Russian Gold and the Ruble

Oscar L. Altman*

There has been an increasing amount of comment in the world press about the possibility that the U.S.S.R. may introduce a gold ruble, and widespread speculation about the effects of such an action. The anticipated effects upon the noncommunist world have, on the whole, been described in gloomy terms. They have included such fears as that the introduction of a convertible ruble may tend to weaken the U.S. dollar, open the way for speculative "bear" attacks on the dollar and major European currencies, upset world commodity markets and prices, and touch off widespread disturbances of trade. Fears of this kind have been summarized in the phrase that a convertible ruble would be a monetary sputnik.

There has been no official statement from the U.S.S.R. endorsing the general concept of a gold ruble, and much less any authoritative statement describing the specific characteristics of such a monetary innovation. It is nevertheless interesting to consider the significance that might be attached to a Russian gold ruble and the conditions under which the U.S.S.R. might believe it advantageous to establish a convertible ruble. As part of the background for such an examination, a brief survey should be made of the information that is available on Russian gold production, sales, and stocks.

Russian Gold Production, Sales, and Stocks

Production

Although there continue to be wide differences of opinion about the amount of gold currently produced in the U.S.S.R., as well as about the trend of output in the postwar period, a good deal is known about production prior to World War II. The U.S.S.R. was, of course, one of

* Mr. Altman, Advisor in the Research and Statistics Department, is a graduate of Cornell University and the University of Chicago. He taught economics at Ohio State University and was on the staff of the National Resources Planning Board and of the French Supply Council. He was Director of Administration of the Fund until 1954. He is the author of Savings, Investment and National Income and of a number of papers published in technical journals.
the world's large producers before 1914, and its output in that year (at the present price of $35 per ounce) was $75 million. Production dropped rapidly during 1914–18 and the subsequent years of revolutionary fighting, falling to $3 million in 1921. By the end of the 1920's, output had recovered to prewar levels, and it expanded rapidly during the 1930's; it was $270 million in 1936 and $220 million in 1937.\(^1\) The Soviet authorities have published no information on gold production since that date. There is little doubt that, if the U.S.S.R. had continued to apply the necessary priorities, it could have expanded gold production further. A leading Soviet textbook on economic geography, written in 1939, stated that "the U.S.S.R. has the world's largest reserves of gold . . . The U.S.S.R. is second only to the Union of South Africa in the mining of gold, having already surpassed Australia, Canada, and the United States."\(^2\) Littlepage, whose engineering experience in gold mining in the Soviet Union in the 1930's is second to none, is authority for the statement in 1938 that the U.S.S.R. could have made further substantial increases in gold production, possibly to the level of output in South Africa, by the end of that decade.\(^3\) (At the time Littlepage made this estimate, production in South Africa was at an annual rate of more than $400 million, reaching $504 million in 1941.) Such further expansion, however, was not attained. By

\(^1\) Data on gold production from 1914 to 1937 are from the unpublished and preliminary report, \textit{Statistical Abstract of Industrial Output in the Soviet Union, 1913–1955}, prepared for the National Bureau of Economic Research (October 1956), and are quoted by permission of Professor Warren G. Nutter, Director of the Bureau's Study of Soviet Economic Growth.


\(^3\) John D. Littlepage and Demaree Bess, \textit{In Search of Soviet Gold} (New York, 1938), pp. 267–71. The flavor of the comments is best given in quotation: "It is not ethical for me to reveal these figures [of gold production], although I learned them in the course of my work.

"However, there is no harm in confirming, from my own knowledge, the Soviet claim to be in second place in world production. . . . And I can see no reason why they should not keep this position indefinitely. I know from my own observation that the Soviets could increase their gold production very substantially if they desired to do so" (p. 268).

Littlepage left Russia in 1937. He stated that "during my last year or two in Russia, it seemed to me that the Soviet Government was not forcing the rate of increase in gold production so vigorously as in earlier years" (p. 268). But with respect to the future he noted that "it seems to me that the Soviets may protect the world price of gold and still push ahead with development of their gold mining industry almost as rapidly as in the past. It is even possible that they may endeavor to attain production equal to that of South Africa by 1940, as Soviet papers on more than one occasion have suggested they intend to do" (p. 271).
1939–40, output was perhaps 15–25 per cent lower than at its peak in 1936.4

No high degree of accuracy can be claimed for any of the widely varying estimates of current Soviet gold production, which range from $215 million to $630 million per year.5 However, even the lowest estimate places the U.S.S.R. among the major producers of gold. Samuel Montagu & Co. estimated 1958 production as more than 17 million ounces (about $600 million);6 and other writers estimate production in that year at 12–15 million ounces ($420–520 million).7 The U.S. Bureau of Mines estimated production in 1958 at about $350 million.8 Alec Nove stated that it is quite possible that actual gold sales by the U.S.S.R. in recent years have been “roughly equal to current production,”9 which would imply an annual output of perhaps $250 million or $300 million. Finally, according to a report in The Northern Miner,10 Soviet gold production is at the most 6 million ounces per year ($215 million).

Estimates of the trend of Soviet gold output in recent years have been similarly conflicting. According to the reports of the U.S. Bureau of Mines, annual production of $140 million in 1942–44 increased steadily to $330 million in 1951 and 1952; in the next three years, production was slightly lower, or about $315 million per year; in 1956–58, production was at the rate of $350 million per year.11 In contrast, a German study in 1959 estimated that production increased from $80 million in 1950 to $350 million in 1956 and 1957.12

4 The Study of the National Bureau of Economic Research, op. cit., does not give production figures beyond 1937. Samuel Montagu & Co. estimate that production in 1939 was lower by one sixth than it had been in 1936; they give no estimate for 1940. The estimates published in the Annual Reports of the Director of the Mint (Washington) differ somewhat from these both in absolute terms and in the rate of change, and suggest a reduction of possibly 25 per cent between 1936–37 and 1940.


7 The Times (London), June 23, 1959.


10 May 28, 1959.


12 Ferdinand Friedensburg, “Der Aufstieg der sowjetischen Bergbauleistung und seine aussenwirtschaftliche Bedeutung,” Vierteljahrshefte zur Wirtschaftsforschung, No. 4, 1958, p. 376. It was stated in Fortune, March 1954 (p. 159), that production had recently fallen to $70 million per year because of the diversion of labor to the production of uranium.
site trend is suggested in a 1957 news report that "there are indications that Soviet gold production may have dropped in recent years because of a cut in manpower," and in a 1958 report, which said that gold output had been falling since 1953.

