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SCYTHIAN GOLD AND THE GOLD-STANDARD: SOVIET ATTITUDES TO GOLD AND THE INTERNATIONAL MONETARY SYSTEM*

PROLOGUE

The train has stopped in the night. It is the end of winter, 1920; it is very cold, about 25 degress below zero, some hundred kilometers west of Irkutsk. Along the train soldiers mount guard; ahead, a party of the detachment is clearing the track. Many of the soldiers have makeshift bandages around their wrists and feet: the Siberian frost has taken its toll. There is no question, however, of withdrawing the guard or stopping

Translated by Paul Rowland.

* In writing this article, I received advice and information from Professor Michael Kaser of Oxford University. President Pierre Mendès-France was kind enough to receive me and give an account of his impressions and memories of Soviet attitudes at Bretton-Woods, where he himself led the French delegation. M. Gilbert Lasfargues, Assistant Director General of the Banque Commercial pour l'Europe du Nord, kindly provided documents on the 1976 Chervonets. Finally, I have profited much from the remarks and suggestions of Professor Paul Coulbois, of the University of Paris I, during the revision of the manuscript. To them I would like to express my gratitude.

the work. This train is the most precious treasure of the Soviet Republic, transporting the greater part of the State gold reserves: 355 m. tons. Previously housed in the vaults of the Kazan Bank in Tartary by the Tsarist government, it was removed in 1918 by admiral Kolchak; the greatest coup in history! Not that it brought the admiral any good luck: in Siberia, at the height of the civil war, the richest man in the world was only able to get a few shipments of gold through to Vladivostok, to pay his debts to the Americans and buy arms from them. And then Kolchak died: he was shot on February 7th, the gold now returning to Kazan.[1]

The commander of the escort, Officer Kostukhin, is listening while leaning against a wagon to the conversation of two guards: "What are they going to do with all that gold?—They will buy wheat, so that our little children do not die of hunger.—And then? Will they give it to the poor?—No, you idiot! What would they with it? And then there will be no poor! Only capitalists get worked up about that! Look, they could build urinals—if there were one here now it would suit me!" exclaimed the soldier, moving off in the icy wind.

Moscow, June 1920. Kostukhin is at the Kremlin, in the presence of Lenin and quite intimidated by the honor; the gold has meanwhile arrived in Kazan, and within a year will be restored to the vaults of the State Bank in Moscow. Kindly and attentive, Lenin has related to him the long journey of the column. "And then one evening one soldier says to the other...." Lenin gives a full-throated laugh: "Gold public conveniences! Honestly, only the people, the Russian people, could think up anything so just and simple!" Kostukhin leaves. He will still be smiling when he reads in *Pravda* of 6th-7th November 1921 the famous article on "The Importance of Gold Now and after The Complete Victory of Socialism": "When we conquer on a world scale, I think we shall use gold for the purpose of building public lavatories in the streets of several of the large cities of the world." [2]

[1] A. P. Kladt, V. A. Kondratiev, *The Gold Convoy Affair*, Moscow, Gospolitizdat, 1962, p. 112.
[2] V. I. Lenin, *Works*, vol. IX, London, Lawrence and Wishart, 1937, p. 299.

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Equally mysterious as the Scythian Gold, the Soviet treasure presently nourishes much speculation in the West. How much does the world's second gold producer actually have? What, in the eyes of the U.S.S.R., is the real function of gold in the world economy, while we wait for it to attain the extravagant and derisory use prophesied by Lenin for the yellow metal?

"RED GOLD"

The Soviet Republic very quickly proclaimed highly "orthodox" attitudes to gold currency. The XIth Congress of The Bolshevik Communist Party pronounced itself resolutely in favor of an active role for gold, "to the extent that gold remains firmly a worldwide currency, and to the extent that this role of gold on the world market must inevitably affect the relationships within the internal market, even in a country where part of the economy is run according to a plan, on the basis of the nationalization of the primary sectors of industry and transport." [3] This resolution was taken in March 1922—just a month before the Genoa Conference that was to universalize the gold exchange standard. And if Lenin promised for gold the future that we have seen, this did not stop him writing in the same famous article: "Meanwhile, we must save the gold in the R.S.F.S.R., sell it at the highest price, buy goods with it at the lowest price." [4]

The internal restoration of the Soviet currency, between 1922 and 1924, was deliberately based upon gold. In this regard, the history of the Chervonets is a model, not simply because of its "resurrection" in 1976. A decree by the Council of People's Commissars on 11th October 1922 authorized the State Bank to issue provisionally unconvertible banknotes, 25% guaranteed by the gold, the precious metals, and the foreign reserves making up the bank's holdings. The convertibility of these notes, named "Chervontsy," was planned for a future date. The 1 Chervonets

[3] *Resolutions and Decisions of the Congresses, Conferences, and Plenary Assemblies of the Central Committee of the Communist Party of the Soviet Union*, Vol. II. Moscow 1970, pp. 329-330.
[4] V. I. Lenin, *Op. cit.*, p. 300.

note bears a statement to the effect that it represents "1 zolotnik, 78.24 doli" of pure gold, or, converted into grams, 7.742 grams of gold.[5] This is the equivalent of the gold value of the imperial 10 Ruble piece. The external appearance of the note was conceived to create an "antique look," right down to the lettering; the letters of the words "One Chervonets" were designed "in the old-Slav style," after the fashion of old storybooks. The word "gold" reappeared four times on the face of the note, always in "antique" capitals. It was stated that "the note may be exchanged for GOLD; the introduction of the exchangeability is fixed by a special act of government"—which never took place.

A strange operation, rooted in the symbolic and imaginary. The Chervonets had, in fact, ceased to be minted officially in Tsarist Russia in 1797! The 10 Ruble gold piece, of which the new Soviet coin was the equivalent, had not been so named, being denominated quite simply in terms of gold Rubles. It appeared in Russia in the XVIIth Century, not as money but rather as a medal, resembling the Ducat and distributed by the Tsar as a reward to his close friends. It had never really circulated, but had constituted a means of hoarding and saving, much sought after moreover—to the point at which for some fifty years after the cessation of its official minting, the Tsarist government continued to issue it secretly under the name of the "Dutch Chervonets," until the Dutch government protested against this official counterfeiting! It was worth 3 gold Rubles.

