Russia Inc.

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Chapter Six

Financial Mechanisms of Economic Growth

Mikhail V. Ershov*

New challenges of the global economy make it extremely important to establish appropriate economic policy and the economic mechanisms on which it rests. These policies and mechanisms should in the long run assure the country and its business community of a reliable internal monetary and financial basis, as well as insure a competitive position in the world economy.

The degree of prosperity in the business sector depends on the state of the national economy. The stronger the national economy, the better position domestic companies should enjoy. One cannot expect a healthy and striving business sector operating in a weak and crisis-ridden economy. The development of a dynamic and healthy national economy is crucial in strengthening the role of national business at home and abroad.

WHAT KIND OF ECONOMIC GROWTH?

The importance of economic growth cannot be questioned. However, it should not be viewed as a cure for all problems, nor as a short-term target. Moreover, what pattern of growth should be considered most desirable? We are familiar with examples when transnational corporations (TNCs) were exploiting resources in developing countries while the host countries were showing temporary spurts of growth, but not any real development. Over time these host countries fell behind in relative position, partly as a result of a depleted resource base.

For economic growth to be effective it should rely on well based prerequisites and be an integral part of the long-term strategy for socio-economic

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development of the country at large. Active measures aimed at stimulating growth should be closely linked with industrial, fiscal and monetary policy.

Mechanisms of economic policy should focus on reaching these goals. In recent discussions on Russian economic growth we hear statements concerning the importance of oil prices for balanced budgets, and faster growth. Also we hear about the need to devalue the ruble, to encourage exports and stimulate growth. These arguments provide a clear picture of the framework of current economic policy, and the limits imposed in solving current as well as strategic problems. It is implied that economic growth is based on conditions in world markets, and fully depends on the willingness (or unwillingness) of foreign investors to finance economic projects in Russia.

Is it true that, putting aside reallocation of existing internal funds among domestic participants, the main increase of funds come solely from external sources: Does it mean that in a strategic sense large-scale economic growth can occur only if these foreign investment funds are available? And if this inflow does not take place, should we then say that economic growth is out of the question? Is it sensible to place such emphasis on exports as an "exclusive" provider of funds necessary for economic growth? To respond to these questions, we must examine the mechanisms that play a pivotal role in sustaining economic development.

SOURCES OF FUNDS

With this nation's integration into the world economy, global financial markets have opened up opportunities for Russia to tap external sources of funds to finance growth. The inflow of such resources in recent years testifies to the fact that confidence in the economy is increasing, and this has a positive influence on the overall economic climate. At the same time, these funds are subject to volatility from the world environment, as well as domestic factors, and could be withdrawn from the country in a short period of time. As a result the financial and foreign exchange markets could exhibit unwanted volatility (particularly since local markets are thin). This could jeopardize the stability of the national economy and bring growth to a halt.

The risk was emphasized by Michael Mussa, who was a member of the US Council of Economic Advisers to President Regan, and subsequently served for more than ten years as Director of the Department of Research at the International Monetary Fund: "High openness to international capital flows, especially short-term credit flows, can be dangerous for countries with weak or inconsistent macroeconomic policies or inadequately capitalized and regulated financial systems."[1]

The level of monetization (ratio of M2 to GDP in Russia) is one of the lowest in the world (approximately 15–16%). This macroeconomic "shortage" leads to inadequate resources in national financial markets, and makes Russia highly sensitive to inflows or outflows of funds from abroad. Bearing in mind that the financial market is quite thin, stability of the national economy and the financial sector should be reinforced. This reinforcement can come by preventing the destabilizing impact of short term "hot" money and, second by improving systematic mechanisms and institutions used for allocating investment resources.

In general we must admit that foreign investment plays a highly important role. However, polices aimed at attracting foreign funds should not be based on rigid principles, such as " all investments are good" or " the more investment - the better." We must consider the share of these resources in the overall money supply and the ratio of such resources to GDP. For example, if short-term liquid foreign funds dominate the total money supply, any change in flows of these funds could destabilize the economy. In the crisis economies of Latin America and Southeast Asia the share of foreign resources in M2 (and their ratio to GDP) were very high prior to the crises.

In structuring an active economic policy, several factors should be considered. These include questions of economic security, and financial system stability.

