How a political currency operates in a divided world.

Understanding the Ruble

ROBERT V. JONES

"RUSSIA," PROCLAIMED the headline of a dispatch in one of our leading newspapers a little over a year ago, "lends $100 million to Egypt." The report bearing this caption stated that the Soviet Union, desiring to assist the Egyptians in their economic development, had agreed to make 400 million rubles available as a loan, which sum was said to be the equivalent of 100 million American dollars. Because of our then recent differences with President Nasser's government, the transaction received unusual attention in the American press, and similar headlines were printed throughout the country.

Since 1953, when the Russians began merchandising their own peculiar brand of foreign aid, news reports of this character, although less prominently displayed, have been appearing intermittently. At one time it has been $100 million lent to Indonesia, at another $100 million or so to India, and so on.

The cumulative impression given by these advices is that the Soviet Union, in order to win friends and influence politics the world around, out of its prosperity is making large loans to other nations, either in American dollars or in sums which are the equivalent of American dollars. A writer in *The American Economic Review,* the journal of the American Economic Association, recently estimated that the total Soviet credits to other countries up to the beginning of 1958 amounted to $1.6 billion, and this statement was made without any suggestion that Russian rubles were in any way involved in the transactions or any indication of the rate at which rubles—which assuredly were involved—were translated into dollars.

But of course the Russians make no loans whatsoever of American dollars. The Soviet Union deals in rubles rather than dollars, and rubles and dollars are vastly different things. The ruble is primarily a political instrument in a communistic society; the dollar is primarily an economic instrument in a free enterprise society. Performing fundamentally different functions in radically different social organizations, the ruble and the dollar have few characteristics in common and many characteristics which are sharply opposed.

Unfortunately we seem to be oblivious to this basic difference between the Soviet monetary system and our own. We take ruble figures on Russian production, consumption, foreign trade, and other aspects of the Russian economy; we convert the ruble figures into dollar figures, usually at the so-called official rate of exchange; and we then use the dollar figures so obtained for the purpose of analyzing the Russian economy and drawing conclusions about it, in much the same way that we would use dollar figures in analyzing our own economy. But this process is completely unrealistic. Soviet prices are substantially different in nature from the free market prices of our own society. They are established differently, they perform a different function, and they tell a different story for analytical purposes. Moreover, the dollar figures we arrive at by this process are worse than useless for understanding what goes on in Russia; they mislead and delude us.

One of the practical differences between the ruble and the dollar—which may serve to introduce us to a better understanding of what the ruble really is—is that the dollar can be lent in international transactions, whereas it is impossible to make an international loan of the ruble. This defect in the ruble, constantly overlooked in current discussion, can be readily understood if the ordinary processes of international lending be kept in mind. If, for example, the United States government decides to lend—or give—$100 million to some foreign state, the United States treasury places that sum to the credit of the borrowing state in American banks. The sum so credited can then be drawn on by the borrowing state for the purchase of goods either here or abroad. The loan is completed when the bank credit is established, and all control of the American government over the use of the loan thereupon terminates, except as specific restrictions on the spending of the money may have been agreed upon in advance. In its procedure this is a simple transaction, following the established pattern of our markets for money and for goods.

But nothing like it can occur in Russia. Suppose that the Soviet Union should place 400 million rubles to the credit of the Egyptian government in the Gosbank—the Soviet state bank. What could Egypt do with this ruble credit? It could not be spent in Russia for the purchase of goods without the further approval of the Soviet government, for there is no open market in Russia where goods can be bought, the only seller of goods being the government itself. After granting the credit, therefore, the Soviet government would still be in control of the goods to be bought, the prices to be paid, and the terms of repayment. The respective positions of the Egyptian and

Soviet governments would not be changed in the slightest by the granting of the credit; any transactions would still require exactly the same negotiations and decisions that would have been required if the credit had never been granted. The establishment of such a credit at the Gosbank would accordingly be a meaningless gesture so far as the purchase of goods within Russia would be concerned.