In 1957, the Soviet authorities announced that the department concerned with gold mining was being reorganized; and the new head responsible for operations stated that by 1960 he hoped to achieve a sharp increase in output and a 25 per cent reduction in costs of production. In late 1959, it was stated that output in some gold fields would be 12 per cent higher than in 1956, and that the use of electric dredges under construction would reduce production costs.

The growth of Soviet gold production is reported to be largely the result of the expansion of placer mining in Siberia. Although some gold is obtained from deep mining, there has been nothing to suggest that the Soviet Union has deep gold-bearing ores which can compare in either quality or quantity with those of South Africa. About 75 per cent of Soviet gold production is said to be concentrated in the sub-Arctic Far East area, where costs of transportation are high and working conditions severe.

Gold is also obtained as a by-product of mining nonferrous metals. Since the output of nonferrous metals is large and expanding, the production of by-product gold cannot help but be significant. In periods of prosperity, by-product gold is 35-40 per cent of total gold output in the United States and about 13 per cent in Canada. In the U.S.S.R., according to some estimates, it is 10-15 per cent.

The thesis has recently been advanced that Soviet gold mining costs are very high. One estimate puts the cost of production as equivalent to at least $166 per ounce at the official rate of exchange. There is, of course, no way of determining the accuracy of calculations, which are obviously guesses on a grand scale, of the costs expressed in rubles. Furthermore, the conversion of ruble costs into dollars at the official rate of exchange raises serious difficulties, and has on many occasions

14 The Times (London), August 15, 1958.
17 This estimate, reported in The Times (London), June 22, 1959, is based upon two cost components. First, the cost of the three tons of goods and supplies required to produce one ton of gold is said to be 9.3 million rubles, of which perhaps 60 per cent represents the cost of transporting these goods to the mining area. Second, the cost of labor is said to be 12.0 million rubles, based upon average monthly pay of 1,000 rubles per worker. Thus, labor and materials alone come to 21.4 million rubles per ton, or $5.4 million at the official rate of exchange, which is equivalent to something more than $166 per ounce.
led to questionable, if not meaningless, results. Finally, direct cost calculations of this type, even when accurate, are not good guides to Soviet export-import policies. There is some dissatisfaction in the U.S.S.R. with the principles and procedures for determining costs, which differ from those in other countries. In any case, it is not the absolute cost of gold production that determines whether it is advantageous to produce gold for export, but rather the cost of producing gold relative to the cost of producing other commodities. If the cost of producing gold, equivalent to the ruble cost converted at the official exchange rate, is five times the world price, while that of timber is six times that price, it will be more economical for the U.S.S.R. to pay for imports with gold rather than with timber.

It is clear that the U.S.S.R. places substantial emphasis upon continuing and expanding the production of gold, which is used for export, stockpiling, and maintaining a gold connection for the ruble.

Sales

The U.S.S.R. has sold substantial amounts of gold in London, Zürich, and other financial centers in recent years. No official data have been released on the amount of these sales, but estimates have been made in the West from and by a number of different sources. Though these estimates are less speculative than those of gold production, they vary widely and have been subject to large retrospective corrections, both up and down. Estimates for 1957 indicate that gold sales were 7½ million ounces, valued at $260 million; these were the largest in any post-war year up to that time. Sales in 1958 are estimated at $215 million, and those in 1959 were probably somewhat larger than sales in 1957.18

The U.S.S.R. sells gold to acquire foreign exchange with which to meet deficits in its balance of payments. To the maximum extent possible, gold is sold forward to obtain the price premium which has prevailed in recent years, but its forward sales are supplemented by spot sales when necessary.19 The U.S.S.R. apparently does not wish to create the impression that it exports gold fairly regularly, and its published plans neither suggest nor require the export of gold. Though, in time, it may again provide data on gold production or sales, its

18 The year-end review of Mocatta and Goldsmid (London) estimated that 7.3 million ounces of gold ($255 million) arrived in London from the U.S.S.R. during the first 11 months of 1959; and The Northern Miner, January 14, 1960, reported that shipments for the year were $250–270 million. The external convertibility decisions at the end of 1958 have apparently had the effect of shifting the major part of Soviet gold sales from the continent of Europe to London, since the U.S.S.R. sells gold principally to acquire sterling.

RUSSIAN GOLD AND THE RUBLE

The U.S.S.R. finds gold an admirable medium (leaving aside considerations of comparative costs) for meeting relatively small payments deficits. Sales of gold can be made without publicity, and they do not call attention to deficits in the Soviet balance of payments or to any particular events which may have caused them. This advantage of gold sales for the U.S.S.R. is mirrored by the fact that Western estimates of their magnitude vary so widely. Also, sales can be made quickly, without significantly affecting the market price of gold. They do not affect established commodity market relationships or trading channels. They provoke no political outcries on the part of the countries or producers whose products are affected. For example, public reaction to Soviet sales of aluminum and tin in 1957-58 was completely different from the reaction to sales of gold, even though the former were a much smaller percentage of world production than the latter. Sales of aluminum and tin were widely regarded as unfair competition or economic warfare. On the other hand, sales of gold totaling as much as $250 million per year—equal to about 25 per cent of the output of the rest of the world—tend to be accepted in rational, economic terms; indeed, they may even be considered helpful.

The U.S.S.R. has been an exporter of gold for many years, though the amount sold has varied greatly from year to year. The following estimate of Soviet gold exports in the 1930's was made on the basis of admittedly incomplete data:

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports (million U.S. dollars)</th>
<th>Year</th>
<th>Exports (million U.S. dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1931</td>
<td>100</td>
<td>1936</td>
<td>10</td>
</tr>
<tr>
<td>1932</td>
<td>80</td>
<td>1937</td>
<td>210</td>
</tr>
<tr>
<td>1933</td>
<td>70</td>
<td>1938</td>
<td>120*</td>
</tr>
<tr>
<td>1934</td>
<td>85</td>
<td>1939</td>
<td>55</td>
</tr>
<tr>
<td>1935</td>
<td>25</td>
<td>1940</td>
<td>55</td>
</tr>
</tbody>
</table>

These divergent attitudes have been well described by Gerhard Colm: The principal examples of the dumping of Soviet products on world markets, which have been widely regarded as part of the so-called Soviet economic offensive, are "the exports of tin and aluminum sold for sterling in Europe. Nove believes that these sales were most immediately motivated by the Soviet effort to meet a substantial sterling deficit. Nevertheless, the disruptive efforts of such forced sales remain no matter what the primary motive." Gerhard Colm, "Evaluation of the Soviet Economic Threat," *Comparison of the United States and Soviet Economies* (Joint Economic Committee, 86th Congress, First Session, Washington, 1959), Part II, p. 537.

