



As good as gold?
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There seems to have a decline in interest in the idea of a parallel Russian currency during 1992-93.(1) While discussing this topic with a colleague the question arose of whether and to what extent the chervonets was actually convertible into gold and foreign currency in the USSR during NEP.(2) In a previous work this author had examined Soviet theoretical conceptions of foreign exchange in the 1920s, but had not gone on to ask the question about the actual functioning of chervonets exchange at this time, and as far as was detected no other paper has focused on this specific question.(3) This research note attempts to fill this lacuna using existing Western sources, new archive material and Soviet historical work.

A number of variants of the gold standard exist in theory. The simplest variant is a pure gold coin standard where only gold coins circulate as money. During the period 1880-1914 a fractional reserve gold standard existed in Western Europe. In this system both government-issued notes and notes issued by commercial banks circulate alongside gold coins, these paper notes being convertible into gold on demand at a fixed rate. A third possibility, the gold bullion standard, was proposed by Ricardo in 1816, where gold coins would not circulate at all but fiduciary currency would be convertible into gold bullion. Such a system existed in the twentieth century in the inter-war period.(4)

The chervonets was not described as a currency based on the gold standard in the Western sense sketched above, but the label 'gold-backed' was attached to it by many Soviet economists during NEP. A 1922 decree stated that the chervonets was a denomination of gold money containing one zolotnik 78.24 dolyas of pure gold'.(5) Were chervontsky banknotes ever redeemable for gold at this par value?

Was the chervonets convertible?

Existing authorities pronounce on this question as follows. E. H. Carr states that 'down to March or April 1925 both foreign currency and hoarded gold were being freely offered in Moscow in exchange for chervontsy'.(6) At first sight this appears straightforward. However, Carr omits to specify who was offering gold and foreign currency for chervontsy, the state or private traders, and this statement is therefore ambiguous. A. Z. Arnold, author of the impressive 1937 work *Banks, Credit, and Money in Soviet Russia*, writes that:

... [the chervonets] was to be fully secured: by precious metals and stable foreign currency, equal to not less than 25% of their amount outstanding: the balance of the security was to consist of easily marketable goods, short-term bills, and other short-term obligations. The notes were not convertible, but the decree states that the date upon which convertibility might begin was to be fixed by a special act of the government ...(7)

Thus the chervonets was first of all covered by precious metals but not convertible into them. Since this was written in 1937 and no reference is found in other parts of Arnold's book to when the chervonets was made convertible, the conclusion is reached from this work that the chervonets was not actually convertible into gold or foreign currency at all. One of the most important sources on this question must be L. N. Yurovsky, who was in charge of currency management within NKFin in the 1920s and who masterminded the 1922-24 currency reform. Yurovsky was the author of many articles and books on financial matters, and in 1925 he wrote: The banknotes [the chervontsy] secured, at least to the extent of one quarter, by precious metals and foreign currency, were not for the present to be convertible into gold. The date when the exchange of banknotes into gold will begin ... will be announced in a separate government enactment.(8)

Yurovsky notes that the government promised to make them convertible with gold in the future'.(9) This implies that Yurovsky agreed with Arnold that the chervonets was not at

least initially convertible, or that Arnold's source for his view was in fact this work by Yurovsky.

However, Yurovsky gives a somewhat different impression in a later work of 1928. Here he writes that export of foreign currency could occur only with the permission of the Special Foreign Currency Commission under NKFin SSSR. Moreover:

In order to strengthen this law in relation to regulating demand for foreign currency, it was determined that state and cooperative institutions and enterprises were obliged to obtain permission from the Special Foreign Currency Commission for transfer of foreign currency overseas and for the purchase of foreign currency internally. This limitation did not apply to private individuals ... However, from March 1926 the purchase of foreign currency (and gold) by private individuals without the permission of the Special Foreign Currency Commission was discontinued by administrative measures.(10)

This implies that between 1924 and 1926 private individuals could purchase foreign currency (and perhaps also gold) freely, but that institutions and enterprises had to obtain permission before doing so. However, this is not identical with exchanging chervontsy for gold at par, and Yurovsky does not seem to mention such a practice in this later work. Ambiguity thus remains.

