Hegemony or Vulnerability? Giscard, Ball, and the 1962 Gold Standstill Proposal

Francis J. Gavin, Erin Mahan

What was the character of America's international monetary relations with Europe during the early 1960's, and how were they related to the larger power political questions of the day? There is a standard interpretation of this question. During this pre-Vietnam war period, the argument runs, the United States strove to maintain hegemonic power vis-à-vis Western Europe "based on the role of the dollar in the international monetary system and on the extension of its nuclear deterrent to include its allies".[1] Since this economic dominance resulted from the structure and rules of the Bretton Woods monetary system, the Americans had no interest in reforming arrangements that were "a prerequisite for continued American global hegemony".[2] "Because it was interested in preserving the privileges it derived from the operation of the Bretton Woods regime", the United States would not "condone a structural reform" of the system that threatened "the continued preeminence of the dollar".[3] And while most of "America's allies acquiesced in a hegemonic system that accorded the United States special privileges to act abroad unilaterally to promote U.S. interests", the French did not.[4] The Fifth Republic government, led by Charles de Gaulle, deeply resented the privileges they believed the system conferred upon the American dollar and actively exploited America's balance of payments position in an attempt to force the United States to abandon the Bretton Woods system. The United States, the conventional wisdom holds, was able to

1. R. GILPIN, *The Political Economy of International Monetary Relations*, Princeton University Press, Princeton, 1987, p.134.
2. D. KUNZ, *Butter and Guns: America's Cold War Economic Diplomacy*, The Free Press, New York, 1997, p.99. For similar interpretations, see W. BORDEN, *Defending Hegemony: American Foreign Economic Policy*, in: T. PATERSON (ed.), *Kennedy's Quest for Victory: American Foreign Policy, 1961-1963*, Oxford University Press, New York, 1989, pp.83-85; D. CALLEO, *The Imperious Economy*, Harvard University Press, Cambridge, 1982, p.23; D. CALLEO, *Beyond American Hegemony: The Future of the Western Alliance*, Basic Books, New York,1987, p.13, 44-52; F. COSTIGLIOLA, *The Pursuit of Atlantic Community: Nuclear Arms, Dollars, and Berlin*, in: PATERSON (ed.), pp.24-56; P. KENNEDY, *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000*, Random House, New York, 1987, p.434. For interpretations that see Kennedy's monetary policy as a conservative approach designed to maintain the privileged place the dollar held in the postwar "capitalist world-system", see Borden, p.57-62, 84; D. CALLEO and B. ROWLAND, *America and the World Political Economy: Atlantic Dreams and National Realities*, Indiana University Press, Bloomington, 1973, pp.88-89; J. ODELL, *U.S. International Monetary Policy: Markets, Power, and Ideas as a Source of Change*, Princeton University Press, Princeton, 1982, p.88; S. STRANGE, *International Monetary Relations*, Oxford University Press, London, 1976, p.82, 207.
3. J. GOWA, *Closing the Gold Window: Domestic Politics and the End of Bretton Woods*, Cornell University Press, Ithaca, 1983, p.52.
4. B. COHEN, *Organizing the World's Money: The Political Economy of Dominance and Dependence*, Basic Books, New York, 1977, p.97.

thwart this French effort, until the American deficit ballooned in the late 1960's and early 1970's as a result of massive "guns and butter" inflation.[5]

The real story is rather different. American policymakers had no great love for the Bretton Woods system. It was associated in their minds not with American hegemony, but with American vulnerability. The United States was running a payments deficit; the Europeans were in effect financing that deficit and were thus enabling the Americans to live beyond their means. But the Americans did not view this as a source of strength: the growing European dollar balances, which, under the rules of the system, could be cashed in for gold at any time, were a kind of sword of Damocles hanging over their heads. The U.S. government felt vulnerable and it did not like it. Kennedy feared that if the system was not reformed, then the Europeans might come to the conclusion that "my God, this is the time … if everyone wants gold we're all going to be ruined because there is not enough gold to go around".[6]

The most surprising fact to emerge from French and American documents is that for a brief period in 1962, the French appeared willing to help the United States out of its monetary difficulties. Instead of hostility towards the dollar, Minister of Finance Valéry Giscard d'Estaing, was, for a time, cooperative. Inspired by Giscard's hints of support, Under-secretary of State George Ball and key members of the Council of Economic Advisors (CEA) crafted a monetary plan that would have essentially ended Bretton Woods while providing the Americans with time and protection to end their balance of payments deficits. The key provision of this plan was a gold standstill agreement, whereby the European surplus countries would agree to hold US deficit dollars and formally limit their gold purchases from the American Treasury. In return, the United States would move aggressively to end its balance of payments deficit. At the end of the agreement (likely to be two years), a new international monetary arrangement would be negotiated with the Europeans. Surprisingly, many within the Kennedy administration were willing to sacrifice the central role of the dollar and its "seigneuriage" privileges in any new system, a position that would have had much appeal for the Europeans.

While elements of the administration were enthusiastic about Giscard's hints and Ball's plan, the more financially orthodox members from the Department of

5. It is quite true that by 1965, de Gaulle claimed the system allowed for "*l'hégémonie américaine*". See Press Conference, February 4, 1965, from Charles DE GAULLE, *Discours et messages*, vol. 4, *Pour l'effort, Août 1962-Décembre 1965*, Omnibus/Plon, Paris, 1993; see also R. ARON, *La République Impériale*, Calmann Levy, Paris, 1973; G.H. SOUTOU, *L'alliance incertaine: Les rapports politico-stratégiques franco-allemands, 1954-1996*, Fayard, Paris, 1996, p.287. But the key point that this article makes is that the views of 1965 were not the basis for French policy in 1962, which is implied in J. LACOUTURE, *De Gaulle: The Ruler, 1945-1970*, W.W. Norton, New York, 1992, p.380-82. Most French scholarly interpretations about de Gaulle's criticisms against the dollar begin with the mid-1960s. For a significant but brief exception, see H. BOURGUINAT, *Le général de Gaulle et la réforme du système monétaire international: la contestation manquée de l'hégémonie du dollar*, in: *De Gaulle en son siècle*, vol. 3, Paris, 1992, pp.110-118.
6. Discussion between President John F. Kennedy, William McChesney Martin, Chairman of the Federal Reserve and Theodore Sorensen – August 16, 1962, 5:50-6:32 p.m., tape 13, President's Office Files, John F. Kennedy Presidential Library, Boston MA.

Treasury and the Federal Reserve vehemently opposed the arrangement. Given the poor state of Franco-American political relations in the summer of 1962, the President was himself unsure of French motives, and in the end formal negotiations never began. Was Giscard's offer a missed opportunity? U.S. officials at the time were perplexed and scholars since then have neglected it entirely.

The analysis here will be broken down into three parts. The first section will provide a brief overview of the monetary problems that plagued the Kennedy administration and the efforts in 1961 and the first half of 1962 to solve them. It will also explore the motivations for France's international monetary policy in the early 1960's. The second section will deal with Giscard's visit to the United States in July 1962. The final section will explore the furious debate within the Kennedy administration over the French finance minister's seemingly cooperative statements during his visit, and investigate why nothing came of Giscard's apparent willingness to help ease the dollar and gold outflow problem.

American and French Monetary Policy

Most historians and political scientists identify Richard Nixon as "the destroyer of Bretton Woods".[7] In reality, however, the Bretton Woods system was inherently unstable and began experiencing potentially fatal difficulties as early as the late 1950's. Economists now recognize that the system lacked an effective mechanism to adjust and settle the inevitable payments imbalances caused by shifting real currency values arising from differential national monetary policies and savings rates.[8] Postwar policymakers eschewed the two most effective means of adjustment –"flexible" exchange rates and a pure gold standard - on principle. Mindful of the competitive devaluations during the 1930's, they believed that flexible 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.[9] A pure gold standard, which required states with a payments deficit to transfer gold, was seen as no better. In a country that lost gold, the domestic monetary base would be decreased and aggregate domestic

7. KUNZ, *Butter and Guns*, p.192.
8. Excellent discussions of these questions can be found in R. COOPER, *The International Monetary System: Essays in World Economics*, MA: The MIT Press, Cambridge, 1987, and P. de GRAUWE, *International Money: Post-War Trends and Theories*, Clarendon Press, Oxford, 1989.
9. P. VOLCKER and T. GYOHTEN, *Changing Fortunes: The World's Money and the Threat to American Leadership*, Random House, New York, 1992, p.7-8.