Nor would such a credit be of any use for the purchase of goods outside Russia. In the first place the Soviet government does not permit the transfer of rubles to other countries, and in the second place they could not be transferred even if transfer were permitted. No seller of goods outside Russia will take rubles, for the reason that the ruble is practically worthless outside its own country. A small market for rubles exists in New York City at about 30 rubles to the dollar, but if any substantial quantity of rubles were offered for sale, this market would disappear entirely.

As a practical matter, therefore, an international loan of rubles is an impossibility. The most that the Soviet government can do, and the most that it does in fact do, when it wishes to extend credit to a foreign state, is to indicate its intention to sell goods at some time in the future on deferred payments. It cannot do more than this because the communist money system does not permit more. The vaunted loans of the Soviet Union necessarily come down to mere statements of future plans. But plans of course can always be changed, and often they are in fact changed, and when that occurs the ephemeral quality of the so-called loans becomes readily apparent. Some time after the Soviet government announced that it had made a loan to Yugoslavia it refused to sell any further goods to that country on the credit supposed to have been established by the loan. The reason given was that the Yugoslavian government had become unfriendly. But the repudiation made obvious that there never had been any real loan at all; what had occurred was simply a statement of intention to make sales on credit in the future—an intention which could be repudiated unilaterally.

Our treatment of these Russian statements of intention involves the further error, mentioned above, of converting rubles to dollars at the so-called official rate of exchange of 4 rubles for 1 dollar. This rate of 4 for 1 is official on the Russian side only; the American government has nothing to do with it. It means that the Soviet government, through the Gosbank, will give 4 rubles for every dollar transferred to it. The practical effect of this is about the same as though I should tell my friends that I would pay them 4 dimes for every dollar they would give me, or as though the Bank of France should announce that it would give 1 franc for each dollar delivered to it. In neither of these cases would much business be done. Nor is much business done by the Gosbank at its fanciful rate of exchange. Probably a few people needing rubles in Russia, such as Americans wishing to remit money to relatives, find it necessary to buy rubles from the Gosbank at the rate of 4 rubles for each dollar paid. But the business done at this rate must be very small indeed. The Russian government itself gives tourists rubles at the rate of 10 for 1 dollar, and it tolerates—and perhaps itself operates (my guess is that it operates)—a black market whereon tourists can buy rubles at from 20 to 75 for the dollar, the price varying as the quantity of dollars exchanged becomes larger. The basic reason why the Russian rate of 4 for 1 is meaningless and of no practical importance is that 4 rubles in Russia will not on the average buy as much—nor anything like as much—as 1 dollar outside Russia. A dollar is worth a good deal more, by any conceivable measuring stick, than 4 rubles.

Yet in our discussions of Soviet affairs we translate ruble figures into dollars at the 4 for 1 rate. Thus we tell ourselves that the 400 million rubles in the transaction with Egypt are the equivalent of $100 million. Although—for reasons to be observed in a moment—rubles cannot accurately be translated into dollars at all, if we should insist on some sort of translation, it would be much more realistic to say that 400 million rubles are represented by a figure somewhere between $25 million and $40 million than to say that they amount to $100 million.

Similar transmutations of rubles into dollars at 4 to 1 can be seen almost daily in our newspapers, periodicals, and books. A recent popular book on Russia transfers rubles into dollars on nearly every page, and although the author warns his readers in an early chapter that the 4 to 1 rate may be misleading, yet he uses it anyway and frequently tries to draw impressive conclusions from the dollar figures he thus builds up. He reports, for example, that the buildings and equipment of Moscow University cost 3 billion rubles, so he was told, which he changes to $750 million; and this latter figure, he points out, is more than the endowments of Harvard, Princeton, and Yale combined. Waiving for the moment the fact that construction costs cannot be known with accuracy in a communist society, where everything is run by the state, we must nevertheless recognize that changing the assumed cost of 3 billion rubles into dollars at 4 to 1 can give only an inaccurate and indeed ludicrous result. Anyone with the slightest knowledge of construction costs who has seen Moscow University, or even pictures of it, knows that its cost could not have been anything close to $750 million. Even in this country, where labor costs are far in excess of those in Russia, it would not cost anything like $750 million. Dubbing the 4 for 1 rate official cannot make it accurate or useful. A 2 for 1 rate would have just as much contact with reality as the 4 for 1 rate, and at 2 for 1 the Moscow University figure would grow to $1,500 million—about as informative as the $750 million figure.

