

# National Strategy and National Money

## *Politics and the End of the Ruble Zone,*

1991–94

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The Soviet currency union outlasted the Soviet political union, but not by much. In December 1991, when the Soviet Union officially dissolved, all fifteen post-Soviet states shared a common currency, the ruble, and thus comprised the so-called *rublevaia zona*, or ruble zone.<sup>1</sup> This ruble was not yet the Russian currency; it was Soviet, and the notes still bore the traditional picture of Lenin and the fifteen languages of the constituent republics.

The currency union could have succeeded, at least for a while. Many observers thought that it would. A number of post-Soviet leaders wanted it to. The influential industrial lobbies throughout the region supported the union. Russia, by far the most powerful post-Soviet state, intended to keep the ruble zone together to ensure close political and economic ties among the new states. To make participation in the ruble zone more attractive, Russia offered members energy imports at a huge discount. Also, during 1992 officials of the International Monetary Fund (IMF) urged post-Soviet states to maintain their currency union. The proliferation of fifteen new currencies, the officials argued, would lead to the collapse of economic links among post-Soviet states. Even if these links, legacies of Soviet development planning, were arbitrary, they were also deeply institutionalized. IMF officials were sure that their advice was right, and explained that post-Soviet governments would not be entitled to IMF funds if they introduced

1. For insightful comments and suggestions that improved successive drafts of this chapter, I am grateful to Jerry Cohen, Matthew Evangelista, Jonathan Kirshner, Julio Rotemberg, Beth Simmons, Lou Wells, and David Woodruff, as well as the participants in the conferences titled "Power, Ideology, and Conflict: The Political Foundations of Twenty-First Century Money," Cornell University, Ithaca, N.Y. I also thank Lynsey Fitzpatrick for research assistance. The Division of Research at Harvard Business School supported research for this chapter.

their own currencies. Leaving the ruble zone, they insisted, was “economic suicide” (Granville 1995; Åslund 1995).

Despite Russia’s initial efforts to hold the ruble zone together, and contrary to the initial advice of international institutions, the ruble zone fell apart completely in the autumn of 1993. In this chapter I explain why. I demonstrate that some post-Soviet governments sought to maintain the currency union, while others never considered their membership legitimate. Post-Soviet governments interpreted the ruble zone in sharply contrasting ways. I argue that the national identities of post-Soviet societies led to these divergent interpretations and, ultimately, to their governments’ distinct monetary strategies. My argument departs from the existing explanations for the collapse of the ruble zone, several of which are fundamentally apolitical. Some economists, for example, have speculated that the ruble zone did not comprise an optimum currency area and that it collapsed as a result. Other economists have emphasized the fatal consequences of the institutional flaw underlying the ruble zone’s organization. Neither of these economic explanations is satisfactory.

In this chapter I also demonstrate the insufficiency of the most plausible explanation for the end of the ruble zone that can be drawn from mainstream international relations theory. That the ruble zone collapsed and monetary cooperation failed in post-Soviet Eurasia is no surprise from the perspective of Realist theories of international relations, because their central assumption is that states pursue autonomy and security, despite material costs that result or benefits of cooperation that they forgo.<sup>2</sup> At a minimum, post-Soviet states should have insisted on their own currencies. Yet, even as the ruble zone was disintegrating in the autumn of 1993, five post-Soviet states—Armenia, Belarus, Kazakhstan, Tajikistan, and Uzbekistan—were trying to reconstitute their currency union with Russia. A Realist explanation for the ruble zone’s failure can potentially account just for the states that opted out, but not for the states that sought to remain.

The central problem with these three alternative explanations is the *variety* of post-Soviet monetary strategies, a variety which clarifies that the currency union remained viable among a number of post-Soviet states. Some post-Soviet states exited the currency union almost immediately as part of their strategies for autonomy from Russia, whereas others were content to trade monetary sovereignty and economic autonomy for the material rewards of ruble zone membership. Those that left did so in three waves, with the third and final wave coming after Russia itself attempted to destroy the union.

No answer to this empirical puzzle can be satisfactory without explaining how the ruble zone fell apart. That is, a convincing explanation for the end

2. On Realist approaches to international political economy (IPE), see Kirshner 1999c; Gilpin 1975; Krasner 1978; Grieco 1990.

of the ruble zone must explicitly address why some post-Soviet states exited earlier and others later, for the currency union collapsed in fits and starts. Only one hypothesis for the variety and timing of post-Soviet monetary strategies currently exists in the scholarly literature on the collapse of the ruble zone: perhaps, some have speculated, the material incentives of ruble zone membership were decisive. The empirical evidence is not merely inconsistent with this materialist hypothesis; the predictions derived from these incentives are, for most of the post-Soviet states, exactly the opposite of what occurred.

I show in this chapter that it was the politics of nationalism and national identity that determined the variety of post-Soviet monetary strategies. In the states where nationalist political parties and their ideologies were accepted by their societies, governments sought the symbolic and real autonomy that monetary sovereignty provided. Where nationalist parties were electorally strong but failed to convince other important political forces, such as formerly Communist elites, governments lacked a coherent strategy and were pushed along by external forces, such as Russia and the IMF. Finally, where nationalists were weak and unpopular, governments dominated by former Communists sought the reintegration of the post-Soviet economic area, and this strategy included monetary union. These domestic political struggles reflected the content and contestation of the national identities of post-Soviet societies, which ultimately were the central influences on the international politics of post-Soviet Eurasia during the 1990s (Abdelal 2001b).

#### WHY AND HOW THE RUBLE ZONE FELL APART

Russia itself destroyed the ruble zone in the summer of 1993, despite the fact that it had been trying to hold the currency union together since the autumn of 1991. Before Russia's policies changed, however, five states—Estonia, Latvia, Lithuania, Ukraine, and Kyrgyzstan—had already exited (Table 5.1). Four governments—Azerbaijan, Georgia, Moldova, and Turkmenistan—reacted to Russia's destruction of the ruble zone by rejecting the possibility of a new currency union, while the other five—Armenia, Belarus, Kazakhstan, Tajikistan, and Uzbekistan—attempted to reconstitute it.

##### *Early Exit: The Baltic Republics*

Estonia, Latvia, and Lithuania exited the ruble zone as quickly as they could (Girnius 1993). Estonia was first out, in June 1992, when it introduced the kroon. Estonians had been discussing an independent currency

Table 5.1. Exits from the Ruble Zone

Country	Date of Exit
Estonia	June 1992
Latvia	August 1992
Lithuania	October 1992
Ukraine	November 1992
Kyrgyzstan	May 1993
Azerbaijan	July 1993
Georgia	August 1993
Armenia	November 1993
Belarus	November 1993
Kazakhstan	November 1993
Moldova	November 1993
Turkmenistan	November 1993
Uzbekistan	November 1993
Tajikistan	May 1995

Source: Adapted from Conway 1995.

since 1987, and Estonian political elites enjoyed a remarkable consensus about the necessity of Estonian monetary sovereignty.

The material incentives to remain in the ruble zone were irrelevant to Estonia's decision. The Russians could not have paid Estonians enough to remain. No one could have. And the IMF and European Community had warned Estonia of the dire consequences of exiting the currency union (Hansson and Sachs 1992; *Financial Times* 6/23/93). Nevertheless, Estonians, who used to say that they would live off potato peelings if that were the cost of independence, celebrated their new currency. On June 22, 1992, at the Viljandi "Ugala" Theater in Tallinn, they held the Kroon Ball to honor the symbol of their monetary sovereignty. Many Estonians bought new wallets to hold their kroons.