Frank M. Tamagna and Margaret Garber, "The Private Demand for Gold, 1931-53," *Federal Reserve Bulletin*, September 1954, p. 938. For 1938, their data showed a net import of $400 million by the U.S.S.R., reflecting exports of $120 million (marked * in the table) and imports of $520 million reported as having been sent to the U.S.S.R. by the Bank of Spain.

©International Monetary Fund. Not for Redistribution
According to these data, gold exports by the U.S.S.R. in the 1930's totaled $800 million, or about 8 per cent of production in the rest of the world. Exports of gold were particularly heavy in 1937 and 1938, years marked by trials, purges, and disorganization of production. In these two years, exports were $330 million, equal to 15 per cent of production in the rest of the world, though if allowance is made for the gold which was obtained from Spain during the Civil War and apparently hoarded, the U.S.S.R. was a net importer.

In the 11 years 1946–56, the U.S.S.R. probably sold about $800 million of gold, equivalent to 9 per cent of gold production outside the Soviet bloc. Average sales in this period were about $75 million per year, and this low figure reflects the fact that sales were negligible in the early postwar years. In the three years 1957–59, gold sales totaled more than $700 million, equivalent to 20–25 per cent of gold production outside the Soviet bloc, and average annual sales were about $245 million.

These estimates may give a misleading impression of the present importance of gold exports in the Soviet balance of payments. Exports of gold were relatively much more important in paying for Soviet imports in the 1930's than they have been in the postwar period. In 1957, when gold sales were $260 million, exports to countries outside the Soviet bloc were about $2 billion at the official rate of exchange, and total Soviet exports were $4.4 billion. In 1938, when gold sales were at least $120 million, exports to all countries were only $250 million; in 1937, the ratio of gold sales to exports was even larger.22

As a major exporter of gold, the U.S.S.R. naturally has an interest in the price of gold,23 though there have been no official expressions

22 Trade data are as reported by the U.S.S.R.; see Direction of International Trade (Joint Publication of UN, IMF, and IBRD), Annual Issue, Vol. IX, No. 10 (1958), pp. 161 and 163.
23 The reported Soviet attitude toward the price of gold in 1937, when there were waves of gold dishoarding both in Europe and in the Far East and widespread forebodings that the United States, which was having a large inflow of gold, might reduce the price of gold as an anti-inflationary measure, is of some historical interest. The U.S.S.R. contributed substantially to the gold sales that took place at that time. It was estimated that between October 1936 and June 1937 the U.S.S.R. shipped $150 million of gold to London. In March and April 1937, it sold $125 million of gold on the London market, having previously been selling in blocks of about $2.5 million; and there were rumors that insurance was being arranged to ship an additional $175 million. These actual and anticipated sales were considered at the time to be one of the immediate causes of the 1937 gold scare. See Bank for International Settlements, The Gold Scare of 1937 (Basle), C.B. 249 (1953), and Paul Einzig, Will Gold Depreciate? (London, 1937).

Littlepage thought that the scares about the price of gold were perhaps one factor that led the U.S.S.R. to reduce production in 1937, but commented that "it seems to me that Moscow could go ahead boosting gold production, without breaking down world prices, if they retained most of their gold as a reserve inside
of opinion about the present price of $35 an ounce. Indeed, it may well be felt that any argument advanced by the U.S.S.R. might actually damage in some quarters the case for a higher price. Nevertheless, in 1958, the Deputy Premier of the U.S.S.R., Mikoyan, was reported to have urged an increase in the price of gold, arguing that the present price was an "artificially established" one, and that "the difference between this price and the one that should exist amounted to tribute paid by the countries that sell gold to the United States."  

If the U.S.S.R. were actively interested in forcing the United States to increase the price of gold, it should withhold gold rather than sell it. If U.S.S.R. policy were motivated by the argument sometimes put forward that the inadequate supply and production of gold outside the communist bloc are retarding economic expansion, it would also follow the policy of selling as little gold as possible. In these circumstances, withholding gold would be economic warfare on a grand scale. Increased gold sales would, on the contrary, strengthen the financial system of the non-Soviet world and make it easier to maintain the price of gold at $35 an ounce.

Stocks

Estimates of the gold holdings of the U.S.S.R. vary greatly. A number of estimates are in the neighborhood of $8 billion; one or two estimates are considerably higher; while yet others set holdings at only a fraction of this amount. Their size has not been reported by the U.S.S.R. since the 1930's. Estimates of current gold reserves are based on data for production and sales, and are naturally subject to wide errors. Nevertheless, the gold holdings of the U.S.S.R. must be substantial. These would include the gold received from Spain during the Spanish Civil War and the excess of production over sales for about 30 years. Stalin reportedly attached great importance to gold production and reserves. These reports are consistent with the large expan-
sion of output in the 1930's—at great cost in human lives and suffering—and with the fact that production of gold was continued and even expanded during World War II. There appears to be considerable attention to gold production under the Khrushchev regime.

On a number of recent occasions, the U.S.S.R. has linked the idea of expansion of trade with the rest of the world to the grant of substantial lines of credit. For example, this point is reported to have been raised by Macmillan and Khrushchev in their discussions in the spring of 1959 on increasing trade between Great Britain and the U.S.S.R., with the former reportedly saying that he would be glad to accept gold in payment for goods, and the latter replying that the U.S.S.R. did not have any gold. Khrushchev's denial is, of course, to be interpreted figuratively. The U.S.S.R. has a substantial quantity of gold, even if it is probably much less than the large amounts often mentioned. Khrushchev's denial certainly does not mean that the Soviet gold holdings are small. His views on the role of gold—and his reasons for shifting attention away from gold—were implied during a press interview in 1958:

Question: We understand, Mr. Khrushchev, that your policy consists in balancing export and import so as to get by without the purchase and sale of gold.