Whence the name "Chervonets"? It is the transposition of the Polish "*czerwone złoto*", which in Russian became *chervonoe zoloto*, and thence Chervonets. The Polish term applied to the Ducat, and meant "red gold." But, why red? The expression, which exists in other languages to designate an extremely pure kind of gold, (*red gold, rotes Gold*), derives from the low Latin *rubrum aurum*, which is a corrupt form of *obryzum aurum*: gold that has undergone the test of fire. From thence until the Middle Ages came the confusion with the color red—which, moreover, pure gold never has! In Russia, contrary to the other

[5] 1 dolya = 1/96 zolotnik = 44.43 mg; 1 zolotnik = 1/96 lb = 4.266 g; 1 lb = 444.4 grams.

Slavic languages (Polish, Czech), "chervonnyi" does not exist as a synonym for red; its meaning was indirectly derived from the "hearts" in playing cards, *chervi.*[6]

In this vague reference to an old currency which was still hazily remembered by the people in 1922, uncompromised by the last Tsars since under them the Chervonets had disappeared, and in the halo of "red," evoking the color of the regime, history and the symbol reinforced one another.

The monetary reality, to which we now return, is no less curious. The paper Chervonets was not destined to replace the currency then in circulation on the Soviet market, which was the "Sovznak," (literally: the Soviet sign). The Sovznak notes, made out in Rubles and issued between 1919 and 1922, did not merely continue to exist but constituted the only circulating currency, since the Chervonets was reserved for payments between firms, and between them and the State Bank. For the people the Chervonets was as exotic and remote a currency as the Dollar; private individuals were only requested to repay commercial or banking debts in Chervontsy, which could be "bought" for Sovznak Rubles. The Chervonets was quoted every day on the commercial Exchange in Moscow, and its rate was transmitted by telegraph in the whole country; it had a free rate besides its official one. In January 1923, the latter was 167 Rubles, and in March 1924 500,000 Rubles! In the same way it was quoted in Dollars in Moscow, (although not in foreign centers); with a gold parity of 5.14 Dollars, the rate fluctuated during the period 1923-24 between a maximum of 5.426 (in January 1923) and a minimum of 3.851 Dollars (in June 1923), just establishing itself at its parity in March 1924. The similarity of the Chervonets to a kind of foreign currency was so strong that the People's Commissar for Finance, Sokolnikov, went so far as to say that the Chervonets drew its value from "its contacts with the Dollar"![7] Furthermore, at this time the

[6] Nowdays *chery* also means "worm"; it is etymologically related to "red," again through the Slav root *cherv*; its designation "worm" has grown out of the name given to the cochineal larva from which the color carmine is extracted. The names červen and czerviec, given to the month of June in Czech and Polish, stem from the fact that the cochineal larvae are gathered in June.

[7] Quoted by D. Kuzovkov, "Our Currencies", *Vestnik Kommunisticheskoi Akademyi* 1924, 7, p. 96.

State Bank freely exchanged the Chervonets for foreign currencies, and intervened on the internal money market to support its rate by selling currency against the Chervonets.[8]

The theory of the Chervonets-currency scandalized one doctrinal group, who preferred to demonstrate that the Chervonets drew its value from the gold by which it was guaranteed. Others reckoned that it drew its value from the preexisting paper money, feeding in some way from the progressive depreciation of the Sovznak. There were some truly wonderful sayings. According to Preobrazhenski, the Chervonets "is riding upon the stumbling and lame paper Ruble." In 1924 the journalist and writer Koltsov wrote the obituary of the Sovznak: "The Chervonets, the sated child of the new epoch, of the new generation, has crushed you, poor Sovznak, worn out with cold, hunger, and blockades.... You will die, and will be fixed for eternity in a crown scented with 'limes' and 'limards'".[9]

There is no doubt, however, that by means of the Chervonets the Soviet authorities had hoped to insure their gradual reentry into the international monetary system. In fact, next to the paper Chervonets guaranteed by gold, there was issued a 1 Chervonets gold piece, bearing the date 1923, which was to serve primarily, during the very brief period of its existence, for payments to foreign countries.

On its face the coin carried the inscription: "Workers of all countries, unite", in "antique" lettering (but in the letters of the new alphabet), with the emblem of the Russian Soviet

[8] On the monetary history of this period, see Z. V. Atlas, *Essays on the History of the Circulation of Money in the U.S.S.R. (1917-1925)*, Moscow, Gosfinizdat 1940, p. 284; Z. S. Katsenelenbaum, *The Circulation of Money in Russia 1914-1924*, Moscow-Leningrad: *Ekonomicheskaya Zhizn'* 1924, p. 192. Numismatists may refer, in the case of the Chervonets, to I. G. Spasskyi, *The Russian Currency System: An Historico-Numismatic Essay*, Leningrad, Aurora 1970, p. 256; and in French to Ch. Denis, *Catalogue des monnais émises sur le territoire de la Russie (1914-1925), avec indications de leur valeur actuelle* [A Catalogue of Currencies Issued in the Territory of Russia (1914-1925), With Information on Their Present Value], Paris, Florange et Ciani, 1927, p. 121.

[9] M. Koltsov, quoted in A. Mel'nikova, *A Stable Currency*, Moscow, Politizdat 1973, p. 52: "limes" and "limards", instead of "millions" and "milliards", were the names given by the people to the Sovznak at the height of this inflation. This was so fast that it was necessary on several occasions to change their scale of value; thus the 1923 Ruble was worth 100 1922 Rubles, and the 1922 Ruble was worth 10,000 " old Rubles."

Federative Socialist Republic (R.S.F.S.R.): the hammer and sickle. On its reverse side is a sower in a majestic attitude at the centre, surrounded by the inscription "One Chervonets," and the date: 1923.

March 1924 brought the simultaneous end of the Chervonets and the Sovznak. A new currency was issued, made out in Rubles, equivalent to 10 Rubles for 1 Chervonets, and to 50,000 Rubles in 1923 Sovznaki.[10] This currency was unconvertible, but nevertheless had a symbolic Dollar rate, equivalent to its implicit gold parity, (1 Ruble = 0.514 Dollars). The official link between the Ruble and gold was to be reestablished only in 1950, and then modified in 1961, when it was to be fixed as 1 Ruble = 0.987412 grams of gold, its present value.