Latvia and Lithuania followed Estonia's path out of the ruble zone for the same reason—to achieve autonomy from Russia—and at approximately the same time, during the summer and early autumn of 1992.<sup>3</sup> In all three Baltic republics, political elites nearly unanimously supported new currencies, at whatever economic cost, and rejected the "occupation ruble."<sup>4</sup>

3. See Kukk 1997; Lainela and Sutella 1995. On Latvia, see *Baltic Independent* 7/10/92. The Latvian lat was not officially introduced until 1993. In October 1992 the Bank of Lithuania issued a provisional currency, the talonas, and withdrew rubles from circulation. In June 1993 the Bank introduced the litas, the permanent currency. See *Baltic Independent* 7/2/93; Nauseda 1997.

4. See *Economist* 7/3/93. The industrial lobbies in the three states, however, staunchly opposed leaving the ruble zone. See, for example, Lieven 1993, 356–357.



*Out Just in Time: Ukraine and Kyrgyzstan*

Ukraine exited the ruble zone in November 1992, later and less decisively than the Baltic states. Ukraine's first government originally had planned to do exactly what the Baltic governments did: introduce an independent currency and reorient the economy away from Russia and toward the West. In March 1992, President Leonid Kravchuk outlined a plan to achieve economic autonomy from Russia, and a new currency was a central component of the strategy.<sup>5</sup> However, internal dissension about the necessity of economic autonomy and an independent currency, including the strenuous opposition of Ukrainian industrialists, delayed Ukraine's exit from the ruble zone until November 1992, when the government introduced the karbovanets as a transitional currency. President Kravchuk significantly scaled back the plans for economic autonomy from Russia primarily because there was not nearly as much public support for breaking ties with Russia as there had been in the Baltic states.<sup>6</sup>

Kyrgyzstan also introduced a new currency before Russia undermined the ruble zone, but its policy reflected a different influence. Rather than popular, nationalist support for an independent currency, the creation of the Kyrgyzstani som, a process led by President Askar Akaev, was part of a sweeping economic reform package designed by the IMF to integrate the country into the world economy. By 1993 the IMF had dramatically changed its approach to the ruble zone (Conway 1995, 40). This policy reversal undermined the institution's credibility among many post-Soviet leaders, and it was able to convince only Kyrgyzstan to introduce a new currency as part of a reform strategy.

*Russia Breaks What Remains of the Ruble Zone*

By July 1993, nine post-Soviet states—Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Moldova, Tajikistan, Turkmenistan, and Uzbekistan—remained in the ruble zone with Russia. None could print rubles, but, for the previous several years, all had been quite generous issuing noncash credit to enterprises within their borders.<sup>7</sup> Price liberalization and Russian stinginess with new notes caused cash shortages that led many of them to introduce ruble supplements, but these coupons were merely temporary measures to create enough money for their economies to function.

5. The plan was reprinted in *Komsomolskaia pravda* 3/26/92. Also see *Izvestiia* 3/25/92; *Financial Times* 3/24/92; *New York Times* 3/25/92.

6. See D'Anieri 1997. Ukraine introduced its permanent currency, the hryvnia, in September 1996. See *Financial Times* 9/27/96.

7. In the Soviet monetary system there were two circuits for money: cash and credit. Cash (*nalichnye*) rubles were used to pay wages and in retail stores. Noncash (*beznaichnye*) rubles were used for credit allocations from Gosbank and transactions between enterprises. This distinction, an institutional legacy of the Soviet economic system, carried over into the post-Soviet period and complicated the monetary transformations of Russia and the other republics.

Beginning in the middle of 1992, Russia attempted to lead the coordination of monetary policies within the ruble zone, in an effort to restrain the profligate credit emission of the other members. The failure of these attempts to organize the region's monetary authority was an increasing source of frustration for some officials in the government and the Central Bank of Russia (CBR).

It is easy to understand why some Russian leaders objected. After Soviet dissolution, all of the region's central banks could loan noncash rubles to their local banks, which in turn could lend to local companies, which then could use the rubles to purchase imports from Russia. Because Russia had a trade surplus with all fourteen of the other post-Soviet states during 1992, these fourteen could finance their trade deficits with rubles that they created themselves. This was quite a good deal for them, and the costs of excessive credit were spread across their economies. Russia, however, paid a price. According to the IMF, the credit and implicit trade subsidy added up to 22.5 percent of Russian gross domestic product (GDP) during 1992 (Åslund 1995, 126).

The Russian government was willing to pay for some of the bill, such as subsidized energy, because those subsidies were under its control and could be used to extract political concessions (Drezner 1999). But many in the government and CBR considered the credit creation of the other central banks to be a problem. Moreover, there were serious internal differences among Russian political elites about whether Russia should expend resources to maintain its sphere of influence, or whether the country should shed the economic burdens of empire.<sup>8</sup>

The Russian government began to reassert authority in the ruble zone in the summer of 1992. On June 21, President Boris Yeltsin warned ruble zone states that they would have to accept CBR control over their credit emissions, and issued a decree that the Soviet-era ruble was now Russian. Then, on July 1, the CBR restrained the power of the post-Soviet central banks to create ruble credit and began keeping separate ruble accounts for each state (*Financial Times* 7/31/92). The other central banks could still issue credit, but the CBR would keep track, bilaterally, of which banks issued how much. In other words, the credit that non-Russian central banks issued was no longer identical to the CBR's: it was still denominated, ostensibly, in rubles, but the CBR now distinguished between its own ruble credit and that emitted by the other banks.

Then in August 1992 the Russian government announced that other post-Soviet states could trade directly with Russian exporters through commercial banks, rather than through their respective central banks. This meant

8. These perspectives were epitomized by the political and ideological struggle between Yegor Gaidar, a liberal reformer who argued that the ruble zone complicated Russia's economic reform and stabilization, and Viktor Chernomyrdin, an empire saver who sought to keep the ruble zone together in order to institutionalize Russian regional hegemony and its influence in the near abroad. See Johnson 2000.

that importers of Russian goods needed credit issued by the CBR. After this announcement, credit created by the other central banks was useful only within the state whose bank created it. Each state had its own version of the same currency circulating in banks, though all states had exactly the same currency circulating as cash. Finally, in May 1993, the CBR suspended other central banks' power to create credit altogether (*Economist* 5/22/93).

The beginning of the end of the ruble zone came in July 1993. During the first half of 1993, as the CBR was wrangling with the other banks about credit emission, it was also issuing new, distinctly Russian ruble notes. The CBR refused to include the new notes in its ruble shipments to the other members of the currency area. On July 24, CBR chairman Viktor Gerashchenko announced that all pre-1993 rubles would no longer be legal tender in Russia as of July 26, and that they could be exchanged at a set rate within Russia (*Rossiiskaia gazeta* 7/27/93; *Segodnia* 7/27/93; *Nezavisimaia gazeta* 7/27/93). Because only Russia had the new notes, the other states in the ruble zone were using cash rubles—2.2 trillion of them—that were now worthless in Russia (*Nezavisimaia gazeta* 7/27/93; Åslund 1995).

