

A Ruble Backed by Gold Instead of the IMF

Russia needs a fully convertible currency to facilitate exports and imports, but so far it has relied only on the International Monetary Fund's promises to provide a hard currency fund for backing the ruble. Such a fund would permit any person or enterprise holding rubles to exchange those rubles for hard currency. The provision of the fund, however, depends on Russia's acceptance of the IMF's economic plan, which would cause widespread unemployment and further decline in Russia's production output.

A less traumatic way of making the ruble convertible would be to use gold and other precious materials as collateral for a hard currency fund to back the ruble. Add a requirement that individuals and enterprises inside the ruble zone could not own gold or the other kinds of precious materials in the fund and the danger of depleting the fund through a massive conversion of rubles from within the ruble zone into dollars would be averted. (America had a similar ban on owning gold from the depression of the 1930's until 1975.)

Since the ruble's value against the dollar continues to depreciate, I doubt many enterprises or individuals outside the ruble zone hold significant amounts of rubles, so there would be no fear of these enterprises or individuals depleting the fund by immediately exchanging large amounts of rubles for gold or other precious materials. The fund would remain intact to back future foreign trade. Such a fund would put some of Russia's resources to better use than what occurs now. It makes little economic sense for Russian reformers to sell 95 percent of its cut diamonds to the monopoly DeBeers, which like all monopolies buys low and sells high. Equally illogical are the efforts to sell gold mines and other precious resources for below market value when the market value can be used as collateral to borrow hard currency to invest in interest bearing, credit worthy debentures.

With the ruble ultimately backed by gold and precious

materials, trade and investment will increase dramatically. At first, foreign traders and investors will exchange the rubles they earn for hard currency in the fund but their ability to make this exchange will go a long way towards convincing the business world of the ruble's soundness. At some point before depletion of the fund, foreign traders will forego exchanging rubles for the fund's hard currency because the fact will have been proven that the ruble is fully exchangeable. At this point, the ruble will be a harder currency than the American dollar because its backing consists of gold and precious materials.