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The Gold Battles within the Cold War: American Monetary Policy and the Defense of Europe, 1960–1963

President John F. Kennedy often told his advisers that "the two things which scared him most were nuclear weapons and the payments deficit."[1] Kennedy's sensitivity to the nuclear danger is well documented and completely understandable. But why was he so afraid of the U.S. balance of payments deficit? Why did he compare a technical problem of international monetary economics to the dangers of a nuclear war?

These two problems – one involving monetary policy, the other a question of basic American security policy – were inextricably linked in fundamental ways during the Kennedy years. It is impossible to understand the full complexities and nuances of U.S. Cold War strategy in Europe during this pivotal period without coming to terms with the balance of payments and gold question. Likewise, these complicated monetary issues make no sense unless they are understood within their political and security context. The whole spectrum of the Kennedy administration's policy toward Europe – ranging from the German question to nuclear sharing policy – cannot be understood without reference to U.S. monetary policy.

Although there is no shortage of scholarship on the foreign policy and Cold War strategy of the Kennedy administration, the question of the U.S. balance-

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1. See Arthur Schlesinger, *A Thousand Days, John F. Kennedy in the White House* (New York, 1965), 601; W. W. Rostow, *The Diffusion of Power, An Essay in Recent History* (New York, 1972), 136; and memcon between Kennedy and Adenauer, 24 June 1963, U.S. Department of State, *Foreign Relations of the United States, 1961–1963* (Washington, 1995), 9: 170. Schlesinger also quotes Kennedy as saying "What really matters is the strength of the currency. It is this, not the force de frappe, which makes France a factor." George Ball claimed that Kennedy was "absolutely obsessed with the balance of payments." See George Ball Oral History, no. 2, AC 88-3, 29, Lyndon B. Johnson Presidential Library. Austin, Texas.

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of-payments deficit and gold outflow has been ignored or marginalized in the historical literature. For example, the standard account of U.S. strategy and foreign policy during the Kennedy years, Michael Beschloss's *The Crisis Years*, does not once mention the payments deficit or gold outflow problem.[2] Those historians who have addressed U.S. monetary policy treat the issue as strictly a question of foreign economic policy, unrelated to the core power political issues of the period. Thus, William Borden characterizes Kennedy's monetary policy as "an aggressive but ultimately futile defense of American economic hegemony." Other historians and political scientists have suggested that the deficit was a symbol of American decline, produced by a combination of economic malaise at home and imperial overstretch abroad.[3] This assessment, however, has been largely rejected in the professional economics literature.[4] All of these accounts fail to consider how the dollar and gold problem was central to the most important security questions of the day.

Because of Kennedy's advocacy of the so-called flexible response doctrine, it has been an article of faith among diplomatic historians that his administration sought to strengthen and enlarge the U.S. conventional commitment in Europe.[5] But in fact the link between monetary and security policy led the

2. Michael R. Bechloss, *The Crisis Years, Kennedy and Khrushchev, 1960–1963* (New York, 1991).

3. See William S. Borden, "Defending Hegemony, American Foreign Economic Policy," in *Kennedy's Quest for Victory, American Foreign Policy, 1961–1963*, ed., Thomas G. Paterson (New York, 1989), 83–85; David Calleo, *The Imperious Economy* (Cambridge, MA, 1982), 23; idem, *Beyond American Hegemony, The Future of the Western Alliance* (New York, 1987), 13, 44–52; Frank Costigliola, "The Pursuit of Atlantic Community, Nuclear Arms, Dollars, and Berlin," in Paterson, ed., *Kennedy's Quest for Victory*, 24–56; Paul Kennedy, *The Rise and Fall of the Great Powers, Economic Change and Military Conflict from 1500 to 2000* (New York, 1987), 434; and Diane B. Kunz, *Butter and Guns: America's Cold War Economic Diplomacy* (New York, 1997), esp. 94–108. Despite the promising title of her book, Kunz does not link the dollar crisis to the political crisis between the Kennedy administration and its NATO allies. For interpretations that see Kennedy's monetary policy as a series of "ad-hoc" expedients designed to maintain the privileged place the dollar held in the postwar "capitalist world-system," see Borden, "Defending Hegemony," 57–62, 84; David P. Calleo and Benjamin M. Rowland, *America and the World Political Economy: Atlantic Dreams and National Realities* (Bloomington, 1973), 88–89; John S. Odell, *U.S. International Monetary Policy: Markets, Power, and Ideas as a Source of Change* (Princeton, 1982), 88; and Susan Strange, *International Monetary Relations* (London, 1976), 82, 207.

4. Again, the professional literature on international monetary economics is quite large, but for the best works see Robert M. Stern, *The Balance of Payments: Theory and Economic Policy* (Chicago, 1973); Richard Cooper, *The International Monetary System: Essays in World Economics* (Cambridge, MA, 1987); and Paul de Grauwe, *International Money: Post-War Trends and Theories* (Oxford, 1989). For an excellent examination of the postwar period that combines the best of historical and economic analysis see Harold James, *International Monetary Cooperation since 1945* (New York, 1997).

5. For the conventional wisdom on the Kennedy's "flexible response" policy see John Lewis Gaddis, *Strategies of Containment: A Critical Appraisal of Postwar American National Security Policy* (Oxford, 1982), 198–236; and Jane E. Stromseth, *The Origins of Flexible Response: NATO's Debate over Strategy in the 1960s* (New York, 1988). For the idea that the U.S. government was firmly committed to a NATO system based on a strong, permanent American presence, even in the Eisenhower period, see what has become the classic work on American foreign policy during the Cold War, Gaddis, *Strategies of Containment*, 168. For a reinterpretation of the flexible response doctrine see Francis J. Gavin, "The Myth of Flexible Response: American Strategy in Europe during the 1960s," *International History Review* Volume XXIII, 4 (December, 2001).

Kennedy administration, starting in the spring of 1962, to seriously consider plans to withdraw U.S. troops from Europe. Kennedy, like Eisenhower before him, identified generous U.S. political and security policy in Europe – chiefly the decision to station six army divisions in West Germany – as the root cause of the nation's international monetary woes. Furthermore, Kennedy was terrified that the countries that benefited most from American military protection – France and West Germany – might use their newfound monetary leverage to compel changes in U.S. political and security policies in Europe.

This struggle over the U.S. troop commitment and the nature of U.S. relations with Europe was at the heart of the "gold battles" within the Cold War. On the surface, it appeared to be a contentious but simple dispute over burden-sharing within the Western alliance. In fact, the gold battle within the alliance during the early 1960s was one of the most important components of a complex and bitter political struggle between the United States and France and West Germany over the direction of the alliance and its Cold War strategy. While the dispute was at heart over political and strategic matters – West German chancellor Konrad Adenauer and French president Charles de Gaulle were deeply disturbed by Kennedy's nuclear sharing and Berlin policies – the field of battle was often economic and monetary. Negotiations and discussions about payments deficits and gold holdings, which by mid-1962 included serious threats of American troop withdrawals, often masked a deeper struggle over the leadership and direction of the NATO alliance.

Would the president order American troops back home from Europe? This question was the starting point for the second gold battle, namely the sharp and at times acrimonious bureaucratic struggle within the Kennedy administration over resolving the balance of payments deficit and gold outflow. Secretary of the Treasury Douglas Dillon and his undersecretary, Robert Roosa, argued that troop withdrawals were necessary to avoid international monetary chaos abroad and deflation and possibly depression at home. Surprisingly, Secretary of Defense Robert McNamara and his lieutenant, Roswell Gilpatric, supported the Treasury Department's efforts to bring American troops back home.[6] The State Department, led in this struggle by Undersecretary of State George Ball, vehemently opposed even the smallest reduction in American ground forces in Western Europe. They understood that American troops served a political as well as a military role, and feared that a large withdrawal could undermine

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6. At first glance, McNamara and the Office of the Secretary of Defense seems an odd ally for Treasury's troop withdrawal policies. But as will become clear, while McNamara supported a conventional buildup by Western Europe, he also supported downsizing U.S. conventional forces in Europe. George Ball claims that McNamara was almost as obsessed with the balance-of-payments problem as the president, "Because Bob was prepared to distort any kind of policy in order to achieve some temporary alleviation to the balance of payments, which again to my mind was a function of his preoccupation with quantification." See George Ball Oral History, no. 2, AC 88-3, 29. For additional evidence of McNamara's willingness to distort budgetary and security policy because of the balance of payments see Deborah Shapley, *Promise and Power: The Life and Times of Robert McNamara* (Boston, 1993), 225–26.

West Germany's confidence in NATO and possibly lead to an anti-American Franco-German bloc, or worse, a nuclearized Bundeswehr. Supported by the Council of Economic Advisers, the State Department advocated plans to reform and recast the international monetary system in the hope that improved payments arrangements would eliminate the monetary pressure to withdraw U.S. ground forces from Western Europe.

These gold battles offer a window into a dramatic interallied conflict in which monetary disputes often masked a bitter political struggle over NATO strategy, the German question, and the politics of nuclear weapons. This story also calls into question the standard historical view that the Bretton Woods monetary system functioned smoothly and efficiently during the late 1950s and early 1960s. Most importantly, the history of the gold battles within the Cold War forces us to reconsider the false divide that persists between the study of economic policy – and particularly monetary policy – and foreign policy and military strategy in the historical literature on that period. No history of this critical time in American foreign policy is complete unless the story behind economic and security policy is woven together and presented as a whole.

Charles de Gaulle claimed that the international monetary system allowed the United States to live beyond its means and forced the European surplus countries to finance the U.S. military empire overseas. He wanted the major Western powers to negotiate a new arrangement that was more fair and rational.[7] President Kennedy also argued that the global payments system was unfair. The unique role of the dollar left U.S. foreign policy and military strategy hostage to the whims of European surplus countries that selfishly exploited the system to accumulate payments surpluses. What might explain such conflicting perspectives? Why did both the leaders of both surplus and deficit states connect monetary relations to larger security concerns?

At first glance, these questions are perplexing. The founders of the Bretton Woods system explicitly designed the system to disentangle international monetary relations from power politics, and the conventional wisdom among historians holds that they succeeded.[8] But, in fact, postwar monetary relations

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7. De Gaulle claimed the system allowed for "l'hegemonie americaine." See press conference, 4 February 1965, from Charles de Gaulle, *Discours et messages*, vol. 4, "Pour l'effort, Aout 1962–Decembre 1965" (Paris, 1993). See also Raymond Aron, *Le Republique Imperiale* (Paris, 1973); Jean Lacouture, *de Gaulle, The Ruler, 1945–1970* (New York, 1992), 380–82; and Georges-Henri Soutou, *L'alliance incertaine, Les rapports politico-strategiques franco-allemands, 1954–1996* (Paris, 1996), 287. For the economic theories behind de Gaulle's beliefs see Jacques Rueff, *Le lancinant probleme des balance de paiments* (Paris, 1965).