Thus, only a year and a half after the collapse of Soviet authority, a number of important Russian officials, including some in the administration of President Yeltsin and in the CBR, had obviously changed their views about the political and economic desirability of the ruble zone.<sup>9</sup> Their message to the other ruble zone states was clear. "Russia appears to have achieved the main objective of its currency reform," John Lloyd of the *Financial Times* reported. "Mr. Viktor Gerashchenko, the central bank governor, said yesterday that the forced exchange of pre-1993 rubles had compelled former Soviet republics still using the Russian currency to opt in or out of the ruble zone" (*Financial Times* 7/28/93).

#### *Enough Is Enough: Azerbaijan, Georgia, Moldova, Turkmenistan*

Azerbaijan, Georgia, Moldova, and Turkmenistan reacted to Russia's surprise currency reform by introducing independent currencies.

In Azerbaijan there had already been powerful political forces in favor of breaking with Russia and creating a new currency immediately after the dissolution. However, Azerbaijan left the ruble zone much later, in July 1993, just after the Russian currency exchange. The lateness of Azerbaijan's currency introduction reflected the ambivalence of its own internal debate about the political meaning and importance of a national money. Azerbaijan's government made plans to introduce a currency in June 1992, when Abulfaz Elcibey, head of the Azerbaijani Popular Front, by then a political party that had emerged from the nationalist movement, was elected president. President Elcibey withdrew the country from the Commonwealth of

9. On Russia's policies toward the ruble zone, see Johnson 2000; Abdelal forthcoming. The best account of Russia's domestic monetary politics is Woodruff's (1999).

Independent States (CIS) and proposed ambitious plans to turn the state's economy away from Russia and toward Turkey and the West. Elcibey's campaign message was nationalist: "Azerbaijan needs to establish an independent state with its own currency and army" (*New York Times* 6/9/92). Toward this end, Elcibey created a ruble supplement, the manat, in August 1992. The country was to switch completely to the manat on June 15, 1993, by presidential decree. On June 13, however, rebels overthrew Elcibey's government and returned the former Communist chief Heidar Aliev to power. Aliev, who remained in power throughout the 1990s, delayed the currency change until late July 1993. The change in Azerbaijan's approach to its currency reflected a broader rapprochement with Russia, as Aliev, to the dismay of the nationalists, returned Azerbaijan to the CIS (*Financial Times* 6/14/93; Swietochowski 1995, 221–227).

The stories of Georgia and Moldova are similar. Georgia had introduced a supplemental currency, the menati, priced at par with the ruble, in April 1992 as a way to deal with cash shortages. When the Russian currency reform of July 1993 left Georgia with the suddenly worthless rubles, the government announced that on August 2 the menati would be the sole legal tender (Conway 1995, 50–54). Georgian nationalists had supported exiting the ruble zone and remaining outside the CIS, but state weakness and civil war kept the state within the Russian sphere of influence. Similarly, the Moldovan Popular Front, after coming to power in parliamentary elections in 1990, had planned to introduce a Moldovan national currency in January 1992 (*Wall Street Journal* 1/24/92). When the Moldovan Popular Front lost power, the plans for a new currency were delayed.

Unlike these other three states, Turkmenistan lacked a powerful nationalist movement urging the country toward an independent currency. Still, Turkmenistan's reaction to the Russian monetary exchange was that it would exit the ruble zone as quickly as possible, and it then rejected the possibility of monetary reintegration (*Financial Times* 8/20/93).

#### *The Failure of the "Ruble Zone of a New Type"*

Armenia, Belarus, Kazakhstan, Tajikistan, and Uzbekistan reacted to the July currency reform in Russia by insisting that they would continue to use the ruble, even though they had no way of receiving the new notes (*Financial Times* 7/28/93). For example, the Kazakhstani policy position on the ruble zone was consistent between December 1991 and July 1993: President Nursultan Nazarbaev favored both the currency union and an interstate bank to regulate credit emission among member states and cash distribution from the Russian ruble printing presses.<sup>10</sup>

Similarly, Belarus was committed to ruble zone membership. In 1991 and again in 1992 the Belarusian government introduced the Belarusian

10. See, for example, Alexandrov 1999, 65, 67, 156–157.

ruble, nicknamed the *zaichik*, or bunny, after the image on its face, as a supplement to the Russian ruble to deal with persistent cash shortages. The government and central bank insisted that the *zaichik* was not meant to become a new national currency. Uzbekistan also remained committed to the ruble zone. And Tajikistan, mired in civil war, was making no plans for an independent currency.

In August and September 1993, these five states, along with Russia, agreed to create a *rublevaia zona novogo tipa*, a “ruble zone of a new type.” On August 7, President Yeltsin met with President Nazarbaev of Kazakhstan and President Islam Karimov of Uzbekistan in Moscow, agreed in principle to create a common monetary system, and invited other CIS states to participate (Åslund 1995, 131). Then, on September 7, officials from Armenia, Belarus, Kazakhstan, Russia, Tajikistan, and Uzbekistan met in Moscow and agreed to use the Russian ruble as their common currency (*Segodnia* 9/9/93). The old ruble zone was chaotic and decentralized. The new-type ruble zone was to be orderly and centralized. Russia proposed to solve the problem of cooperation that had plagued the old union with a simple institutional design: all authority would reside in Moscow, at the CBR.

The price of ruble zone membership seemed to be as inflationary as the ruble itself, however. It was not enough, anymore, simply to submit to Russian monetary authority in exchange for the new ruble notes. In November 1993, Russia clarified the terms of membership in the new-type ruble zone. The Russian government declared that the cash rubles would be given to ruble zone members as state credit. In other words, the central banks of the five other states would be obligated to pay interest to the CBR for the rubles as if the notes were a loan. Furthermore, Russia insisted that the ruble zone states deposit at the CBR hard currency or gold worth 50 percent of the value of the ruble “loan.” These conditions would hold for a trial period, after which, if Russia deemed the states acceptable partners, the hard-currency collateral and interest would be returned, and the notes would no longer be treated as a loan. In addition, the member states could exchange their old ruble notes for the new, but at a confiscatory rate of approximately three for one. Finally, the members of the new-type ruble zone were required not to introduce an independent currency for a period of five years (*Moskovskie novosti* 11/21/93; *Delovoi mir* 12/13/93; Alexandrov 1999, 172).

These Russian conditions destroyed any chance for the new-type ruble zone to succeed. Russia had changed from a generous leader of post-Soviet monetary cooperation seeking to pay post-Soviet republics for their political acquiescence, to a self-interested hegemon intent on either profiting from the ruble zone or destroying it.<sup>11</sup> Armenia, Belarus, Kazakhstan, and

11. In the language of the theory of monetary dependence, in late 1993 Russia sought to extract wealth from member states or expel them; previously it had sought to entrap them, by making membership so attractive. See Kirshner 1995, chap. 4.

Uzbekistan introduced independent currencies in November 1993, complaining all the way out of the ruble zone (*Wall Street Journal* 11/2/93). For more than three months, they had been using rubles that were worthless in Russia, and they could not afford to pay Russia what it asked for new rubles. They were forced to introduce independent currencies. Only Tajikistan, in the chaos of its civil war, continued until May 1995 to use the old Soviet-era ruble.<sup>12</sup>

Belarus, despite having introduced an independent currency, continued to negotiate its return to Russian monetary authority. In January and February 1994 Russian and Belarusian officials made public their intentions to unify the two states' monetary systems, including the significant detail that Belarus would continue to receive Russian energy supplies at heavily subsidized prices (*Izvestiia* 4/14/94; *Segodnia* 2/3/94). Russia and Belarus also announced their future monetary union on the occasion of each of their political integration agreements in 1996, 1997, 1998, and 1999. Their bilateral monetary unification did not take place, however, and at the end of the first post-Soviet decade, only Russia still used its ruble. The ruble zone seems gone for good.