But if the 4 to 1 exchange rate is unrealistic, what is a realistic rate? Premier Khrushchev recently intimated that the present rate may be changed in connection with a contemplated modification of Soviet money. It can be confidently predicted, however, that any official rate of exchange, no matter what it is, is bound to be just about as unrealistic as the present 4 to 1 rate. Why this is so will become apparent if we examine the nature of Soviet prices—for a principal function of money is to measure prices—and consider the difference between prices in the Soviet system and prices in our own free enterprise system.

In a free enterprise system prices are arrived at by the dealings of a multitude of individual buyers and sellers, who buy and sell only as prices are agreed upon. As a result of this process of free bargaining, there is a strong tendency for the prices of goods to conform to costs; a free market. if it be kept free, will rather quickly rectify any situation in which goods are produced either at a substantial loss or at an unusual profit. Thus prices fluctuate about cost, which is always pulling prices toward it. Prices in a free enterprise system also tend to conform to the usefulness of goods to consumers, since consumers try on the average to spend their dollars for those things they think will give them, at the particular time and place, the greatest utility for their money. In a free enterprise society, therefore, prices have a story to tell; they report on the cost of goods and on their usefulness in caring for human wants; and the report is rather accurate.

Under collectivism in the Soviet Union, on the other hand, prices are not established by the bargaining of buyers and sellers but are fixed by the decrees of officials. It is imperative to remember in dealing with things Russian that all property is owned by the state and all business is done by the state. The exceptions to this proposition are relatively insignificant. In consequence of this totalitarian nature of Russian society, there is only one seller of goods and only one employer of labor—the state. The state therefore decrees the prices of the goods it sells to its citizens and the wages it pays them for their work. A comparatively few public officials issue orders saying that prices shall be thus and so, and prices become thus and so, changing only when the officials change their minds. These fixed prices cover everything except the small quantity of vegetables that growers are permitted to sell in the cities in open markets. This, however, is but a tiny drop of free price in a vast bucket of fixed price.

One might suppose, having in mind the teachings of Karl Marx, that the decreed prices of a communistic society would be directly related to cost. Marx taught that the entire price of a good should go for the wages of the labor that produced it, which means that prices should be directly based on costs in terms of wages. But investigation of prices in the Soviet Union shows that this is not the case. The price of a loaf of bread, for example, is about 2½ rubles in the cities. This amount roughly equals the wage of a common laborer for 1½ to 2 hours, or the wage of a skilled laborer for something like ¾ of an hour—although wages of skilled labor vary a good deal. But the labor in a single loaf of bread cannot possibly amount to this much. In the United States the price of a loaf of bread amounts to the wage of a common laborer for 7 or 8 minutes and to the wage of a skilled laborer for an even shorter time. Granted that labor is far more efficiently employed in the United States, nevertheless the work time needed to make a loaf of bread in Russia cannot be anything like that represented by the price charged for it.

The same proposition seems to apply to all articles of food and clothing. The price of a pair of shoes is from 400 to 1,000 rubles, of a man's suit from 1,500 to 2,000 rubles, of a pair of women's nylon hose 300 to 500 rubles, and of a bar of chocolate 150 rubles, to cite a few varied examples. When we consider that the monthly wage of unskilled labor is from 300 to 500 rubles and of skilled labor from 750 to 1,200 rubles, we can see that the prices of these goods are far in excess of the cost of the labor employed in producing them. It cannot possibly take a month of skilled labor to make a pair of shoes, or 2 months of skilled labor to make a suit, and so on.