8. For two good accounts of the negotiations and results of the Bretton Woods Monetary Conference see Richard N. Gardner, *Sterling-Dollar Diplomacy: The Origins and the Prospects of Our International Economic Order*, rev. ed. (New York, 1969); and Alfred E. Eckes, Jr., *A Search for Solvency: Bretton Woods and the International Monetary System, 1941–1971* (Austin, 1975). See also the collected essays in Orin Kirshner, ed., *The Bretton Woods-GATT System: Retrospect and Prospect after Fifty Years* (Armonk, NY, 1996). For an excellent, more recent account see Harold James, *International Monetary Cooperation since Bretton Woods* (Oxford, 1996). For a less enthusiastic interpretation of Bretton Woods

were highly politicized and required constant political intervention to keep the system functioning smoothly.[9]

The most troubling design flaw was the lack of an effective, automatic mechanism to adjust and settle the payments imbalances that inevitably arose between surplus and deficit countries. Payments imbalances emerge because countries pursue different economic and monetary policies. This produces different national inflation and savings rates, changing the relative value or purchasing power of their currency. If Country A starts out with a currency equal in value to its trading partner, Country B, but has monetary policies that make its prices rise twice as fast, eventually Country A will run a balance of payments deficit with Country B. This deficit could be settled in any number of ways. Country A could change its exchange rate to reflect the new purchasing power of its currency (i.e., devalue or let its value be determined by currency markets), arrange for Country B to finance its deficit with loans (if B was willing), or settle its deficit by transferring a mutually acceptable reserve asset, such as gold. In certain types of systems, there is no decision to be made, because adjustment happens automatically. In a pure gold standard, the exchange rates remain fixed, but gold is transferred to settle deficits.[10] In a flexible or floating exchange rate system, market driven shifts in the exchange rate between countries A and B will remedy the balance of payments imbalance.[11]

The Bretton Woods planners rejected both systems on principle. Mindful of the competitive devaluations during the 1930s, they believed that flexible

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see Fred Block, *The Origins of International Economic Disorder: A Study of United States International Monetary Policy from World War II to the Present* (Berkeley, 1977). The economic ideas and philosophy of John Maynard Keynes had an enormous effect on monetary negotiations. See especially D. E. Moggridge, ed., *The Collected Writings of John Maynard Keynes*, vol. 25, *Activities: Shaping the Post-War World – Bretton Woods and Reparations* (London, 1980); D. E. Moggridge, *Maynard Keynes: An Economist's Biography* (London, 1992); and Robert Skidelsky, *John Maynard Keynes, The Economist as Savior, 1920–1937* (New York, 1992).

9. I use the term "system" loosely, as it can be debated when the Bretton Woods system actually began. De Gaulle and Rueff essentially ignored the whole concept of Bretton Woods and argued that the flaws in the system could be traced to the Genoa conference of 1922, where the principle that sterling and dollars could supplement gold as a reserve asset was established, therefore creating a "gold-exchange" standard. An argument can be made that the Tripartite Agreement between the United States, Great Britain, and France in 1937 is the key event, because the United States declared its intention to convert dollars into gold at $35/oz. Other possible starting dates are July 1944, when the Bretton Woods agreements were signed; 1947, the year that it became clear that sterling would not be a reserve currency and the United States reaffirmed its commitment to redeem dollars for gold; or the end of 1958, when many Western European governments removed the restrictions on current account convertibility for their currencies. Most scholars accept 1958. See Francis J. Gavin, "The Legends of Bretton Woods," *Orbis* (Spring 1996): 3–16.

10. See Barry Eichengreen, *Globalizing Capital: A History of the International Monetary System* (Princeton, 1996), 7–44. Recent scholarship suggests the "classical" gold standard of the late nineteenth and early twentieth centuries may not have been as "pure" as was once thought and, in fact, shared many characteristics of later gold-exchange systems. See especially Giulo M. Gallarotti, *The Anatomy of an International Monetary Regime: The Classical Gold Standard, 1880–1914* (New York, 1995).

11. Milton Friedman, "The Case for Flexible Exchange Rates," in *Essays in Positive Economics* (Chicago, 1953), 157–203. Economists often call the post-Bretton Woods system a "dirty float" because of widespread government intervention in global currency markets since 1971.

exchange rates – where the relative value of currencies is determined by purchases and sales in an open market – were erratic, allowed destabilizing capital flows, and gave far too much control over the economy to bankers and speculators.[12] To their mind, a pure gold standard was no better. Under this type of system, a state with a payments deficit lost gold, which would decrease the domestic monetary base and result in a decline in the currency's purchasing power. Imports would fall, exports would rise, and the payments would balance. But the loss of gold and the decreased money supply also meant a fall in aggregate domestic demand, which meant deflation or even depression.[13] In an era where full employment and robust social spending were promised, it was politically inconceivable that national governments would accept a process that depressed national income and led to unemployment in order to balance international payments.[14]

The Bretton Woods system was designed to produce stable exchange rates while shielding national economies from demand shifts produced by gold flows. But from the standpoint of monetary policy, these two goals contradicted each other. This system did not provide a way to guarantee price stability across borders, and there was no automatic mechanism to adjust the payments imbalances that inevitably arose.[15] These structural problems guaranteed that chronic balance-of-payments problems would mushroom into full-scale political problems, both domestically and between nations. This problem first arose during the immediate postwar period, when Western Europe ran massive payments

12. Paul Volcker and Toyoo Gyohten, *Changing Fortunes, The World's Money and the Threat to American Leadership* (New York, 1992), 7–8.

13. In practice, gold inflows and outflows were often "sterilized" under the gold standard, which just meant that gold was added or subtracted from the national treasuries without changing the domestic monetary base. But even with some sterilization, the gold standard was nowhere near as stable as was once thought. See Gallarotti, *The Anatomy of an International Monetary Regime.* The United States is a case in point. During the nineteenth and early twentieth centuries, the United States ran large trade deficits and was a net importer of capital. Furthermore, a large portion of U.S. exports were made of agricultural commodities whose prices were very unstable. A sudden fall in foreign investment (caused by, for example, a banking crisis in Europe) or a drop in agricultural prices could mean a deterioration in the American balance of payments, the loss of gold, domestic deflation, and a fall in prices (particularly agricultural commodity prices). This made the whole question of U.S. participation in the gold standard a divisive domestic political issue and was perhaps the key factor in William Jennings Bryan's popularity during the 1896 presidential election. It is not a coincidence that as the U.S. monetary position became stronger and more stable after 1896, Bryan's political popularity waned considerably. See Milton Friedman and Anna Schwartz, *A Monetary History of the United States, 1867–1960* (Princeton, 1963), 89–188; see also Milton Friedman, *Money Mischief: Episodes in Monetary History* (New York, 1994), especially the essays "The Crime of 1873" and "William Jennings Bryan and the Cyanide Process."

14. See especially Moggridge, *Keynes, An Economist's Biography.*

15. The system did allow for IMF-approved changes in par value. But exchange rate variations were difficult because they unsettled foreign exchange markets and it was hard to get countries to agree to shifts because they feared the adverse effects on their terms of trade. Speculators always knew the direction of any revaluation in advance, guaranteeing windfall profits whenever exchange rates were changed. Countries were equally reluctant to sacrifice full employment and social policy goals for balance-of-payments purposes. In the end, this meant that there was no effective means to automatically close balance-of-payments gaps.

deficits with the United States. European governments were unwilling to allow their national exchange rates to be determined by currency markets. Nor did they want to impose the type of deflationary policies that would have been required to reduce imports and increase exports. Instead, the so-called dollar gap was resolved by a series of political interventions: the Europeans imposed trade and exchange controls, undertook a round of devaluations vis-à-vis the dollar in 1949, and received large amounts of American aid to close their deficits.[16]

As the economies of Western Europe recovered and became more competitive during the 1950s, these payments deficits vis-à-vis the United States began to turn to surpluses. By Eisenhower's second term, the dollar gap became a glut. As these dollars were increasingly traded in for gold, American policymakers became worried. If the balance-of-payments deficits continued at the rate of $3–4 billion per year, and if most of these deficit dollars were used to purchase American gold, the U.S. gold supply would disappear in short order.[17] The normal recourse might be devaluation. But here again the Bretton Woods system had a design flaw. The U.S. dollar supplemented gold as a reserve, held by countries around the world to finance their trade. If the dollar's value were in doubt, no one would hold it as a reserve asset in their central banks: they would sell it for a more reliable asset, like gold. But if the dollar no longer supplemented gold as a reserve asset, then a large portion of the world's liquidity used to finance international trade would be destroyed. The competition for scarce gold might unleash trade and currency wars, beggar-thy-neighbor economic policies, and competitive devaluations. This was precisely the scenario that most economists and policymakers believed had caused and deepened the Great Depression of the 1930s.[18]

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16. For the best accounts of how monetary relations were structured in Western Europe during the late 1940s and early 1950s see Michael J. Hogan, *The Marshall Plan: America, Britain, and the Reconstruction of Western Europe, 1947–1952* (New York, 1987); Alan S. Milward, *The Reconstruction of Western Europe, 1945–1951* (Berkeley, 1984); and Brian Tew, *The Evolution of the International Monetary System, 1945–1988* (London, 1988).

17. This is a common problem with a gold exchange system. Any country that ran a payments deficit could settle it with dollars or gold. Many Europeans naturally wondered how fair it was for the United States to settle its deficits in dollars, its own currency. But economists now recognize that some part of this deficit was the result of the demand for dollars for reserve purposes, meaning that countries *wanted* to hold dollars in their central banks for liquidity purposes, not for purchasing American goods and services. So part of the deficit was not a deficit at all, and the actual "equilibrium" point for the U.S. balance of payments was not zero. But that was not well recognized at the time. See Stern, *The Balance of Payments*, 152.

18. This was the scenario laid out by Robert Triffin in *Gold and the Dollar Crisis, The Future of Convertibility* (New Haven, Yale, 1960). This book was very influential, and the "Triffin thesis" was much discussed by economists and policymakers on both sides of the Atlantic. But as Barry Eichengreen demonstrates, the Great Depression was worsened not by competitive devaluations but by the deflationary policies pursued in order to maintain the gold standard. Nations that went off gold and devalued for the most part came out of the Depression quicker and in a more robust fashion than those that stayed on the gold standard. See Eichengreen, *Golden Fetters: The Gold Standard and the Great Depression, 1919–1939* (New York, 1995).

The administration rejected a policy of trade and capital controls to end the deficit and gold outflow. Instead, it began to scrutinize balance-of-payments cost-of-government expenditures overseas, particularly troop deployment costs, an account the administration could control without reversing the cherished goal of trade and currency liberalization. U.S. foreign exchange expenditures in NATO Europe were roughly the size of the national deficit, a fact few found coincidental.

President Dwight D. Eisenhower had supported troop withdrawal schemes even before the dollar weakened.[19] If the Americans made a permanent commitment to defend the Europeans, he reasoned, the latter would have no incentive to provide for their own security. But by 1959, Eisenhower felt that the burgeoning U.S. balance-of-payments deficit and gold outflow made U.S. troop withdrawals urgent. Eisenhower told the Supreme Allied Commander, Europe (SACEUR), General Lauris Norstad, that it was time to "put the facts of life before the Europeans concerning the reduction of our forces." The Europeans were "'making a sucker out of Uncle Sam.'" With the United States paying for the whole strategic deterrent force, all space activities, most of NATO's infrastructure cost, and large naval and air forces, why should it also pay for six U.S. Army divisions, especially when these troops were threatening American financial strength? "Our gold is flowing out and we must not weaken our basic economic strength."[20]

Eisenhower was thwarted in his efforts to implement massive troop withdrawals by the same bureaucratic alignments that confronted Kennedy during his presidency.[21] While the Treasury Department was a strong advocate of

19. For Eisenhower's desire to pull American troops out once Western Europe recovered see Marc Trachtenberg, *History and Strategy* (Princeton, 1991), 163–68, 185–87.

20. Memorandum of conference with President Eisenhower, 4 November 1959, Whitman File, DDE Diaries, Dwight D. Eisenhower Library, Abilene, Kansas. For a more complete analysis of Eisenhower's monetary policy during the gold crisis see Francis J. Gavin, "Defending Europe and the Dollar: The Politics of the United States Balance of Payments, 1958–1968" (Ph.D. diss., University of Pennsylvania, 1997). Note that there was an important strategic element to the debate over monetary policy and troop withdrawals; the State Department suspected that Eisenhower was using the balance-of-payments deficit as an excuse to pull out troops for political reasons. See memorandum from the assistant secretary of state for policy planning to Secretary of State Herter, 29 October 1959, *FRUS, 1958–1960* (Washington, 1993), 7: 494–96. Many State officials had been trying to move NATO policy away from such a heavy reliance on the nuclear deterrent for several years. Assistant Secretary of State for Policy Planning Gerard Smith attacked Eisenhower's assumption that any conflict with the Soviet Union would automatically escalate to general war. "Almost two years ago Foster Dulles on a number of occasions told the Secretary of Defense and the president that he believed this principle was obsolescent and that we should be developing a new strategic concept and military posture to implement it." If the balance of payments and gold crisis forced a troop withdrawal, the administration should be honest about it. "If economic factors require us to weaken American military influence abroad, I think it is most important that we not fool ourselves by rationalizing such retraction as being warranted by the military situation."

