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WORLD MONEY: HISTORY AND PROSPECTS

Abstract

The article examines the evolution of the world monetary system. The author analyzes the main principles of Bretton Woods, Jamaica, and European monetary systems, as well as the place of the EURO and dollar in the modern money circulation, as well as touches the question of influence of the bipolar world monetary system on the Russian economy.

Key words:

World currency system, national currency, convertibility, EURO, dollar, rouble, the European Union.

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The processes of globalization and integration of the world economy in modern conditions affect not only the areas of production and services, but also monetary circulation.

In this respect, it is worth posing a question: what is money at the present time? By this we mean both national and world money, which are closely interrelated by the interplay between the national and the world markets. Money has always been and is a general equivalent, performing the function of a measure of value by means of pricing, that is by setting the exchange value of goods. On the scale of national economy, the sum of commodity exchange values equals the sum of prices, since prices are only the monetary expression of exchange values or, in other words, the expression of aggregate social labour.

An important question of the monetary theory about the representative value of the current money supply in total and its unit value are explained by the law of money turnover. The law of money turnover requires that all functions of money, starting with that of the measure of value, medium of circulation, means of payment, and ending with store of value, be coordinated at both the national and the world scales. At that, one should distinguish between the function of money and the types of money, as well as various instruments used to realize the functions of money. The evolution of money turnover does not change its functions. The functions remain intact, but simultaneously appear different new types of money and monetary instruments. At the present, along with banknotes issued by central banks equally circulate ordinary promissory notes (a document of commercial credit) and cheques (an instrument of commercial banks) used both at the national and the world markets. Multicurrency deposits and multicurrency cheques have also appeared. In addition, electronic money and plastic cards are becoming ever more popular.

The rejection of gold standard in international monetary relations, which has been completed in the early 1970s, spurred the discussions about world money.

World money is the money circulating at the world market, where they perform similar functions – measure of value, medium of circulation, means of payment, store of value, – which are similar to those performed by the national money in a country. The measure of value is revealed in exchange rates and world prices. The universal means of payment, the universal means of purchasing are needed to carry out international settlements and payments. The gold and currency reserves of central banks have value stored in the form of international liquid resources.

Before the World War I, the problem of national money on the world market did not exist; neither did the question of convertibility – due to gold standard. The the process of establishing the gold-coin standard in the world ended with

Russia's transit – in accordance with the Vitte reform of 1895–1897 – to golden rouble.

In 1914, with the beginning of the World War I, golden coins were withdrawn from circulation in all countries. Upon war's end emerged the question of what could be done to make gold return to it role as the world money. In 1922 the conference in Genoa agreed to reject gold as a medium of circulation, but to keep the connection with gold by introducing gold bullion and gold exchange standards for international settlements. In case of payment imbalances, the money would have been exchanged into gold directly – under the gold bullion standard, or by means of the currency tied to gold – under the gold exchange standard.

The Genoese Conference was primarily concerned with the problems of national monetary systems. At that time, gold was re-established as money on the national scale; sticking by the so called «gold points» allowed containing inflation inside the country, as well as excessive exchange rate fluctuations in international settlements. During the economic crisis of 1929–1933, the gold-based standards crashed. Instead, the trade and exchange wars of the 1930s started in result of currency devaluations in some countries and currency dumping.

England, followed by other countries, even started to establish special national currency devaluation funds with the aim of increasing the competitiveness of their products on the world market. The so-called «floating» exchange rates, which fluctuated freely beyond limits of the gold points, emerged. As a result, many countries began to introduce exchange restrictions, in other words, it was impossible to exchange currency freely, likewise take it out or bring it into the country. How in this case could it be possible to trade and make payments? In response, alongside with currency restrictions implemented in the capitalist world for the fist time ever, came currency clearings. Initially bilateral, after the World War II they became multilateral. The multilateral clearing created in 1950 by 17 European countries under the Marshall Plan aimed to make national currencies convertible again. It was just for that purpose that the European Payment Union (EPU) was set up.

