The Rouble versus the Dollar

The rouble [1] and the dollar [2] represent not only the two most powerful countries in the world, but also two different social systems antagonistically confronting each other today. In several respects these currencies are in a position of rivalry, especially if viewed in the light of developments in the last decade or two. In the context of the decline of the dollar and several moves to strengthen the rouble, the former can be seen to be on the defensive and the latter on the offensive, and questions have been posed in the East, the West as well as the South as to the monetary supremacy in the future.

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[1] The rouble (derived from *rubaj*, in Russian meaning "to cut"), originally denoted a "cut piece" (of a precious metal rod). It was introduced in the 13th c., but its regular issue and as the basic monetary unit of the Russian state date since the monetary reform carried out in 1704 on the instructions from Peter the Great. The rouble was first issued as a silver coin, but later gold coins were occasionally minted, too (after 1756). The currency was officially placed on the single gold coin standard in 1897 (at the parity of 0.774234 grams of fine gold), which was in force up to 1915. After the Bolshevik Revolution in 1917, the Soviet Government tried to weaken and even eliminate the rouble as a currency, including its name. But in 1924 the rouble was rehabilitated in name and substance and has made remarkable progress since. In 1964 the member countries of the Council for Mutual Economic Assistance introduced a collective currency called "transferable rouble" which is distinct from the Soviet rouble in circulation in the USSR.

[2] The name dollar is derived from *Joachimsthaler*, a coin originally minted in 1519 from silver mined in St. Joachimsthal (the "Vale of St. Joachim," in German) in Bohemia, on the initiative of Count von Schlick. The Dutch simplified the name to "daler" and took it to North America in the 16th century where it was modified by the English settlers to "dollar". In 1792 the value of the dollar was set at 24.75 grains of fine gold and after some changes its parity was fixed in 1837 at 23.22 grains (1.504656 grams) which prevailed until the end of the gold coin standard in 1934. Today, in addition to the USA, there are 16 other countries whose currency is called dollar (Australia, the Bahamas, Barbados, Bermuda, Canada, Dominica, Fiji, Grenada, Guyana, Hong Kong, Jamaica, Liberia, New Zealand, Singapore, Solomon Islands, and Trinidad and Tobago); three other countries (the Dominican Republic, Guatemala and Panama) have maintained their currency units (peso, quetzal and balboa, respectively) fixed at par with the US dollar since at least 1970. But no Socialist country calls its currency "dollar", nor has any of them made it equivalent to the US dollar. In this study we shall limit ourselves to the US dollar.

In this study we shall examine the extent to which the value and role of the dollar and of the two roubles have changed and their present strength and functions.

I. The Dominance and Decline of the US Dollar

Domestically the dollar became " almighty " quite early in the American history — some would say by the late 1830s.[3] The international prominence of the dollar became first clearly evident a century later after the creation of the " Dollar Bloc " in 1933, which after the outbreak of World War II became known as the " Dollar Zone " (which embraced the USA, Canada and Latin American countries).

The international dominance of the dollar reached new heights under the Bretton Woods Agreement of 1944-45. The dollar became institutionalized as the key currency of the capitalist world on which the international monetary system headed by the International Monetary Fund hinged. The dollar was the only currency convertible into gold, and it was not only " as good as gold " but in fact better, because it was more convenient to have it as it could earn interest. Capitalist currencies were defined either in gold or in the dollar, but the dollar exchange rate became of greater practical value, and in several ways the use of gold was limited (under Article IV of the IMF Agreement) in favour of the dollar. The USA's voting power in the IMF (in 1945) was 28.03 per cent, which gave the champion of the dollar the power of veto in the case of crucial decisions (requiring 80-85 per cent in the case of " special majorities ").

By 1950 the USA had held 70 per cent of the official gold reserves in the capitalist world, that is much more than all the other non-Socialist countries combined.[4] As it was convertible

[3] The phrase " the almighty dollar " was first used by Washington Irving in 1836 and it subsequently appeared in his *Wolfert's Roost and Other Papers* published in 1837, the same year in which the dollar was firmly placed on stable gold coin standard.

[4] *International Financial Statistics,* Washington, IMF, Supplement to 1966/67 Issues, p. 272.

into gold, at par, the dollar was a stable currency and was widely sought as the key international reserve currency, more convenient than gold. In fact, there was not enough gold produced to meet the rapidly rising needs of international trade.[5] The USA, in pursuit of her expansionist foreign policies increased her note issue and incurred large balance of payments deficits (mainly by expanding her investment and aid abroad). It may be noted here that the Soviet gold sales in the West unwittingly helped the capitalist world overcome the shortage of international liquidity and indirectly relieved the pressure on the dollar.[6]

The supremacy of the dollar was further extended by the emergence and growth of the Eurodollar market from the mid-1950s on, in which virtually all credits and bonds were dollar-denominated.[7] Although it first developed in Western Europe (especially London, Paris, Frankfurt/M, Amsterdam, Basel, Vienna and Milan), it later spread to other financial centres in the capitalist world (the Bahamas, Bahrain, Beirut, Cayman Islands, Hong Kong, Kuwait, Monrovia, Montreal, Panama, Singapore, Tokyo, Toronto, Virgin Islands and others). Since the late 1960s it has developed into the Eurocurrency market, in which by 1980 the value of the dollar-denominated obligations had risen to more than $ 750,000 m. — nearly as much as the entire national income of the USSR.[8]

The holders of the large dollar assets, especially international liquidity reserves in the hands of central banks, in their own

[5] Thus over the period 1946-70, the annual gold production in the capitalist world averaged $ 1,080 m. annually plus the Soviet gold sales of $ 150 m. Of the $ 1,230 m. worth of gold, only $ 210 m. found its way into the official gold reserves. During the same period the imports of the capitalist world grew by $ 8,700 m. annually.

[6] Soviet gold sales were quite heavy over the decade of 1956-65, when they averaged 280 tons (worth $ 265 m.) annually, with the peak figures of 490 tons reached in 1963 and in 1965, largely prompted by substantial grain imports from hard-currency areas. There were virtually no sales during 1966-71 (but they have been resumed since, averaging 250 tons annually).

[7] It is rather ironical that this most capitalistic market of them all owes its early development and subsequent growth to the USSR and other CMEA countries as both lenders and borrowers in Western Europe. The very name of the " Eurodollar " market is derived from " Eurobank ", the telegraphic address of the Soviet-owned Banque Commerciale pour l'Europe du Nord in Paris. For details, see K.J.H. Robbie, " Socialist Banks and the Origins of the Eurocurrency Markets," *Quarterly Review,* Moscow Narodny Bank, London, Winter 1975-76, pp. 21-36.

[8] Based on *World Financial Markets,* Morgan Guaranty Trust Co. of New York, Feb. 1980, p. 13.

interest supported the stability of the dollar in order to protect the value of their holdings and prevent the appreciation of their currencies (as it would make their imports cheaper and their exports more costly to foreigners, thereby leading to balance-of-payments difficulties).

Thus the capitalist monetary and financial system as it developed after World War II was largely a dollar domain, which N.S. Khrushchev described as the " Kingdom of the dollar " and the Soviet Encyclopedia — as the " dollar standard." [9]

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One of the most intriguing developments in the monetary and financial history has been a dethronement of the dollar in the international scene in a relatively short time span of the last decade or so. The causes of this reversal of fortune have been many and complex. But amongst them the dramatically expanded US indebtedness, burdening the dollar in one way or another, must be regarded to be the original sin in the paradise lost.