#### EXISTING EXPLANATIONS FOR THE END OF THE RUBLE ZONE

To date, most research on the ruble zone has focused on the question of why the currency union disintegrated under conditions that many observers had presumed to be conducive to its success. The two most prominent explanations for the ruble zone's collapse are informed by economic theory on the optimal size of currency areas and the appropriate institutional design of a monetary union. Both apply a patina of inevitability to the story of the decline and fall of the ruble zone, but, as the above narrative demonstrates, the end of the ruble zone was not at all inevitable.

#### *An Optimum Currency Area?*

Nobel laureate Robert Mundell argued that fixed exchange rates are most appropriate for regions and states that are tightly integrated with regard to trade, business cycles, and factor movements, thus originating an agenda for research into the optimal size of monetary unions—the so-called optimum currency area (Mundell 1961; Kenen 1969; Tavlas 1994).

There are many reasons to doubt that the fifteen states of the former Soviet Union comprised an optimum currency area, despite their extraordi-

12. See *New York Times* 5/15/95. Russia eventually distributed the new ruble notes to Tajikistan for "humanitarian" reasons.



nary economic interdependence.<sup>13</sup> However, the optimality—or lack thereof—of the post-Soviet monetary union is not causally related to its dissolution. That is, none of the standard optimum-currency-area issues (exchange rate flexibility, microeconomic efficiency, and the commonality of economic shocks) had anything to do with the decisions of post-Soviet governments to leave or stay within the ruble zone.

The problem is not merely that the theory of optimum currency areas has virtually no predictive power in general (Cohen 1998a, 83–84; de Grauwe 1993; Goodhart 1995, 452). Concerns about efficiency and exchange rate flexibility were irrelevant to the decision making of post-Soviet governments. Although some observers have assessed the suboptimality of the post-Soviet currency area in order to explain its collapse, Charles Goodhart (1995, 449) still concluded, “No one suggests that the defections from the ruble area occurred because the region was too large an optimum currency area.” The material incentives associated with microeconomic efficiency and macroeconomic flexibility were dwarfed by the incentives associated with the institutional design of the ruble zone and the discounted energy imports that Russia linked to currency union membership. Other stakes were much higher.

#### *Institutional Design*

There was a striking institutional flaw underlying the ruble zone. The Russian central bank controlled all the printing presses, so it alone could create cash rubles. Prior to 1991, the Soviet state bank, Gosbank, had local branches in each of the republics. After Soviet dissolution, the local branches became the central banks of the newly independent states. These central banks could create noncash rubles by emitting credit. Therefore, at the beginning of 1992, the ruble zone was a currency union with fifteen independent monetary authorities, hardly an effective design to promote monetary stability.<sup>14</sup>

Post-Soviet central banks created large amounts of ruble credit for two reasons. First, each sought seigniorage—the real value of resources transferred to a government through money growth, including that which results from increased private holdings of money and the so-called inflation tax. Seigniorage has inherent limits because there are costs to high levels of inflation. In a currency union, however, the costs are shared by all members. Thus, most post-Soviet states faced incentives to remain in the ruble

13. For example, see Orłowski 1994; Gros and Steinherr 1991; Gros 1993.

14. For a focus on this design flaw as the primary cause of the ruble zone’s instability and its ultimate collapse, see Sachs and Lipton 1993; Hefeker 1997, chap. 7; Dabrowski 1995; Orłowski 1994; Banain and Zhukov 1995.

zone to gain from seigniorage and push the costs onto other states. Indeed, the unusual institutional structure of the union led to a competition for seigniorage (Conway 1995). As long as post-Soviet governments were relatively indifferent to the union's resulting inflation (and most acted as though they were during 1992 and 1993), they could attempt to take advantage of the other members. Many seemed to try to do just that.<sup>15</sup>

A second reason why the central banks of the successor states created large amounts of ruble credit was to finance trade deficits with other states by issuing credit to local commercial banks, which could extend it to local importers, with the resulting (decreasingly valuable) ruble balances ending up in the accounts of other central banks (Cohen 1998a, 78–80). Thus, governments could orchestrate the transfer of real resources from other post-Soviet republics, and especially Russia, to firms and citizens within their borders simply by emitting more credit.

No doubt the institutional flaw that created excessive credit ultimately would have been fatal to the ruble zone, at least as it was organized between December 1991 and July 1993. But this problem of institutional design is not a sufficient explanation for how, when, or why the ruble zone actually disintegrated. Most importantly, four post-Soviet states—Estonia, Latvia, Lithuania, and Ukraine—introduced currencies while these seigniorage revenues were most available to them, and when they could have transferred real resources from Russia to their economies by emitting more credit. Moreover, the currency reform programs of the three Baltic states emphasized macroeconomic stabilization and, if necessary, deflation. Clearly seigniorage is not what they were after by exiting the ruble zone.

Also, the other ruble zone members were indifferent to the hyperinflation that resulted from the institutional flaw, or at least indifferent enough not to change their policies and exit the ruble zone in favor of monetary stabilization. And even when Russia reasserted control over the ruble zone, at least five post-Soviet states—Armenia, Belarus, Kazakhstan, Tajikistan, and Uzbekistan—were still willing to participate in a currency union in which seigniorage would accrue only to Russia and in which they could no longer finance their trade deficits with Russia by issuing credit.

This institutional flaw is most useful for understanding why the Russian government and central bank ultimately became dissatisfied with the ruble zone members' taking advantage of the currency union, and why they eventually decided to force members to choose either to subordinate their monetary policies to Russia's or to leave the ruble zone. But this institutional flaw offers little insight into the variety of money strategies of the other post-Soviet states.

15. The unusual design of the ruble zone thus altered the usual relationship between seigniorage and currency union membership. That is, the desire for seigniorage is usually a reason to leave a currency union (Fischer 1982).

MATERIAL INCENTIVES AND THE VARIETY  
OF POST-SOVIET MONETARY STRATEGIES

Explaining the variety of post-Soviet monetary strategies therefore is crucial because the existing explanations do not provide insight into the timing of and reasons for exits by the post-Soviet states. Although the dissolution of the ruble zone is consistent with the baseline expectations of optimum-currency-area theory and the institutional design approach, the mere fact that the ruble zone fell apart does not confirm those hypotheses. Indeed, the end of the monetary union seems in retrospect to be theoretically overdetermined.

After the collapse of Soviet institutions, Russia continued to subsidize production in the other successor states with energy and raw materials priced at huge discounts, by some estimates at 60 to 70 percent below world prices. In principle, Russia could have offered these subsidies to the other post-Soviet states regardless of whether or not they stayed in the ruble zone, but Russia sought to link ruble zone membership, and political-economic acquiescence to Russian regional hegemony more generally, to the continuation of subsidies. In the early 1990s, post-Soviet governments interpreted monetary sovereignty and continued Russian energy subsidies as a trade-off. The choice was obvious to post-Soviet states, particularly after Russia made examples of the Baltic states, whose societies saw the costs of their energy and raw materials rise from approximately 30 percent of world levels all the way up to world levels after they introduced independent currencies in 1992 (Kramer 1993; Olcott, Åslund, and Garnett 1999, 44–45).