According to latest assessments of the World Bank, economic growth in Russia continues to a large extent to depend on oil and gas prices.[2] Information provided by the Bank of Russia does suggest that "the main increase of the money supply will come from the purchase by the Bank of Russia of foreign currency."[3] The Bank of Russia does admit that this approach has certain drawbacks. " Such a system of management does not allow full control over monetary indicators, because it lacks elements of fine-tuning. This is due to the fact that the inflow or outflow of liquidity via the Bank of Russia intervention of the foreign exchange market directly depends on fluctuations in foreign economic conditions."[4] What also may contribute to financial instability are the high mobility of international financial resources, and their tendency to shift amount and direction unpredictably.[5]

The foreign exchange factor will play a major role in economic development and must be considered in solving these questions. In the creation of ruble resources, and financing domestic economic processes a major role should be given to internal mechanisms controlled by national monetary authorities. These include creation of the financial resource base, as well as management of finance flows. These approaches are routinely used by developed countries.

Figure 6.1 reflects the major components in the formation of the monetary resource base for the Japanese yen and the US dollar. These are implemented

by the Bank of Japan and by the Federal Reserve System. The monetary base in Japan and the United States have two important components. According to Bank of Japan statistics, budgetary instruments account for close to 80 percent of the total monetary base. This includes outstanding Japanese Government Bonds (JGBs) and transactions related to JGBs.

A similar picture is given by the Federal Reserve System in the United States. The monetary base of the US dollar amounts to approximately $700 billion (October 2002) and US Treasury securities held with the Federal Reserve accounted for some $ 600 billion.[6]

Over 80 percent of dollars circulating at this time result from the financing of budgetary programs.[7] We should note that this 80 percent component includes US government securities and federal agency obligations (Figure 6.2).

By contrast, in Russia the share of budgetary instruments which underlie the monetary base is less than 30 percent, with most of these instruments emerging from restructuring of the pre-1998 debt (Figure 6.2). Recent experience shows that almost all of the money creation in Russia is based on purchase of hard currency (foreign exchange).

One may question the need to link internal growth closely with external performance. This question is particularly valid due to the fact that " anchor

	Japan (Yen, Oct 2002)	*USA (Dollars, Oct 2002)*
Budgetary Instruments	26%**	12%****
Other	74%*	88%***
	100%	100%

*includes the amounts outstanding of Japanese Government paper (e.g. - bonds etc) in the assets in the Bank's balance sheet, the amount outstanding of JGBs purchased outright from financial institutions, the amount outstanding of JGBs sold to the Government under repurchase agreements. The amount outstanding of cash collateral against which the Bank borrowed JGBs from financial institutions.
More specific description is given in: Monetary Base and the Bank of Japan's Transactions (http://www.boj.or.jp/en/siryo/stat/mbt0210.htm).
**Includes gold, foreign currency assets, premises and movable property, coins in circulation, reserves for possible losses, capital accounts, and deposits with agencies.
Also includes the amounts outstanding of bills purchased from financial institutions, outright purchases of bills utilizing corporate debt obligations, the amount outstanding of CP purchased form financial institutions, the amount outstanding of loans and bills discounted pursuant to Article 33 of the Bank of Japan Law. The sum of items such as loans to the Deposit Insurance Corporation (DIC), capital subscription to the DIC and the Agricultural and Fisher Cooperative Savings Insurance Corporation, provision of funds to the DIC's "Jusen account", and provision of funds to the New Financial Stabilization Fund.
***Includes Federal agency obligations (face value of the securities): bought outright, held under repurchase agreements; U.S. government securities (face value of the securities): bought outright - bills, notes, bonds (includes $ 5,074 million of inflation-indexed securities valued at the original face amount and $ 517 million of compensation that adjusts for the effects of inflation on the principal of such securities) held under repurchase agreements.
****Includes gold, SDR, assets denominated in foreign currencies held by Federal Reserve Banks, items in process of collection, bank premises, loans, acceptances, and triparty repurchase agreements.
Sources: The Bank of Japan, Policy Planning Agency, October 2002; Federal Reserve Statistical Release, October 2002.

Figure 6.1. Monetary Base Creation Used by United States and Japanese Central Banks

	Russia	USA
Monetary Base	664.7	629.1
Reserve Assets	1115.3	130.1*

*Gold revalued at market price.
Note: Amount in billions of respective currency units.
Source: Press releases of the Central Bank of Russian Federation, Federal Reserve Statistical Release, November 2001.

Figure 6.2. Monetary Base and Reserve Assets on November 2001, Russia and United States

currencies" such as the US dollar themselves are not pursuing a gold and foreign exchange based approach.