The theory of money reveals objective regularities not only in the functioning of national monetary systems, but also in monetary relations in the world economy. Irrespective of the number of projects on reorganization of the world monetary available, they all revolve around the regularities of and conditions for operation of the world money, i. e. around how the measure of value is expressed, as well as what and in which way performs the functions of the medium of payment, means of purchasing and reserves on the world market.

The essence and drawbacks of the Bretton Woods and Jamaican monetary systems are easier to understand only if to carry out a detailed analysis of how well the inter-governmental agreements in the area of exchange relations reflect the objective conditions arisen in the world economy.

Bretton Woods Monetary System

The Bretton Woods monetary system was based on four major principles.

First, it was based on the dollar standard, with dollar being the general equivalent, i. e. the money functioned as a measure of value with the USA committing to exchange dollars for gold dollars at a fixed ratio of $35 for one Troyes ounce (31.1g). This exchange could be realized only by members of the International Monetary Fund represented by central banks. Thus, it was in fact the gold-dollar standard for international settlements.

Second, the currency parities or fixed exchange rates were set. In the IMF, the countries fixed their currency parities to the dollar, and through cross-rates – to other currencies (this reflected the key role of the dollar). Exchange rate fluctuations around fixed parities were allowed only within + 1% (later + 2.25%). This had a great impact on pricing. Each central bank was obliged to support the exchange rate of national currency to the dollar within the set limits (by currency interventions under the so-called «currency snake»).

Third, the dollar was introduced in international payments as a means of circulation and payment.

Fourth, the dollar was assigned the role of key or major reserve currency (the store of value function).

The Bretton Woods monetary system lasted until 1973. In 1971–1973 its foundations crashed. On August 15, 1971, the US President Nixon announced suspension of dollar-to-gold exchange, which undermined the stability of this currency, its reliability and confidence in it. In 1934 the dollar devaluation occurred for the first time provoking a «flight» from the dollar, which weakened its role in global pricing contained in cross-exchange rates. Another principle of the Bretton Woods monetary system that crashed was the fixed currency parities and narrow limits of exchange rates fluctuations. The attempts to stop this process with the help of «currency snake» failed. The third and the fourth principles of the Bretton Woods system were significantly weakened as well. They included the functions of the means of circulation and the medium of payment in international settlements, as well as exclusive powers of the dollar as a «reserve currency». In other words, the dollar's claims to monopolization of all functions of the world money were shivering.

The invalidity of that role is explained by the fact that not a single national currency, irrespective of the size of state support, can become the world money of full value. Dollar emission has always been and still is determined in correspondence with mainly the needs of the US economy. The incomings of the dollar to international payment turnover are connected with the deficit of the US balance of payments, not with real needs of international settlements. The US negative balance of payments in 1950–1971 made $62bn[1]. These dollars accumulated outside the USA in the channels of international money circulation and reserves in the capacity of «dollar shed». On their basis already at the end of the 1950s in Western Europe emerged a new international market for short-term capitals or the Eurodollar market.

The dollar's monopoly was falling in the monetary area. In part, the functions of world money were more often performed by the «hard» national currencies of other countries, and on January 1, 1970, Special Drawing Rights[2] were introduced into practice. Initially SDR provided only the right to obtain the currencies of IMF member countries, but later they started to perform, although on a limited scale, the functions of money, such as the standard of value, the medium of payment, and the store of value.

With the crash of the Bretton Woods monetary system started a search for new principles of the world monetary system's functioning. The transition to the second world monetary system lasted until 1976, the time when the International Conference was held in Kingston, the capital of Jamaica. On April 1, 1978, the IMF officially declared failure of the Bretton Woods system, which meant that the new rules for the monetary system were enacted under the Jamaica agreements.

Jamaica Monetary System

So, what was the essence of the new world monetary system and how did it differ from the Bretton Woods system?

First, for the first time in the world history of global monetary relations it was declared that gold was no longer the world money. Since 1975 the IMF has not indicated gold contents of national currencies. Thence, the dollar was neither pegged to nor exchanged into gold. The bets were placed on the so-called SDR – an international non-cash unit initially based on the «basket» of 16, currently 4 (dollar, Euro, yen, pound sterling), major currencies. However, the SDR did not manage to displace the dollar. Besides, almost a half (42%) of this synthetic payment unit accounted for the dollar. Although the dollar monopoly was not significantly shaken, its share did nevertheless fall in exchange transactions, trade, and exchange reserves.

