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ABSTRACT

We reinterpret the commonly held view in the U.S. that France, by following a policy from 1965 to 1968 of deliberately converting their dollar holdings into gold helped perpetuate the collapse of the Bretton Woods International Monetary System. We argue that French international monetary policy under Charles de Gaulle was consistent with strategies developed in the interwar period and the French Plan of 1943. France used proposals to return to an orthodox gold standard as well as conversions of its dollar reserves into gold as tactical threats to induce the United States to initiate the reform of the international monetary system towards a more symmetrical and cooperative gold-exchange standard regime.

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France and the Bretton Woods International Monetary System - 1960 to 1968*

Introduction

France played a crucial role in the breakdown of the Bretton Woods international monetary system. Aggressive financial diplomacy coupled with the conversion of dollar holdings into gold weakened confidence in the dollar and helped to precipitate the collapse of fixed exchange rates. Most standard histories of the period find the motives behind these policies in President de Gaulle's "anti-American" political goals rather than any sound economic objectives. President de Gaulle is viewed as playing to French fears of encroachments on their autonomy.[1]

Under the Bretton Woods gold-dollar standard, the United States benefited from providing the principle currency that was held as official reserves by central banks. This position enabled the United States to finance its persistent balance of payment deficits without making adjustments required of other deficit countries. As long as the United States financed its balance of payments deficit by issuing dollars, which its trading partners would automatically hold as reserves, American power would expand. The conventional histories view the French Government as resenting an international monetary regime that allowed the United States to extend its influence in Europe with military bases and American investors to increase their control of French industry. De Gaulle's challenge to the gold-dollar standard is thus interpreted as evidence that French international monetary policy primarily followed nationalistic political considerations.

As further evidence that French criticism of the international monetary system obeyed political considerations, proponents of the conventional view often invoke the lack of consistency of French international monetary policy during the period 1960 - 1968. The official French position seems to have changed often, from a position of indifference towards the United States balance of payments deficit, towards a position of concern, to advocating a return to the originally planned Bretton Woods system, to advocating a return to the gold standard, to a system of reserves denominated in currency

units tied in some proportion to gold, and then back again to the gold standard. Finally in 1966, when the United States started to view more favorably the modification of the international monetary system, the French resisted.

In this paper, we argue that the French international monetary policy position has been misinterpreted. President de Gaulle's political posturing was a weapon to further a French gold policy that was an extension of earlier policies dating back to the interwar period. We argue that the French government wanted a revision of the international monetary system along the lines of the gold-exchange standard of the 1920s and of the Tripartite Agreement of 1936, which the de Gaulle government perceived as more beneficial to the French economy than the asymmetric Bretton Woods system. Periodic references to an orthodox gold standard by the French government were tactical threats to induce the United States to begin negotiations with the Common Market countries to make the existing system a more symmetrical one with an improved automatic balance of payments adjustment mechanism.

In the first part of this paper, we find strong parallels between the French Plan of 1943 and its historical antecedents in the interwar period and we follow France's reconstruction as an economic power after World War II. In the second part, we offer a chronology of events leading to France's challenge of the Bretton Woods system. Instead of the gold-dollar Bretton Woods system, the French would have preferred a system like the one proposed by the Financial Commission at the Genoa conference or the Tripartite Agreement of 1936, which offered France some of the advantages enjoyed by the U.S. under Bretton Woods. The historical continuity of French international monetary diplomacy reveals a consistent rational long-term policy.

I. France and Bretton Woods 1945 - 1958

The Bretton Woods international monetary system was a product of the Articles of Agreement signed at Bretton Woods in July 1944. The Articles represented a compromise between the White

Plan sponsored by the US and the Keynes Plan sponsored by Britain.[2] The history of the Bretton Woods Conference is sometimes described as an Anglo-American affair, but other countries, including France, participated and presented their own plans. The French Plan was prepared in response to the British and American proposals in May 1943 by Messrs. Hervé Alphand and André Istel, with the help of other officials.[3] They represented the coterie of experts gathered in London by General de Gaulle who had strong ties to previous governments and would have strong influence in future governments. The French Plan required participating countries to fix their official parities in terms of the currencies of the other participants. These parities would only change after consultation. The parities would be maintained by intervention of each member transacting with the monetary authorities of the other members. Up to limits, each member would hold other members' currencies, to increase liquidity. To protect the members from exchange risk, collateral (in the form of gold, foreign bills, raw materials, and approved securities) would be required for its own currency held by the monetary authorities of other countries. A Monetary Stabilization Office was suggested as a mechanism to facilitate clearings, a depository for the collateral, and a place for international consultation.[4] This plan was considered a first step toward a return to a gold standard because of the link between the dollar and gold. By pegging their currencies in terms of dollars, gold could be used by members as an international reserve asset and an international means of settlement. Later, members could define their currencies in terms of a fixed weight of gold. The restored gold standard would not have a classical adjustment mechanism but it would be managed by monetary authorities.[5]

The French Plan of 1943 and the French proposals for international monetary reform in the 1960s had strong antecedants in the proposals of the Financial Commission at the Genoa Conference in 1922 and the Tripartite Agreement of 1936. Taken all together they reveal a coherent and consistently pursued policy.

This vision had gold at the center of the world monetary system because it was a means of

exchange that was neutral to the individual countries. If gold was the foundation of the system, its price had to be stable because it was the standard of reference determining the price of every country's currency, with a fixed parity. If the price of gold were fixed, the world's gold production might not grow at the same pace as the world's demand for liquidity to accommodate its transactions. Therefore, the system would require additional liquidity, complementary to gold. Designing a system where gold and additional means of liquidity could coexist with one another was intricate because that system was potentially unstable if the additional liquidity took the form of the currencies of a one or two countries.

The source of instability of an international monetary system where one country's currency is used in addition to gold in official international transactions is known as the Triffin dilemma.[6] If one country is responsible for providing the non-gold component (convertible into gold) of official reserves to the rest of the world via a deficit of its balance of payments, and if these deficits are persistent, the country's liabilities may soon exceed its reserve assets. As a result, countries which previously held the currency in lieu of gold in their official reserves may no longer be willing to do so, fearing a change at some point in the relative price of the reserve currency. The system then risks collapse. At the same time, if the reserve country takes measures to reduce the outflow of its currency, this may starve the system of needed liquidity. Thus, a system where a country's currency coexists with gold as official reserves requires additional safeguards to ensure its stability.

According to the French vision of the international monetary system, the means for stabilizing a gold exchange standard system, where one or many gold convertible currencies coexist with gold to form each country's official reserves, was twofold. First, the currency component of the reserves held by a country should be tied in fixed proportions to gold. This feature would prevent countries with a balance of payments surplus from accepting disproportionate amounts of official reserves in the form of the reserve currency. Second, to be effective, this fixed reserves proportions rule should be

associated with a rule of multilateral surveillance between countries. These two guiding principles anchored the various French proposals for the reform of the international monetary system, from the French Plan of 1943 to the Collective Reserve Unit (CRU) and the French Special Drawing Rights (SDR) proposal.