In December 1975 came the resurrection of the gold Chervonets. The Soviet Union, no doubt to profit from the expansion of the market for gold coins, floated on the international market a coin similar to the 1923 Chervonets, the date alone being changed: 1976. Was this a wish to make a profit on the premium in relation to the gold ingot, or a prestige operation? Floated at a premium of 4% in December 1975, it was offered in April 1976 at over 40% above the ingot price. At the end of March 1977, the Chervonets sold at three different prices: the highest, for those coined in 1975, giving a premium of 45%, the lowest, for the 1977 issue, yielding 9%.[11] In view of the un-

[10] i.e. to 50 milliard "old Rubles"!

[11] Cf. O. S. Bogdanov, *The Monetary System of Modern Capitalism*, Moscow, Mysl' 1976, p. 215, concerning the growth in sales of the Krügerrand, the South-African coin. According to Kaser's excellent study ("Soviet Union", *International Currency Review*, 1976, No. I, pp. 49-52), in view of the significant market for gold coins (285.2 m. tons in 1974), the Soviets considered that if, after all, it was necessary to sell gold, it was more advantageous to do so in the form of coins so as to profit from the premium in relation to the ingot, which is naturally lower for new coins. It seems, moreover, that the Soviet monetary authorities have taken for granted an even greater immediate success for the Chervonets, predicting a market price of around 50 Dollars while the price on issue was fixed at 36.5 Dollars and this had gone no higher than 45 Dollars by 1976 (c.f.: "Goldner Tcherwonez für deutsche Münz-Sammler", Handelsblatt, 17th December 1975; "Der Tscherwonez its wieder von Mehrwertsteuer befreit", 21st April 1976).

The exclusive rights for the European marketing of the Chervonets has been granted to the Dresdner Bank. Initiated in January 1976, sale was halted three weeks later owing to a decision by the Federal Ministry of Finance that the Chervonets was subject to V.A.T. (Value Added Tax). There followed a certainty surrounding the amounts of successive issues, which according to the most optimistic estimates should not exceed 2-3% of the annual gold sales of the USSR, one can only assign a symbolic meaning to this operation.

Such an interpretation seems to be supported by the striking of coins commemorating the 1980 Olympic Games in Moscow. The value of those "Olympic Rubles," whose issue was announced in the *Pravda* on October 25, 1977, will differ according to the metals of which they are made (5-10 Rubles for silver coins, 100 for gold, 150 for platinum). The 100 Ruble gold piece, 30 mm. in diameter, will contain 15.5 grams of fine gold—which is the exact equivalent of 2 Chervontsy. Here again a prestige operation—the issue of a new Soviet coin onto the world numismatic market—combines with the practical gain of ensuring another source of financing for the Olympic Games.[12] However, to bridge the U.S.S.R.'s deficit with the developed capitalist countries more than this is needed.

INTERNATIONAL DEALING IN SOVIET GOLD

It is well known that the U.S.S.R. is one of the world's great gold-producers, and that its sales influence the international gold market; but the absence of official data about Soviet reserves, production, and sales fosters a mystery and curiosity about such questions which are understandable and perhaps excessive.

The U.S.S.R. publishes neither the accounts of the State Bank nor its balance of payments: it is in no way obliged to do so. Even if it were a member of the International Monetary Fund, publication would not be required, and it would be

confused debate on whether or not the Chervonets qualified as legal tender in the U.S.S.R.; if it did, then it was not taxable, but if it did not qualify as such, as the ministry maintained, it was a collector's item and thence taxable. In April 1976 the ministry returned a "provisional" verdict, and the Dresdner Bank thus resumed sales.

[12] *Le Figaro*, 4 August 1977; *Agefi*, 3 October 1977; *Pravda*, 25 October 1977. The German bank (Dresdner Bank, then Deutsche Bank) to whom exclusive rights to the distribution of the coins were offered finally decided not to accept; the distribution was then entrusted to the Lazard bank and to the American firm Occidental Petroleum, who were already involved in the financing of the Games.

able, as in the case of Romania since 1973, to make do with a communication to the Fund implying no disclosures. The final provision of the European Conference on Security and Co-operation of 1975 certainly carries a moral engagement on the part of its signatories to publicize certain statistics not previously released by the socialist countries, notably budgetary matters, but this obligation does not extend to exchange reserves. We are therefore reduced to conjecture.

Rather than to the estimates of the Central Intelligence Agency, we shall refer here to the evaluations of Professor Michael Kaser, of the University of Oxford, which are based upon patient and meticulous study of Soviet publications on gold-mining, deposits, seams, and lodes, and whose findings are regularly published in the *International Currency Review*.[13] The problem is set in the following terms: the information from the major international monetary centers reveals the extent of Soviet gold-sales; knowing the stocks at any given moment, and the annual production, it is possible to determine the fluctuations in the reserves. The findings are as follows: at first, the U.S.S.R.'s gold reserves grew steadily after the period of reconstruction following the second world war, passing from 1446 tons at the end of 1950 to 1953 tons at the end of 1956; they declined to 1068 tons at the end of 1965 (following the disastrous harvests of 1963 and 1965, the purchase of cereals from the West was financed by gold-sales), subsequently to climb to about 3000 tons at the end of 1975, which would be the equivalent of 13.5 milliard (U.S. billion) Dollars taken at the December 1975 exchange rate of the Dollar against gold. On the other hand, the production of gold grew steadily at an average rate of 4.7% between 1950 and 1975, just passing the 400 tons level in 1975 and 1976, while during the same period production in the Western world can be plotted as a bell-shaped curve, growing up to 1969, almost horizontal to 1970, and declining thereafter. Gold sales have been most irregular: nothing until 1952, then, picking up pro-

[13] In particular see: "The Ruble and the Soviet Gold", *International Currency Review*, 1971, March-April, pp. 5-11.; "Soviet Union", *ibid.*, 1973, July-August, pp. 88-93; "The Soviet Balance of Payments," *ibid.* 1974, May-June, pp. 60-62; and the article quoted in note 12.

gressively until reaching nearly 1400 tons for the three years 1963-1965, they practically ceased between 1966 and 1971. Since that date they have recommenced afresh: 190 tons in 1972, 280 in 1973, approximately 200 in 1974, 150 in 1975, 300 in 1976, and 340 in 1977.[14] While the latter figures are the most reliable, those referring to production and reserves are more in the nature of estimates. Professor Kaser's figures are decidedly higher than other estimates: thus the C.I.A.'s evaluation would place the Soviet stocks at some 2000 tons for the beginning of 1975. The difference is explained by a different estimate of production; thus in 1976 according to Prof. Kaser gold production in the U.S.S.R. reached 424 tons, but according to American estimates only 325 tons.[15]

Even on the most pessimistic hypothesis (gold reserves of some 2200 tons in the end of 1976, evaluated at a price of 134,5 Dollars an ounce), one arrives at a figure of nearly 9.5 milliard Dollars of reserves, to be set alongside the country's total debts to the West of over 16 milliard at the same date. At best, Soviet gold reserves would allow the U.S.S.R. to repay instantly more than four-fifths of its debts; at worst three-fifths of them.