Second, the Jamaica monetary system replaced the principle of fixed exchange rates with the principle of floating rate, i. e. national currencies rejected the dollar peg. At first, the fluctuations were within the band of + 1%, later the

[1] Международный ежегодник 1972 г. Политика и экономика. – М.: Издательство «Политическая литература», 1972. – С. 139.
[2] Международный ежегодник 1986. Политика и экономика. – М.: Издательство «Политическая литература», 1986. – С. 136

band was expanded to + 2.25%, and finally the currency peg to the dollar was completely removed.

Third, the participation of other currencies in international settlements and payments, as well as currency reserves expanded (their share against previous periods increased). However, under the both monetary systems of the 20th century the dollar remained in dominant position, even though other currencies happened to be mounted on the pedestal of the world money, like first of all German mark, as well as French and Swiss franks, and English pound of sterling.

The Jamaica monetary system was a compromise in international rivalry, first of all between Western Europe and the USA.

The European Monetary System

Since the principles underlying the Jamaica monetary system appeared ineffective from the very beginning, the EU countries decided to create their own international regional European Monetary System (EMS) within the frames of Jamaica world monetary system. All preparations for the launch of this system started back at the times of the Bretton Woods monetary system, but it was actually introduced almost at one time with the Jamaica monetary system.

The plans for the EMS creation were connected with the integration processes in Western Europe and reflected the varying approaches to integration taken by France and the FRG in the first place. France granted priority to monetary integration, whereas the FRG believed that monetary integration should complete the prior economic integration process. That is why the French plans on monetary integration were called the «theories of engine», and those of the Western Germany – the «theories of coronation». The EMS projects submitted in 1969 by the French R. Barre and in 1970 by the German K. Shiller were discussed in 1970. In order to overcome contradictions between the projects, a committee headed by the Luxemburg Prime-Minister P. Werner was formed. The Werner report submitted in October 1970 offered a compromise version for both the «economists» and the «monetarists». The Werner report was approved on 14 December 1970. It had to be implemented in three stages. The first stage (1971–1973) stipulated for coordination of the budget, credit and monetary policies, liberalization of capital movement, and creation of the European Monetary Cooperation Fund. The second stage (1974–1979) envisaged the appearance of the supranational bodies with delegated powers in the areas of finance, credit and monetary policies. Finally, the third stage provided for the introduction of a single currency and creation of the European federal monetary system (of the US FRS type) in 1980.

The Werner plan has laid the foundations for monetary integration, although the practice of it brought significant changes. The plan was not realized in due time, but its ideas were for the most part implemented later. In the course of following the plan, such innovations as «a snake in a tunnel» were tested, when ten EU countries limited the exchange rate fluctuations in relation to each other's currencies to +2.25% and at the same time stuck to similar limitations on exchange rate fluctuations in relation to the dollar under the Smithsonian Agreement of December 1971. However, a number of countries have soon disaffiliated with that Agreement. On March 19, 1973, a new monetary block was created, the members of which obliged to maintain the band of exchange rate fluctuations at +2.25 in relation to each other's currencies, but not in relation to US dollar.

The system of «currency snake» incorporated both the EU member countries (FRG, France, Belgium, Holland, Denmark) and other European countries (Sweden, Norway, Austria). Although the system endured until the creation of the EMS in March 1979, it excelled in neither strength nor stability.

Another element of Western European exchange integration became the founded in April 1973 European Monetary Cooperation Fund (EMCF and the European Unit of Account (EUA). Until March 1975 the EUA was pegged to the dollar; and after the final crash of the Bretton Woods Monetary System since June 28, 1974, it was pegged to the SDR. The EUA «basket» contained the currencies of nine EU countries.

So, what was the EMU, and what were the principles of its functioning?