In 1945 the statutory gold backing for the US note issue was reduced from 25 to 15 per cent and in 1968 was abolished altogether. The amount of money (coins and notes) in circulation rose from $ 22,500 m. in 1944 to $ 72,500 m. in 1973 and in 1978 the figure stood at $ 114,600 m. (over the period 1944-78 the *per capita* figure increased from $ 163 to $ 522, i.e. more than trebled).[10] Between 1948 and 1972 the US short-term net external liabilities (potentially convertible into gold) swelled from $ 6,000 m. to more than $ 45,000 m.[11]

But at the same time the US monetary gold stock, supposedly backing the dollar claims, began to fall - from $ 24,600 m. in 1948 (when it represented 70 per cent of the capitalist world's gold reserves) to $ 10,200 m. by September 1971 (25 per cent).[12] Con-

[9] *Bolshaya Sovetskaya Entsiklopediya* [Greater Soviet Encyclopedia], Moscow, 3rd ed. 1971, p. 280.
[10] *Statistical Abstract of the United States,* Washington GPO, *1950,* p. 383 and *1979,* p. 54.
[11] *International Financial Statistics,* Supplement to 1966/67 Issues, p. 272 and *Int. Fin. Stat.,* Jan. 1980, pp. 402-03.
[12] *Int. Fin. Stat.,* Suppl. to 1966/67 Issues, p. 272; *Int. Fin. Stat.* Feb. 1972, pp. 19-20.

fidence in the dollar began to wane after 1960 and foreign-held dollars were increasingly presented for conversion into gold.[13]

The convertibility of the dollar into gold was first limited in March 1968 (after the collapse of the Gold Pool), and it was abandoned altogether on 15 August, 1971. This was followed by two devaluations of the dollar in terms of gold — on 18 December, 1971 by 7.89 per cent (whereby the official gold content was reduced from 0.888671 to 0.818513 grams of fine gold) and on 13 February, 1973 by 10 per cent (to 0.736667 grams). In the subsequent drive for the demonetization of gold, the link of the dollar to gold was discontinued.

The dollar has also lost its former position of indispensability in the IMF. After several years of groundwork over 1967-69, Special Drawing Rights began to be issued in 1970 as a source of international liquidity. Originally the value of 1.00 SDR was made equivalent to $ 1.00, but in December 1971 it was divorced from the dollar (and from gold since April 1978), and instead it has been based on the value of 16 leading currencies of the IMF member countries (including the USA). The voting power of the USA in the IMF was reduced (from 28.03 per cent in 1945) to 20.82 in 1973 and as of April 1979 it stood at 19.85 per cent.[14]

Although at first 1.00 SDR was equal to $ 1.00, by 1980 the latter depreciated in terms of the former by 25 per cent (as of January 1980, 1.00 SDR was equal to $ 1.32).[15] The dollar has also depreciated in relation to the leading Western currencies, viz. (over the period 1971 - Jan. 1980):[16]

by 26% in terms of the French franc,
by 33% in terms of the Japanese yen,
by 46% in terms of the Dutch guilder,
by 52% in terms of the West German mark,
by 63% in terms of the Swiss franc.

[13] Whilst in 1950 US international liquidity reserves were 2.7 times greater than international dollar liabilities, from 1960 on the latter began to exceed the former. H. Grubel, *Monetary System,* Harmondsworth (UK), Penguin, 1972, p. 138.
[14] IMF, *Annual Report 1979,* p. 146.
[15] *Int. Fin. Stat.,* March 1980, p. 10.
[16] Based on the *United Nations Monthly Bulletin of Statistics,* April 1980, pp. 222-24.

The fall of the dollar has been even more dramatic if expressed in gold value. If we accept the pre-1934 dollar as $ 1.00 (when an ounce of fine gold was $ 20.67), the value of the dollar fell on 31 January, 1934 to $ 0.59, on 18 December, 1971 to $ 0.52, on 13 February, 1973 to $ 0.47 and in early 1980 (when the world market price of gold reached $ 875 an ounce) to $ 0.02.

The dollar, formerly a stable and reliable currency, has exhibited wide fluctuations in relation to other currencies and has become an object of speculation. This was particularly the case in the late 1970s noted for the US policy of "benign neglect" (up to November 1978) when the authorities refused to intervene in the market to protect the dollar stability, maintaining that the burden of adjustment should rest with other leading IMF member countries. Whilst before 1970 virtually all countries maintained stable exchange rates to the dollar, in 1974 only 65 did so, and by 1980 the number fell to 41 (97 countries did not — and none of the currencies pegged to the dollar was of any international consequence.[17]

Its inconvertibility into gold, depreciation and instability have led to the flight from the dollar into gold, silver and other, stronger, currencies — such as the West German mark, the Swiss franc and the Japanese yen. Several oil-exporting countries, which for a long time were interested in maintaining the value of the dollar, have recently announced their preference for being paid for their oil exports in the three strong currencies or in SDR-denominated funds. There has been a tendency amongst central banks for several years now to "diversify" their international liquidity reserves by reducing their dollar holdings in favour of stronger and ascendant currencies.

The decline of the dollar has been further reflected in the Eurocurrency market. In the late 1970s, Eurodollar credits constituted 73-79 per cent and Eurobond issues denominated in dollars — only 44-67 per cent.[18] The West German mark, the Dutch guilder, the Swiss and French francs, the Canadian and Hong Kong dollars, the Kuwaiti dinar and the pound sterling have become rival Eurocurrencies.

[17] IMF, *Annual Report 1974*, pp. 76-79, and *1979*, pp. 98-101.
[18] *World Financial Markets*, Oct. 1977, p. 12, Dec. 1978, p. 13 and Feb. 1980, pp. 13, 15.

The dollar decline has been paralleled, and indeed accelerated, by several developments in the US economy. The purchasing power of the dollar has been falling owing to accelerated inflation. Over the period 1970-79, the consumer price index in the USA rose on the average by 11 per cent a year (compared with 6 per cent in the FR of Germany and 7 per cent in Switzerland).[19] Since World War II the domestic purchasing power of the dollar has slumped to less than a fifth of its 1945 level. The growth of labour productivity has been slow — 1.8 per cent annually since the War, only about half the world average.[20] The US share of the world's industrial output fell from 43 per cent in 1950 to 30 per cent in 1980 and in world trade — from 15 to 12 per cent. The USA's external payments position has been further aggravated by deficits in the *balance of trade* which began to appear in 1971 (for the first time since 1895!).

"The US dollar had forfeited its last shred of respectability."[21] "The Minidollar, raped by debasement, was labeled 'the most unstable' of currencies, as it precipitated the currency debacles of May and August 1971, culminating in the gold embargo that forced the Minidollar to float and sink in the world's money markets. ... followed [in 1973] by the global collapse of the Minidollar along with the use of defensive floating exchange rates by foreign countries against the cancerous American currency."[22] "To Americans, the notion that crucial decisions concerning their once prepotent economy can suddenly be imposed on them by the foreign-currency markets is as novel as it is humiliating."[23] "As for the dollar, with or without the Mohammendan conflict, it will die within a year or so by dropping to less than a Nickel of prewar buying power necessitating a currency reform."[24] These quotes are not taken

[19] Based on *UN Monthly Bulletin of Statistics*, April 1980, pp. 178-87.
[20] *Statistical Yearbook of the United Nations 1978*, p. 789 and *Monthly Bulletin of Statistics*, April 1980, p. 219.
[21] *1976-1977 Pick's Currency Yearbook*, New York, Pick's Publishing Corp., 1978, p. 620.
[22] *Ibid.*, pp. 625-26.
[23] H. NICKEL, "The Inside Story of the Dollar Rescue," *Fortune*, Chicago, 4 Dec. 1978, p. 40.
[24] *Pick's World Currency Report*, New York, 7 Dec. 1979, p. 15.

from the epitaphs inscribed by the American-baiting Russians, but from well-known publications in the USA, in which their authors reflected on the monetary and financial upheavals that befell the dollar in the last decade.