21. For the bureaucratic struggles between State and Treasury over the question of troop withdrawals and the dollar and gold crisis see memcon, president, Herter, Reinhardt, Merchant, and Kohler, drafted 22 October 1959, in Whitman File, DDE Diaries; and *FRUS, 1958–1960* (Washington, 1992), 4: 129, 130, 134, 520–38, 539–42.

Kennedy and Eisenhower both blamed the foreign exchange costs of U.S. troops in Europe for the gold and dollar outflow.

"redeployment" schemes, the Europeanists within the State Department successfully resisted the president's preference for American troop withdrawals. And he never developed an alternate monetary policy. For one thing, Eisenhower had little understanding of how monetary policy actually worked and once suggested that perhaps the monetary crisis could be solved if uranium could "be substituted for gold" as the reserve metal of the international monetary system.[22] The president tried to get the Western Europeans to help offset the American deficit through military purchases and grants; but by the

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22. Memorandum, 9 November 1960, *FRUS, 1958–1960*, 4: 131. Certainly, Eisenhower was shocked by how quickly the U.S. monetary situation had deteriorated. Several years earlier, the administration had used its enormous monetary power to compel the British to abandon their Suez adventure. It appeared the Europeans were developing the same capacity to affect American policy. For an example of how the Eisenhower administration used explicit threats of monetary coercion against the British during the Suez crisis see telegram from embassy in Washington to British Foreign Office, 2 December 1956, PREM 11/1826, XC 7840, Public Record Office, Kew, England. See also Jonathan Kirshner, *Currency and Coercion, The Political Economy of International Monetary Power* (Princeton, 1995), 63–82.

time he sent a high-level State-Treasury delegation to West Germany to discuss the matter, he was already a lame duck president with little leverage over his allies.[23] Before departing, the administration did manage to warn the alliance that the United States was determined to correct "the international payments situation, which has an importance beyond the financial field."[24] But it would be left to the Kennedy administration to find a way to make the Western European surplus countries accept this principle that monetary and security issues were inextricably interconnected.

The balance-of-payments question did not catch the incoming Kennedy administration by surprise. During the campaign there had been rumors that Kennedy would pursue loose monetary and/or fiscal policies if elected, or even follow Franklin Roosevelt's example and devalue the dollar. Kennedy's campaign moved quickly to squelch this speculation, and on 31 October Kennedy issued a public statement declaring his commitment to maintain the dollar price of gold at $35 an ounce.[25]

Ironically, this public concern was unwarranted, as the incoming president wanted to convince the public – and especially Wall Street and the international banking community – that he would not pursue unrestrained fiscal and monetary programs. During their first transition meeting, Kennedy nodded approvingly when Eisenhower warned that the United States was carrying "far more than her share of free world defense" and would have to start bringing American troops home from Europe.[26] A transition committee on the balance of payments advised Kennedy to appoint a secretary of the treasury who "enjoys high respect and confidence in the international financial world" in order to restore confidence to the dollar.[27] To the horror of many New Frontiersmen, Kennedy passed over economic liberals like John Kenneth Galbraith and Averell Harriman and chose the conservative Republican and Wall Street stalwart Douglas Dillon to be his secretary of the treasury. Kennedy risked alienating his closest supporters to demonstrate his concern for the stability of the dollar. When

23. For the documents on the disastrous Anderson-Dillon trip to the Federal Republic of Germany see memorandum of conference with President Eisenhower in Augusta, Georgia, 15 November 1960, in *FRUS*, 1958–1960 (Washington, 1992), 4: 134–39; cable to Herter from Dillon, copy of cable to the president from Anderson, 23 November 1960, in UPA, DDE Office Files, Administration – International Series, Anderson, Eisenhower Library; memorandum of conference with President Eisenhower, 28 November 1960, *FRUS, 1958–1960* 4:142–47; for a contemporary press report see "Communiqué on Anderson-Dillon talks with W. Ger leaders indirectly admits failure of mission," *New York Times*, 23 November 1960.

24. Secretary Herter's speech to the NATO ministerial meeting, "NATO Long-Range Planning," 17 December 1960, *FRUS, 1958–1960* 7:679.

25. Theodore C. Sorensen, *Kennedy* (New York, 1965), 406. See also John Kenneth Galbraith's letter to the president from October 1960, in his *Letters to Kennedy* (Harvard, 1998), 29–31.

26. Richard Reeves, *President Kennedy: Profile of Power* (New York, 1993), 23.

27. "Report to the Honorable John F. Kennedy by the Task Force on the Balance of Payments," 27 December 1960, from file AP/SD & WNA/Report to the president on the Balance of Payments, 25 February 1963, found in the Papers of Dean Acheson, Harry S. Truman Library, Independence, Missouri.

Senator Albert Gore, Sr., a Tennessee Democrat (and a presumptive candidate for the Treasury position himself) told Kennedy that selecting Dillon signaled a continuation of the stagnant policies of the Republicans, Kennedy protested. “Albert, I got less than 50 percent of the vote. The first requirement of the Treasury job is acceptability to the financial community.”[28]

As a counterweight to Dillon, the president selected the pro-growth liberal economist Walter Heller as the chairman of the Council of Economic Advisers. Heller advocated looser fiscal and monetary policies to spur high domestic growth, policies that would inevitably weaken the dollar and increase the gold outflow. By putting advisers with diametrically opposed views in the top economic policymaking spots, Kennedy guaranteed that, like FDR, he would never be railroaded into a decision.[29] Kennedy also strived to break down what he saw as the bureaucratic morass and inertia that had plagued the Eisenhower administrations. He relied on key White House advisers like Carl Kaysen and Walt Rostow from a pared-down National Security Council to make sense of the conflicting opinions offered by cabinet secretaries. While this process provided Kennedy with an array of opinions, it often prevented his advisers from unanimously supporting a policy option. Kennedy often felt out of his league on questions of international monetary relations, and the president often deferred making difficult choices for as long as he could.[30]

During its first months, the Kennedy administration developed a three-pronged international monetary policy that mirrored aspects of Eisenhower’s philosophy but that differed dramatically from his predecessor’s tactics. First, those countries that gained foreign exchange because of U.S. defense expenditures were pressured to “offset” this gain by spending those surplus dollars on military equipment from the United States. Surplus countries were also asked to hold “voluntarily” surplus dollars earned through U.S. defense commitments and not use them to purchase U.S. gold. The second part of the Kennedy strategy involved constructing elaborate, multilateral defenses against speculative attacks on the dollar or runs on the American gold supply. Concurrently, the administration considered plans and proposals to reform and improve the global payments system. Finally, the Kennedy administration initiated serious trade negotiations aimed at lowering European tariffs. European support was expected for all of these initiatives. If the Europeans – and especially the

28. Reeves, *President Kennedy,* 27–28.

29. A useful study on Roosevelt’s policymaking style is Robert Dallek’s *Franklin D. Roosevelt and American Foreign Policy, 1932–1945* (New York, 1995). For a discussion of how the Kennedy administration consciously set out to create a different foreign policymaking structure than Eisenhower’s see Frank A. Mayer, *Adenauer and Kennedy: A Study in German-American Relations, 1961–1963* (New York, 1996), 9. For Kennedy’s inability to make decisions about long-term policy see George W. Ball, *The Past Has Another Pattern* (New York, 1982), 167–68.

30. The French were convinced that Kennedy had no idea of what he was doing on the balance-of-payments question. See Alphand’s comments about Kennedy in Jean Lacouture, *de Gaulle, The Ruler, 1945–1970* (New York, 1992), 381; and Herve Alphand, *L’etonnement d’etre* (Paris, 1977), 381.

Germans – did not come forward and cooperate, this would be taken as a sign that Europe no longer needed American protection.

Dillon's lieutenant and undersecretary for international monetary affairs, Robert Roosa, successfully negotiated an elaborate array of multilateral defenses for the dollar in 1961 and 1962. Roosa constructed sophisticated currency swap arrangements and standby borrowing arrangements that allowed deficit countries to stave off attacks on their currencies.[31] Roosa's most important accomplishment was establishing the gold pool, a consortium of industrial nations who intervened in the London gold markets whenever the price of the dollar seemed threatened. Though the cooperative arrangements negotiated by Roosa were quite impressive, they were at best temporary expedients that did nothing to solve the basic problem: the American balance of payments deficit. Furthermore, these arrangements depended upon the cooperation of the two largest surplus countries, France and West Germany, to keep the dollar afloat.

The strategy of seeking "offsets" proved far more difficult and acrimonious. Kennedy wanted to establish the principle that every dollar spent in Germany defending Europe should be used by the Federal Republic to purchase American military equipment – hence the term "offset." This would serve two purposes: relieve the American payments deficit and increase the West German Bundeswehr's capacity to fight a conventional war. The Germans resented both of these aims. They felt singled out, since the U.S. troops were defending all of Western Europe but the Federal Republic was the only country offering significant relief. And the West German leadership disliked any change in strategy that emphasized fighting the Soviets with conventional rather than nuclear forces. The offset arrangement would also make West Germany even more dependent upon the United States by foreclosing arms arrangements with European, and especially French, suppliers. Finally, there was the fear that by building up West German conventional forces, the Kennedy administration was making it possible for the United States to withdraw its own conventional forces in the future.

These factors made the negotiations very difficult at first, and the same German negotiating team that had rejected Eisenhower's proposals seemed no more inclined to accept Kennedy's ideas.[32] But the new administration rejected

31. The swap arrangements were standby credit lines that allowed participants to draw on each other's currencies in order to defend their own exchange rates. The increased IMF credit was arranged through a procedure called the General Arrangements to Borrow, which were negotiated at the end of 1961. While connected to the IMF, these arrangements were unique in that they gave the lending countries some discretion over the size and use of the loans. For an excellent discussion of these innovations see James, *International Monetary Cooperation since Bretton Woods*, 159–65.

32. Werner Knieper, a Ministry of Defense official, told American negotiators that "a long-range FRG commitment on military procurement in the U.S. was . . . not acceptable – not even 'in principle.'" Large-scale procurement in the United States would alienate important French and British military suppliers and undermine the joint European production programs the Eisenhower administration had supported. The German attitude might be different if missile systems that could deliver nuclear weapons were included in the purchase list, but Knieper

both the Federal Republic's offer and its framework for viewing the balance-of-payments problem. Kennedy insisted that the dollar and gold crisis be seen as a problem for all of NATO, and not just the United States. The West German surplus was the "mirror" image of the American deficit, and it was wrong for NATO countries to exploit dollars acquired through U.S. expenditures defending Europe.[33] The president would not shy away from hardball tactics to make this point during his negotiations with the Federal Republic. "As the Chancellor is interested in power it would seem to me that I should give Mr. Brentano a sense of our disappointment with their progress."[34]

The intensification of the Berlin crisis in the summer of 1961 brought a rapid improvement in the offset negotiations, as the Americans exploited their newfound leverage against the Germans.[35] "We are approaching the strongest bargaining position since the negotiations began. Our negotiating leverage is increased by the possibility of major deployments to assist in the defense of Berlin and Germany."[36] A full offset agreement was reached in October, and it included a provision to examine how to reduce the American balance-of-payments costs of any crisis induced troop buildup.[37] The agreement seemed to establish a link between the American troop presence and continued, full offset of U.S. foreign exchange costs. But if this linkage was embraced by the Kennedy administration, it was not fully accepted in West Germany, where offset was seen as a temporary arrangement to give the Americans time to get their monetary house in order.

admitted that such decisions would have to be made at a much higher level. See memcon, 4 January 1961, "Federal Republic Procurement of Military Equipment in the U.S. to Assist in the Latter's Balance of Payments Problems," Declassified Documents Collection (hereafter referred to as DDC) 1991, no. 2559. See also Dowling to State, 13 January 1961, DDC 1991, no. 1849.