Why does the Soviet state, which itself operates the entire apparatus of production, demand this large profit above the cost of producing these consumer goods? Why has it departed from Marx's teaching? I think it quite clearly is for this reason: The collectivized state furnishes to its citizens a substantial volume of services—education, medicine, and the more customary governmental services—either without charge or at a charge far below cost. But the people who perform these services—the teachers, doctors, nurses, soldiers, and so on—must be paid their wages by the state even though the state makes no direct charge, or an inadequate charge, to the citizenry. The rubles for these wages could conceivably be obtained simply by printing them—paper is cheap. But this would lead to inflation of the money, and monetary inflation is even more dangerous to a communistic society than to a free enterprise society. Accordingly the collectivized state must get the necessary rubles from its citizens through some form of taxation.

The collectivized state, however, has very few sources of taxation. It cannot tax land or factories or apartment buildings because it itself already owns all these things. It cannot tax stocks or bonds or bank deposits because there are none (the few minor exceptions to this statement being too small to require notice). And it cannot in reality tax incomes, although it goes through the motions of doing so to a small extent, because all the income of citizens comes from the state in the form of wages, and accordingly a tax on incomes can be no more than a reduction in the wages paid by the state—a mere accounting procedure.

Therefore the collectivized state must resort to what in effect is a huge sales tax. Consumer goods are sold by the state to its citizens at prices far in excess of the wages paid out by the state in producing them, and the excess or profit in reality constitutes a tax. A portion of this excess or profit is, in fact, denominated a turnover tax, collected by the state as part of the price. But this tax is applied to some things and not to others, and there seems to be nothing in the stores to indicate to a purchaser what portion, if any, of the money he pays for a particular good is tax. And indeed it can make no difference to the purchaser whether the rubles he hands over are called price or tax; the money all goes to the state, and so far as the purchaser is concerned, what he pays is simply the price of his purchase. Nor does it make much difference to the state (although it makes some difference for interdepartmental accounting); the important thing is that the desired quantity of rubles be collected. Therefore through the prices it charges on the sale of consumer goods the Russian state obtains not only the rubles needed to pay the cost of producing such goods, but also the rubles needed to pay the cost of the services furnished to the citizenry at little or no direct charge.

Thus in setting prices for consumer goods, the Soviet bureaucracy has to take into consideration both costs and taxes. Costs, however, are extremely difficult to ascertain in a collectivized society. They must be ascertained in rubles, and costs of goods in rubles are pretty much whatever the Soviet officials say they are, for the officialdom sets the prices that enter into costs as well as the prices that are paid by consumers. Thus cost does not furnish an objective element in decreeing prices. Nor does taxation furnish an objective element either, for as we all know there is no such thing as scientific taxation, the only basic principle being to get maximum money with minimum complaint, a principle which in practice leads to making do with whatever tax method seems to be working.

There are, moreover, two further elements, in addition to cost and taxation, which must be considered by public officials as they fix prices—elements which also are not objective, calling for judgment rather than measurement. One is what we may call, for want of a better term, the "social direction" element or factor. The core of collectivism in practice is central planning, and the ultimate concern of central planning is what goods people will consume. One of the effective controls on what they will consume is the price charged for different things. Suppose you wish to discourage the reading of philosophical books and to encourage the reading of scientific books, and yet you do not wish to appear to be exercising censorship. The solution is to raise the prices of philosophical books and to lower the prices of scientific books. Or suppose you wish to make the citizens believe, despite a desperate housing situation, that the government in its goodness is doing everything it can to furnish housing reasonably. The solution—in lieu of actually building the housing—is to charge a very low rent for such housing as is available, making up the loss on housing by higher prices for other things.

The fourth and final influence in Soviet price determination is what may be called the national income and outgo factor. For reasons we will not pause to examine, it is extremely important to a collectivized state to avoid a deficit in its operations. As we have seen, practically its only income is the prices it collects for consumer goods. And practically its only expense is the wages and pensions paid to citizens. To avoid a deficit, the total of all prices collected must cover the total of all wages and pensions paid out. But this balance of income and outgo is not easily arrived at; and when once a schedule of prices and wages seems to be accomplishing the desired balance, the schedule must not be tampered with lightly. When Soviet officials consider changing a price, therefore, they must consider the effect of the change on the total income of the state.

Thus in fixing the prices of consumer goods, Russian officials must consider costs, taxation, "social direction," and the internal flow of funds. But no one of these factors is susceptible of objective measurement. They are all matters of subjective judgment. Prices of consumer goods in Russia are accordingly the result of the combined guesses of the bureaucracy, and thus they are primarily political facts.