The earliest version of the French vision for the international monetary system was based on recommendations made at the Genoa conference in 1922. The Genoa conference was a forum studying methods of conducting official international transactions in a way that would economize on gold. In the aftermath of World War I, there was a mismatch between the depleted gold reserves of the major European industrial countries and the demand for gold generated by economic recovery. As a consequence, the participants sought a temporary alternative to the pre-war gold standard as an international monetary system. The Financial Commission at Genoa recommended that members be required to fix their exchange rates and restore gold convertibility.[7] To counter a feared gold shortage, they also recommended that participating countries hold a portion of their reserves in the form of the currencies of the two reserve centers. These principal creditor countries were encouraged to move immediately to "establish a free market in gold and thus become gold centers." Finally central banks were encouraged to cooperate to prevent "undue fluctuations in the purchasing power of gold."[8]

The second incarnation of the French view appeared in France's proposals for what became the Tripartite Agreement of 1936. In the turbulent interwar years, competitive devaluations in the wake of the demise of the gold-exchange standard presented policymakers in all countries with the dilemma of how to return to fixed exchange rates. The Tripartite Agreement, where Britain, France and the U.S. stabilized their exchange rates, represented a major achievement. The French had initially proposed a system where the franc, the dollar and sterling would fluctuate within narrow bounds. The three countries would agree not to devalue except by mutual consent and would

coordinate support for the bilateral rates, with the eventual aim of restoring gold convertibility. However, American intransigence forced the French to drop fixed parities and the promise of a return to gold. The joint declaration known as the Tripartite Agrement issued by Washington, London and Paris simply affirmed the desire of the three countries to cooperate in minimizing exchange rate fluctuations and their commitment to free trade. For three years the nations exchange stabiliization funds successfully reduced currency fluctuations[9] These predecessors to the French Plan of 1943 shaped French thinking about international financial arrangements.

But this French voice was drowned out at Bretton Woods.[10] The Articles of Agreement at Bretton Woods differed from the French Plan of 1943 and the general French vision in three key respects: (1) Prompt definition of currencies in gold. Article IV defined the numeraire of the international monetary system as either gold or the U.S. dollar of the weight and fineness on 1 July 1944. All members were urged to declare a par value and maintain it within a 1 percent margin on either side of parity. Parity could be changed in the event of a fundamental payments disequilibrium at the decision of the members, after consultation with the Fund. (2) Prompt convertibility. Members were supposed to make their currencies convertible for current account transactions (Article VII), but capital controls were permitted (Article VI.3). Article XIV permitted countries to avoid declaring their currencies convertible during a three-year transition period after establishment of the Fund. (3) International aid and assistance. Members could obtain resources from the Fund to help finance short or medium-term payments disequilibria.

Numerous problems prevented the system from beginning operation until December 1958 when the Western European countries made their currencies convertible for current account transactions. Under the system, the U.S. Treasury pegged the price of the dollar at $35.00 per ounce while all other members intervened in the foreign exchange market, either buying or selling dollars, to maintain the parity of its currency within the prescribed one per cent margin. This mechanism

anchored each currency to the dollar and indirectly to gold.

Worse yet from the French point of view, the symmetrical system, conceived by the architects, was never realized. Instead, Bretton Woods evolved into an asymetrical gold dollar system.[11] Use of the dollar as both a private and official international money increased dramatically in the 1950s and continued into the 1960s. Even before full convertibility, the dollar's fundamental role as intervention currency led to its use as an international reserve. The convertible Bretton Woods system that began at the end of 1958 was, in reality, a gold dollar standard under U.S. dominance.

French influence in the early years of the postwar monetary system was almost minimal because of France's reconstruction problems which enabled the United States and the IMF, to dictate terms. Facing chronic external and internal imbalances common to the devastated countries of Western Europe, France attempted to economize on scarce hard currency by devaluing the franc and creating a multiple exchange rate system in January 1948. The IMF censured France for this act and denied her access to the Fund's resources until 1952.[12]

Assisted by rapid economic growth under the Marshall Plan, France unified its exchange rates and adopted a stabilization plan. However, economic recovery hid a large budget deficit. When growth slowed, inflationary finance was employed and balance of payments problems ensued. This long term problem was solved under the Fifth Republic in 1958, when President de Gaulle initiated severe cuts in expenditure, tax increases, and a devaluation of the franc. The tough stabilization plan rewarded the Fifth Republic with an average annual growth rate of GDP of 5.5 percent, inflation under 4 percent, and a positive trade balance.

From the viewpoint of the French Plan of 1943, the stabilization of the French economy meant France could move away from the use of the dollar as the key reserve asset and towards the use of gold. This policy continuity, was in part, the result of a continuity in personnel. In 1958, Jacques Rueff, then Inspector-General of Finance, headed a special commission that wrote *Report on*

the Financial Situation of France (1963), whose recommendations formed the basis for the De Gaulle's government 1958 reform decrees. Rueff had been an important figure in French policy during the interwar years, advising the government on the 1926 stabilization program. He was the financial attaché at the French Embassy in London (1930 - 1936), and Director of the Mouvement Général des Fonds, 1936 - 1939, making him a key player in the Tripartite Agreement of 1936. Although he did not later have an official role, Rueff exercised considerable influence on the French government. He had close ties to Maurice Couve de Murville, foreign minister from 1958 to 1968 and then premier who had once been his assistant.

Rueff's interpretation of the failure of the Tripartite Agreement is informative about French intentions in the 1960s. While he praised Britain for leaving gold in 1931, Rueff attacked France for abandoning its parity in 1936 because it did not turn off "the inflation tap -- thus leaving herself open to a gradual depreciation of her currency."[13] The problem for Rueff was that the French both in the late 1930s and in the 1950s were living beyond their means. Throughout his 1963 book, Rueff drew parallels between the two periods, emphasizing the linked problems of the budget deficit, inflation, and foreign exchange crisis. The report recommended large cuts in social programs and government subsidies to balance the budget. Only by obtaining internal balance, could the government credibly set a new exchange rate parity. Rueff believed that France accomplished in 1958 what it was unable to do in the 1930s. The problem that Rueff saw as threatening the world monetary system was the dominant role of the U.S. dollar. In an article that received widespread attention and was reprinted in many newspapers and magazines on both sides of the Atlantic, Rueff criticized U.S. policy with the apparent approval of the French government.[14] Like Robert Triffin's famous study, *Gold and the Dollar Standard* (1960), Rueff pointed to the huge build up U.S. balance of payments deficits totalling $18.1 billion (over the period 1951 - 1960) (See Figure 1). These deficits were allowed to persist for ten years because the U.S. was not required to settle its debts abroad. The new gold

exchange standard thus did not allow the balance of payments to serve as an automatic stabilizer for the U.S. As a reserve center it was permitted to generate new internal purchasing power. To remove the danger, Rueff recommended the introduction of a new symmetric monetary system that would not allow key currency countries to run prolonged deficits. Following the approach of the French Plan of 1943, Rueff offered the evolution of the European Payments Union, with its progressive "hardening" of the means of settlements, as a good example of how to move towards a gold standard. He insisted that the U.S. must pay off in gold all dollar assets held by central banks -- a process that could be eased by raising the price of gold.

