

# Can the World Monetary System be Saved from Collapse by Monetary Gold

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**Abstract:** The world community is gripped by the expectation of significant changes in the international monetary system, which has been permanently in crisis for decades. The uncertainty of the future gives rise to a sense of impending catastrophe, which must be prepared now, finding reliable anchors for preserving capital and providing an equivalent exchange in commodity markets. Historically, during a period of aggravation of the crisis of the international monetary system, monetary gold invariably remains as a reliable anchor, which is due not only to its unique properties, but also to the mentality of economic entities of all levels. The article deals with the basis of the emergence and periodic aggravation of the crises of the international monetary system, the causes of the new exacerbation, and the changing role of monetary gold in the process of globalization of the world economy. The role of international reserves in the gold reserve in the maintenance of socio-political stability is shown, the reasons determining the need to preserve and increase the gold reserves of central banks are substantiated.

**Keywords:** International monetary system, monetary gold, international reserves, gold reserves.

The crisis of the modern international monetary system is again entering a phase of aggravation. The first and obvious sign of this phenomenon can be considered a rapid entry into the international financial market of a number of crypto-currencies, perceived by the mass investor as some kind of new payment medium. Excessive demand for crypto-currencies causes exceptionally high volatility of their market, which "encourages" investors to activity on it and determines its speculative nature. Nevertheless, the crypto-currencies gradually find recognition as a kind of replacement of real money, even at the state level, including in Japan - the ancestral home of the most popular at the present time bitcoin. On April 1, 2017, the law recognizing bitcoins as payment means came into force.

In the world science and practice of financial markets there is not yet a single opinion on the economic essence of crypto-currencies. Most researchers of this problem tend to classify crypto-currencies as a "financial asset" without recognizing that they belong to a particular kind of money, but the very fact of the emergence and take-off of popularity as a "new kind of payment means" in the financial markets indicates a gradual loss of confidence of the world community in the modern currency system.

Another sign of the aggravation of the crisis in the international monetary system is the accelerated loss of confidence in the US dollar as an international

reserve currency, the status of which it acquired as a result of the ratification of the decisions of the IMF Jamaica Conference of 1976. The confirmation of this thesis is the expanding process of applying national currencies in international settlements without converting them into dollars. In addition, an important sign of the aggravation of the crisis of the existing international monetary system can be considered a tangible strengthening of some national currencies, in particular, the Chinese yuan.

The aggravation of the crisis of the international monetary system is perceived by the international community as the impending breakdown of the existing monetary system, which contributes to the intensification, if not apocalyptic expectations, of the impending catastrophe to which we must prepare now, finding reliable anchors for preserving capital and providing equivalent exchange on commodity markets. (L.N.Krasavina 2015).

As a working hypothesis of the research, a thesis is put forward: is the alarming expectations about the unpredictable changes in the international monetary system justified, with catastrophic financial consequences for the world economy, and whether monetary gold can exclude or substantially reduce the negative consequences of such changes.

The fundamental principle of cognition of socio-economic phenomena and processes is their explanation through internal contradictions, therefore, as a methodological basis for research, a method of observing and collecting information was adopted, suggesting that economic studies are empirical in

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nature, as well as induction and deduction as two opposite but closely interrelated way of reasoning.

Historical experience shows that in the period of almost all financial and economic crises, monetary gold (gold of high sample in ingots and rolled products) remains invariably as a reliable anchor for maintaining international commodity exchange and saving of capital, which is due not only to its unique physical and mechanical properties and high capital intensity, but also the mentality of economic entities of all levels. (A.N. Sukharev 2015)

At such moments, there are usually proposals to reform the monetary system and even a temporary return to the gold standard. So, from the closest to our time similar proposals and activities in this direction, we can recall the period of "Reaganomics" in the United States, when in 1981 there was created a special institution under the National Bureau of Economic Research to find out whether the United States should return to the classical standard. This institution was called the "Gold Commission" (GoldCommission). (AV Anikin, 1988).

