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THE NEW INSTITUTIONALIZATION OF MONETARY GOLD: THEORIES AND PROSPECTS FOR THE REVIVAL OF THE GOLD STANDARD

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Abstract: *The article is devoted to the development of approaches to the new institutionalization of monetary gold. Gold is considered a strategic metal, and its price is a key indicator of global business confidence. Central banks periodically can borrow a part of the gold reserve to other market participants to earn additional income. At the same time, gold cannot physically move but can be stored for convenience in central banks of jurisdictions that belong to international financial centers. Gold should maintain its important role as a component of a country's international reserves and the optimal amount of gold reserves should be stabilized with a further course to increase the reserves of monetary gold. Given the instability of leading foreign currencies and the risks of investing in sovereign bonds, the share of gold in international reserves should be gradually increased.*

Keywords: *institutionalization, gold, finance, monetization, debt, currency, economic growth.*

INTRODUCTION

Global debt reorganization, fixed exchange rates, and a new set of trade and tariff agreements are absolute prerequisites for stability in global economic and financial relations, which is necessary for a return to economic growth. In this case, the proposal to reorganize the international monetary system involves controlling the issue and linking it to real assets. Therewith, the new financial system should have fixed exchange rates with a ban on free cross-border movement of capital. Currently, there is a need to create a single supranational issuing center, the currency of which would be used by all countries for international settlements. Apologists for the gold standard see the "New Bretton Woods" in tying gold not to the US dollar, but to those currencies that currently have a large gold reserve. The US still has the world's largest gold reserves. At the same time, China ranks first in the world in gold production and is actively increasing its gold reserves. Is it possible to return to the Bretton Woods System and the gold standard in any form? Probably not. Firstly, the experience of implementing post-war international

monetary regulation has shown that the use of one currency as a reserve currency cannot equally meet the interests of all states. Secondly, as the experience of gold standards has shown, the gold reserve does not cover the rapidly growing needs of commodity circulation, which leads to an increase in gold prices and a corresponding redistribution of resources. Thirdly, the use of the international monetary unit in global calculations is always limited. The study of gold monetization issues was reflected in the works of L.A. Badalov, I.E. Shaker (2019), K. Bezvezyuk (2015), S.B. Varlamova (2016), T. Dzhanaev (2013), Yu.N. Krivuts (2016), O.I. Terentyeva (2017), and others. At the same time, the need to justify the system of new institutionalization of monetary gold is due to the requirements of the effective use of the financial resources of a particular country.

METHODS

The theoretical and methodological basis of the research is an abstract-logical method, methods of induction, deduction, analysis, synthesis, systematization – to justify the approach to identifying trends in gold monetization; graphical method – to study the level and trends of changes in the parameters of the development of the monetary gold system. The information base of the article is statistical data of state bodies, legislative and regulatory documents regulating the management of the monetary gold system, evaluation of the effectiveness of regulation of gold and foreign exchange reserves, and the results of scientific research (Drobysheva et al., 2018; Ogloblina et al., 2020; Zavalko et al., 2017). In the course of the research, it is planned to consider options for the new institutionalization of monetary gold, substantiate the theories and prospects for the revival of the gold standard, and analyze financial systems to confirm the parameters of their effective functioning.

RESULTS

The research showed that although the demonetization of gold took place in monetary realities, it did not end in the mass consciousness, which allows maintaining confidence in the lost values, taking into account the reversals of the gold standard (Figure 1).