II. France's Strategic Game, 1960 - 1968

Although Rueff's criticism of the U.S. persistent balance of payment deficits and of the dollar's hegemony was in line with the views of the French government, it is doubtful whether Rueff's prescriptions for a new international monetary system ever represented the official position. The return to a pure gold standard advocated by Jacques Rueff appears to have been used by the French government as a strategic threat to induce the American government to engage in a revision of the international monetary system. The chronology of events during the 1960 - 1968 period strongly suggests that official French positions favorable to a pure gold standard typically followed instances where the American government was more entrenched in its refusal to reconsider an international monetary regime based on the gold-dollar standard.

The period from 1960 to 1968 can be divided into two phases. From 1960 to the end of 1964, French policy was more conciliatory towards the United States, while from January 1965 to May 1968 it became more confrontational. In the latter period, France actively pressed for a reform of the international monetary system. We end the analysis in May 1968, a month of unforeseen internal social upheaval in France that followed the demise of the Gold Pool and the creatlon of a two-tier gold pricing system in March. These events put an end to the De Gaulle government's strategy for the

modification of the gold-dollar standard.

A. Preparing for the Game, 1960 - 1964

In 1960, the French government did not exhibit any official concern about the depletion of American gold reserves. While Selwyn Lloyd, the British Chancellor of the Exchequer, talked about the U.S.'s "fundamental disequilibrium, the French Minister of Finance, Wilfrid Baumgartner, attributed the growing U.S. balance of payment deficit to temporary political uncertainty concerning U.S. elections.[15] Yet, I.M.F. statistics show that France more than doubled its holdings of gold, most of which was purchased from the U.S. Treasury by converting French dollar holdings.[16] The year 1961 was marked by a disagreement between France and the reserve currency countries, Britain and the U.S., over a plan to increase resources. The proposed General Arrangements to Borrow would have added $6 billion in commitments by member nations[17] to be used by the Fund for emergencies including, the defence of the dollar against speculative attacks. The French and the Dutch were unpersuaded that there was a shortage of world reserves and feared that the scheme would thus water down the "discipline" imposed on national financial policies by the existing system.[18] During this debate Rueff's famous article first appeared.

At the annual IMF meetings in 1961, Baumgartner defended his opposition to the British-American scheme, recommending that care should be taken to avoid having currency convertibility jeopardized by insufficiently precise procedures.[19] Acting as spokesman for the Common Market countries, France won this debate. After a meeting of the Finance Ministers of the G-10 in Paris, Baumgartner announced that the additional credits would not be "purely and simply" put at the disposal of the IMF but would be submitted to examination and subordinated to guarantees to be discussed by meetings of Finance Ministers of member countries of the G-10.[20]

This first important strategic victory for the French government conferred on it an enhanced role as watchdog of the international monetary system. Afterwards France began to criticize the

growing deficits of the U.S. and Britain (see Figures 1 and 2, respectively). In September 1962 at the IMF annual meeting in Washington, Valéry Giscard d'Estaing, the new Minister of Finance, warned that the countries responsible for providing the reserve currencies should reestablish equilibrium to their balance of payments. He stressed that it was a much more pressing concern than the reform of the international monetary system[21].

In early 1963, Jacques Rueff warned that the surplus of purchasing power in France arising from an accumulation of international reserves, (see Figure 3) was a grave threat to French growth. He advocated a return to the Gold Standard and an increase in the price of gold but admitted that such a shift in regime had no chance of being accepted. Rueff said that there was no end in sight to the U.S. balance of payments deficit and that the world was heading towards a generalized inflation. He argued that central banks should agree "as of tomorrow" not to increase their dollar holdings and a Government initiative at the highest level was needed. Rueff concluded by declaring "the West seeks a statesman who will restore its currency" a none-too veiled reference to President de Gaulle.[22]

While Rueff's diagnosis was shared by the French government authorities, neither the government nor the Bank of France followed his radical prescription. The Bank of France's 1962 annual report condemned any change in the current international monetary system; and on 10 September 1963 Valéry Giscard d'Estaing declared that "all participants agreed today that the solution of the U.S. balance of payments problem should take priority over the development of new international payments machinery."[23] Giscard d'Estaing criticized the international monetary system for a lack of mechanisms to correct balance of payments' deficits, the asymmetry between reserve and non-reserve currency countries and the uneasiness between countries holding reserves that were subject to different devaluation risks.[24] Yet, in what appears to be a strategic move, the Elysée Palace followed Rueff's more orthodox line on the gold standard.[25] These words of criticism for the large United States balance of payment deficits stood in contrast to the deeds of the Bank of France,

which engaged in currency swaps with the Federal Reserve Bank of New York.[26] These tactics were in complete contrast to the official position.

French policy alternated again on 9 September 1964 when Giscard d'Estaing made the French government's first official proposal for a reform of the international monetary system at the annual conference of the IMF in Tokyo. While the French wanted gold at the heart of the international monetary system, more liquidity was required in the form of a composite or collective reserve unit (CRU).[27] Giscard d'Estaing also wanted multilateral surveillance to prevent destabilizing policies and an end to financing of long term deficits with short term assets.[28] The French proposal for the new international reserve was opposed by Douglas Dillon, U.S. Treasury Secretary, and by Reginald Maudling, the British Chancellor of the Exchequer.[29] Preparing for the next stage of the game behind this evolving official policy, the French continued to convert dollar reserves into gold. By 31 December 1964, gold accounted for 73 percent of French reserves (See Figure 4).[30]

B. Playing the Game, 1965 - May 1968

French conversion of dollars into gold began in earnest in early 1965.[31] Claiming that doing nothing would bring on a crisis faster, Giscard d'Estaing defended the conversions and pleaded for a reform of the monetary system. Setting the stage for De Gaulle, he advocated a return to the original system created at Bretton Woods.[32]

In a dramatic moment during a press conference at the Elysée Palace on 4 February 1965, De Gaulle stirred up an international controversy by mentioning the *possibility* of reestablishing the gold standard. He acknowledged that the gold-dollar standard had been appropriate for the years immediately following World War II because all the gold reserves were held by the U.S.. But, conditions had changed. European economies had been revived and the gold reserves of the Common Market countries equalled those of the U.S.. The use of the dollar as an international medium of exchange now clouded the fact that the system provided substantial seignorage to the U.S.. He

recommended that the international monetary system be changed and mentioned a possible reinstitution of the gold standard. Reform required consultation among all the main financial powers within the existing forums, including the IMF"[33]. After this speech De Gaulle was generally perceived as having publicly adopted Rueff's views and disavowed the Finance Ministry's CRU proposal.[34]

Following the President, Giscard d'Estaing gave a speech at the University of Paris Law School on February 11. He complained about the asymmetry of the balance of payments adjustment mechanism, its fragility because of the potential of a run on U.S. gold reserves, and its inflationary bias.[35] The Minister of Finance then called on the world leading financial powers to sign a solemn declaration pledging themselves to settle their international debts only in gold.[36] Within this context, the French suggestion of a return to the gold standard or an increase in the price of gold seems to have been a threat to the U.S. with the apparent aim of furthering international negotiations to reform the international monetary system. In this scenario, Rueff played a useful role. Everyone knew of his connections, but he could say he did not speak for the government when he recommended (15 April 1965) that the dollar price of gold be doubled. This statement was widely reported in the American press only to be followed by Giscard saying on a French television program that France had never taken a position on the question of a rise in the price of gold.[37] The U.S. could thus not be certain of France's true intentions.