II. The Soviet Rouble

In contrast to the US dollar, the Soviet rouble has been on the upswing. First of all, the economic development in the USSR has been faster than in the rest of the world as a whole, and much more so than in the USA. Over the period 1950-78 the average annual rate of growth of national income (at constant prices) achieved in the USSR was 7, compared with 5 in the rest of the world and 3 in the USA. The share of the USSR in the world's industrial output rose from 13 to 21 per cent (whilst that of the USA declined from 43 to 30 per cent) and in world trade — from 2 to 4 per cent (and the USA's share dropped from 15 to 12).[25]

Although the USSR now has substantial external debts (estimated at $ 14,000 m.) they are less than one-seventh of the liabilities burdening the dollar. The Soviet Government has applied austere measures in recent years to improve its balance of trade by further restricting the least necessary imports and by stepping up exports, especially fuels and other raw materials, benefiting from rising prices in capitalist markets. The Soviet indebtedness to the USA has been reduced recently (from $ 1,070 m. in September 1978 to $ 480 m. in September 1979).[26]

Compared with the USA, the USSR is in a much better position to control her balance of payments. The social ownership of production, trading and financial entities, central economic planning, the state foreign trade monopoly, the insulation of domestic from foreign markets and the mono-party system of government (ensuring the continuity of policies, however austere and unpopular) — all enable the state to avoid excessive balance-of-payments deficits that might otherwise endanger the stability of the economy

[25] Author's estimates based on Soviet, United Nations and American sources.
[26] *East-West Fortnigthtly Bulletin*, Brussels, 14 Feb. 1980, p. 8.

and its currency. There is practically no private enterprise that might otherwise undermine government policies, virtually no export and import of the rouble currency and there are no significant foreign-held balances and no speculative capital movements.

The USSR is a large gold producer and has large gold reserves. Although statistics on gold are treated by the Soviet Government as state secrets and have not been published since the mid-1930s, researchers in the West have managed to reconstruct fairly reliable figures.[27] The USSR is the second largest world producer (after South Africa) and is now contributing nearly one-third of the world's output.

It is worth noting here that at one stage (in the 1850s) the US gold production constituted 40 per cent of the world's total. But since World War I the US output has tended to decline and in 1978 its share dropped to 2 per cent. On the other hand under the Soviet regime, after some initial setback, gold production has been increasing remarkably. The USSR overtook the USA in the mid-1930s and in 1978 the Soviet figure, estimated at more than 450 tons, was 15 times the US production. Further details are found in Table 1.

The Soviet gold reserves have been variously estimated — from as low as 1,600 tons (by the Central Intelligence Agency of the USA) to 3,250 tons, and even as much as 8,700 tons.[28] In the author's view, 2,400 tons is the most likely figure as of the late 1970s (which at the average price of $ 500 per ounce in late 1979 was worth $ 38,500 m.), representing 7 per cent of the world's gold reserves held by monetary authorities. The US figure at the end of 1979 was 8,200 tons (24 per cent of the world's total), worth $ 132,300 m. Over the period 1965-79, whilst Soviet gold reserves increased by 140 per cent (from 1,000 to 2,400 tons) the USA's dropped by 34 per cent (from 12,500 to 8,200 tons).[29]

[27] For some recent studies, see M. Kaser, "Soviet Gold Production", in US Congress, Joint Economic Committee, *Soviet Economy in a Time of Change*, Washington GPO, 10 Oct. 1979, vol. 2, pp. 290-96; S.G. Schoppe, "Changes in the Function of Gold within the Soviet Foreign Trade System since 1945-46," *Soviet and Eastern European Foreign Trade*, New York, Fall 1979, pp. 60-95, J. Wilczynski, *Comparative Monetary Economics*, London, Macmillan, and New York, Oxford U.P., 1978, pp. 192-207.
[28] M. Kaser, *op. cit.*, p. 296; *Eastwest Markets*, New York, 10 Jan. 1977, p. 9; *Pick's Currency Yearbook 1976-1977*, p. 599.
[29] Author's estimates. The US figures are based on *Int. Fin. Stats.*, Feb. 1972, p. 20 and March 1980, pp. 36-37.

TABLE 1

THE OPPOSITE TENDENCIES IN GOLD PRODUCTION IN THE USA AND THE USSR, 1911-1978

Annual Averages or Years	USA		USSR *		World Total In tons
	In tons	% of world total	In tons	% of world total	
1911-15	141.2	20.3	40.9	5.9	694
1921-25	73.7	13.6	14.7	2.7	543
1926-30	66.4	10.8	34.1	5.5	613
1931-35	78.5	9.8	92.2	11.5	802
1936-40	134.5	11.7	155.0	13.4	1,154
1941-45	73.4	7.8	96.0	10.3	937
1946-50	61.4	7.7	90.0	11.3	800
1951-55	59.5	7.1	143.8	17.1	840
1956-60	50.8	5.0	163.2	16.1	1,014
1961-65	48.0	3.3	224.2	15.6	1,435
1966	56.1	3.6	268.5	17.1	1,570
1967	49.3	3.2	282.7	18.4	1,540
1968	46.0	2.9	304.2	19.4	1,568
1969	53.9	3.4	318.2	20.0	1,589
1970	54.2	3.3	335.5	20.6	1,639
1971	46.4	2.9	344.8	21.6	1,614
1972	45.1	2.9	360.2	23.3	1,530
1973	36.2	2.4	370.6	24.6	1,539
1974	35.1	2.4	420.7	29.0	1,450
1975	32.4	2.3	407.9	29.4	1,384
1976	32.2	2.2	443.6	30.9	1,435
1977	32.0	2.2	444.0	31.1	1,429
1978	30.2	2.1	452.9	31.8	1,430

* The figures for 1911-15 apply to Tsarist Russia and those beginning with 1936-40 are estimates.

Sources: Based on: *Historical Statistics of the United States*, Washington, US Department of Commerce, 1961, p. 371 and supplements. *Minerals Yearbook*, Washington, US Bureau of Mines (different years). *Gold*, London, Consolidated Gold Fields (different years). M. KASER, *op. cit.*, p. 296. S.G. SCHOPPE, *op. cit.*, p. 164. Author's estimates.

If we accept the official exchange rate, the rouble has been "rising" in value in relation to the dollar ever since 1937.[30] Over

[30] Before 19 July 1937 the rouble's relation to the dollar was as follows. Over the period 1897-1915 the rouble was on the gold coin standard, fixed at 0.774234 grams of fine gold (whilst the dollar reprented 1.504656 grams) and was equal to $ 0.51. After the Revolution, there were attempts to destroy the rouble by inflation and hyperinflation and the introduction of alternative monetary units (*sovznak, dov, tred*), with a view to the ultimate abolition of money. But after the monetary reform of 1924, the rouble was reinstated as the country's currency and its pre-war gold parity was officially reestablished. In 1928 the rouble's link to gold was abolished, but it was restored on 1 March, 1950 at a new level (0.222168 grams of fine gold) which on 1 Jan., 1961 was raised to 0.987412 and "maintained" ever since.

the period 1937-80, the rouble's "value" in terms of the dollar rose by more than seven times — from 1.00 R. = $ 0.19 to $ 1.41. For details, see Table 2.

