

FROM RESERVE CURRENCIES TO RESERVES OF CRITICAL GOODS: DESIGNING A NEW BRICS INTERNATIONAL CURRENCY

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Currently, there is a need for reform of global monetary circulation and credit, which in a sense has stalled. The key is to restore the connection between monetary circulation and real production. In the first part of this study, I provide a brief analysis of the catastrophic consequences that the current design of reserve currencies has led to for the world economy. At the same time, the transition from the dollar to other reserve currencies operating on the same principles, the ethos of which is now being actively promoted in the West, will not improve the situation. In the second part, I demonstrate the efforts being made to de-dollarize settlements by both the BRICS, the EU, and the EAEU countries. The third part shows the successful historical experience of the transferable ruble as an international currency that functioned in 1960–1980 on non-discriminatory principles within the Council for Mutual Economic Assistance (CMEA). In the fourth part, the international currencies already functioning in the world are described, as well as some existing proposals for the introduction of new international currencies. I argue that reliable physical access to reserves in basic food and medicines in controlled warehouses is becoming a matter of great importance. The transition is necessary from the ideology of reserve currencies to the ideology of reserves of critical goods. Such an incentive of a new BRICS currency on the demand side will be food and healthcare security. On the supply side, for all states that have established a currency, there should be a clear vision of how they can develop their exports using this currency. In order to secure currency, such goods must be pledged to international BRICS warehouses that correspond to the main export directions of the project countries and/or are critical for their import. These are basic foods such as grains, then medicines, fuel and energy resources, and metals.

Keywords: global food security; global health care; currency zone; BRICS; international currency; international reserve warehouses; export promotion.

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Introduction

Any crisis situation not only hurts, but also opens a window of opportunity. This fully applies to the coronavirus pandemic. The United States and the European Union responded to the virus with another large-scale emission of the dollar and the euro, respectively. To a certain extent, both American and European authorities resemble some medieval doctors who tried to cure all diseases with bloodletting, cauterization and leeches. Only the place of the indicated medieval methods of “treatment” is occupied by a decrease in the discount rate, which almost can’t be reduced any more, as well as unlimited monetary emission. Such mechanisms are inherently vicious, as they are based on a mechanistic concept of money circulation as a “plant,” with production problems that can be solved by tightening one or another nut or releasing steam.

But money circulation is not a factory, it always avenges, however, with a lag in time, for government interventions that cause significant imbalances in the money supply and the commodity stock. Both the United States and EU Member States expect at least a 10% drop in bloated artificial GDP by the end of 2020. And the matter is not only due to the coronavirus; such a fall would have happened without it. Only a little later in 2021–2022 since the fundamental cause of the fall is not coronavirus, but objective accumulated imbalances in the global economy, which has led to its structural rather than cyclical crisis.

As the economy becomes more complex, at each next step in the division of labor, profit falls, and the increase in the cost of new infrastructure becomes greater than the profit that it generates. At the macro level, the total expenditures of the economy become more than the profit that it generates. Temporarily, the Western world “borrowed and used” its future incomes, but this cannot be done further. The

inability at the level of the world economy to further expand the total production and final consumption of households or even maintain it at the current level is due to the fact that all objective methods for this have been exhausted. Namely, it is impossible a) to expand the geography of the market, since it is already global, b) to increase labor productivity by further deepening the division of labor due to the technical parameters of current production technologies, c) to refinance private debt by lowering the key rate, because it is already almost zero, and households have already been overloaned. Since the current structure of the labor division system, primarily financial, is built for global markets, while demand falls it will become unprofitable. In fact, this has already happened, most of the international financial institutions and states live only on the basis of emission replenishment. This means that the collapse of the world into several new technological zones, which, most likely, will be created by issuing new regional currencies – currency zones, will be economically beneficial.¹

When banks initiate credit expansion, that is, increase the money supply in the form of new loans, provided without the support of new voluntary savings, processes in the economy spontaneously start, which ultimately lead to crisis and recession. So if there is credit expansion, then it is impossible to avoid economic crises and recessions. Thus, economic crisis is inevitable, despite any attempt to delay it by injecting new, ever-increasing doses of credit expansion. A recession starts when credit expansion slows down or stops, as a result of which investment projects launched if flawed are liquidated, the production structure narrows, and the number of its stages decreases. At the same time, the demand for labor and other primary means of production, applied at the most distant stages from consumption and no longer generating profit, disappears. Economic recovery develops when economic agents in general, and consumers in particular, decide to reduce their consumption and increase their savings in order to repay the loans and deal with the new stage of economic uncertainty and recession. However, in practice, new credit expansion interferes with the natural process of economic recovery, causing new rounds of crisis.²

To a certain extent, inflation in the United States has so far been restrained by the fact that other states are depositing U.S. dollars in national reserves, that is, the dollar is the reserve currency. Indeed, the issue of reserve currency is a type of “export” of inflation from the issuing country to those countries that agree to accept the currency into their reserves.³ It is likely that the euro authorities are also hoping to shift the

¹ Хазин М.Л. Воспоминания о будущем. Идеи современной экономики [Mikhail L. Khazin, *Memories of the Future. Ideas of the Modern Economy*] (St. Petersburg: RIPOL Classic Sfera, 2019).

² Jesús Huerta de Soto, *Money, Bank Credit, and Economic Cycles* (Auburn, AL: Ludwig von Mises Institute, 2012).

³ Murray Rothbard, *History of Money and Banking in the United States* (Auburn, AL: Ludwig von Mises Institute, 2002).

inflationary burden of the euro emission to other countries outside the Eurozone, hoping that the latter, under the slogans of “de-dollarization of settlements,” will put freshly printed Euros in their reserves.