N. S. Khrushchev: You won't get very far on gold reserves alone, there is always a limit to them, whereas the development of the economic potential and the production of commodities is the capability of the nation, the capability of the people, and all this is always richer than gold reserves. Economic relations between countries should be developed mainly on the basis of exchange of commodities, in other words, on the basis of purchase and sale. We do not deny that gold does play its part in trade and we are not advocates of sitting on sacks of gold.

These views, which were not further elaborated, are, of course, not novel or surprising. The U.S.S.R. knows that part, if not all, of its gold production will have to be exported to pay for imports; it wishes to increase its exports of certain types of goods but it would like to increase its imports even more; and it would prefer to pay for some of these additional imports with credits, which would ease the strain of exporting. The U.S.S.R. may also be of the opinion that it might re-up the West, facilitating settlement as well as other mining operations, and providing a treasury for Civil War operations. He became familiar with the writings of Bret Harte and the California gold rush. Stalin visualized Soviet gold operations in Siberia as an instrument for extensive population settlement and economic development. He felt that these would bind the area more firmly to European Russia, discourage encroachments by Japan and China, and provide a local industry and population base against war from the East. See John D. Littlepage and Demaree Bess, op. cit., pp. 23-29 and 153.

28 From a stenographic transcript of a conference between Khrushchev and two members of the staff of The Journal of Commerce on March 22, 1958 and reported in that newspaper on March 27, 1958.
receive easier economic, and less suspicious political, treatment if it simultaneously increased its imports and became a debtor on a substantial scale.

These considerations do not, however, explain why the U.S.S.R. has gone to such pains to accumulate what must be considered, by any standard, as large gold reserves. The answer to this question is probably to be found from an examination of the three following considerations.

First, the U.S.S.R. has accumulated gold both to meet fluctuations in its balance of payments and to serve as a "war chest." Such accumulation is not unusual for any country; indeed, given the inability of the U.S.S.R. to obtain credits on a significant scale, it has been indispensable. After the Revolution, the Soviets had periods when they had little to export except gold—and on several occasions they found it difficult to export that. Since those days, the U.S.S.R. has had balance of payments deficits, some of which were obviously unplanned, and it is clear that state planning is no guarantee against future deficits. Time and again the U.S.S.R. has encountered difficulties, and adverse political reactions, in trying to expand exports of one commodity or another to finance such deficits. Gold is practically the only exception to this experience. Lenin's essay in 1921, *The Importance of Gold Now and After the Complete Victory of Socialism,* is often quoted to the effect that gold is useless—"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. This would be the most 'just' and educational way of utilizing gold." But if Lenin considered gold useless in the socialist future, he considered it necessary in the capitalist present. As he explained it:

However "just," useful, or humane it would be to utilize gold for this purpose, we nevertheless say: Let us work for another decade or so with the same intensity and with the same success as we have been working in 1917-21, only on a wider field, in order to reach the stage when we can put gold to this use. 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. "When living among wolves, howl like the wolves."  

---

29 Thus, in the latter part of 1920 there were "earnest but largely ineffectual efforts on the part of the Soviet Government of Russia to dispose of gold . . . as part payment for goods in Europe and America. The strong attitude of France, in threatening to place an embargo upon what she regards as part security for heavy sums advanced to the Imperial Russian Government, rendered the process difficult of accomplishment, though a considerable quantity was lodged in Sweden." (Samuel Montagu & Co., *Annual Bullion Review,* 1920.) There was controversy over Soviet gold sales as late as 1928, when $5 million of gold was sent to the United States in payment for goods. (*Russian Gold, A Collection of Articles, etc., Issued by the Amtorg Trading Corporation, New York,* 1928, pp. 35–66.)

Secondly, the U.S.S.R. has produced gold as a by-product of other things. The term by-product is used here not in a technical sense (i.e., a by-product of copper or other metals) but rather in a political and social sense. The Soviet system in the 1930's produced hundreds of thousands of persons who had to be punished, removed from European Russia, and put to work at jobs that required only the simplest tools. Pick and shovel brigades in the remotest recesses of Siberia met these requirements; and when these brigades worked on the extremely rich placer deposits of Kolyma, they produced large amounts of gold. Later, prisoners of war and political prisoners from nations that were overrun provided additional labor on a large scale. As these sources of cheap labor dried up after the war, the labor force fell and mechanization and rationalization became indispensable if production was to be maintained and expanded. But before they became indispensable, some 20 years had been gained, billions of dollars of gold had been produced, and the settlement of remote areas had been facilitated.

It may be that "with the virtual end of forced labor, bearing in mind the remote Arctic location of Soviet gold mines, it seems uneconomic to mine gold for sale abroad at $35 an ounce. It would make better sense to sell other things, including tin and aluminum."\(^{31}\) On the other hand, it may be argued that the high cost and the comparative disadvantage of gold production have not been proved conclusively; that the stable market for gold compensates in part for its comparatively low price; and that the price of gold may be increased.

Thirdly, the U.S.S.R. attaches great importance to gold for internal purposes. To quote from a recent Soviet textbook, *Political Economy*:\(^{32}\)

> Of course only a monetary commodity which itself has value can have the function of a measure of value—such as gold. In the Soviet Union and the other countries of the socialist camp gold plays the part of universal equivalent. Soviet currency has a gold content, being tokens of gold.

> In socialist society money can only fulfill the functions of a measure of the value of commodities by virtue of its connection with gold . . . Soviet money retains the historically derived connection with gold.

This statement is, of course, almost identical with that of Marx: "Only insofar as paper-money represents gold, which like all other commodities has value, is it a symbol of value."\(^{33}\)

The attitude of the U.S.S.R. toward a gold-connected money, what-


\(^{33}\) Karl Marx, *Capital*, Part I, Chap. III. 2. C. Marx wrote in an age in which silver was still an important monetary metal, so that he could also say, "Within the sphere of home circulation, there can be but one commodity [gold] which, by serving as a measure of value, becomes money. In the markets of the world a double measure of value holds sway, gold and silver" (Part I, Chap. III. 3. C).
ever this may mean in respect to the Soviet money supply, is firmly rooted in Marxian doctrine. It has been suggested (not without a certain wry humor) that the Soviet attitude toward gold is actually more Victorian than the attitude of the West.