The foregoing observations concern the prices of the consumer goods which the Soviet state sells to its citizens through the state stores. When we turn to capital goods—raw materials, machinery, apartment buildings, factories—we find that for practical purposes prices are only nominal. Capital goods are not sold by the Soviet state to its citizens, who cannot engage in business and cannot own capital goods. All capital goods are owned by the state, and they are transferred from one governmental department to another, from one factory to another, as they are needed.

When the state railways need new rails, for example, they do not buy them in the open market, nor do they buy them, in the sense of the term to which we are accustomed, from the state steel mills. Some board having jurisdiction of the matter issues an order that the steel mills deliver a specified quantity of rails to the railways. A designated amount of rubles is charged against the railways and credited to the steel mills, but this charge and credit do not involve any market bargaining. The quantity of rubles debited and credited is no more than bureaucratic bookkeeping, and it can be varied up or down without any appreciable influence on affairs. Consequently capital goods in Russia do not have prices attached to them within any realistic meaning of the term.

Presumably in setting these bookkeeping prices for capital goods Russian officials give consideration to costs. But here again costs cannot be objectively measured, for the prices that enter into costs have in turn been arbitrarily fixed by the officialdom, which thus is never able to escape from its own circle of subjective judgment.

The end result of all capital creation, moreover, is ordinarily a building of some kind with its equipment—a factory or an apartment house—whose cost ceases to be of much importance once it is finished. Consider the case of an apartment building: It is composed of brick, timber, cement, other construction materials, and construction labor at the site. When it is finished the rent need not be based on its cost, and in fact in Russia it is not based on cost but is typically a good deal below the figure that cost would dictate. Accordingly the prices charged to the construction of the apartment building in the bureaucratic bookkeeping are not very important. The price of brick, for example, can be set high enough to make the brick works look profitable without any practical effect on the apartment building. The total cost shown on the books can be 500,000 rubles or 1,000,000 rubles, and whether it is one figure or the other will have little influence—probably none at all—on the rent which will be charged. For rent is a consumer good price decreed by officials who must look at cost as only one of the elements to be considered in price fixing.

But all capital goods, whether brick, steel, locomotives, or punch presses, end up in some form where the price ceases to be important in the collectivized scheme of things. This is why all prices of capital goods, as they are set by Soviet officials from time to time, are primarily political in nature and convey little or no economic information. And this, further, is why figures on costs of projects in Russia can have little or no meaning. The 3 billion ruble cost of Moscow University, mentioned above, could easily have been changed to 2 billion or 4 billion simply by changing the prices of the supplies and equipment which entered into the project, and the change could have been made without the slightest real effect on affairs of any kind.

Thus we can see that prices in the Soviet Union are a vastly different thing from prices in a free market society such as our own. In a free market, prices are comparatively simple in their composition, being an expression of the interplay of cost and utility, and the story they tell is likewise comparatively simple, consisting of information on cost and utility. Soviet prices, on the other hand, are comparatively complex in their composition, being the product primarily of various value judgments made by officials who themselves may not be clearly aware of the motives prompting them. In consequence the story told by Soviet prices is always a complex one and often turns out to be so involved and tortuous as to defy unraveling. Who can figure out, for example, just why the Soviet officialdom has come to the practice of charging so little for rent and so much for bread?

In a free market, when the price of a good declines, we can typically deduce that the demand for the good has declined or that its cost has declined, or both. In the Soviet system, on the other hand, a decline in price may have no relation whatsoever to either demand or cost, but may have been dictated by quite other considerations. Likewise in a free market society an increase in national product, measured in terms of money, can usually be relied on to indicate at least approximately an increase in goods. But an increase in national product in Russia, measured in rubles, need have no relation at all to an increase in goods; it can be accomplished simply by decreeing an increase in the prices—bookkeeping entries—on a few key products, such as steel and petroleum, on which the Russians are concentrating their efforts. Yet we continue gravely to study and quote these ruble figures, usually first changing them to dollars at 4 for 1. What we need to study, rather, is the figures on production in terms of goods themselves: how many housing units, how much food, how much clothing, how many hospitals and schoolhouses is the Russian economy producing?