First of all, based on this basket a new European synthetic currency unit was created. Second, fixed exchange rates and a band of exchange rate fluctuations were set for participant countries. Third, the basis for currency reserves and credit mechanism was consolidated. Fourth, it was planned to establish the European Monetary Fund, which could take up the functions of the European Central Bank with time.

The keystone of the EMU was the ECU, which replaced the EUA, but used its method of determining the representative values of currencies with the help of the EU member countries' currency basket. The initial quotation of the ECU ensued from the representative value of an EUA dated March 30, 1979. It is interesting to note that the weight of the German mark in the ECU made 33%, and that of the French frank was 19.8%, i. e. in fact, these two currencies made the basis of the ECU[3].

Creation of the ECU opened a new stage of monetary contradictions among the main centres of international rivalry, including the USA, Western Europe and Japan. It is worth admitting that the Jamaica World Monetary System failed to implement its principles, first of all, to strengthen the SDR's role and to shaken the monopolistic positions of the dollar in the world monetary system. The European Monetary System did not manage to strengthen the ECU to such a degree that it could have seriously opposed the dollar.

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[3] Актуальные проблемы международных валютно-кредитных отношений. Научные труды МФИ. – М., 1982. – P. 19.

The Economic and Monetary Union

The ECU's perspectives depended on the deepening of integration processes in the entire Western Europe, as well as on the progress in creation of the Economic and Monetary Union (EMU) intended to provide coordination of the economic policy, set strict limits on domestic currency depreciation and exchange rate fluctuations, as well as establish the European System of Central Banks and the common European currency by 2000. The EU Heads of State approved these plans at the Maastricht Meeting in December 1991. Along with that, already in July 1988, the Committee was founded with J. Delors as its President. The Committee submitted the EMU Project, approved on June 26–27, 1989, for discussion. The Delors Plan contained three stages.

The first stage started on July 1, 1990, with the liberalization of capital flows. Thus, the creation of the European domestic market was finished, economic policy converged (primarily in the area of macroeconomic indicators), and the conformity of financial and regional policies was achieved. The second stage, which started in 1994, stipulated for the conclusion of a special agreement on economic cooperation and creation of the European Central Bank (ECB) authorized to carry out monetary policy within the frames of the EU. The major organizational event of this stage was the establishment of the European Monetary Institute (EMI) for coordination of the monetary policy between states, strengthening of the ECU and preparation for setting up of the European Central Bank.

Finally, the third stage, which started on January 1, 1999, was supposed to delegate a number of very significant economic and monetary-political competencies from national authorities to the European Union. According to estimations of the EU Commission, the Monetary Union enabled the participating countries to save from ECU13bn to 19bn annually on exchange rate conversion costs and other transaction costs[4]. According to the Maastricht Treaty, the final formation of the EMU was completed with introduction of the EURO and establishment of the ECB. Consequently, the third, final stage featured the start of the EU's common monetary and fiscal policy developed by the European Central Bank. At the present, only 12 out of 25 EU countries (including 10 countries of Central and Eastern Europe that entered the EU on May 1, 2004) are unifying their monetary and fiscal policies intending to fulfil all objectives of the «magical polygon» and meeting all the Maastricht criteria in the sphere of money, credit, finance, and the balance of payments. That area was called «Eurozone» or «Euroland».

The Eurozone is formed on the territory of 12 EU member countries, creating the framework for operation of the ECB and a European currency – the EURO. Since January 1, 1999, the EURO was used only in non-cash circulation,

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[4] Wirtschaft und Untemcht. – 1991. – № 6. – S. 3.

while cash turnover was performed by national currencies of the 12 member countries of the EMU. Thus, on the territory of the «Eurozone», the national currencies and cashless EURO were circulating simultaneously for two years. Since 2002, the EURO was allowed into cash circulation, and national currencies stopped their existence. In 2004, the other 10 countries joined the EU, and they were given an opportunity to enter the «Euroland».