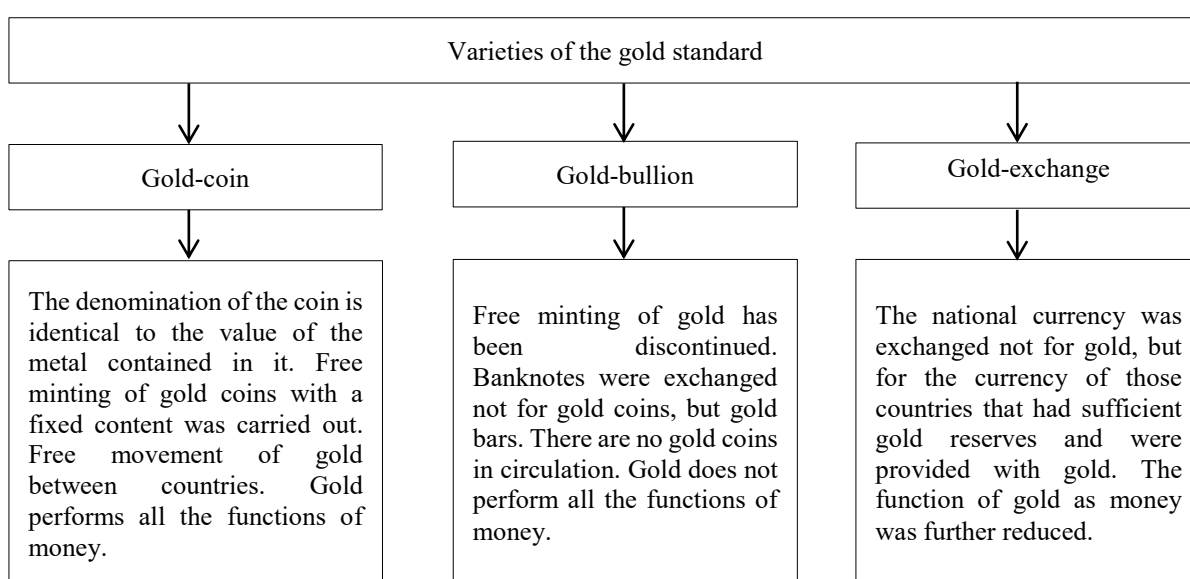


Figure 1. Varieties of the gold standard

That is why various projects of reviving gold as high-grade money in the globalizing world are being discussed more and more often. These are the projects of the Arab gold dinar and the gold currencies of the countries of Southeast Asia. The global financial crisis has stimulated discussions about improving monetary systems, which leads to a return to the analysis of historical and economic achievements and problems of the gold standard and the search for its modern variants. Proponents of monetary gold, referring to the functioning of economic systems according to the laws of capital movement, emphasize that money will continue to perform its traditional historical functions in the future: measures of value, means of circulation, and world money; the function of world money will remain with currency gold.

Therefore, as long as the law of value is in effect, there is no alternative to gold as a universal equivalent. What about demonetization, which has been officially held for half a century? At the same time, the concept of demonetization is generally well-established and is defined as the loss of a certain commodity, most often precious metal, gold or silver, the role of the universal equivalent, the functions of money, primarily as a means of circulation and payment. Demonetization cannot be considered in isolation from the reverse process – remonetization. In this case, this is the main paradox of reality, which should be developed in relation to the information economy, when modern states can no longer base their national and general monetary and currency systems on gold, but they also cannot refuse it. This contradiction is resolved in the interaction of various trends and becomes a source of tension and an occasion for active discussions.

If the demonetization of gold is understood as the elimination or reduction of its monetary functions, then remonetization is the reverse process of their restoration or strengthening. The question of the correlation of these trends has been in the focus of scientific attention in recent years. Moreover, the latter should be considered as a trend, i.e. remonetization, while the former is the form in which the latter takes place. Increased attention to the issues of gold monetization arose in the crisis conditions. In this case, one can draw attention to one aspect of it that is relevant to modern time: can gold, as a factor of stability, in the form of a "standard" or otherwise, provide global financial stability? There is a point of view that it cannot, since the gold standard in no way guarantees protection from crises, and restoring balance is a measure to get out of them. In this case, there are some contradictions between the theory and practice of the gold standard model.

The economy is based on the sensitivity of all foreign economic transactions to prices or interest rates, which change properly under their influence. This is far from being the case. Throughout the era of the gold standard, England exported long-term capital abroad: with British money, enterprises and railways were built in other countries, governments placed loans on the London market. Investment income flowed into England just as regularly. These operations did not depend on the movement of gold and foreign exchange rates. In practice, the influx of gold into a country does not always cause an increase in the money supply and, accordingly, prices (and in the country where gold moves from, the opposite happens). When a country's economy does not need money, it is impossible to impose an increase in the money supply with a working gold standard. Thus, imported gold either goes to the reserve funds of a private company or remains an illiquid asset of the central bank.

There is also no clear correlation between money growth and commensurate price increases, for which is significant, first of all, the phase of the economic cycle: prices

usually rise in phases of revival and rise. At the same time, the growth of the money supply can only contribute to higher prices to the extent and in cases where it coincides with these phases of the cycle. However, stabilization, i.e. restoration of equilibrium, does not occur automatically but is always accompanied by acute economic and financial crises.