33. Rusk, memo for the president, "German Balance of Payments Proposals and Your Meeting with German Foreign Minister von Brentano on February 17," UPA, National Security Files, Western Europe, 1961–1963, Germany, reel 9, 363; "Points which the president may wish to emphasize in discussion with foreign minister von Brentano," 16 February 1961, UPA, President's Office Files, part 5, Countries file, Germany, reel 8, 738, 1–2; "Draft Aide Memoire for Brentano," 16 February 1961, UPA, President's Office Files, Countries, Germany, reel 8, 731.

34. Memo, Kennedy to Rusk, undated (but probably early February 1961), UPA, President's Office Files, State, reel 23.

35. For a detailed account of the shift in negotiations see Hubert Zimmerman, "Offset and Monetary Policy in German-American Relations during Kennedy's Presidency, 1961–1963," unpublished manuscript. In addition to the offset agreement, the administration successfully pushed the FRG on several fronts connected with the balance of payments. The Germans increased their foreign aid program considerably. They also prepaid $587 million of their postwar debt. Trade restrictions against American poultry were liberalized. The deutschmark was revalued by 5 percent. Most importantly, the Bundesbank was persuaded to hold its reserves in dollars and not gold, a controversial arrangement that the Federal Republic refused to formalize or publicize until 1967. See memo, Rusk to the president, "Recent German Measures Relating to United States Balance of Payments," 9 July 1961, *FRUS, 1961–1963* 9: 120–21.

36. Memo, Dillon to Kennedy, 14 September 1961, President's Office Files, Departments and Agencies, Treasury, 89, John F. Kennedy Presidential Library, Boston, Massachusetts.

37. Walter Heller, memo for the president, "Current Status of 'Lend-Lease' or 'Mutual Support' Plan for Financing U.S. Troop costs in Germany," 8 September 1961, UPA, President's Office Files, CEA, reel 7.

This difference in views would become a great source of tension in the future. In fact, disagreements over the nature and meaning of the offset arrangement became a symbolic battlefield where the Federal Republic of Germany and the United States clashed over larger issues of NATO strategy in Europe. For the Germans, the question became: Why should we support the dollar and underwrite U.S. security policies in Europe when they are at cross-purposes with our own foreign policy? The question for the Kennedy administration was equally sharp: why should we continue to threaten our international monetary position if those we are protecting refuse to help us out, and in fact, continue to exploit our monetary vulnerability for their own gain? Monetary policy became an important inter allied lever to influence and affect NATO's security policies.

By early 1962, the Kennedy administration's balance-of-payments strategy seemed to be in place. The Federal Republic of Germany had signed an offset agreement, trade negotiations had begun, and Robert Roosa had negotiated a whole series of sophisticated defenses for the U.S. dollar and gold supply. But two problems remained. First, the deficit was still dangerously large. Second, Kennedy's monetary policy relied on the goodwill of the European surplus countries. The countries with the largest surpluses were West Germany and France. And by the spring of 1962, U.S. political relations with both these countries had deteriorated sharply. How much sense did it make to base U.S. monetary policy on continued cooperation from two allies who were increasingly hostile to Kennedy's security policies in Europe?[38]

There were two, related reasons for the deep political tensions between the United States and France and West Germany: U.S. Berlin policy and its attitude toward independent national nuclear forces.[39] On Berlin, Adenauer and de Gaulle feared that the policy developed by Kennedy during the summer of 1961 was simultaneously too belligerent and too accommodating toward the Soviets.[40] Adenauer and de Gaulle were also angered by what they believed was

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38. For evidence that the Franco-German bloc came into existence in 1962, and that its policies were meant as a rejection of Kennedy's Berlin and nuclear sharing policies, see Hans-Peter Schwarz, *Konrad Adenauer, German Politician and Statesman in a Period of War, Revolution, and Reconstruction* (Providence, 1997), esp. 590 and 605.

39. For the best account of both the dispute over Berlin policy and nuclear sharing from the European side see Georges-Henri Soutou, *L'alliance incertaine, Les rapports politico-strategiques franco-allemands, 1954–1996* (Paris, 1996), 203–65. See also Mayer, *Adenauer and Kennedy,* 43–74; and Schwarz, *Adenauer*, 513–712. Schwarz's account is somewhat unbalanced: he calls Kennedy's Berlin strategy the "appeasement" strategy and credits Adenauer for saving Berlin (even while admitting that the German chancellor was prepared to let Berlin fall without a war). For the American side of the story see Marc Trachtenberg, *A Constructed Peace: The Making of the European Settlement, 1945–1963* (Princeton, 1999), 251–402. Another good source is the diary entries for 1962 and 1963 in C. L. Sulzberger, *The Last of the Giants* (New York, 1970).

40. The administration had ordered a military buildup and authorized direct negotiations with the Soviets. Adenauer and de Gaulle feared that the American policy might lead to a war through miscalculation or dangerous concessions to the Soviets that undermined West European security. Both the French and West German government went to great lengths in the first half of

Kennedy's revision of U.S. military strategy toward a greater reliance on conventional forces in the event of a Soviet attack and greater centralization of nuclear decision making in the hands of the American president.[41] Both Adenauer and de Gaulle hated both aspects of a policy that eventually involved what came to be known as the "flexible response" doctrine.[42]

In fact, the changes between Eisenhower and Kennedy's security policies were nowhere near as dramatic as the Europeans supposed.[43] Both the flexible response doctrine and the Multilateral Force had its origins in the Eisenhower administration. Many of the strategic changes were driven by the rather unique dilemma presented by the Berlin crisis.[44] Furthermore, Kennedy was often

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1962 to block any negotiated settlement with the Soviets over Berlin. See Trachtenberg, *A Constructed Peace*, 283–351.

41. For a summary of the nuclear question from the European response to the "flexible response" strategy see Schwarz, *Adenauer*, 663–65; and Soutou, *L'alliance incertain*, 214–29.

42. The Europeans feared that by emphasizing conventional forces, the credibility of the U.S. promise to use strategic nuclear weapons against a Soviet attack would be compromised. This would weaken deterrence. And by demanding a monopoly over NATO's nuclear forces, the Kennedy administration appeared to be pursuing the most blatantly hegemonic policies vis-à-vis its allies. If the United States was the only NATO country with strategic nuclear weapons, then Western Europe would be completely dependent on the Americans. The administration tried to save face by offering NATO something called the Multilateral Force. MLF was a State Department proposal to develop a seaborne nuclear force that would be manned by any NATO country that wished to participate. But as the Kennedy administration refused to give up the American veto on the firing of the force, it was of little interest to the French or British, although the Germans were very interested. The French called this whole concept the "Multilateral Farce," and there is some evidence that Kennedy himself agreed with this assessment. For evidence that Kennedy had moved away from supporting MLF by late 1962 see McNamara's comments, "Anglo-American Meeting," 20 December 1962, PREM 11/4229; Anglo-American meeting, 19 December 1962, *FRUS*, 1961–1963, (Washington, 1994), 13:1097. See also the apparent willingness to trade MLF away if the Soviets offered something meaningful, *FRUS, 1961–1963* (Washington, 1995), 7:728 notes, 732, 735, 780–81, 790. Note that Kennedy himself called the MLF a "facade"; see *FRUS, 1961–1963* 13:499, 173, 367, 502–3.

43. The change between Eisenhower's policy and Kennedy's military policy was more complicated and nuanced than the simple move from a strategy of "massive retaliation" – the immediate and massive use of U.S. nuclear forces against the Soviets in the event of an attack –and flexible response. Eisenhower's views on independent nuclear forces was at times contradictory; he seemed to support the idea of a French and even a West German atomic force, but was unwilling to risk much political capital to do anything about it. And almost every one of his top advisers believed that by the end of the 1950s, the development of Soviet strategic forces that could hit the United States meant that the threat of "massive retaliation" was no longer a viable policy. In fact, most aspects of the flexible response doctrine had their origins in the Eisenhower administration. For his part, Kennedy was not, as the Europeans generally believed, vehemently against the Europeans having independent nuclear forces, although many of his advisers in the White House and State Department certainly were. For a reinterpretation of the origins and real meaning of the flexible response doctrine see Gavin, "The Myth of Flexible Response: United States Strategy in Europe during the 1960s," *International History Review* Volume XXIII, 4 (December 2001).

44. Much of the changes in strategy had to do with the problematic question of what to do if the Soviets closed off West Berlin. In this respect, the general thrust of Kennedy's policy was not so much different from Eisenhower's; neither believed that the threat of a full-scale nuclear war would be a credible response to a Soviet move on West Berlin. Both presidents wanted to be able to ratchet up the escalation ladder more slowly, demonstrating resolve with each step but giving the Soviets a chance to see U.S. determination and back down. Eisenhower described the whole process as a poker game, and Kennedy simply wanted to have as many chips as possible to play with before having to call. To successfully implement such a calibrated policy, the American president would need strong conventional forces, and he would need complete command and

agnostic on the question of national nuclear forces and actually considered Robert McNamara's remarkable suggestion that the United States aid the French nuclear program in return for de Gaulle's help with the U.S. balance-of-payments deficit.[45] The policy was rejected – largely because of its presumed effects on West Germany – but Kennedy never completely ruled out aiding the French program if de Gaulle were willing to support NATO in a meaningful way.[46]

Still, a deep and far-reaching conflict was developing between the Kennedy administration, France, and West Germany over the direction of NATO strategy by the spring of 1962. And from Kennedy's perspective, a European attack on the weakened U.S. monetary position seemed a logical way to undermine U.S. security policies. Douglas Dillon told the president that a Bank of France official made a statement "which could indicate possible difficulties ahead with France. He said that it must be realized that France's dollar holdings represented a political as well as an economic problem."[47] A widely circulated State Department memo summarized an article from *The Statist* that warned that de Gaulle was "fully prepared to play diplomatic trump card he holds in form of substantial French holdings of dollars. In other words, if America's policy towards Europe clashed with French interests, de Gaulle would pressure Kennedy by purchasing gold from the United States." Unless France was accepted as an equal, de Gaulle "would not hesitate to make himself felt by resorting to devices liable to cause grave embarrassment to United States," even at the cost of weakening free world strength.[48]

This deep strain in Franco-American relations was exposed in a remarkable meeting between President Kennedy and the French minister of state for cultural affairs, Andre Malraux. The president warned Malraux that if de Gaulle preferred a Europe dominated by Germany, then Kennedy would bring the troops home and save $1.3 billion, an amount that "would just about meet our balance of payments deficit." If France wanted to lead a Europe inde-

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control over the West's nuclear forces. But the important thing to remember here is that this whole strategy was designed with the unique difficulties the Berlin crisis presented – a city within enemy territory, surrounded by Soviet forces, where Khrushchev could control the intensity of the crisis. Absent Berlin, Kennedy, much like Eisenhower, believed that the United States could significantly decrease its conventional forces in Europe and rely on nuclear deterrence alone. For this view see Kennedy-Bundy-Rusk-McNamara meeting, 10 December 1962, *FRUS, 1961–1963*, michofiche supplement, vol. 13–15, document 27, and Kennedy-McNamara-JCS meeting, 27 December 1962, *FRUS, 1961–1963* (Washington, 1996), 8:449, and memorandum for the Record, "Joint Chiefs of Staff Meeting with the president, February 28th, 1963 - Force Reductions in Europe," 28 February 1963, *FRUS, 1961–63*, 13.

45. Bundy to the president, "Action on Nuclear Assistance to France," 7 May 1962, President's Office Files, box 116a, Kennedy Library. See also Paul Nitze, *From Hiroshima to Glasnost: At the Center of Decision – A Memoir* (New York, 1989), 211.