On the eve of the summit of G20 leaders in Seoul in November 2010, Mr. Robert Zoellick called on the world's largest powers to develop a new political concept to address the problems associated with the escalation of currency conflicts in the international arena. In his conviction, the world community, at least in this format, needs to think about the possibility of using the gold standard as an "international reference point" for market expectations of inflation, deflation and future exchange rates. However, he stressed that the market is already using gold as a monetary asset. (Zoellick, Robert. 2010) However, the world community was then not ready for radical steps towards reforming the international monetary system, which was shown by the results of the last summit, which was limited to this by common statements.

An almost exhaustive summary of the numerous statements about the current state of money circulation and the role of gold in the world financial system belongs to the analyst of the BullionStar.com website Janu Newenhuis (also known as Cook Jansen) in an interview dated 1.11.2016 to the financial publication Het Financieel Dagblad: "Gold is solid currency. It can not be printed as paper money, it will not disappear. It retains its purchasing power in the long term. And if it is in the center of purchasing power, then its stability can preserve both in the short and medium term ... Gold is

related to economic principles, this is a commodity. And in this sense, I feel safe, keeping some of my savings in gold."

The indicator of the begun preparation for the expected complications in international money circulation amid the worsening crisis in the monetary sphere is the price increase in the markets of monetary gold from the late 90s to the present (equity.today/zoloto.html 2015-2018). Exchange quotes of monetary gold on all international trading floors, despite a number of market adjustments, confidently demonstrate a bullish trend, with the main buyers being national central banks of a number of countries (China, Russia, Turkey, etc.). The major holders of monetary gold are various international funds, including the IMF and the Bank for International Settlements, the largest corporations and the richest people in the world (John Paulson, Paul Turaji, George Soros, who are rumored to have 2-3,000 tons of precious metal together).

European countries began a systematic process of repatriating their gold reserves from international storage facilities located outside their territory: Austria and Belgium from England, Germany and the Netherlands from the United States, etc. The events of the central banks of many countries connected with the increase of gold reserves, with the return of reserves in monetary gold to their own storage facilities, are conducted without haste and excessive hype, because, in the words of Cook Jansen: "No one needs another shock."

As of the beginning of 2018, the world's gold reserves totaled 183058 tons.

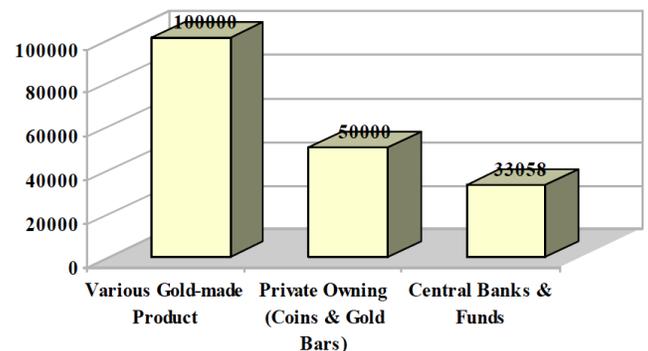


Figure 1:

Source: Gold reserve of the world.:[http://gold-silver.com.ua/gold/gold\\_reserves\\_world.html](http://gold-silver.com.ua/gold/gold_reserves_world.html)

In its structure, the gold reserves of the world countries at the beginning of this year amounted to 29,600 tons. Dynamics of gold reserves in the leading