Therefore, one possible explanation for the timing and motivation of exits from the ruble zone is the distribution of costs and benefits from the subsidies implicit in post-Soviet states' trade with each other. An evaluation of the terms-of-trade effects of moving to world prices is a useful way to assess the economic dependence of post-Soviet states on Russia and the Eurasian region (Tables 5.2 and 5.3). As David Tarr (1994) showed, only two states other than Russia—Kazakhstan and Turkmenistan—faced potentially large incentives to move to world prices and to leave the ruble zone, because they were not dependent on energy imports from Russia.<sup>16</sup> Most of the other twelve post-Soviet states were faced with large terms-of-trade losses from independent currencies that, as Russia made clear, would have eliminated Russian energy subsidies. Matthew Evangelista (1996a, 183–184; also 1996b, 175–185) concluded, "It is hard to argue that the policies of the

16. Note, however, that Kazakhstan's refining facilities were quite limited, and its oil pipelines (and train tracks) ran into and through Russia. Goldberg, Ickes, and Ryterman's (1994) analysis of these incentives is based solely on the imports and exports of energy and raw materials.

Table 5.2. Intraregional Share  
of Soviet Republics' Total  
Commerce, 1990

Country	%
Turkmenistan	93
Estonia	92
Armenia	90
Lithuania	90
Latvia	89
Kazakhstan	89
Uzbekistan	89
Moldova	88
Azerbaijan	88
Tajikistan	87
Belarus	87
Georgia	86
Kyrgyzstan	86
Ukraine	82
Russia	61

*Source:* Adapted from Michalopoulos  
and Tarr 1992.

republics in trying to break away from Moscow were driven strictly by pursuit of economic utility. Virtually all of them stood to lose.”

There were clear predictions about ruble zone participation to be made from an analysis of the costs and benefits of membership. Linda Goldberg, Barry Ickes, and Randi Ryterman (1994, 318–319, 313) tallied these costs and benefits and offered a “balance sheet,” which included both seigniorage and terms-of-trade effects. In the early 1990s, according to their analysis, Kazakhstan and Turkmenistan faced large incentives to leave the ruble zone and raise their energy prices to world levels and, at the same time, would have incurred small income or output costs associated with a new currency. The three Baltic states “were expected to experience very large immediate income losses,” losses that were “unlikely to be compensated.” Thus, they concluded, “If there is any prediction to be made from the analysis of the short-term costs and benefits of leaving the ruble zone, it is that [the Baltic states] would try to remain in the ruble zone, while [Kazakhstan and Turkmenistan] would opt for a new currency.”

Clearly that is not what happened. Kazakhstan and Turkmenistan—the biggest potential winners from currency separation, according to this analysis—did not leave the ruble zone in 1992. Lithuania, Latvia, and Estonia—among the biggest potential losers from currency separation—did. So, the

Table 5.3. Impact on the Terms of Trade of Changing to World Prices

Country	Impact
Russia	+79
Turkmenistan	+50
Kazakhstan	+19
Kyrgyzstan	+1
Uzbekistan	-3
Tajikistan	-7
Azerbaijan	-7
Ukraine	-18
Belarus	-20
Georgia	-21
Armenia	-24
Latvia	-24
Lithuania	-31
Estonia	-32
Moldova	-38

Source: Adapted from Tarr 1994.

problem is not merely that the broadest and most powerful economic prediction and explanation of the evolution of the ruble zone is incorrect. As Goldberg, Ickes, and Ryterman (1994, 320) summarized, an “analysis of the costs and benefits of independent currencies is yielding opposite predictions from events.” Therefore, they concluded, “Politics matter.”<sup>17</sup> I take their conclusion about “politics,” echoed by other observers of the ruble zone, as a point of departure.<sup>18</sup>

#### AN ALTERNATE THEORETICAL APPROACH

The politics of national identity were most important in the evolution of the ruble zone. Therefore, the most useful approach to the political economy of post-Soviet money is one that focuses systematically on the influence of national identity on foreign economic policy. I articulate a distinctively Nationalist perspective on international political economy (IPE) elsewhere (Abdelal 2001b, chap. 2), but there are several important theoretical argu-

17. For more on the trade-off between national currencies and continued subsidies, see Spencer and Cheasty 1993.

18. Goodhart (1995, 449) summarized, “Political, not economic events” caused the monetary changes of the 1990s in post-Soviet Eurasia.

ments that can be summarized here and used to understand the diversity of post-Soviet monetary policies.

Most important, a Nationalist perspective on IPE, which explains how nationalisms and national identities affect the economic relations among states, differs from the Realist perspective, which focuses on the effects of statism and the distribution of power. However, there has been considerable confusion on this difference in the field of IPE, because Robert Gilpin equated the Nationalist and Realist traditions of IPE in his classic *Political Economy of International Relations* (1987, 31–34, 41–54). As a result, many IPE scholars have assumed that nationalism is conceptually and empirically equivalent to statism, and that economic nationalism is equivalent to economic statism or neomercantilism. For Realist IPE, statism is a concept and empirical phenomenon that describes the state as an actor with interests distinct from society. In contrast, a Nationalist perspective on IPE is based on the variability of national identities.

#### *The Content and Contestation of National Identity*

National identities vary in two primary ways: in their content and contestation. The content of a national identity includes definitions of membership in the nation, of the fundamental purposes of statehood and economic activity, and of the states that threaten those purposes. This content is inherently directional, particularly because nations are imagined to have a most significant “other,” against which they are defined.

The other variable, contestation, is closely related, because societies collectively interpret their national identities. Every society has nationalists who attempt to link the symbol of the nation to specific goals and, therefore, who seek to define the content of their society’s collective identity. However, not everyone in society always agrees with how the nationalists seek to construct their identity. Sometimes the nationalists cannot even agree among themselves. Specific interpretations of the goals of the nation are sometimes widely shared in a society and sometimes less widely shared. The farther 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. Thus, the variable of contestation describes whether the rest of a society agrees (and how it disagrees) with its nationalists.

#### *National Identity and Political Economy*

A coherently shared national identity has four primary effects on governments’ foreign economic policies. It endows economic policy with a fundamental social purpose related to protecting and cultivating the nation. A



shared national identity engenders the willingness for economic sacrifice necessary to achieve societal goals, to realize the nationalists' vision of the future. It lengthens the time horizons of society and government. And a shared national identity specifies a direction for foreign economic policy, away from the nation's "other" and, often, toward another, broader cultural space. In contrast, a contested or ambiguous national identity separates economic activity from national purpose and shortens a society's and government's time horizons.

Economic nationalism, then, is a set of policies that results from a shared national identity; it is economic policy that follows the national purpose and direction. This is clearly different from the Realist understanding of economic statism, which implies neither social purpose nor shared meanings nor a direction derived from historical memory. Finally, a Nationalist perspective on IPE locates the source of economic nationalism in society, rather than in the state. This also means that societies and governments that lack economic nationalism, and whose policies lack social purpose and national meaning, can be explained by the contestation, ambiguity, or ambivalence of national identity. That is, a Nationalist perspective can also explain societies that do not seem very "nationalist."

#### AN EXPLANATION BASED ON NATIONAL IDENTITY

Nationalist movements rose as the Soviet Union began to come apart in the late 1980s and early 1990s.<sup>19</sup> The levels of nationalist mobilization among Soviet republics were uneven. After the collapse of the Soviet Union, the success of nationalist parties in winning popular support for and implementing their agendas varied as well.