The previous discussion has made it clear that any estimate of Soviet gold holdings is subject to very wide error. Nevertheless, an estimate of the probable range of these holdings may have some limited usefulness. Gold holdings were last reported as $840 million in 1935. In the period 1936–59, these holdings were increased by the gold obtained from Spain during the Civil War, amounting to more than $500 million, and by production, estimated at from somewhat less than $5 billion to somewhat more than $7 billion; and they were reduced by sales amounting to at least $2 billion. The combination of these estimates would suggest that Soviet gold holdings at the end of 1959 were in the range of $4.0–6.5 billion.

Ruble Coins and Deposit Balances

RUBLE AS A GOLD COIN

When the discussion moves from the size and disposition of U.S.S.R. gold output to the possibility of establishing a convertible ruble backed by gold, it necessarily becomes even more speculative and uncertain. The analysis presented by writers who are alarmed by this possibility is, as a rule, not very profound, and Soviet references to the subject have been neither clear nor consistent. Mikoyan hinted in 1958 that a convertible ruble is a goal of Soviet policy, and that this goal is to be attained by a series of steps rather than by one large step. On the other hand, Khrushchev is reported to have said in April 1959 that “he had not even heard of the question of a convertible ruble discussed,” and “to have expressed doubt that he would favor any such proposal.”

Any speculation about the characteristics of a convertible ruble, or of a gold ruble, or of a convertible ruble backed by gold, must start from the basic fact that the significance of the word “convertible” is quite different in the Soviet system from its significance in the capitalist system. But whatever interpretation the Soviet authorities might give to convertibility or to a “gold ruble,” they certainly would not intend to coin any substantial amount of gold into rubles or to pay for imports with these rubles. This would be equivalent to paying for im-

ports with gold. There might be a premium market for gold in the form of rubles, in the same way as there is a premium for gold in the form of napoleons and other gold coins. In this event, the U.S.S.R. could obtain a higher price for its gold by selling coins rather than bars. The market for gold coins is limited, however, and any determined effort to exploit it would drive the premium down and make continued coinage unattractive. In fact, the objective of a gold ruble could hardly be to increase the amount of gold sold by the U.S.S.R.

**RUBLE DEPOSIT BALANCES**

The establishment of a convertible ruble would imply a belief that foreigners were willing to hold deposit balances in rubles, in part because they were willing to conduct some of their international trade in rubles. The ruble would not be made convertible into gold if it were expected that rubles would in fact be converted, for this would be equivalent to selling gold. The expectation must be that as a general rule the rubles would not be converted.

Ruble balances could be created if the U.S.S.R. ran a balance of payments deficit and its creditors accepted payment in ruble deposits. The U.S.S.R. might secure genuine advantages if it could persuade foreigners to build up such deposit balances. It would obtain foreign goods by a process equivalent to borrowing at short term, with the prospect of paying little interest on the amount borrowed. It could thus increase its imports without increasing its exports, or, alternatively, reduce or eliminate its sales of gold while maintaining its exports unchanged.

Foreigners could perhaps be persuaded to hold ruble balances willingly for essentially the same reasons as they now hold dollar or sterling balances. They could build up working balances which would be drawn upon when receipts from exports did not exactly match payments required for imports, and use these balances either to pay for future imports or to buy other currencies. Conceivably, these balances could be set up under interest-earning arrangements. Nevertheless, for reasons discussed below, it is unlikely that in the near future these considerations would be effective in relation to ruble balances.

Certain countries already have one important immediate incentive to hold ruble balances arising from the balance of trade. The U.S.S.R. has a substantial volume of trade. It offers the ever present attraction that it may greatly increase this volume, and the ever present threat that it can sharply redirect it. Soviet trading is highly centralized on a state basis and hence is conceived largely in bilateral terms. The U.S.S.R. will not necessarily import from all the sources of supply with
which it can do business at the same price, nor will it always export to all countries at the same price. A recent study showed substantial differences between the prices paid by or to other Soviet bloc countries and those paid by or to other European countries; furthermore, there are large differences among the countries in each group.\(^{36}\) The terms of trade in any particular situation may be made so favorable that a country may be induced to hold “swing balances” in rubles as part of the quid pro quo. On several occasions the U.S.S.R., in accordance with a bilateral arrangement, has paid more than the world price. In such transactions the U.S.S.R. usually exports after it imports, so that the partner country would hold a ruble deposit balance until the transaction had been completed. Balances may also arise when the U.S.S.R. agrees to export capital goods, which may have a long delivery term, and to accept in payment consumer goods which can be delivered immediately.\(^{37}\)

Short-term capital movements in the form of gold, dollars, and other convertible currencies could create ruble balances. Deposits denominated in gold rubles could be attracted by competitive rates of interest and strong security against devaluation. If these deposits were set up with gold, the U.S.S.R. could sell the gold deposited with it, invest the proceeds in world money markets, cover its gold obligations with its substantial gold reserves and its future gold production, and make a profit into the bargain.\(^{38}\) On the other hand, if the U.S.S.R. were to spend the foreign currency equivalent of its ruble deposits rather than to invest in money market securities, it would in effect be the recipient of a short-term loan at a rate of interest that consisted of the rate it paid its depositors plus its own handling costs. The development of a short-term money market in Moscow would certainly depend upon simultaneous far-reaching changes in the trading relations between the U.S.S.R. and the rest of the world. At present, such changes seem to be quite out of the question. Nevertheless, although these operations may sound fantastic now, they are by no means impossible at some future time.


\(^{38}\) The demand for, and the possibilities of, this type of operation were demonstrated by the substantial increase of BIS deposits in 1958. The BIS covered its spot sales of gold received against time deposits with purchases of futures.
The currencies that play an important role in international finance are convertible not only into other currencies but also into goods. It is precisely for this reason that these currencies are readily accepted in other countries. For the U.S.S.R., however, goods convertibility would be much more difficult to achieve than currency convertibility.

The ruble would be externally convertible if it could be used without restriction to buy other currencies. It could be convertible at some predetermined rate, or within predetermined margins on either side of a parity rate. It could be convertible even if there were no parity, as the fluctuating rate of the Canadian dollar testifies. But if wide use is to be made of a currency which has no parity and an indeterminate spread, there must be some assurance that the rate will not be officially manipulated. Fluctuations determined by market forces are to some extent predictable—or at least, persons operate in such markets on the idea that they are predictable.

