
Time for a gold rouble?

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(John Laughland for RIA Novosti) - There used to be a habit of framing old Tsarist bonds and putting them on the wall. Lenin's decision to renege on the Russian imperial debt meant that it became mere paper, interesting only as a historical relic. In the light of the recent financial crisis in the USA, could the same thing happen now to the bonds issued by the American government, and could the country which has dominated the world for the last half century now enter history as a bankrupt state? And what can Russia do in the circumstances?

The decision by the US government to inject \$700 billion into the financial system means that the already gigantic annual budget deficit of the American state (previously some \$450 billion a year) will now rise by a factor of three.

The total state debt of the USA will rise to well over \$11 trillion. It is obvious that such a colossal debt can never be repaid. Instead, it will be serviced by more debt in the future. The contrast with Russia, which has painstakingly sanitised its state finances to the point that it now has more money to lend than the IMF, could hardly be greater.

The recent financial crisis itself grew out of this American culture of debt.

To some extent, all countries share it: since 1914, all countries use paper currencies, i.e. debt instruments which are never redeemed. Whereas before the First World War, bank notes were essentially vouchers for specific amounts of gold cash, now the "promise to pay the bearer" (which remains inscribed on British bank notes) is in fact hollow.

In America, this basic culture of debt is aggravated by the fact that other countries use the dollar itself as a reserve. This means that the United States can export dollars in order to pay for its imports without the dollar losing value. Other states also need dollars to buy key commodities like oil. The USA can therefore export paper currency almost indefinitely - the famous "deficit without tears" analysed by the great French economist, Jacques Rueff.

Naturally, if the state itself encourages such a culture of debt by issuing unredeemable paper currency to pay for imports, and by accumulating such mountains of debt, then it is no surprise if the American financial markets themselves operate on the same basis. But the collapse of those markets is only a symptom of a much deeper problem, the basic insolvency of the American state itself.

What can Russia do about this? At first sight, Russia's role in the international financial system does not seem very large. However, as a major exporter of hydrocarbons, her role in the world economy is actually very important. As the age of the dollar draws to a close, Russia will have to consider selling her oil and gas not in the devalued American currency, but instead in the euro used by most of her customers. It is surely unnatural for two geographical neighbours to do such large volumes of business using the currency of a distant and now ailing nation.

Second, the Russian leaders might also consider making their own currency, the rouble, convertible into gold. The idea of gold convertible currencies is extremely unpopular among most economists: they dismiss gold as a "barbarous relic" (to use the famous phrase of John Maynard Keynes) and suggest either the present regime of paper currencies or, at best, a link to a basket of commodities.

Both these solutions are highly artificial and based on the same level of state control which has now just so spectacularly failed. Indeed, which is more "barbarous" - the reintroduction of gold as an instrument of payment, or the practice of amassing huge quantities of the precious metal to keep it locked underground in the vaults of central banks? The contempt of the Keynesians notwithstanding, it is an indisputable fact that gold does remain the ultimate store of value, which is precisely why states own so much of it.

Russia has less to fear than other countries from the introduction of a currency convertible into gold. Governments are typically hostile to gold because it reduces their discretionary power over the currency and the economy: they say that the money supply cannot be made dependent on the production of gold mines. In reality, this argument is bogus because the amount of mined gold already in existence vastly exceeds the yearly production, so mining does not in fact have an appreciable impact on supply. But, as it happens, Russia is a major producer of gold anyway and therefore to some extent controls production.

Secondly, Russia is vulnerable to her status as an exporter of primary materials - and as an exporter generally - especially in the age of inflation which is about to dawn. The more the Russian economy exports, the more her national paper currency will rise, making those exports more expensive. This is bad for an export-oriented economy. By contrast, the value of a gold rouble would depend not on the trade balance of the Russian economy at all, but instead simply on the price of gold itself which generally remains stable with relation to other commodities.

Russia has shown surprising success in putting an end to the unipolar world of which American strategists have dreamed now for over a decade. There are no permanent victories in diplomacy, however, but a shift in the structure of the world financial system would help to entrench recent gains.

John Laughland is a British historian and political analyst, and Director of Studies at the Institute of Democracy and Cooperation in Paris

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