

Free the ruble!

(Currency convertibility in the Soviet Union)

By Vladimir Kvint

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Vladimir Kvint is a member of the “Siberian School” of Soviet economists and an associate of economists Leonid Abalkin and Abel Aganbegyan, the godfathers of perestroika. Below, he rejects the idea of a gold standard for his country but urges that the ruble soon be made convertible into foreign currencies. He urges that the ruble be allowed to float by permitting foreign currencies to circulate freely in the Soviet Union, thus setting a natural exchange rate. Only that way can the Soviet Union be integrated into the world economy.

Is the ruble nothing but rubble, a weak substitute for money in the crisis-ridden country? Definitely, no. It is just a prisoner that is not allowed to go to the party of the world economy, for mostly political reasons. But it is not worthless.

The ruble is already convertible. Wise foreign businessmen know how to convert their rubles into hard currency, using not only old methods of barter and counter-trade but also some new ones. In the center of Vienna, you can convert your rubles in a bank into hard currency. The rate is funny and unfair to those holding Soviet currency: 6 U.S. cents for 1 ruble. This is far below what the ruble should be worth, but it's all foreigners will pay today for a currency they cannot easily use. The bank should not be blamed for this. The Soviet government should.

The Soviet Union's former leadership imprisoned the ruble the same way it imprisoned Soviet citizens. Things are now much better for citizens, but not for the ruble. It is still not freely convertible, not officially free to travel outside the homeland.

Non convertibility of the ruble is a malignant tumor that affects all aspects of the Soviet economy. It kills motivation of labor, it enlarges shortages, it stops the flow of foreign investment to the U.S.S.R.

Let's look at this problem. The Soviet Union is not a poor country. Statistics developed during Stalin's time still naively conceal Soviet gold and diamond reserves, but a simple correlation analysis of Soviet data and the world gold and diamond markets shows that the U.S.S.R. has one of the biggest gold reserves in the world. And since

World War II, the U.S.S.R. hasn't sold diamonds bigger than 10 carats and almost no diamonds bigger than 5 carats. It is clear that, being among the biggest diamond producers, the Soviet Union stores all these treasures in its diamond fund.

The U.S.S.R. is the owner of huge natural resources. It is the biggest producer of oil, gas, steel, timber and the majority of nonferrous metals: copper, nickel, cobalt and platinum. All of this is not mythical, but real backing for the ruble.

So much for those who say the Soviet Union lacks the reserves to back a truly international currency.

The U.S.S.R. is known in all the banks of the world as one of the most reliable payers of interest. And though the international economic debt of the U.S.S.R. has grown to more than \$50 billion, and its hard currency debt today is 2.2 times its annual export revenues, for the U.S.S.R. it is only a matter of several months' work to repay all the debt. By comparison, Hungary needs about ten years to do it. Poland, which has more than \$40 billion in debt, does not even lend itself to comparison.

Yet the currency of the Soviet Union is close to worthless abroad because it lacks convertibility. Call it a wooden ruble. The wooden ruble is worsening the economic crisis under way in the U.S.S.R. People have 330 billion rubles in their savings accounts, and 120 billion rubles more, as we say, “in the stockings” at home. With inflation in the consumption sector at 15% in 1989, the holders of these rubles lose purchasing power month by month. Meanwhile, there is little to buy. Where they can, people resort to simple barter. For example, Soviet collective farms exchange 500 tons of grain for one 10-ton Kamaz truck, or 6 tons of grain for 1 ton of cement. This shows not only political but also economic nearness of our system to feudalism.

The American economist Thorstein Veblen (1857-1929) wrote about the formation of a money civilization in a negative sense. But I think that money civilization reflects a healthy economy. The U.S.S.R. has not yet reached this level of health.

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Not all the steps of the present government are incorrect, but the government is lagging behind the real tempo of perestroika. The steps are extremely, damagingly slow. Soviet enterprises are now allowed to keep 70% of their hard currency profits; the enterprises hold \$3 billion. A hard currency auction has been held. The dollar-ruble rate for non trade operations has been changed—since last November foreigners have been able to change \$1 for 6.2 rubles, or 16 cents to the ruble, versus the silly official rate of \$1.60 to the ruble. Collective farms are paid hard currency by the state for certain food products.

The exchange rate granted to foreigners, 16 cents, is barely one-tenth the official rate, but it is still nearly three times what I can get for my rubles in Vienna.

