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Attached is a study of the gold policy of the USSR,

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INFORMATION REPORT INFORMATION REPORT

The Soviet Union's Gold Policy and Gold Sale.

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(late in 1961)

I Introduction.

The considerable amounts of gold, which the Soviet Union during recent years has sold [redacted] have aroused interest for the Soviet gold

[redacted]

The questions, which will be treated, are as follows:

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1. How large are the Soviet Union's gold production and gold reserve ?
2. Which importance do the Soviets attach to the gold in economics or with other words, what is the background for the policy led ?
3. How large are the gold sales and which are the reasons hereto ?
4. Which are the future possibilities for using the built-up gold reserve ?

II. The Gold Production and the Gold Reserves.

A.---The Production.

The Soviet Union has produced gold for more than 200 years. In the beginning they produced in the Ural Mountains, but as the eastern territories became colonized the central point of the gold production moved eastwards and now the most important production districts are the Aldan district near Yakutsk in East Siberia and the area between the rivers Kolyma and Indigirka in Northeast Siberia [redacted]

[redacted] which together produce 75 to 80% of the total production. These deposits seem to be extremely rich as the gold content can reach as high as 20 grams per ton of the basic material, [redacted]

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During the Tsar regime the gold production reached ~~x~~ considerable dimensions and already at that time the Soviet Union was one of the world's leading gold producers; but after the revolution in 1917 the production fell fast and got as far down as to about 35,000 ounces a year. The decrease was due to the disturbed conditions which characterized these years and probably also to the position of gold in Communist mentality. We will give a further account on this in a following paragraph. The decline, however, was broken in the early twenties and the gold production was resumed, partly by foreign firms which during the NEP period acquired gold winning rights in the Soviet Union. The size of production during each individual year from 1921 and the time ahead are stated in table 1 in the enclosure to the extent the available material makes this possible. The production reached 800 to 900,000 ounces a year fast and it stayed at this level until 1928. With the gold price of \$21 per ounce at that time this amount corresponds to a value of \$17 to \$19 million.

With the change to the plan period in 1928 a new break occurred in the development because they concentrated on giving rise to a drastic production increase during the following years. They succeeded in this and the production was nearly sixfolded up to 1936 to 1938. An important reason for this was the gold production's high priority at the distribution of investments which had the result that an essential part of the production was mechanized during these years.

The production development since the outbreak of the war is on the whole unknown because of the secretiveness with which it has been surrounded by the Soviets. How total the lack of official information has been is illustrated by the great disagreements between the estimates of the production which from time to time

have been made

One observer estimates the average yearly 50X1-HUM

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production after the war to not over two million ounces, while others estimate its present size to close to 17 million ounces.

A combination of these gives - apart from the lowest ones as there seems to be a common agreement that the Soviet Union is second among the world's gold producing nations - that the productions between 1941 and 1960 must have amounted to 150 to 250 million ounces.

B. The Reserves.

We can get an idea of the approximate amount of reserves by subtracting the sales effected to the outside world during the past 40 years and the amounts which have been used for non-monetary purposes from the total production during the same period, excluding the gold reserve at the beginning of the period without making any grave errors. Naturally the uncertain production statements for the past 20 years make it difficult to give an exact figure of the size of the total production, but is the production given year by year since 1940 by an interval, for which the limits are fixed from the existing estimate, the total production must have been somewhere between 200 and 300 million ounces.

The sales to the outside world (see table 1) for the period from 1936 through 1960, have amounted to 50 to 60 million ounces of which the main part has been sold during recent years. Even regarding the sales from the early twenties up to 1936 it is doubtful whether the total sale would exceed 60 million ounces considerably. Finally, it is probably permissible to exclude the use of gold for non-monetary purposes, jewels for example. Here in the West the use of gold for jewels amounts to a sixth of the available amount of gold and it is reasonable to guess that this is considerably lower in the Soviet Union.

