Assistant Director, Research and Reports — 9 June 1952

Acting Chief, A/EC

Comments on paper <u>Russian Gold Policy</u>, March 18, 1952

1. <u>Appraisal</u>

A/EC analysts are of the general opinion that this paper is of relatively high quality and reflects a reasonable understanding of the problem with which it is concerned. Certain qualifying comments have been made and appear below along with a brief, comparative analysis of Soviet Bloc current gold production, gold stocks, and movements of gold to the West.

2. <u>Quantitative Analysis</u>

<u>Production</u>. The estimate for current gold production of 300 to 400 tons (or $270 to 370 million at the US price of $35 per troy ounce) accords reasonably well with the estimate of $280 million made by an ORR analyst.

<u>Stocks</u>. The paper's estimate for the Russian gold stock, a minimum of 1000 tons ($925 million), is considerably below the generally accepted figure of $3 to 4 billion used by State.

It will be noted that the ratio of production to stocks implied in the paper's figures (30 to 40%) is considerably higher than the ORR ratio of 7 to 9%.

<u>Movements</u>. The total of gold movements to the West shown for the year 1950 ($44 million) is less than the general run of estimates and compares with the ORR estimated range of $100 to 300 million.

Finally, it is interesting to observe the consistently extreme estimates of Mr. Franz Pick, NewYork publisher of <u>Pick's World Currency Reports</u>.1/

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1. Cf. CIA/RR MP-84, 10 March 1952, <u>The Quantitative Importance of Unrecorded (Clandestine) Trade in East-West Problem</u>, Appendix B, pp. 8-12. (SECRET)

Various Estimates of Soviet Gold Production and Stocks

Millions of US Dollars

Source 2/	Current Production (A)	Stocks (B)	Ratio of A to B (C)
State Dept.	200--250	3,000--4,000	5--8%
Franz Pick	735--770		
Union Corp. (UK)	70		
Bureau of Mines (US)	280		
Bank of International Settlements	140		
ORR	280	3,000--4,000	7--9%
[redacted]			

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Various Estimates of Soviet Bloc Gold Sales in the West, 1950

Millions of US Dollars

Source 2/	Value
State Dept.	200
Hong Kong gold dealers	8
Franz Pick	350--800
ORR	100--300
[redacted]	

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2. All estimates except the last are quoted from CIA/RR MP-84, 10 March 1952, The Quantitative Importance of Unrecorded (Clandestine) Trade in East-West Problem, Appendix B, pp. 8-12. (SECRET)

3. [redacted] 25X1C8b

3. Qualitative Analysis

Paragraphs 5, 6, and 21. These paragraphs all deal with the role of gold as a base for ruble currency. There appears to be some confusion with regard to the function of a gold standard in free markets as opposed to controlled markets. The gold standard can operate only under certain conditions. One condition is that a gold standard country must be willing to pay international balances in gold or in an acceptable currency. "Acceptable currency" here would mean a currency that the holder could use to purchase whatever goods he desired from any country. The other necessary condition is that the gold standard country must allow its internal price level to fluctuate in such fashion that a gold inflow or outflow will be reversed before its gold stock is exhausted--thus nullifying the first condition--or before it has accumulated so much gold that other countries' gold stocks are exhausted--again nullifying the first condition for the other country. If these two conditions are fulfilled, then the price of goods in one country will be related to the price of goods in any other country in such fashion as to make the currencies of all countries mutually acceptable. 4/ It should be noted that such a currency standard would not necessarily have to be gold based. All countries in a given trading area could agree to use peanuts--or rubles--and the same reasoning would apply provided that the above cited conditions were fulfilled.

Applying these criteria to the situation in the Soviet Bloc, it is evident that an announcement that the ruble has a fixed relation to gold does not mean that the ruble is an international or even intra-Bloc currency. An accumulation of rubles by Hungary cannot be used to buy anything inside the Bloc unless prior provision is made for the transaction in the economic plan. (It is not clear to what extent the economic plans are flexible enough to permit unplanned transactions.) By the same token, there is no mechanism whereby a Bloc country running a continuous deficit in rubles would be able to adjust its price level to reverse the tendency toward deficit. Of course it is possible that deficits could be handled by loans or gifts from the surplus country, just as they are in the West. But this would mean that the deficit country has an over-valued currency and the market-corrective mechanism would be rendered inoperative. The existence of a comprehensive physical unit plan seems to insure that an international currency standard of any meaning cannot exist in the Bloc at present. Admitting some flexibility into the plan might modify this conclusion.

The difficulty of carrying on international exchange without a real currency unit is shown by the practice of making intra-Bloc trade agreements in terms of Western currency. The evidence indicates that ruble prices for intra-Bloc trade are derived by multiplying Western prices by the ruble-dollar official conversion rate of 4 to 1. In effect, the Bloc is relying on the Western free market to determine the value of commodities, and then disguising the mechanism by converting the Western value to rubles.

4. See W. A. Brown, Jr., The International Gold Standard Reinterpreted, 1940, Volume I, Ch. 2.

Paragraph 14. American purchases in the USSR have declined considerably, but have not ceased. Dept. of Commerce Report FT 120, US Imports of Merchandise for Consumption, Jan. 1952, shows that the US imported $1,175,225 from the USSR in January 1952.

Paragraph 18. This paragraph implies that additional funds for subversive activities can be raised by giving Communist controlled Western firms favorable trading terms, thereby enabling them to make large profits when they resell to consumers in their own country. This reasoning is fallacious. If Bloc exporters sell to Western Communist importers at lower than world market prices, the net Western currency receipts of the exporters are reduced by exactly the amount that the contractual price is lower than market. Then if the Western Communist importers sell to Western consumers at market prices, their net Western currency receipts are higher than they would have been, again by exactly the amount that the original selling price was below market price. In either case, the total amount of Western currency received by the Bloc exporters and the Western Communist importer combined is exactly the same--only the distribution of the currency between the two would be altered. There is no reason why any one method of changing the distribution of Western currency receipts between the Bloc exporter and the Western Communist importer should result in an increase of total funds available for subversive activities, since the Bloc exporter must turn his Western currency over to his government, who can then ship the currency to the same Western Communist importer for subversive purposes.

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1 Enclosure

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