Ruble prices, that is to say, cannot be translated into dollar prices without gross deception. No realistic exchange rate is possible. Rubles are rubles and dollars are dollars, and they can never meet in a meaningful rate of exchange. Just as you cannot transmute, say, oranges into carrots—although they are both forms of food—so you cannot transmute rubles into dollars—although they are both forms of money. You can say that 6 oranges weigh as much as 8 carrots, but you cannot say that 6 oranges are the same thing as 8 carrots or any other number of carrots, and if you insist on talking this way you will only be indulging in an odd sort of self-deception. Likewise it is only self-deception to talk as though 4 rubles were the same thing as 1 dollar, or as though any other number of rubles were the same thing as one dollar. The reality is that the two monetary units belong to different worlds, and we must recognize that reality.

And if we are to recognize this reality, then we must change many of our current modes of discussion relative to the ruble. We must treat ruble prices as the political facts they are, rather than deal with them as though they were economic facts similar to prices in this country. We must appreciate that, since the ruble is first of all a political instrument, it is also strictly a national instrument, incapable of international transfer, and therefore we should stop talking of international loans of the ruble. We should further acknowledge that ruble prices cannot accurately or meaningfully be translated into dollar prices, and if we feel in particular cases that some comparison of ruble and dollar prices should nevertheless be made, we should accompany such comparison with a cautionary explanation. As readers, we should pay little or no attention to any figures on Russian prices, production, consumption, or foreign trade which are expressed in American dollars. And we should never, under any circumstances, transpose ruble figures into dollar figures at the absurd 4 to 1 rate.

Note

The Soviet government has recently announced (after the above article was in type) a drastic modification in the official rate of exchange of the ruble for the dollar. Beginning January 1, 1961, the exchange rate of the present ruble will be 9 for a dollar, instead of 4 for a dollar, and the new ruble, which Russia will then begin to issue at the rate of 1 new ruble for 10 old rubles, will accordingly have an exchange rate of .9 new ruble for each dollar.

This change will have no economic effect of the slightest importance, for the reasons set forth in the article. All the dollar figures which have been appearing on Russian loans, production, and so forth are automatically reduced to 44.4% of their former amount, although this will probably go unnoticed. Probably, too, many observers of the Russian scene will continue dutifully to translate rubles into dollars at the new rate. But although the new rate will give results not so grossly misleading as those given by the old, it will no more express a rational relation to the dollar than did the old.

The change illustrates and confirms the article's thesis that the ruble is primarily a political fact rather than an economic one, and that a rational relation between the ruble and the monetary unit of a free market is impossible.

The abiding sources of the power of the myth.

The Life and Death of Orpheus

ROBERT BEUM

IN AMERICA children do not grow up with the Greek myths. They never have. The stories are not in our consciousness at all but only, here and there, out on the peripheries. In the main, they were sealed up in that part of "culture" that came here, from across the Atlantic, in least strength. And America was an innovation, a continent to settle: not a few of those who did come here with the kind of absorption of pagan and pagan-Christian myth the mainstream-soaked English wrote from, found little leisure to do anything with it. I am not thinking of the decoratively literary, the unfelt or unrealized consciousness of Greek myth. There was a plentiful sprinkling of that kind of thing, just as there is today. But of the real familiarity and enthusiam that brings a poet to write the "Hymn on the Morning of Christ's Nativity" or "Eros" or "Leda and the Swan," or a novelist to write something like *Ulysses,* there was very little. The Puritan had no truck with it, the Pioneer had no time for it, the Transcendentalist was thinking and feeling in another vein. And Greek myth was rejected as a part of the played-out culture of Europe that America could not profit by inheriting; the voices here are Whitman and Thoreau, in their less charitable moods—Whitman intoxicated by the awakening and the potential of the New World, and Thoreau content with the natural scene:

> What care I for the Greeks or for Troy
> town.
> If juster battles are enacted now
> Between the ants upon this hummock's
> crown?