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So the conclusion is that the gold production has exceeded the gold consumption considerably , so a reserve of 140 to 240 million ounces should have been worked up which gives a value of 4.9 to 8.4 \$ a month at the present gold price of \$35 per ounce. The reserve is probably closer to upper than the lower limit. The Interfund estimated Soviet's gold reserve to about eight \$ a month in April 1960.

III. The Background for the Policy Led.

It appears from the above that the Soviet Union has taken a great interest in the gold production, a fact which seems strange recalling the attitude to gold and money taken by the regime during the beginning of the period which so aptly was manifested in statements by several leading personalities like Lenin for example. So it is natural to ask the reason for the revulsion and in this connection the importance which the Soviets attach to gold. Before this happens there may be good reason to define further which missions the gold carries out - or is assumed to carry out - in the national and international economy.

A. The Gold's Economical Functions.

Throughout the ages gold has acted as means of payment, partly directly in the individual transactions, partly indirectly when the money institutions used gold to cover their engagements, including the notes they issued. It has had these functions within a country as well as in the relation between the countries.

First looking at the conditions within a country we can roughly say that the direct use of gold as means of payment in the past was replaced by a system where a number of banks supplied people with means of payment in the shape of notes. In this way a number of money systems, which were mutually independent, arose within the country. The gold acted as a reserve for each individual bank in these systems as this was the only one of all approved means of payment. The trust in the notes

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issued by the bank depended on the fact that the bank owned a gold reserve and that these notes could be converted into gold at any time. We have a parallel to this in the modern bank system where the trust in the individual bank - and thus the desire to have claims on it in the form of deposits - depends on the fact that the bank has a reserve of claims on the central bank, notes or deposits. The next step in the development was that the right to issue notes was taken from the individual banks and passed over to a central bank of which the notes were made legal means of payment everywhere within the country. Thus the gold was played out in the national money system. Now the private banks could replace the gold reserve with claims on the note issuing bank and neither this one had any real need for a gold reserve in the relation to the country itself because its notes were legal means of payment and it could always free itself from its obligations by issuing new notes.

Still, the rules, which previously had been formed gradually, were passed over to the new system, so the note circulation, which is claims on the bank, was supposed to be covered by gold in some relation or other. Later on, however, most countries have left these rules realizing their superfluity and unpractical character; in countries where the rules still exist they have no real importance.

It is evident that gold backing can be of no importance to the trust in the notes without such an opportunity.

No money system corresponding to the one existing in the individual countries has developed in the relation between the countries as yet.

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B. The Motives for the Soviet Union's Gold Policy.

[redacted] the energy, which the Soviet Union has put 50X1-HUM
into the gold production, would have been rationally founded if it had served to
supply the country with an international means of payment primarily. Had this been
the case part of the production would have been used for building up a certain
reserve to meet situations of great claims to the country's international solven-
cy, while the part of the production, which exceeded this need, should have been
sold on the world market. Then the Soviet Union would have led the same policy as
South Africa, the world's greatest gold producer, which sells by far the greatest
part of its production to the world market and for which gold is an export article

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on the same lines as other "ordinary" articles.

There is no indication, however, that gold takes up this position in the Soviet Union and thus that the purpose with the gold production has been the procurement of an international means of payment alone. It has been mentioned previously that only a small part of the gold production has found its way to the world market, regarding the period previous to 1953 especially, and that the main part of the gold production has been used to build up a gold reserve of about which seems over-dimensional considering the relatively modest commercial intercourse between the Soviet Union and the "capitalistic" countries. In 1959, for example, the import amounted to about 1300 million \$ and so the gold reserve could finance six years of Soviet import from the West. It is often stated that the disinclination towards gold sale, which the development indicates, is due to the considerable expenses connected to the gold production. This is no satisfactory explanation, however, because it does not answer the question why the Soviet Union then under so unfavorable cost circumstances has strived to work up a gold reserve which exceeds the amount, which the reserve claim would dictate alone, to such a degree.