At the same time the French proceeded to present their proposals for the CRU. The details showed an explicit link to guidelines established at the Genoa conference of 1922.[38] Under the French Plan, each member of the G-10 would subscribe to the CRU account in proportion to their gold holdings; gold and CRU's would then circulate together in fixed proportions.[39] From the French perspective, this system would have constituted an improvement over the gold dollar exchange standard by conferring on the G-10 countries, rather than just the U.S., the power of reserve currency

creation.

Although the Ministers and Central Bank Governors of the Group of Ten agreed at the annual meeting of the IMF in September 1965 to draw up a contingency plan for reserve creation, much of the second half of 1965 was marred by disagreements between the U.S. and France. They clashed over how closely the proposed new reserve units should be tied to gold and how the power of reserve creation should be divided between the different countries. The French and American positions were highlighted in Group of Ten's Ossola Report,[40] which considered the merits of alternative proposals for increasing world liquidity. While reserve countries argued over the French proposal for international monetary reform, the percentage of gold in French official reserves had climbed to 86 percent.[41] (See Figure 4). Furthermore, Michel Debré replaced Giscard d'Estaing as Minister of Finance, a move that was perceived as a strengthening of the orthodox Gaullist line.

The entire year 1966 witnessed a theater of confrontation between the U.S. and France over their respective visions for international monetary reform. Various representatives of the French government publicly discussed the possibility of returning to a gold standard and of increasing the official price of gold. In our view, this was a bargaining threat to induce the American government to approve of a closer link between the new reserve asset (to be called the Special Drawing Right (SDR)) and gold and a sharing of power between the Common Market countries and the United States. The immediate payoffs to the French strategy in 1966 were twofold, if small. First, at a meeting at the Hague on 26 July, the Finance Ministers of the G-10 countries partially espoused a view stated earlier by the French and the other EEC countries. They recommended that "there should be a better balance of payments equilibrium between members" before any monetary reform could take place.[42] They also indicated that decisions to create new monetary units should be made on the basis of approval between the deputies of the G-10 and the executive directors of the IMF (thus conferring a stronger voice to Europe than if the reform was left to the IMF alone). Secondly, a

gentleman's agreement was reported to have taken place in December between Michel Debré, U.S. Treasury Secretary Fowler, and British Chancellor of the Exchequer Callaghan. The terms of the agreement were that the U.S. would agree to let any new "liquidity unit devised by the IMF" be linked to gold if in return that France would make it clear that she would not favor an increase in the world price of gold.[43]

The U.S. then seems to have backtracked some at a January 1966 meeting of the Deputies of the G-10 in Paris. Frederick Deming, the U.S. Undersecretary of the Treasury, suggested a currency reserve unit not linked to gold as a possible way to increase world liquidity.[44] The American plan also offered to increase the drawing rights of member nations in the IMF. In return, the French government, adopted a hard bargaining line by publicly considering a return to the gold standard and temporarily dropping support for the CRU. For nearly nine months, France opposed new discussions on international monetary reform. In an isolated position, France finally agreed on 12 September, after a meeting of the Common Market Finance Ministers, that it would take part in studying how to increase international liquidity; but it maintained its opposition to any increase until the U.S. achieved payments balances.[45]

This conciliatory position espoused by Debré was maintained throughout the annual IMF meetings and contrasted with the French government's posturing in the first semester on gold.[46] During these meetings, Debré tacitly accepted U.S. Treasury Secretary Fowler's timetable for approving a contingency plan for the creation of a new international reserve instrument at the next annual IMF meeting.[47] Debré also distanced himself from the Rueff thesis when he told journalists during a press conference that *under no circumstances* did he favor an increase in the price of gold.[48] This conciliatory position was matched by a hiatus, during the months of October and November, in the French government's practice of converting its dollar holdings into gold.[49]

On 29 November in Washington, at the first Joint meeting of the Deputies of the Group of

Ten and the 20 Executive Directors of the IMF meeting on reserve creation, the negotiators agreed to the French demands of adding the issue of gold to their agenda. This occurred shortly after the French government leaked to the press a report on the role of gold in the international monetary system by Maurice Pérousse, director of the French Treasury and chief delegate at the monetary talks.[50] The most provocative aspect of this report was that it considered the possibility of a gold price increase and urged that "increased quotas by member countries to the IMF be paid in gold in accordance with the fund's statutes."[51] The Ministry of Finance's spokesman first said that the report reflected the opinion of the French government and then issued a denial that France actually favored a higher gold price. By first leaking the report and then issuing ambiguous comments on it, Paris had "clearly succeeded in putting loose a well-conceived cat among the pigeons"[52].

From the beginning of 1967 until May 1968, French international monetary policy followed essentially the same guidelines that it had followed since proposing the CRU in 1964. It also made the same strategic use of gold as it had in 1965. The French persisted in demanding that the U.S. share its veto power over the creation of new liquidity with Europe and in advocating the creation of an international currency reserve unit that would be tied in some proportion to gold. Whenever their demands were not given due consideration by the United States, representatives of the French government resorted to recommending either an increase in the price of gold or the return to the gold standard.

The greater world economic turbulence difference between the January 1967 and May 1968 exacerbated existing problems. Growing world gold scarcity and a rise in U.S. inflation undermined the dollar's relationship to gold and bred speculation on the gold market.[53] Following the devaluation of the pound in November 1967, the dollar began to weaken. The lack of Franco-American agreement and French pronouncements may have contributed further to the speculative attacks against the dollar. Although the French may have thought that the weakened position of the reserve currency countries

benefited them, their strategy backfired. The Gold Pool broke down and a two-tier gold pricing system was created. The gold dollar standard was defacto terminated, ending the leverage conferred by dollar to gold conversions.

To see how France overplayed her hand we take a more detailed look at the important events of January 1967 to May 1968. On 9 January 1967, a weekend statement by Michel Debré, suggesting a reexamination of the official price gold caused a fever of gold speculation in France, putting the U.S. on the defensive.[54] On 13 January 1967 in a speech to La Chambre de Commerce Française au Canada, in Montreal, Debré restated France's position on revising the International Monetary System. His position was identical to the position adopted earlier by Giscard d'Estaing while he was the Minister of Finance[55], except for the fact that Debré maintained the possibility of revising the price of gold. This position was consistent with the French strategy of using gold as a "bargaining chip" to obtain a more important voice for Europe in the revision of the international monetary system[56].

Confronted by a lack of support from other EEC countries, Debré's stance became more conciliatory. Debré abandoned his demands for a reexamination of the price of gold[57]. Instead, he proposed that the Common Market countries' voting powers in the IMF be increased to a level comparable with that of the U.S.[58] No progress on this issue was, however, made at the joint meeting on 27 January 1967 between the Executive Directors of the IMF and the Deputies of the G-10 in London.