Almost all nationalist movements and parties throughout the former Soviet Union advocated the creation of a national currency for their newly independent states.<sup>20</sup> Frequently, post-Soviet nationalists proclaimed economic "reorientation" as their goal, defined by the reduction of dependence on Russia and economic reintegration with some other group of states, most commonly "the West" or "Europe." An independent money was a fundamental component of nationalists' agendas. Currencies, they tended to argue, would insulate their economies from Russia's turmoil, ensure autonomy from the CBR, and serve as a powerful symbol of indepen-

19. The literature on Soviet and post-Soviet nationalisms is quite rich. See especially Suny 1993, 1998, 1999/2000; Beissinger 1996; Laitin 1998; Bremmer and Taras 1997; Szporluk 1994. Post-Soviet national identities are historical outcomes. For a historical-institutional perspective on why they diverged, see Abdelal 2001a.

20. As I discuss later, Armenia was an exception to this rule.

dent statehood. Many nationalists had thought, prior to 1991, that economic autonomy from Russia would bring their nation prosperity. However, after the dissolution, most quickly realized that such a policy would cause economic distress in the short run. The nationalists revised their argument: they claimed that autonomy was worth the costs and that the rewards would accrue to future generations of the nation.

The nationalists' arguments, however, did not consistently convince everyone in society. There were those who demanded that the economic ties of the former Soviet Union be maintained and even strengthened, primarily to avoid economic disaster. Invariably, among the groups that insisted on regional economic cooperation and reintegration were the industrialists and other organized business interests in each state.

These two arguments were clearly incompatible, as were the policies the opposing groups proposed. Post-Soviet societies and politicians were forced to choose: they could side either with the nationalists and exit the monetary union, or with the industrialists and accept regional cooperation under Russian leadership. The political economy of post-Soviet international relations revolved around one basic question: Did post-Soviet societies and politicians agree with their nationalists or not?

As post-Soviet political authority was reconstructed in the early 1990s, the former Communists' reactions to the nationalists were most consequential, and revealing, politically. During the first post-Soviet decade, the defining political difference among the fourteen non-Russian states was the relationship between the formerly Communist elites and the nationalists in each—whether the former Communists marginalized the nationalists, arrested them, co-opted them, bargained with them, or even tried to become like them. These different relationships indicated the degree of societal consensus about the purposes of nationhood and statehood after Soviet rule.

Post-Soviet societies can be divided into three groups based on how they resolved these internal debates, which is a preliminary indicator of the content and contestation of their national identities (Table 5.4).<sup>21</sup> First, there are those societies with national identities whose content, proposed by nationalist movements and parties, was widely shared and, therefore, relatively uncontested. In Lithuania, Latvia, and Estonia, the nationalists came to power and influenced societal debates about economic strategy so that the entire political spectrum, including most former Communists, embraced the nationalist agenda of economic reorientation away from Russia. In Ar-

21. I have coded these societies based on the agendas of their nationalists, the nationalists' electoral success, and the reaction of their other major power center—the former Communists. The nationalists' agendas are proposals for the content of national identity, and the reaction of society—in elections and in the form of the former Communists—is a measure of the contestation of that content.

Table 5.4. National Identities of Post-Soviet Societies: Content and Contestation

Country	Dominant Nationalist Movements, Parties	Nationalists' Proposals for Content	Nationalists' Electoral Success	Reaction of Former Communists	Outcome
Estonia	Estonian Popular Front	Anti-Russian, pro-"European"	High	Cooperative	Clear, widely agreed upon
Latvia	Latvian Popular Front	Anti-Russian, pro-"European"	High	Cooperative	
Lithuania	Sajudis/Homeland Union	Anti-Russian, pro-"European"	High	Cooperative	
Armenia	Pan-Armenian National Movement	Anti-Soviet, anti-Turkic	High	Cooperative	
Azerbaijan	Azerbaijani Popular Front	Anti-Russian, pro-Turkic	Moderate, except Karabakh	Hostile	Contested regionally
Georgia	Georgian Popular Front; Round Table Coalition	Anti-Russian, pro-"European"	Moderate, except Abkhazia, South Ossetia	Ambivalent	
Moldova	Moldovan Popular Front	Anti-Russian, pro-"European," pro-Romanian	Moderate, esp. western Moldova	Hostile	Contested regionally
Ukraine	Rukh	Anti-Russian, pro-"European"	Moderate, esp. western Ukraine	Ambivalent	
Belarus	Belarusian Popular Front	Anti-Russian, pro-"European"	Low	Hostile	Ambiguous, fragmented
Kazakhstan	Zheltoksan; Azat; Alash	Anti-Russian, pro-"Asian"	Low	Hostile	
Kyrgyzstan	Asaba; Ata-Meken	Anti-Russian	Low	Hostile	
Tajikistan	Islamic Renaissance Party; National Revival	Anti-Russian	Low	Hostile	
Turkmenistan	Agzybyrlik	Anti-Russian	Low	Hostile	
Uzbekistan	Birlik; Erk	Anti-Russian	Low	Hostile	

menia, where national identity was also coherently and widely shared, the nationalist agenda also became ascendant, but it was unique among post-Soviet nationalist movements in its generous interpretation of Russia as a historical ally against Muslim neighbors.<sup>22</sup>

Then there were those societies in which the nationalists' proposals for the content of their national identities were regionally contested, with significant variation across space in the mass publics' interpretation 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 after 1991 were insufficient to achieve their goals. This was true, first, because of a failure of societal resolve, since the goals of the governments were not as widely shared as in other societies, for example, on the Baltic littoral. Also, especially in the cases of Azerbaijan, Georgia, and Moldova, internal state weakness and societal contestation of state purpose allowed Russia to influence their domestic politics and affect military and economic outcomes.

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 societal actors. These six were ruled by pro-Russian, reintegrationist Communist parties (and their successors).

Comparing Tables 5.1 and 5.4 shows that a Nationalist account is largely consistent with the timing of many post-Soviet states' exits from the ruble zone. More specifically, categorizing the post-Soviet societies according to the content and contestation of their national identities corresponds, with a few exceptions, to the three waves of ruble zone departures—early, after the July 1993 reform, and after the failure of the new-type ruble zone. The case of Armenia is comprehensible from a Nationalist perspective only once the specific content of its nationalist ideology is taken into account, and Kyrgyzstan's monetary strategy is not consistent with my argument. The other twelve states fit the pattern quite well, with the exception that Turkmenistan reacted more harshly to the July 1993 reform in Russia than the national identity explanation would have predicted. Thus, the politics of nationalism go a long way toward explaining how, why, and when the ruble zone collapsed. I illustrate these politics with two case studies of post-Soviet monetary policy making: Estonia, the first out, and Kazakhstan, one of the last out.

22. A few nationalist parties were oriented against Russia and the CIS, among them the Free Armenia Mission. However, the most influential Armenian nationalists proposed traditional anti-Turkic content for their society's collective identity. Explicit anti-Russianism was rare. For a review, see Suny 1999/2000, 156–159. Also see Dudwick 1997.