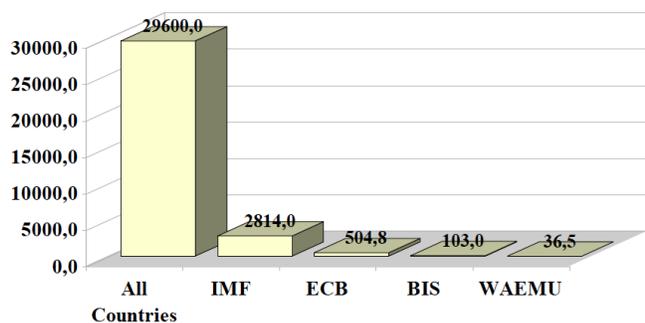
**Table 1:**

The place in TOP-10 owners monetary gold	Countries TOP-10, IMF and Turkey	Ton of gold for the beginning of the year			Share of in reserves in 2018, %
		2000 year	2010 year	2018 year	
1 place	USA	8136,9	8133,5	8 133,5	75,0
2 place	Germany	3468,6	3406,8	3 373,6	70,2
3 place	IMF	3217,3	2814,0	2 814,0	—
4 place	Italy	2451,8	2451,8	2 451,8	67,5
5 place	France	3024,6	2435,4	2 436,0	64,9
6 place	China	500,8	1054,1	1 842,6	2,4
7 place	Russia	384,4	676,03	1 838,8	17,7
8 place	Switzerland	2419,4	1040,1	1 040,0	5,4
9 place	Japan	763,5	765,2	765,2	2,5
10 place	Netherlands	911,8	612,45	612,5	66,3
11 place	Turkey	117,0	116,10	564,8	21,8

Source: Ten countries - the largest gold reserve in the world. [https://yandex.ru/images/search?text=Золотой запас стран мира в 2017 году&img\\_url=https%3A%2F%2Fget.whotr](https://yandex.ru/images/search?text=Золотой запас стран мира в 2017 году&img_url=https%3A%2F%2Fget.whotr)

countries of dozens of owners of the largest cash assets of precious metal in the world (according to the World Gold Council for February 2018) is as follows:

These tables indicate a significant growth since the beginning of the new century of the volume of monetary gold in the property of the states whose economies are on the rise: in China more than 3 times, in Turkey - 4 times, in Russia - 5 times. The official total gold reserve of the world is estimated at 33058.3 tons. This stock includes monetary gold (gold bars and coins) of the world's central banks, IMF, ECB, BIS and UEMOA.

**Figure 2:**

Source: Gold reserve of the world: [http://gold-silver.com.ua/gold/gold\\_reserves\\_world.html](http://gold-silver.com.ua/gold/gold_reserves_world.html)

The obvious interest in preserving and multiplying the gold part of international reserves, which, in our opinion, is exacerbated by the aggravation of the crisis in the international monetary system, actualizes the

problem of theoretical comprehension of the role of monetary gold in the modern economy that is being formed in the process of its globalization. The comprehension of the historical experience of the second half of the past and the beginning of the present wreath allows us to conclude that the main cause of the crisis in the world monetary system is the inherent contradiction between the currency system based on one of the national currencies, which, like other national currencies, is subject to inflationary depreciation and the international character international economic relations.

The world community finally realized the extreme injustice of the exchange of uncontrolled printed "green bills" for good material and financially tangible goods and services created at the expense of the natural and labor resources of other countries. It became clear that the US currency is not provided with real values, and the United States itself for a long time is the recipient of seignorage - the income from the release of money, which causes huge opportunities for consumption (according to some estimates, the US consumes at least 40% of the material wealth produced by the rest of the world).

This injustice was first laid in Bretton Woods in 1944, and then in Jamaica in 1976, when many countries resignedly signed commitments to follow a discriminatory monetary system and by now have accumulated reserves in US dollars (China, for

example, has only international reserves 2.4% of monetary gold, the rest in \$\$), and now it is a pity to lose these reserves, that's why they can not agree on changes in the world order in international settlements.

The first tangible signs of the crisis of the world monetary system emerged towards the end of the sixties. The crisis manifested itself in a massive "flight" from the American currency to gold. In 1973, another dollar was devalued and the official gold price was raised to 42.22 dollars per ounce. During this period, the crisis in the Bretton Woods system revived the idea of returning to the gold standard and increasing the role of gold in international monetary relations. However, under the pressure of the United States, which headed for the final demonetization of gold to support the dollar's position, in January 1976 in Kingston, Jamaica, IMF member countries signed an agreement on new principles of the world monetary system.