As presented in Figure 5, the gold component of U.S. reserves had been constantly falling since 1957. Their level was so low in 1967 that in March they provoked American officials to urge major dollar holding nations to consider the dwindling stock at Fort Knox as generally "off limits" and to ask them not to buy gold except in the case of unavoidable need.[59] France quietly accommodated the U.S., making advance repayments on its debt to the U.S. and refraining from purchasing U.S. gold for a few months.[60] This perceived inability of the United States to ensure the

full convertibility of dollars did not bring it closer to an agreement with the French or the other Common Market countries, regarding the proposed new reserve assets. Both a joint IMF/G-10 meeting in Washington on 26 April and a G-10 meeting in Paris on 20 May ended in a deadlock[61].

Once again the French response was to harden its position on the creation of new liquidity. On 24 May 1967 René Larre, financial counsellor to the French embassy in Washington and executive director of the IMF, declared that the unwillingness of the U.S. to curb its chronic balance of payment deficit presented a formidable obstacle to the agreement on the creation of a new reserve asset.[62] During June 1967, France quietly decided to make no further contributions to the eight nations gold pool, through which the price of gold was stabilized at $ 35.00 per ounce.[63] The United States then had to increase its contribution to the gold pool by the same amount, an additional 9 percent.[64]

The closest the United States and France ever came to an agreement on international monetary reform was on 27 August 1967 at the conclusion of a G-10 meeting in London. Representatives of both the United States and France declared their satisfaction with the new monetary reform formula to be presented for the approval of the Governors of the IMF at the 1967 annual meetings in Rio. This new proposition had a Special Drawing Rights (SDR) scheme where a majority of 85 percent at IMF Governors meetings was required to make decisions about SDRs, thus conferring veto powers to the Common Market countries. This proposition was in line with the multilateral surveillance power constantly advocated by France. In contrast to the earlier CRU scheme, access to SDRs was available to all members, not just the G-10. Members were credited SDRs in proportion to their quotas with one SDR equivalent to one gold dollar[65] Also, unlike the CRU, the SDR was a fiat obligation; it was not backed by gold. Its acceptability stemmed from the obligation by members to accept SDRS -- similar to the legal tender provision of domestic fiat money. Members must accept SDRs when the Fund mandates their acceptance, as long as their holdings are less than three times their cumulative

allocation. This put a limit on the amount of a potentiality inferior asset that would have to be absorbed.[66] To prevent the SDR from aggravating the confidence problem, the SDR could be used to finance only balance of payments deficits. In addition, members were required to hold on average a balance over a five year period of at least 30 percent of their allocations. The latter was a compromise between France, which wanted the new facility to be a form of credit, and the United States, which wanted a reserve asset.[67] Otherwise, to use SDRs, a member would notify the Fund, which would then designate a surplus country to receive SDRs and provide the deficit country an equal value of some convertible currency to use in intervention.[68]

The apparent harmony between Europe and the United States disintegrated at the annual meeting of the World Bank and the IMF in Rio in September. U.S. Treasury Secretary Fowler reconsidered giving a veto to the Common Market countries within the year.[69] In turn, Michel Debré replied by declaring that the agreements on reforming the IMF were an absolute condition for France's agreement to the liquidity plan. He emphasized that France would not have supported the SDRs if they had thought they would be a substitute for gold and laid down new conditions for the activation of the SDR plan.[70] France's bargaining hand was improved because she had built a unified front with the five other Common Market countries to demand veto power within the IMF and a reduction in the balance of payments deficits of the United States and Great Britain, the reserve currency countries. In early November, when representatives of the G-10 countries conducted secret negotiations to support the pound she flexed her muscles. France was reported to be the only country of that group which did not firmly pledge against the devaluation of its own currency, should Britain decide to devalue the pound.[71] The effects of this stronger position was seen, in part, on 18 November 1967 when the United Kingdom, which had been experiencing serious balance of payments problems since 1967, devalued the pound by 14.30 percent. The British felt that their position was untenable after their effort to join the Common Market was effectively rebuffed by new conditions

that Maurice Couve de Murville, the French foreign minister, had laid down for British membership. The French insisted that the British had to drop sterling as an international reserve currency and they had to achieve equilibrium in their international balance of payments.[72]

In the aftermath of the devaluation, the news that France had stopped contributing to the gold pool in June was leaked to the press.[73] This set off a wave of buying on the London and Paris gold markets.[74] Since the United States was furnishing about 60 percent of the gold pool supplies and was attempting to maintain the price of gold in the neighborhood of $35.00 per ounce, these speculative attacks on the gold markets entailed a considerable drain on American gold reserves.[75] In light of the difficulties of the reserve currency countries, it was time for the French to intensify their pressures for a reform of the international monetary system, and on 27 November, President de Gaulle declared during a press conference in Paris: "It is *possible*[76] that the problems resulting from the devaluation of the pound will lead to the reestablishment of the international monetary system founded on the immutability, impartiality and universality which are the privileges of gold".[77]

From the beginning of 1968 until May, the French hardened their stand on the reform of the international monetary system. The drain on the U.S. gold reserves (see Figure 5) from the events of the previous years led the United States in January 1968 to impose austerity measures which included a curb on capital exports that lowered the outflow of reserves.[78] All the Common Market countries except France perceived that this reduction in U.S. reserve outflow was creating a shortage of international liquidity. Consequently, they did not want to impose a U.S. balance of payments equilibrium as a prior condition to the of new instruments of international liquidity. The Common Market countries' united front in international monetary negotiations was showing some strain.[79]

During a February meeting in Rome of the ministers of finance of the Common Market countries, all participants agreed that the reform of the IMF, giving them veto power, had to be accepted simultaneously with the creation of a new liquidity scheme. However, in contrast to the

other participants, France wanted to maintain the condition that the United States balance of payments be in equilibrium for a certain amount of time before starting the process of new liquidity creation. Isolated on this matter, Michel Debré suggested instead that France could join in participating in the discussions on the creation of the liquidity scheme but requested the chance to opt out of the agreement if it did not consider the circumstances favorable to the creation of new liquidity[80]. Thus, the Rome meeting failed to produce unanimous agreement of all the Common Market countries.

Mounting speculative pressure on the U.S. dollar in the gold markets led to a momentous change in international monetary arrangements. On 17 March, the remaining members[81] of the gold pool created a two tier pricing system for gold, whereby the official price of $35.00 per ounce would only be maintained for inter-central bank transactions and the market price for all others. This marked their determination to deflate the importance of gold in the international monetary system. The member countries also agreed not to draw gold from U.S. reserves nor to sell gold to private buyers.[82] The key decision of the meeting was a partial demonetization of gold, since the only gold that would be counted as international reserves would be the amount already owned by the central banking systems of the world and the IMF. Newly minted gold would still have a value, but not as money within the international monetary system.[83]

The French reacted by restating their public support for an international monetary system tied to gold. It was reported on 24 March that President de Gaulle declared that France would not participate in any effort to strengthen the dollar until the present world monetary system was scrapped in favor of a new one tied to gold. In effect, what the French President wanted was a new Bretton Woods conference.[84] On 29 March, at the opening of the Ministerial meeting of the Group of Ten in Stockholm, Debré declared that there was a case for considering an increase in the price of gold, adopting this controversial move as official policy. He insisted on a restrictive interpretation of the outline agreements reached between the Ten in London and at the IMF in Rio in 1967.[85] On 30

March, however, all other countries but France voted to adopt the Special Drawing Rights plan. By doing so, the Western powers demonstrated for the first time that they could bypass France in the drafting of international monetary agreements.[86]

Michel Debré justified the French decision not to ratify the Stockholm agreement during the regular monthly meeting of the Parisians economic and financial press. He declared that the definition of the SDR's proposed in Stockholm was markedly different than their definition at the Rio conference because they were closer to money than to credit. Furthermore, he said, the proposal offered no guarantees on the implementation date of the new liquidity or on the condition of reestablishing equilibrium of the U.S. balance of payments before implementing the new liquidity scheme. Debré stated that the sterling devaluation of 1967 and the gold pool decisions of March 1968 had generated a new economic environment that warranted closer scrutiny before designing a new liquidity scheme. However, he declared that the Stockholm agreement was coincident in many respects with the French position on international monetary policy[87].

