

THE PROBLEM OF ROUBLE

By KAZUO NONOMURA

Professor, Institute of Economic Research

I

At the beginning of 1961, denomination (change of standard of price) of the rouble, Soviet currency, and change of foreign exchange rate were put in force. This paper tries to explain what meaning the measure has on Soviet economy.

II

To begin with, I will refer to the change of standard of price of the rouble.

The change was first announced by Premier Nikita Khrushchev in his speech to the Supreme Soviet on May 5, 1960.¹ The gist of the measures, including a policy on a treatment of fractions² announced on Oct. 12, 1960, by V. Garbuzov, Soviet Finance Minister is as follows.

(1) From Jan. 1, 1961 onward all prices (wholesale prices, buying prices, retail prices, etc.) and service prices are to be reduced to one-tenth of the former prices.

(2) Money incomes as wages, pensions, allowances and scholarships are to be recounted to one-tenth of their former level.

(3) At the same time, a new rouble currency will be issued and exchanged with the old one at a rate of 1:10. This exchange of currencies is to be completed by Apr. 1, 1961.

(4) In the measures of (1) and (2), fractions under 0.5 kopeck are omitted and those above it are raised to unit (that is to be rounded.)

(5) As to bread, milk and dairy products, cheese and food for children, a fraction of 0.5 kopeck is all omitted (e.g. a loaf of rye bread whose price is now 1 rouble 55 kopeck in Moscow is to be sold at the new price of 15 kopeck.) However this special policy is not applied for some bread, chiefly those made from the finest wheat (e.g. white bread of 200 gr. made from the first class wheat, whose price is now 65 kopeck, is to be sold at 7 kopeck.)

(6) This raise has the same effect as a devaluation in price 150 million rouble per year (at the present price.)

¹ Об отмене налогов с рабочих и служащих других мероприятиях, направленных на повышение благосостояния советского народа. Доклад товарища Н.С. Хрущева на сессии Верховного Совета СССР 5 мая 1960 года, «Правда», 6 мая 1960 года.

² В. Гарбузов, Новые деньги и цены на товары, «Правда», 12 окт., 1960 г.

III

What is the purpose of the above measures and what effect have they? The answer is as follows.

(1) The measures are, in short, a simple denomination and is quite different from those of the currency reform enforced on Dec. 16, 1947. The latter protected depositors and bondholders, especially those who had small amount of money, by making a grading discrimination among hoarded money, a large amount of deposit, a small amount of deposit and bonds when it was exchanged with the new currency.³ The raising effect of hoarded money is rare, though not at all, in this measure.⁴

(2) Registration will be simplified. Recently wage fund, industrial output, proceeds of retail budget, etc. of the Soviet Union, were counted by billion. By this denomination calculation and registration are to be simplified.⁵

(3) The measures will promote the spread of a slot machine. Up to this time the biggest metallic money was 20 kopeck, with which it was scarcely possible to buy things, except a glass of soda water, a box of matches, a notebook, etc. It is very difficult to promote the spread of a slot machine under such a condition. Owing to the change of standard of price from now on sugar and bread can be got with metallic money through a slot machine.⁶

(4) People will have a feeling to economise money. Up to this time they slighted money lower than 1 rouble which was almost of no use. They will take good care of money owing to the measures.

(5) It is self-explaining that the manufacturing expences of money will be cut down owing to the measures.

IV

Next I will refer to the change of foreign exchange rate for the rouble, which was announced as a decision of the Conference of the Cabinet ministers of the Soviet Union on Nov. 15, 1960.⁷ Its details are as follows.

³ In 1947 new currency was exchanged for old at the rate of 1-to-10; saving deposits were exchanged at the rate of 1-to-1 for deposits under 3000 roubles, 3-to-2 for deposits between 3000 roubles and 10,000 roubles, and 2-to-1 for deposits over 10,000 roubles, and 1-to-3 for government bonds.

⁴ The exchange gave a great shock to the Soviet citizens who had accumulated a large amount of currency hoards through black trade. Such people had been endeavoring to convert their currency hoards into other properties, such as foreign currencies purchased from foreign visitors, precious metals, and jewelry within 1960. According to the Oct. 23, 1960, issue of the New York Times, the Soviet jewelry trade organization had fulfilled its annual sales plan for 1960 till July, 1960. Old rouble notes secretly brought out to foreign countries will lost their circulating power.