These factors explain the official attitude of the U.S.S.R. towards monetary gold in the international monetary system. The U.S.S.R. is opposed to the progressive demonetization of gold and would like a return to a sufficiently high guaranteed official price. The actual cost of extracting gold in Siberia comes to between 80 and 85 Dollars per ounce; this could be the "floor" price in the view of the U.S.S.R. if these estimates are correct.[16]

[14] See the articles cited by Kaser, who was kind enough to provide in addition several extracts from a study yet to appear: *Soviet Gold.* For Gold sales in the first half of 1976 see the *International Herald Tribune*, 29th October 1976; the Financial Times of 27th July 1976 cites this as 150 tons.

[15] These estimates are cited by Victor Zorza, "The Glitter of Soviet Gold", *International Herald Tribune*, 3rd April 1975, p. 4. Other estimates appear in John T. Farrell, "Soviet Payments Problems in Trade with the West", *Soviet Economic Prospects for the Seventies*, Joint Economic Committee of Congress, Washington, 1973, p. 702. fol.

[16] M. Kaser ("The Ruble and Soviet Gold", *International Currency Review*, March-April 1971, vol. III, No. 1, p. 7) mentions that, according to the Central Directorate for Gold and Platinum of the Ministry of Non-Ferrous Metals, the

IS THE GOLD STANDARD DOOMED?

It would be a profound error to think, from the above, that there is a unanimous Soviet doctrine on gold. At the beginning of the present decade several sharp controversies erupted between Soviet monetarists on this question. They can be traced through two periodicals: *Den'gi i Kredit* (*Money and Credit*), the journal of the U.S.S.R. State Bank, and *Mirovaya Ekonomika i Mezhdunarodye Otnosheniya (World Economy and International Relations)* the monthly publication of the Institute of the same name. In these two publications, the debate has favored the "traditionalists" in the first and the "modernists" in the second, the latter recommending—and tracing—the decline of gold.[17]

The "traditionalist" position is undeniably closest to the official tenets, such as are expressed on the occasion of "up-

State Bank buys gold at 2 Rubles a gram; at a rate of 1.34 Dollars to the Ruble, this is the equivalent of 83.36 Dollars an ounce. Cf. also the *Frankfurter Allgemeine Zeitung*, 30th April 1975. This estimate is of only limited importance in that it represents the conversion of a domestic cost into Dollars at an exchange rate that does not express the real relationship of the Ruble to the Dollar; it furthermore ignores the extent to which the buying-price is less than the production cost. We should also stress that in the U.S.S.R. private individuals may hold gold, and sell it to the State; the sale-price is fixed at 11.65 Rubles per gram of pure gold (cf. Andres, *Foundations of Monetary Theory in Soviet Society*, Moscow, 1975, p. 82).

[17] On the "traditionalist" side stands A. Stadnichenko, "Gold and the Dollar in the Economy of Modern Capitalism", *Den'gi i Kredit*, 1972, I, pp. 80-90; and also by the same author: "There Can Be no Demonetization of Gold", *Mirovaya Ekonomik i Mezhdunarodnye Otnosheniya*, 1971, I; I. D. Zlobin, "On the Monetary Functions of Gold in the Conditions of Modern Capitalism", *Den'gi i Kredit*, 1975, 2, pp. 84-92; I. D. Zlobin and I. I. Konnik: "Gold and the Monopolistic State Regulation of Currency Circulation," *Mirovaya Ekonomika i Mezhdunaronye Otnosheniya*, 1971, 9, pp. 89-98. Likewise of this frame of mind are also O. S. Bogdanov (cited in note 11), Z. and M. Atlas (cf. below). The "modernists", or anti-metallists, are represented notably by A. Anikin, "The Gold Exchange Standard - Problems and Contradictions," *Den'gi i Kredit*, 1973, 3, pp. 77-86; S. Borisov, *Gold In the Economy of Modern Capitalism*, Moscow, Finansy, 1968; G. Solus, "Will Gold Maintain its Former Role?", *Mirovaya Ekonomika...* 1972, 8; a complete bibliography of this movement is given by A. Anikin in *The Monetary Crisis of the West*, Moscow, Nauka 1975, p. 200. On the historical origins of these controversies see G. Grosman, "Gold and the Sword: Money in the Soviet Command Economy," in *Industrialization in Two Systems, Essay in Honor of Alexander Gershenkron*, New York, John Wiley & Sons, 1966, p. 212 fol.

heavals"[18] in the international monetary system, or attempts to reform it.[19] To give a rough pictures of these writers, one might say that doctrinally they refer simultaneously to Karl Marx and Jacques Rueff, and politically to Lenin and General de Gaulle.

Thus one article, signed by four eminent monetarists, (Zakharie Atlas, one of the authors of the monetary reform in 1947, Mariam Atlas, Vladimir Gerashchenko, a longtime administrator at the State Bank before becoming a professor at the Moscow Institute of Finance, where Lidia Krasavina also teaches), presents a strongly argued defense of and eulogy to gold.[20] Gold, say these authors, has not become a "barbarous relic." Its monetary role has certainly declined in the capitalist system, but Marx's analysis of monetary gold as the measure of all values, and as an absolute merchandise, remain valid with "well-considered modifications." Several arguments are constructed in support of this thesis. Gold always serves as the refuge for private—and public—saving. "Monetary fetishism" is always linked to gold, not to platinum or diamonds: "The passion of bourgeois society for the yellow metal, as the symbol of wealth and greatness, has not disappeared. The project of building a contemptuous monument to its past greatness is unrealizable as long as capitalism survives on our planet." [21] In addition, each monetary crisis is accompanied by a rise in the price of gold. The demonetization of gold, looked upon by some as an irreversible phenomenon, can be checked: "It is not impossible that the revaluation of gold reserves at the median market price will confirm gold securely in its role of international medium of reserve.... The classic role of gold as a universal equivalent has undergone modifications, but gold remains the anchor to which the international monetary system of the capitalist as well as the socialist countries is moored. This stems from the

[18] Iu. Nechaev, "Monetary Upheavals in the West," *Ekonomicheskaya Gazeta*, 1976, 13, p. 21.