Furthermore, it is characteristic for the Soviet gold sales that they take place at certain times of the year, for a number of years for example during the last quarter of the year and sometimes stretching into the new year, during recent years during the second quarter. This may indicate that the gold sales primarily take place in order to equalize instabilities already arisen in the commercial intercourse with the outside world. So the gold sales cannot be considered an export article like in Africa but on the same lines as international capital movements and so on the same lines as credit from the West to the Soviet Union.

The policy led does not harmonize very well with the view that gold only has a va-

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lue as international currency. Further explanation is necessary, and in the following an evaluation of the importance, that the USSR attaches to its gold policy, will be attempted.
1)

After the rvolution it soon proved impossible to create the ideal Communist society, where a money system would be unnecessary. It was apparent, that for a while developments would rest at a step called "Dictatorship by the Proletariat". For the next decade it was discussed whether to maintain the capitalistic system of money - and gold- or whether to use physical units as payment. This idea was especially promoted by the economist STRUMILIN. The post-war inflation as well as the state's efforts to get along without a money-system resulted in a very poor economic period, further hampered by barter-trade. Because of these difficulties SOKOLNIKOV's views, that until the perfect Communist society could be achieved a money-system based on gold would have to be established, could gain ground. This is in complete agreement with MARX, whose thought was, that gold must be estimated on the basis of the labor-value of other goods. Paper-money on the other hand representing no labor-value should only be valid if backed by gold. After a period of indecision LENIN supported this line of thought, and put through a resolution re-establishing a money-system based on gold. This reform was highly criticized by STRUMILIN, who in turn was criticized by SOKOLNIKOV for not accepting the Marxist theory about gold and paper-currency backed by gold. The reform was part of many compromises during these years characteristic of the NEP politics.

1) The following is based on an article by Alfred Zaubermann: Gold in Soviet Economic Theory and Politics. The American Economic Review, 1951.

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The money-system introduced in 1922 was somewhat altered in 1924. The Ministry of Finance was authorized to issue notes without gold-basis in order to cover the budget's deficit. This is still in effect. Notes of 10 rubles or more are issued by the Treasury and are gold-backed. Notes of less than 10 rubles can be issued by the Ministry of Finance up to 50% of the value of the notes issued by the Treasury. Actually this limit has not been observed.

The conclusion must be, that the stimulation of the gold-production is motivated by the desire for a stable currency.

This viewpoint is still valid in the USSR. Citations from economic works approved by Stalin shortly before his death are proof of this: Money can only be a measure of value (its main function), if money itself is a commodity, i.e. has value. On socialist economy: The stability of USSR currency is secured by enormous amounts of goods available to the state and put into circulation at set prices, also the Soviet currency is gold-backed. In these economic works it is pointed out that Treasury-money is gold-backed. It also comes to mind, that in 1960-61 at the time of the currency-reform the importance of the gold-basis and the gold-value of currency was very apparent.

The Soviet interest in gold-production, however, is not only furthered by the desire for a stable money-system, but also for an international buying-power. Thus in the above-mentioned economic works it is mentioned, that the stock-pile of gold is the state's reserve-fund of international currency. The reluctance that the USSR has demonstrated - especially some time back - in using its gold-reserve even in times of great need clearly illustrates the

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important role of the gold in internal USSR policy.

IV; Gold sales in recent years.

In earlier times the USSR would use its gold reserve as international currency only to a very limited degree, but since 1953 she seems increasingly willing to do so. Thus the USSR in the period 1953-1960 has sold about 40 million ounces valued at 1400 million Dollars in the West.