In Russia, the ruble exchange rate closely follows the availability of dollars and money creation mechanisms related to the inflow of foreign exchange. In effect, this resembles a currency board system. However, to stimulate economic growth more effectively, measures that will incentivize domestic demand should be considered.

On Keynesian Economics

The middle years of the twentieth century witnessed adoption of Keynesian economic policies by countries seeking to revive economic growth and reverse monetary deflation.

Intensive use of such policies dates back to periods when there was a need to pursue a policy of anti-crisis, or to manage the economy during war. Countries such as the United States and Japan have taken a leading position in the world economy during the twentieth century, in part due to their seriously applying such principles. State expenditures and judicious balancing of central government budgets, as well as other approaches outlined by Keynes, made it possible for the United States to tackle the Great Depression and postwar economic stabilization. Measures that followed, tight fiscal and monetary policy (reduction of state spending, increase in interest rates), led to a second recession in 1937, which at that time " finally and completely discredited the old orthodoxy of balanced budget economics; it also confirmed the political hegemony of Keynesian doctrine."[8]

In subsequent years the United States followed Keynesian approaches, and when seeking to stimulate economic growth in the 1960s the Kennedy and Johnson administrations resorted to fiscal policy.[9] Shortly after John F. Kennedy took office in 1961, unemployment was reduced from 7 percent to 3.5 percent and the economy demonstrated strong growth. Similar approaches in economic policy have led to crisis reduction of the US economy in 1980–81, and later provided an unprecedented growth. According to the US Senate

Budget Committee, in the period 1983–1997 real economic growth amounted to 65 percent (5 trillion dollars at current prices or 3.2 trillion dollars at constant prices), whereas the aggregate budget deficit over the same period totaled $ 2.8 trillion.

The achievements of Japan in this historical context are even more impressive. With a war devastated economy subsequent to World War II, Japan switched to a Keynesian policy, with a focus on the specific capacities of the country with limited (particularly compared with Russia or the United States) resources. In a short period of time Japan became the second largest industrial country of the world.

Keynesian policy has an impressive base of scientific supporters. Nobel Prize Laureates Paul A. Samuelson, Lawrence R. Klein, Franco Modigliani, and James Tobin are among its supporters.

When there is a budget surplus, which is not reinvested into the economy (as in the case in Russia), the economy lacks ability to grow at its potential. While budget surpluses solve other important problems (foreign debt service) the economy lacks any direct stimulating role from the budget. When budget surplus funds are not reinvested, the very foundation for "self-financing" of growth is shrinking, and the economy becomes more dependent on attracting external resources.[10]

Returning to the analysis of monetary mechanisms of developed countries, we should note that effective policy rests upon the following principles; 1) budgetary priorities are decisive when using and developing resources of the economy; 2) budgetary mechanisms shape and structure financial flows; 3) monetary authorities (Ministry of Finance, and Central Bank) fully control the money creation process, using primarily internal budgetary mechanisms. This enables them to conduct policy independently of changes in the world economic situation.

When such a policy is pursued, resources are directed to the economic sectors which shape industrial development. This free and competitive mechanism signals the market about the general nature of economic purposes and goals. Moreover, it is this mechanism that helps to create the " long-term" resources, which are necessary for sustained economic growth.

Origins of Long—Term money

Many problems operate to hamper and constrain investment activity in Russia. Prominent among them, we should mention the lack of " long—term" funds. Indeed, the banking sector provides primarily " short—term" resources in its lending. This hinders the placement and use of capital funds for longer periods. It is also clear that the structure and operation of banks may only

yield partial solutions in providing adequate loan funds to enterprises. This is due to the "costs" encountered in banking, taking the form of reserve requirements imposed on banks, inflexible interest rate structures, and internalized rigidities in bank operations. As a result, a purely bank oriented financial system may prove inadequate in solving the problem of creating or providing investment resources in amounts required for economic development.

In developed countries the basis of such resources is set down by national monetary authorities. As is indicated in the case of the Bank of Japan and the Federal Reserve System, instruments with long maturity play a significant role in their portfolios (Table 6.1 and 6–2). In the case of the Bank of Japan, for instance, government instruments with maturities over five years amount to more than 40 trillion yen (60 percent of total state securities). In the Federal Reserve System the amount of such instruments totals more than $130 billion, or more than 20 percent of state instruments. Also, more than $170 billion or 30 percent are made up of instruments with maturities from one to five years.