⁵ Khrushchew's speech. See ¹

⁶ В. Ситнин, Новые деньги и новый масштаб цен, «Коммунист», Но. 18, Декабрь 1960 г., стр. 103.

⁷ О новом золотом содержании рубля и о повышении курса рубля по отношению к валютам иностранных государств, «Правда», 15 ноя., 1960 г.

(1) From Jan. 1, 1961, the gold parity of 1 rouble is fixed at 0.987412 grams of fine gold.

(2) The Soviet Gosbank's purchasing price of gold is set 1 rouble for 1 gr. of fine gold.

(3) The exchange rate between the rouble and dollar is fixed at 90 kopeck per dollar.

The details of the decision need some explanation.

I will begin with the gold content of the rouble. As a result of the 1950 currency reform, the gold content of the rouble had been fixed at 0.222168 grams of fine gold till 1960. As in America 1 troy ounce (31.1035 grams) of fine gold is fixed at \$35, 1 rouble was equivalent to 25 cent or 4 rouble to 1 dollar, according to the standard of parity. $\left(1 \text{ rouble} = \$35 \times \frac{0.222168}{31.1035} = \$0.25\right)$

Therefore, if the domestic measures, the change of standard of price of the rouble is applied to the foreign exchange rate as it is, the gold content of the rouble should have been 2.22168 grams consequently 1 rouble=\$2.50 or 40 kopeck=\$1.

So I may say the decision of the Soviet Union on foreign exchange rate at the con-

Table 1 *Foreign Exchange Rate for the Rouble*

Unit: Rouble

Foreign Currency			Rate prior to Jan. 1, 1961		Rate from Jan. 1, 1961, onward
Countries	Currency	Units	Official Rate	Noncommercial Payment including Premium	
U. K.	Pound	1	11.20	23.00	2.52
Egypt	Pound	1	11.52	23.80	2.59
India	Rupee	100	84.30	210.75	18.97
Italy	Lira	1000	6.44	16.10	1.45
Canada	Dollar	1	4.10	10.25	0.92
Cuba	Peso	1	—	—	0.90
U. S. A.	Dollar	1	4.00	10.00	0.90
Finland	Markka	1000	12.58	31.37	2.82
France	Franc	100	81.00	202.50	18.37
Germany (West)	Mark	100	95.24	238.10	22.67
Switzerland	Franc	100	92.88	232.20	20.82
Japan	Yen	1000	11.14	27.85	2.51
Albania	Lev	100	8.00	10.00	1.80
Bulgaria	Lev	100	58.82	112.36	13.23
Hungary	Forint	100	34.10	71.43	7.67
Germany (East)	Mark	100	180.00	258.00	40.50
Mongolia	Tugrik	100	100.00	220.00	22.50
Poland	Zloty	100	100.00	66.67	22.50
Roumania	Lei	100	66.67	103.00	15.00
Czechoslovakia	Krona	100	55.56	86.20	12.50

Materials: Рубль как международная валюта. «внешняя торговля», апр. 1961 г.

A Note: Official Rates in the Socialist Countries are rates the gold content of currency of each country to the gold content of the rouble.

ference of Cabinet ministers on Nov. 15, means to cut down the parity of the rouble to $\frac{1}{22.5}$ (or to 44.4%) ($0.987412 \div 2.22168 = 0.4444$).

But some problems remain to be explained. In as much as the rouble parity fixed in 1950, that is 25 cent per rouble on 4 roubles per dollar showed foreign purchasing power of the rouble too much, so-called "travellers' rate" had been adapted since Apr. 1, 1957 only for noncommercial transactions. That is premium to 150% had been placed to (1) remittances of foreign currency to foreign diplomatic officials, trade and cultural envoys, other government missions, etc. who had lived in the Soviet Union (2) remittances of foreign money to foreign civilians who had lived in the Soviet Union (3) money which had been taken out by Soviet citizens traveling abroad on private business (4) remittances to Soviet organizations or civilian abroad.⁸ Consequently, in case of noncommercial transactions, currency of each country had been exchanged with the rouble in the following ratio.

It is obvious by Table 1 that there were various grades of premium to the currencies of the Socialist countries between 25% (in case of Lev of Albania) and 120% (in case of Tugrik of Mongolia) of the whole, while premium to the Capitalist countries takes 150% of the whole equally. No premium was given to Zloty of Poland. On the contrary, the exchange rate of noncommercial transactions to the country is lower than the official rate.