demand would shrink. Imports would fall, exports would rise, and the payments would balance. But the cost was deflation.[10] 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.[11]

At the time, however, American and European policymakers were less concerned with the flaws of the Bretton Woods adjustment mechanism per se and instead focused on the growing outflow of dollars and gold from the United States as the biggest problem in the system. A whole series of factors – including the move to current account convertibility by the Europeans and the foreign exchange cost of America's NATO commitments – had dangerously enlarged the American balance of payments deficit in 1959 and 1960. Many observers worried that the large deficit could lead to a crisis of confidence in the dollar and spark a mass conversion into gold, rendering the dollar unusable as a reserve currency and in the process destroying a large portion of the world's liquidity. This problem had come to be known as the "Triffin Dilemma", after the Yale economist Robert Triffin published a book highlighting the confidence problem in his 1960 book, *Gold and the Dollar Crisis*.[12]

Fearing the potential dangers, political and economic, of a ballooning deficit and gold outflow, the new Kennedy administration pursued an aggressive strategy to correct the problem.[13] Political allies, particularly the Federal Republic of Germany, were pressured to spend surplus dollars purchasing military equipment made in the United States. Trade liberalization became a key element of the administration's foreign policy. The federal budget was scrutinized for ways to reduce U.S. government expenditures abroad. Most importantly, the Undersecretary of the Treasury for International Monetary Affairs, Robert Roosa, negotiated a whole series of "*ad hoc*" arrangements to defend the dollar and limit the flow of gold from the US Treasury. Currency swap arrangements and standby borrowing arrange-

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10. See B. EICHENGREEN, *Globalizing Capital: A History of the International Monetary System*, Princeton University Press, Princeton, 1996, pp.7-44. 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 G. GALLAROTTI, *The Anatomy of an International Monetary Regime*, Oxford University Press, New York, 1995. For the economic and political volatility of the "gold standard" during the late 19th and early 20th century, and the American propensity to "sterilize" gold flows, see M. FRIEDMAN and A. SCHWARTZ, *A Monetary History of the United States, 1867-1960*, Princeton University Press, Princeton, 1963, pp.89-188; see also M. FRIEDMAN, *Money Mischief: Episodes in Monetary History*, Harcourt Brace, New York, 1994, especially the essays *The Crime of 1873* and *William Jennings Bryan and the Cyanide Process*.
11. See especially D.E. MOGGRIDGE, *Keynes: An Economist's Biography*, Routledge, London, 1992.
12. R. TRIFFIN, *Gold and the Dollar Crisis: The Future of Convertibility*, CT: Yale University Press, New Haven, 1960.
13. See T. SORENSEN, *Kennedy*, Harper and Row, New York, 1965, p.406. See also J.K. Galbraith's letter to the President from October 1960, in his *Letters to Kennedy*, Harvard University Press, Harvard, 1998, pp.29-31.

ments were implemented that allowed deficit countries to stave off attacks on their currencies.[14] The most important currency arrangement was the gold pool, a consortium of industrial nations who intervened in the London gold markets whenever the price of the dollar seemed threatened.

Roosa's efforts were quite successful in limiting the amount of gold purchased by central bankers holding US dollars. But the administration's efforts to reduce the overall payments deficit were far less successful, which was a source of great frustration to President Kennedy, as this exposed the Achilles heel of America's international monetary policy. If the surplus countries of Europe – namely France and West Germany – cooperated with the United States by limiting their gold purchases, then the dollar could be protected. But if this cooperation collapsed for either political or economic reasons, then the countries holding surplus dollars would have enormous leverage over the United States. "I know everyone thinks I worry about this too much" he told advisor Ted Sorensen. But the balance of payments was 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"?[15]

This meant that France's attitude on international monetary issues was critical. As with all questions of French policy, the first place to look was the attitude of the President, Charles de Gaulle. In the late 1950s and early 1960s, de Gaulle merely posed the overall framework for French economic policy. He realized that military power required economic strength. During this period, when the United States began experiencing balance-of-payment difficulties, France was enjoying an economic miracle of financial stability, industrial progress, and an annual growth rate of four and a half percent. The Fourth Republic had already done the groundwork for the upward surge in the economy when de Gaulle came to power, but prosperity had often been marred by monetary crises.[16]

In December 1958, de Gaulle appointed a group of economic experts under Jacques Rueff, magistrate for the European Coal and Steel Community and a previous minister of finance, who drew up the plans that put the French economic house in order. The successful reforms, however, were carried out at political cost. Implemented by two successive finance ministers, Antoine Pinay and Wilfrid Baumgartner, the program was based on a formula of austerity and strict financial and monetary orthodoxy. Measures included higher taxes, a devaluation of the franc by seventeen and a half percent, strict budgetary policy,

14. The swap arrangements were standby credit lines that allowed participants to draw on other participants 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 H. JAMES, *International Monetary Cooperation Since Bretton Woods*, Oxford University Press, Oxford, 1998, pp.159-165.
15. R. REEVES, *President Kennedy: Profile of Power*, Touchstone, New York, 1993, p.431.
16. W. HITCHCOCK, *France Restored: Cold War Diplomacy and the Quest for Leadership in Europe, 1944-1954*, University of North Carolina Press, Chapel Hill, 1998, pp.12-71. See, also, R. KUISEL, *Capitalism and the State in Modern France: Renovation and Economic Management in the Twentieth Century*, Cambridge University Press, New York, 1981.

removal of the automatic tying of wages to a cost-of-living index, and reduced government subsidies. Selective liberalization of trade allowed more foreign goods into the country. The currency was replaced with a new franc, worth a hundred of the old variety. And in the years that followed, the French government restricted the growth of credit in order to slow inflation. This practice of *encadrement du crédit*, however, discouraged investment because it limited industry's access to capital. The finance ministry also imposed a *coefficient de trésorerie* that required banks to hold thirty percent or more of their assets in treasury bonds or medium-term re-discountable credits.[17]

In the spring of 1961 Rueff began his eight-year campaign against what he saw as the subtle and insidious effects of the U.S. balance-of-payments deficit on the French economy. Rueff and many French officials, including French Prime Minister Michel Debré, believed that the United States relied on "easy money" and an expansionary monetary policy that exported inflation abroad to countries such as France. They also believed that a major consequence of the U.S. capital outflow was encouragement of American investment in the French economy.[18]

Gaullist officials held what Robert Solomon has described as a "schizophrenic view" toward multinational investment. On the one hand, French officials sought such investment because they welcomed the technological advances and influx of capital. On the other hand, they wished to see more national, and less foreign, investment in the French economy and wanted the EEC to adopt a common policy toward multinational investment. They also urged the United States to change its tax code to eliminate deferrals on taxation of overseas facilities. What the French government resented was the development of U.S. monetary "seigneuriage" that allowed the buying of European companies with dollars.[19]

Rueff had little patience with U.S. complaints about bearing the burden of Cold War security commitments. Before the Rueff plan in December 1958, many French politicians blamed the weakness of the French franc on the draining wars in Algeria and Indochina. Even though *le fardeau algérien* continued, the French franc became one of the world's strongest currencies after the Bank of France stopped increasing its domestic money supply. Rueff argued that U.S. foreign economic and military aid programs were a small proportion of GNP, hardly an intolerable burden. A practitioner of strict fiscal and monetary orthodoxy, he believed that a sharp increase in discount rate would eliminate the U.S. deficit overnight, as the French government did in 1958. The French government planned to raise its discount rate to four percent and the *coefficient de trésorerie* to thirty-six percent to combat its own inflationary cycle.[20]

17. S. BERSTEIN, *The Republic of de Gaulle, 1958-1969*, translated by P. MORRIS, Cambridge University Press, Cambridge, U.K., 1993, pp.101-124; LORIAUX, *France after Hegemony: International Change and Financial Reform*, Cornell University Press, Ithaca, NY, pp.168-174.
18. See, generally, J. RUEFF, *Balance of Payments: Proposals for the Resolution of the most Pressing World Economic Problem of our Time*, trans. by J. CLÉMENT, Macmillan Co., New York, 1967. See, also, F. BOURRICAUD and P. SALIN, *Présence de Jacques Rueff*, Plon, Paris, 1989, pp.243-314.
19. R. SOLOMON, *The International Monetary System, 1945-1981* (New York, 1982), p.54. J. LEE, *Kennedy, Johnson, and the Dilemma of Multinational Corporations: American Foreign Economic Policy in the 1960s*, in: *Essays in Economic and Business History* 14, 1996, p.322.
20. Rueff to Wilfrid Baumgartner, 26 June 1961, papers of Wilfred Baumgartner, box 3BA34, folder DR 7, FNSP, Paris.