If unprecedented monetary measures are now in place, then in the future, governments and central banks will no longer have any effective recipes to counter the inevitable crisis. Solving the tactical tasks associated with the problems arising from the coronavirus will not allow reduction of the risks of excessive interdependence of developed and developing economies this year and will only aggravate the problem of global inequality and enormous debt. And then any new “black swan” will become a real trigger of global crisis.⁴

The markets are no longer able to survive without almost daily help from the central banks. In fact, the interbank “market” no longer exists, since operations on it would be impossible without the constant support of central banks. Therefore, we have returned globally to the Soviet administrative system of financing. The financial activities are increasingly detached from the “real” economy, becoming less and less legitimate. Every step taken by central banks to stabilize their situation in the end only adds to anxiety and distrust.⁵

We see the expansion of global debt (both government, corporate and consumer) much faster than real GDP growth; decrease in investment activity in the real sector of the economy while expanding financial bubbles; the release of colossal volumes of derivatives; trade wars as a response to imbalances and negative balances in foreign trade; the impossibility of accumulated debt repayment without new central banks lending at almost zero rate, which is impossible to do to infinity; the prospective depreciation of assets when deflating a credit bubble (deleverage). Structural changes in the world economy are needed. Such as the formation of several monetary centers comparable in volume – financial and economic poles, on which would be the base for the whole structure of the world economy, a multi-currency structure of world reserves and mutual settlements in trade between countries.⁶

However, in a morally normal economy, the right to make a profit is nothing but a reward for taking risks. If all risks are transferred to the counterparty, then there

⁴ Лосев А.В. Коронавирус vs экономика: бегство от риска или разворот к мировому кризису // Клуб «Валдай». 26 февраля 2020 г. [Alexander V. Losev, *Coronavirus vs Economics: Risk Exodus or Reversal to the Global Crisis*, Valdai Club, 26 February 2020] (Aug. 2, 2020), available at https://ru.valdaiclub.com/a/highlights/koronavirus-vs-ekonomika-begstvo-ot-riska/?sphrase_id=69423.

⁵ Санир Ж. Ждать ли нового финансового кризиса? // Клуб «Валдай». 21 октября 2019 г. [Jacques Sapir, *Should We Expect a New Financial Crisis?*, Valdai Club, 21 October 2019] (Aug. 2, 2020), available at <https://ru.valdaiclub.com/a/highlights/zhdat-li-novogo-finansovogo-krizisa/>.

⁶ Лосев А.В. Что будет с экономикой, когда лопнет глобальный пузырь на рынке кредитования? // Клуб «Валдай». 14 ноября 2019 г. [Alexander V. Losev, *What Will Happen to the Economy When the Global Bubble in the Credit Market Bursts?*, Valdai Club, 14 November 2019] (Aug. 2, 2020), available at <https://ru.valdaiclub.com/a/highlights/cto-budet-s-ekonomikoy/?fbclid=IwAR3QVrUDY5plZ9rHRV8eXVGD4sld5FV22WVN2uwBFB-EjAj33962yQsieyo>.

are no moral grounds for making a profit. This is conceptually well developed by the ideologists of traditional Islamic finance.⁷

1. Traditional Ideas for Reserve Currencies

The need to expand the list of reserve currencies available in the global economy is now recognized.⁸ The process of regionalization instead of globalization, changes in the global economy and the emergence of new technologies will create in the near future a diversified “multipolar” system based on several world currencies.⁹

But it is unclear why, then, we need large national reserves in any foreign currencies? Criticizing the United States, other countries did not offer any real alternative reserve currency, which would be free from the shortcomings of U.S. dollars. After all, one can’t seriously consider such an alternative as bitcoin and other “cryptocurrencies,” the rate of which goes up and down all the time, and no one guarantees the safety of investments in such.

Although some central banks, in particular the Swedish, Dutch and French, as well as large private companies like Facebook plan to issue cryptocurrencies,¹⁰ this could be a marketing gimmick. It does not matter whether any currency is formally titled as “crypto” or not, the specific assets backing it are important.

Currently there is a lot of talk about alternative reserve currencies, however, it usually just proposals to replacing the dollar with the Euro or Chinese Yuan. However, this is just a variation of a concept already expressed in the past¹¹ to replace the dollar with an only formally different international currency.

According to Carney, who until recently served as the Governor of the Bank of England:

the dollar’s position as the world’s reserve currency must end, and that some form of global digital currency – similar to Facebook Inc’s proposed

⁷ Muhammad Taqi Usmani, *An Introduction to Islamic Finance* (Karachi: Idaratul Ma’arif, 1998).

⁸ Лисоволик Я.Д. БРИКС: путь к новой системе глобального управления // Клуб «Валдай». 28 февраля 2020 г. [Yaroslav D. Lisovolik, *BRICS: The Path to a New Global Governance System*, Valdai Club, 28 February 2020] (Aug. 2, 2020), available at https://ru.valdaiclub.com/a/highlights/briks-put-globalnoe-upravlenie/?sphrase_id=69438.

⁹ Лосев А.В. Гегемония доллара и перспективы евроизации // Клуб «Валдай». 17 декабря 2018 г. [Alexander V. Losev, *The Hegemony of the Dollar and the Prospects for Euroization*, Valdai Club, 17 December 2018] (Aug. 2, 2020), available at <https://ru.valdaiclub.com/a/highlights/dollar-i-evro/>.

¹⁰ Ковачич Л. Криптоюань вместо долларов. Как Китай строит международную финансовую систему будущего // Московский Центр Карнеги. 18 ноября 2019 г. [Leonid Kovachich, *Cryptoyuan Instead of Dollars. How China Is Building the Future International Financial System*, Carnegie Moscow Center, 18 November 2019] (Aug. 2, 2020), available at <https://carnegie.ru/commentary/80364>.