Historically, the outflow of gold from a country has traditionally been considered a symptom and companion of the economic crisis. It also intensified this crisis. Gold was moving away, and banks were cutting back on loans with all the consequences for entrepreneurs. Unemployment grew, national income declined. The surprising thing is not that the gold standard exhausted itself so quickly, but how long it was able to hold out. The relative stability of money and currencies that it provided was not due to its perfection, but to the specific conditions under which capitalism developed in the second half of the 19th – early 20th century, namely, the dominance of Great Britain in world economic relations. Central banks, led by the Bank of England, maintained and protected the international gold standard, a system that gave them power and influence. In this regard, before the First World War, there was no doubt about the effectiveness of the gold standard of the Bretton Woods System (Figure 2).

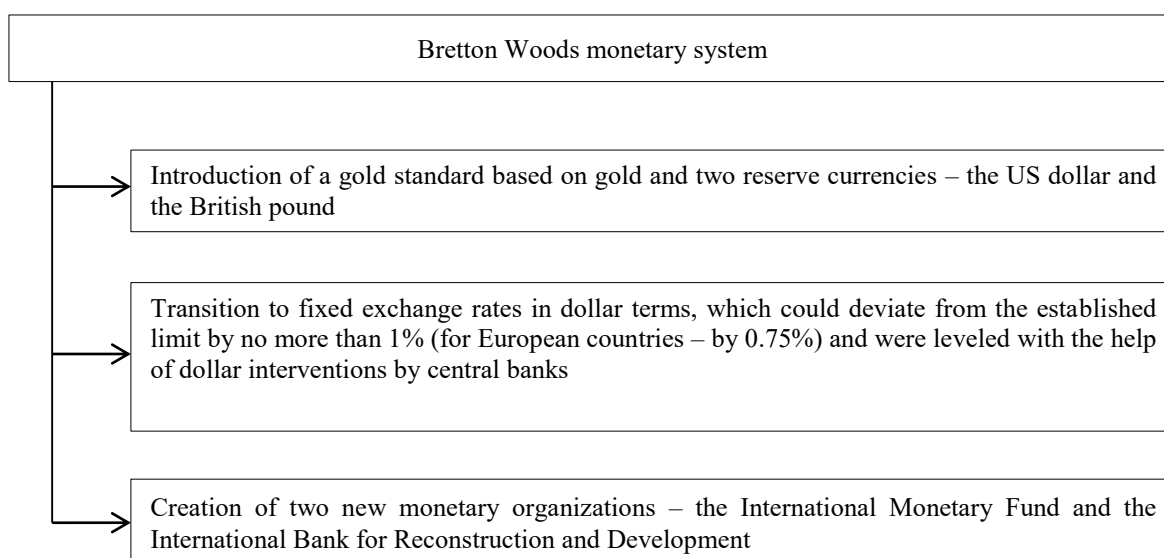


Figure 2. Principles of functioning of the Bretton Woods monetary system

The management of international reserves requires improvement in terms of the monetary gold reserve, establishing the responsibility and authority of central banks regarding the dynamics and storage of gold reserves and improving the efficiency of operations with gold, taking into account the support of liquidity, profitability, and acceptance of acceptable risk, as well as the specifics of the pricing mechanism for world gold prices. This is related to ensuring national financial security. The research suggests that gold has traditionally served and will continue to serve as an important reserve, allowing central banks to diversify their reserve assets. In this case, monetary and non-monetary gold of central banks can be distinguished. Non-monetary gold covers all gold except monetary. The latter should belong to the monetary policy authority and be held as a reserve asset. Non-monetary gold can be of the substandard form, that is, in the form of coins and bars with a purity of at least 995, gold stored in special distributed accounts,

powdered, unrefined gold, or in the form of a semi-finished product, for example, obtained by processing scrap metal.

Gold is used as an alternative investment during periods of instability in financial markets, and then its price increases. The leaders of many central banks around the world are aware that the international monetary system is moving away from the dominance of the US dollar and gold will play a much larger role in the future. At the same time, the share of gold in international reserves can theoretically be reduced to zero. Now, only some central banks are announcing their policy on the gold reserve. All this complicates both its overall assessment and comparison of policies of different countries. Up to this point, the total gold and foreign exchange reserves of central banks have been decreasing, but gold remains an important component of external reserves and plays a role in their management. It should be noted that the unprecedented increase in the price of gold during the global financial crisis did not affect the activities of central banks, since the management of reserves is focused on the long term.