In a series of lengthy letters to de Gaulle, published in *Le Monde* in early June 1961, Rueff encouraged the French president to take measures that would end the dollar's role as an international reserve currency. He implored de Gaulle to bypass Parliament and invoke the presidential emergency powers provided by the Constitution of the Fifth Republic so that he could pursue polices which might force the devaluation of the dollar. Rueff considered the gold exchange standard a "prodigious collective error that allowed the United States to avoid the consequences of its economic profligacy". His views resonated with the nationalistic de Gaulle, who longed to abolish the privileges of the dollar and sterling as reserve currencies within the Bretton Woods system. Rueff also began to urge conversion of France's dollar reserves into gold as an indication of displeasure with U.S. abuses of the reserve-currency system, which accelerated French inflation.[21]

Rueff's views were shared by several high-ranking French officials close to de Gaulle. Foreign Minister Couve de Murville, an *inspecteur des finances* who had worked with Rueff at the Ministry of Finance between 1936 and 1939, echoed his polemic against the hegemony of the dollar. Étienne Burin des Roziers, who became secretary general of Élysée in the spring of 1962, was also well placed to begin shaping de Gaulle's outlook on international monetary relations.[22] Olivier Wormser, director general of economic affairs at the Ministry of Foreign Affairs, argued that Kennedy and Harold Macmillan's strong desire to stabilize the pound and the dollar was connected to Britain's bid to join the Common Market. America's international monetary policy was a convenient target for France's complaints about the relationship between Britain's application for the EEC and "Anglo-Saxon" balance-of-payments difficulties.[23]

The Ministry of Finance, however, did not share these views during the early 1960s. The Ministry was a bastion of "Atlanticism" that believed in cooperating with the United States. Wilfrid Baumgartner resisted the insistence of Rueff's coterie on ending the use of the dollar as a reserve currency. Baumgartner had that quaint sense of gratitude toward the United States for its help to France under the Marshall Plan that was becoming increasingly out-of-fashion in *Gaullist* France. He had also developed a close professional and personal friendship with Douglas Dillon during his ambassadorship to France under President Dwight D. Eisenhower. Baumgartner and Dillon often began their letters with the salutation "dear friend".[24]

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21. Jacques Rueff to Charles de Gaulle, 5 May 1961, papers of Wilfrid Baumgartner, box 3BA34, folder Dr 5, Fondation des sciences politiques, Paris, France. For Rueff's articles, see, *Un danger pour l'occident: Le Gold-Exchanges standard*, in: *Le Monde*, 27 June 1961; *Deux Pyramides du crédit sur le stock d'or des Etats-Unis*, ibid., 23 June 1961; and *Comment sortir du système?*, ibid., 29 June 1961.
22. On French bureaucratic schism, see, Entretien biographique de Claude Pierre-Brossolette, interview 4, 32-33, Comité pour l'histoire économique et financière de la France, Ministère de l'Économie, des Finances, et d'Industrie, Paris France.
23. Note, Olivier Wormser, 30 May 1961, Baumgartner papers, box 3BA48, folder Dr 2. See also C. W. Sanders (British Board of Trade), "Points for Meeting", 26 June 1961, FO 371/158179, Public Records Office, Kew, England.
24. See, for example, Douglas Dillon to Baumgartner, 4 May 1961, Archives de Baumgartner, box 3BA48, folder Dr 1. On Baumgartner's attitude toward cooperating with the United States, see, Entretien biographique de Claude Pierre-Brossolette, number 4, 23, Comité pour l'histoire économique et financière de la France.

During his tenure as finance minister, Baumgartner managed to mute Rueff's influence. Before 1962, France was one of the few European countries that *did not* convert the bulk of its dollar reserves into gold. In 1961, the United States sold no gold to France but 970 million dollars of gold to other countries.[25] And although Baumgartner refused to capitulate to the Kennedy administration's demands for expanding international liquidity, he participated in Roosa's *ad hoc* measures, including swap arrangements and a gold pool, which temporarily eased the recurring monetary crises.[26]

In December 1961, shortly after the creation of the gold pool, Baumgartner announced his resignation, effective the following month. Finance officials recall that even though he was not forced per se to retire, he felt too old to fight the political battles emerging within the French government over international monetary relations. To the Americans, his retirement suggested that the halcyon days of Franco-American financial cooperation might be over.[27]

U.S. Fears and French Motives

Indeed, in May 1962, it seemed that the French might be considering a policy of putting pressure on the dollar for political reasons. 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". One of President Kennedy's great fears was that a nation or group of nations might exploit American monetary vulnerability for their own political purposes. If the French, alone or in collaboration with other surplus countries, decided to cash in all of their surplus dollars, they could run down the American gold supply. Irregardless of any economic motives, a French-led bloc might believe their larger political objectives were worth the cost. The United States might be forced to take politically unpopular measures in order to prevent a complete monetary meltdown, such as trade and capital controls, troop withdrawals, or an embarrassing devaluation or even a suspension of dollar-gold convertibility.[28]

A widely circulated State Department memo summarized an article that appeared in *The Statist* warning of a possible attack on the dollar by the French. President de Gaulle was "fully prepared to play [the] diplomatic trump card he holds in form of substantial

25. For Baumgartner's reaction to Rueff's views, see, for example, Baumgartner to Rueff, letter, 27 June 1961, papers of Baumgartner, box 3BA34, folder Dr 7. For figures on French conversion of gold, see "Tableau des transactions en or des Etats-Unis avec les pays étrangers", given by BOURGUINAT, *Le général de Gaulle et la réforme du Système monétaire international: la contestation manquée de l'hégémonie du dollar*, in: *De Gaulle en son siècle*, p.125.
26. R. TRIFFIN, *The World Money Maze: National Currencies in International Payments*, p.249. See also, C. COOMBS, *The Arena of International Finance*, Wiley Press, New York, 1976, pp.61-62.
27. Entretien biographique de Claude Pierre-Brossolette, number 4, 18-22.
28. Dillon, Memo for the President, May 25, 1962, National Security Files, Departments and Agencies: Treasury , Box 289, JFKL.

French holdings of dollars". In other words, if U.S policy towards Europe clashed with French interests, de Gaulle would pressure Kennedy by continuing to purchase gold from the United States.[29] The article went on to say that unless France were accepted as an equal power, "he would not hesitate to make himself felt by resorting to devices liable to cause grave embarrassment to the United States".[30]

What made this scenario even more alarming was the possibility that the increasingly strong Franco-German bloc was looking to weaken the U.S. grip on Western policy. It was no secret that both de Gaulle and West German Chancellor Konrad Adenauer were apprehensive about elements of the Kennedy administration's military and political policy in Europe. If both France and Germany collaborated on monetary policy, they could use their considerable supply of dollars to initiate a crippling gold crisis. Without the help of the two largest surplus countries, the U.S. might find it impossible to defend the dollar. This bloc could force the Americans to end negotiations with the Soviets over Berlin, or bring about a change in American military policy toward Europe. Maybe the French could bargain for technology to advance their nuclear ambitions. A French-led bloc could also have considerable say in designing a new international monetary mechanism on its own terms.

Were Kennedy's fears exaggerated? Franco-American relations had become so strained that the president's advisers believed the possibility of a French-inspired monetary attack could not be ruled out. In mid-May 1962, the extent of this strain, and the linkage between military and monetary policy, was revealed in a provocative discussion between President Kennedy and the French Minister of State for Cultural Affairs, André Malraux.[31] Kennedy complained that France was delaying the United Kingdom's entry into the Common Market. According to Kennedy, the U.S. supported the application, despite the negative impact U.K. entry would have on the American payments deficit, because it would serve the far more important purpose of creating a Franco-British counterweight to the Germans in the EEC. Kennedy declared that if the French preferred "a Europe without Great Britain and independent of the United States", it would create a situation in which America was bearing the enormous costs of defending Europe without any voice. If that were the case, Kennedy would bring the troops home and save $1.3 billion, an amount which "would just about meet our balance of payments deficit".[32]

When de Gaulle learned the details of Kennedy's conversations with Malraux, the French leader dismissed the possibility that the U.S. could withdraw from Europe, since America recognized that it would be lost if Western Europe were

29. Jones to State Department, June 13, 1962, UPA, POF, Treasury, 25.
30. *Ibid.*, p.1
31. Memo of Meeting between the President, Ambassador Hervé Alphand, André Malraux, and McGeorge Bundy, May 11, 1962, *FRUS*, 1961-63, vol.XIII, pp.695-701.
32. The whole tone of this meeting calls into question the idea that Kennedy wanted to create a *Pax Americana* regardless of cost. "The goal of U.S. policy was to support and sustain nations which desired independence. If France wanted to lead a Europe independent *from* the United States, then Kennedy "like nothing better than to leave Europe". Ibid., p.697.

conquered.[33] De Gaulle accused the U.S. of dictating to its allies a line of policy that was undermining its leadership. He claimed that by entering into negotiations with the Soviets over Berlin and by publicly stating that France should not have an atomic force, the administration risked a breakdown in the alliance.