¹¹ James Rickards, *The Death of Money: The Coming Collapse of the International Monetary System* (New York: Penguin Books, 2014).

Libra – would be a better option. That would be preferable to allowing the dollar's reserve status to be replaced by another national currency such as China's renminbi. In the longer term, we need to change the game ... When change comes, it shouldn't be to swap one currency hegemon for another. It may be that a new "Synthetic Hegemonic Currency" would be best provided by the public sector, through a network of central bank digital currencies. Even a passing acquaintance with monetary history suggests that this center won't hold ... Let's end the malign neglect of the international monetary and financial system and build a system worthy of the diverse, multipolar global economy that is emerging.¹²

However, it is impossible to believe that China and Russia will support such a plan. Simply because it is economically disadvantageous for them. It is unclear in terms of motivation the creation of a common currency with the UK and the USA which for decades, first the UK, then the USA, continuously abused the status of the world reserve currency. In practice, it could be more advisable to give the latter the opportunity to bear the burden of the consequences of their financial policies themselves, fencing off from their currency zone. Even if to imagine the creation of a common currency with the U.S. and Great Britain and developing economies' participation, how will it be decided concerning the appropriateness of the issue and its distribution?

As Shenaev rightly notes,

any single national currency, no matter what the economic and political power of the state it relies on, can't become full-fledged world money. The issue of the dollar is mainly determined by the needs of the U.S. economy, and the flow of dollars in international monetary circulation is caused by the U.S. balance of payments, not the real needs of international settlements.¹³

The issue of the euro in this aspect is fundamentally no better.

2. Dedollarization as an Anti-Sanction Path

More countries are becoming aware of the need to diversify their payment instruments since they are also vulnerable to American sanctions. External incentives for third countries to fight their dependence on the U.S. dollar includes U.S. trade wars, tangible risks of sanctions against major Chinese players, "secondary" sanctions against

¹² Brian Swint, *Carney Urges Libra-Like Reserve Currency to End Dollar Dominance*, Bloomberg, 23 August 2019 (Aug. 2, 2020), available at <https://www.bloomberg.com/news/articles/2019-08-23/carney-urges-libra-like-reserve-currency-to-end-dollar-dominance>.

¹³ Шенаев В.Н. Мировые деньги: история и перспективы. Мировая валютная система и проблема конвертируемости рубля [Vladimir N. Shenaev, *World Money: History and Perspective. The World Monetary System and the Problem of the Ruble Convertibility*] (Moscow: Mezhdunarodnye otnosheniia, 2006).

European businesses etc. With regard to payment options, the main instruments of diversification are national currencies and currency swaps linked to them, and regional payment systems, the development of which was announced in the EAEU and BRICS. Still, the systemic obstacle to complete rejection of the U.S. dollar is that it is very difficult to find a replacement for its savings function, as opposed to the payment one.¹⁴

In December 2018, the European Commission presented a plan to strengthen the international status of the Euro and published a report on the international role of the Euro in the energy sector as well as recommendations to EU countries on expanding the use of the euro in energy trade, strengthening the role of the euro in the financial sector. In 27 August 2019, French President E. Macron stated that:

Our companies, even when we decide to protect them and take them forward, are dependent on the dollar. I am not saying that we need to fight the dollar, but we need to build real economic and financial sovereignty of the euro. And we have moved too slowly in this area as well. And what we need to build on is a strengthening, a greater integration of the Euro Area, a greater integration of financial markets of the Euro Area and stakeholders, and a capacity to build everything that truly establishes financial and monetary sovereignty. We are not there yet. And it is essential.¹⁵

However, from the view outside the EU, the transition to settlements with the Eurozone countries to Euro and national currency does not lead to a significant intensification of mutual economic cooperation and increase in trade, since this depends on broader political and economic reasons. At the same time, this approach contributes to a limited revival of trade and investment interaction, since it eliminates those risks of blocking mutual trade that are associated with the use of the American currency.¹⁶ A certain replacement of dollars by the euro in foreign trade can strengthen relations with European countries in certain sectors where export to European markets is significant, but does not provide a significant strategic advantage outside them, since it can't counterbalance transatlantic business ties.¹⁷

¹⁴ Anastasia Likhacheva, *Challenges and Opportunities for Russia's Strategy*, 3 *Russia in Global Affairs* 109 (2019) (Aug. 2, 2020), also available at https://eng.globalaffairs.ru/articles/unilateral-sanctions-in-a-multipolar-world/?fbclid=IwAR1bExLv8q3bQpr_-mFV9guQ1XyEguxTVnkG9hbbWKWhyFmcyIJTTgFB6KU.

¹⁵ Emmanuel Macron, *Ambassadors' Conference – Speech by M. Emmanuel Macron, President of the Republic*, Paris, 27 August 2019 (Aug. 2, 2020), available at <https://lv.ambafrance.org/Ambassadors-conference-Speech-by-M-Emmanuel-Macron-President-of-the-Republic>.

¹⁶ Бажан А.И. Россия и ЕС готовы перейти на расчеты в евро. Почему это хорошая новость? // Клуб «Валдай». 17 июля 2019 г. [Anatoliy I. Bazhan, *Russia and the EU Are Ready to Switch to Settlements in Euros. Why Is This Good News?*, Valdai Club, 17 July 2019] (Aug. 2, 2020), available at <https://ru.valdaiclub.com/a/highlights/rossiya-es-evro/>.

¹⁷ Яннинг Й. Зависимость Европы: почему отказ от доллара невозможен? // Клуб «Валдай». 18 декабря 2018 г. [Josef Janning, *Dependence of Europe: Why Is the Rejection of the Dollar Impossible?*, Valdai Club, 18 December 2018] (Aug. 2, 2020), available at <https://ru.valdaiclub.com/a/highlights/zavisimost-evropy/>.

