The Russian Public Debt and Financial Meltdowns, by Andrey Vavilov. New York: Palgrave Macmillan. 2010. Hardcover ISBN: 978 0 230 24893 9, $105. 272 pages.

This book is quite a remarkable piece of intellectual work. It is rather unusual, for its author is Russia's former Minister of Finance, a senator, and a multimillionaire, who is more known to the public for his pretentious dealings with expensive New York City penthouses in the Plaza and the Time Warner Center. Nevertheless, the book is out and it merits a review.

The book is a good and thorough account of the financial metamorphoses of the post-Soviet Russia placed in the broader context of radical economic changes. The book is structured in chronological order, which is perhaps the easiest structural form and approach of all the possible structures of economic analysis. Many data, used by the author, lack references to their sources. The author's familiarity with the data is not in doubt here, but proper sources of information should have been cited.

The author starts with justifying the reforms: "the centralized planned system could have collapsed as early as the end of the 1970s, if the new stock of energy resources in West Siberia had not been discovered and utilized. This "manna from heaven" gifted 15 years of life to the socialist system, while the generous external debt financing of the 1980s helped to continue its agony for several more years" (p. 14). Here, Vavilov resorts to a standard westerner's approach: a doomsday scenario for the Soviet system. Based on this initial premise, the author can convince a reader that everything that happened afterward was good by default, because if the reforms had not occurred, this "agony" would eventually turn into a complete collapse.

Vavilov turns reader's attention to the problem of non-payments, barter transactions, and wage arrears: "The problem was that banks benefited from high inflation and had strong incentives to delay payments for weeks or even months" (p. 55). One should add that not only banks benefited from delaying payments. So-called red directors benefited as well. Wage arrears meant extra cash for turnover on the bank accounts of enterprises. Besides, these same newly established commercial banks were nothing else but a creation of large Soviet enterprises. They were created by the directors in order to syphon off cash from the enterprises. Simply put, they acted parasitically. Vavilov admits the failure of the state to fight wage arrears (p. 91) and gives it more supporting materials in the Notes (pp. 242-243).

Vavilov presents numerous cases, including those of privatized large Soviet enterprises. In particular, he offers an account of privatizing Svyazinvest, comparing it to the sale of Norilsk Nikel. The author refers to privatization of Svyazinvest in 1997 as "the first occasion on which the government had made an attempt to design a privatization auction in the standard way to maximize the budget revenue" (p. 120). He also points to an attempt of the "young reformers" to distance themselves from the oligarchs. Another strong feature of the book is that it gives a quite thorough account of the case of Noga, a Swiss-based firm which has irritated the Russian government through arbitration claims for several years.

The author is in support of the strong banking system. He suggests that the Russian authorities are faced with the clear choice of either building a strong banking system or simply forgetting about diversification of the economy. Apparently, Vavilov stands, at least in part, on the positions of the "resource curse" approach to analyzing the structural aspects of the Russian economy. He also points out to the underdeveloped capital market in the national economy and chastises the components of the Russian financial sector: "Thin and underdeveloped markets for corporate bonds and domestic public debt are clearly unable to cushion external shocks" (p. 220).

The author clearly is an insider; he knows the subject he is writing about. It would also be beneficial for the book if the author would offer his insights on the problem of corruption, which plagued Russia's financial sector, among other sectors of the national economy. Unfortunately, the author does not pay any attention to corruption. This may be one of the major weaknesses of the presented work.

The book lacks a formal conclusion that would generalize his findings and briefly recapitalize major points of the presented work. It seems that the author was writing the last chapter in an attempt to catch up with the latest events in the Russian economy in a rapidly changing economic environment. As a result, this chapter is no substitute for a formal conclusion, which is simply missing. Finally, the author presents a very modest list of references, less than a hundred, clearly below average for a 270 page volume. Overall, this book is a good work worth reading. It gives a comprehensive overview of the Russian financial system, including its internal metamorphoses and external links, supplemented with some analysis.

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