TABLE 2

THE VALUE OF THE SOVIET ROUBLE
In Relation to Gold and the US Dollar

Date	Official gold content		Official exchange rate [1]		Black market rate [3]
	1.00 R[1] (grams of fine gold)	$ 1.00[2] (grams of fine gold)	Dollars to 1.00 R.	Roubles to $ 1.00	Roubles to $ 1.00
19 July, 1937	n.d.o.	0.888671	$ 0.19	5.30 R	135.00[4] R
1 March, 1950	0.222168	0.888671	$ 0.25	4.00 R	100.00 R
30 Nov., 1960	0.222168	0.888671	$ 0.25	4.00 R	57.50 R
1 Jan., 1961	0.987412	0.888671	$ 1.11	0.90 R	20.00 R
30 Sep., 1961	0.987412	0.888671	$ 1.11	0.90 R	1.50 R
24 Dec., 1971	0.987412	0.818513	$ 1.20	0.83 R	4.60 R
13 Feb., 1973	0.987412	0.736662	$ 1.32	0.75 R	4.25 R
31 Dec., 1975	0.987412	0.736662	$ 1.32	0.75 R	3.60 R
31 Jan., 1980	0.987412	n.d.o.	$ 1.41	0.65 R	3.95 R

n.d.o. - not determined officially.

[1] As officially determined by the Soviet monetary authority.
[2] As officially determined by the US monetary authority.
[3] Approximate rate in the principal foreign exchange market in Western Europe.
[4] 30 June, 1947.

In 1975 the *Gosbank* (State bank) minted gold coins called *chervonets* ("fine gold tenner") equal to 10 Tsarist gold roubles (7.74234 grams of fine gold). They had been first in circulation in Russia from 1701 to 1867, and then in the USSR from 1922 to 1928 as gold-backed ten-rouble notes. The minted coins are officially claimed to be "legal tender" in the USSR and they have been marketed in the West for hard currencies (at the starting price of about $ 40). This move can be regarded as a Soviet effort to inspire confidence in the rouble. In 1978 silver, gold and platinum Olympic coins were minted, also claimed to be legal tender in the USSR, to commemorate the Moscow Olympic Games of 1980.

The rouble's parity to gold and the exchange rates to the dollar and other convertible capitalist currencies as officially proclaimed are, of course, pretentious claims grossly over-stating the value of the rouble and bearing virtually no relevance to economic realities. A closer (but not perfect) reflection of the value of a currency is represented by its black market rate. At this rate, the rouble's value reached the lowest point since World War II in mid-1947, when $ 1.00 was quoted at 135 roubles, compared with the official rate of $ 1.00 to 5.30 roubles; thus at the black market rate, the rouble was worth only 4 per cent of its official value. But since that time, the rouble's black market value has tended to rise in spite of considerable fluctuations. After the currency reform of 1960-61, the rate improved to $ 1.00 = 6.00 roubles and in recent years it has fluctuated between 5.50 and 2.70 roubles to one dollar. The most favourable black market quotation for the rouble was reached in September 1961 viz. $ 1.00 = 1.50 roubles, when the rouble was worth 49 per cent of its official value.[31]

The Soviet rouble has a potential for becoming convertible and a key international currency [see Section IV (c)].

III. The Transferable Rouble

In 1964 the member countries of the Council for Mutual Economic Assistance [32] introduced a collective Socialist currency, called the "transferable rouble," to facilitate intra-CMEA foreign payments and economic integration. Also known as the "conversion" rouble, it is an abstract currency which can be created only by the export of goods or services to other member (or co-operating) countries or by the extension of credits by the two CMEA banks — the International Bank for Economic Co-operation (IBEC) or the International Investment Bank (II B).

It is called "transferable," because a credit or trade surplus in it can be "transferred" for settling debits or deficits in another member country, provided the parties concerned agree. In some respects the transferable rouble corresponds to the Special Drawing

[31] Based on: *Pick's Currency Yearbook* (different years) and *Pick's World Currency Report*, 8 May 1980, p. 11.

[32] Also known as CMEA, CEMA, CEA or Comecon, it was established in 1949 with its Secretariat in Moscow, and it now includes 10 full-member countries, viz. Bulgaria, Cuba, Czechoslovakia, the [East] German Democratic Republic, Hungary, Mongolia, Poland, Romania, the USSR and Vietnam, plus several other (Socialist and capitalist) countries with various degrees of "associate" status, viz. Angola, Finland, Iraq, Mexico and Yugoslavia.

Rights of the IMF.[33] Although originally defined at par with the Soviet rouble, the transferable rouble is completely divorced from the former and in several respects its value is higher than of the rouble in internal circulation in the USSR.

There has been a progressive extension of the role of the transferable rouble since 1964. In addition to the original signatories of the agreement (Bulgaria, Czechoslovakia, the German DR, Hungary, Mongolia, Poland, Romania, the USSR), Cuba (in 1972) and Vietnam (1976) also acceed. The transferable rouble is now used in virtually all spheres of economic relations amongst the member countries — in trade, invisibles and lending, and in its own special ways it performs the functions of the unit of account, the medium of exchange and the store of value. It now services a bloc of countries representing 10 per cent of the world's population, 18 per cent of the world's area, 21 per cent of the world's national income and over 31 per cent of world industrial output (the respective percentages representing the USA are 5, 6, 29 and 30, and in the case of the European Economic Community — 7, 2, 18 and 19). The annual value of settlements in the collective currency rose from 22,900 m. in 1964 to 106,000 m. transferable roubles in 1978.[34]

The IBEC, which carries out the settlements in transferable roubles and extends short and medium-term credits for balance-of-payments purposes, is an open organization. Under Article 43 of its Charter, capitalist countries can also become members. The IBEC Council's meetings are often attended by representatives of banks from less-developed countries and in 1974 the IBEC was

[33] It is of relevance to mention here that when the Bretton Woods system was being worked out in 1944-45, the USSR gave support to the White Plan (which represented US interests) against the Keynes Plan (submitted by Britain) — thus unwittingly contributing to the US domination of the International Monetary Fund and the International Bank for Reconstruction and Development as they finally emerged. The USSR has never ratified the Bretton Woods Agreement and has abstained from further participation, as she had no chance of challenging the supremacy of the USA. Although Czechoslovakia and Poland had joined the IMF and the IBRD (as foundation members), under Soviet pressure they withdrew in 1954 and 1950 respectively (and Cuba, which had joined as a capitalist country, also withdrew in 1964). But the originally rejected Keynes Plan later served as a starting model for the CMEA monetary and financial set-up adopted in 1964, in particular the transferable rouble was partly fashioned on the "bancor" (as were the IMF's SDRs later). The CMEA's IBEC and the IIB correspond to the Bretton Woods' IMF and the IBRD.

[34] *Finansy SSSR* (Soviet Finance), Moscow, 3/1979, p. 6.

granted a consultative status with the General Assembly of the United Nations.

