



Russia Moving to Gold Standard?

With the value of the U.S. dollar exponentially declining since the establishment of the Federal Reserve Bank in 1913, it comes as no surprise that many world leaders and international economists have expressed their desire for a new world reserve currency. In light of the global financial crisis, Russia may be moving toward a sound economic solution — gold.



On Monday, January 24, the First Deputy Chairman Georgy Luntovsky of the Central Bank of Russia (CBR), announced plans to purchase over 100 metric tons of gold every year — increasing the bank's gold reserves by 13 percent in 2011.

Last year alone, the CBR expanded its gold holdings by 23.9 percent to 790 tons. Why the sudden increase? "The current set of reserve currencies and the main reserve currency — the U.S. dollar — have failed to function as they should," Russian President Dmitry Medvedev told a Shanghai Cooperation Organization summit on June 16, 2009, adding that he would like to see the Russian ruble become a global reserve currency.

Medvedev's desire for the ruble to be a global reserve currency, or part of a new economic world order, may not be the only reason for the sudden gold increase. With the signing of the Customs Union treaty last month, the leaders of Russia, Belarus, and Kazakhstan agreed to establish a free-trade zone among themselves with a common currency. The Customs Union — set go into effect on January 1, 2012 — has been regarded as the economic restoration of the Soviet Union.

A new gold ruble could serve as the basis for a common currency between the three old Soviet republics, much as the former Soviet ruble once was.

Between 1924 and 1947, the fourth Soviet ruble was regarded as a gold ruble. During this period the State Bank of the Soviet Union minted gold coins and printed paper currency backed by gold, though individual Soviet citizens were barred from exchanging their paper rubles for gold — a policy emulated by President Franklin Roosevelt in his 1933 Executive Order 6102, which forbade U.S. citizens from "the hoarding of Gold Coin, Gold Bullion, and Gold Certificates."

It would appear that Moscow is now taking a page from the past as it seeks to strengthen its monetary unit.

The idea of a gold ruble as an anchor world currency was first brought up in 2009 by the Kremlin's chief economic adviser, Arkady Dvorkovich, who declared that Russia would favor a new world reserve currency backed by gold. Discussing a new economic order, he stated, "We could also think about [a] more effective use of gold in this system."

The last international arrangement to be based on gold was the Breton Woods system, which came into effect in the wake of World War II. With the British Empire in ruins, world leaders and international



Written by [Christian Gomez](#) on January 28, 2011

economists gathered in 1944 at Breton Woods, New Hampshire, where they made the decision to replace the British pound sterling with the U.S. dollar as the world reserve currency. The dollar was chosen because at that time it was believed to be “as good as gold” — an estimation far from true today.

Under the Breton Woods system, gold would be available only to foreign investors, not U.S. citizens. The partial gold-exchange standard, as it was unlike the pure gold standard of the 19th century and pre-World War I era, came to an end on August 5, 1971, when President Richard Nixon discontinued the U.S. dollar’s parity to gold, which in turn prohibited foreign investors from redeeming their U.S. dollars into gold.

Since then the world has relied on the purely fiat U.S. dollar as the world reserve currency, which economists in Russia and China have now realized can no longer sustain the global economy.

As the value of gold continues to rise throughout the world, it is evident that no new sound economic solution can be found for any country without that precious metal commodity. Even here in the United States, Representative Ron Paul (R-Texas) has been the loudest voice for a return to a domestic full gold standard, though his idea has as yet fallen on deaf ears.

A newly invigorated Russian ruble based on gold may just be the key for that country’s rise as an economic power, which could in turn tip the balance of power in favor of Moscow and its newly formed Customs Union.

By means of capitalism and sound economics, Russia is moving itself out of the global recession. The question now is, what will the United States do next?

Graphic: Logo of Central Bank of Russia



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