What we need, clearly, is a single realistic rate. This can be achieved only through a ruble that is freely convertible into other currencies. Based on my analysis of the current Soviet economic crisis, I will risk the following forecast: By 1991 a limitedly convertible ruble may already be available for joint ventures and in free economic zones; two or three such zones will become operational. One of them, near the Far Eastern port of Nakhodka (which means “discovery”), has already become a discovery for the Japanese businessmen who for over ten years have been pouring investments into this region.

The other forward station of entrepreneurial activity will be the city of Viborg, near the Soviet-Finnish border. My opinion is that in free economic zones all currencies will circulate, competing in terms of their “hardness.” Currency auctions this year and especially in 1991 will become an everyday practice and not, as now, just a fashion show. Because of all this, the number of joint ventures will come up to 2,800 in 1990. In 1991, I think, a stock exchange will be established.

A serious problem remains. Whatever is best in the U.S.S.R. is exported, sold for hard currency. But the Soviet workers who produce these goods suffer burglaries by their own government worse than the ones described by Marx at the hands of capitalists. They are completely separated from the hard currency profits they produce. (In a few small cases, hard currency salaries do exist. In 1988,

for example, I went to the Latvian fishing collective farm Uzvara. There the fishermen get 25% of their salary in hard currency.)

In the U.S.S.R. more than 15,000 enterprises export their goods to the West. All the workers of these enterprises and of the enterprises supplying them should get part of the enterprises’ hard currency profits as some percentage of their salaries.

Will that be unfair to others? When I am called a proponent of capitalism in the U.S.S.R., I quote Marx. He said that total equality is a total inequality. Good labor should be motivated.

They should be allowed to spend their hard currency inside the U.S.S.R. as well. This will also create a good market for foreign producers of consumer goods. This year the domestic hard currency consumer market will total about \$2.5 billion. With such innovations the U.S.S.R. can only benefit: The government will receive taxes on profits, and customs duties for repatriation of hard currency profits by foreign businessmen.

It is necessary to abolish the stupid restriction that prohibits foreign companies from operating with rubles. Today, many of these companies already have rubles and many more would like to have them, but the former are prohibited from selling them to the latter. Last summer, walking along Lexington Avenue in New York, I tried to find out what I could buy for \$ 1. Practically nothing. Even a hot dog is more expensive. In Moscow, with 1 ruble in your pocket, you can have, on Gorky Street, a tolerable lunch in a canteen. For 1 kopek (there are 100 kopeks to a ruble) you can buy a glass of mineral water or a box of matches. For 5 kopeks, less than 1 cent at the ruble/dollar rate I envision, you can travel all day long in the underground. For 20 kopeks you can buy a kilogram of good bread. So don’t tell me the ruble is worth only 6 cents. But 6 cents is what it fetches abroad because of the current government policy of non convertibility.

So as not to create great inflation, the amount of convertible rubles issued into circulation should not exceed the value of Soviet exports and value of consumer goods

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and food products produced on the quality level of the world market. Moreover, the equivalent sum of wooden rubles should immediately be burned.

I do not think convertibility should be brought about by government fiat but rather by the market itself. I am proposing parallel circulation of wooden rubles—the nonconvertible money we now have—and limitedly convertible rubles. Hard currencies—dollars, for example, or Deutsche marks—should circulate, too, because that will facilitate normalization and satisfaction of the market. We would have a system of competing currencies, with the market, rather than government fiat, setting the correct exchange rate among them. And the ruble would become real money in the international sense.

Speculations about putting the Soviet Union on a gold standard seem to me practically useless because, in 1971, the U.S. officially abolished the gold standard. And if the dollar has no gold standard, establishment of a gold standard for the currency of any other country would lead

only to melting of its gold reserve. One should not violate the trend of internationalization of national economies—the replacement of gold as a form of money by credit money.

Political risk is never far from the international businessman's mind. Yet political instability or even crisis has not always hampered convertibility. In Yugoslavia, in the middle of bitter economic and political crisis and violent ethnic conflict, the government has declared the dinar convertible. What happened? Contrary to many predictions, Yugoslavia has enlarged its hard currency reserves significantly, just in one month.

In the Russia of the 17th century, all foreigners were called *nemtsy*—meaning “the dumb”—just because they didn't speak Russian. Money is the language of an economy. If the currency is not convertible, the language is untranslatable. Strictly speaking we don't have real money in the Soviet Union. With a convertible currency we would have.