In 1972, the IBEC Council adopted the "Basic Principles for Settlement in Transferable Roubles with Non-Member Countries," and in 1976 steps were taken to create conditions for such settlements. According to the widely publicized announcement by the IBEC in 1976, capitalist countries can use the transferable rouble for: (i) paying for the import of goods from the CMEA countries; (ii) settling debts on invisible account; (iii) the repayment of credits to the CMEA countries. The payment can involve either individual deals or the entire trade turnover with individual CMEA countries, or with all members of the IBEC.[35] In response, in June 1977 Italy concluded an agreement to this effect and it is known that several other Western and less-developed countries and big banks showed interest in negotiating similar agreements.[36] A Polish specialist in the field, D.K. Zabielski, described the ascending transferable rouble as "a bridge between the Socialist and Western countries."[37]

In 1973, the CMEA countries created a "Special Fund for Financing Economic and Technical Aid to Less-Developed Countries." It is scheduled to reach 1,000 m. transferable roubles, of which 5 per cent is in convertible capitalist currencies, and it is operated by the IIB. The establishment of the Fund was interpreted in a West German journal as "a shrewd venture for the dissemination of the Eastern collective currency."[38] It is known that discussions were carried on in the late 1970s on the possible combination of the CMEA clearing system with the clearing systems of the "Asian Clearing Union" and the Latin American Free Trade Association's "Multilateral Compensation and Reciprocal Credit Mechanism."[39]

These moves were seen in some financial circles in the capitalist world as the most important landmarks since the Bretton Woods.

[35] Yu. Konstantinov, ["The Transferable Rouble - Past Experience and Prospects"], *Economicheskaya gazeta* [Economic Gazette], Moscow, no. 26, June 1977, p. 20.

[36] At least the following: Colombia, Finland, the DR of Yemen; Allgemeine Finanz- und Warentreuhand (of Vienna), André & Co. (Lausanne), Chase Manhattan Bank (New York) and Svenska Handelsbanken (Stockholm). *Handel zagraniczny* [Foreign Trade], Warsaw, 2/1979, pp. 19-20.

[37] *Rynki zagraniczne* [Foreign Markets], Warsaw, 6 May, 1972, p. 5.

[38] *Deutsche Wirtschaft des Ostblocks* [German Economic Relations with the Eastern Bloc], Bonn, 25 Sep., 1973, p. 1.

[39] *Handel zagraniczny*, 2/1979, p. 20.

Some observers, disgusted with the domination by the dollar in the past and relishing its decline with undisguised *schadenfreude*, welcomed the appearance of a potential rival in the international scene — a disciplined currency not burdened with historical liabilities and offering prospects of stability.

The transferable rouble has been more stable than the dollar or other leading capitalist currencies and even the Special Drawing Rights.[40] The CMEA, with its highly developed institutional set-up and economic cooperation based on central economic planning amongst the member countries, is in a position to ensure the stability of the transferable rouble. In fact, owing to the depreciation and/or devaluation of most capitalist currencies in the last decade (especially the US dollar), the transferable rouble has in effect been "revalued."

Its stability or appreciation may induce at least some capitalist nations (especially less-developed countries) to link their currencies to the transferable rouble, and perhaps even keep their international reserves in the CMEA banks. It is known that some CMEA financial strategists envisage a flow of funds from the oil-exporting countries, to the IBEC and teh IIB developing into a sort of petrorouble havens. In the late 1970s, considerable publicity was given to the statements by K.I. Nazarkin (IBEC's Chairman), according to which under special agreements capitalist countries or individual parties may open transferable rouble accounts with the IBEC in hard currencies without actually joining it.

There has been considerable speculation in the West on the possibility of a Eurorouble market to emerge. The CMEA countries are no strangers to the Eurocurrency market, which they helped establish in the first instance. The moves by the IBEC and the IIB in the 1970s to extend the functions of the transferable rouble, in particular its use in settlements outside the CMEA and the accumulation of credit balances with the CMEA region, create the possibility of an external market for that currency.[41]

[40] Although their value was originally fixed at the level of 1.00 SDR = $ 1.00 (and the gold parity of 0.888671 grams), that link was abandoned in 1974. Since that time the value of the SDR has been periodically determined in response to the changing values of the 16 leading capitalist currencies constituting a "basket," with weights ranging from 30.6 per cent (the US dollar) to 1.4 per cent (the Australian dollar), as of February 1980.

[41] E.g. see, M. Kaser, "Towards a Convertible Eurorouble," *International Currency Review*, London, May-June 1973, pp. 26-27, 29. "Enter the Eurorouble," *Euromoney*, London, Jan. 1977, p. 11.

IV. The Question of the Dollar and Rouble Convertibility

(a) *Monetary and Substantive Convertibility*

Convertibility is a complex concept and, judging by the historical experience, it can have the following main meanings relevant to our analysis (in the descending order of the degree of convertibility).

(i) The possibility of unconditionally exchanging paper (or token) money without loss into full-bodied gold (or silver) coins, bullion, hard currency or goods and services.

(ii) The possibility of unconditionally exchanging the currency at the official parity rate into (gold or silver) bullion, hard currency or goods and services.

(iii) As under (ii), provided the holder of the currency is a non-resident.

(iv) The possibility of exchanging the currency into a hard currency at the official or other legal rate, or goods and services and the freedom of taking them out of the country concerned — irrespective of the holder (whether a domestic or external resident) and of the type of transaction (whether on the current or capital account of the balance of payments).

(v) As under (iv), provided that the holder of the currency is an external resident (private or official).

(vi) As under (v), provided that the currency was obtained from transactions on current account, i.e. the export of goods or invisibles to the country in question (not capital transfers).

(vii) As under (vi), provided that the holder of the currency has no freedom of purchasing goods or services and taking them out of the country in question.

(viii) As under (iv), provided that the holder of the currency resides outside the monetary area (embracing more than one country).

(ix) As under (viii), provided that the payment involves transactions on the current account of the balance of payments.

(x) As under (ix), provided that the holder of the currency has no freedom of purchasing goods or services and taking them out of the country in question.

(xi) The freedom for the domestic or external residents of spending the currency in the country in question and taking such purchases out of the country, but no freedom of exchanging the currency into other currencies.

(xii) The possibility of exchanging the currency at the official or other legal rate for another currency only within the same monetary area, with all the variants along the line from (iv) to (vii).

(xiii) The possibility of exchanging the currency at the official or other legal rate within the same monetary area, provided that the currency's country agrees to the transferability of the credit balances (for spending in another member country).

(xiv) As under (xiii), provided that both partner countries involved agree (i.e. the currency's country and the country in which the credit balance is to be spent).

(xv) No freedom of exchanging the currency into other currencies at the official or other legal rate, or of spending the currency in the country or monetary area in question and taking such purchases out of the country or area; but there exists freedom for foreigners to purchase goods or services in the retail market personally in the country or area in question (i.e. there is no rationing, or if there is it is not applied to foreigners making purchases personally).