For many years the ruble has been formally equal to 0.222168 gram of fine gold, and there is little doubt that a convertible ruble would continue to have a stated parity in terms of a quantity of gold. Though circulation is restricted to the U.S.S.R., the ruble is, nevertheless, traded on a number of black markets at a very large discount from its official dollar parity and at a substantial discount from the rate extended to tourists.

It is unlikely that any substantial volume of capital funds would move to the U.S.S.R. unless there were some guarantee of the rate at which these funds might be repatriated. If the Soviet authorities were prepared to maintain a dollar-ruble rate at par, funds could flow into or out of ruble balances solely on the basis of interest differentials plus costs. On the other hand, if the exchange rate fluctuated between predetermined margins, the interest differentials required to attract and retain funds would be larger. This might imply the development of forward quotations for dollars in terms of rubles.

The U.S.S.R. could easily make the ruble externally convertible in view of its control over the balance of payments and internal prices. The floating supply of rubles in the hands of foreigners could be controlled by bilateral trading deals, and the ruble could be made formally convertible because, in fact, no one would have rubles to convert.

As stated above, the establishment of goods convertibility for the ruble is much more problematical. Here the question is what goods

---

a foreigner may buy with rubles, and what prices, terms, and conditions may be applicable to such purchases.

In free economies—such as the United States and the countries of Western Europe—an effort is made to give purchasers the maximum freedom of choice and to facilitate a high degree of competition to make this freedom effective. When there is already a high standard of living, and a fairly flexible economy, there are large reservoirs of capacity and investment to meet any new demands within a reasonable period of time. Subject to some limitations applicable to goods having strategic or defense importance, citizens and residents with domestic money can use this money to buy anything they wish. Even more important in this connection, all the interested foreigners also can buy the same goods and at the same prices. When there are limitations, most of them apply to citizens and foreigners alike.

The conditions in the U.S.S.R. are very different. The U.S.S.R. economy has expanded rapidly in the face of considerable shortages, and it is always pushing hard against capacity in one important field or another. Over very long periods, it has employed rationing, differential pricing, “expediting,” and the principle of first come, first served to allocate short supplies. There are many commodities which a Russian holding rubles cannot buy at any price. There are even more which a foreigner cannot buy at all, let alone buy at a reasonable price or within a reasonable delivery period. Given the number of tight spots and bottlenecks in the Soviet economy, there are many commodities which cannot be exported in any substantial volume without threatening the disruption of centralized production plans. Failure on the part of a Soviet citizen to produce an assigned quantum of goods may be severely punished (and has not infrequently been considered sabotage), and any proposal to permit free foreign purchases of scarce goods would be much the same as a request to authorize economic warfare.

There is thus a very great difference between what Soviet goods a foreign holder of rubles can buy and what, for example, U.S. goods a foreign holder of dollars can buy. A holder of rubles can buy only what the Soviet Government wishes to sell; a holder of dollars can buy anything at the prevailing price. Since it is anticipated that Soviet bilateral deals will balance, a country left with a ruble credit at the end of a deal may be in a worse position for the next deal than if it had come out even.40 The reason is that, with respect to any trading negotiations,

40 The situation was recently stated in these words: “Some of the amounts [differences between imports and exports in 1955, 1956, and 1957] were paid in transferable currencies, as in the case of Cuban sugar. Many countries, however, are tied to the U.S.S.R. by trade and payments agreements which specify
the U.S.S.R. prefers to have payment for its exports in imports rather than in balances of its own currency.

There are three principal reasons why the ruble is unlikely to be made freely convertible into goods in the near future. First, many goods are not generally available either for domestic purchase or for export. Second, Soviet prices reflect not only differential commodity tax burdens, but also a structure of costs that differs widely from that of other major countries. As a result, there is great dissimilarity between the structure of Soviet prices and that of world prices. Specifically, consumer goods are much more expensive relative to capital goods in the U.S.S.R. than in Europe and the United States. The relationship of the price of one good to the price of another may function more or less satisfactorily for internal pricing without indicating the relationship at which the U.S.S.R. will trade one or the other to foreigners. Relative prices reflect all the singularities of Soviet policy with respect to social and political objectives, costing, and pricing.

Third, external prices are affected by an additional distorting element,


A noteworthy exception to these comments is the trade agreement between Finland and the U.S.S.R., which provides for payment of the closing balance in gold, convertible currencies, or other currencies mutually agreed on, at rates based upon the present gold content of the ruble. The Finnish trade balance is thus protected against devaluation (change in the gold content) of the ruble, and it would presumably benefit if convertible currencies were devalued relative to the ruble. The agreement also provides for limited interim payments during the term of the agreement. These provisions are included in the new trade agreement for 1961-65, but similar provisions, somewhat more restrictive, were included in the two preceding ones.

Thus, Khrushchev stated in The Journal of Commerce interview already referred to (see footnote 28) that “as is known, the cost of production consists of many elements. Our domestic prices do not always and for all goods correspond to the cost of production. In our home trade there do not exist the two aspects as you understand them. We sell some goods at prices exceeding their cost of production. But some goods are sold below the cost of production. They are sold at a loss but their production is necessary from the viewpoint of the development of our country’s economic potential.” For example, the differences between the prices (including turnover taxes) of consumer goods and capital goods are much larger in the U.S.S.R. than in the United States and Western Europe.

The situation is in fact more complicated than this. There are series of prices applicable to industrial and other goods, with each series serving a different function. See Gregory Grossman, “Soviet Economic Planning: Industrial Prices in the U.S.S.R.,” American Economic Review (cited above), pp. 50-64.
the overvaluation of the ruble. The present exchange rate of four rubles to the dollar is not realistic, but this fact is not important to the U.S.S.R. The exchange rate does not have to convert domestic ruble prices into realistic world prices, since it is not designed to move exports or to equilibrate foreign receipts and payments in terms of a price mechanism. If the U.S.S.R. wishes to export goods, it is not bothered by calculations of the domestic price converted at parity—it simply sells on the basis of the world price. The extent to which it shades the world price depends upon the stability of that price and how anxious the U.S.S.R. is to sell quickly.