[19] I. Sysoev, "Monetary Reform or Surrender?," *Ekonomicheskaya Gazeta*, 1976, 5, p. 21; V. Zholobov, "The Intensification of the Monetary Crisis", *Ekonomicheskaya Gazeta*, 1976, 24, p. 21.

[20] Atlas (Z), Atlas (M), Gerashchenko (V), and Krasavina (L), "The Problem of Gold and Inflation in the Conditions of Modern Capitalism," *Den'gi i Kredit*, 1975, 3, pp. 75-87.

[21] *Ibid.*, p. 78.

fact that the international division of labor is of an integral money/merchandise form, and demands a general medium of equivalence".[22]

Not only is gold called upon to play a new important role in the international sphere, but in the internal order paper money, although unconvertible, also continues to represent gold. The above-mentioned authors are being perhaps over-optimistic when they claim that such is the unanimous opinion of Soviet economists;[23] it is, nevertheless, that of the majority. Enrique Andres, one of the new-generation monetarists, ventures to refute the dominant theory only with great circumspection. Starting by affirming his fidelity to Marx's theses on the functions of gold, he carefully considers narrowing them down, and opines that in any case one may not "absolutize" Marx's conceptions by a "mechanical" interpretation. Above all, the entirely conventional Marxist theory of the "monetary price" of gold cannot be unreservedly upheld, the argumentation presented on this score being somewhat Byzantine. Enrique Andres writes: "The irrational nature of the price of gold must not lead us to deny its existence as a real category, in the same way that the irrational nature of the price of land in no way detracts from the reality of its existence." [24]

Certainly reference to Marx is sometimes uncertain, for Marx did not develop a unitary theory of money; as Suzanne de Brunhoff puts it so well, one has to reconstrue his meaning by way of deductive analysis.[25] For this reason Marx must be adapted, and it may be added that even if gold does not circulate freely in the international system, it is there nonetheless in that its function as the means of settlement of balances of payment remains, and it even "rules as in Marx's time." [26] It is curious to see the economists leaving no stone unturned to justify the role of gold. Even in the domestic economy, writes A. Stadnichenko, "the comparison of paper currencies with gold is made

[22] *Ibid.*, p. 79.
[23] *Ibid.*, p. 81.
[24] Enrique Andres, *The Foundations of Monetary Theory In Socialist Society*, Moscow, Mysl', 1975, p. 75.
[25] S. de Brunhoff, *Marx on Money*, Paris 1973, p. 9.
[26] A. Stadnichenko, "Gold and the Dollar", *op. cit.*, p. 84.

every day, in daily life, on the black markets, and also on the officially recognized gold markets in the great financial centers of the capitalist world".[27] The preference of pawnbrokers for gold pledges is cited by way of argument!

J. Rueff's work for and involvement in the cause of gold are warmly approved by the representatives of this doctrinal group. E. N. Grebennikova, advisor to the Comecon International Bank for Economic Co-operation, quotes the "Rueff plan" for a return to the convertibility of the Dollar and a rise in the price of gold as the argument of one of the "most far-sighted economists in the West." [28] In his work *On The Reefs of The Monetary Crisis*, A. I. Stadnichenko devotes several pages to President de Gaulle's speech of February 4, 1965 against the hegemony of the Dollar and for a return to the gold standard, and it is to Rueff that he attributes the paternity of the ideas then expressed by the President of the Republic.

What is more, according to these authors, signs of a "remonetization" of gold are already perceptible, one being the option opened to the central banks of pledging their gold to obtain currency loans.[30] Even the authorization of American citizens to hold gold is a stage towards demonetization in appearance only; the measure helps to bring gold into the United States which it will then be possible for the American state to recover eventually in a variety of ways (the issue of bonds, etc.); this reinforces the "underground" role of monetary gold. Will there then really be a return to the gold standard? The gold/exchange standard exists anyway, it always has done and still does, even if distorted and corrupted.[31] Certainly, at this point the reasoning arrives at an impasse. Even with the most favorable interpretation of developments, the absence of the gold standard cannot be denied! Note must therefore be taken of this. After having once more affirmed the vitality of gold, V. Mayorov predicts the collapse of capitalism if in the long run it succeeds

[27] *Ibid.*

[28] E. N. Grebennnikova, "The Monetary Role of Gold In the Present Stage of the Development of Capitalism", *Den'gi i Kredit*, 1973, 11, p. 83.

[29] Moscow, *Mezhdunarodnye Otnosheniya*, 1974, pp. 52-53.

[30] O. S. Bogdanov, *op. cit.*, p. 204; Iu. N. Chichin, "The Monetary Crisis: Present Problems and Uncertain Prospects", *Finansy S.S.S.R.*, 1974, 6, pp. 90-95.

[31] E. N. Grebennikova, *op. cit.*, p. 84.

in ridding itself of the yellow metal as an element of the international monetary system.[32] I. D. Zobin, Vice-Minister of Finance for the U.S.S.R. between 1934 and 1958, goes so far as to predict that: "The capitalist system... by its very nature, will never be able to free itself from gold, which constitutes its very foundation." There are three possible solutions: a world government directing the international circulation of money—a myth however; a return to convertibility and the consolidation of Dollar holdings; or finally, the real alternative: the transition to socialism....[33]

THE U.S.S.R. IN THE INTERNATIONAL MONETARY SYSTEM

In comparison with these theoretical constructs, political attitudes are much simpler, although inspired by the same spirit. The Soviet delegations to international organizations never fail to stress the preeminence of gold, and have often protested at the UNCTAD against American positions: "The role of gold in the international exchange reserves must be increased, and its price must be normalized." [34] The Jamaica Agreement has shaken this attitude: no longer is it even barely possible to sustain the immediate possibility of a return to the gold standard. Argument has, furthermore, been diverted towards a pure and simple condemnation of American policy.[35]

The analysis of Soviet attitudes over some thirty years unveils a strange paradox. The Soviets have arrived at the point of defending the principle of the gold exchange standard as a substitute for the gold standard, militating for the convertibility of the Dollar, fixed parities, and for the original rules of the I.M.F. to be respected.