The Jamaican agreement legally completed the demonetization of gold, abolished the installation of its official price, as well as gold parities, provided for the termination of the exchange of dollars for gold. In accordance with the principles of the Jamaican currency system, gold should not be a measure of value and a basis for calculating exchange rates. "Gold is no longer directly exchanged for goods, no gold prices are set. It has ceased to directly serve as a means of circulation and payment economic ties of commodity producers" (L.N. Kravavina 2015).

The main reasons for the change in the role of gold in the world economy of the last century include the discrepancy between "gold" money for the needs of commodity production and the widespread use of banknotes, bills, checks, later payment cards in world practice, as well as the US monetary policy aimed at discrediting gold as the basis of the world monetary system. In the modern world, the process of globalization of the world economy has contributed to some changes in the role of gold. It has undergone a number of changes in the economic sense and has changed its functions in the conditions of the development of the economy of the state and the world as a whole.

Analyzing these changes, we recall that legally the demonetization of gold was completed by the ratification in 1978 of the agreements reached at the Jamaica International Conference. All countries of the world are given the right to choose any exchange rate regime. Gold also has the role of a valuable exchange

commodity. In this connection, the question arose about the appropriateness of the availability of gold in the assets of many central banks of the world (the US Federal Reserve, European central banks, etc.).

The evaluation of expediency was based on the postulate: gold is a vestige of old monetary systems, when gold was real money, and credit money was only their representative (Smirnova O.V. 2012), and that they ceased to be traded for gold, and therefore gold remained a dead weight at central banks. (Kotov A. 2013).

On this occasion, a referendum on gold was held in Switzerland on November 30, 2014, the main conclusions of which, if briefly stated, were that gold reserves do not bring to the central banks the interest income that comes from investing in foreign exchange reserves. "Golden" assets of central banks with a daily revaluation of them at the current exchange rate can form only so-called "paper" income or loss. And only at sale these assets are capable to bring real incomes in the budget. Otherwise, these are non-performing assets and therefore do not participate in the implementation of monetary policy objectives. Among the arguments in favor of the inexpediency of the availability of central bank reserves in monetary gold, there were considerations that, because of the narrowness of the market compared to the scale of operations, the central bank can not, if necessary, quickly transform gold reserves into the required amount of currency, etc. (Yudin I.N. 2015)

However, as statistics show, the monetary authorities of at least TOP-10 countries in terms of reserves in monetary gold ignored the referendum recommendations and retained their "gold" reserves. There are, in our opinion, certain reasons for this.

It seems that among the main reasons for the preservation of monetary gold in the state monetary reserves are the following:

1. Existing gold volumes belonging to central banks can not be realized on the market without a significant decrease in its value. Realization of gold in large volumes would lead to the emergence of losses from central banks. In addition, there may be problems with the search for large investors.
2. The observed decline in the authority of the US dollar as an international reserve currency and the euro associated with it is reflected in the

structure of international reserves of central banks. Recognizing the ability for monetary gold to maintain purchasing power and stable demand, central banks are increasing its volumes, thereby diversifying international reserves as a whole.

The decrease in the confidence in the reserve currency and the euro is reflected in the replacement of the majority of central banks by dual currency baskets for multicurrency ones, including, in addition to the dollar and euro, the national currencies of other countries, primarily the Chinese yuan, as the hardest currency in the last decade.

3. In the period of the collapse of the existing international monetary system, when the time comes for universal renunciation of modern money, monetary gold can become the only recognized and accepted means of payment. It is politically neutral. It physically excludes the possibility for somebody to uncontrollably increase its amount for financing and payments. It is the only monetary asset unconditionally perceived by the world community as money. Therefore, the state of well-being and prosperity of the country during this period will depend on the volume of its gold reserves. However, the real epoch of the multipolar world should exclude the apocalyptic scenario of the collapse of the existing international monetary system and its consequences for the world economy.

