

## REGIONAL ECONOMY

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### **DEVELOPMENT OF THE BANKING SYSTEM AND LENDING IN UKRAINE: IVAN VERNADSKY'S INNOVATIVE APPROACH**

***Abstract.** The article is concerned with the historical and economic analysis of the process of development of the domestic banking system network and the development of the market-type lending for the needs of industrial development and agricultural entrepreneurship of the second half of the XIX century. The practical activity of Ivan Vernadsky in the field of bank and credit development in Ukraine is revealed.*

***Keywords:** banks, banking system, credit, market economy, entrepreneurship, I. Vernadsky, O. Alchevsky.*

The issue of banking and lending development in Ukraine under the present-day conditions of formation of a national market economy is quite relevant. Currently, the attention of many researchers is drawn to the period of free enterprise of the second half of the XIX century, the study of which will provide an opportunity to understand their own historical development path of market relations, which began their establishment at that time.

A very important place within the domestic scientific space in the 40-80's of the XIX century belongs to a well-known figure in the field of economics Ivan Vernadsky. The scientist had considerable teaching experience in educational

institutions of that time, was a member of the Moscow Association of Agriculture, a member of the Free Economic Society (and later – chairman of the Political and Economic Committee and chairman of the Literacy Committee), a member of the Central Statistical Committee of the Ministry of Internal Affairs in Kharkiv. The academic economist gave an impetus to the further development of political economy, statistics, customs and fee policy, international political and economic problems of the world at that time. The name of I. Vernadsky occupies one of the brightest positions in the history of Ukrainian economics in the mid XIX century, his scientific activity fell on the period of radical socio-economic reforms. I. Vernadsky was a liberal, a man who adhered to the principles of humanism, tolerance, equality, was one of the most active popularizers of Western European economic literature and a planet-scale scientist.

Modern scientific research and publications of V. Bazylevych, T. Gaidai, A. Maslov [1], O. Kurbet [2], V. Nebrat [3], O. Kudlasevych [4] are mostly concerned with the explaining his theoretical views. Thus, an important contribution to the study of the intellectual heritage of I. Vernadsky is a fundamental monograph edited by V. Bazylevych “I. Vernadsky. Beginnings. Creative heritage in the context of the history of economic thought in Ukraine” [1]. In turn, the young researcher O.P. Kurbet [2] analyzed the main aspects of the Vernadsky's scientific work as a prerequisite for the formation of the Ukrainian Academy of Sciences. V. Nebrat revealed in her scientific research the interpretation of the categories “public economy” and “public finance” in the Ivan Vernadsky’s theory of national welfare [3]. But it seems to us that the practical activity of I. Vernadsky aimed at the implementation of his worldview and scientific positions also deserves attention. Thus, after returning to Ukraine, during the last fifteen years of his life, I. Vernadsky made a lot of efforts to develop banking and ensure the development of the national economy by means of credit.

Financial institutions played an integral role in the market transformations of the domestic economy in the second half of the XIX century [5, p. 43–48]. Removal of the feudal system led to radical changes in the peasant economy, the development of commerce and industrial production. They needed such financial institutions that

could provide them with short-term loans, and the agricultural sector with long-term ones. On the other hand, the old government lending institutions did not cope with the issue of efficient use of deposits. Therefore, the issue of the loan privatization and the development of a network of commercial and peasant banks required practical solution and consistent efforts. I. Vernadsky as the author of fundamental scientific works in the field of money economy and international commerce [6; 7] was deeply aware of this problem and joined in its solution.

In particular, in 1868–1876, I. Vernadsky performed duties of the manager of the Kharkiv State Bank office. It began operating in 1860, when the State Bank of the Russian Empire was established “to revive trade and strengthen the monetary and credit system”, as was stated in the charter. On the territory of the nine governorates of the Russian Empire, the lands of which are now part of independent Ukraine, there was a whole network of the State Bank institutions [8, p. 174–178]. At that time, it was not only the main bank of the Empire, but also an extremely powerful tool for influencing the financial and economic policies of a huge country. Therefore, having received this appointment, I. Vernadsky gained both opportunities and responsibility for the state of financial and credit support of the economy of the region.

As a specialist, he revealed potential opportunities to increase the efficiency of banking, although, according to primary accounting documents, the Kharkiv State Bank office worked well. Thus, the turnover of its capital in 1872 was as follows: fixed capital – 300 thousand rubles., deposits amounted to 3 214 thousand rubles., and the current account was 31 486 thousand rubles., the profit was 340.2 thousand rubles, including means from the discounting bills – 204.3 thousand rubles., from loans – 28.3 thousand rubles, from cash remittances – 14 thousand rubles. [9, p. 51]. However, the Kharkiv State Bank office was able to issue only short-term commercial loans. At the same time, the development of long-term mortgage lending had significant obstacles.