Considering the role played by budgetary instruments in creating the monetary base of the dollar and yen systems we may conclude that long maturity securities account for more than 40 percent of US dollar, and more than 50

Table 6.1. Japanese Government Bonds (JGBs) Held by Bank of Japan (October 2002).

Maturity	*Face Value (trillions of yen)*	*The share in the total amount of JGBs held by Bank of Japan, (in percent)*
Over 1 to 5 years	4	6
6 year to 10 year JGBs	2	3
10 year to 20 year JGBs	35	51
20 years and over JGBs	8	12
Total	49	72

Source: The Bank of Japan, Policy Planning Agency, October 2002.

Table 6.2. Marketable U.S. Government Securities Held by Federal Reserve Banks (October 2002).

Maturity	*Face Value (billions of dollars)*	*The share in the total amount of government securities held by Federal Reserve Banks (in percent)*
Over 1 to 5 years	177	29
Over 5 years to 10 years	51	8
Over 10 years	82	14
Total	310	51

Source: The Federal Reserve Statistical Release, October 2002.

percent of Japanese yen in the respective currency bases. Almost half of all yen and dollars, which now circulate around the world, originated as a result of these budgetary relationships.

From the outset, an economy receives a significant investment potential, which then multiplies as the private sector gains access to these resources. The monetary authorities establish the basis for creating long-term financial resources in the economy. And that is reflected in the structure of the money supply and monetary base. For example, in the United States in 2002 the "non—transactional" component of the M3 aggregate accounted for 85 percent of the total.

The provision of adequate financial resources stimulates investment activity. In the private sector a number of additional opportunities exist to support investment activity. These include household savings, pension fund resources (mostly of long-term variety). There also is a system of guarantees with state participation. As an incentive we may also view reserve requirements, applicable to banks. In the United States, some components of time deposits are not subject to reserve requirements, and no cash reserves are deposited with the Federal Reserve. This increases efficiency in use of resources (since there are no interest payments on such funds). Third, it stimulates banks to make time deposits more attractive for clients and expands the creation of a broader financial resource base, which also increases investment opportunities.

Several mechanisms of refinancing are also widely used, which increase the efficiency of treasury management. Interest rate changes are used aggressively to make resources accessible when required. Since 2001 the US Federal Reserve has undertaken twelve reductions in the federal funds rate, which at yearend 2002 was 1.25 percent—the lowest level in more than forty years. In Japan interest rates are close to zero levels. It is clear that the cheaper financial resources are, the more broadly they may be used in financing an increased volume of projects.

Even in highly efficient economies the cost of funds can be below 3–4 percent. In Russia where the level of efficiency (return on investment) of many projects stand above 15 percent, the current rate of refinancing set by the Bank of Russia at 21 percent makes investment very difficult if not unprofitable. This analysis extends back to Keynes' marginal efficiency of capital analysis.

An active role on the part of central banks in conducting economic policy is logical, since they can exert powerful leverage. That is why it is envisaged in legislation that the central bank is responsible not only for the tasks of a purely financial nature (low inflation, stability of the national currency), but also broader goals—to encourage growth, to increase the level of employment, and to contribute to the attainment of state goals (Bank of Japan). In

Europe this extends to assist in coordinating policy toward attaining fuller employment (European Central Bank). When we consider the objective of price stability, it is often perceived not only as a goal in itself, but also as a necessary means for achieving stable economic growth (ECB).

As a result we see this systemic and decisive role of the state in the economy and in working through budget policy and the central bank to pursue policy objectives. The financial sector is a key instrument, which many countries require when conducting their economic policy.

We should note that the role of the state in monitoring and regulating banking systems of many countries, is quite significant. In Germany, for instance, the high ownership role of the state in savings banks and landesbanks enables these institutions to pursue a lower interest rate policy. In turn, this is a spur to economic activity. That is why, despite complaints of other countries about violation of EC competition rules, the German government has agreed to report on this question of reduction of its share in banking assets, only by the year 2005.

The state makes an important contribution when it focuses its attention on sectoral activities requiring sizeable, long-term and lower efficiency investments which private sector business cannot afford. Implementation of such projects is in the interest of all market players, because it increases the efficiency of their work and productive activity.

Moreover, private business often has the opportunity to participate in some megaprojects financed in this way. We are not proposing that the state compete directly vis-à-vis private sector business. Rather, we are focusing on their interaction, and their concerted efforts and joint interests, in creating normal business conditions and contributing to a stable economic environment. Specialized funds within the US federal budget allow the public sector to take part in financing social, as well as business development programs.