In order to define the role of the EURO in the world monetary system, it is necessary to take due account of the world economic processes under the influence of objective economic laws. The laws, namely those of money circulation, are effective not only nationally, but also globally. Here revealed are the interplay and interconnection of a number of indicators, including those where money or exchange currency play a specific role. That is why, when analyzing the dollar or the EURO as a means of circulation, medium of payment and a store of value, it becomes theoretically possible to reveal what is rational and what is not. As already noted above, when the Bretton Woods monetary system was created in 1944, the dollar took upon itself the function of the world currency, even though it did not comply with the laws of money circulation in respect to the essence of the world currency.

As for the EURO, which replaced the ECU, the name itself does not matter at all. The new essence could have been fully put into the ECU. The main thing consists in the deepening of integration processes and globalization of economy throughout the European space. These are the real objective processes forming the ground for full introduction of common currency in a certain region and partly outside of it. The ECU failed to become the international regional currency because, at that time, there were no European Economic and Monetary Union, although the common market had been created. Introduction of the Euro reflected a principally new stage of integration, when the European Central Bank authorized to issue European money was established for coordination of the monetary and fiscal policies.

What is the key flaw of the dollar as the world currency? First of all, it is issued in the USA and the dollar supply into the world circulation is made on the basis of the US negative balance of payments as against meeting the real needs of the world payment cycle. As a result, dollar demand and supply usually do not match.

It is known that more than a half of the world commodity circulation is served with the dollar, while the ratio of the USA with its goods and services there makes about 15%. Proceeding from that, the dollar pledged the functions of the world money in addition to the input of the USA into the world commodity circulation. Thus, the situation comes forth when the emitted US dollars form a «dollar shed» in reserves and savings of other countries.

In the early 21st century, the world currency reserves of central banks made about $2trlns. In the central banks of the industrially developed countries (IDC), they dropped from 60% in 1990 to 40% at the beginning of 2000. In the developing countries (DC), on the contrary, they grew from 40% to 60%. The major share of the world currency reserves accounts for dollars. Naturally, the US monetary reserves consisted of other currencies and reached only 2% of the world ones. At the moment, more than a half of the world exports is paid in dollars. Also, about a half of the credit capital market is nominated in dollars. Over 80% of all money market transactions are performed in dollars.

The EURO, as the world currency, takes a quite different position. The EURO emission is allowed meeting the requirements of the laws of currency circulation, which are in effect on the territories of the European countries – «Euroland» members. The EURO has got its own basis, its own economic area, and its own ECB, which carries out the emission of the regional international currency unit in accordance with the needs of that area. That is the principal difference between the EURO and the dollar.

The EURO perspectives greatly depend on the expansion of the EU's territorial and economic space, which has proceeded in the following four directions: towards the West (Great Britain, Denmark, Ireland in 1973), towards the South (Greece in 1981, Spain and Portugal in 1986), towards the North (Austria, Finland and Sweden in 1950), and since May 1, 2004, – towards the East (Poland, the Czech Republic, Hungary, Slovakia, Slovenia, Estonia, Latvia, Lithuania, Cyprus, and Malta). In result, the present EU area has been formed, and the process of EU enlargement has not been completed so far. In the distant future, the Balkan countries (Croatia, Macedonia, Albania, Bosnia, Serbia, and Montenegro) could become EU members. Turkey is aspiring to the EU too, but it may happen not too soon. Those of the named countries that were able to meet the Maastricht criteria would be incorporated into the «Euroland» and respectively replace their national currencies with the EURO.

EURO and Dollar in the Modern Monetary System

In integrating, Europe has successfully advanced in the creation of common economic space, which found its institutional support in the establishment of the European Central Bank. Qualitatively, the new situation is connected with the regional European currency unit, which has its own economic base, and this is the passport to success for the Euro. It is not just a political struggle between Europe and the USA, it is a reflection of objective economic processes. The larger the economic base of the Euro, the greater is its share and role in performing the functions of the world money; at the same time, the share of the US dollar will drop (reflecting the actual place of the country in the world economy), thus seizing its stake in performing the functions of the world money.