Debré enumerated the two fundamental principles guiding French international monetary policy: the international monetary system should be based on the equality of the industrialized countries and all these countries' currencies should be convertible in gold. The currencies' values in terms of gold could be revised, after due negotiations among the major industrialized countries, every twenty-five years or so. He claimed that these principles were closer in spirit to the initial intention of the Bretton Woods conference: "Dire celà, ce n'est pas revenir vers le passé. C'est au contraire rappeler les principes solides établis à Bretton Woods: la convertibilité de toutes les monnaies et leur rattachement à l'or."[88]

In conclusion, French international monetary policy throughout the 1960s was conducted with the constant objective of modifying the international monetary system on a basis that would be closer in spirit to the French plan of 1943 and to the experts' recommendations at the Genoa conference in

1922. It was for a gold exchange standard where all currencies would be linked to gold in fixed proportions and where the major industrialized countries had equal say in the rules of the international monetary system. Raising the specter of a return to an orthodox gold standard was a strategy used by the French government to induce the Americans to discuss a modification of the international monetary system[89]. As argued by Triffin, "de Gaulle had *not* proposed the return to a *pure* gold standard, and what has collapsed in 1931 was *not* the pure gold standard but the sterling component of a *gold exchange standard*. De Gaulle foresaw correctly, as has now become clear to all -- that the perpetuation of the same system would inevitably pose a similar threat to the dollar itself."[90]

The collapse of the gold dollar standard and the creation of the two-tier gold market in March 1968 effectively ended France's leverage over the international monetary system. No longer could the threat of converting her (and other EEC members') gold reserves into dollars be used as a viable threat to convert the gold dollar standard into a multiple currency gold exchange standard because the system had now evolved into a pure dollar standard. Having overplayed its hand in international financial diplomacy, France lost whatever additional influence it had on the streets of Paris in May 1968 and in the ensuing recession.

Conclusion

France's international monetary policy in the 1960s, which contributed to the demise of the Bretton Woods system, was not an instrument to further President de Gaulle's political goals. It was instead, conducted according to a vision of the international monetary system that was rooted in the monetary arrangements of the interwar period. Expressed in a consistent fashion through the 1960s, this policy opposed the Bretton Woods gold-dollar standard and sought a gold-exchange standard with more cooperation between Europe and the United States and more equitable balance of payments settlements. To pressure the U.S., France cautiously used well-timed calls for a return to a classical gold standard and/or a rise in the price of gold along with conversions of dollars into gold. In spite of

this orchestrated diplomacy designed to achieve a well-defined and long desired change in the international monetary system, France's effort failed when it pushed too hard and the already fragile exchange rate system collapsed.

Endnotes

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1. Volcker and Gyothen, p. 42.

2. For a discussion of the Plans and of the literature on the origins of the Bretton Woods conference. See Bordo, 1993.

3. Horsefield, 1969, Volume III, p. 97.

4. Horsefield, 1969, Vol. I. p. 37.

5. A similar plan, which received considerable attention at the time but was never seriously considered by the negotiators at Bretton Woods, was John Williams' *Key Currency* plan, 1936, 1943.

6. Triffin, 1960; Solomon, 1982; Bordo, 1993.

7. Two prior conferences, the Brussels International Financial Conference in 1920 and the Cannes Conference in 1922, had considered, the design of a gold-exchange standard in less detail.

8. Eichengreen, 1992, pp. 158-159.

9. Eichengreen, 1992, pp. 278-281.

10. Bordo, 1993, pp. 34-36.

11. Bordo, 1993, p. 49. Initially it was a gold exchange standard with two key currencies, the dollar and the pound, but the role of the pound as key currency declined steadily throughout the 1960s.

12. Horsefield, 1969, p. 203. Italy also followed a similar practice but was not denied access to the Fund.

13. Rueff, 1963, p. 19.

14. Rueff, 1961.

15. *The Journal of Commerce*, 29 September 1960.

16. "IMF statistics show that...in January of 1959 France's gold reserve stood at $812 million. In September of this year the French gold stock had risen to $1,627 million. French short term dollar assets in the meantime rose from $656 million in the first quarter of 1959 to only $726 million in mid-1960." *The Journal of Commerce*, 4 November 1960.

17. Horsefield, 1969, Vol 1. pp. 502-520. *The Wall Street Journal*, 11 April 1961.

18. *The New York Times*, 1 May 1961.

19. *The Journal of Commerce*, 21 September 1961.

20. *The Financial Times*, 14 December 1961.

21. Giscard D'Estaing, 18 September 1962.

22. *The Financial Times*, 6 March 1963.

23. *The New York Times*, 11 September 1963.

24. Devries, 1976, Vol. I, p. 30.

25. *Le Monde*, 15 December 1963.

26. *The New York Times*, 11 June 1964.

27. This scheme was first sugested by Edward Bernstein, former Research Director of the IMF.

28. *Summary Proceedings of the Tokyo Annual Meeting of the Board of Governors of the International Monetary Fund*, Washington, 1964, pp. 201-207.

29. *The New York Times*, 12 September 1964; *The New York Times*, 11 September 1964.

30. *The New York Times*, 20 April 1966.

31. *The New York Times*, 5 January 1965.

32. *The New York Times*, 13 January 1965.

33. Charles de Gaulle, 1965, p.7.

34. One leading authority, Triffin, 1965, disputes this interpretation.

35. DeVries, 1976, Vol I, p. 62.

36. Triffin, 1965.

37. *The New York Times*, and *The Journal of Commerce*, 16 April 1965.

38. Giscard d'Estaing, 1965. Speech by Giscard d'Estaing at the Institut d'Etudes Bauccires el Financiéres, 15 June 1965.

39. Williamson, 1977, p. 20 and Solomon, 1982, p. 76.

40. *The Financial Times*, 11 August 1965.

41. *The New York Times*, 20 April 1966.

42. The French Finance Minister, Michael Debré was not entirely satisfied and said "he couldn't accept the agreement's implied hypotheses that money creating machinery should be established before the United States payments had been in balance for a lengthy period of time, *The Washington Post*, 27 July 1966.