In October 2019, Russia and Turkey reached an agreement on settlements in the national currencies, Turkish Liras and Russian Rubles. At the end of 2018, the share of trade settlements with Turkey in rubles and lira already amounted to 22%, but in dollars 65% of bilateral trade was still carried out as well as 13% in Euros.¹⁸ Payments between Russia and China are already almost half de-dollarized, and there is a significant progress underway in the de-dollarization of Russian-Indian settlements. However, the process is slowed down due to the global historical role of the U.S. dollar as the most liquid currency with a highly developed system of correspondent accounts, while technically almost everywhere in the world, the conversion from one national currency to another, as a rule, goes through the dollar “leg.” That is, banks have to go through the dollar link to get a different currency. For example, if India pays Russia for deliveries in Russian rubles, Indian banks servicing these transactions must first receive these rubles. They can technically do this only through the U.S. dollar.¹⁹

Also, the problem of settlements in Yuan is its limited convertibility. Although in 2016, the IMF included Yuan on the currency list on the basis of SDRs, Beijing has not completely lifted restrictions on the movement via capital account. Therefore, when exporting goods to China with Yuan settlements, there is a risk of a long wait for administrative permission to withdraw revenue from China, and not always at a favorable exchange rate. Beijing is not yet willing to open a full capital account flow due to the massive outflow of capital amid a slowdown in the economy, a trade war with the United States and the flight of families of corrupt officials. The Chinese do not want to open personal ‘windows’, fearing that those who want to withdraw money to the world market in transit via these windows will rush into them.²⁰

BRICS countries have begun to create the unified payment system BRICS Pay as a part of the development of a common platform for retail payments and transfers in the participating countries. Thus, Brazil, Russia, India, China and South Africa will be able to switch to the use of national currencies as a means of circulation and payment for external settlements, so a serious step will be taken towards de-dollarization. U.S. protectionism and Trump’s trade wars push regional powers to form financial and economic ties with neighbors and partners outside the “dollar zone.”²¹

¹⁸ Агеева О., Ткачев И. Лира сыграет в унисон с рублем // РБК. 8 октября 2019 г. [Olga Ageeva & Ivan Tkachev, *Lira Will Play in Unison with the Ruble*, RBC, 8 October 2019] (Aug. 2, 2020), available at <https://www.rbc.ru/newspaper/2019/10/09/5d9c7b539a7947b0de346b49>.

¹⁹ Ткачев И., Фейнберг А. В Минфине сообщили о сложностях отказа от доллара в торговле // РБК. 31 июля 2019 г. [Ivan Tkachev & Anton Feinberg, *The Ministry of Finance Reported on the Difficulties of Abandoning the Dollar in Trade*, RBC, 31 July 2019] (Aug. 2, 2020), available at <https://www.rbc.ru/finances/31/07/2019/5d4036239a7947155b5c1db8>.

²⁰ Габуев А. Заколоченное валютное окно // Коммерсантъ. 2 августа 2019 г. [Alexander Gabuev, *Boarded up Currency Window*, Kommersant, 2 August 2019] (Aug. 2, 2020), available at <https://www.kommersant.ru/doc/4047919>.

²¹ Лосев А.В. BRICS Pay – единая платежная система стран BRICS // Клуб «Валдай». 5 марта 2019 г. [Alexander V. Losev, *BRICS Pay – a Single Payment System of the BRICS Countries*, Valdai Club, 5 March 2019] (Aug. 2, 2020), available at <https://ru.valdaiclub.com/a/highlights/brics-pay/>.

At the forum of the BRICS Business Council in Brazil in November 2019, the problems of creating the unified payment system BRICS Pay, a single cryptocurrency and an international arbitration court within the framework of BRICS were discussed.²² Payment systems and arbitration (although their creation, of course, requires time and certain technological efforts) is just a technical part of the currency circulation. Compared with the technical parameters of the payment system, it is much more important what currency the specified payment system will work with, that is, what are the characteristics of this currency? Let's draw a clear analogy: logistics is very important, as is fair justice. But even if you have established good logistics for the supply of cheese to consumers and have very good courts presiding over the jurisdictions, then this will not help you if your cheese is of poor quality.

3. Transferable Ruble and the Council for Mutual Economic Assistance (CMEA)

Although the Soviet Union took part in drafting the Bretton Woods agreement, it then refused to sign it on the grounds that the accession of the USSR would result in its subordination to the United States. Several years later, when developing the GATT, the rules on monetary circulation were excluded from there. Moreover, although initially the rules on fair competition in international trade were to become the basis of the GATT (the ITO Charter agreed in Havana in March 1948), subsequently the United States torpedoed them.

The alternative plan developed in 1951 by the Soviet authorities was motivated by the goals of establishing "equal Asian-Pacific and international trade, eliminating economic discrimination, and the decisive role of individual currencies (the British pound and U.S. dollar) in interstate and regional trade." From 3 to 12 April, 1952, an international economic conference was held in Moscow, where it was proposed to create a common market for goods, services and investments that is not tied to the dollar. Discussed were such topics as customs and price privileges for developing countries or their specific goods, mutual favored nation treatments in trade, loans, investment, scientific and technical cooperation; the harmonization of policies in international economic organizations and in the global market; the possibility of barter (including the repayment of debts), mutually agreed prices and the non-requirement of U.S. dollar settlements. It discussed also a question of creating an interstate settlement currency with a mandatory gold content.²³ After that, on 23 February – 4 March 1953, the U.N. Economic Commission for Asia and the Far East (ECAFE) held a conference

²² Гальчева А. В БРИКС предложили создать единую валюту для криптоальянса // РБК. 14 ноября 2019 г. [Anna Galcheva, *In BRICS Proposed Creating a Single Currency for Crypto Alliance*, RBC, 14 November 2019] (Aug. 2, 2020), available at <https://www.rbc.ru/economics/14/11/2019/5dcd27a49a794738b8c6fdd8>.