## ESTONIA: ECONOMIC NATIONALISM

The agenda of Estonia's nationalists dominated the state's economic strategy during the early 1990s. Its national movement was among the earliest of those that arose during Gorbachev's perestroika. Estonian nationalists enjoyed so much popular support during the late 1980s that many of Estonia's Communists embraced the nationalist agenda as their own. In particular, the Popular Front of Estonia proposed anti-Soviet and anti-Russian content for Estonian national identity, and almost all Estonians shared that interpretation. Just as Estonian national identity was defined in opposition to the Soviet Union and Russia, so was it linked to a "European" identity. Estonian nationalism was pro-European, and the nation's "return to Europe" was one of the dominant themes during this period. The only significant contestation over the meaning of Estonian identity came from the state's substantial Russian-speaking population, which sought at least Estonian citizenship, if not membership in the nation.<sup>23</sup>

*Estonian Nationalism*

In September 1987, the Tartu newspaper *Edasi* published a plan for increased Estonian economic autonomy within the Soviet Union. The so-called Four-Man Proposal put forward the idea of an independent currency as well. The authors, Edgar Savisaar, Siim Kallas, Tiit Made, and Mikk Titma, went on to play important roles in the development of the Estonian nationalist movement and the first postindependence governments. The Popular Front's first program, published in April 1988, elaborated the theme of economic autonomy, and rather than pushing for outright independence, demanded greater "sovereignty" within the Soviet Union.

At the beginning of 1989, the Estonian national movement consisted of the Popular Front, the nationalist Citizens' Committees, a newly formed Estonian Independence Party, and a number of Communist Party members. All of these groups supported a political agenda of independence and an economic agenda of autonomy from Russia and reorientation toward Europe. The idea of a national currency, especially one that would be "reintroduced" from the years of interwar independence, was a particularly popular component of the nationalist agenda (*Estonian Independent* 9/18/91). In March 1990 Estonians elected new members to their parliament, the Estonian Supreme Soviet. Approximately 70 percent of the newly elected members were affiliated with the Popular Front. The Front formed a new government in April under the leadership of Prime Minister Edgar Savisaar.

23. See Laitin 1998. For reviews of Estonian nationalism and politics, see Raun 1997; Taagepera 1993, chaps. 7, 8; Lieven 1993, chap. 8.

The struggle for independence was complete in August 1991, when, after the unsuccessful coup in Moscow, Soviet authorities officially recognized Estonian independence. As the rest of the Soviet Union was coming apart in December 1991, the Estonian government was making plans to reorient the economy away from the Soviet economic space. Even after Prime Minister Savisaar was replaced by Tiit Vahi of the Estonian Coalition Party, which included a number of former Communists, the government planned to exit the ruble zone and “reintroduce” its national money.

*The Estonian Kroon and National Autonomy*

Estonia introduced the kroon in June 1992 and pegged the new currency to the German mark.<sup>24</sup> Thus, Estonians linked their autonomy from Russia to their shared understanding of the purposes of their statehood; one of those purposes was their “return to Europe” while exiting the Russian sphere of influence. As Siim Kallas (1993, 9), another author of the Four-Man Proposal and the governor of the Bank of Estonia, argued, “In 1992, the Bank of Estonia was accused of knowingly attempting to destroy the current traditional economic relationship with the East. To some extent we did” (also see Sorg 1994). The plan, in other words, was to “break the dominant position of trade with the East” (Kallas and Sorg 1995).

The analysis of Estonia’s first president, Lennart Meri, is even clearer. Estonia, President Meri (1993) argued, was rejecting “the last colonial empire in the world.” Estonia’s money was symbolic: “The kroon is not a piece of paper; the kroon is the flag of Estonian economic and political independence.” Of course, the introduction of the kroon was costly, since leaving the ruble zone cut the “umbilical cord” of subsidized Russian energy supplies. But Meri rejected this short-term thinking, deriding “those who would like to be rich today at the expense of our children and grandchildren.” A shared vision of the future, derived from national identity and the purposes Estonians ascribed to their new state and economy, lengthened the time horizons of society and government and led Estonians to accept economic deprivation in exchange for their kroon. As Meri concluded, “Money is politics, and politics is money.” Estonian scholars who recently reassessed the political foundations of those economic choices recalled, “To have in one’s pocket a convertible currency with the pictures of Estonian national cultural heroes on the bank notes, seemed not *less*, maybe even *more* important than to have an Estonian passport” (Lauristin and Vihaelemm 1997, 103–104).

24. This decision reflected the ideological context within which the newly independent Estonian state emerged. The choice for Europe implied the embrace of all things European and Western, including the global economy and its normative and ideological foundations. Estonians thus sought to import credibility from the Bundesbank. On this context and how it affected the practices of governments and central banks, see Gabel, this volume.



## KAZAKHSTAN: NATIONAL AMBIVALENCE

In Kazakhstan, as in Estonia, a large and vocal Russian-speaking population viewed the rise of nationalist movements in the Soviet Union with suspicion. Both Estonia and Kazakhstan shared a striking demographic characteristic: a large number of these "Russians," many of whom had never been to Russia but who also did not consider themselves Estonian or Kazakh (Laitin 1998). According to the 1989 Soviet census, Kazakhstan's population was 38 percent "Russian," as was 30 percent of Estonia's population. Whereas Estonian political leaders sought to marginalize, and even disenfranchise, their "Russians," Kazakhstani leaders attempted to placate theirs. Estonian nationalists clearly set the terms of debate for their country's political-economic strategy. Kazakh nationalists, in stark contrast, failed to rally Kazakhs (and certainly not Kazakhstanis, or the citizenry as a whole) behind their national vision of a state for Kazakhs first and autonomous from Russia. Kazakh nationalists proposed anti-Soviet and anti-Russian content for their society's collective identity, but the country's political elites rejected it most forcefully. Many of Estonia's former Communists turned into nationalists. Virtually none of Kazakhstan's did.

*Kazakh Nationalism*

The Kazakh nationalist movement's most salient, recent historical moment was December 1986, when Dinmukhamad Kunaev, an ethnic Kazakh who had been first secretary of the Communist Party of Kazakhstan for more than twenty years, was replaced, on Moscow's orders, by Gennady Kolbin, a Russian with no previous experience in the republic. The dismissal of Kunaev led to what nationalists now call the "Almaty uprising," named for the demonstrations that took place in Almaty (then Alma Ata). Soviet authorities arrested many of the demonstrators, and the Kazakh nationalist movement at that time did not gain the support of the population. Rather than sparking a mass-based movement, the Almaty uprising became merely a rallying cry for the relatively unpopular nationalist organizations that became politically active several years later.

Kazakhstan did not experience a significant nationalist mobilization during the Soviet period. This was not for Kazakh nationalists' lack of trying. Several nationalist groups sought to influence the meaning of Kazakh national identity (Olcott 1995, 279–280). In 1989, Zheltoksan (or December, named for the Almaty uprising) was organized to promote the release of Kazakhs who had been arrested during the 1986 demonstrations. Eventually, Zheltoksan became a nationalist organization with broader political goals, including secession from the Soviet Union. In the spring of 1990, two other nationalist organizations formed. Alash was the more radical, and also more closely linked to Islam. Azat emphasized the development of

Kazakh language and culture and in general supported what it called the “decolonization” of Kazakhstan. In 1992, Azat, Zheltoksan, and the Republican Party, also nationalist, combined to form a broader Azat nationalist organization. In general, these Kazakh nationalists were anti-Soviet and anti-Russian. They sought political, cultural, and economic autonomy from Russia. An independent currency was considered an essential part of the nationalist program.<sup>25</sup>

Kazakh nationalists failed to mobilize popular support for their ideas. Their movement, and its organizations and parties, did not successfully recruit large numbers of Kazakhstanis. Kazakhstan’s Communists did not become nationalists and were not pressured to do so by popular support for the nationalist agenda (Olcott 1997a; Verkhovsky 1993). Indeed, Kazakhstan’s Communists remained loyal to the Soviet Union, and its single economy, until the end came in late 1991. The outcome of the March 1990 elections to the Supreme Soviet of Kazakhstan, which gave 94 percent of the 360 seats to Communists, indicated that the government would continue to reject the nationalist agenda of independence and autonomy. In April 1990, the Supreme Soviet elected Nursultan Nazarbaev as president. Nazarbaev, who had been made first secretary of the party in June 1989, became the most powerful political leader in post-Soviet Kazakhstan. And Nazarbaev certainly did not support the nationalists.