According to the US Treasury, in fiscal year 1999 there were 224 federal trust funds and 247 special funds.[1] Such funds use special methods and mechanisms to maintain production and to stimulate exports. They are involved in various stabilization programs, and the volume of resources they mobilize and use is quite large. For example, the Commodity Credit Corporation Fund has spent almost $30 billion in financing a variety of income and commodity support programs, commodity exports, resource conversion, programs to enhance competitiveness of US commodities on foreign markets, and other programs. Outlays of the Tennessee Valley Authority Fund amounted to almost $7 billion, spent for the purpose of strengthening the regional and national economy, national defense and other programs. The activities of these funds generally are subject to spe-

Table 6.3. Percent of Bank Assets Owned by the State

	Percentage of Bank Assets Owned by the State			*Percent of Bank Assets Owned by the State*	
	1985 г.	*1995 г.*		*1985 г.*	*1995 г.*
Austria	64	50	Iceland	71	71
Argentina	61	61	Italy	65	36
Germany	36	36	Norway	68	50
Greece	78	78	Taiwan	81	77
Egypt	91	89	Turkey	56	56
Israel	65	65	Uruguay	69	69
India	97	85	Finland	31	31
Indonesia	43	43	France	75	17

Sources: Cecchetti S. G., Krause S. Financial Structure, Macroeconomic Stability and Monetary Policy. NBER Working Papers, July 2001; Porta R., Lopez-de-Silanes L., Shleifer A. Government Ownership of Banks.—NBER Working Papers, March 2000.

cial analysis and evaluation, to insure they realize their objectives and generate the intended benefits.

European countries, even staunch supporters of European integration as Germany, France and Italy, still resort to purely administrative forms in regulating the economy. Their predilection for protectionist or administrative methods of solving economic problems made it possible for the British "Economist" to label such activities as 'atavism' and these countries as "looking backward."[12]

On the whole, the relative role of the state in the economy in normal non-crisis conditions tends to diminish. In the mid 1980s the government ownership share in the assets of national banking systems was very high. In the 1990s the situation changed, and the role of the private sector in banking began to grow (Table 6.3) . As private ownership expanded, these banks relied more and more on economic fundamentals in guiding their operations, and this made it possible for private business to function more successfully and for the state to diminish its role even further.

Favorable conditions for strengthening the positions of banks were created by means of a variety of incentives. When, for example, national banking systems faced crisis situations they received sizeable state support. This amounted to 30 percent of GDP in such countries as Japan, Chile and Uruguay; 10–15 percent of GDP in Germany, Spain, Finland and Mexico; and as much as 45–50 percent of GDP in Argentina, Indonesia and Kuwait. In Russia the amount of support was equal to only 0.3 percent of GDP, which makes the relative contribution one hundred times as small as in many other countries (Table 6.4).

Table 6.4. Fiscal Cost of Banking Crisis in Selected Countries (Percent of GDP)

Country	*Costs/GDP*	*Country*	*Costs/GDP*
USA	3-4	Japan	30
Finland	8	Korea	13
Bulgaria	14	Chile	30
Czech Republic	12	Uruguay	30
Indonesia	50	Russia	0,3*

* Based on the State Corporation "Agency for Restructuring Credit Organizations" (ARCO) budget.
Sources: the IMF and the World Bank.

INCENTIVES FOR ECONOMIC GROWTH IN RUSSIA

Russia must pursue a more active and focused policy aimed at encouraging economic growth and investment. One of the main factors to consider is use by the monetary authorities of mechanisms that they possess which create financial resources and stimulate their use in investment. This should be coupled with measures to stimulate demand in conjunction with priorities of economic policy at large. We should also consider that formation of long-term investment mechanisms can not come too quickly.

That is why special emphasis should be given to developing mechanisms that stimulate the flow of funds to the real productive economy and that create conditions for providing loans and investments with longer maturity. Instruments which aim at preventing distortions in other segments of the market place and reduce inflation risks should be used. There should be comprehensive approaches that provide for favorable conditions at all operating phases of the flow of financing—from their initial mobilization to final investment.

Initiatives are needed to make resources less expensive. The tax incentive for depositors and banks should be considered. Lower tax rates may be applied to interest income when it is generated in longer-term deposits. Such measures should be accompanied by lower reserve requirements on long maturity financial instruments, increasing their attractiveness. And if there are concerns, financial market participants might still confine themselves to short-term investments. Then a more comprehensive mechanism and incentive system can be used to rebalance the relative advantages between short term and long term saving vehicles and investments.