In examining the question of convertibility, it is important for our purposes to distinguish between monetary and substantive convertibility.[42] By monetary convertibility we understand the capa-

[42] A similar distinction was first made in the context of capitalist market and Socialist planned economies by P.J. Wiles, who used the terms "financial" and "commodity" convertibility respectively ("On Purely Financial Convertibility,", in M.Y. Laulan (ed.), *Banking, Money and Credit in Eastern Europe*, Brussels, NATO - Directorate of Economic Affairs, 1973, pp. 119-25). F.D. Holzman used the term "Externally Convertible Rouble" in a restricted sense of monetary convertibility ("CMEA's Hard Currency Deficits and Rouble Convertibility," in Nita G.M. Watts (ed.), *Economic Relations between East and West*, London, Macmillan, 1978, pp. 144-63). This writer's use of the concepts "monetary" and "substantive" is broader, to also include convertibility into abstract money (such as the Special Drawing Rights and the transferable rouble), into services (invisibles) and into goods bought by foreigners in the retail market of the country concerned.

city of the currency to be exchanged through ordinary commercial channels without undue loss into another desired form of money (gold coins, bullion, hard currency). Substantive convertibility, on the other hand, denotes the ability of the foreign holder of the currency to buy goods or services in the country of the currency concerned and take them out of the country if desired without undue restrictions (i.e. barring exceptional items or situations). In the cases from (i) to (xv) specified above, variant (x) exemplifies purely monetary convertibility, variant (xi) — purely substantive convertibility, variant (i) perfect monetary and substantive convertibility and variant (xv) — the absence of both monetary and substantive convertibility.

In traditional Western understanding, convertibility is usually identified with both the monetary and substantive capacity of the currency, and indeed governments are normally anxious to promote exports (more so than imports). In achieving convertibility, the preoccupation of a capitalist market economy is with monetary convertibility. On the other hand under Socialism, the main stumbling block is substantive convertibility. A typical centrally planned economy, with its laid-down input-output matrix of commitments, cannot allow an external holder of its currency (however legitimately it might have been acquired) to take goods or services out of the system without planned provisions having been made for it. Otherwise it would set off a whole chain of reaction of plan unfulfilment.

(b) *The US Dollar*

Although the dollar has been traditionally regarded as a convertible currency, its convertibility has in fact been more limited than is commonly thought — even in the two heydecades of its supremacy after World War II. The dollar was fully and unconditionally convertible [variant (i)] only up to January 1934. From February 1934 to March 1968 it was conditionally convertible, viz. into gold bullion and provided that the holder of the dollars was a non-resident [variant (iii)]. From March 1968 to August 1971 convertibility was further limited, in that the non-resident holder had to be a central bank, and an approved one at that, and conversion could be allowed only for approved monetary purposes; these

conditions, in effect, barred the Socialist bloc countries from being able to convert dollars into gold bullion. Finally, since 15 August, 1971 the dollar's convertibility into bullion has been entirely abandoned.

The restrictions since January 1934 outlined above have progressively limited the dollar's *monetary* convertibility. But in addition, in some respects the dollar has also been subjected to limitations on its *substantive* convertibility. In March 1948 the US Administration introduced a comprehensive system of export licensing of goods intended for export to the Socialist bloc countries. The US version of the strategic embargo has always been much stricter than that administered by other co-operating countries. At the height of the Cold War (1950-53), the US strategic lists embodied 550 classes of products, by number covering some two-fifths of US exports.[43]

It must be emphasized here that the strategic controls have encompassed not only a military list but also an atomic list and industrial list. The last list has embodied items of ordinary commercial civilian value and has included more items (two-thirds of the total) than the other two lists combined. Furthermore, in the case of Mainland China (1950-73), North Korea (since 1950), North Vietnam (1954-75), Cuba (since 1960), Kampuchea and Laos (since 1974) and Vietnam (since 1975), plus some non-Socialist countries access to the US market was or has been almost completely barred. As estimated for the early 1960s, the annual value of the US potential visible exports inaccessible to the Socialist bloc countries, even if they had legitimately earned dollars, amounted to $ 350 m.[44] In addition, strategic controls have also applied to a number of invisible exports, notably licences embodying advanced technology.

The inaccessibility of the US market to the specified countries in respect of the embargoed items has represented a case of substantive inconvertibility, even though the same countries have directly or indirectly benefited from the monetary convertibility of the dollar.

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[43] Mutual Defense Assistance Control Act of 1951, *The Strategic Trade Controls 1948-1956*, Washington, GPO, 1957, p. 18.

[44] G. Adler-Karlsson, *Western Economic Warfare 1947-1967*, Stockholm, Almqvist & Wicksell, 1968, p. 17.

(c) *The Soviet Rouble*

The Soviet rouble has virtually always been a soft currency *par excellence*, inconvertible both in the monetary and substantive sense [variant (xv)].[45] In her economic relations with capitalist countries, the USSR has been almost exclusively using convertible Western currencies.

There is a widely held view in the capitalist world and to some extent in the Socialist bloc that convertibility is basically incompatible with Socialist central economic planning, as in the ultimate analysis goods and services cannot be freely taken out of the system by non-residents. Although this situation has certainly applied so far, in the writer's view rouble convertibility is feasible in the future, provided the Soviet authorities assign sufficient priority to it.

The Soviets have had a good deal of experience in international finance, by virtue of their operation of a number of banks and other financial ventures in capitalist countries, gold sales, frequent transactions in the Eurocurrency market (as lenders, borrowers and loan managers) and their increasingly complex world-wide economic involvement in general. It would be easier for the USSR to achieve monetary convertibility, but substantive convertibility is also possible.

Monetary convertibility could be established without any need for major reforms of the existing system of central economic planning and management. The Soviet monetary authorities would have to guarantee the convertibility of the rouble to non-residents into gold bullion or hard currencies, but not necessarily their free access to the Soviet market [a combination of variants (iii) and (x)].

The guarantee would necessitate sufficiently large international liquidity reserves (hard currencies or gold) and the authorities would have to be prepared to intervene in the foreign exchange market to protect the rouble's stability. The USSR already has substantial

[45] There are two minor exceptions. The ten-rouble note, called *chervonets*, was convertible into gold over the period 1924-28 (and in fact on occasions it was quoted in Western foreign exchange markets above the official parity). Since 1975 the Vneshtorgbank (the Soviet Bank for Foreign Trade) has reportedly operated the facility of numbered accounts through its subsidiary the Wozchod Handelsbank in Zurich. The deposits are accepted only in hard currencies, their secrecy is absolutely guaranteed, they are held in Moscow in roubles (so that they are beyond the reach of the Swiss courts), but are unconditionally reconvertible into hard currencies.

gold reserves (about 2,400 tons).[46] She is also a large and increasing gold producer (about 450 tons annually).[47] The USSR would have to maintain her gold production at high levels, substantially expand her exports and other earnings form hard currency areas and continue her restraint on imports from these areas.

Non-residents would be prepared to accept the Soviet rouble in payments and treat it as a hard currency, if they were assured that the rouble could enable them to make purchases in the cheapest market via other hard currencies. They could also spend their roubles in the USSR provided they were prepared to go through the usual channels as at present and buy only whatever central planners decide to be available for export.

Monetary convertibility so understood would still be compatible with the present insulation of the domestic from foreign markets (which would continue to involve budgetary subsidies on most exports and turnover taxes on most imports if the domestic price stability were to be maintained).

The substantive convertibility of the rouble would necessitate some radical economic reforms, designed to enable non-residents' access to the Soviet market. Soviet domestic prices would have to be linked to world market prices and the Soviet enterprises' access to foreign markets would have to be liberalized. It would be desirable (although not necessary) to saturate the domestic market with products, and export licensing would have to be largely (but not necessarily completely) dismantled. The rouble exchange rate would have to be single (not multiple) and realistic, to reasonably reflect its purchasing power in terms of other convertible currencies.