Given the climate of mistrust, U.S. officials initially suspected a veiled threat when French finance minister Valéry Giscard d'Estaing reminded them that only cooperation 2on a grand scale" could help the Americans with their dollar drain and prevent a speculative attack.[34] Giscard claimed that the United States could not handle a real run on the dollar by itself, even with the help of the IMF. Only with the collaboration of those European central banks that held large quantities of dollars could such a run be handled. What was Giscard proposing? He would not say, and the Americans did not want to appear weak by asking. Although the American deficit had decreased, gold purchases had increased, and the dollar market was weak. Giscard's hints fed into the administration's suspicions of French intentions, and combined with worsening gold outflow figures to stimulate a massive inter-governmental effort to develop plans to meet a monetary crisis.

Responding to rumors of French blackmail over the dollar, Undersecretary of State George Ball sent a memo to President Kennedy recommending that the administration take preemptive action in an upcoming meeting with Giscard. "I am seriously concerned about the tendency of our allies to view the present world financial problem as a case solely of dollar weakness rather than as a common problem for the Atlantic partnership …".[35] It was time to move away from the position that the payments deficit was a narrow, technical problem to be negotiated between Treasury and European central bankers, whose views Ball described as "pre-Herbert Hoover".[36] In its efforts to move towards payments equilibrium and arrest the gold outflow, American policy was increasingly "reminiscent of Dr. Schacht" - that is, of the series of bilateral deals and clearing arrangements that the Nazi government had negotiated in the mid-1930s. Unless an explicit link was made between American military policy and the balance of payments, the U.S. would be vulnerable to "blackmail" by the Europeans. Ball believed it was time for fundamental multilateral systemic reform of the Bretton Woods edifice and not simply more ad hoc measures, even if that meant overruling the objections of the Treasury department.

Would France cooperate? Before Giscard's July 1962 visit, contact between Kennedy administration officials and the finance minister had sent mixed signals. In May 1962, faced with an economic slump at home, Kennedy marveled at the performance of the French economy and considered transposing aspects of French dirigisme to the United States. The president sent Walter Heller and James Tobin of

33. Gavin to the State Department, May 28, 1962, *FRUS*, 1961-63, vol.XIII, pp.705-707.
34. Gavin to Rusk, July 12, 1962, UPA, NSF, W. Europe, France. See also Heller, Memo to the President, July 16, 1962, UPA, POF, CEA, 9.
35. Ball, Memo for the President, "Visit of French Finance Minister", July 18, 1962, UPA, NSF, W. Europe, France.
36. Ibid., p.2.

the Council of Economic Advisers to Paris where they met with Giscard and finance ministry officials for a study of the French economic planning process. Heller and Tobin concluded that France and other West European economies grew faster than the United States for multiple reasons. These included consistently higher levels of demand, a higher level of government investment, greater reinvestment of business earnings, a larger body of skilled labor, higher levels of capital formation, technology, productivity, and smaller defense expenditure.[37] To generate interest in economic planning within the United States, Kennedy arranged for French officials to speak to labor and business groups. The financial counselor of the French embassy, for example, gave addresses touting his country's economic plan as a successful path to increased growth.[38]

Heller and Tobin's study of French economic planning was also undertaken to convince *Gaullist* officials that Kennedy was serious about making the U.S. economy sound so that they would be less worried about the devaluation of the dollar and less inclined to convert France's dollar reserves into gold. Bundy told Heller before his departure for Paris that "in the current state of Franco-American relations, any friendly contact is a good thing".[39]

Although Heller and Tobin had established a good rapport with Giscard during their Paris trip, the finance minister's attitude toward U.S. investment in the French economy worried Ball. On several occasions, Giscard complained that American investment in France was leading to the loss of control over key segments of the economy. Without specifying what, he had implied that "measures might be taken by the French government to establish safeguards against such a possibility".[40] The French government wanted to pressure the Kennedy administration to dissuade American companies from investing in the French economy. However, the Ministry of the Economy had no intention to exert that pressure by moving against the dollar.[41]

37. Conversation between Giscard d'Estaing and James Tobin, 1 June 1962, Heller papers, reel 24: European budget study file. For Heller's study of French economic planning, see, *e.g.*, Heller, "Capital Budgeting Experience in Five European Countries", May 1962, Walter Heller papers, reel 21: Budget (federal) file; and memorandum, Bundy to Heller, 14 May 1962, ibid., reel 24: European budget study file.
38. Remarks by René Larre (Financial advisor at French embassy, Washington) at a meeting of the AFL-CIO Research Directors, Washington, D.C., 15 May 1962, Fonds trésor: Tome 15, Relations bilaterales avec les Etats-Unis, B 10917, folder: balance des paiements, Archives économiques et financières, Ministère de l'Economie et des Finances, Savigny-le-Temple, France. Giscard's own writings extol the benefits of economic planning. See, for example, "The Management of the Economy and Social Development" and "The New Growth" in: V. GISCARD D'ESTAING, *French Democracy*, Doubleday, New York, 1977, pp.75-92.
39. Memorandum, Bundy to Heller, 14 May 1962, Heller papers, reel 24; file European budget study. For French perception of Kennedy's motives, see Jacques Rueff to Philip Cortney, 31 May 1962, ibid., Ribicoff file.
40. Jacques Reinstein (Minister-Counselor, U.S. Embassy Paris), circular telegram, 29 June 1962, RG 84, France, box 64, folder: Investment of Capital.
41. See, for example, Larre to Giscard, "Investissements des Etats-Unis à l'étranger", 18 May 1962, Fonds Trésor: Vol.15, Relations bilatérales avec les Etats-Unis B10915, folder: Politique financière, 1958-1965, Archives économiques et financières. See, generally, J.J. SERVAN SCHREIBER, *The American Challenge*, trans. by R. Steel, New York, 1968.

The young finance minister, who combined technocratic skill with political savvy, tried to navigate a difficult middle course between de Gaulle's increasing anti-Americanism and Atlantic monetary cooperation.[42] Like his predecessor, Giscard did not share de Gaulle's animosity toward the United States. Giscard felt that it was in France's national interest to stabilize the international monetary situation. The May stock market crash in the United States had worried the French finance minister. If the U.S. deficit persisted or worsened, the Kennedy administration might devalue the dollar, which would decrease the value of France's foreign exchange reserves and make dollar exports more competitive in Europe. According to de Lattre's memoirs, his subordinates, namely Claude Pierre-Brossolette, André de Lattre and Pierre Esteva, practiced guerrilla tactics to combat Rueff's influence on French foreign economic policies.[43]

At the same time, however, Giscard was politically ambitious and dutiful towards de Gaulle. André de Lattre, who worked closely with him at the Ministry of Finance, recalls that "*il obéissait*". For Giscard, obeying meant converting dollar reserves into gold at the rate of seventy percent. In the first quarter of 1962, France converted forty-five million dollars worth of gold, and in the second quarter, that amount increased to ninety-seven and a half million dollars. He also saw to it that France repaid its post-World War II debt of 211 million dollars.[44]

Giscard recognized that de Gaulle regarded the U.S.-dominated IMF as an "alien and objectionable organization". The French government preferred to deal with international monetary problems within the framework of the Organization of European Cooperation and Development [OECD]. This preference had been evident even in 1961: the Kennedy administration had got the message that the French might not be willing to cooperate on monetary stabilization "except perhaps through a restricted OECD undertaking outside of the IMF".[45]

It was not that Giscard, in adopting this approach, was trying to pursue a relatively "pro-American" policy for political reasons. He may have been willing to cooperate with the United States, but his basic idea was that "cooperation" could

42. J.R. FEARS, *France in the Giscard Presidency*, London, 1981, pp.1-18. See, also, Entretien biographique de Claude Pierre-Brossolette, interview 5, p.28.