²³ Международное экономическое совещание в Москве, 3–12 апреля 1952 г. [*International Economic Conference in Moscow, 3–12 April 1952*] (Moscow: International Trade Promotion Committee, 1952).

in Manila on the initiative of the USSR, supported by China, Mongolia, India, Iran, Indonesia, Burma, and North Vietnam. The USSR proposed introducing a system of interstate settlements in national currencies and removing restrictions on mutual trade, that is, moving towards a free trade regime in Asia and the Pacific. Although in the end such a project could not be realized on a global scale for political reasons, a great part of it was subsequently successfully implemented in CMEA.

The emergence of a collective currency under the CMEA was preceded by bilateral currency clearings, which provided for settlements between the two states by offsetting counterclaims and obligations with the balance being cleared by commodity supplies. If it was not enough, the difference theoretically could be covered by gold or freely convertible currencies. The system was focused on bilateral economic ties. However, this method of settlement was not effective enough because it limited the expansion of multilateral trade cooperation between countries. Bilateral clearing demonstrated serious disadvantages of this form of settlement such as the commodities turnover being limited by the potential of a less industrially developed country, the surplus could only be used to pay for commodity “additional deliveries,” and its use to pay for goods from third countries was impossible.²⁴ The introduction of the CMEA transferable ruble and, accordingly, the multilateral clearing system made it possible to overcome these shortcomings.²⁵

In fact, bilateral clearing (or settlements in national currencies) is an instrument of the 1930s and 1940s. But already in the 1950s, many countries began to move to the creation of multilateral clearing. In Western Europe, it was the European Payment Union (EPU) consisting of 17 countries, which was created in 1950 and existed until 1958. A supranational currency appeared within the ENP called “Epunit” which was equal to one U.S. dollar or 0.888671 grams of gold. The EPU was created as a regional organization of Western European countries. Unlike the IMF, quotas in the ENP were not paid and served to regulate the balances of countries participating in multilateral clearing. Within them, the share of gold payments and the share of loans that countries with active balance of payments provided to debtors were determined. The ENP was replaced by the European Monetary Agreement (EMA), which also provided for clearing settlements between the participating countries. But if all the requirements and obligations of the participating countries were cleared through the EPU, then only a part of the mutual settlements were cleared

²⁴ Беляев М. СЭВ: переводной рубль – виртуальный, но эффективный // Яндекс Дзен. 28 марта 2019 г. [Mikhail Belyaev, *CMEA: Transferable Ruble – Virtual, but Effective*, Yandex Zen, 28 March 2019] (Aug. 2, 2020), available at <https://zen.yandex.ru/media/id/59b92ed777d0e6b8fac17f65/sev-perevodnyi-rubl-virtualnyi-no-effektivnyi-5c9cb7d253b66100b374b7d7>.

²⁵ Мазанов Г.Г. Международные расчеты стран – членов СЭВ [Gennady G. Mazanov, *International Settlements of the CMEA Member Countries*] (Moscow: Finansy, 1970); see also Гершанович Е.А. Конвертируемость российского рубля: историко-экономический экскурс (1897–1991 гг.) // Экономический журнал. 2008. № 3(13). С. 141–157 [Elena A. Gershanovich, *Convertibility of the Russian Ruble: Historical and Economic Outline (1897–1991)*], 3(13) *Economic Journal* 141 (2006)].

according to the EMA, moreover, it steadily decreased due to the lifting of currency restrictions by most countries of Western Europe. The end of the EPU gave rise to a sharp dollarization of the European economy.²⁶

In Eastern Europe, in 1949, a gradual transformation of bilateral clearings with the participation of the USSR into multilateral clearings began. So, in 1949–1951 a large number of trilateral clearing with the participation of the USSR appeared. One of the modifications of such clearing was the transfer of the balance from the account from one bilateral clearing to the account of another bilateral clearing on the basis of a tripartite agreement between the USSR and two other countries. Then agreements began to appear that initially envisaged the organization of trilateral clearing settlements. In various combinations, the USSR concluded such agreements with Poland, Czechoslovakia, Bulgaria, and Finland. Finally, in 1957, an agreement was signed in Warsaw on the organization of multilateral currency clearing. Settlements were entrusted to the Clearing House, in which the authorized banks of the participating countries opened their clearing accounts. As part of the clearing settlements of the USSR with other socialist countries, the Clearing Ruble was used, which acted as both the settlement currency and the regional currency. Clearing rubles were non-cash money, they were not used for internal settlements of the countries participating in the system.²⁷

It is asserted in the Western literature that the main problem with a multilateral system of payments in transferable rubles was that

the creditor countries cannot automatically make use of their assets in transferable rubles to purchase goods and services on the possibility of additional imports of goods, and respectively, the automatic growth of multilateral balancing of accounts in trade between the socialist countries.

The accumulation of assets in transferable rubles was an inevitable aspect of the development of credit cooperation. Countries participating in credit relations were interested not merely in increasing their trade, but also in increasing the mutual exchange of goods in short supply as well as that of high-performance products. Consequently, in credit relations, effectiveness depends first and foremost on their capacity to stimulate progressive structural changes in international trade.²⁸

The socialist countries also tried to organize their trade with Western countries in national currencies, but unsuccessfully. During the 1970s bilateral currency clearing

²⁶ Катасонов В.Ю. Клиринг // Завтра. 1 июня 2015 г. [Valentin Yu. Katasonov, *Clearing, Zavtra*, 1 June 2015] (Aug. 2, 2020), available at <http://zavtra.ru/blogs/esche-raz-o-valyutnoj-monopolii>.