This means about 4/5 of the total sales in the time since 1936, when the first gold-sales were recorded. [redacted]
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Such sizable sales have naturally caused speculation. It would be interesting to know, why the USSR is now willing to sell gold, and for what purposes the gold has been sold. The answer to the first question could be, that the importance of gold as international currency outweighs the internal value, or it could be, that the gold-reserve is big enough to allow a more liberal expenditure. It is difficult to say which is the right explanation. But it is safe to assume - if the above-mentioned estimates of the gold-production are correct - that the main part of the production goes into the stock-pile. The conclusion is, that the gold-sales are geared primarily only to the increased money-transactions with the rest of the world. This will be illustrated in the following. On the basis of existing information possible changes, that have taken place will be shown. This will require a table of the Soviet budget during those years. This is difficult as only the amounts connected with the USSR's foreign trade are known. It is true, that these make up the

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largest part of the USSR payment balance, but it is impossible to ignore the remaining balance. It looks as if the USSR has a deficit on these other items, for instance expenses on freight, tourism and probably support to Western Communist parties. Before the big gold sales the USSR's trade with the West showed a profit, even though gold was sold in small quantities, about 1 million ounces annually, valued at about 35 million dollars. The total of the surplus of the trade balance plus the gold sales can be considered to make up the USSR demand for Western currency - net - for purposes other than import. Taking for granted that this demand is unaltered the question is: Has the foreign-trade-balance changed so much as to explain the considerable rise in gold sales? In other words how big a change does this item show compared to the years before 1953? In the attachment, table 2, it will be calculated up till 1959. In the foreign-trade-statistics, transactions not showing income or expense have been entered, these will be corrected. For instance under export will be included deliveries to underdeveloped countries according to agreements between the USSR and these countries.

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The USSR's payment -

position in relation to the West has been decreased with 986 million dollars, since 1952. Assuming that the Soviet holdings of Western currency are constantly low, a total gold sale of 986 - 1231 million dollars could be expected during this period. The actual gold sales amounted to 1250

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million dollars. The largest part of these sales can thus be connected with the development of the commerce with the West. Below follows a table of this development in relation to Western industrial and developmental countries.

Trade Balance with the West from 1952 - 1959 in million dollars.

	Industr. countries	Developm. countries	Other trade	Total	1) Change relative to 1952
1952	96	-50		46	-
1953	26	-42		-16	-62
1954	24	-71		-47	-93
1955	130	-103		27	-19
1955	175	-108	78	145	(-19)
1956	105	-174	102	13	-151
1957	73	-256	93	-175	-339
1958	109	-201	98	6	-158
1959	193	-288	95	0	-164
Total					-986

Up till 1955 Western statistics have been the basis of this table, after 1955 Soviet statistics were available for the first time. In order to avoid mistakes due to the difference in sources the year 1955 has been calculated both ways.

1) Including loans of 20 million dollars in 1956 and 85 million dollars in 1957 in Western currency to Eastern Bloc countries.

It can then be seen that the gold sales during the first years were the result of the more liberal import-policy after Stalin's death. After 1955 the position in relation to the industrial countries improved greatly.

The gold sales can thus be connected with the "economic offensive" conducted on the industrial countries. There are two aspects to this. One is in relation to the export, because a great part of the increased export to these countries after 1952 - the real "economic offensive"-has been

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financed by Soviet credit, whereas the import from these countries has been increased to 9 times the volume in 1953.

Actually this satisfactorily explains the recent Soviet gold sales, although part of them still remains a mystery. This remaining part may be explained by the way the USSR conducts her trade and payments in relation to the West.

It is a fact that the postwar Soviet Union believes in trade with the West only in the form of bilateral trade- and payment-agreements that stipulate balance of the trade and require payments through the respective central banks, thereby making foreign currency unnecessary. The agreements contain automatic credit within certain limits in order not to hinder the trade by having to be in balance at all times. Foreign currency then enters the picture only, when accounts have to be settled - most often annually- this is done partly through delivery of goods, partly with free currency.

Over a longer period of time this method of calculation will not make any difference in regard to the demand for Western currency, as a deficit must be covered some time or another. Within one year, however, it means that the USSR receives a short-term loan from its trading-partner, so that a deficit in the trade does not require immediate settlement in Western currency. It is therefore not to be expected to find complete balance between movements in the trade and gold sales, as the figures will demonstrate.

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V. Other possibilities for the use of the gold reserve.