[32] B. V. Mayorov, "The Western International Monetary System and Gold", *Den'gi i Kredit*, 1974, 1, p. 84.

[33] I. Zlobin, "On the Monetary Functions of Gold," *op. cit.*, p. 92.

* United Nations Conference on Trade and Development.

[34] *Izvestiya*, 6th March 1973, p. 4.

[35] E. D. Zolotarenko, "There Are Still Problems", *Den'gi i Kredit*, 1976, 4, p. 86. The sales of gold by the International Monetary Fund, which began in June 1976, have provoked no particular comment, except in the bulletin of the Moscow Narodny Bank (c.f. *Quarterly Review*, Summer 1976, p. 29 fol.).

Yet if the U.S.S.R. did participate in the Bretton Woods Conference, it also subsequently refused to belong to the International Monetary Fund. Its initial participation was not, however, symbolic. It seemed that at that time the Soviets were ready, although hesitantly and reticently, to enter into the international monetary system then in the process of formation. As early as June 1943 representatives of the U.S.S.R. were present at a meeting held in Washington to discuss the White Plan. During the first four months of 1944 a series of bilateral negotiations was held in the United States between the Americans and the Soviets, in the course of which the latter presented a certain number of claims aimed at drawing attention to the devastated condition of the Soviet economy, and to the specific character of a system based upon the state monopoly of foreign trade and exchange. The Soviets estimated that the gold tranche of the quotas was too high and should be lowered to 15% for all countries, and to 7.5% for those countries belonging to the occupied zones. No country, according to the Soviet argument, should be required to divulge information beyond what would have been expressly stipulated between it and the Fund; the exchange-rate of the Ruble should not be controlled by the Fund; the U.S.S.R. should not be required to maintain the convertibility into gold or exchange of Rubles drawn on the Fund, which would only be usable for the purchase of goods in the Soviet Union; and recently extracted gold should not be taken into consideration in calculating the resources of members.[36]

At Bretton Woods the U.S.S.R. was entitled to one of the vice-presidencies of the conference, and likewise to the presidency of the Committee for the operations of the Fund. The Soviet delegation took up the majority of the proposals resulting from the bilateral Soviet-American discussions, and, importantly, had a provision inserted into the rules of the Fund (art. IV, section 5) whereby a member could change the par value of its currency without the Fund's permission if that alteration did not affect the international transactions of the Fund's members. This was

[36] Cf. *The International Monetary Fund 1945-1965*, vol. 1, *Chronicle*, by J. Keith Horsefield, Washington, I.M.F., 1969.

a repeated reminder that the exchange rate of the Ruble had no international signification, and thus that Soviet money was unconvertible and would long remain so. The American attitude, all through the conference, was distinguished by a concern to give a favorable response to the Soviet requests. The United States apparently wished to draw the U.S.S.R. into the new organization even at the price of concessions; it was clearly supposed in the United States that substantial aid granted to Soviet Russia for the reconstruction of its devastated economy would project its economic and political system towards some radical "liberalization": a naive vision which today is still not absent from certain American conceptions of detente. As members of the Fund, the U.S.S.R. would have obtained the immediate drawing rights to 1.5 milliard Dollars, plus the quota of 1.2. milliard which had been assigned to it. The Americans even thought, it seems, that a very much higher loan would have been justifiable were it certain to entail a political reorientation in that country.[37]

The rupture took place not very long afterwards, when the Soviets, without having ratified the Bretton-Woods agreement, were still present as observers at the Fund's inaugural meeting at Savannah in March 1946. The reasons for the Soviets not joining the Fund were never clearly presented. For the whole Stalinist period the Bretton-Woods episode lay under a complete veil. The only publication on this subject contains an absolute condemnation of the international monetary system such as it was then constituted, and is silent about the Soviet presence during the negotiations: "Bretton-Woods was, after Lend-Lease, the continuation of a system of procedures through which the monopolies of the United States enmesh the other capitalist countries ever more in their web." [38] Comment is still circumspect today. One history of the post-war international monetary system puts the facts this way: "It is known that the U.S.S.R. participated in the activities of the Bretton-Woods

[37] Pierre Mendès-France, who led the French Delegation at Bretton-Woods, was kind enough to share with me his own observations at the Conference on this point.

[38] F. I. Mikhalevskyi, *Gold in the Capitalist System After the Second World War*, Moscow, U.S.S.R. Academy of Sciences, 1952, p. 162.

https://doi.org/10.1177/039219217802610102 Published online by Cambridge University Press

conference from the 1st to the 29th (sic) of July 1944. The participation of the U.S.S.R. was guided by very different motives from that of the capitalist countries." [39] The author of this history demonstrates that at that time the U.S.S.R. had no fears for its future; it was pursuing no expansionist aims; it wished to affirm the principles of true co-operation based upon the sovereignty of states, the equality of rights among them, and non-intervention in internal affairs. How then can the failure to ratify the Bretton-Woods agreement be explained? The historian replies: "The proposals of the Soviet delegation helped to ease the entry into the Fund of countries whose economies had been destroyed in the war, but they did not alter the nature of agreements qua instruments of the expansionist policies of the imperialistic monopolies." [40] Now let us set Lenin's pronouncements next to this strategy. In his article, already quoted, on the role of gold, Lenin did not mince his words in justifying Soviet policy: "When living with the wolves, howl with the wolves. As for exterminating all the wolves, as would be done in sensible human society, we shall act up to the wise Russian proverb: "Don't boast when going to war, boast when returning from war." [41] The dictum was followed to the letter: the Soviets, in fact, did not boast, neither before nor after.