The convertibility of the rouble could be of advantage to the USSR in several respects. In addition to the obvious prestige and propaganda value, it could facilitate:

(i) the conduct of trade with capitalist countries, which could become more gainful as imports could be obtained from the chea-

[46] As of early 1980, they were smaller than those of the USA (8,2000 tons), the FR of Germany (2,950), Switzerland (2,590) and France (2,550), but larger than the gold reserves of Italy (2,070), the Netherlands (1,370), Japan (750), Canada (680) and the United Kingdom (570). Based on *Int. Fin. Stat.*, March 1980, pp. 36-37.

[47] For details, see pp. 463-464.

pest sources and exports could be sold in the most profitable markets; [48]

(ii) the operation of the expanding Soviet shipping (passenger, fishing, merchant and naval) in various parts of the world;

(iii) the dealings of the Soviet-owned banks,[49] insurance companies [50] and leasing ventures [51] abroad (all, in fact, located in countries with convertible currencies);

(iv) the establishment and utilization of Soviet enterprises and other investments abroad; [52]

(v) the transactions of the capitalist banks operating in the USSR; [53]

[48] It must be realized that the share of the capitalist world in Soviet foreign trade has been rising remarkably — it rose from 19 per cent in 1950 to 40 per cent in 1978 (and the share of the Socialist bloc dropped correspondingly from 81 to 60 per cent). Based on: *Narodnoe khoziaistvo SSSR v 1958 godu* [National Economy of the USSR in 1958], Moscow, Central Statistical Office, 1959, p. 799; *Vneshnaya torgovlya. SSSR v 1978 g.* [Foreign Trade of the USSR in 1978], Moscow, Ministry of Foreign Trade, 1979, p. 8.

[49] Bank-Russo Iran (founded in 1923 and located in Teheran); Banque Commerciale pour l'Europe du Nord, also known as the "Eurobank" (1925, Paris,); Banque Unie Est-Ouest (1974, Luxemburg); Donau Bank (1974, Vienna); Moscow Narodny Bank (1919, London), it subsequently established branches in Beirut (1963), Singapore (1971) and in Moscow (1975); Ost-West Handelsbank (1971, Frankfurt/M); Wozchod Handelsbank (1966, Zurich).

[50] Black Sea and Baltic General Insurance Co., London; Garant Verschicherungs, Vienna; Schwarzmeer und Ostsee Versicherungs, Hamburg.

[51] East-West Leasing, London (a joint venture of the Moscow Narodny Bank and Morgan Grenfell); Promolease, Paris (also a joint venture, owned by Eurobank and Crédit Lyonnais).

[52] As of 1979, the USSR had 92 wholly or partly owned companies in 17 Western countries (mostly in the FR of Germany, Belgium-Luxemburg and the United Kingdom) and 25 in 19 less-developed countries (Singapore, Iran, Mexico and others). The total amount of capital invested by the Soviets in the 117 companies was about $ 300 m. But their assets are, of course, much larger (the assets of the seven Soviet banks alone totalled about $ 10,000 m.). At least 44 Soviet economic organizations can be regarded as multinational corporations in the sense of owning subsidiaries in foreign coustries (in fact, in capitalist countries). For further details, see CARL H. MCMILLAN, "Soviet Investment in the Industrialized Western Economies and in the Developing Economies of the Third World," in US CONGRESS, J.E.C., *Soviet Economy in a Time of Change, op. cit.*, pp. 625-47; also by the same author, "Growth of External Investments by the Comecon Countries," *The World Economy*, London, Sep. 1979, pp. 363-86.

[53] There are now 28 large capitalist banks operating representative offices in Moscow, viz: Banca Commerciale Italiana (opened in 1975), Banco di Napoli (1975), Banco di Roma (1975), Banco Exterior de Expaña (1978), Banco Hispano Americano [of Spain] (1979), Bangkok Bank (1975), Bank Meli Iran (1975), Bank of America (1973), Bank of Tokyo (1975), Banque de Paris et des Pays Bas (1974), Banque Nationale de Paris (1974), Barclays Bank (1974), Chase Manhattan Bank (1973), Citibank (1974), Commerzbank (1975), Crédit Lyonnais (1973), Credito

(vi) the disbursement and administration of Soviet civilian and military aid to capitalist countries.

Furthermore, there could be substantial seigniorage benefits, viz. macrosocial profits deriving from the currency issue (over and above the cost of coinage and note issue) held by foreigners for one reason or another,[54] and not claimed in the form of gold, other convertible currencies, goods or services.

However, so far the USSR has not assigned high priority to the development of the convertibility of the Soviet rouble — neither in the monetary sense and certainly not in the substantive sense — and it is unlikely at this stage that she will in the near future. A more likely candidate for convertibility is the transferable rouble.

(d) *The Transferable Rouble*

The transferable rouble is convertible at present only to the CMEA member countries and only under severely restricted conditions. A credit in it (derived from the surplus in the country's balance of payments on current account with the rest of the "monetary" area or from loans granted by the IBEC or the IIB) can be "transferred" for spending in another member country, provided that the partners involved agree and consequently central planners make appropriate provisions for the transactions in substantive terms [variant (xiv)]. Thus there is conditional substantive convertibility, but no monetary convertibility.

When the member countries agreed in 1963 on the introduction of the transferable rouble as a means of a gradual multilateralization of trade and payments in the CMEA monetary area, they implicitly committed themselves to the ultimate convertibility of their collective currency. The potential advantages of convertibility to the

Italiano (1975), Deutsche Bank (1975), Dresdner Bank (1973), Export-Import Bank [of Japan] (1975), First National Bank of Chicago (1974), Kansallis-Osake Pankki [of Finland] (1973), Lloyds Bank (1975), Midland Bank (1975), National Westminster Bank (1975), Schweizerische Kreditanstalt (1976), Société Générale (1975), Svenska Handelsbanken (1974) and Union Bank of Finland (1976). In addition, the Bank of Scotland and Morgan Grenfell have been represented in Moscow by the representative office of the Moscow Narodny Bank since 1977.

[54] For transaction or intervention purposes, or as a store of value, or held as collectors' items; disappearance through wastage (wear and tear or accidental destruction) may also occur.

CMEA countries have been long and widely recognized. A Hungarian economist recently emphasized at least five important possible benefits:

(i) closer integration with the world economy;

(ii) fuller exploitation of the advantages of international specialization;

(iii) better conditions for competition;

(iv) a simplification of the mechanism for payment settlements and the flows of international liquidity;

(v) the automatic extension of credit to the community at no cost, thereby reducing the need for borrowing from hard currency areas.[55]

The work on the extension of multilateral payments in transferable rouble has been carried on by three CMEA bodies, viz. the Committee for the Co-ordination of Planning, the Standing Commission for Currency and Finance, and the Standing Commission for Foreign Trade (whilst the IBEC and the IIB have been concerned with the operational level).[56]

In addition to the extension of the functions and role of the transferable rouble (see pp. 467-468), the CMEA countries have made several moves towards the gradual achievement of its convertibility.

(i) In 1966, a proposal was put forward (on the initiative of Poland) to make 15 per cent of a member country's credit balance earned in the CMEA convertible into gold or hard currencies. This proportion was to be progressively increased in the future, until full monetary convertibility was achieved. However, that proposal did not receive Soviet support and has never been accepted for implementation.