²⁷ *Id.*

²⁸ Gansho Ganshev & Michel Vale, *The Economic Effectiveness of Loans and Credits from the International Bank for Economic Cooperation in Transferable Rubles*, 22(1) *Soviet and Eastern European Foreign Trade* 51 (1986).

in business with advanced capitalist countries and developing countries of the Third World was supplanted by a system of payment in convertible currencies. This eliminated the drawbacks of bilateral clearing: a reduction in turnover down to the potential of the weak partner, distortion of the parameters for calculating the effectiveness of foreign trade in view of the different price levels in clearing contracts, the lack of stimulus for boosting production quality, the rigidity arising from the fact that participation in clearing is beneficial to the partners only on the basis of the assurance of receiving the goods stipulated in the contract, and the need to adapt the export supply to each individual country effecting payment in the clearing system.²⁹

So, CMEA – the Council for Mutual Economic Assistance, created in 1949, since 1960 began transformation to a fully-fledged regional international economic organization. In October 1963, the International Bank for Economic Cooperation (IBEC) was established as a part of the CMEA in order to promote the development of foreign trade of member countries and the implementation of multilateral settlements in new supranational currency. In 1964 IBEC began issuing transferable rubles. The introduction of the transferable ruble did not imply a liquidation of national currencies. In 1970 the CMEA member countries also established the International Investment Bank (IIB) to provide long-term and medium-term loans for the implementation of large international projects.³⁰

In accordance with the Agreement on Multilateral Settlements in Transferable Rubles and the Organization of the International Bank for Economic Cooperation of 22 October 1963 and its Charter, IBEC not only made international transfers, but also provided loans, including for national balance of payments clearing. As a general rule, loans were interest-bearing, and sometimes interest-free loans were allowed within strict limits. The agreement was signed by the USSR, Bulgaria, Hungary, East Germany, Mongolia, Poland, Romania, and Czechoslovakia. These same countries signed the Agreement establishing the IIB on 10 July 1970. Later Vietnam and Cuba joined both IBEC and IIB. The transferable ruble had an official gold content of 0.987412 grams of pure gold in the 1980s. It ensured the dedollarization of economic ties between 10 countries. Also, it was partially used in the mutual settlements of the CMEA countries with the associated members (observers) of CMEA such as Yugoslavia, Finland, Mexico, Angola, Iraq, Nicaragua, North Korea, Laos, Ethiopia and Mozambique.³¹

²⁹ Andrzej Biec et al., *Improving the Function of the Transferable Ruble as International Currency (Part 1)*, 16(2) Soviet and Eastern European Foreign Trade 26 (1980).

³⁰ Катасонов В.Ю. К 70-летию Совета экономической взаимопомощи // Фонд стратегической культуры. 5 сентября 2019 г. [Valentin Yu. Katasonov, *To the 70th Anniversary of the Council for Mutual Economic Assistance*, Strategic Culture Foundation, 5 September 2019] (Aug. 2, 2020), available at https://www.fondsk.ru/news/2019/09/05/k-70-letiu-soveta-ekonomicheskoy-vzaimopomoschi-48938.html?fbclid=IwAR0J5TzNHtB-HcfCvDh3a02L9xfYebqNK0CKMrru5Rox6NwOg_g2N3-CFM8.

³¹ Войтенко И. Нужен ли СНГ переводной рубль? // Столетие. 17 марта 2015 г. [Igor Voitenko, *Does the CIS Need a Transferable Ruble?*, Stoletie, 17 March 2015] (Aug. 2, 2020), available at http://www.stoletie.ru/fakty_i_kommentarii/nuzhen_li_sng_perevodnoj_rubl_259.htm?utm_source=politobzor.net.

Funds in transferable rubles could be used for settlements, interstate loans, and they could be made as an equity contribution to the international economic organizations of the CMEA countries. On the technical side, the essence of the system of transferable rubles was that each participating country had to ensure, within a certain period, the equality of commodity supplies, as well as the balance payments with all members of the Agreement of 22 October 1963, not with each country separately. Settlements were carried out in transferable rubles through IBEC. The methodology for calculating the rate of the transferable ruble was based on correlating the purchasing power of the Russian Ruble and the U.S. Dollar by comparing the weighted average contract prices in trade between the CMEA countries (in transferable rubles) and world market prices in U.S. dollars. The comparison was carried out according to the structure of trade between CMEA member countries.³²

The transferable ruble was the international, collective currency of the CMEA Member States. No country had the right to independently issue this currency, it was put into circulation by IBEC. States received collective currency as a result of the actual deliveries of goods and services. If the country did not have money at any time to pay for the goods it purchased, it could receive it on credit from IBEC, and subsequently also from IIB. Loans were provided in accordance with agreed plans and supply contracts. It was assumed that such a procedure for issuing and lending in collective currency would ensure the equal rights of all countries in its formation and use, and prevent the unregulated redistribution of national income in the unilateral interests of a state contrary to the wishes of other countries.³³ This was provided by the system when the decisions of the Council of Banks had to be adopted by all Member States unanimously, and each country was guaranteed a seat in the executive boards of banks.

The main task of the IIB was to provide long-term and medium-term loans for activities related to the international labour division, such as construction of facilities that are of mutual interest for the further development of member countries. The IIB resources made it possible to build and reconstruct many enterprises of the basic industries such as metallurgy, mechanical engineering, and electrical engineering. With the help of the bank, joint infrastructure projects were implemented such as gas pipelines, and automobile and railway lines.³⁴

³² Мальцев А.А. и др. Государственное регулирование внешнеэкономической деятельности в Российской Федерации: 1992–2012 гг. Т. 1 [Andrey A. Maltsev et al., *Government Regulation of the International Economic Activity in the Russian Federation in 1992–2012. Vol. 1*] 73 (Yekaterinburg: Publishing House of Ural Economic University, 2012).