43. For Giscard's views on the Bretton Woods system, see, for example, Giscard, Speech before the National Assembly, 17 May 1962, sur le projet de loi relatif au renforcement des ressources du FMI, Direction des Affaires économiques et financières, papiers directeurs: Olivier Wormser, vol.63: 388-404. On French concerns about the U.S. stock market crash, see Note d'information, René Larre (Conseiller financier, Embassy in Washington), 15 June 1962, Fonds Trésor: Vol.15, Relations bilatérales avec les Etats-Unis, cote B10915, folder: Budget, 1956-1965. On Giscard's delicate balancing act, see de LATTRE, *Servir aux finances*, 150.

44. For figures on French dollar conversion, see United States Net Monetary Gold Transactions with Foreign Countries and International Institutions, 1 January 1962-30 June 1962, Fonds Trésor: Vol.15, Relations bilatérales avec les Etats-Unis, cote B10915, folder: Budget, 1956-1965. On debt repayment, see Note pour le ministre, 3 July 1962, Direction des Affaires économiques et financières, papiers directeurs: Olivier Wormser, vol.119: 252.

45. Memorandum, Walter Heller to President Kennedy, 16 May 1961, Heller papers, Heller/JFK 1960-1964 series, box 5, folder: memos to JFK, 5/61, JFKL. Couve had met with Heller at the first meeting of the expanded OECD and had conveyed de Gaulle's disdain of the IMF.

not be a one-way street. In exchange for French cooperation, the Americans would have to accept certain limits on their freedom of action - a kind of "*surveillance multilatérale*".[46] Among other things, Giscard calculated that using Working Group 3 within the OECD instead of the IMF would give the French government a platform to criticize an overly expansionist U.S. domestic budget, which he identified as the primary cause of the American payments deficit.[47]

Although Giscard's visit to Washington in late July 1962 was at President Kennedy's request, the timing was propitious. De Gaulle was personally preoccupied with strategic issues and strengthening the Franco-German entente. After meeting with Adenauer in early July, de Gaulle was trying to persuade the chancellor that their two nations should develop formal lines of cooperation, a courtship that had began in 1958 and would culminate in January 1963 with the signing of the Franco-German Treaty of Friendship.[48] De Gaulle and Adenauer also were preoccupied with the resignation of Supreme Allied Commander of Europe Lauris Norstad.[49]

Rueff later obtained great influence on de Gaulle's economic philosophy. But without an official capacity to implement policy and with de Gaulle immersed in defense issues, Giscard had a relatively free hand to negotiate with the United States during the summer of 1962. To the Kennedy administration's surprise, Giscard was in a cooperative mood when he visited Washington. Furthermore, he wanted any arrangements to be conducted with minimal publicity because it would strengthen his hand and not draw de Gaulle's attention.[50]

On July 20 and 21, 1962, Giscard met alone with Kennedy and later with Ball, Bundy, and Tobin. The president and these advisers conveyed their concern over the deficit and gold outflow, and their desire to "manage" these issues on the "political" level. Ball said the administration did not have any formal plan, but felt that in principle some sort of political agreement should be reached to stabilize payments

46. André de Lattre, *Servir aux finances* (Paris: Comité pour l'histoire économique et financière de la France, 1999), p.150.
47. Maurice Perouse (Directeur du Trésor) to Giscard d'Estaing, Compte-rendu de la 8ème réunion du Groupe de Travail No.3 du Comité de politique économique de l'O.C.E.D., 16-17 April at Château de la Muette, Fonds 9: Institutions Financières Internationales, cote B54754.
48. De Gaulle to Adenauer, Secrétariat général, Entretiens et messages, 1956-1966, 15 July 1962, 16: 218-219. For a concise summary of the Franco-German *rapprochement*, see P. MAILLARD, *De Gaulle et l'Allemagne: le rêve inachevé*, Plon, Paris, 1990, pp.169-202.
49. For de Gaulle's preoccupation with Norstad's resignation, see *Le général Norstad serait démissionnaire*, in: *Le Monde*, 21 July 1962, p.1. De Gaulle met with Norstad's named successor, Lyman Lemnitzer on July 23, 1962, and criticized US nuclear policy within NATO. See, Entretien de Gaulle-Lemnitzer, 23 July 1962, Secrétariat général, Entretiens et messages, 1956-1966, 16: 206-209, Archives of the Ministry of Foreign Affairs, Paris, France.
50. H. ALPHAND, *L'étonnement d'être*, p. 381. See, also, Entretien biographique de Alain Prate, entretien 4, Comité pour l'histoire économique et financière de la France. Rueff's other strong ally, Foreign Minister Maurice Couve de Murville, was also preoccupied with strategic issues. While Giscard was in Washington, Couve was in Geneva for talks with the Soviets on Laos and Berlin. See, Entretien Couve-Gromyko in Geneva, 21 July 1962, Secrétariat général, Entretiens et messages, 1956-1966, 16: 179-181. Dinner of the four ministers of foreign affairs in Geneva, 21 July 1962, Secrétariat général, Entretiens et messages, 1956-1966, 16: 190-195.

among the major industrial countries. A multilateral, political solution to this issue would not only squelch calls for protectionism in the U.S., it would also demonstrate the solidarity of the Atlantic partnership. What the U.S. had in mind, Ball said, was an agreement regarding the ratio of gold to dollar holdings.[51]

The administration was surprised when the French finance minister agreed with most of what the Americans said about the problem and appeared to want little in return. Even so, Giscard tried to explain that the President should be as irked at the British, who, before 1962, converted more dollars into gold than France. As long as other European countries continued to convert their reserve dollars, France would feel compelled to follow suit. Giscard declared that the key was to avoid any unilateral action by either side. He thought that it was important for the creditor countries to establish a common payments policy while the U.S. reduced its payments deficit. Such an agreement might suspend gold takings and establish fixed reserve ratios. France was certainly willing to hold its dollars for a time, as long as others agreed as well. He thought the U.K. might protest, but even they might cooperate, given their desire to join the Common Market.[52]

The administration was delighted that Giscard appeared to understand American difficulties. Giscard's statements alleviated the fear of a Franco-German monetary bloc. A French-led initiative to reform the payments system would save the U.S. the embarrassment of continued *ad hoc* measures that made the U.S. look weak. In order to be prepared for such negotiation, the administration launched an enormous effort to study and debate exactly what form an international monetary agreement should take. An inter-departmental committee on the balance of payments was created, and a "gold budget" established.[53]

Giscard was hopeful that he could convince de Gaulle to accept a gold standstill arrangement because it could potentially meet the general's long-term objective of curbing the hegemony of the dollar. The indications that he received from Ball suggested that after a two-year grace period, the G-10 nations could modify or construct a new international financial structure . Giscard did not intend to end the use of the dollar as a reserve currency. But he hoped to give the franc a place in a broadened monetary scheme that used additional currencies as reserves. He wished to establish a *unité de réserve composite* (CRU), which would be tied to gold. The

51. No record of Giscard's meeting with Kennedy alone has been found in either U.S. or French archives. Kennedy mentions some of the points he discussed in a later meeting with Federal Reserve Chairman William Martin. Discussion between President John F. Kennedy, William McChesney Martin, Chairman of the Federal Reserve and Theodore Sorensen – August 16, 1962, 5:50-6:32 p.m., tape 13, Presidential Recording, International Monetary Relations, Presidents Office Files, JFKL, Transcribed by F.J. Gavin. For the meeting with multiple participants, see memcon, "Payments Arrangements Among the Atlantic Community", July 20, 1962, *FRUS*, 1961-63, vol.XIII, p.733. And memcon (luncheon meeting), 21 July 1962, JFK NSF, reel 2: pp.154-155.
52. Ibid.
53. Memo, the President for the Secretary of the Treasury and Administrator, Aid, June 20, 1962, UPA, POF, Treasury, 25; Memo, Bundy for the President , June 22, 1962, UPA, POF, Treasury, 25; Memo, the President for the Secretary of the Treasury, June 22, 1962, UPA, POF, Treasury, 25.

creation of a CRU would address French concerns of curbing global inflation while meeting demands for expanded international liquidity.[54]

The Debate over Monetary Reform within the Kennedy Administration

From the discussions with Giscard, the Kennedy administration hoped that there was now an opportunity to solve the gold outflow problem within a political, multilateral context. Giscard seemed to accept the need for a standstill agreement to give the U.S. time to bring its payments into equilibrium and begin systemic reform of the international financial system. The Treasury held over $16 billion of gold, but legally $12 billion was required to back domestic currency. There was much talk about rescinding the laws behind the domestic cover, and the Federal Reserve could take certain actions in a crisis that would release the gold without legislative action. But Congress would want a protracted debate on the issue, and that debate might upset the markets and might quite possibly set off another gold crisis.