The banking reform of 1860 led to the reorganization of the old state-owned banks, which performed the functions of mortgage lenders secured by land and peasant souls. However, due to the imperfection of the new credit legislation and the

indecision of the government, the new land banks did not actually perform their functions for a decade. Meanwhile, the demand for credit increased rapidly in the context of the implementation of peasant reform and the opening of the land market. The family, which received a plot of land, wanted to separate the individual farms of the sons a few years later. Therefore, the demand for land, as well as for land credit has been increasing all the time. Under such conditions, I. Vernadsky together with the well-known industrialist and philanthropist Oleksiy Alchevsky initiated the opening of a private land bank that would promote the development of local agriculture. This initiative was aimed at directly meeting the economic requirements for the region development, financial support for peasant economy.

I. Vernadsky and O. Alchevsky met in 1866, when O. Alchevsky created the Mutual Loan Association, one of the first in the country; their communication proved to be quite fruitful: in the process, the idea of creating a Commercial Bank started up, which later became one of the most powerful financial institutions of that time. The bank began operating in 1868 and became very successful, as it was the third commercial bank in the entire Russian Empire. The close friendly ties between O. Alchevsky and I. Vernadsky gave rise to another financial project in May 1871 – the Land Bank, the first mortgage bank in the Empire. In the activities of this financial institution successfully managed to implement the intended use of a mortgage loan. Thanks to the Land Bank, O. Alchevsky got an opportunity to be engaged in heavy industry – a new and unknown branch. Quite often the bank's clients could not reimburse the loans and their lands became the property of the bank, and Oleksiy Alchevsky became the ultimate owner. Coal deposits were found on these lands, so it's expectedly that O. Alchevsky was one of the first to develop coal within the Bakhmut and Slavic-Serbian powiaty and the Don Cossack Host Region. O. Alchevsky became famous in business circles just when he became one of the founders and members of the board of the Kharkiv Commercial Bank, which became one of the first private joint-stock banks in the Russian Empire of that time. O. Alchevsky was the Chairman of the Board of the Kharkiv Land Bank in 1872–1901, later O. Alchevsky got the majority interest, in fact he became the fully entitled

manager of both banks, which began to serve his enterprises [10, p. 217-232].

According to the form of property, the Kharkiv Land Bank was a joint-stock bank and later its charter became a model for other joint-stock land banks, such as Poltava Land Bank (1872), Kyiv Land Bank (1872), Bessarabian-Tavriya Land Bank (1872) etc. [11, p. 39]. The founders of the Kharkiv Land Bank, along with I. Vernadsky and O. Alchevsky were landowner A. Bantysh, a merchant of the First Guild, landowner F. Dobrynin, and other wealthy residents of Kharkiv and Kharkiv governorate [12].

The bank was established primarily to provide loans secured by land (maximum term of 43.5 years) and urban real estate (maximum term of 18.7 years) in Kharkiv, Poltava, Yekaterinoslav, Kursk and Voronezh governorates. The amount of the loan should not exceed 60% of the market value of the mortgaged property, provided it's issued for a maximum period of 6% or 10% per annum, for a minimum – at 7.5% per annum, paid by borrowers in equal parts every six months. The maximum term loan was secured by land in the form of long-term letters of deposit; short-term loans for up to three years could be obtained in cash [13, p. 61]. Due to the activities of the Kharkiv Land Bank, a major blow was dealt to the moneylenders, who provided similar loans to the residents of this region at 15–20%, which hindered the development of arable farming [11, p. 39].

I. Vernadsky is one of the brightest representatives of the classical school of political economy in Ukraine, he was a supporter of the theory of free competition, was a dedicated opponent of serfdom and government intervention in the economy [4, p. 23]. Therefore, he considered the development of private joint-stock credit institutions as the privatization of loan for the empowerment of the productive forces of the people. Already in 1872, in association with I. Vernadsky, the land bank in Poltava began its activity. With few exceptions, the bank's charter was identical to the charter of the Kharkiv Land Bank. The Poltava Land Bank was established to provide loans secured by real estate in Poltava, Chernihiv and adjacent governorates. The authorized capital of the newly created bank, similarly with previous experience, amounted to 1 mio. rubles, which was obtained by issuing 5,000 shares; the price of each of them was 200 rubles [14]. It should be noted that permission for

the establishment and operation of both banks was granted by the Ministry of Finance by way of a socio-economic experiment. At that time, joint-stock form of property, as well as commercial use and long-term credit, were only making their way into the economy and banking. For the Russian Empire, the process of loan privatization lasted for more than fifty years, and the dominance of government debt securities in the financial market became a significant hindrance for the market-industrial transformations of the economy [15, p. 245].

Thus, the development of a market-type banking system for the development of industrial and agricultural entrepreneurship in the second half of the XIX century was carried out thanks to the innovative approach of I. Vernadsky; it's his managerial talent and consistent observance of the principles of economic liberalism combined with deep knowledge of the economic situation and the needs of the domestic economy can serve as a model of responsible civic position of the academic economist typified in the practical activities.

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