Despite international agreements, it is difficult to recognize the dismantling of gold as completed. Even the IMF's Charter does not directly deny the value of gold as an international reserve monetary asset. Gold ceased to be directly exchanged for goods, but continues to be a guarantee of international loans. The role of gold as a means of creating treasures as an object for the formation of a kind of insurance funds has also been preserved: for states in the form of a state gold reserve; for production enterprises and other economic entities - in the form of reserve capital associated with the process of its reproduction, in order to maintain the real cost of capital in the conditions of inflation and sudden changes in the currency crisis; for private individuals as an object of hoarding - a reserve for a "rainy day" or future expenses.

Gold continues to maintain the function of world money as a universal payment and purchasing means, as the materialization of social wealth. In the world economy, it retained its position as a currency of

metals, a real reserve asset. And, which is especially important, it remains in the economic turnover as "extraordinary world money". Having gold, on world markets you can buy almost any currency, and on it - any goods, including strategic ones.

In many countries, gold is used to stabilize and maintain the national currency, both domestically and internationally. A solid gold reserve contributes to the successful confrontation of aggressive dollar expansion, preserving the economic independence of the state. Therefore, the interest of most countries in the world to increase their gold reserves is invariably high.

Historical experience shows that in crisis situations the role of gold as an extraordinary world money increases significantly. In the period of aggravation of the currency crisis, there is a sharp increase in sales (discharge) of cash in unstable currencies and the purchase of gold, the so-called flight from unstable currencies to gold in the form of a "gold rush." Another "fever" was triggered by a sharp increase in the crisis in the economy of most countries in the world since the beginning of 2007 and the growth of inflationary expectations. In recent years, inflation expectations have exceeded the limits of financial institutions and political circles and are deeply entrenched in the masses. Unlike the previous crises of the monetary system, in the modern world there is a growing interest in investing in monetary gold not only from investors traditionally associated with world gold markets, but also from small investors-households and individuals.

It is very interesting in connection with this assumption about the objective reasons that have matured to date, the beginning of a new round of growth in exchange quotations for the price of monetary gold. (Berwick Jeff 2010). The author of the article, basing himself on the study of the development stages of most mania of Dr. John Paul Rodrigue from Hofstra University, states: "We are rather witnessing the return of the monetary role of gold after decades of repression ... We firmly believe that after reaching a new paradigm, we will remain in it. There will be no denial or "return to normal", because the return of the monetary function of gold is a return to normal. ... And we think that the bull market (quotations of gold - the author's note) will be much stronger than the bull market of 1980. "

Events in world gold markets over the years after Mr. Berwick Jeff's speech successfully confirmed his

forecasts only during 2010-2013, but then the market stagnated near the \$ 1,300 mark. Thus, the London fixing in June practically did not change: in June 2017 it was \$ 1298.38 per troy ounce, and in June 2018 - \$ 1299.20. We are not inclined to consider the conclusions of Mr. Berwick, Jeff as erroneous. The author most likely did not take into account a number of factors, including factors of a purely political nature and are confident of the need to continue the research that he started, wishing Mr. Berwick Jeff great success in this field.

By the way, the forecast of Mr. Georg Soros about the growth of the golden "soap bubble", which he repeatedly expressed in the same period, was not justified either. So, on Jan. 27, 2010, at the forum in Davos, J. Soros declared: "There is a major bubble in the gold market and there is a risk that the metal prices will collapse," but they jumped in 2010 from \$ 1,100 to \$ 1,900, stopped a few years at around \$ 1300 and nothing catastrophic for investors did not happen.

Extremely curious opinion of the well-known analyst Max Keizer (Max Keiser), voiced by him in an interview in the same 2010. Then he expressed his conviction that one of the countries of the triad - China, Germany and Russia, with the aim of forcing the world to change the international monetary system that is in a permanent crisis, is likely to be the first to issue a statement on the introduction of a currency with gold security. This necessarily entails the need to change the national currencies of other countries to prevent the "flight of capital." Such a situation will raise the demand for monetary gold extremely and quotations may grow by three. He further stated: "China obviously wants to squeeze the last drop from an American consumer with an atrophied brain. When he buys the last Chinese plastic toy and a snow shovel from WalMart with his hundredth credit card and can not buy anything anymore, then China will drop the bomb - it will announce a currency with gold security and sell US bonds worth a trillion dollars." (Max Keiser.2010).