Typical of the new EU Eastern European member countries is their economic openness. Suffice it to say, the ratio of their foreign trade makes 60% of GDP (for comparison, in Germany it is twice as low). At that, the EU portion in foreign trade of the East European countries was 75% before the Enlargement; therefore, some specific changes in foreign trade trends are not expected. A dozen of the new EU members have drastically changed the line of their foreign economic relations long before joining the European Union. Russia appeared to have lost much of it, accounting for no more than 1% of their exports at the moment. All the rest goes mainly to the EU countries. The only exception is Poland. Russia's share in its exports made 8%, but after the Default of 1998 Polish exports to Russia shrank to 3%. Russia's imports to the countries of the region has not changed greatly (due to their energy-intensive structure), ranging today between 4% in the Czech Republic and 12% in Slovakia. The countries see major challenges of their EU membership in finding solutions to social problems. Suffice it to consider the example of Slovakia, where wages make some 15% of average wages in the EU. According to some forecasts, 20 to 30 years are needed to bridge the gap[5].

The proportion between the economic potential of the EU and the USA affects the exchange rates of the Euro and the dollar. The initial Euro exchange rate was $1.17. It was the only time when its exchange rate was set and not defined by the market. The EURO simply followed the ECU's exchange rate. After that, within two and a half years the EURO/USD exchange rate has fallen to $0.89, which constituted a drop of about 40%. In the middle of 2001 the situation drastically changed, i.e. the EURO/USD rate has started to grow.

The appearing situation resembles a paradox: on its exit from recession, the EU lags behind in economic growth, but the trend in exchange rates is reverse, i.e. the EURO outperforms the dollar. In April 2005 one EURO cost $1.34–1.35. Experts see the reason for it in the wilful policy of the US FRS, which cut the interest rate to 1%. Hence, investors lost their interest in operations on the US financial markets causing a negative balance of payments in the USA, which last year exceeded $400bn. In addition, military expenditures are enormous in the federal budget (over $500bn last year), as well as the negative trade balance[6].

A significant peculiarity of the new world monetary system, with which the world enters the 21st century, is the formation of regional international currency, since until present time the world monetary system was known as the interrelation of national currencies. That is how the EURO differs from the dollar and from the other national currencies throughout the world. The EURO's introduction signified the first step towards creation of the world money in fact, not just towards overtaking some functions of the so far non-existent common world currency. Both of the previous world monetary systems (Bretton Woods and Jamaica) were based on the dollar, while SDR and ECU practically were synthetic currency units based on a set of national currencies. The EURO is not a national, but international regional currency unit, which conquers ever greater eco-

[5] Izvestia. – 2004. – 13 April. – P. 15.
[6] Izvestia. – 2004. – 28 February; 13 April.

nomic space. Probably, similar international regional currencies may be created in other parts of the world, in particular, in Asia and Latin America.

The EURO started its activity within the European area of 12 countries and is used at least for intra-zone trade. At the same time, the dollar is released from the currency reserves of the Euroland's central banks. The transactions with financial instruments that are made in dollars so far will be performed in EUROs. Also other segments of world economy which were served in dollars will now be switched to EUROs. It will release some portion of dollars and subsequently increase their supply against the demand. Proceeding from the above, in the long run, the EURO as against the dollar will tend to gain a more favourable position.

The role and the place for the EURO and the dollar in the world monetary system of the 21st century is defined by the correlation of the EU economic powers and those of the USA. The development of the European integration is tending to favour the Euro, but we can not help taking into account the USA's aspirations to bring its integration process beyond its boundaries and North America on the whole. Also the Asian currency zone with Japan or China as its centre can probably emerge. Consequently, till the end of the 21st century at least three international monetary zones could exist, and they will ground on three centres of the world competitive forces. Finally, not national currencies but the currencies of three international monetary zones will perform the functions of the world money in the world economy. The truth is that this perspective is rather problematic in essence and time because of the Japanese yen.

Russia and the Bipolar World Monetary System

A new international bipolar monetary system can not help affecting Russia, which in the nearest future can hardly oppose its currency against the dollar or the Euro. Therefore, the rouble should adapt to a newcoming bipolar world monetary system. Since 1992, the Russian Government has been following a pro-American line and implemented dollarization throughout the RF, which led to August 17, 1998, default. The modern Government should refuse the pro-American line and orient itself at Europe and other countries, with which it has fairly close economic ties in trade, services, and capital flows of all forms (direct investments, securities and bank credits). In the conditions of pro-American policy Russia consolidated its relations with international financial organizations (IMF and IBRD), which are under the influence of the USA, and weakened its ties with London and Paris clubs, where the leading positions belong to the European banks and the European countries, primarily the EU members.