46. See, for example, Sulzberger, *The Last of the Giants*, 1004–5 for evidence that the administration may have offered France nuclear assistance if it agreed to sign the partial test ban treaty.

47. Dillon, memo for the president, 25 May 1962, National Security Files, Departments and Agencies, Treasury, box 289, Kennedy Library.

48. Jones to State Department, 13 June 1962, UPA, President's Office Files, Treasury, reel 25.

pendent *from* the United States, then Kennedy would "like nothing better than to leave Europe." The United States had no taste for empire building:

> The president said that we have no sense of *grandeur*, and no tradition of leadership among the nations. Our tradition is fundamentally isolationist. Yet since World War II, we have carried heavy burdens. In our international balance of payments we have lost $12 billion, and the drain on our gold continues. We engaged in a heavy military buildup, and we have supported development of the Common Market. . . . We find it difficult to understand the apparent determination of General de Gaulle to cut across our policies in Europe.[49]

The French leader dismissed the possibility that the United States could withdraw from Europe.[50] De Gaulle accused the United States of dictating to its allies by entering into negotiations with the Soviets over Berlin and publicly stating that France should not have an atomic force. The Americans should stay out of European affairs except in the case of war.[51] The president responded furiously: "We cannot give this kind of blank check." The United States was not going to defend Europe, weaken the dollar, and remain politically silent. If Europe were ever organized in such a way as to leave the United States on the outside, the nation would bring its troops back home. "We shall not hesitate to make this point to the Germans if they show signs of accepting any idea of a Bonn-Paris axis."[52] A Franco-American showdown appeared imminent, and Kennedy feared that France would exploit the vulnerability of the dollar to achieve its political ends.

In July French finance minister Giscard D'Estaing told American officials that defenses for the dollar against a speculative attack were weak and that a cooperative effort was needed "on a grand scale."[53] Giscard suggested that the United States could not handle a real run on the dollar by itself, not even with the help of the International Monetary Fund (IMF). Only if those European central banks that held large quantities of dollars cooperated with the United States could such a run be handled. Was Giscard making a threat or offering to help? Gold purchases had been increasing and the dollar market was weak. Alexis Johnson, a top State Department official, warned Giscard that the administration could end the deficit quickly if it "were to institute measures that we do not wish to undertake and which would be undesirable," a clear reference to troop withdrawals.[54] Giscard's hints fed into the administration's

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49. Memo of meeting between the president, Ambassador Alphand, M. Malraux, and McGeorge Bundy, 11 May 1962, *FRUS, 1961–1963* 13: 695–701.

50. Gavin to the State Department, 28 May 1962, ibid., 705–7.

51. Gavin to the State Department, 16 May 1962, ibid., 702–3.

52. President to Gavin, 18 May 1962, ibid., 704.

53. Gavin to Rusk, 12 July 1962, UPA, National Security Files, W. Europe, France. See also Heller, memo to the president, 16 July 1962, UPA, President's Office Files, CEA, reel 9.

54. Memcon, "Payments Arrangements Among the Atlantic Community," 20 July 1962, *FRUS, 1961–1963* 13:733. See also Ball, memo for the president, "Visit of French Finance Minister," 18 July

The Kennedy administration was quite surprised when French Finance Minister Giscard recommended a negotiated gold standstill agreement between the United States and Europe during his July 1962 visit.

suspicions of French intentions, which combined with worsening gold outflow figures to stimulate a massive, intergovernmental effort to develop plans to meet a monetary crisis.

This whole question of a French attack on the dollar sparked the domestic component of the gold battles between State/CEA and Treasury during the summer of 1962. The administration began considering plans to overhaul American monetary policy and reform the international monetary system that included gold guarantees, gold standstill agreements, and raising the dollar price of gold, either in concert with others or unilaterally.[55] The State Depart-

1962, UPA, National Security Files, W. Europe, France. For direct indications of Kennedy's willingness to withdraw American troops from Europe – and even completely "haul out" if pushed too far by the French and West Germans – see "Visit to the United States, 9–17 September, 1962," DEFE 13/323, PRO. For Kennedy agreeing with Eisenhower that the United States should reduce its conventional force presence in Europe see "Conversation between President John F. Kennedy and Dwight D. Eisenhower," 10 September 1962, Presidential Recordings, JFKL, transcribed by Erin Mahan.

55. A gold guarantee was an American promise to overseas central banks ensuring the gold value of the dollar in the event the United States devalued its currency. One of the reasons central

ment even prepared a draft memo for the use of the president should he want to end the American policy of redeeming gold on demand.[56] Carl Kaysen sent the president an essay written by J. M. Keynes proposing an international payments system that dispensed with gold altogether, a dramatic departure from the conventional approach. Kaysen wrote the president: "The great attention paid to gold is another myth. . . . As you said of the Alliance for Progress, those who oppose reform may get revolution."[57]

George Ball set the terms for this new round of debate in a forceful memo to the president titled "A Fresh Approach to the Gold Problem." The undersecretary of state believed that neither the Europeans, the Wall Street bankers, nor the administration's own Treasury Department understood that the problem was at heart about *politics*, not economics. As long as the current rules were maintained, the United States would remain "subject to the blackmail of any government that wants to employ its dollar reserves as political weapons against us." Ball recommended that the United States negotiate a "thorough-going" revision of the Bretton Woods system, "multi-lateralizing" responsibility for the creation of liquidity. Why did Ball think the Europeans would go along? "Central bankers may regard our expenditures to defend the Free World as a form of sin, but the political leaders of our Western allies do not."[58] Predictably, Treasury found nothing "fresh" in Ball's proposal. From Dillon's perspective, the Ball proposal reflected the State Department's "reluctance to squarely tackle the more difficult but fundamentally necessary job of obtaining a more adequate sharing of the burden of our European friends."[59]

How did Kennedy respond to the irreconcilable alternatives presented by the State and Treasury Departments? As he had before, and would again in the future, Kennedy stalled.[60] Instead of making a decision, he dispatched a joint State-Treasury delegation to Europe to sound out the possibilities of a European sponsored initiative. The president wanted an agreement that would limit foreign purchases of U.S. gold; but Kennedy insisted that it had to appear to be a voluntary European initiative. The president feared that any evidence of U.S.

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banks did not want to hold too many dollars in their reserves was the fear of these dollars suddenly losing their value if the American government devalued. A gold standstill would be an agreement where central banks holding dollars agree to not purchase gold from the U.S. Treasury for a specified period of time.

56. Memo, Coppock to Johnson, 1 August 1962, DDC 1993.

57. Memo, Kaysen to the president, 6 July 1962, *FRUS, 1961–1963* 9:138.

58. Memo, Ball to the president, "A Fresh Approach to the Gold Problem," 24 July 1962, Papers of George W. Ball, box no. 15b, "Memorandum to the president on the Gold Problem," Seeley G. Mudd Manuscript Library, Princeton University, Princeton, New Jersey.

59. Dillon, memo for the president, 7 August 1962, Acheson Papers, State Department and White House Adviser, Report to the president on the Balance of Payments, 2-25-63, Truman Library.

60. The tapes of the top meetings to discuss international monetary strategy have recently been made available. The sharpness of the dispute between Dillon and Roosa on one hand and Ball, Kaysen, and Tobin on the other comes out quite clearly. So does Kennedy's frustration at being unable to determine what policy to chose. For transcripts see Tape 11, 10 August 1962, 11:20 A.M. –12:30 P.M., President's Office Files, transcribed by Francis J. Gavin, and Tape 14, 20 August 1962, 4:00–5:30 P.M., President's Office Files, transcribed by Francis J. Gavin.

pressure could shake the confidence of financial markets and lead to a run on American gold.[61] Unable to speak openly and honestly with their European counterparts, the mission failed to elicit the hoped-for initiative, and high-level discussions of international monetary policy were pushed well into the background during the Cuban missile crisis and its aftermath.[62]

Was the French government planning an attack on the dollar? It was well known that many high French officials believed that the international monetary system was rigged in favor of the Americans. The famous international monetary economist and close de Gaulle adviser Jacques Rueff had argued that the current gold exchange regime should be replaced by a pure gold standard.[63] Rueff was to influence de Gaulle's decision to publicly attack the dollar in a famous press conference in February 1965.[64] The French foreign minister, Couve de Murville, argued that the dollar should be devalued. But was de Gaulle considering an attack on the dollar during the summer of 1962?[65] France's ambassador to the United States, Herve Alphand, told de Gaulle that Kennedy was receiving all sorts of dangerous advice on monetary policy from his advisers. Controls and a gold embargo were being considered. Alphand speculated that since Kennedy did not understand the economics of the issue, he would do what was politically expedient, which in the end might harm France's interests. Kennedy wanted a secret negotiation with de Gaulle to settle these issues on the highest political level. Alphand asked how he should respond to the American president. De Gaulle's answer was cryptic. Just wait, he said. There was no point in talking to him now.[66]

In January 1963, Secretary of the Treasury Douglas Dillon received two urgent memos from the president. The first concerned Dillon's estimates for

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61. Memo, president for the secretary of the treasury, the undersecretary of state, and chairman of the CEA, 24 August 1962, National Security Files, Department and Agencies, Treasury, 6/62–4/63/ 289, Kennedy Library.

62. The whole subject of high-level monetary negotiations during the Johnson-Leddy mission was shrouded in mystery and innuendo. When Leddy and Johnson asked Giscard what Chancellor of Exchequer Maudling's thoughts were on the subject, Giscard replied that "the two were in agreement that there should be high level secret discussions of the subject." (Memo from Dillon and Ball to the president, 12 September 1962, with attachment, memo for Dillon and Ball from Johnson and Leddy, 10 September 1962, *FRUS*, *1961–1963* 9:146.) Giscard did not tell Johnson and Leddy what the "subject" actually was. Was it the hoped for initiative to limit gold takings? Giscard didn't say, and the American representatives thought it imprudent to ask. Several days later, British representatives asked the Americans what Giscard had said, and after being told, observed that "the whole affair was mysterious." The next day, *French officials* said the same thing! The American team decided to drop the issue until after the IMF and World Bank meeting, because they believed that "open pressure on the French might lead them to think that political questions could be successfully interjected."

63. See Jacques Rueff, *Le lancinant probleme des balance de paiments* (Paris, 1965).

64. Press conference, 4 February 1965, from de Gaulle, *Discours et messages*, vol. 4: "Pour l'effort, Aout 1962–Decembre 1965."

65. De Gaulle's biographer, Jean Lacouture, argues that de Gaulle was interested in attacking the privileges of the Americans during the Kennedy period. See Lacouture, *de Gaulle*, 381.

66. Alphand, *L'etonnement d'etre*, 380–81.

American gold losses. "I am concerned about the figures that you sent me on the gold drain for 1963. Won't this bring us in January 1964 to a critically low point? What are the prospects that we could bring this under control by 1964?" Two days later the president warned Dillon that "our present difficulties with France may escalate. If things become severe enough it is conceivable that they will take some action against the dollar – to indicate their power to do something if nothing else." Kennedy wanted a plan to deal with any French action, including options of taking "extreme steps if that should prove necessary." [67] Less than a week later, the president warned the National Security Council (NSC) that "de Gaulle may be prepared to break up NATO. . . . The French may suddenly decide to cash in their dollar holdings as a means of exerting economic pressure on us."[68]

Why had this inter-allied tension exploded into a full-blown public dispute, only weeks after the successful resolution of the Cuban missile crisis? Two events, de Gaulle's press conference on 14 January, rejecting both the U.S. offer of nuclear assistance and Great Britain's entry into the Common Market, and the announcement, only nine days later, of the Franco-German treaty, combined to provoke a political crisis that shook the foundations of the Western alliance.[69] Both events appeared to signal a Franco-German revolt against U.S. policy toward Europe.[70] Both events appeared to be an attempt to undermine and weaken American influence on the Continent. And both appeared to threaten key elements of U.S. foreign economic policy, including trade negotiations, the American gold supply, the position of the dollar, and the German offset arrangement. The long-feared European revolt had finally appeared, and Kennedy wanted to be prepared should France – alone or with West Germany

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67. Memo for the secretary of the treasury, 19 January 1963, UPA, President's Office Files, Treasury, reel 25.