43. *The Financial Times*, 31 December 1966. The distinction between a CRU arrangement whereby the reserve unit could be issued in proportion to a member's gold holdings and a special drawing right whose value could be defined as a specific weight in gold was not made.

44. Solomon, 1982 pp. 128-129; *The Journal of Commerce*, 1 February 66.

45. *The Times* (London), 13 September 1966.

46. However, it should be noted that in a speech during the meetings, Debré took the same line of criticism of the dollar exchange standard as his predecessor Giscard d'Estaing. *The Financial Times*, 28 September 1966.

47. *The Wall Street Journal*, 30 September 1966.

48. *The Wall Street Journal*, 30 September 1966.

49. *The New York Times*, 3 December 1966.

50. *The Washington Post*, 30 November 1966.

51. *The New York Times*, 30 November 1966.

52. Nossiter, 30 November 1966.

53. Bordo, 1993.

54. The market of Napoléons – favorite coin among the Frenchmen who hoard gold – rose that day to a fifteen year high of 50.4 francs (almost $10.24), *The New York Times*, 11 January 1967.

55. *Revue de la chambre de commerce française au Canada*, février 1967.

56. Brittan, *The Financial Times*, 2 January 1967.

57. *The Wall Street Journal*, 18 January 1967.

58. Voting inside the IMF required then a 80 percent majority. As the U.S. had 22.29 percent of voting rights, the 5 common market nations currently had a total of 16.84 percent of voting rights. France's suggestion was to increase this to over 20 percent, so that the Common Market nations, as long as they took a common line, would also have had veto powers. They could thus block Anglo-American proposals for the creation of a new reserve unit to supplement gold, dollars and pounds. *The Wall Street Journal*, 1-20-67.

59. Janssen, *The Wall Street Journal*, 20 March 1967.

60. *The Wall Street Journal*, 20 March 1967; *The New York Times*, 17 April 1967.

61. *The Financial Times*, 22 May 1967.

62. *The Journal of Commerce*, 25 May 1967.

63. *The Washington Post*, 26 November 1967.

64. Vicker, 28 November 1967.

65. Bordo, 1993, p. 66-67.

66. Dam, 1982, p. 154.

67. Dam, 1982, pp. 163-164.

68. Williamson, 1977, p. 22-23. France and the U.S. interpreted the agreement differently, France believed that the SDR scheme could be activated only when the U.S. balance of payments deficit was eliminated. However, the French were not successful in making the elinination of the U.S. deficit a condition. This was in opposition to the American view that the introduction of SDRs would allow a reduction of its deficit.

69. *The Financial Times*, 27 September 1967; Fisher, 27 September 1967.

70. These conditions were a collective agreement that a liquidity shortage existed; an improvement in the operation of the adjustment process, and the elimination of payments deficits of reserve currency countries. Jay, *The Times* (London), 27 September 1967.

71. Tanner, 23 November 1967; Tanner, 25 November 1967.

72. *The Journal of Commerce*, 6 November 1967.

73. Lee, 24 November 1967.

74. Farnsworth, 24 November 1967.

75. Lee, 24 November 1967. At the end of January 1968, as reported by the Federal Reserve Board, the total U.S. gold stock was at $12,003,000,000 down about $1,200,000,000 from a year before and at the lowest level since 1936. *The Wall Street Journal*, 29 February 1968.

76. Our emphasis.

77. Vicker, 28 November 1967.

78. Farnsworth, 25 January 1968; *The Wall Street Journal*, 29 February 1968.

79. Davidson, 26 February 1968.

80. This was a clever way of pressuring the remaining common market countries since they would lose their veto power with the IMF at the time of implementation of the new liquidity scheme if the French opted out of the implementation of the new liquidity plan (Fabra, 29 February 1968).

81. Despite the fact that France was no longer a participant to the gold pool, its importance on financial markets should have dictated its presence at these meetings. It was said that France was excluded from these Washington meetings due to its pattern of consistently leaking news to *Le Monde*. Heinemann, 19 March 1968. Indeed, "On the crucial Monday following the devaluation of the pound, Paul Fabra, one of the financial editors of *Le Monde* printed the highly confidential figures of the loss suffered during the previous months by the gold pool. Since then, he has had exclusive stories, many of them correct, often at precise moments when they hurt American and British

policies. But high officials of the French foreign and finance ministries staunchly deny that Mr. Fabra's "leaks" came from any French source. They countercharge that the information must have come from other European sources." Tanner, 24 March 1968.

82. Heinemann, 19 March 1968.

83. Rowen, 20 March 1967.

84. Tanner, 24 March 1968.

85. Davidson, 30 March 1968.

86. Lee, 31 March 1968.

87. Le Monde, 6 April 1968.

88. Le Monde, 6 April 1968.

89. Mathieu, 6 April 1968.

90. Triffin, 1968.

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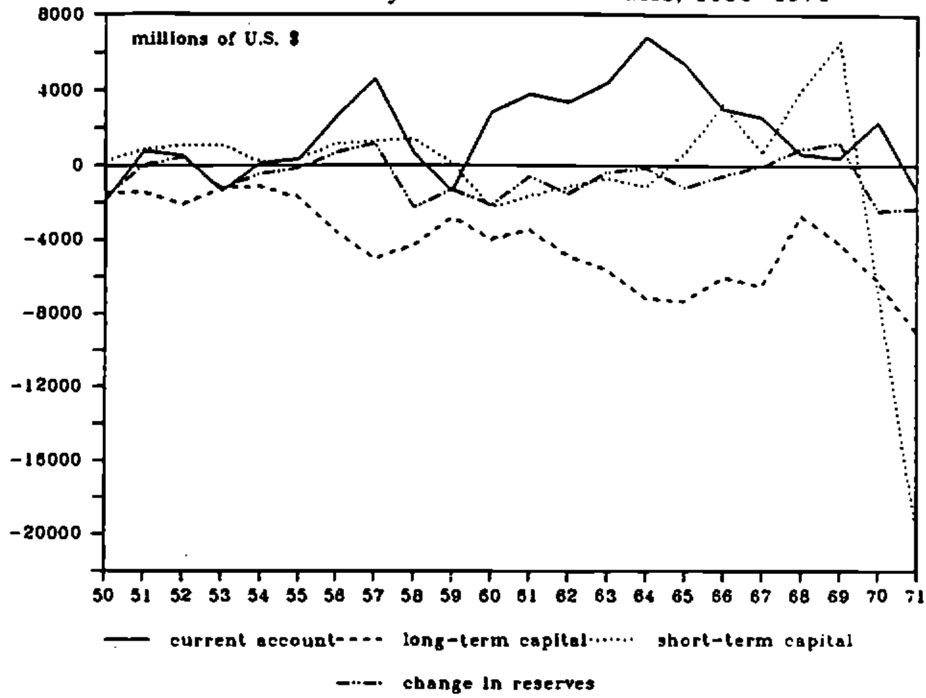
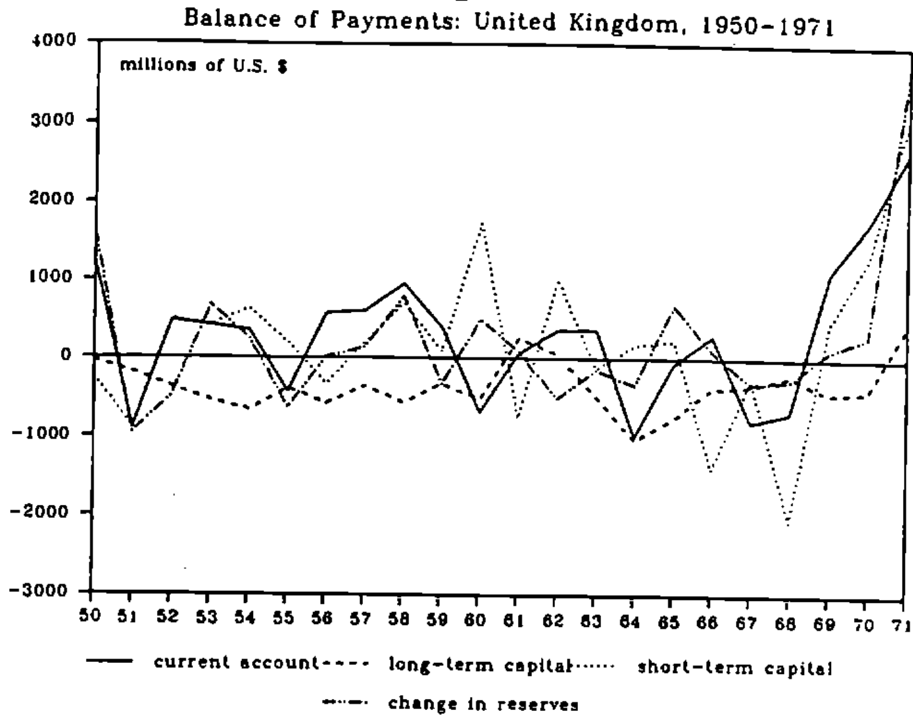
Figure 1