I will discuss the problem of exchange rates for the rouble to the currencies of the Socialist countries in case of noncommercial transactions later on. Here I will take up so-called "travellers' rate" among exchange rates for the rouble to the currencies of the Capitalist countries. According to the decision Nov. 15, 1960, parity of rouble is raised by a little over 11%.

In other words, the new foreign exchange rate is devaluation to $\frac{1}{2.25}$ from the former official foreign exchange rate and raise a little over 11% from travellers' rate. By the measures, foreign exchange rates such as those for commercial and noncommercial transactions are unified to the new single rate on and after Jan. 1, 1961.

What does this mean?

V

The foreign purchasing power of the rouble overvaluated or not to the foreign exchange rate for the rouble, that is, 1 rouble=25 cent or \$1=4 rouble, which had been applied about ten years, from 1950 to 1960.

This may seem nonsense to answer for some people. They may say the fact that so-called travellers' rate had been adapted since Apr. 1, 1957, means the Soviet government admitted publicly the above official rate over-valued the rouble.

Different from this, "overvaluation" theory has been maintained and "proved" by many "West" side theorists. Some examples of them will be given here.

First I will introduce estimation of Morris Bornstein. Showing a group of indexes as rouble-dollar ratios for 1955, he says it is applicable to the ratios in 1960 for fluctuations in the prices and changes in the structures of the national products of both countries, from

⁸ А.М. Смирнов, «Международные валютные и кредитные отношения СССР», Внешторгиздат-1960 г., стр. 98—99.

1955 to 1960 were comparatively small.⁹ In addition he shows the ratios from 1961 onward. These are shown in Table 2. Referring to Table 2, he writes in his article under the title of "The Reform and Revaluation of the Rouble" appeared in the March, 1961, issue of *American Economic Review* as follows. "These ratios show that the official exchange rate of 4 roubles per dollar overvaluated the rouble substantially for the consumption component and to a lesser extent also for the investment component, as well as for national product as a whole. The reduction of Soviet prices in 1961 to one-tenth their 1960 level will reduce the rouble-dollar ratios correspondingly, as shown in the table. The new exchange rate of 90 kopecks per dollar is much more consistent with the resulting ratios than was the relationship between the previous official exchange rate of 4 roubles per dollar and the ratios shown in the first columns of the table.In this respect, the new exchange rate for the rouble is more "realistic" than the old:....."¹⁰

Table 2 *Rouble-Dollar Ratios for Gross National Product and its Principal Components*

	1955 Rouble-Dollar Ratio		Rouble-Dollar Ratios from 1961 onward	
	Soviet Weights	U. S. Weights	Soviet Weights	U. S. Weights
Consumption	8	15	0.8	1.5
Investment	5	7	0.5	0.7
Defense	4	5	0.4	0.5
Government administration	2	2	0.2	0.2
Gross national product	6	15	0.6	1.2

Here I quote Bornstein's opinion only as an example, but opinions of this kind are often found in the people of "West" side. They count Rouble-Dollar Ratios by comparison of prices in both countries¹¹ and compare real purchasing power of the rouble with that of Dollar. The above Bornstein's Ratio is an example. I will give two more examples as Rouble-Dollar Ratios calculated by a similar way.

One is a Rouble-Dollar Ratio calculated in the report published by the American Joint Economic Committee in 1957, in which 1 rouble=10.5 cent (1 rouble=36 yen 80 sen) in Soviet weight and 1 rouble=7 cent (1 rouble=25 yen 20 sen) in U.S. weight.¹² The other is that of the *London Economist*, in which 1 pound=35~40 rouble (1 dollar=12.5~14.3 rouble) (1 rouble=25 yen 17.4 sen~28 yen 80 sen).¹³

They equally say the old official rate, 1 rouble=25 cent, overvalue rouble, as far as they

⁹ Morris Bornstein, *ibid.*

¹⁰ Morris Bornstein, *ibid.*, pp. 121-22.

¹¹ A way to calculate Rouble-Dollar Ratios by Comparing wages of both countries is not matter in dispute here.

¹² Soviet Economic Growth: A Comparison with the United States, A Study Prepared by Subcommittee on Foreign Economic Policy of the Joint Economic Committee by the Legislative Reference Service of the Library of Congress. Washington, 1957, p. 109.