Gold is currently considered as a tool for reducing risks and diversifying investments, as well as an investment option in the face of rising inflation and sovereign risk. In addition, it is not associated with a specific country (sovereign risk), unlike investments in currency or securities. At the same time, it should be borne in mind that the price of gold depends on how many market participants are willing to pay for it at a certain point. It does not bring interest when rates are close to zero. Storing gold, including in the vaults of other central banks, is associated with considerable security and control costs. In addition, it is necessary to consider the historical background, i.e. the number of precious metal reserves stored by relevant central banks. Those of them that have very large volumes of gold cannot sell a lot of gold in a short period without disturbing the balance in its market. Considering all these factors, each central bank chooses its strategy for managing the gold and foreign exchange reserve, since there is no universal plan of action.

Any significant transactions on the sale of the precious metal are carried out gradually by the central banks of the countries to avoid unnecessary violations of the balance of supply and demand in its market. It should be noted that central banks have refrained from selling gold in developed countries in recent years, while the main central banks in Asia, for example, China and India, have acquired significant amounts of it. The central banks of Russia, Iraq, Turkey, and Kazakhstan also increased their reserves. Thus, the largest volume of gold on the market has been purchased over the past 50 years. Central banks of the world are particularly active in buying gold in anticipation of a crisis in the international monetary system because the gold reserve is a reasonable verification of risks. They create hedge funds against US dollar inflation on rare occasions. For example, China is actually sticking to a line for the acquisition of precious metal, relying on the fact that in the event of inflation of the dollar, US treasury bonds held by China will devalue and the price of gold will rise.

There is the following pattern: the larger the nominal amount of international reserves, the more significant the share of them belongs to gold. Central banks have been on the market as net sellers of precious metal for decades, but more recently, they have become net buyers. The sources of replenishment of the gold reserve for the world's central banks are the production, recovery, and acquisition of gold. Gold production has the greatest impact on its supply, since another source is gold refining, i.e. recovery by tax purification, including from scrap. Then substandard gold can be converted into conventional or monetary gold, but the scale of such products is very small. Therefore,

central banks coordinate their sales of the precious metal to prevent market turbulence or a collapse in gold prices

DISCUSSION

The reliability of the presented approaches is confirmed by the fact that transactions with gold are actually regulated by central bank agreements on gold, the content of which consists in the fact that banks have the right to choose the volume of gold reserves and the place of their storage (Agamirova et al., 2017; Lukiyanchuk et al., 2020; Shakhmametev, Strelets, Lebedev, 2018). The reason for the conclusion of the first transaction was the threat of destabilization of prices in the gold market after the announcement by the British Treasury of its intention to sell a significant part of the gold reserves through auctions of the Bank of England, as well as the Swiss National Bank. Unlike many European countries that reported such transactions after they were carried out, the decision of the UK Treasury appeared in advance, causing the greatest concern to investors. Other central banks have taken advantage of the increased demand for borrowed gold, particularly for lending. The growth of the latter, as a rule, led to additional sales of the precious metal.

The research shows that gold remains an important element of global foreign exchange reserves. Central banks will coordinate their agreements on it in the future to avoid market shocks. Currently, they do not plan to sell significant amounts of the precious metal. In our opinion, such transactions are very similar to cartel transactions, but they are not subject to antitrust regulation. Therefore, the question arises about the possibility of manipulating supply and demand to influence the price of gold in the interests of its producers and central banks. Although gold ceased to play a central role in the international monetary system following the collapse of the Bretton Woods System of fixed exchange rates in 1973, it remains an important asset in the reserve funds of many countries, and the International Monetary Fund still belongs to the group of the world's largest official owners of this precious metal.

CONCLUSION

Summing up, gold is considered a strategic metal in many countries, and its price is a key indicator of global business confidence. Periodically, central banks can borrow a part of the gold reserve to other market participants to earn additional income. At the same time, gold cannot physically move but can be stored for convenience in central banks of jurisdictions that belong to international financial centers. Central banks use the services of institutions that perform bullion banking. Gold should maintain its important role as a component of the country's international reserves. The optimal amount of gold reserves should be stabilized with a further course to increase the reserves of monetary gold. Given the instability of leading foreign currencies and the risks of investing in sovereign bonds, the share of gold in international reserves should be gradually increased. In this case, it is necessary to consider the general conjuncture of financial and commodity markets to form the required gold reserve.

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