To ask the Soviet authorities today about the possibility of the U.S.S.R.'s eventual membership in the Fund is no longer taken as an insult. It remains to be said however, that such membership is highly doubtful. As has been seen, the exchange reserves of the U.S.S.R. are sufficient for her to have no need of aid within the framework of the I.M.F. or the I.B.R.D. It would only be of strategic use to the U.S.S.R. if all the COMECON countries were there with her and together controlled an obstructive minority. Moreover, although Romania, a member of the Fund since 1973, has been able to reconcile joining the international capitalist monetary system with keeping secret her monetary and financial statistics, the U.S.S.R. would doubtlessly be unable to avoid giving away this type of information.

[39] K. Ia. Chizhov, *The Financial and International Monetary Organizations of Capitalism*, Moscow, Finansy, 1978, p. 14.
[40] *Ibid.*
[41] V. I. Lenin, "The Importance of Gold...," *op. cit.*, p. 300.

As has been frequently stressed, membership in the Fund is of use only to those countries which can accordingly obtain more credits. Up to now the U.S.S.R. has had no trouble in obtaining credit on advantageous terms: why would she join? [42]

Yet—and this is a personal interpretation—Soviet reticence is to a great extent explained by the evolution of the I.M.F. Condemned in 1947 as the instrument of American imperialism, the I.M.F. of yesteryear almost arouses nostalgia today. That evolution can be seen through the instance of the Special Drawing Rights. Their appearance was vehemently attacked, but now there seems to be mourning for the time when the S.D.R.'s were specified in terms of gold. Furthermore, during the course of a colloquy held in Moscow in 1972 on East-West relations, O.S. Bogdanov expressed this shift. Speaking out for a more active role on behalf of the U.S.S.R., as the world's second gold producer, he judged it useful to find paths of co-operation with the I.M.F. and criticised the over-negative positions of his colleagues: "It was thought at first that the S.D.R.'s were paper-gold, with no real meaning, and that this idea of the I.M.F. would not last for long, having no firm foundations." But: "If the S.D.R.'s were to function on the basis of gold, the Socialist countries would have no fault to find." [43] The advent in 1974 of the S.D.R. currency-basket marked the end of these hopes, and the Jamaica Agreement of 1976 was primarily attacked for not having more clearly defined the functions of gold.[44]

In this context, the role assigned to gold in the international socialist monetary system is significant. The currency of account for settlements between the member countries of the COMECON, the transferable Ruble, is defined by a weight of gold (identical to the Soviet domestic Ruble). In their statutes, the two COMECON Banks provide for one part of their capital

* International Bank for Reconstruction and Development.

[42] Cf. L. Brainard, "Criteria for Financing East-West Trade", in *Tariff, Legal, and Credit Constraints on East-West Commercial Relations*, ed. by J. Hardt, 1975, p. 135.

[43] O. S. Bogdanov, "Some Problems of the Credit Policy of the Member States of the COMECON", in *Problems of Economic Co-operation Between East and West Europe*, Moscow, 1973, p. 22.

[44] E. D. Zolotarenko, *op. cit.*, in note 35, p. 87.

to be issued in gold or "convertible" currencies, without it being made known, moreover, what proportion of this total (20% of the capital of the International Bank for Economic Co-operation, and 30% for the International Investment Bank) has actually been deposited in gold. The Program adopted by the COMECON in 1971 contains, in its chapter on monetary and financial relations, arrangements whereby the members of the Organization will seek to guarantee "the reality" of the exchange rate of the transferable Ruble and its gold content. The convertibility, predicted for 1980, of socialist currencies from one to another and with the transferable Ruble, is consequently arrived at through a reaffirmation of the functions of gold. The obliteration of these in the capitalist world is "abnormal", created by conditions "which hinder gold from playing its role as the world currency".[45]

What voice will be raised to ruffle this unison chorus in praise of gold? We have seen the Soviet policy of vigorous polemics on the subject of gold; will the "anti-metallists", then, not come out resolutely against the gold standard, and consequently against the role of gold in the international monetary system? No: their quarrel will bear only upon the domestic function of gold and not upon its international aspects.

A GOLD RUBLE STANDARD?

The critique of the traditional attitudes to gold can be found expressed for the first time in an important work that appeared in 1968: *Gold In The Modern Capitalist Economy*. Its author, S. M. Borisov, proves that the "demonetization" of gold is complete in the domestic capitalist economy, and has almost been achieved at the international level. Can it be deduced from this that gold is gradually ceasing to play its monetary role? No; the principal effect of this evolution is the existence of a "real" price of gold, no longer the "imaginary" one upheld by the partisans of a literal reading of Marx. At the international level, gold remains the world currency, serving

[45] K. A. Larionov, *Two Worlds, Two Monetary Systems*, Moscow, Finansy, 1973, p. 63.

https://doi.org/10.1177/039219217802610102 Published online by Cambridge University Press

to settle balances between nations, even if the function of the banks has made it needless to settle current account in gold: "If international confidence disappears, or likewise a country's credit, selling metal is the only way of avoiding a depreciation of the currency or total bankruptcy." [46] One must be critical therefore of extremist language, such as: "crash", "collapse", "destruction", or "the winding up" of the gold standard; the pyramid of capitalist paper money and credit continues to rest upon a foundation of gold.

The most violent attacks upon gold at least reserve for it a role of "primus inter pares" in the international monetary system.[47] The central argument is the distinction between a "universally equivalent" currency and a world currency. Having lost the first of these attributes, gold has kept the second because it is the ultimate medium for the settling of accounts, and likewise the absolute reserve means. As A. V. Anikin puts it: it plays the role of the "lubricant" in the mechanism of the international monetary system, irreplaceable as long as capitalism survives. G. Matyukhin, one of the most "radical" representatives of the modern school at the Institute for World Economy and International Relations, demonstrates that credit money, of which SDR are the latest manifestation, has irreversibly replaced gold in world capitalism. Nevertheless, he admits that "even though the international monetary system should be henceforth considered as founded on credit money, gold has not yet totally lost its role as money. It lies in the reserves of central banks and thus functions as a treasury. We cannot excude the possibility of gold's returning to its role of security for world money, if some other solution is not found." [48]

But if one then admits that gold is the "world currency" par excellence, could the Socialist countries not participate more actively in the functioning of the international monetary system? This comes back to the question of the convertibility of the Socialist currencies.

Until now this topic has been primarily discussed by Western

[46] *Op. cit.*, in note 17.