The 21st century has begun for Russia with consolidating its relations with the EU countries. Therefore, it is urgent to reorient the currency operations at the EURO replacing the dollar, which will make the EURO's position in the world arena stronger.

The use of the EURO in Russia will encompass a number of significant areas of international economic relations. The changing procedure has already started in foreign trade contracts, where at the moment the dollar is serving about 80% of turnover. The FOREX reserves of the Russian Central Bank, which exceeded $200bn in 2006, also consist mainly of the dollars, the portion of which makes 80%. Almost similar ratio is accounting for dollars in foreign resources of the Russian commercial banks. International settlements and payments of Russia are performed for approximately 80% in dollars, while 60% of Russian foreign trade accounts for Europe, and only 8% - for the USA.

The ratification of the Partnership and Cooperation Agreement between the RF and the EU in the late 1997 produced a good impact on the improvement of economic relations with the EU countries. It obliges Russia to pay much more attention to the use of the EURO. In addition, the intensification of negative motives in the relations between Russia and the USA cannot be ignored, which resulted, among other things, in slump import curtailing of steel from Russia, also by threats and sanctions against the organization of import reduction because of the relations with a number of other states unwanted to the USA.

What concerns projects on the development of the EURO and European integration, two ways are possible: either back to national states having seceded from the ECU, or straight ahead towards the United States of Europe[7]. The formation of the Great Europe is more prospective, and in due course of time Russia will take its place there.

President V. Putin in his annual message (2004) set a number of important problems and stressed the urgency of having the rouble convertible as soon as possible. The officials who were standing next to the President declared that the question could be settled in 2007. In my personal opinion, if the full rouble convertibility is tied to the WTO accession and poverty eradication, a long period of time will be required, not to mention that the suggested by President 10% annual growth rate is hardly achievable.

So, how should these challenges be treated? The first question is – what is meant under convertibility as such, and more, what should we understand under full convertibility of the rouble? If we speak about full, complete rouble convertibility, we mean that the money performs all its pertaining functions both within the country and on the world arena. Therefore, the rouble convertibility is divided into inward and outward convertibility, likewise into current and capital convertibility. According to the balance of payments, current accounts include trade, services, real estate, and transfers. The second part is the capital items referred to direct and portfolio investments (bonds and shares, bank credits and security market). With respect to the inward exchange or convertibility of roubles into foreign currency, in 1993 Russia succeeded in it and now is freely exchang-

[7] Forum. – 1999. – № 9. – P. 4

ing roubles into foreign currency. But the latter is lacking the function of the means of payment. What should be done at the moment to have the rouble fully convertible? Entering the WTO and full rouble convertibility are the two objectives to be set. The matter is how to meet them and during which time period. Eliminated should be the restrictions that hinder the rouble to perform all functions within the country and beyond. In the course of elimination of current restrictions appears the rouble that today is only partially convertible within the country. But it is gradually becoming convertible outside as well, as long as it is convertible abroad, it is recognized as a means of payment and it flows into the world currency reserves.

Switching from the current limited to full convertibility of the rouble primarily implies its free inward and outward convertibility. We should be intent on that purpose. We should attain to have the rouble in its cash and cashless forms being transmitted abroad and have western banks open the rouble accounts.

We should penetrate the world market and conclude advantageous contracts not only in dollars, but also in roubles. It may be worth coming back to the idea of parallel currency, which is likely to speed up the process of switching from partial to full convertibility of the rouble. But in any case, the full rouble convertibility is impossible in the nearest future. Not a decade, but much more time is needed for us to reach the degree of economic development to be able to make rouble fully convertible. Therefore, that kind of calls could appear harmful, as they would be forced by administrative measures. If we have not reached the economic development of 1991-level, it is unreal to make the rouble fully convertible.

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