¹³ Economic Intelligence Unit; Three Monthly Economic Review. USSR 1960 Supplement.

judge from the prices of the Soviet Union.¹⁴

VI

Then was the former official exchange rate only a make-believe which was intentionally made to exaggerate Soviet economic power? It is not easy to answer the question.

For there are two factors to be taken into consideration.

In the first place, Soviet price structure is quite different from those of foreign countries. That is, a trade tax is imposed at a delivery of consumer goods in the Soviet Union, consequently prices of consumer goods are comparatively higher than producer's goods.

But this factor is not enough to turn over the opinion that 1 rouble=25 cent overvaluated rouble, for if we take up prices of producer's goods, we may get Rouble-Dollar Ratio at the rate of 5 to 1 or 6 to 1, not 4 to 1.

In the second place, there is a difference between U.S.S.R. and U.S.A. in their social structures. Accordingly it is dangerous to compare immediately real purchasing power or living standard of both countries by multiplying personal income of both countries by Rouble-Dollar Ratio drawn from mutual comparison of prices in each country. In other words, it is not always right to argue the appropriateness of the former official parity of rouble with a Rouble-Dollar Ratio gained by a simple comparison of the prices of both countries, for the exchange ratio, 4 rouble=1 dollar is not only technical exchange rate between currencies of both countries, but has an important effect on the conclusion of the comparison of economic powers of both countries.

Taking the second factor into due consideration, Prof. Lynn Turgeon, Hofstra College in America gives a penetrating criticism on the old Rouble-Dollar Ratio by the "West" side. He brings forward a serious question to the calculation of the Rouble-Dollar Ratio from a stand point of comparison U.S.A. and U.S.S.R. living standard in a report for 1959 on a comparison of Soviet and United States National Product of Joint Economic Committee of the Congress. In short, he says it is wrong to calculate Rouble-Dollar Ratio by comparing prices or wages of both countries and it is necessary to take the difference in social structure between both countries into consideration on calculation of the ratio. I would not repeat his opinion, though more detailed account of it needed here, for I have already introduced it on another occasion.

That the old rate, 1 dollar=4 rouble, overvaluated rouble is right on the whole, as far as it is calculated by the comparison of the prices between both countries. However, this rate is used not only in the exchange of currencies on the occasion of commercial or non-commercial transactions but in some cases used for a comparison of national product and living standard of both countries. The conclusion that 1 dollar=4 rouble overvaluated rouble, which is attained only through the above steps, is liable to lead the readers to misunderstanding of the facts. I feel much hesitation to conclude 1 dollar=4 rouble overvaluated rouble and can not support the opinion that the old rate was settled by a one-side action of the Soviet Government.

¹⁴ Kazuo Nonomura, "Comparisons of the United States and Soviet Living Standard", the July, 1960 number of the *Keizai Kenkyu*. (the Economic Review)

Kazuo Nonomura, "On the Soviet Economist's Opinions of the Contest between the United States and Soviet Union," the extra August number of the *Keizai Kenkyu*.

Kazuo Nonomura "Utility of Price Table in Moscow" June 11, 1961 issue of "Economist".

Kazuo Nonomura "The Economic Power of the Soviet Union" (Iwanami Shoten) pp. 176-184.

VII

Then it may be asked why the travellers' rate was established in 1957. It is easy to answer. In this case difficulties like measurement of economic power of both countries mentioned above are not involved in it but exchange rate of currencies by which travellers who came from Tokyo or New York pay fee for hotel or buy goods at Moscow or Leningrad comes into question.

Therefore simple comparison of prices between both countries comes into question. As far as it is concerned, you may say that 1 rouble=25 cent overvaluates rouble, or even 1 rouble=10 cent is so.

This state of affairs is the same to commercial transactions. In this respect an article titled "the Devaluation of the Rouble" printed in the March, 1961 issue of the Swiss Review of World Affairs insisted by showing examples that if Soviet export till then converted by the rate of 1 rouble=25 cent, she came to the result to export goods under their cost and it gave a damaging effect to trade transactions. The opinion of this article lies in a demonstration that relation between costs of production and export prices of Soviet exports goods and international market prices are rationalized by the new "reform".