68. Summary record of NSC executive committee meeting, No. 38 (Part II), 25 January 1963, *FRUS, 1961–1963* 13: 488.

69. For the issues surrounding France's rejection of Great Britain's application to enter the Common Market and de Gaulle's rejection of Kennedy's offer of nuclear assistance see Soutou, *L'alliance incertaine*, 230–40. In large measure, de Gaulle was reacting to the result of the Anglo-American Nassau conference, where Kennedy offered British prime minister Harold Macmillan the Polaris missile system to replace the Skybolt missile, which had been canceled. Kennedy offered de Gaulle the same weapon; but since he did not have the submarines to fire the weapon, he considered the weapons worthless. It turns out that Kennedy was willing to discuss any aspect of the offer, including helping de Gaulle build the submarines. Marc Trachtenberg argues that the French were genuinely interested in this offer until George Ball essentially sabotaged Kennedy's policy during his January meeting with de Gaulle. See Trachtenberg, *A Constructed Peace*, 359–70. Kennedy commissioned Richard E. Neustadt to write an in-house history and analysis of the events that led to the disastrous Nassau meeting and subsequent de Gaulle press conference. See the recently declassified "Skybolt and Nassau, American Policy-Making and Anglo-American Relations," 15 November 1963, Papers of Francis Bator, Johnson Library.

70. For the origins, meaning, and implications of the Franco-German treaty see Lacouture, *de Gaulle*, 333–62; Schwarz, *Adenauer*, 662–75; and Soutou, *L'alliance incertain*, 241–59.

– move to weaken the U.S. monetary position. "The U.S. military position is good but our financial position is vulnerable."[71]

To make matters worse, the balance-of-payments figures for 1962 were far poorer than had been expected. The commercial trade surplus had fallen from $3.2 billion to $2 billion. The deficit figures would have been even poorer if not for European debt repayments of $666 million, a source of financing that was a rapidly wasting asset, and $250 million in fifteen–sixteen month borrowings from surplus countries. The predictions made by the cabinet Balance of Payments Committee in October 1962, that the 1964 deficit would be "only" $1 billion, had been "overly optimistic." Most alarming was the loss of gold. Surplus countries "are becoming less prepared to increase their dollar holdings, much less to increase the ratio of dollars to gold in their reserves." The State Department predicted that 1963 gold losses would be "fairly heavy," and the United States would find itself financing an increasing percentage of its deficit in gold sales in future years. What was urgently needed was "time and protection" to allow the administration to achieve payments equilibrium without having to resort to actions that might permanently damage fundamental U.S. interests.[72] But how was this to be accomplished?

The president linked the continued presence of American troops in Europe to a resolution of U.S. payments difficulties. In an NSC meeting soon after de Gaulle's press conference, Kennedy declared that the payments deficit "must be righted at the latest by the end of 1964 "and the Europeans must be prevented from taking actions which make our balance of payments worse." It was time to exploit what power the United States had to achieve its objectives. "We cannot continue to pay for the military protection of Europe while the NATO states are not paying for their fair share and living off the 'fat of the land.'" It was time for the United States to "consider very hard the narrower interests of the United States."[73] The United States no longer had any source of financial pressure it could exert on the Europeans and had to exploit its military power before the Europeans went nuclear. "This sanction is wasting away as the French develop their own nuclear capability."[74]

Dillon pushed Kennedy to order troop withdrawals. "He felt that if the French did attack our financial stability we should consider ways of responding by actions in the military and political areas." The secretary of the treasury wondered "whether the withdrawal of U.S. troops would be the disaster some say it would . . . especially if Europe could defend itself against a Soviet attack."

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71. Summary record of NSC executive committee meeting No. 39, 31 January 1963, *FRUS, 1961–1963* 13: 158.

72. Memo, State to Bundy, "A Proposal for Strengthening our International Financial Position," 24 January 1963, RG 59, SF 1963, FN 12, box 3451, National Archives II, College Park, Maryland.

73. Remarks of President Kennedy to the National Security Meeting, January 22, 1963, *FRUS, 1961–1963* 13: 486.

74. Summary record of NSC executive committee meeting, No. 38 (Part II), 25 January 1963, ibid., 486–87.

Kennedy appeared to agree: "Congress might well conclude that we should not help Europe if de Gaulle continues to act as he has been."[75] When Dean Acheson suggested that the administration guarantee the U.S. troop commitment to reassure the Europeans, the president dismissed the idea outright. "He said that the threat of withdrawing our troops was about the only sanction we had, and, therefore, if we made such a statement, we would give away our bargaining power."[76]

From a purely economic standpoint, redeploying American troops should have been an uncomplicated issue. It could have been argued that after the American "victory" in the Cuban missile crisis, the danger of a Soviet move against Berlin was small. Kennedy was now convinced that the Soviets were not going to risk thermonuclear war to invade Europe, and he found arguments that they would go for some sort of limited land grab in West Germany preposterous.[77] If large troop deployments abroad threatened the strength of the dollar and the health of the global payments system, then it made perfect sense to reduce them. Kennedy could hardly support domestic deflation, restrict American tourism abroad, and prohibit capital exports by American banks and industries in order to finance unneeded U.S. troops in Europe.

But the issue of troop redeployments was not simply an economic concern: it went to the heart of both the German and nuclear question. If the United States redeployed, West Germany would feel uncertain about the American commitment to defend it with its nuclear arsenal, thereby increasing pressure to acquire its own national deterrent. If West Germany sought nuclear weapons, the tentative European "détente" that was emerging between the United States and the Soviet Union in 1963 would unravel.[78] The president would have to

75. Summary record of NSC executive committee meeting, No. 39, 31 January 1963, ibid., 159–61.

76. Summary record of NSC executive committee meeting No. 40, 5 February 1963, ibid., 178.

77. Memorandum for the record, "Joint Chiefs of Staff Meeting with the president, 28 February 1963 – Force Strengths in Europe," 28 February 1963, ibid., 517.

78. For the idea that U.S.-Soviet relations moved toward "détente" during 1963, which made it possible for the superpowers to cooperate on a range of issues, from Berlin to nuclear proliferation, to the consternation of the Germans, see Mayer, *Adenauer and Kennedy;* Vladislav Zubok and Constantine Pleshakov, *Inside the Kremlin's Cold War: From Stalin to Khrushchev* (Cambridge, MA, 1996), esp. 236–74; Schwarz, *Konrad Adenauer,* esp. the chap. titled "We Are the Victims of American Détente Policy," 687–99; and Trachtenberg, *A Constructed Peace,* esp. chap. 9. Note the following analysis of superpower relations after the Cuban Missile crisis from Zubok and Pleshakov *Inside the Kremlin's Cold War*, 271: "By the end of the crisis, Khrushchev began to lean on the idea of joint management of the world with the United States much more than his Communist creed and his – albeit very crude – sense of social justice permitted. . . . The taming of the Cold War, fifteen years after its inception, and almost a decade after Stalin's death, finally happened." As Schwarz points out Adenauer saw these developments as a threat to the Federal Republic's security, "Adenauer again complained bitterly about the Americans, they would deceive no-one, but they were a people at the mercy of such changing moods! . . . Adenauer's immediate entourage was very familiar with his obsession that the Kennedy administration . . . was prepared to come to an American-Soviet arrangement over Berlin and Germany, despite the Cuba crisis. He became more and more obsessed with this idee fixe as 1963 advanced. Every event aroused his deepest distrust. . . . The lowest point in relations with the United States was reached in August 1963 during the quarrel about the GDR signing the Test Ban Treaty." Schwartz, *Adenauer*, 666.

choose between the strong economic and domestic political appeal of troop withdrawals and the complicated but indisputable strategic-political logic of a continued American troop presence.

The bureaucratic gold battle was resumed with vigor. Instead of troop withdrawals, the State Department once again proposed high-level political negotiations within the alliance in order to restructure the international monetary system to protect the American dollar and gold supply. The chairman of the Policy Planning Council, Walt Rostow, argued that the United States's difficulties were the product of the dollar being "a unique reserve currency which leaves us vulnerable to sudden withdrawals." Explicitly rejecting troop withdrawals, Rostow wanted to "spread the burden" of maintaining a reserve currency to the surplus countries of the world.[79] Dillon vehemently disagreed and argued that Rostow's plan would put the United States "in a position similar to Brazil or Argentina, who, when they cannot pay their debts, go to their creditors and get an agreement to stretch out the debt over a period." Dillon charged that this represented the irresponsible views of those in State and on the CEA who wanted "this very real problem [to] go away without interfering with their own projects, be they extra low interest rates in the U.S. or the maintenance of large U.S. forces in Europe."[80]

Presented with conflicting advice and uncertain what to do, Kennedy hesitated. "I know everyone thinks I worry about this too much," he told his speechwriter, Ted Sorensen, but the balance of payments "is like a club that de Gaulle and all the others hang over my head." In a crisis, Kennedy complained, they could cash in all their dollars, and then "where are we?"[81] The United States would be forced off the Continent in the most humiliating way.

Kennedy decided to go outside official bureaucratic channels and asked Dean Acheson to study the issue as a "layman" would and recommend what policy the president should follow to solve the balance of payments question. Kennedy told Acheson that we "had respect for people who had diametrically opposite views, and the language that they used seemed very confusing to him."[82] With the help of James Tobin from the CEA, Acheson produced a bold plan. He did not rule out a devaluation of the dollar or a suspension of the dollar-gold convertibility.[83] Given his role in promoting the monetary agreement two decades earlier, Acheson surprisingly concluded that "the Bretton

79. Memo, Rostow for the president, "Balance of Payments Problem," 4 February 1963, *FRUS, 1961–1963* 9:161.

80. Memo, Dillon for the president, February 11, 1963, ibid., 163.

81. Reeves, *President Kennedy*, 431.

82. Transcript of oral history interview with Dean Acheson, 31, Kennedy Library.

83. "In this whole discussion I have not mentioned the possibility of a change in the rate of exchange of the dollar. This is not because there is anything in the nature of the universe or the Constitution or good common sense to prevent the consideration of this matter at an appropriate time. . . . I do not think that time is now. . . . I did not want you, however, to think I thought this subject unmentionable." Acheson to the president, cover letter for Dean Acheson, "Recommendations Relating to United States International Payments Problem," 25 February 1963, President's Office Files, 27, Special Correspondence Series, Kennedy Library.

Woods arrangements have been outgrown; outdated."[84] Acheson recommended drawing on the IMF and negotiating large, long-term loans with the Europeans to finance anticipated deficits of $10 billion over the next five years. The former secretary of state suggested that the whole point of his plan "was to get a period of time in which it would not be necessary to use small expedients with troublesome side effects."[85] Given this breathing space, the United States could get its house in order and determine whether or not the Europeans were prepared to carry their fair share of alliance military burdens. If they were not, the United States could make "careful plans for rearrangements of our own commitments."[86]

Ball produced a similar plan for high-level *political* negotiations with the Europeans to arrange a supplemental financing scheme. The undersecretary suggested that the Europeans would be attracted by the chance to "share world authority as well as world responsibility,"[87] or what Rostow called the desire to "re-emerge as big boys on the world scene."[88] This scheme for "full Atlantic partnership" could be linked to other initiatives, including the MLF and Kennedy round trade negotiations. The time gained with this supplementary financing could be used to dramatically revise the international payments system. Perhaps a new, non-national medium of exchange and liquidity could be created to supplement or replace the dollar and gold.[89] Ball also presented a proposal to restrict foreign access to American capital markets.