The secrecy with which the USSR has attempted to surround her gold production, has led to many speculations as to what she wants to use it for. Two possibilities shall be mentioned here, one dated, one recent one. The first one is the assumption, that the USSR is storing gold in order to sabotage the capitalistic system, the other that she is trying to make the ruble internationally convertible in the manner of the dollar and the pound.

The first possibility was quite popular in the West. This is the natural consequence of the Soviet hope of overthrowing the capitalistic system paired with the Western fear, that the USSR through active, economic measures might actually fulfill this hope. It has been thought that the USSR through her gold reserve could make transactions on the world-market aimed at causing price-instability and exchange-fluctuations. This would panic the capitalistic world, ruin world-trade, create unemployment and disturbances. It does not seem a likely possibility. It is hard to imagine such reactions. In order to obtain them, the USSR would have to require a gold reserve considerably larger than what she has after 40 years of gold production. Also it would have to be presupposed that the Western countries would undertake no precautionary measures, which would be highly unrealistic. Thus it is doubtful that the USSR could produce more than a few scattered disturbances in the capitalistic system in this fashion. Furthermore it must be

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questioned, that the USSR would want a policy completely opposing the current USSR thinking on the importance of gold. It must not be forgotten that although the Soviet hopes and aims are apparent, purely economic ^{considerations/} can and do decide Soviet international transactions. When for instance the USSR sold tin under world-market prices, she unsettled the tin-market. This could hardly be called Soviet policy, rather it must be considered an attempt at procuring - through whatever available means - Western currency, an economically motivated transaction.

In the fall of 1960, during the gold crisis, the USSR discontinues the gold sales. The result had to be an increase of the gold price, consequently gold-instability. Rather than to overthrow the capitalist system, the USSR most likely intended to cause a devaluation of the dollar, and thereby an increase in the gold-price. For a gold-producer a normal behaviour, above all economically motivated.

It then seems reasonable to outrule the possibility of the USSR wanting to create panic in the capitalistic system via the gold reserve.

The other possibility was to obtain convertibility for the ruble. K. V. Ostrovityanov - vice-president of the Soviet Academy of Sciences - some years ago predicted, that in the future the ruble would enter the world market and become more valuable than the dollar. Articles on the ruble-reform of 1 January 1961 stressed the fact, that this had already happened to some extent, pointing out that the trade in the bloc countries is settled in rubles. However this does not make the ruble convertible in the Western sense of the word. Convertibility means that a currency as well as gold can be the basis of an international payment-system, making possible a condition, where the payments do not have to

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balance bilaterally, but where credits in one country may be freely converted to other currencies and be made to cover deficits in other countries. If this condition does not exist, but payments have to balance reciprocally, the need for international currency does not arise, this is the case in the satellites. The satellite credit-country has a very limited opportunity to use its surplus as payment to another country in the bloc. This reduces the ruble to a mutual payment unit in this trade. However, lately the bloc seems to be interested in creating a more flexible system in the future, emphasizing a multilateral payment-system over the bilateral system, with the ruble as payment-unit. On the extent of the success of this plan depends the convertibility of the ruble. There would then be a ruble-area as well as a sterling and dollar-area.

The above-mentioned quote by Ostrovityanov could point to the fact, that the USSR is aiming higher. This possibility deserves attention. He indicates, that the ruble also will be used as payment in the Western central banks on line with dollars and pounds, and even become more valuable. Basis for this is full external convertibility, that is ruble-assets can freely be exchanged into other currencies and gold, or no Western central bank would accept ruble-assets as payment.

In this connection it is often said that the Soviet system cannot permit convertibility, because the trade is completely controlled by the state. According to this opinion convertibility would presuppose liberalization of the Soviet foreign trade. This is not necessarily so. Actually the ruble could obtain convertibility at the same time as the trade were controlled by the state through trade-agreements. Possible ruble-assets not intended for import because they would not meet with the economic requirements in the USSR, could be converted into other currencies or gold in case the Western central bank would

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