The aggravation of the global monetary crisis aggravates the growing confidence of the US political and financial circles, as the issuer of the international reserve currency, in the unconditional effectiveness of the sanctions pressure on the economies of countries whose policies represent a real or fictional threat to the national security and / or interests of the United States. As an example, sanctions measures against Iran, which were weakened and even withdrawn, were once again introduced and intensified since the late 1970s.

Naturally, by the appropriate sanctions, it is possible to destroy and even destroy any individual national corporation of any country, however financially powerful it was on the eve of the imposition of sanctions. The economy of the country as a whole is extremely difficult to suppress. The economically exposed economy is entering a period of crisis, sometimes hardest, but with much greater opportunities than any corporation, it seeks and finds ways to neutralize the negative impact of sanctions and, above all, in the financial sphere. Iran has been successfully demonstrating this phenomenon for almost 50 years as its "sanctions stability".

Economic sanctions, which are mainly based on the prohibition of investment and trade international cooperation and the termination of operations in US dollars, firstly lead to a narrowing of the scope of application of dollars of calculations; second, they induce the country - an outcast to develop innovative settlement mechanisms, including transactions in national currencies of the partner countries and move on to barter transactions. Well, the methods and mechanisms for neutralizing the negative impact of sanctions are being made available to the financial circles of other countries who perceive, develop these mechanisms and begin applying them to strengthen their positions in world markets, bypassing the reserve currency. For example, China, one of the first to conduct settlements with Russia in national currencies - rubles and yuan. Such phenomena further reduce the sphere of domination of the dollar and prolong the crisis of the international monetary system.

Such a scenario of the development of world events does not look absolutely fantastic now, but in its implementation the world will receive a new monetary system, although it is difficult to guess. Clearly only one thing - you need to accumulate monetary metal.

However, in our opinion, the implementation of such a scenario, at least in the coming years, is not possible. China needs too much of the Fed, and the hope of repaying its debts is based only on the idea of "peaceful coexistence", Germany is too attached to the states by "friendship chains," and Russia has not yet had to raise the economy, improve the quality of life of the population, extract gold and replenish them with their reserves, so that at a critical moment not to remain without bananas (they do not grow in Russia). This requires a lot of attention, work and time.

The discussion is still far from over. High minds are too accustomed to the concept: inferior money is the

way to the development of the credit process and on its basis the development of the economy as a whole. Now it's even hard to imagine the final results, but one thing is certain: a significant gold reserve will not hurt in any case. Therefore, while the world at the crossroads, while there is no clear idea of the ways of reforming the international monetary system of Russia and other gold-mining countries, it is necessary to rapidly build up our gold reserves. The strategy of the Bank of Russia provides for the growth of the gold part of its international reserves.

The conducted research allows to draw the following conclusions:

1. The hypothesis of the hypothesis was productive. The article presents arguments supported by statistical data in favor of the thesis about the growing anxiety in the world community about unpredictable changes in the international monetary system with catastrophic financial consequences for the world economy.
2. There are arguments proving that during the period of significant changes in the modern monetary system that has been in a state of permanent crisis for several decades, it is monetary gold that can support the world commodity exchange and save the accumulated capital, substantially reduce the negative consequences of the transition period when a new world order is introduced in the monetary and financial sphere.
3. The reasons for the need to preserve state reserves in monetary gold have been identified, and the refusal to sell "excessive" gold reserves for the coming years is justified.
4. The imperfection of the existing methods for forecasting gold markets is established, the necessity of their improvement with the use of the arsenal of methods of socio-economic research is grounded.

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