More important than the gold cover issue was the supply of dollars held by surplus countries, both officially and in private hands. These liabilities totaled over $20 billion, which could be turned in at any time. While this was more than the gold supply backing them, it was not, by the historical standards of gold-exchange regimes, a dangerous ratio. Interest rate policy and central bank cooperation could handle any run on the dollar. But if this cooperation were not forthcoming, then the dollar liabilities were a loaded gun aimed at the American gold supply. If a Franco-German bloc formed, these overhang dollars could be used to expose American monetary weakness, and perhaps force political concessions. Therefore, it was important to take the opportunity afforded by Giscard's suggestions to create a mechanism to prevent a large American gold outflow.

Encouraged by the French finance minister's cooperative spirit, Kennedy's closest advisers began considering dramatic departures from traditional monetary policy to solve this problem. Gold guarantees, gold standstill agreements, and raising the dollar price of gold, either in concert with others or unilaterally, were all debated. The Department of State even prepared a draft memo for the President's use should he want to end the American policy of redeeming gold on demand.[55] Carl Kaysen sent Kennedy an essay by J. M. Keynes proposing an international payments system that dispensed with gold altogether. Kaysen wrote the President:

54. In September 1962, Giscard began talking about a CRU, a proposal which was debated intermittently until 1965. See, for example, LORAIX, *France after Hegemony*, pp.185-186. See, also, S. COHEN and M.–C. SMOUTE, *La politique de Valéry Giscard d'Estaing*, Fondation des sciences politiques, Paris, 1985, pp.146-148; and BOURGUINAT, *Le général de Gaulle et la réforme du système monétaire international: la contestation manquée de l'hégémonie du dollar*, in: *De Gaulle en son siècle*, pp.116-117.
55. Memo, Coppock to Johnson, August 1, 1962, DDC 1993.

"The great attention paid to gold is another myth ....As you said of the Alliance for Progress, those who oppose reform may get revolution".[56]

Perhaps the most discussed proposal was from George Ball. In his memo to the President, "A Fresh Approach to the Gold Problem", Ball maintained that the problem was at heart about politics, not economics.[57] Unfortunately, claimed Ball, few people in Europe, Wall Street, or even the U.S. Treasury department understood this. For them, the gold outflow and payments deficit were signs of American profligacy, correctable through deflationary policies at home and massive cuts in military aid expenditures abroad. By pursuing Roosa's policy of "improvised expedients" and taking the posture of supplicants seeking credits, offsets, and debt pre-payments, the administration created a picture of weakness that eroded America's authority and bargaining power with the Europeans. Ball warned "this is no way to run the government of any nation - much less to exercise the leadership of the Free World".[58]

Ball argued that the answer to this problem was simple. The strength of the dollar should not be dependent on the "daily whims of private and official 'confidence' but to a structure of long-run reciprocal assurances by governments". The Europeans must be made to understand that such an agreement was in their best interest as well as ours. The Europeans, Ball claimed, would be just as hurt by a dollar crisis as the U.S. More importantly, they must recognize that the continued American defense of Europe is dependent upon safeguarding the dollar.[59] Without such reforms, President Kennedy would be forced to take aggressive, unilateral action to improve the balance of payments, such as withdrawing American troops from Europe or imposing controls on capital and restrictions on tourism. Ball argued that such policies would not be in America's interest.

Instead, Ball advocated a multilateral agreement at the *political* level, which would "insulate ourselves from the danger of excessive gold losses while we are working, by less costly measures that will, over a reasonable period of time restore equilibrium". If the latter policy was not pursued, the U.S. would continue to be vulnerable to the 'confidence' game. More importantly, as long as the current rules were maintained, the U.S. would remain "subject to the blackmail of any government that wants to employ its dollar reserves as political weapons against us".[60] Ball told the President if the United States were to "become more heavily involved in Southeast Asia" the "West Coast of South America" or the "Congo", the Europe-

56. Memo, Kaysen to the President, July 6, 1962, FRUS, 1961-63, vol.IX, p.138.
57. Memo, Ball to the President, "A Fresh Approach to the Gold Problem", July 24, 1962, the Papers of George W. Ball, Box #15b, "Memorandum to the President on the Gold Problem", Seeley G. Mudd Manuscript Library, Princeton University.
58. Ibid., pp.4-5.
59. Ibid., p.5. Ball argued that "what we must tell our European allies is, therefore, clear enough: if we are to continue to carry our heavy share of the Free world burdens we can do so only under the conditions where our exertions in the common cause do not imperil the dollar and in fact, the whole international payments system. To create those conditions is the first and most urgent task for the Atlantic partnership".
60. Ibid., p.10.

ans might be tempted to "exploit our own problems, NATO's difficulties, and our own problem with the gold flight for political purposes".[61] A multilateral gold standstill arrangement would limit America's vulnerability to this kind of pressure. Why would the Europeans agree to such a plan? Ball hinted that the United States could exploit its own political leverage. "Central bankers may regard our expenditures to defend the Free World as a form of sin", he argued, "but the political leaders of our Western allies do not".[62]

Ball provided a general outline of a temporary arrangement to stop the gold outflow. Its provisions included a massive increase in Treasury swaps with foreign central banks, a long-term loan with a consortium of European allies, large withdrawals from the IMF, and fixed gold ratios for central bank portfolios. The U.S. would have to redistribute some of its gold and perhaps guarantee dollar holdings in gold. Ultimately, Ball believed the U.S. should seek a "thorough-going" revision of the Bretton Woods system, "multilateralizing" responsibility for the creation of liquidity as Giscard indicated during his visit. The Undersecretary of State was fully prepared to sacrifice the "hegemonic" role of the dollar if a new system reduced America's vulnerability.

The key to any plan was getting the Europeans to maintain the same or a smaller proportion of their reserves in gold. James Tobin of the Council of Economic Advisers (CEA) produced a plan to accomplish this.[63] To meet Giscard's demand for similar conversion policies among the European nations, Tobin suggested that the leading industrial countries determine a uniform ratio of gold to foreign exchange to which all countries would have to adhere. This would require countries with gold in excess of this ratio to sell a part of their gold for foreign exchange. Instead of only using the dollar and sterling as reserve currencies, the currencies of all participating countries (assumed to be the Paris Club) would be equally acceptable. That provision would satisfy French demands that the franc be treated as a reserve currency on par with the dollar. Each country would provide a gold guarantee for their currency against devaluation. Tobin laid out several different ways this could be done, but they would all involve the U.S. selling gold for foreign exchange and retiring dollar liabilities. Some European countries would also have to sell or buy gold. Over time, the non-gold component of reserves would decrease, and the currencies of the participating countries would increasingly share the burden borne solely by the dollar. Removing the wide variations in gold ratios would make the international monetary mechanism more predictable and manageable.

The President was keenly interested in these plans, and commissioned a small, inter-departmental group from State, the CEA, and Treasury to come up with an outline of an interim international monetary agreement based on Ball's and Tobin's ideas. The group produced a plan that focused on protecting the American gold supply and

61. Presidential Recording, Tape 14, August 20, 1962: 4:00-5:30, International Monetary Relations, Presidents Office Files, JFKL, Transcribed by F.J. Gavin.

62. Ball, "A Fresh Approach to the Gold Problem", p.14.

63. James Tobin, "A Gold Agreement Proposal", July 24, 1962, Acheson Papers, State Department and White Adviser, Report to the President on the Balance of Payments, 2-25-63, HSTL.

strengthening the dollar. The report claimed that cyclical forces would combine with measures already taken to bring America's balance of payments into equilibrium within a few years. The heart of the plan was a proposed standstill agreement between the ten members of the Paris Club and Switzerland whereby the participants would agree not to convert the official dollar balances they held at the start of the agreement into gold. In order to accommodate increases in the dollar balances of the participants over the two years of the plan, \$10 billion would be mobilized from a variety of financial sources. This would include \$1 billion of American gold sales, a massive \$5 billion drawing on the IMF, \$2.5 billion in swaps and direct borrowings from Europe, and up to \$1.5 billion in forward exchange operations taken by the Treasury department.[64]

The purpose of this agreement was two-fold: to get the countries of Western Europe to "extend more credit to the U.S. than they might voluntarily" and to dampen speculative attacks on the dollar. Even with the plan in place, there were all sorts of potential difficulties. The two years had to be used to eliminate the "basic" deficit, and there would certainly be large-scale reshuffling and uncertainty when the arrangement ended. To make the plan work, it had to be acceptable to the Europeans, and in fact, had to be initiated by the Europeans, so that it did not look like an act of American weakness. The report did not suggest how the Europeans could be brought to accept let alone propose such a plan.