Archival material demonstrates that the Soviet government was concerned about the free export of chervontsy overseas as early as July 1925. In a letter to Yurovsky, dated 9 July 1925, Z. Katsenelenbaum (Gosbank) relates that a series of messages from overseas correspondents have raised the question of the necessity of reviewing existing currency legislation, in particular the free export of chervontsy overseas. The amount of chervontsy exported, not only by private persons but also by state institutions and enterprises, had grown recently. For example, in Riga a total of approximately 115 000 chervontsy had been obtained in the first six months of 1925, and in Berlin a significant supply of chervontsy still existed. Katsenelenbaum then writes:

The task of supporting the chervonets rate overseas demands from Gosbank the purchase of these chervontsy for hard currency, which is exceedingly difficult given the current position of hard currency reserves.(11)

This problem compels Gosbank to raise the question of the necessity of introducing a law which would equate export rights for chervontsy with foreign currency reserves. Only in this way could the level of chervontsy exported be limited. This letter from Katsenelenbaum implies that chervontsy were exchangeable for hard currency overseas at least until 1925, but that worries began to surface about this practice in the middle of 1925. No mention of internal convertibility is made in this letter.(12)

A Vestnik finansov article from 1925 by A. A. Sokolov elucidates an important distinction in relation to gold-backed currencies which is relevant to the chervonets. Sokolov is discussing situations when a large gold fund is required and when such a fund is unnecessary. When banknotes are by law exchangeable for gold then clearly a gold fund is necessary. Moreover:

... when notes in circulation are not formally convertible into gold, but the rate of exchange is supported at a definite level in relation to gold and foreign currency, a fund is also necessary, although in this case the fund can be composed in significant part not of gold in natura but from one or other foreign (gold) currency.(13)

Sokolov's argument shows that direct convertibility into gold at par for a specific currency is not the same as a currency being supported at a certain rate in relation to gold and foreign currency by the relevant monetary authorities. In the former case a promise has been given to convert all notes at a certain rate no matter when they are presented for

exchange, whereas in the latter a promise has been given to try to maintain a certain rate through currency intervention, but no guarantees of maintaining this rate are given. Sokolov does not specify which of these cases applies to the chervonets. In a book examining the history of the ruble exchange rate published in 1958 Aizenberg implies that Gosbank regulated the foreign exchange market in the mid-1920s by selling gold and foreign exchange for chervontsy, but this could be consistent with either of Sokolov's two possibilities.(14)

A definite answer to this question has been provided by a recent Soviet work on the chervonets by V. E. Manevich. Manevich relates that from April 1922 private individuals were allowed to hold gold and foreign currency, and from October 1922 stock exchanges were created for the purchase and sale of foreign currency, gold and state loans. However, Manevich writes:

During the issue of chervontsy it was declared that the chervonets was a currency directly exchangeable for gold, but the commencement of this exchange was delayed until a special resolution was prepared: such a resolution was in fact never issued. Therefore the exchange of chervontsy for gold by Gosbank never occurred.(15)

Thus the chervonets was never directly convertible into gold at par, rather Gosbank purchased chervontsy for gold and foreign currency as a mechanism for supporting the exchange rate at a certain level. If Manevich is right than a mild deception had been carried out by the Soviet authorities. A promise to convert chervontsy at par some time in the future was given but never kept, and this technique proved successful (together with currency intervention) in introducing and maintaining a stable rate of exchange for the new currency.(16)

Manevich further explains that the Special Foreign Currency Commission (mentioned by Yurovsky) was formed on 6 February 1923 from representatives of Gosbank, NKVneshTorg and Tsentrosoyuz and was chaired by a representative of NKFin. The stated aim of this Commission was the elimination from currency markets of the multitude of consumers of foreign currency by concentrating demand into a few large all-Russian centres and the preservation of currency resources inside the country through export control.(17) This was to be done by transferring foreign currency by means of account through Gosbank, and not allowing the direct transfer of actual currency from seller to purchaser. Gosbank thus preserved control over foreign currency on currency exchanges.

In spring 1924 the People's Commissar of Foreign Trade, L. B. Krasin, had suggested that a clause on the free exchange of chervontsy for foreign currency at a fixed rate be adopted, but this idea was rejected since there was no guarantee that the position of the chervonets on the currency bourses could be maintained over the long term.(18) Goland relates that the purchase and sale of gold and foreign currency by the population occurred within the walls of Gosbank and other credit institutions, as well as on the 'black bourse'. Agents of Gosbank sold and purchased gold and foreign currency in special stalls on these markets.(19) However, it is revealing that Goland uses the terms 'purchase and sale' in relation to the activities of Gosbank rather than 'exchange at par'.(20)

It is apparent from the above discussion that the use of the phrase 'gold-backed currency' to describe the chervonets is slightly misleading.(21) According to Manevich the chervonets was not redeemable for gold in the way that sterling was redeemable before World War I; rather, government intervention maintained the rate at a specific point in the way sterling was held within fixed bands against the deutschmark in the ERM.(22) A calculation based on figures given by Yasnopol'sky in 1927 shows that in relation to the stated aim of maintaining one chervonets to one pound sterling, the actual rate on the free market in Moscow fluctuated 20% either side of this target rate between January 1923 and April 1926.(23) However, Soviet intervention to maintain the chervonets lasted for a similarly short period of time as sterling's membership of the ERM: according to

Manevich, in spring 1926 further operations by Gosbank to support the chervonets had become a waste of currency resources and in March 1926 the free sale and purchase of foreign currency was suspended. Thus the chervonets was supported with gold and foreign currency by the government for a little over three years, from the end of 1922 to the spring of 1926.