Balance of Payments: United States, 1950-1971



Source: Bordo (1993)

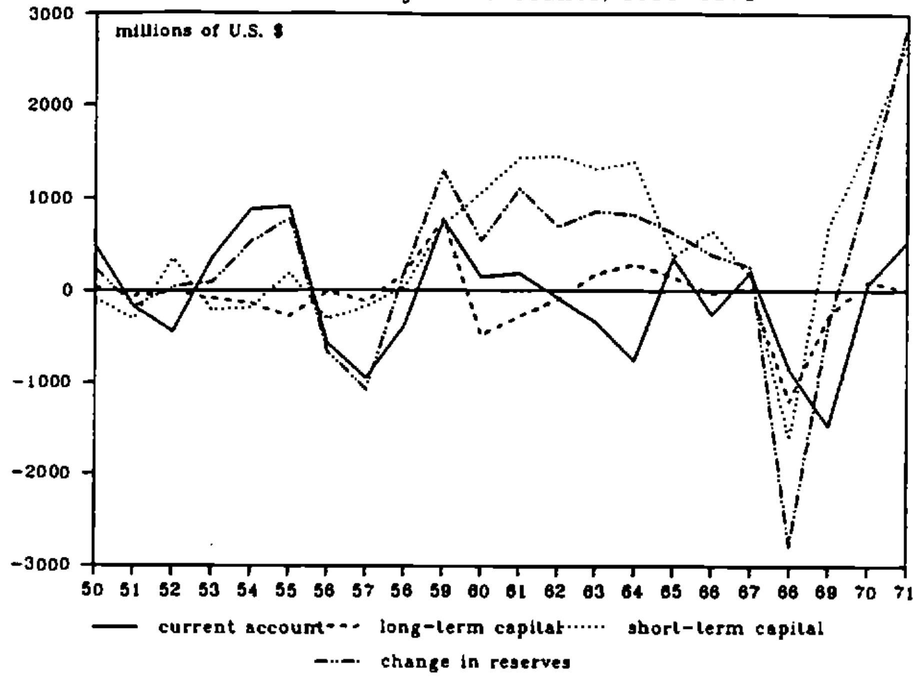
Figure 2



Source: Bordo (1993)

Figure 3

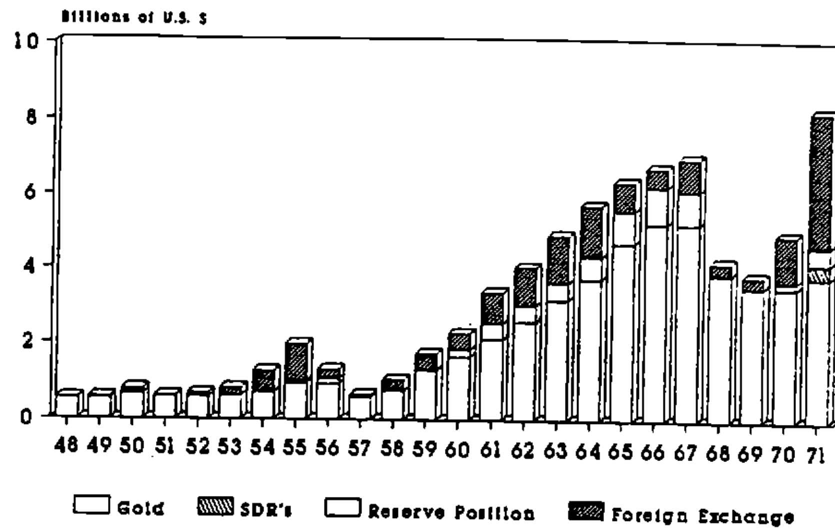
Balance of Payments: France, 1950–1971



Source: Bordo (1993)

Figure 4

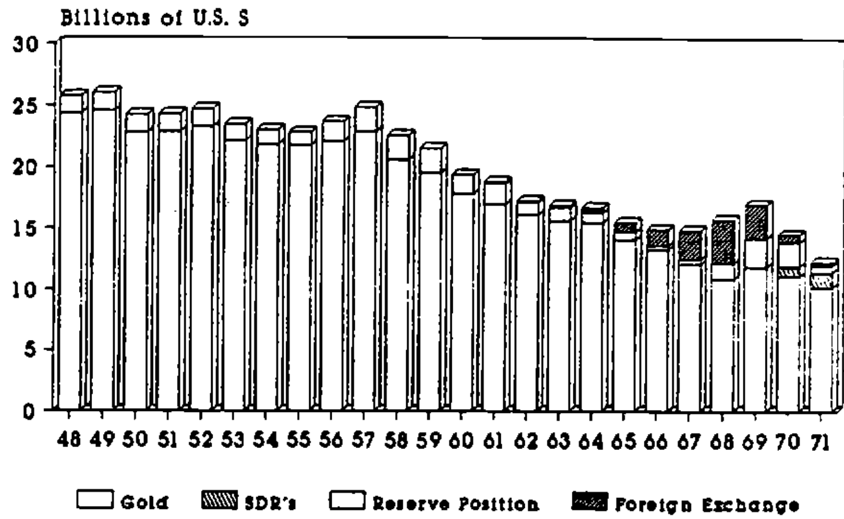
France International Reserves



Source: IMF Financial Statistics

Figure 5

United States International Reserves



Source: IMF Financial Statistics