When the U.S.S.R. wishes to sell, the world price is controlling. When the U.S.S.R. does not wish to sell, a foreign buyer would not be able to buy at any price or, to the same effect, he might be quoted an impossible export price based on the domestic price converted at the official rate of exchange.

A speech by K. V. Ostrovityanov to the 21st Congress described parts of the above situation in the following words:

The growth of international socialist division of labor and economic connections between socialist countries inevitably will call forth growth and development of monetary exchange. On the other hand, monetary-exchange relations will develop into interrelations between countries belonging to the two different systems—socialism and capitalism. . . .

The development of monetary-exchange relations in the economic interrelations between countries of the socialist camp will call for, of necessity, a single standard for the comparison of costs of production in a given country with costs in other countries of the world system of socialism and also for comparison of competitive totals of the two systems—socialism and capitalism. . . .

At the present time the countries of the socialist camp are concluding trade agreements between one another based on world prices which have been corrected suitably in order to give them great stability. . . .

The goods convertibility of the ruble is and will continue to be severely limited. This is clearly the situation between the U.S.S.R. and

---


44 Reported in Pravda, February 6, 1959.

45 One explanation of "corrected suitably" is given by Horst Mendershausen, op. cit., p. 106: "Official statements make it appear that the problem of finding tomorrow's true market price can be solved by subjecting yesterday's observed market price to some corrective manipulation. They emphasize the need to eliminate 'undesirable fluctuations' due to business cycles, 'speculation,' or 'sharp competition' and contend that in this fashion the fair price can be determined objectively and impartially. The existence of bargaining among communist traders is usually denied. But bargaining undoubtedly takes place. The trade negotiators of the various countries are known to bring a variety of 'world market prices' to their meetings. So there are alternatives to choose from. The choosing is done by haggling."
the countries outside the Soviet bloc. It is also, but less clearly, the situation within the bloc, where trade is essentially on a barter basis. The bloc countries several years ago instituted a so-called system of multilateral clearings to obtain some of the advantages of convertibility. This system was expanded in late 1959 to provide interconvertibility of bloc currencies, though the terms and conditions of this interconvertibility were not announced.\footnote{The New York Times, December 15, 1959.} The effectiveness of any such agreements would continue to depend upon whether, with the funds obtained through conversion, a member of the bloc could obtain from another member, on fair terms, the goods it wanted. It is unlikely that any agreements on convertibility could assure this. The bloc might set up arrangements that formally looked like the European Payments Union, or some system of convertibility on a regional basis, which, however, functioned quite differently. Monetary refinements by themselves do not eliminate the barter character of U.S.S.R. trade that the combination of state trading, shortages of goods, and distortions of internal prices and exchange rates makes inevitable. Nor does the introduction of a third country into a two-sided barter transaction eliminate the barter element. Thus, when Burma earned a ruble balance with the U.S.S.R. by selling rice, and wanted to buy goods in Czechoslovakia with this balance, it engaged in three-cornered negotiations to bring the deal off. The same sort of problem would arise if, for example, Poland wished to spend ruble balances in Czechoslovakia.

In short, the U.S.S.R. could easily make the ruble technically convertible into other currencies within the Soviet bloc, or in a considerably wider area. The strict controls that are exercised over imports, exports, and the balance of payments guarantee, however, that such convertibility would impose no significant changes on the U.S.S.R. On the other hand, it would have no real economic advantages, though the establishment of convertibility in this sense might be good propaganda.

If the U.S.S.R. became a center for short-term capital movements by accepting ruble deposits denominated in gold, and if it paid interest on these deposits, it could enter the banking business in competition with other centers, scoring certain economic and propaganda advantages. But any possibility that the U.S.S.R. can, in any meaningful sense, make the ruble convertible into goods, either at the present time or for years to come, is very remote. This deficiency would severely limit any use that other countries might make of the ruble, even if it were made technically convertible. It has been recognized in the U.S.S.R. itself that the ruble can become an international currency only when it is responsible for a much larger share of the world's production and

\footnote{The New York Times, December 15, 1959.}
international trade, and when prices in the communist countries are made more competitive than they now are with those in capitalist countries. The realization of these objectives requires not only the adjustment or rationalization of relative prices in the U.S.S.R. but also the adoption of a realistic exchange rate.

**Threat of Soviet Gold Reserves**

The consequences to be expected from the establishment of a hypothetical gold ruble are independent of and additional to those upon which the fears that some have expressed about the Soviet gold holdings themselves are based. Some writers who contemplate the possibility that the U.S.S.R. may think it worthwhile to engage in continual economic warfare against its capitalist competitors fear that the large gold reserve of the U.S.S.R. constitutes a sword of Damocles over the free world. These large gold holdings are held to threaten the structure of exchange rates and of world prices.

The threat of Soviet gold holdings to the structure and stability of exchange rates has been described as follows:

> The suggestion that, in possession of a large gold reserve, the Soviet Government would be in a position to direct a major attack on the dollar or other Western currencies cannot be dismissed so easily. In possession of large liquid financial resources represented by her gold reserve, the Soviet Union would always be in a position to build up a large balance in any currency and to throw

---

47 As Ostrovityanov put it: “In proportion to the growth of the economy of the world system of socialism, the increase of labor productivity, the lowering of costs of production and the increase of the proportion of the world system of socialism in international trade the socialist countries will more and more change over to their own basis in the matter of price determination basing prices on costs of production of goods in the socialist camp. It may be assured that in proportion to the further successes in communist construction the Soviet ruble will begin to go out into the arena of the world-wide market, gradually squeezing out the dollar.” *(Pravda, February 6, 1959.)*

48 Perhaps Robert Triffin may have had yet another fear in mind when he touched on the relationship of Soviet gold holdings to the structure of international reserves. He recently argued that in the next decade the growth of international reserves in the form of gold would be seriously inadequate and that this inadequacy would have grave consequences. In his estimates of prospective additions to gold reserves, he assumed that sales by the U.S.S.R. would be $200 million per year, and he might have been expected to argue that larger sales would be even more helpful. Instead, he noted that “the conclusions of this paper would, I must admit, be thoroughly upset if the U.S.S.R. decided to use aggressively its vast gold stock in world markets, for economic or political purposes. Depending upon the policies adopted on both sides of the famed iron curtain, this could either save or definitely wreck the gold standard as an international monetary mechanism.” (“The Return to Convertibility: 1926–1931 and 1958–? or Convertibility and the Morning After,” *Banca Nazionale del Lavoro, Quarterly Review*, Rome, March 1959, especially p. 53.)
its holdings of that currency on the market at some awkward moment when the
currency concerned is already under pressure and is vulnerable.\textsuperscript{49}