Actual cover of the chervonets

There is a scarcity of information on the actual amount of gold and foreign currency cover which existed for the chervonets during NEP and the amount of valyuta which was used in support of this currency. Arnold gives the information for 'firm and bank cover' in 1922-24 for the USSR State Bank (in thousands of chervontsy and percentage of total cover) shown in Table 1. This shows that the percentage of actual cover by gold slowly decreased from the end of 1922 to 1925, but that the level of cover by commercial paper systematically increased. Foreign currency cover fluctuated without exhibiting a general tendency. Table 2 shows the currency and precious metal reserves of Gosbank for the period 1924-26 (in millions of rubles) as given by the Conjunction Institute.

Table 2 reveals the drain on currency reserves which occurred in spring 1926, and which subsequently led to the abandonment of Gosbank support for the chervonets with gold and foreign currency. Table 3 shows the emission of chervontsy for the period January 1923 to March 1924 and the total number of chervontsy in circulation during this period.

TABLE 2
Gosbank Reserves (in millions of rubles)

Date	Total	Gold coins and bullion
October 1924	308.8	131.4
January 1925	351.8	142.0
April 1925	352.9	168.9
July 1925	285.7	169.1
October 1925	325.5	184.8
January 1926	319.3	182.4
April 1926	265.0	147.5
July 1926	265.1	146.8
October 1926	286.3	153.3

Source: Ekonomicheskii byulleten' kon'yunktornogo instituta, 1926, 11-12, p. 57.

Comparing Tables 1 and 3, it is apparent that the level of gold, foreign currency and other cover of the chervonets which was in existence was sufficient to cover the chervonets at least in the period January 1923 to March 1924: in January 1923 1.12 million chervontsy resided in the Gosbank reserve and cover amounted to 1.5 million, and in January 1924 this had reached 28 million against cover of 28.1 million. Table 3 also shows that the quantity of chervontsy actually in circulation as a percentage of the amount in Gosbank reserves increased from 32% in January 1923 to 92% in March 1924, indicating that growing confidence in the chervonets allowed the Soviet government to increase this ratio gradually.

TABLE 3
Emission of chervontsy

Month	Level of chervontsy in Gosbank reserve	Chervontsy issued into circulation
January 1923	1 118 000	356 245
April 1923	4 500 000	2 566 689
July 1923	9 600 000	7 000 144
October 1923	23 500 000	21 403 488
January 1924	28 000 000	24 916 831
March 1924	32 800 000	30 027 099

Source: Yurovsky, Denezhnaya politika Sovetskoi vlasti, p. 226. Figures relate to the first day of each month.

Conclusion

This note has suggested the importance of distinguishing between a currency exchangeable for gold at par and a currency which is supported at a certain rate by central bank operations. It seems that the chervonets was the latter but not the former.⁽²⁴⁾ It was also suggested that the actual level of gold and foreign exchange cover which existed for the chervonets was quite high, although a definitive answer on this question will not be possible until full access is given to the relevant archives in Russia.

The question of a contemporary version of the chervonets has obliquely arisen in recent months in relation to Russian state bonds. In September 1993 the Russian Ministry of Finance began selling gold-backed bonds which on maturity could be redeemed for either ten kilograms of gold or its ruble equivalent. Ten thousand such bonds could be issued backed by 100 tonnes of gold.⁽²⁵⁾ The spirit of Yurovsky may yet prove more useful to Russia the second time around, although it is unlikely that any new parallel currency would actually be convertible into dollars at par.

Notes

(1) For an example of support for the idea of a parallel currency see A. I. Kaz'min and A. V. Tsimailo, 'Toward the Convertible Ruble: The Case for a Parallel Currency', in J. Williamson (ed.), *Currency Convertibility in Eastern Europe* (Washington, DC, 1991), pp. 294-309.

(2) The author is grateful to Dr Judith Shapiro and Professor R. W. Davies for encouragement and assistance in preparing this research note, and to Douglas Sutherland for useful information.

(3) Vincent Barnett, 'Exchange rate policy and the purchasing power of the chervonets in the USSR during NEP', *Coexistence*, 2, 1993, pp. 125-144. In this article it is argued that many Soviet economists from NEP were conversant with, even favourably disposed towards, theories of purchasing power parity being developed in the West by authors such as Gustav Cassel and Irving Fisher. A very full account of currency regulation during NEP is provided by Yurii Goland, *Valyutnoe regulirovanie v period NEPa* (Moscow, 1993). However, Goland does not raise the specific question asked in this paper.