An important role should be given to guarantee mechanisms, which become particularly important in a period when the general economic climate is still shaky and an initial impulse is needed to make savers and investors come to a decision. The Bank of Russia, for instance, alongside the Ministry of Finance, could provide guarantees to maintain the liquidity of commercial

banks which use their own funds to finance priority programs. Should there be delays in realizing returns from such projects, the central bank could temporarily replenish the liquidity of such banks (such mechanisms were considered in the early 1990s).

Mechanisms which could help expand already existing funds also are of importance. An increase in the credit multiplier should be considered. Lower reserve requirements could play an important role, as well as a general decrease of the cash component in the money supply. A reduction in the amount of funds placed by commercial banks with the Bank of Russia also could be important. Such funds (totaling 80–100 billion rubies) are actually withdrawn from business operations, reducing investment opportunities.

A healthy financial system will lead to reduced dollarization of the national economy. The use of the dollar in Russian monetary affairs and transactions narrows the base on which the monetary multiplier operates, and in general undermines the position of the ruble as a national currency. Wide use of the dollar was caused by objective factors—negative expectations and an unclear economic policy. When market players expect further nominal devaluation of the ruble, their belief is reinforced when it is made clear to them that the foreign exchange policy is aimed at stimulating exports. However, increased cash reserves in the Bank of Russia testifies to the fact that the bank intervenes to support the dollar and is not letting its exchange rate depreciate. It is clear that strengthening the national currency will be an incentive for various players to do business in rubles, and create an additional basis for investment activity.

Various forms of refinancing are needed. These also will contribute to channel resources in accord with priorities of national policy. A more active role should be given to specialized investment funds and banks. To attain these objectives, more detailed interest rate, fiscal balance and monetary instrument mechanisms are required.

When selecting priorities related to investment policy, an intersectoral aspect should be reckoned with. This is because demand growth in a given sector leads to demand growth in other sectors. As a result, a multiplying chain effect will magnify the economy at large.

Other criteria in defining priorities should be considered, such as non-inflationary use of resources, and efficient utilization of capital.

The nations' business firms must play an active role in implementing such approaches. Official policy will define the scale and magnitude to which the nations' businesses will participate in economic growth and its possibilities for supporting national interests abroad.

It is clear that if economic growth is financed in the first place from external sources, an increasing part of the financial resources of the country will

depend on world economic conditions. Inflows of capital and the allocation of loan funds will become more subject to the intentions and needs of outside creditors. It is important that national businesses play a more direct role in this strategically important sphere of the Russian economy, the financing of investment.

The above mentioned measures should be an integral part of budget, monetary, and foreign exchange policy in Russia. They should aim at meeting national priorities in economic development.

National monetary authorities and domestic businesses should both play a major role in these processes. Domestic business is interested in economic expansion which will enable it to strengthen its position in domestic and foreign markets. In turn the strengthening of business establishes a basis for a more progressive state economic policy. A strong state administration is needed, one which fosters reliable business conditions and the emergence of a national entrepreneurial sector at home. Also, strong industrial companies and commercial banks, and an active economic policy, will strengthen the foundations of the country and lay the basis for stable and long-term development of Russia.

NOTES

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2. Report on Russian Economy. Representation of the World Bank in Russia, October 2002.
3. Central Bank of Russia. The main directions of monetary policy for 2003 (project of 08. 08. 2002).
4. Ibid. p. 7.
5. M. Ershov, Currency and Financial Mechanisms in the Modern World (crisis experience of the late 1990s). Moscow, Economics Press, 2002).
6. As a rule such placement is not made directly from the Ministry of Finance to the Central Bank, but via the secondary market. This, however, is not of major importance, because the final recipient of the resources is a Central Bank.
7. Only then via a multiplier are they transformed into the certain aggregates of the money supply, and become a part of the secondary market.
8. W. Greider, Secrets of the Temple. How the Federal Reserve Runs the Country. Simon & Schuster, 1989, p. 315.
9. Ibid. p. 87.
10. If we look at the problem from the viewpoint of basic economics, we find similar analogies. The economic growth process implies that the economy is receiving

additional resources, which are the case with the private sector, investments are made, and following this the project provides profits.

11. Federal Trust and Other Earmarked Funds. United States General Accounting Office, January 2001, p. 12.

12. The Dangers of Atavism. The Economist, October 19, 2002, p. 17.