[47] Zh. A. Pevzner in "Modern Inflation: Its Sources, Mechanics, and Its Socio-Economic Effects (a Discussion)", *Mirovaya Ekonomika...* 1971, 7, p. 115.

[48] G. Matyukhin, *The Problems of Credit Money in Capitalism*, Moscow, Nauka, 1977.

economists. To consider just one of the most extreme and intentionally provocative proposals, we may remember Peter Wiles' suggestion of the institution of a "financial Ruble," being convertible abroad into Western currencies but strictly unconvertible in terms of goods. The foreign holders of "financial Rubles" would in no case be able to use them for the purchase of Soviet goods since Soviet international trade remains under a state monopoly of foreign trade and is rigorously planned. The financial Ruble would thus be exclusively a reserve currency, and its perfect stability, guaranteed by appropriate pegging, would be protected against any surprise devaluation and sheltered from political crises. If the U.S.S.R. were to decide to play this game, the grass would... be long in growing in the streets of Zurich, wrote Wiles.[49] These proposals have been discussed, and other solutions proposed, by F. Holzman, who concludes with the impossibility of any practicable convertibility as long as the external trade of the Socialist countries is not really multilateral, and the movement of goods remains strictly planned.[50]

These arguments have found only a few echoes from the side of the Soviet economists, and it is fitting to acknowledge the efforts of Enrique Andres who, in a work published in 1975, presents extremely novel proposals—even if he carefully limits their practical scope.[51]

This author analyses first of all the meaning of the gold value of the Soviet Ruble. This, he says, is established by taking into account the buying power of the capitalist currencies, and above all the Dollar, and then setting it alongside the buying power of the Ruble and the price of gold. The three entities in question do not change in the same way, "which makes it most difficult to fix the gold content of the Ruble, and even more so to maintain the necessary differential between the Ruble and the other, capitalist, currencies."[52] Thus if the price of gold were to rise sharply, and if the buying power of the Dollar,

[49] P. Wiles, "On Purely Financial Convertibility," in *Banque, monnaie et crédit en Europe Orientale*, Brussels, NATO, 1973, p. 119-125.
[50] F. Holzman, "CMEA's Hard Currency Deficits and Ruble Convertibility," a report to the Round Table of the International Association of Economic Sciences, Dresden, June 23rd - July 3rd 1976 (reproduction).
[51] Andres, *op. cit.*, chapter VI: The World Currency.
[52] *Ibid.*, p. 257.

expressed in Rubles, were to stay constant or fall less than the proportional decline in the value of the Dollar expressed in gold, "one could imagine a decline in the gold content of the Ruble" [53]—and vice-versa.

Such flexibility in the gold parity of the Ruble could pave the way for its integration into the international monetary system. In this Andres is to some extent in step with the more orthodox authors with whom he takes issue on other points; thus I. Konnik foretells an extension of the international role of the Ruble as socialism evolves towards communism: "The convertibility of the transferable Ruble is the indispensable condition for its entry into the international arena, and for the gradual eviction of the Dollar as the world currency." [54] What is foreseen by Konnik for the transferable Ruble, i.e. for the means of settlement between the member countries of the COMECON, Andres judges to be theoretically possible for the Soviet Ruble: "It seems to me that it is an abstract possibility for the Soviet Ruble (and the national currencies of a series of other Socialist countries) to enter the international arena, including the capitalist world market." [55] It is somewhat curious that this writer should take up the exact arguments spelled out by Wiles: the exchange rate of the Ruble would be stable, guaranteed by the economic strength of the U.S.S.R.; the absence of internal inflation would allow the maintenance of its buying power at a constant level; and the international circulation of the Ruble would not imply the abandonment of the state monopoly of foreign trade, entailed by the "real" unconvertibility of the Ruble. Could the "abstract possibility" of convertibility ever be turned into a fact then? That would not be necessary, replies the author; in fact, according to him, the relationship of the Socialist world with the Capitalist world is taking on the aspect (and will do so increasingly) of something ancillary and complementary to the internal relations within the Socialist system. What then remains to be done? The Socialist currencies would be convertible on a regional basis, from one to the other and

[53] *Ibid.*, p. 259.

[54] I. I. Konnik, *Money During the Construction Period of the Communist Society*, Moscow, 1966, p. 145.

[55] Andres, *op. cit.*, p. 267.

with the transferable Ruble, as envisaged by the COMECON Program. This limited convertibility would not include the exchange of Socialist currencies for Western currencies or gold, unless this came under an exceptional category, albeit undefined: "Such a conversion could only take place if it were shown to be necessary to change the international currency of the Socialist market into international currency of the capitalist market." [56]

Such a transformation is highly improbable, despite speculation since the end of 1976 about the possibilities of external convertibility of the transferable Rubles. As a matter of fact, in October 1976 the International Bank for Economic Cooperation, reinstating former arrangements which were in the meantime partially revised, published a circular describing the procedure for payments in transferable Rubles involving countries which are not members of the Bank. This does not imply at all the convertibility of the transferable Ruble or the creation of a "Euroruble" and the establishment of a market for such a currency, as the Bank stated in April 1977 in order to dispel any "errors in interpretation." Apparently, with this expedient the Comecon intends to offer, primarily to emerging countries or to Socialist countries which are not Comecon members, to widen their bilateral clearing systems to a multilateral system; it is not at all a question of promoting on a worldwide scale a new international currency which would compete with the dollar or with special drawing rights.[57]

The noose is tied. Thus it can be seen that the doctrinal differences between these authors are minimal. There is a basic consensus on three points: whether we wish it or not, gold remains and will always be the keystone to the international monetary system; the gold-Ruble standard is theoretically conceivable; but the demonstration of this possibility does not imply its realization.

[56] *Ibid.*, p. 281. This is to be compared with a *Financial Times* interview of the academician N. Inozemtsev, Director of the Moscow Institute for The World Economy and International Relations, indicating that if there were to be a "new Bretton-Woods", then the Socialist countries would make a claim for the consideration of their interests, although this would not necessarily imply the convertibility of the Ruble, nor the participation of the U.S.S.R. in a new monetary system. Financial Times, 3rd November 1976.

[57] *Moscow Narodny Bank*, Press Bulletin of December 8, 1976, p. 14-17, and April 13, 1977, p. 16.