(ii) When the "Special Fund for Financing Economic and Technical Aid to Less-Developed Countries" was established in the IIB in 1971, it was announced that the aid receivable in transferable roubles for up to 15 years could be spent in *any* CMEA country and be repayable in convertible currency or the national currency of the country in which the purchases are made. But owing to unforeseen technical difficulties, with some minor exceptions those undertakings have not been honoured.

(iii) In 1972, the five more developed CMEA countries (Czechoslovakia, the German DR, Hungary, Poland and the USSR) adopted a resolution on a partial convertibility of the transferable rouble to take effect from January 1974, viz. 10 per cent of the debts incurred by a member country to others exceeding 2 per cent of the country's trade turnover in the preceding year was to be settled in hard currencies.[57] But the agreement proved unworkable in practice. The German DR soon withdrew and the remaining four countries suspended its implementation. However, apparently a new agreement has been recently concluded "according to which a new and more efficient system should be worked out and introduced from 1981 on."[58]

(iv) In 1976 it was announced that non-member banks could not only open accounts with the IBEC, but also receive credits in transferable roubles at low interest rates which could also be spent in non-CMEA countries, provided the IBEC agrees to each transaction. But in practice this facility has proved unworkable, and at any rate trade surplus earned with the CMEA countries could not be converted into hard currencies.[59]

The transferable rouble has a potential for becoming convertible in the monetary sense and even (after some radical liberalization of planning, management and price formation) in the substantive sense — along similar lines as have been considered above in the case of the Soviet rouble. Although in the long run the transferable rouble is likely to be more viable as a convertible currency than the Soviet rouble, the former may face greater problems than the latter would, at least in the near future. The gold reserves of the nine other CMEA countries than the USSR are small, estimated to be 500 tons (at $ 500 an ounce, worth $ 8,000 m., sufficient to

[55] K. Rotos, ["Some Questions Concerning East-West Co-operation], *Pénzügyi szemle* [Financial Review], Budapest, 11/1978, pp. 49-50.

[56] J. Ptaszek, ["Co-operation of the CMEA Countries in the International Monetary and Financial System"], *Handel zagraniczny*, 9/1978, p. 24.

[57] *Ibid.*, p. 23.

[58] B. Csikós-Nagy, "Problems of Currency Convertibility in the CMEA," *Marketing in Hungary*, Budapest, 3/1978, p. 21.

[59] J. Ptaszek, *op. cit.*, p. 21.

pay for less than four months' visible imports from hard-currency areas). Their growing hard-currency indebtedness (about $ 46,000 m. in 1980) is placing increasing strains on their balance of payments. Furthermore, it is more difficult to take a particular step towards convertibility if 10 countries are involved and, as is well known, there is no supra-national authority in the CMEA (any member country being free not to participate).

So far the transferable rouble has in essence remained soft and inconvertible. The proportion of intra-CMEA foreign payments settled on a multilateral basis with the aid of the transferable rouble has been small, viz. 3 per cent.[60] But even that modicum of multilateralism is due not to the convertibility of the transferable rouble, but to the multilateral balancing agreed upon in trade negotiations in advance, with the consequent provisions being made by central planners in the overall economic plans.

In 1979, K.I. Nazarkin (Chairman of the IBEC) revealed that in the 1970s the IBEC's operations in convertible currencies (including the dollar) increased faster than those in transferable rouble and the respective proportions reached in 1978 were 35.3 to 64.7 per cent.[61] Similarly, of the 2,900 m. transferable roubles' worth of credits extended to the member countries by the IIB up to 1978, 2,300 m. tr.r. had in fact been in hard capitalist currencies.[62] In the face of these realities, a Hungarian economist pointed out:

> The appearance of convertible currencies in the CMEA's mutual settlements system indicates in fact that these currencies are indispensable to economic co-operation amongst the member countries.[63]

Two Polish specialists in the field recently pointed out that there are disorderly cross rates between the transferable rouble and the national currencies, further aggravated by the increasing divergencies in national price policies — developments which are in

[60] K. Pecsi, ["Topical Problem of the Monetary and Financial Conditions in the CMEA"], *Külgazdaság* [External Economic Relations], Budapest, Sep. 1979, p. 22.
[61] K.I. Nazarkin, ["Multilateral Settlements in Transferable Rouble and Credit Relations of the CMEA Countries"], *Dengi i kredit* [Money and Credit] Moscow, June 1979, pp. 27-28.
[62] J. Ptaszek, *op. cit.*, p. 24.
[63] K. Pecsi, *op. cit.*, p. 35.

contradiction to the cause of convertibility.[64] In the past, in spite of the ambitious moves by the enthusiastic promoters of convertibility, the governments apparently considered the required preconditional sacrifices outweighing potential benefits.

However, as the CMEA economies reach higher stages of development and become financially more sophisticated, the benefits of convertibility will be increasingly compelling, on the one hand, and the capacity to overcome the existing obstacles progressively easier, on the other.

V. Concluding Remarks

In the preceding sections, we have highlighted the decline of the US dollar and the ascendance of the Soviet and the CMEA transferable roubles. However, it is important to see these developments in a broader perspective lest we lose a due sense of proportion.

It must be realized that in spite of the recent developments, the US dollar is still largely the leading world currency. It represents the largest single country in terms of industrial output, national income, gold reserves, world trade and the voting power in the IMF and the IBRD. The US dollar is still the dominant Eurocurrency, the value of the Special Drawing Rights is still largely dependent on the dollar and more than a quarter of the national currencies in the world is still pegged to it. Neither the Soviet rouble nor the CMEA transferable rouble has a ghost of a chance of displacing the dollar, or even providing a serious challenge, in the foreseeable future.

The CMEA transferable rouble has a potential for becoming a convertible currency, *provided that* the member countries assign sufficient priority to it *and* are prepared to implement some genuine liberal reforms of the *system* of planning, price formation, exchange rate determination and the conduct of their foreign trade (as distinct

[64] J. Wesolowski and P. Wyczanski, ["Methods of Determining Exchange Rates amongst the Socialist Countries and the Effectiveness of Tourism"], *Bank i kredyt* [Bank and Credit], Warsaw, 1/1980, p. 13.

from the past half-hearted palliatives to preserve the existing system). But these countries' large hard-currency debts to the West, estimated at about $ 60,000 m, net in 1980,[65] will impede the strengthening of both roubles in the international scene.[66]

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[65] The Vienna Institute for Comparative Economic Studies placed the net figure of CMEA indebtedness (excepting Cuba, Mongolia and Vietnam) to the West at $ 46,300 m. as of the end of 1977 (Bulgaria: $2,000 m., Czechoslovakia: $ 2,400 m., the German DR: $ 6,100 m., Hungary: $ 3,000 m., Poland: $ 12,600 m., Romania: $ 3,000 m., the USSR: $ 12,000 m. and the two CMEA banks: $ 4,400 m.). By 1990 the total figure is expected to rise to $ 200,000 m. - $ 210,000 m. (or $ 120,000 - $ 130,000 m. at the 1978 prices). See B. ASKANAS, G. FINK and F. LEVCIK, *East-West Trade and CMEA Indebtedness in the Seventies and Eighties*, Vienna, Zentralsparkasse und Kommerzbank, 1979, pp. 22, 30, 73-87.

[66] The current annual interest charges payable by the USSR are $ 1,300 m. and by the other six CMEA countries and two banks — some $ 4,000 m., i.e. totalling $ 5,300 m., or over one-quarter of their earnings from visible exports to the West. There is also the burden of the repayment of the pincipal falling due.