- (4) The New Palgrave Dictionary of Money and Finance (London, 1992), vol. 2, p. 267.
- (5) F. D. Livshits, 'O kurse chervontsa i ego pokupatel'noi sile na vnutrennem rynke i za granitsej', *Ekonomicheskoe obozrenie*, October 1926, p. 110.
- (6) E. H. Carr, *Socialism in One Country*, vol. 1 (London, Macmillan, 1958), p. 479.
- (7) A. Z. Arnold, *Banks, Credit, and Money in Soviet Russia* (Columbia, NY, 1937), p. 148.
- (8) L. N. Yurovsky, *Currency Problems and Policy of the Soviet Union* (Parsons, 1925), p. 88-89.
- (9) *Ibid.*, p. 89.
- (10) L. N. Yurovsky, *Denezhnaya politika Sovetskoi vlasti* (Moscow, 1928), pp. 311-312.
- (11) RGAE, f. 7733, op. 2, del. 275, p. 6.
- (12) Unfortunately, when a request to see further material on the exchange of chervontsy for gold and foreign currency was made to archive workers in the Russian State Economic Archive (RGAE), the response was that such material was in a spetsfond for gold and was still *sekretnyi*. The files to which access was given were in the non-secret NKFin fond (f. 7733), which do not seem to contain any indication whether and to what extent the chervonets was actually redeemable for gold. It is to be hoped that the desecretisation process will soon reach the question of gold reserves.
- (13) A. A. Sokolov, 'Metodologiya emissii i blizhaishie zadachi nashei valyutnoi politiki', *Vestnik finansov*, 1925, 9, p. 56.
- (14) I. Aizenberg, *Voprosy valyutnogo kursa rublya* (Moscow, 1958), p. 19-20.
- (15) V. E. Manevich, 'O valyutnom paritete i konvertiruemosti chervontsa v 20-kh godakh', *Finansy SSSR*, 1988, 11, p. 50. Manevich does not give a direct source for this view.
- (16) Goland relates that between December 1922 and February 1924 the excess of sales over purchases by Gosbank and NKFin in currency intervention amounted to 980[pounds] 000 and \$4.6 million. Goland, *Valyutnoe regulirovanie*, p. 12.
- (17) Manevich, 'O valyutnom paritete', p. 51.
- (18) *Ibid.*, p. 52.
- (19) Goland, *Valyutnoe regulirovanie*, p. 19.
- (20) Manevich's argument is confirmed by examination of the government decree in question. In an SNK decree published on 4 November 1922 and signed by Kamenev the State Bank is given the right to issue banknotes denominated in 1, 2, 3, 5, 10, 25, and 50 chervontsy, and it is stated that one chervonts is to equal one zolotnik 78.24 dolyas of pure gold. These banknotes are to be fully secured by one-quarter precious metals and foreign currency and three-quarters goods and short-term obligations. The decree notes that 'the date of commencement for the exchange of banknotes into gold is established in a special government act'. See 'O predostavlenii gosudarstvennomu banku prava vypuska bankovykh biletov', *Sobranie ukazonenii i rasporiashenii*, no. 64 decree 827, pp. 1041-2. Further evidence of fixed convertibility is available from the text printed on

chervonsty notes, which reads as follows: `Three chervontsy contain five zolotniks 42.72 dolyas (23.23 grams) of pure gold. Banknotes are subject to exchange for gold. The commencement of exchange is established by a special government act. Banknotes are secured in full measure by gold, precious metals, stable foreign currency, and other assets of Gosbank.' This wording is a little ambiguous, perhaps deliberately so, but the impression is conveyed that these banknotes are exchangeable for a fixed quantity of gold..

(21) In an *Ekonomicheskaya zhizn'* article from January 1922 with the title "Garantirovannyi" rubl' Sokol'nikov writes that by this phrase he does not mean a guaranteed exchange of paper rubles for metal, rather a paper currency partially stabilised in the limits of its circulation. G. Ya. Sokol'nikov, *Novaya finansovaya politika na puti k tverdoi valyute* (Moscow, 1991), p. 71.

(22) The sterling gold standard lasted for two centuries until 1931, with the exception of only two major periods of inconvertibility: 1797-1819 and 1914-25.

(23) L. Yasnopol'sky, *Vosstanovitel'nyi protsess v nashem denezhnom obrashchenii i zadachi valyutnoi politiki* (Moscow, 1927), p. 65.

(24) Rostowski & Shapiro state that 'the chervonets was not to be convertible domestically into precious metals or internationally into foreign exchange (except in a limited and controlled way)'. See Jacek Rostowski & Judith Shapiro, *Secondary Currencies in the Russian Hyperinflation and Stabilization of 1921-24*, LSE Centre for Economic Performance Discussion Paper no. 59 (London, 1992), p. 7. This note suggests that this proposition is not quite accurate. The stated intention was convertibility at par, although this was never achieved.

(25) *The Economist*, 23-29 October 1993, p. 118.