Walter Heller, the CEA chair, was extremely enthusiastic about the inter-departmental plan. It would "eliminate the whims and prejudices of currency speculators and bankers from the making of U.S. policy".[65] The administration could end the basic deficit in an orderly way, without deflation or drastic cuts in programs crucial to American foreign policy. An international interim agreement would give the U.S. far more protection than the techniques used by the Treasury department, which were employed on a "secret, day-to-day, piecemeal, *ad hoc* basis".[66] An interim agreement would also give world leaders time to scrap the Bretton Woods regime and come up with a world payments system which defended all currencies against speculative attack, internationalized the burdens of providing international money, and provided for an orderly increase in liquidity. Carl Kaysen, the National Security Council officer responsible for international monetary affairs, and Kermit Gordon, a member of the Council of Economic Advisers, went so far as to argue that devaluation could remain a potentially profitable action to the United States, even after the guarantee was paid off.[67]

Douglas Dillon was infuriated by these analyses. In a cover memo to a report written by Henry Fowler, Dillon claimed that Ball's interim reserve scheme was

64. Memo for the President, "An Interim International Monetary Arrangement", August 9, 1962, Acheson Papers, State Department and White Adviser, Report to the President on the Balance of Payments, 2-25-63, HSTL.
65. Memo, Heller to the President, "Why we need an interim international monetary agreement", August 9, 1962, *FRUS*, 1961-1963, vol.IX, p.139.
66. Ibid., p.140.
67. Carl Kaysen and Kermit Gordon, Memo for the President, "Gold Guarantees", July 18, 1962, UPA, POF, Treasury, 25.

simply a reflection of the State Department's "reluctance to squarely tackle the more difficult but fundamentally necessary job of obtaining a more adequate sharing of the burden by our European friends".[68] The Treasury Department argued that Ball was treating the symptom, the gold outflow, and not the disease, the continuing balance of payments deficit. The interim reserve scheme would give a green light to "loosen up" on all the disciplines that the administration had established to cure the payments imbalance. Fowler agreed that international balance of payments discussions should be raised to the highest political level, but the focus should be on increased burden sharing within NATO, not reserve composition. The U.S. balance of payments would never move to equilibrium until the Europeans started paying a greater share of NATO's military costs.[69]

Dillon was even more caustic in his attack on the interim agreement, despite the fact that a Treasury representative, John Leddy, had helped write the report. In essence, the actions proposed would close the gold window for $7.9 billion of official dollar balances, an abandonment of traditional gold policy similar in scope to the U.S. devaluation of 1933.[70] The Kennedy administration would be reneging on its promise not to change its gold policy, which would shake private financial markets and scare those countries not participating in the agreement. Dillon believed that using the word "stand-still", would evoke memories of the German standstill agreement of 1931, an event associated with the world economic collapse. A formal gold standstill arrangement would mean that "it would no longer be sensible" to "expect foreign monetary authorities to continue to hold dollars as an international reserve currency", thereby eliminating the "important substantive advantages" the United States enjoyed under the Bretton Woods system.[71] The plan assumed that the Europeans would agree to such a scheme, an idea Dillon found preposterous despite Giscard's cooperation. The Secretary of the Treasury found an ally in Federal Reserve Board Chairman William Martin, who said the plan for a standstill monetary agreement would "hit world financial markets as a declaration of U.S. insolvency and a submission to receivers to salvage".[72]

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68. Dillon, Memo for the President, August 7, 1962, Acheson Papers, State Department and White Adviser, Report to the President on the Balance of Payments, 2-25-63, HSTL.
69. Fowler, Memo for Dillon, "The Need to Couple High Level Political Negotiations for more Equitable Burden Sharing Designed to Correct the U.S. Balance of Payments with any Political Negotiations for Interim Arrangements Designed to Defend U.S. Gold Reserves", August 7, 1962, Acheson Papers, State Department and White Adviser, Report to the President on the Balance of Payments, 2-25-63. These memos indicated that the Treasury department had no idea how important the American troops stationed in West Germany were to the stability and security of Europe.
70. Appraisal of Problems in the Proposal for an 'Interim Monetary Arrangement', August 16, 1962, (no author given but included with a cover letter to Ball from W, N. Turpin, Dillon's Special Assistant), Acheson Papers, State Department and White Adviser, Report to the President on the Balance of Payments, 2-25-63.
71. Ibid., p.4-5.
72. William McChesney Martin, Jr., Chairman of the Board of Governors, Federal Reserve System, "Commentary on 'An Interim International Monetary Arrangement', Presented by Chairman Martin", UPA, POF, Treasury, 25, p.1.

Dillon also forwarded a report by his Under-Secretary, Robert Roosa, to rebut the charge that Treasury's actions had been *ad hoc*. Roosa argued that the agreements that had been reached in the past two years between the U.S. and its allies had been very successful. It had not been a policy of *ad hoc* expedients, as many had claimed, but a well thought out and innovative plan to strengthen the Bretton Woods system. It only appeared *ad hoc* because many of the discussions held between financial officials were secretive. But the global payments system was much better prepared to absorb the shocks of any future financial disturbance. The gold pool, swap agreements, forward exchange operations, and increased IMF borrowing privileges prepared the U.S. to meet any attack on the dollar. According to Roosa, some of the ideas being discussed, both inside and outside the administration, were foolish. Devaluation, gold guarantees or a gold standstill would damage or destroy a world payments system that had greatly benefited the U.S. and its allies.[73] Dillon believed these policies more appropriate for the currency of a third-world country, not the U.S. and publicly tried to sabotage the idea. Kaysen was infuriated when Dillon testified before the Joint Economic Committee on August 17 and called gold guarantees a "dangerous experiment". The Secretary of the Treasury called them "a poor idea and not to be seriously considered". Dillon also ruled out changing the value of the dollar. McGeorge Bundy was worried that Dillon's public statements would preclude the changes in international monetary policy that they were considering.[74]

Surprisingly, the reformers were unconcerned about Dillon's contention that the United States might lose the benefits of "seigneuriage" in a new international monetary system. During a meeting on August 20, 1962, Ball told the President that "we're not persuaded that it is at all vital to the United States that we do return to a situation in which the dollar would be the principal reserve currency .... We can see many disadvantages as well as advantages". Kennedy appeared to agree with Ball's analysis. "I see the advantages to the Western world to have a reserve currency, and therefore it's an advantage to us as part of the Western world, but what is the national, narrow advantage"? When Dillon tried to spell out these benefits, Kaysen pointedly asked "you wouldn't describe this as an advantage right now, would you Doug"?[75]

The President seemed to side with the reformers against Dillon. Kennedy argued that now was the time to negotiate a monetary agreement with the Europeans because "we have much more political strength with them now then we'll probably have two years from now". The Europeans "are much more dependent upon us militarily than they might be" before they "get together" to organize their own defense.[76] The administration had to

73. Roosa, "The New Convertible Gold-Dollar System", and Roosa, "International Liquidity".
74. Bundy to Kaysen, August 21, 1962, NSF, Departments and Agencies, Treasury, 6/62 - 4/63, 289, JFKL. Bundy asked Kaysen "Is Doug Dillon pinning us to his position by such public statements"?
75. Presidential Recording, Tape 14, August 20, 1962: 4:00-5:30, International Monetary Relations, Presidents Office Files, JFKL, Transcribed by F.J. Gavin.
76. Presidential Recording, Tape 11, August 10, 1962: 11:20 – 12:30 p.m., International Monetary Relations, Presidents Office Files, JFKL, Transcribed by F.J. Gavin.

get the Europeans to agree that for "a two year period that they're not going to ask" for gold while "our balance of payments situation improves and while we work on other arrangements".[77] The President concluded that the administration should "pursue" the gold standstill arrangement, "because I think this is really the area where we may be able to make some progress". Kennedy wanted the Europeans to agree that "they are all going to go easy on the taking of gold".[78]

