305.6	5.1408	1421.1	714.6	50.3	266.1	37.2
2001	8943.6	6.16896	1449.8	1154.4	79.6	418.9	36.3
2002	10834.2	7.402752	1463.5	1612.6	110.2	583.8	36.2
2003	13285.2	8.1430272	1631.5	2134.5	130.8	763.2	35.8

The endnotes corresponding to the table indicate that the data came from *The Russian Statistical Annual*, *2004*, the official publication of the government's statistical agency. (The reader should note that in the official Russian statistics M2 consists of currency in circulation and bank deposits and M0 consists of currency in circulation only).

In the discussion following the table, the author claims that the ratio of M2 to real GDP in 1990s indicates that the Russian economy was 'starved' by inadequate money supply. Moreover, '… if we consider M0 only, we can see that money supply even in the 2000s was far from adequate' (p. 598). According to the author, an adequate level of money supply is 'at least 70 percent of real GDP' (p. 598). This idea is repeated later in the book, where the author claims that the inadequate money supply was the result of the tight monetary policy and led to a situation where '… money served only 12-15 percent of Russian GDP, while in developed countries the share was around 70-100 percent' (p. 656). According to the author, this 'inadequate' money supply has led to widespread wage arrear, barter transactions, and dollarization of the Russian economy.

Let's examine the data presented in the table and the conclusions the author draws from them. The first thing that looks suspicious is the ever increasing precision in the GDP deflator values, which increases from one decimal place in 1995 to seven decimal places in 2003. The reason for this is easy to discover. Earlier in the book (p. 556) the author presents data from the same official Russian source showing that the inflation rate (based on the GDP deflator) was 50% in 1996, 20% in 1997, 20% in 1998, 70% in 1999, 40% in 2000, 20% in 2001, 20% in 2002, and 10% in 2003. It is easy to verify that the above table simply sets the value of GDP deflator to one in 1995 and computes its subsequent values using these inflation rates.

It is not clear whether the author made these computations himself or the values were supplied by the official Russian statistical agency. In either case, they should be taken with a grain of salt. It is difficult to imagine that prices in real life would be so considered as to grow by the even 10-percentage-point intervals every year, so that inflation is 20% or 40% instead of 23% or 44%. Seeing such nicely rounded values for inflation rate, a researcher should be suspicious, even if the numbers came from the official statistical agency.

Even assuming that the value of the GDP deflator and corresponding inflation rate is correct, there are further logical flaws in the analysis. It is unclear what the author is trying to capture by the ratio of M2 to real GDP. If the objective is to measure the ratio of money supply to the value of all transactions the money supply is supposed to support, then one should look at the ratio of money supply to *nominal* GDP. The ratio of money supply to *real* GDP is meaningless in this context.

Finally, there is no economic reason why money supply needs to be 70-100 percent of GDP to be ‘adequate.’ The money supply can be a lot smaller than nominal GDP and still support all transactions carried out during a year. The reason for this is simple – each money unit, be that a dollar or a ruble, can be used more than once during a year. This concept is called the *velocity of money*, and is introduced in all standard economics textbooks.

Finally, the author’s claim that in the developed countries the ratio of money supply to GDP exceeds 70 percent is baseless. To illustrate, the table below compares several measures of money supply in Russia and United States in 1995-2003.

Table: Money Supply in Russia and United States, 1995-2003.

	Russia			**United States**		
	M0/(nominal GDP)	M2/(nominal GDP)	M0/M2	currency/(nominal GDP)	M1/(nominal GDP)	currency/M1
1995	2.6%	6.8%	37.3%	4.9%	15.4%	32.1%
1996	4.0%	11.0%	36.6%	4.9%	14.1%	34.5%
1997	4.4%	12.6%	35.2%	4.9%	12.8%	38.3%
1998	5.0%	14.2%	34.8%	5.0%	12.3%	40.9%
1999	3.9%	9.4%	41.4%	5.2%	11.8%	44.1%
2000	3.6%	9.8%	37.2%	5.3%	11.1%	47.4%
2001	4.7%	12.9%	36.3%	5.4%	11.1%	48.7%
2002	5.4%	14.9%	36.2%	5.7%	11.2%	50.9%
2003	5.7%	16.1%	35.8%	5.8%	11.4%	50.9%

Sources: for Russia – computed from the data provided in Table 8.3 in the book; for United States – Bureau of Economic Analysis and Federal Reserve, Money Stock Measures, seasonally adjusted (release H.6).

The reader should note that M0 in Russian statistics corresponds to the *currency* in the American money stock measures. M2 in the Russian statistics includes currency and bank deposits, so the closest American counterpart is M1.

The data reveal surprising similarities between Russia and the United Sates. The ratio of M0 to GDP in Russia is remarkably similar to the ratio of currency to GDP in the United Sates. The same can be said for the currency and bank deposits (M2 in Russia, M1 in the United States). Even the ratio of currency to the broader money supply (M0/M2 in Russia, currency/M1 in United States) is similar across the two countries.

In light of these data, there is little evidence that the Russian economy was 'starved' by an inadequate money supply. The Russian money supply was approximately as large, in relation to its GDP, as was the money supply in the United States. Finally, neither United States nor any other industrialized country has money supply in excess of 70 percent of GDP, as claimed by the author.

Instead of the 'inadequate' money supply there is another, much simpler, explanation for the growth of barter and dollarization of the Russian economy in the 1990s. High inflation during this period caused the Russian currency to lose its value rapidly. Consequently, to avoid holding rapidly depreciating rubles, people opted for conducting transactions via barter or with a foreign currency.

There are other instances in the book where the data and analysis are equally questionable. To make matters worse, the author seems unfamiliar with economic and financial terminology, which results in much of the text being extremely confusing. For example, the author considers purchases of financial securities by households to be *expenditures*, while in reality they represent a form of *saving*. Similarly, when describing dollarization of Russian economy during the transition years, the author views purchases of foreign currency by people as expenditures, instead of a more accurate view – that these purchases represented portfolio allocation of savings.

In the discussions of banking and financial system the terminology becomes especially difficult to follow. The author confuses the rate of return on a financial security with its yield or the nominal interest rate. He even uses a phrase ‘the profitability of government financial papers’ (p. 572), which can mean either the *rate of return* or the *yield to maturity* of government bonds – two very different concepts. Another mysterious term – ‘circulating assets’ – appears often. My own knowledge of the Russian financial terminology allows me to venture a guess that it stands for the *working capital.* Most English-speaking readers, however, would be left at a loss.

The confusion with the terminology is compounded by a nearly incomprehensible writing style. Passive voice dominates. Grammatical and spelling error abound. Some of them are entertaining and innocuous, such as ‘gorilla detachments’ instead of ‘guerilla detachments’ (p. 152). Others, such as ‘expansive’ instead of ‘expensive’ (p. 347), do alter the meaning. And in one instance the period between 1997 and 2003 is referred to as ‘the end of the nineteenth – the beginning of the twentieth centuries’ (p. 502).

Overall, while the book contains an interesting discussion of the evolution of Soviet ideology, the economic analysis and the data presented are questionable. This book may be worth reading for those interested in ideology. Readers searching for an informative analysis of economic data should look elsewhere.

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