Table 3 *Costs and World Market Prices after the Devaluation of the Rouble*

Export commodity	Cost of Production, in roubles		Export price prior to 1. 1. 61	World market price \$ new roubles	
	before the reform	after			
Wheat, per ton	727	72.7	250	75.00	67.50
Coal, per ton	150	15.00	55~60	25.80	23.27
Timber cubic meter	166.04	16.60	61	50.00	45.00
Crude oil per ton	85.00	8.50	49.50	15.19	13.67

Materials: The Devaluation of the Rouble, Swiss Review of World Affairs, March, 1961.

Table 3 shows Soviet cost of production is higher than international market price except wood if we convert them by the old rate. But the former is much cheaper than the latter except wheat after devaluation. The article mentioned above treated them in detail. So I hope the readers to reference it. In short, if we regard the change of internal price standard and that of foreign exchange rate of rouble as a set, we know that export trade is performed without subsidies and on economic calculation after then. V. Garbuzov, Soviet Minister of Finance, explained same thing with another words, that is "New rate of rouble will serve to improve the economic activities of Soviet foreign trade and other economic organization. By the new rate of rouble, prices of goods in the Capitalist world market and official price of gold will be equivalent to the average level of wholesale prices and official prices of gold of the Soviet Union". "Also the new rate of rouble can make the average level of Soviet retail prices basically equivalent to those in the Capitalist countries." Therefore, "it does not need to add premium on exchange of Rouble for the currencies of the Capitalist countries" as for non commercial transactions.¹⁵

VIII

The problem of the exchange rate between rouble countries is a little different from what is said above.

Table 4 *Non Commercial Rate of Rouble to other Socialist Countries*

Currency	Unit	Rouble Rate
Albania Lev	100	1.00
Burgaria Lev	100	11.24
Hungary Forint	100	7.14
East Germany Mark	100	25.80
Mongolia Tugrik	100	22.00
Poland Zloty	100	6.67
Roumania Lei	100	10.31
Czechoslovakia Krona	100	8.62

Materials: the same as Table 1.

Table 5 *Foreign Exchange Rate of Rouble to Unit 100 of Each Currency*

Currency	Commercial Rate	Non Commercial Rate
Albania Lev	1.80	1.00
Burgaria Lev	13.23	11.24
Hungary Forint	7.67	7.14
East Germany Mark	40.50	25.80
Mongolia Tugrik	22.50	22.00
Poland Zloty	22.50	6.67
Roumania Lei	15.00	10.31
Czechoslovakia Krone	12.50	8.62

Materials: Table 1 and 4.

commercial rate had. But since 1961, the former is lower than the latter.

What does this mean? Two forecasts can be thought of. One is to change the gold content of other socialist countries at a coming proper time and to make one foreign exchange rate by that. The other is to separate noncommercial account payable from clearing accounts of commercial transactions between the Socialist countries as before. It is impossible to attempt further forecast now.

The above is a brief outline of the internal and external problems of the new rouble. The argument is a reasoning based on informations available at the end of Aug. 1961, accordingly it is changable. Now I will point out some remaining problems.

The first is the Soviet Union's view of the relations between the rouble and "West" currencies. V. Garbuzov said in the article mentioned above that currencies in the Capitalist countries will continue devaluation firstly by inflation (rising of prices of consumers' goods

and other currencies of other Socialist countries. For in case of noncommercial transactions premiums until now are different from those in the Capitalist countries. As for the Capitalist countries so-called travellers' rate was abolished by the appearance of new rouble. But for the Capitalist countries, the following non commercial rate has been settled since Jan. 1, 1961.

As is shown on Table 4, this rate is one tenth of noncommercial rate till 1960. This means that noncommercial rate for the Socialist countries is moved with the same ratio with which the internal value of rouble is raised. To compare it with the case for the Capitalist countries, the following features are pointed.

(1) For the Capitalist countries two foreign exchange rates—commercial and non commercial—are unified to one rate since 1961, while there still remain the two rates between the Socialist countries.

(2) For the Socialist countries, the old noncommercial rate was accompanied by a premium which no

and depreciation), secondary by increasing instability of currencies because of the capital exports and expenditures for defense and thirdly by difficulties of commodity export.

Second, on the other hand, prospects for restoration of convertibility and circulation as a world currency of the rouble are given mostly by "West" side. I think there are many problems to be settled to realize the prospects. It will depend upon the way how these problems to be settled. So I can not think that the prospects will be attained near future. But I would discuss more concretely of this problem on another occasion.