As they had in the past, Dillon blocked the State Department's schemes. In a meeting with the president, the Treasury secretary called Ball's proposals "reckless." Roosa told the president that the problem faced by the United States was the same as "any other borrower – how to keep our credit standing good."[90] This could only be accomplished with a sound financial policy that reduced unnecessary overseas expenditures. Roosa also dismissed Ball and Acheson's suggestion that the Europeans would be willing to lend such large amounts to the Americans.

In April, the president finally appeared to have made a choice. He sent a memo to the Cabinet Committee on the Balance of Payments that rejected or

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84. Acheson oral history, Kennedy Library.

85. "Meeting between the president and Mr. Dean Acheson, February 26, 1963, 11 AM, on Balance of Payments," 27 February 1963, *FRUS, 1961–1963* 9: 46.

86. Ibid., 46.

87. George Ball, memorandum for the president, "Negotiations at Political Level for Supplementary Financing of Balance of Payments Deficit," 2–3, Ball Papers, box 15b.

88. Rostow to Ball, "Negotiating Posture Balance of Payments," 26 March 1963, UPA, President's Office Files, State, reel 24, 1.

89. George Ball, memorandum for the president, "Negotiations at Political Level for Supplementary Financing of Balance of Payments Deficit," 22–25, Ball Papers, box 15b.

90. Memorandum for the record, "Meeting with the president, April 18, 1963, 10:00 A.M. to 12 Noon – Balance of Payments," 24 April 1963, National Security Files, M&M, Meetings with the president, 4/63, 317, Kennedy Library, 4–5. For Ball's proposal to restrict the sale of foreign securities in the United States see George Ball, memorandum for the president, "The Possible Restriction of the Sale of Foreign Securities in United States Markets," 16 April 1963, Ball Papers, box 15b.

postponed the State Department approach to reform the global payments system, establish strict capital controls, and institute gold standstill agreements and massive European loans. This left large cuts in overseas expenditures as the only method of realizing meaningful balance-of-payments savings.[91] "Secretary McNamara should proceed to develop recommendations . . . after consultation with State . . . on specific actions which can be completed by end CY 1964 with the target of a gross reduction . . . of between $300–$400 million below FY 1963."[92] This could only be accomplished through troop withdrawals. The secretary of defense had no qualms about doing this: "The only way to improve our position was to reduce troop deployments."[93]

The State Department complained that the secretary of defense "seems to assign almost primordial importance to the military balance of payments aspects alone."[94] After rumors reached Western European capitals of an impending redeployment,[95] Rusk warned the Defense Department that major troop withdrawals from Europe would "be contrary to U.S. interests" and that balance of payments concerns did not appear to warrant such withdrawals, at least not until all other solutions were exhausted.[96] State offered a detailed report that argued major troop withdrawals would end the administration's efforts to "induce the Europeans to accept a broad-spectrum strategy designed to avoid . . . recourse to nuclear war." Pulling out American troops would play right into de Gaulle's hands, corroborating the French president's thesis "that Europe cannot depend upon the U.S. to help defend it." The pressure to create national nuclear forces would increase. And the Soviet Union could be tempted into a more aggressive posture if the United States withdrew large numbers of forces. "Once . . . as much as a full division was removed from Europe we would begin to see some of the problems described." These enormous risks were hardly worth the "10 to 20 percent" reduction in the payments deficit that troop withdrawals would bring.[97] But the president seemed to ignore the State

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91. There is an unsigned memo, perhaps written by the Cabinet Committee on the Balance of Payments, which rejects capital controls and "extraordinary new arrangements" to fund the deficit. Instead, it recommends that the United States "cut down" and "reduce" American contributions to the common defense. Unidentified and unsigned memo, "The Balance of Payments," 26 April 1963, President's Office Files, Departments and Agencies, Treasury, 4/63, 90, Kennedy Library.

92. Memorandum from the president to the Cabinet Committee on the Balance of Payments, 20 April 1963, President's Office Files, Departments and Agencies, Treasury, 4/63, 90, Kennedy Library.

93. Memorandum for the record, "Meeting with the president, April 18, 1963, 10:00 A.M. to 12 Noon – Balance of Payments," 24 April 1963, National Security Files, M&M: Meetings with the President, 4/63, 317, Kennedy Library.

94. Kitchen to Johnson, "Present Status of Defense Balance of Payments Problems Affecting State Department's Interests," 4 March 1963, RG 59, SF 1963, FN 12, box 3451, 2.

95. See, for example, Brussels to State, 28 May 1963, RG 59, SF 1963, Def 6, box 3747, Paris to State, 23 May 1963, RG 59, SF 1963, Def 6, box 3747.

96. Rusk to Missions in the NATO capitals, 18 June 1963, *FRUS, 1961–1963* 9: 596–97.

97. Memo, Johnson to Rusk, "Political Effect of Troop Withdrawals from Europe," 17 May 1963, and attached report, "The Implications for US National Interests of American Military Retrenchment in Europe," RG 59, SF 1963, Def 6–8, box 3749.

Department's pleas. The State Department got wind of further, more politically damaging cuts, requested by Kennedy himself. "G/PM has advised us that the Department of Defense program to reduce overseas military expenditures . . . was considered by the president as only a beginning. . . . It can be expected that any further major reductions can only be achieved by withdrawing combat forces."[98]

In August and September the dollar weakened. The president demanded that his advisers "give this problem our most urgent attention."[99] Kennedy ordered Treasury, State, and Defense to prepare plans for direct capital controls, trade sanctions, and troop withdrawals. McNamara returned with a plan that would return thirty thousand U.S. ground forces from Europe, in addition to redeploying important tactical air forces. Secretary of State Rusk protested vigorously, repeating the arguments laid out in the State Department study of the political impact of troop withdrawals.[100] The president only agreed to $190 million in cuts (McNamara's total package, if accepted, would have realized $339 million). But the president also "indicated his desire that a political base be established which would make it possible at some later stage to reconsider the disapproved actions."[101]

The Defense Department wasted no time establishing this political base. The military planned a deployment exercise called "Big Lift" to demonstrate the United States's ability to airlift large numbers of combat troops to the European theater quickly and efficiently. McNamara's deputy, Roswell Gilpatric, noted in a widely discussed speech that by "employing such a multi-base capability the U.S. should be able to make useful reductions in its heavy overseas military expenditures without diminishing its effective military strength or its capacity to apply that strength swiftly in support of its world-wide policy commitments."[102] That same week, former President Eisenhower wrote an article for the *Saturday Evening Post* calling for the return of all but one of the U.S. Army divisions in Europe. The timing of Gilpatric's speech, Eisenhower's article, and operation Big Lift led the *Washington Post* to declare that the Pentagon was seeking a major showdown on strategy with its NATO allies at the next conference in December.[103]

State Department officials were horrified: they had lost control over U.S. policy toward Europe. When the department warned Gilpatric that the speech

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98. Memo for the record, "Troop Withdrawals," 4 September 1963, RG 59, SF 1963, Def 6–8, box 3749. See also memo, McNamara to the president, "Reduction in Department of Defense Expenditures Entering the International Balance of Payments," 16 July 1963, *FRUS, 1961–1963* 9:73.

99. Memo for the record, 12 September 1963, *FRUS, 1961–1963* 9:87.

100. Memo, Rusk to Kennedy, "Department of Defense Proposals for further Reductions in Balance of Payments Drain," undated, ibid., 89–93. See also Popper to Schaetzel, "Points for Discussion with Ambassador Finletter," 19 September 1963, RG 59, SF 1963, Def 6, box 3747.

101. Memo, "Meeting on Defense Proposals for further reductions in balance of payments drain, 19 September 1963, 4 PM," 23 September 1963, *FRUS, 1961–1963* 9: 98.

102. Remarks by Roswell Gilpatric, deputy secretary of defense, at the Annual UPI Editors and Publishers Conference, 19 October 1963, RG 59, SF 1963, Def 6–8, box 3749.

103. John G. Norris, "Pentagon to Seek Showdown on Basic NATO Strategy," *Washington Post,* 20 October 1963.

The U.S. State Department was shocked when President Kennedy ordered Secretary of Defense Robert McNamara to produce plans for deep American troop withdrawals from West Germany in 1963.

would "create serious political problems for us,"[104] it was shocked when told that "Mr. Gilpatric would not accept the proposed deletions."[105] It turned out that McGeorge Bundy had already signed off on the speech, presumably with the president's approval.[106] Alexis Johnson warned Rusk that the West German government, already nervous about the real motives of operation Big Lift, would get all the wrong signals from this speech. Johnson demanded that "before a governmental decision is made on the advisability, militarily and politically, of making any major force withdrawal, a much more thorough

104. Johnson to Rusk, "U.S. Policy on our Public Position on Troop Withdrawals," October 21, 1963, RG 59, SF 1963, Def 6–8, box 3749.

105. Ibid.

106. Memo, Bundy to Gilpatric, 18 October 1963, National Security Files, Departments and Agencies, Defense, box 274, Kennedy Library.

consideration of the issue at the top level is required."[107] But these were exactly the signals the president wanted to send to the West Germans. The Dillon-McNamara approach seemed victorious in the domestic-political gold battle. Massive U.S. troop withdrawals appeared imminent.

What about the international component of the gold battles? Relations with the Federal Republic were quite strained, and by 1963 Adenauer had distanced himself from U.S. NATO policy and fully embraced de Gaulle. One of the ways this political conflict revealed itself was in difficulties with the offset arrangement. The Americans expected a complete offset of the foreign exchange costs of troops stationed in West Germany as an absolute requirement for the American presence.[108] But the West German leadership did not accept this linkage. When American representatives complained that the Federal Republic was not fulfilling its obligations under the Strauss-Gilpatric accord, German foreign minister Gerhard Schroeder claimed that neither "the Chancellor nor he knew the details of the problems which had arisen."[109] During the spring of 1963, Ambassador George McGhee was warned that the offset agreement faced difficulties in the future.[110] McGhee complained in July that the German military was unwilling to commit to more than $1 billion for 1964–65, at least $300 million short of the amount needed to fully offset the payments costs of U.S. troops. But McNamara told Kennedy that it was vital for the administration to "get the dollars out of them."[111] Only a full offset arrangement would accomplish that.

Kennedy put tremendous pressure on the Germans to accept the link between full and continued offset and the maintenance of six American divisions in West Germany. Spanish dictator Francisco Franco told the German ambassador to Spain that the American president claimed "the question of the American balance of payments constituted one of his greatest concerns." If he did not resolve the dollar and gold problem, then Kennedy would be forced to "change his whole policy" and "dismantle the military support of Europe."[112] Bundes minister Heinrich Krone was explicitly told that the United States would be forced to withdraw because of its balance of payments problem.[113]

107. Ibid. See also Weiss, memorandum for the record, 24 October 1963, RG 59, SF 1963, Def 6, box 3747.

108. Telegram, State Department to embassy in Germany, 30 July 1963, *FRUS, 1961–1963* 9: 184–85. See also 184, n. 1. See also telegram, State Department to embassy in Germany, 11 July 1963, ibid., 176.

109. Memo of conversation, "Military Offset Arrangements; Developmental Assistance Activities," 15 November 1962, ibid., 157.

110. Karen Erika Donfried, *The Political Economy of Alliance: Issue Linkage in the West German-American Relationship* (Ph.D. diss., The Fletcher School of Law and Diplomacy, 1991), 110.

111. Kennedy Library Tape No. 102/A38, 30 July 1963 meeting, second side of cassette no. 1, right after first excision (43, 26).

112. Gesprach des Botschafters Freiherr von Welck mit Staatspasident Franco in 29 Madrid, May 1963, *Akten zur Auswartigen Politik der Bundesrepublik Deutschland* (Munich, 1963), vol. 1, no. 185.