³³ Кирсанов Р.Г. Деятельность Международного инвестиционного банка в 1970–1995 годах // Вестник КРАГСИУ. Теория и практика управления. 2015. № 14(19). С. 18–21 [Roman G. Kirsanov, *Activities of the International Investment Bank in 1970–1995*, 14(19) *Bulletin of Komi Republican Academy of State Service and Administration. Management Theory and Practice* 18 (2015)].

³⁴ Belyaev, *supra* note 24.

After the establishment of the IIB, IBEC granted other types of credits in transferable rubles for settlement in discrete payments, and for a fixed period payment. The first type of credit was for covering short-term (up to one year) needs for borrowed funds deriving from imbalances in commodity flows between different countries owing to the influence of seasonal and other factors. Fixed time credits were provided to square long-term (up to three years) gaps in trade balances.³⁵

The transferable ruble became the first world collective currency, an international settlement and payment instrument of the contract type when gold lost its status as the “world money.” It had an independent exchange rate and contributed to the growth of mutual commodity exchange in the period from 1964 to 1991.³⁶ For 1981–1984 the balance of current settlements of the CMEA countries has changed from minus \$3.5 billion to plus \$6.4 billion. Due to the distribution of the IIB’s current profit, all its shareholder countries are fully compensated for their initial contributions to the authorized capital³⁷. According to some estimates, in 1985–1990 more than 5% of all world trade was served by transferable rubles.³⁸

4. Modern International Currencies

What scenario is most likely to change the global reserve system? It was suggested that this would be a multi-currency reserve system, including several global reserve currencies and several local reserve currencies on the periphery of the global economy.³⁹

Today, the world’s collective international, currencies are: the Euro for 19 EU countries (also Andorra, Monaco, San Marino, Vatican City and Montenegro use the Euro as their official currency); CFA Franc for 14 countries (technically West African CFA Franc, which will be replaced by new currency called Eco, for eight countries and Central African CFA Franc for six countries); East Caribbean Dollar (for eight countries); CFP Franc (for three French overseas collectivities). Also the SUCRE project which has been unsuccessful.

Special mention should be made of SDRs – Special Drawing Rights – a non-cash currency issued by the IMF in order to ensure international liquidity and which is

³⁵ Ganshev & Vale 1986.

³⁶ Gershanovich 2006.

³⁷ Kirsanov 2015.

³⁸ Борисов С.М. Рубль – валюта России [Stanislav M. Borisov, *Ruble Is the Currency of Russia*] (Moscow: Konsaltbankir, 2004); see also Катасонов В.Ю. «Переводной рубль» как уникальный проект переводной валюты // Институт высокого коммуитаризма. 28 ноября 2013 г. [Valentin Yu. Katasonov, *Transferable Ruble as a Unique Project of the Transferable Currency*, Institute for High Communitarianism, 28 November 2013] (Aug. 2, 2020), available at https://communitarian.ru/publikacii/sng/perevodnoy_rubl_kak_unikalnyy_proekt_regionalnoy_valyuty_28112013/.

³⁹ Миркин Я.М. Мировая валюта: что в резерве? // Прямые инвестиции. 2010. № 4(96). С. 28–31 [Yakov M. Mirkin, *World Currency: What Is in the Reserve?*, 4(96) Direct Investments 28 (2010)].

a means of mutual settlement between IMF Member States. This is a collective currency, the rate of which is calculated as the weighted average rate of a number of world currencies. SDRs are not used in private circulation. Banks may accept deposits in SDRs. However, physically their acceptance and issue are carried out in other currencies. SDRs, not being domestic money, do not participate in the formation of commodity prices, their potential “purchasing power” depends on the power of the basket of currencies which compose SDRs.⁴⁰

There are numerous supporters of a single currency for the Eurasian Economic Union (EAEU). The motivation of dozens of such authors for the last 15 years is quite similar, therefore, and I restrict myself to providing only one typical following relevant example. Thus, it is argued that the objective need for the introduction of a single currency is to create conditions for the further integration of the member countries of the EAEU on the basis of increasing the certainty of economic ties between the individual economic entities of these countries. Under the current conditions of fluctuation of national currencies relative to each other, uncertainty arises regarding the profitability of future trade relations between economic entities located in different countries of the Union. Such uncertainty increases the degree of entrepreneurial risk and hinders the process of investing in the expansion and development of production. A higher risk also requires the use of a higher discount rate for the net cash flow generated by the business sector, which leads to a lower market capitalization. As a transition period to the single currency zone, a temporary currency zone is proposed. It means first flexible, and then tight binding of national currencies to each other in order to assess the degree of economic integration of the economies of countries and assess the macroeconomic risks of such integration. In other words, to establish whether the economies of these countries are able to maintain stable economic relations among themselves without adjusting them using the exchange rate? To switch to a single currency, countries must meet a number of macroeconomic criteria like the Maastricht ones.⁴¹

Historically, in the framework of the Eurasian Economic Community (EAEU predecessor), in 2005 a single currency was declared as a future aim of the Union.⁴² Indeed, in international trade in general and in the EAEU in particular, there is an element of uncertainty associated with currency fluctuations. However, to maintain this risk at a reasonable acceptable level, it is not necessary to completely switch to a common currency. It is also obvious that within the framework of the economic

⁴⁰ Сухарев А.Н. Единые валюты в современном мире и перспективы создания единой валюты в ЕврАзЭС // Финансы и кредит. 2014. № 17(593). С. 2–10 [Alexander N. Sukharev, *Common Currencies in the Modern World and Prospects for Creating a Single Currency in the EEC*, 17(593) Finance and Credit 2 (2014)].