Kennedy dispatched Assistant Secretary of State C. Griffith Johnson and Assistant Secretary of the Treasury John Leddy to sound out the possibilities of a European initiative to limit foreign purchases of U.S. gold and to strengthen the international monetary system. Kennedy suggested that an acceptable arrangement would be for the Common Market countries and the U.K. each set an absolute target for gold holdings, as opposed to a ratio, which could be controversial and might involve *increasing* the amount of gold held by certain countries. Another solution would be to limit the amount of gold taken from the U.S. to a small percentage, perhaps thirty percent, of the overall payments deficit. But regardless of the plan, Kennedy insisted that it should look like a voluntary European initiative. Any evidence of U.S. pressure could shake the confidence of financial markets and lead to a run on American gold.[79]

Giscard appeared ready to negotiate. While always wary of the British and any "deals" between *les Anglo-Saxons* that excluded France, he did invite the G-10 finance ministers to participate in discussions at the upcoming IMF/World Bank meeting. Anxious to maneuver without arousing de Gaulle's intervention, he asked the G-10 ministers to limit accompanying officials to two persons and to conduct their meetings without publicity.[80] But even with these precautions, Giscard and the Americans found it hard to engage in serious negotiations. For example, when Leddy and Johnson asked Giscard what British 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".[81] Giscard did not tell Johnson and Leddy what the "subject" actually was. Was it the hoped for initiative to limit gold takings? Giscard would not say, and the American representatives thought it imprudent to ask. 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!

President Kennedy was scheduled to speak to the central bankers and finance ministers of the G-10 at the IMF/World Bank meeting. The purpose of the meeting was to tell the Europeans that the underlying cause of the American deficit was its disproportionate share of Western military and aid expenditures. This group had

77. Tape 14, August 20, 1962.
78. Ibid.
79. Memo, President for the Secretary of the Treasury, The Under Secretary of State, and Chairman of the CEA, August 24, 1962, NSF, Department and Agencies, Treasury, 6/62 - 4/63/ 289, JFKL.
80. Giscard d'Estaing to the finance ministers of the Group of 10, 12 September 1962, Direction des Affaires économiques et financières, papiers directeurs: Olivier Wormser, vol.132: 347-350.
81. Memo from Dillon and Ball to the President, September 12, 1962, with attachment, Memo for Dillon and Ball from Johnson and Leddy, September 10, 1962, FRUS, 1961-63, vol.IX, p.146.

heard this message many times before, but the meeting would give the President the chance, as Kaysen put it, to "give them a real feeling of how central it is to your thinking. This is something that you can convey directly in a way no one else can".[82] Kaysen urged the President to tell his audience that the administration recognized the fact that "there is more than one way the system might evolve in relation to the central role of the dollar, and we do not foreclose consideration of alternative schemes of improvement for the payments system".[83] In other words, the U.S. was not wedded to the Bretton Woods system and its supposed privileges. A better system could be created that reflected the new economic strength of the Europeans. This new system would give the Europeans an "expanded role in the international monetary system".[84]

But could the administration act without the hoped for French or European initiative suggested by Giscard? Dillon thought Kaysen's strategy was far too risky.

> "A statement by you that we are prepared to study new ideas and welcome new initiatives would in all probability be misinterpreted … as indicating a lack of confidence on your part in our ability to handle our balance of payments problem within the framework of the existing monetary system. This could have dangerous and immediate effects this fall".[85]

Without a formal proposal from the French, Kennedy's speech was closer to Dillon's than Kaysen's approach, hinting that the administration was open to international monetary discussions but offering no concrete American plans. The American team adopted this position because of the fear that "open pressure on the French might lead them to think that political questions could be successfully interjected".[86]

The momentum for monetary reform subsided considerably after the IMF meeting. In the weeks ahead, the Kennedy administration's attention turned to the far more pressing matter of Soviet missiles in Cuba. By the time Kennedy returned to the dollar and gold outflow issue, America's political relations with France had deteriorated markedly.[87] It no longer seemed that monetary cooperation was in the cards. Kennedy again feared that a Franco-German political bloc would use its surplus dollars to compel changes in America's political strategies in Europe.[88]

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82. Memo, Kaysen to the President, September 18, 1962, *FRUS*, 1961-63, vol.IX, p.149.
83. Ibid., p.149.
84. Ibid., p.149.
85. Memo, Dillon to Kennedy, September 18, 1962, FRUS, 1961-63, vol.IX, p.152.
86. Ibid., p.146-147.
87. For details of the post-Nassau Franco-German revolt, see M. TRACHTENBERG, *A Constructed Peace: The Making of the European Settlement, 1945-1963*, Princeton University Press, Princeton, 1999, pp.355-379.
88. For these fears in 1963, see F. GAVIN, *The Gold Battles within the Cold War: American Monetary Policy and the Defense of Europe, 1960-1963*, in: *Diplomatic History*, forthcoming.

Conclusion

France's international monetary policy was, at least through 1962, far more cooperative than the conventional wisdom holds. But this cooperative spirit was not to last. Without assurances that other European nations would restrict "hoarding" of gold, the French government began increasing its conversion of dollars. For each of the first two quarters of 1963, the sale of U.S. gold to France was $101.1 million dollars.[89] More importantly, after 1962, Rueff and others who were against monetary cooperation with the Americans increased their influence with de Gaulle. In February 1965, de Gaulle launched his famous attack on the dollar and its privileges within the international monetary system. By January 1966, Giscard's influence had waned considerably and de Gaulle, who had come to view him as insubordinate, forced him to resign.

Ironically, during the same period official American attitudes towards American monetary reform became less timid. In 1962, the financially orthodox members of his administration successfully slowed any bold American move towards international monetary reform. But by 1963 and beyond, American officials became far more interested in a whole-scale restructuring of the system. This striking shift in American foreign economic policy was made evident in a speech Lyndon B. Johnson's Secretary of the Treasury, Henry Fowler, gave before the Virginia Bar Association on July 10, 1965.

> "I am privileged to tell you this evening that the President has authorized me to announce that the United States now stands prepared to attend and participate in an international monetary conference which would consider what steps we might jointly take to secure substantial improvements in international monetary arrangements".[90]

The Treasury Department, which three years earlier had gone to great lengths to suppress any program of monetary reform, now warmly embraced it.

But with France and the United States in vehement disagreement over how to change the global payments system, meaningful change was elusive. This Franco-American monetary dispute during the 1960's created a legacy of bitterness between the two countries that lasted well beyond the collapse of the Bretton Woods system in August 1971. It is quite possible that this enmity might have been avoided if the Kennedy administration had embraced Giscard's cooperative suggestions during the summer of 1962, or if Giscard had offered a less vague proposal to reform international monetary relations.

In the long run, these disagreements may not have mattered, because the Bretton Woods system was inherently flawed and not fixable. Given the explosion of international capital flows during the 1960's, market determined exchange rates were probably inevitable. But it is important to note that the Kennedy administration was not wedded

89. United States Net Monetary Gold Transactions with Foreign Countries and International Institutions, 1 Jan. 1963-30 June 1963, Fonds Trésor, Vol.19, Relations monétaires - Etats-Unis, 1962-1978, cote Z9984, folder: Transactions d'or monétaire avec l'étranger.

90. "Remarks by the Honorable Henry H. Fowler, Secretary of the Treasury, before the Virginia State Bar Association at the Homestead, Hot Springs, Virginia, Saturday, July 10, 1965, 6:00 p.m.", Papers of Francis Bator, box 7, LBJ Library, p.10.

to the Bretton Woods system and felt more vulnerable than hegemonic under its rules. While they were not sure what they wanted exactly, key officials, including President Kennedy, were willing to contemplate fundamental changes to the system, *even* if this meant sacrificing the dollar's central role in the global payments system. What is perhaps even more surprising is that the French were not monolithically determined to oppose the Americans in this area in the early 1960's. Even de Gaulle was open to options that went beyond a pure gold standard, as long as the "exorbitant privileges" of the dollar were curtailed.[91] In the end, to characterize America and France's attitudes towards the Bretton Woods system in terms of hegemony or empire is a vast oversimplification. There were ambiguities and contradictions in policies on both sides of the Atlantic, as both sides struggled to understand how to pursue their narrower national interests without precipitating a worldwide monetary calamity. The story behind the gold standstill forces us to reconsider not just Franco-American relations, but also the often misunderstood relationship between international monetary policy and transatlantic political developments during the "crucial decade" of the 1960s.

91. See G. GRIN, *L'évolution du système monétaire international dans les années 1960: les positions des économistes Robert Triffin et Jacques Rueff*, in *Relations Internationales*, no. 100, winter 1999, p.389.