The gold policy of the U.S.S.R. in the last two generations has consis-
tently been oriented about two propositions: first, it is important to
build up a sizable gold reserve;\textsuperscript{50} and secondly, some goods are so
important that gold will be sold to pay for them. The proposition that
the U.S.S.R. will sell gold to acquire currency balances which will, at
some appropriate moment, be used to attack other currencies or the
structure of exchange rates is quite unrealistic. If the U.S.S.R. acquired
foreign balances by selling gold, it would simultaneously provide the
means by which foreign countries could defend themselves against
Soviet raids. The monetary management required to accomplish this
is not difficult. If the U.S.S.R. bought dollars with gold, and then sold
dollars for sterling, the United States could support the sterling-dollar
rate with the gold that it had bought from the U.S.S.R. Similarly,
U.S.S.R. dollar balances could be paid off with gold. The advantages
that might accrue to the U.S.S.R. from such operations would be
negligible or nonexistent, while the costs, in terms of goods whose pur-
chase was foregone, would be substantial. Such operations might well
prove to be economic warfare in reverse.

If the U.S.S.R. were willing to run a large balance of payments sur-
plus to acquire dollars or other Western currencies, it would be able
at some time of its own choosing to convert one currency into another
or into gold. These conversions might be very awkward for the country
concerned. It is inconceivable, however, that the U.S.S.R., with its
great demand for goods, would accept payment for its exports in cur-
rency balances or in gold. Furthermore, the acquisition of currency
balances on the scale required to attack individual currencies or to
damage the structure of exchange rates would effectively destroy any
Soviet prospects for obtaining foreign credits.

The threat of Soviet reserves to world prices is a different matter,
and it has been stated as follows:

It seems probable that one of the main objects of the Soviet financial policy
of building up a formidable gold stock is to possess a “strategic” financial
reserve with the aid of which Russia is in a position to effect large buying opera-
tions in any part of the world. If, for no matter what reason, the planners of
Moscow deem it advantageous to buy commodities or industrial products, securi-
ties or currencies, the possession of a large gold stock well in excess of current

\textsuperscript{49} Paul Einzig, “Gold Policy of the Soviet Government,” \textit{Optima} (Johannes-
burg), June 1959, p. 63.

\textsuperscript{50} It seems difficult to recall now that in the 1920’s the U.S.S.R. exported goods
greatly needed and imported gold.
requirements makes this possible. Such operations may pursue economic or political or military ends. In given circumstances, they are liable to be harmful to the free world.\footnote{Paul Einzig, in \textit{Optima} (cited above), p. 64.}

There is no doubt that the U.S.S.R., with its large and growing demands and its substantial financial resources, could materially affect world demand and prices. If this additional demand occurred during a depression, it would be welcomed; if it were added to a demand already expanded by prosperity or inflation, it would make price and monetary control more difficult, and it might even cause considerable dislocation. It is difficult to imagine, however, that this dislocation could be other than temporary, or that it could be created simultaneously with respect to many commodities. For example, the U.S.S.R. might attempt to charter a large proportion of the world’s oil tanker fleet or to buy strategic materials pre-emptively. To admit that such actions might create dislocations and additional expense for the United States and Western Europe is not to imply that the U.S.S.R. would find it profitable to act in this way.

Though the cold war has already lasted for more than a decade, the U.S.S.R. has not engaged in such economic warfare. Its decision not to do so reflects one or more of the following considerations: (1) it wanted to build up its gold holdings to the maximum extent practicable; (2) it had to export gold or other commodities to pay for necessary imports, but it could not export to buy things it did not need; (3) it recognized that the United States and Western Europe have great financial resources, resources probably greater than its own, and that their retaliation could create countervailing costs and difficulties; (4) it realized that it could not create any substantial or permanent dislocation or inflict long-term damage, even if it spent substantial amounts; and finally, (5) believing that the advanced capitalistic countries must suffer from lack of markets, it would not take action to provide these markets unless it itself expected to benefit substantially from imports.

The U.S.S.R. has large gold holdings, and it may at any time decide to use them to pay for imports. This decision could significantly affect the world prices of the commodities involved. There could also be substantial price effects if the U.S.S.R. withheld commodities from world markets, or if it engaged in dumping operations.

The significance of any additional demand that might result from a reduction of the gold holdings of the U.S.S.R. should be viewed in proper perspective. Even if the U.S.S.R. had gold reserves of $8 billion,
which is highly unlikely, it would not willingly spend more than a fraction of this amount in economic warfare of a kind which might well be useless or even, if it invited retaliation, worse than useless. Increased spending of any reasonable magnitude may be compared with the recent balance of payments deficits of the United States. A U.S. deficit of $3.5 billion in 1958 was followed by another deficit in 1959 that was as large or even larger. Yet these deficits disturbed neither world prices nor world markets. The country most concerned with these deficits has been the United States. The rest of the world has not been concerned with the deficits but rather with the steps that the United States might take to eliminate them. A large Soviet balance of payments deficit, which would necessarily be settled in gold, would add to the reserves of the rest of the world, as did the deficits of the United States in 1958 and 1959. The difference would be that in the latter case the reserves of the United States fell while in the former case they might rise.

Additional Soviet spending paid for by a reduction of gold holdings may also be compared with the additional world demand that might flow from an increase in the price of gold. World holdings of monetary gold, excluding those of the U.S.S.R. and other countries of the Soviet bloc, total $38 billion, and U.S. holdings total $20 billion. If the price of gold were raised to $70 an ounce, the reserves of countries other than the United States would be increased by $18 billion. If half of this were spent, world demand would rise by more than total Soviet gold holdings, even if they are assumed to be $8 billion. If the price of gold were raised to $100 an ounce, the increase in reserves of all countries other than the United States would be $34 billion, and the implications for an increase in world demand would be correspondingly greater. Furthermore, the annual increase in free world demand that would follow from an increase in the price of gold to $100 an ounce—even assuming no increase in world output of gold—would be $2 billion.