⁴¹ *Id.*

⁴² The Concept of Cooperation of the Member States of the Eurasian Economic Community in the Monetary Sphere, approved by the Decision of the EEC Interstate Council of 22 June 2005 No. 220.

integration of the EAEU, the unified financial space will be built in completely different ways, depending on whether it is based on a single currency or not.

The new Concept for the formation of the EAEU Common Financial Market (October 2019) proposed to create a supranational financial regulator, as well as the creation of a common payment space, but on the principles of “national security, independence and equality of national payment systems.”

I would like to note that a lot of supporters of all economic integration projects, are actually federalists. They constantly demand more and more integration, empowerment of supranational authorities with greater powers, and can't stop in time. This applies equally to scholars and experts specializing in the EU, the EAEU, etc. However, economic integration can be successfully developed without a single currency. In the EU, the existence of a single currency led to the fact that Greece, Spain, and Italy fell into credit bondage.

The design of the Eurozone provides sales of German industry products within the zone without counter export flows to Germany. This leads to an artificial slowdown in the development of a number of lots of Eurozone Member States, a constant increase in their debt before Germany, and thus an increase in imbalances within the Eurozone⁴³. Now Italy and Spain demand the issue of Eurobonds, that is, they are trying to shift the responsibility for their debts to all EU countries. At the same time, the Czech Republic and especially Poland, due to the continued possibility of devaluation of the national currency, did not fall into credit bondage. I can't imagine their entry into the Eurozone in the foreseeable future. Sweden feels economically beautiful, having kept the crown. And the special topic that Eurozone enthusiasts do not like to talk about: the entry of many countries into the Eurozone has led to a significant increase in domestic prices for consumer goods.

There is nothing bad in economic integration while maintaining national currencies. Aggressive pushing of a complete transition to a single currency will cause nothing but irritation and undermining to normal progressive economic integration. Even Belarus, which is more integrated with Russia than other EAEU countries, is shying away from a Russian Ruble as a single currency. Partial use of common currency only for some international settlements seems to be much more promising.

Conclusion

Currently, there is a general need for reform of global monetary circulation and credit, which has stalled. The key is to restore the connection between monetary circulation and real production. In the modern world, in which borders can be closed at any moment, and funds in accounts can be blocked, it is not so important to

⁴³ Thilo Sarrazin, *Europe Does Not Need the Euro* (München: DVA, 2012).

have reserves in accounts in foreign currencies. Reliable access to reserves in basic foodstuffs and medicines in controlled warehouses is much more important.

The problem of settlements in national currencies, which was already clear at the end of the 1940s, is that such settlements are effective only if mutual commodity deliveries are approximately equal. Since this rarely happens in practice, the might of the more economically strong side can manifest dictatorial qualities if it can impose its currency on the other side as the main means of settlement. The foreign currency quickly begins to accumulate excessively, which it does not need in such quantity.

The new BRICS international currency will be useful for purposes other than forcing all the EAEU members to be into a single currency zone. The CMEA experience shows that even with an international currency, it is not necessary to transfer to a single currency all domestic payments and even all international payments originating from the respective countries.

Historically, de facto not exchanging transferable rubles for gold, the CMEA did not offer an alternative in the form of another attractive commodity to back the issue, in fact, considering the transferable ruble as a fiat, non-fiduciary currency. One can't repeat this mistake of the CMEA. Therefore on the demand side there should be understandable incentives of a non-monetary nature in comparison with alternative currencies for investment in it. Such an incentive will be food and drug security. A transition is needed from the ideology of reserve currencies to the ideology of reserves of critical goods. For all states that have established a currency, there should be a clear vision of how they can develop their exports with this currency. Also the currency must not be used for "twisting the arms the nations." Thus, access to currency should not be based on demanding of the implementation of a particular domestic policy or the transfer of a significant amount of sovereign authority to supranational bodies. This means that the currency should be absolutely politically neutral. Its circulation should not be associated with the nomination of any macroeconomic and, moreover, political requirements.

The issue, which will be jointly carried out by the governments of the BRICS countries, must be fully secured by a pool of liquid commodities in permanent international reserve warehouses under the control of the issuing governments. Not to get bogged down in endless disputes about the fair value of services, stocks, bonds, intangible assets, and inflated intellectual property – these cannot serve as security for new money. As for any great market success, what is being offered to investors should fundamentally differ in its main parameters from what is already on the market. If you offer unsecured (fiat) money that is issued and traded similarly to dollars, Euro, Yuan, etc., but just under a different name, then why should someone trust it? More broadly, as there is a constant tightening of regulation around the world, the chance of the governments issuing currency is to offer investors a real liberal alternative, while guaranteeing them protection from the authorities of their own and third unfriendly countries.

Although metal gold should be included in the backing currency, it is not possible to return to the classic gold or bimetallic standard, since the prices of gold and other banking metals are highly volatile. To demonopolize gold pricing, which is now controlled largely by several Western financial institutions, it would be necessary to concentrate such large volumes of physical gold that it could hardly be done in the short term.

At the same time it is impossible to very strongly manipulate the price of a diversified basket of goods. In order to back the new currency, such commodities must be pledged to international BRICS reserve warehouses that correspond in the main to their export directions and/or are critical for their import. These are food products, medicines, fuel and metals. Such a scheme will simultaneously allow normalizing world pricing for these goods. Currency (in fact, BRICS commodity warehouse certificates) can be exchanged in warehouses for a previously fixed pool of these goods at the first request by the banknote owner. Information on currency transactions should not be automatically transmitted to the authorities of third countries. Currency circulation disputes must be resolved by independent international arbitration.

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