Indeed, Nazarbaev consistently and explicitly rejected the nationalists’ program, calling it dangerous for a state as divided along national lines as Kazakhstan. Nazarbaev promoted the idea of a territorial, civic identity—Kazakhstani, rather than Kazakh—to include all Kazakhstanis, both the ethnic Kazakhs and the large Russian-speaking population. Nazarbaev’s administration repressed the nationalists, refusing to allow Alash or Azat to register as political parties. In December 1991, Nazarbaev was elected president of Kazakhstan in an uncontested popular election and held the post throughout the 1990s. His only potential opponent in the 1991 election was Hasan Kozhakhmetov, then the leader of Zheltoksan, who was unable to collect the 100,000 signatures necessary to appear on the ballot. Thus, although the Kazakhstani government clearly discouraged Kazakh nationalism, Kazakh nationalists never appeared to be an influential political force. As a result, there was no compelling national purpose that Kazakhstani society ascribed to its economic activity. The government did not interpret economic dependence on Russia as a security threat. Instead, economic relations with Russia were purely a material issue for Kazakhstan, whose government sought to keep the Soviet economy integrated.

25. On the importance of a national currency in the programs of Kazakh nationalists, see the following sections in Aiaganov 1994: *Grazhdanskoe dvizheniia Kazakhstana* (Social Movement of Kazakhstan) “Azat,” 1–3; *Partiia* “Alash,” 62–63; *Natsional’no-demokraticeskaiia partiia* (National-Democratic Party) “Zheltoksan,” 77–79.

*Nazarbaev and the Ruble Zone*

As a result of his rejection of the nationalist program, in late 1991 and afterward Nazarbaev urged post-Soviet republics at least to maintain the “single economic space” of the Union (quoted in Olcott 1997b, 555).<sup>26</sup> This economic space included the ruble zone, which Nazarbaev and the Kazakhstani government viewed as a convenience and even as a means to benefit from Russian subsidies.<sup>27</sup> Nazarbaev rejected the nationalists’ opposition to the ruble zone (Olcott 1996, 63).

In May 1992 Nazarbaev promoted his economic agenda, “Strategy for the Formation and Development of Kazakhstan as a Sovereign State,” a plan that did not propose to introduce a national currency. Kazakhstan’s sovereign statehood apparently did not require a monetary policy independent from Russia’s. Bisenchaly Tadjiiakov, deputy governor of the National Bank of Kazakhstan, insisted, “If we are forced to leave, we will be the last to do so” (*Financial Times* 7/31/92). In February 1993, Nazarbaev explained that ruble zone states “will have to sacrifice some of their sovereignty in this case for the sake of improving the living standards of their peoples and strengthening the ruble” (Alexandrov 1999, 162–163). This way of talking about sovereignty, limited for the sake of living standards, would have been inconceivable in the Estonian political context.

After July 1993, when the actions of the CBR threatened the ruble zone, Nazarbaev finished making arrangements to introduce an independent currency, in case it became necessary. In a speech in August 1993, President Nazarbaev explained, according to Mikhail Alexandrov (1999, 169), that his state was “technically prepared to leave the ruble zone, but that he believed it would be more profitable to stay in it.” Thus, the Kazakhstani government continued to support the idea of the new-type ruble zone, despite the CBR’s surprise monetary reform in July. As discussed earlier, Russia eventually imposed extremely harsh conditions on prospective members of the new ruble zone, essentially forcing Kazakhstan to introduce an independent currency. Kazakhstan’s deputy prime minister, Daulet Sembayev, complained that the Russian conditions were “purposefully designed to be unacceptable,” and that Kazakhstan was being “pushed out of the ruble zone” (quoted in Alexandrov 1999, 172).<sup>28</sup> As President Nazarbaev explained to the Kazakhstani parliament, “We made all possible concessions, but now Moscow has asked us to do the impossible—hand over billions of

26. For more on Nazarbaev’s support of Eurasian economic reintegration, see Olcott, Åslund, and Garnett 1999, 111–120; Alexandrov 1999, chap. 4.

27. Apparently, in early 1992 Nazarbaev had arranged for a top-secret contingency plan to prepare a new currency in the event that it was absolutely necessary. See Alexandrov 1999, 157–158.

28. See also *Christian Science Monitor* 11/17/93. For more on Kazakhstan’s relationship to the ruble zone, see Rutland and Isataev 1995, 97–100.

dollars" (*Financial Times* 11/2/93). Kazakhstan finally, and still reluctantly, introduced its new currency, the tenge, in November 1993.

#### CONCLUSION

The ruble zone did not simply disintegrate amid the demands for autonomy of newly independent states. Still, some post-Soviet states exited as quickly as they could in their search for autonomy from Russia. The monetary union also was not re-created, though some states, having been ejected from the first currency union, sought to create a second, new-type ruble zone at the expense of their own monetary sovereignty. The region's monetary arrangements were characterized by a complex mix of disintegration, proposals for reintegration, and ultimately the proliferation of fifteen new currencies—some of which were cherished by the societies that chose them, and others of which were treated with skepticism by the societies on which they were forced. The crucial fact about the Soviet and, later, Russian ruble was that post-Soviet governments interpreted it in contrasting ways. The Estonian government considered the ruble a symbol and pernicious mechanism of Russian imperialism. The Kazakhstani government, at the other extreme, interpreted the ruble as a convenience and even as a useful mechanism for economic reintegration with Russia and the rest of the post-Soviet region.

It was the politics of nationalism that led to the Estonians' and Kazakhstani's contrasting interpretations of the monetary union that they shared at the beginning of 1992. Estonia's nationalists came to power and led the country from the ruble zone. Kazakhstan's nationalists wanted to do the same thing, but they could not convince the rest of Kazakhstani society—or the government—that it was a good idea. So, Kazakhstan remained in the ruble zone until the bitter end, when Russia forced Nazarbaev to introduce a new currency. This explanation can be made general: differences in the national identities of post-Soviet societies led to their governments' contrasting interpretations of the monetary union that they inherited from the Soviets. The success of the nationalists in framing societal debate reflected the content and contestation of post-Soviet national identities. In sum, an explanation based on national identity is the most useful way to account for the variety of monetary strategies of post-Soviet states.

It should not be surprising that post-Soviet monetary integration and disintegration were influenced more by politics than by the variables that economists have identified as the most relevant. The twentieth-century history of regional monetary order and disorder, particularly in the aftermath of imperial collapse, reveals that political motivations always were central. David Stasavage's (this volume) account of the politics of the CFA Franc

Zone emphasizes the strategic considerations of the successor states of the French Empire, including France itself. Eric Helleiner (this volume) shows that ideologies of embedded liberalism and economic nationalism influenced the monetary strategies of Southern states in the years after World War II. An economic perspective on the choices all these states made suggested several plausible alternate outcomes, but the material incentives were never decisive. Indeed, governments frequently disregarded those incentives or interpreted them through distinctive strategic, cultural, and ideological lenses. In the former Soviet Union during the 1990s, those lenses were national.