113. Ibid., no. 185, footnote 9.

During a tense meeting, President Kennedy warned Adenauer that "economic relations, including such matters as monetary policy, offset arrangements and the Kennedy Round of trade negotiations," were "possibly even more important to us now than nuclear matters" because the nuclear position of the West was strong enough to deter any attack. West German cooperation was expected for all of these economic initiatives. "Trade was important to us only because it enabled us to earn balances to carry out our world commitments and play a world role."[114] During a meeting with West German foreign minister Gerhard Schroeder in September, the president warned that "the U.S. does not want to take actions which would have an adverse impact on public opinion in Germany but does not wish to keep spending money to maintain forces which are not of real value."[115] And McNamara told his German counterpart, Kai-Uwe von Hassel, that "America cannot carry this burden any longer if it couldn't reduce this deficit." Maintaining the troop commitment to Europe would be "impossible if the offset is not found for this. . . . The Americans have no choice whatsoever here."[116]

What could the Federal Republic do? The American threat to withdraw troops forced the West German government to make fundamental policy choices that would affect German security for years. The Germans were being asked to abandon their temptation to join France and toe the American line. But Adenauer, for one, no longer believed that the Americans were reliable allies who could be trusted.[117] In the wake of the Cuban missile crisis, the United States and the Soviet Union appeared ready to try to negotiate an arrangement to reduce the danger of war in Central Europe. The United States appeared willing to offer the Soviets de facto recognition of East Germany and a promise to keep the Federal Republic of Germany non-nuclear, if the Soviets would accept the status quo in Berlin. These concessions would undermine the foundation of Adenauer's foreign policy, which had been based on non-recognition of the DDR, equality with its Western allies, and seeking reunification through a policy of strength. U.S.-Soviet arrangements that stabilized the status quo would appear to put an official stamp of approval on the division of Germany. And if Berlin was no longer a problem, then Kennedy held there was no longer any military need for six U.S. divisions in West Germany. The president believed that the deterrent effect of the United States's strategic nuclear forces would prevent a Soviet attack on Western Europe.[118] Refusing to cooperate with

114. Memo of conversation, "Trade and Fiscal Policy Matters," 24 June 1963, *FRUS, 1961–1963* 9: 170.

115. Memcon, "U.S. Troop Reductions in Europe," 24 September 1963, ibid., 187.

116. Gesprach des Bundeskanzlers Adenauer mit dem amerikanischen Verteidigungsminister McNamara, 31 July 1963, *Akten zur Auswartigen Politik der Bundesrepublik Deutschland* (Munich, 1963), vol. 2, no. 257.

117. See the sources and Adenauer quote in footnote 77.

118. Kennedy-Bundy-Rusk-McNamara meeting, 10 December 1962, *FRUS, 1961–1963*, vols. 13–15, microfiche supplement, document 27.

U.S. economic policies (especially its monetary policy) would be one way to express German resentment toward Kennedy's "détente" policy.

The Kennedy administration's move to reach some sort of accommodation with the Soviets in 1963 caused consternation among West Germany's policy-making elites.[119] But Adenauer's policy of embracing de Gaulle offered nothing more than dependence on another, albeit much weaker, ally, one that had even more incentive to sell out West German interests to the Soviets. In the end, there was little choice but to accept a NATO policy based on American leadership.[120] The alternatives to a strong alliance with the United States, backed by six American divisions, were not very promising. This meant accepting many compromises that were distasteful. The key now was to make sure that the Americans did not become so fed up with Europe that they pulled their troops out. And this meant that U.S. monetary policy had to be supported. There could be no more hints of monetary collaboration with the French, no more rumors that surplus dollars would be turned in for gold, and, most importantly, the offset arrangement had to be fulfilled and renewed. The American demands for German monetary cooperation would have to be met.

In October Rusk traveled to West Germany. In a meeting with Defense Minister von Hassel, Rusk stated that the administration's policy of maintaining troops in West Germany depended on two things: NATO meeting its force goals and a continuation of the offset arrangement. "If our gold flow is not brought under control, the question could become an issue in next year's elections. The continuation of Germany's payments under the offset is vital in this respect."[121] The new West German government understood what was at stake and with few other options, accepted these conditions. Flanked by Rusk, the new Chancellor Ludwig Erhard gave a major speech in Frankfurt in which he publicly acknowledged that the American payments deficit arose from the United States "rendering the major portion of economic and military aid to the

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119. See Schwarz, *Adenauer*, 688, "This was linked to a situation of considerable change in the international political scene, which was considerably altered in the spring of 1963. Kennedy and Khrushchev drew the same conclusions from the Cuban crisis. After they had stared into the abyss of nuclear war, they believed it advisable to turn to détente. . . . This meant, that in Europe, the Soviet Union must also be prepared not to make any more threats to the Western allies' encalve of Berlin. The acceptance of the GDR and the Wall were also the price of détente. U.S. and British readiness for an agreement in arms control also had to be taken into account; *this would be at the cost of basic German positions that until then had been vigorously defended*" (emphasis added).

120. For a document showing the Germans analyzing and weighing all their foreign policy options, but suggesting that the FRG had little choice but to follow the American line, see "Aufzeichnung des Staatssekretars Carstens," 16 August 1963, *Akten zur Auswartigen Politik der Bundesrepublik Deutschland* (Munich, 1994), vol. 2, no. 306.

121. This quote is taken from Hubert Zimmerman, "Dollars, Pounds, and Transatlantic Security: Conventional Troops and Monetary Policy in Germany's Relations to the United States and the United Kingdom, 1955–1967" (Ph.D. diss., European University Institute, 1997). Original document is from the Papers of George McGhee, 1988 add, box 1, memorandum on von Hassel Rusk talks, 10 October 1963.

free world."[122] This was an important shift for Erhard, who had previously stated that the American payments deficit could only be reduced through basic internal adjustments in the U.S. economy. Negotiations for a new, full offset arrangement began soon thereafter.[123]

The administration got what it wanted from West Germany.[124] The Federal Republic had rejected the Adenauer-DeGaulle policy, and West Germany had, among other concessions, grudgingly accepted the link between offset and American troop deployments in Europe. The Kennedy administration decided that it had to end any threat – at least for the time being – of major troop withdrawals. In Frankfurt, Rusk formally promised an end to the talk of redeployment. "We have six divisions in Germany. We intend to maintain these divisions here as long as there is need for them – and under present circumstances there is no doubt that they will continue to be needed."[125] The president also surprised many observers when he publicly disavowed any intention of removing any American divisions from West Germany.[126] In December, a full offset arrangement was reached, and the settlement was announced as an agreement of "great value to both governments" that should be "fully executed and continued."[127] Both the international and domestic gold battles were over, at least for now.[128] The troops would remain as long as the Federal Republic toed the United States's political line and offered full offset through military purchases.

The United States's Cold War confrontation with the Soviet Union in Europe reached its most intense and dangerous point during the Kennedy period. Kennedy tried to craft a security policy that met the Soviet challenge

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122. Background Paper, "Germany and the U.S. Balance of Payments," 20 December 1963, National Security Files, Country File, Germany, box 190, Johnson Library. See also Soutou, *L'alliance incertaine*, 265.

123. Brief Talking Points on Offset Agreement, 26 December 1963, National Security Files, Country File, Germany, box 190.

124. The story of the battle within the West German CDU/CSU parties over foreign policy is told in Schwarz, *Adenauer*, 676–98. There were many other issues involved in Adenauer's removal from the chancellorship in the fall of 1963, including the infamous "Spiegal" affair. But it is clear that Ludwig Erhard understood the implications of Adenauer's turn toward France, a policy he reversed upon entering office. Part of this reversal included an affirmation of the U.S. troop-offset link.

125. "Excerpt from Proposed Speech by Secretary Rusk at Frankfurt, Germany, on Sunday, 27 October 1963," RG 59, SF 1963, Def 6–8, box 3749.

126. "President's news conference statements on US Troop levels was widely covered in Saturday's German press under such headlines as, 'Kennedy puts an end to speculation' (Die Welt), Kennedy decides against troop withdrawals from Germany' (*Frankfurter Allgemeine Zeitung*); and 'Troops remain in *Germany' (Deutsche Zeit Ung*)." Bonn to secretary of state, 2 November 1963, RG 59, SF 1963, Def 6–8, box 3749.

127. McNamara to the president, 19 September 1966, Papers of Francis Bator, box 21. Also in National Security Files, Trilateral Negotiations and NATO, box 50, Johnson Library.

128. The transatlantic bargain between the United States and the Federal Republic of Germany would be threatened in 1966 and 1967, until a new arrangement was negotiated during the Trilateral Talks. See Gavin, "Defending Europe and the Dollar," chap. 5; and Gregory Treverton, *The Dollar Drain and American Forces in Germany* (Athens, 1978).

with strength but left room for negotiations and respect for each other's interests. But the United States's two most important continental allies, France and West Germany, felt threatened by Kennedy's policies and openly challenged his administration's Cold War strategy. Concurrently, the Kennedy administration faced a grave balance of payments crisis. These two crises – one political, the other monetary – were inextricably connected in the minds of the participants. The administration believed that the dollar and gold problem could be solved in one or two ways: with cooperation from the European surplus countries, namely France and West Germany, or by reducing government expenditures abroad. Since most of these government expenses were related to NATO expenses, this meant large withdrawals from U.S. conventional forces in Western Europe.

These two questions – the inter allied dispute over NATO strategy and the dollar and gold question – have traditionally been treated as separate problems. But these questions were, in fact, two sides of the same coin. The issues surrounding NATO's Cold War strategy and the balance of payments question centered on the issue of the United States's large conventional force commitment to Western Europe. The troop commitment, in turn, was related to a host of fundamental power political questions – Berlin policy, the German question, and the politics of nuclear sharing. Monetary pressure became a tool for each side to signal their intentions and bring about desired outcomes. The French and the Germans signaled their unhappiness with Kennedy's security policies by cashing in dollars for gold or by abrogating arrangements, like offset, that were meant to ease the U.S. dollar and gold drain. The Kennedy administration could express its anger at the Franco-German bloc by threatening to withdraw U.S. troops in Europe for balance of payments purposes. American monetary policy during this period only makes sense when seen through this power political lens. Perhaps more importantly, U.S. policy toward the most fundamental questions of European security can only be understood if the American fears about the balance-of-payments deficit and gold outflow are fully explored.

The lessons of the gold battles have a significance that goes well beyond the Kennedy administration's monetary and security policies and feeds into fundamental questions of international history, namely, how do international monetary relations influence international political stability, and vice-versa? Are certain kinds of monetary arrangements better at preventing political tension and promoting international peace and security? Do monetary struggles reflect deeper security conflicts?[129] These questions are not just of historical importance. These are core issues in the study of international politics. And as

129. There are other historical examples of the interconnectedness of monetary and security policy in international relations. As Marc Trachtenberg and Stephen Schuker demonstrated in their studies, the Franco-German clash over reparations after WWI – an ostensibly economic clash that on the surface seemed to be over highly technical monetary issues – in fact masked a fundamental dispute over the shape of the balance of power in Europe after the First World War. See Stephen Schuker, *The End of French Predominance in Europe: The Financial Crisis of 1924 and the*

recent events in Southeast Asia, Russia, and Latin America have demonstrated, the relationship among money, power, and international security will be of even greater significance during the twenty-first century. While economic globalization has brought growth and unprecedented economic integration, it has also left many nations highly vulnerable to the changes in the global economy. Nothing drives this integrative dynamic more than participation in the world monetary order. Will this monetary chaos spill over into political tension and undermine international peace and security? Will future rivals exploit monetary power to achieve its political ends? The urgency of these questions makes an understanding of past international monetary battles more important than ever.[130]

Adoption of the Dawes Plan (Chapel Hill, 1976); and Marc Trachtenberg, *Reparation in World Politics: France and European Economic Diplomacy, 1916–1923* (New York, 1980).

130. For example, what is the real relationship between the monetary chaos of the 1920s and 1930s, the collapse of the international monetary system, the intensification of international political rivalry, and the origins of the Second World War in both Asia and Europe?