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France and the Breakdown of the Bretton Woods International Monetary System

Prepared by Michael D. Bordo, Dominique Simard and Eugene N. White 1/

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Abstract

French international monetary policy under Charles de Gaulle is re-examined in this paper. We argue that the objectives of French policy in the 1960s were consistent with plans developed in the interwar period and Bretton Woods of establishing a symmetrical and co-operative gold-exchange standard. The conventional American view that France purposely converted dollars into gold after 1965 to provoke the collapse of the Bretton Woods System incorrectly interprets the French strategy of using proposals for an orthodox gold standard and dollar conversions as tactics to induce the United States to cooperate in a reform of the international monetary system.

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1/ Michael D. Bordo is a Professor of Economics at Rutgers University and was a visiting scholar in the Research Department. Dominique Simard is an assistant Professor of Economics and Eugene N. White is Professor of Economics at Rutgers University. For helpful comments and suggestions, we would like to thank Stanley Engerman, Adam Klug, David Llewelyn, Jacques Melitz, Alan Milward, Jacques Polak, Leslie Pressnell, Angela Redish, Hugh Rockoff and Pierre Sicsic. Able research assistance was provided by Jakob Koenes.

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Summary

This paper examines French international monetary policy under President Charles de Gaulle. It challenges the widely held interpretation of France's role in the breakdown of the Bretton Woods international monetary system. In this view, the demise of Bretton Woods in 1971 can be traced back to the deliberate conversion of dollars into gold by France, beginning in 1965. These actions are considered part of President de Gaulle's broader challenge to U.S. military and economic pre-eminence in Europe. According to this perception, French policy is viewed as opportunistic and lacking in consistency, alternating between cooperation, offering unacceptable reform proposals, and assaults on the dollar. Persistent U.S. balance of payments deficits provided France with large dollar holdings whose conversion into gold would embarrass the United States and reduce its dominance.

The paper argues that French policy in fact followed well-established objectives, first articulated in the interwar period, that aimed at the creation of a symmetrical and cooperative gold exchange standard. The recommendations of the Financial Commission at the 1922 Genoa Conference, the Tripartite Agreement of 1936, and the French Plan of 1943 preceding Bretton Woods all offered projects to produce such a system. France's economic malaise prevented it from playing an important role in the immediate post-World War II design of the international monetary system. However, once the economy was stabilized in 1958, France re-emerged as a major player in international finance. The French Government believed that the Bretton Woods system conferred an extraordinary position on the United States as the provider of a currency that was held as official central bank reserves. This position permitted the United States to finance a persistent balance of payments deficit without making significant adjustments, while threatening to export inflation to other countries. The paper contends that French policy was a response to this perceived threat and represented an effort to offer a more advantageous alternative.

According to the paper, a close study of events reveals that the French followed a careful strategy of using proposals for a return to an orthodox gold standard and dollar conversions into gold as tactics to induce the United States to cooperate in a reform of the international monetary system. The paper asserts that relations between France and the United States can be characterized as a noncooperative bargaining game with a rational threat. In this game, the equilibrium--the Bretton Woods regime--was sustained by the threat of French dollar-for-gold conversions. This equilibrium broke down following the intensification of the Vietnamese war. The war was a fiscal shock that altered the payoffs and led the United States to pursue a high rate of monetary growth, even though this implied that France's best response would be to convert dollars into gold and consequently risk the possible collapse of the Bretton Woods system.

Introduction

The commonly held belief in the United States is that France played a crucial role in the breakdown of the Bretton Woods international monetary system which ended in August 1971. According to this established view, the French began a policy of deliberately converting their dollar holdings into gold in 1965. Pressure on U.S. gold reserves weakened confidence in the dollar and ultimately precipitated the collapse of the system. This interpretation of France's international monetary actions during the 1960-1968 period posits French policy as pursuing President de Gaulle's "anti-American" political goals rather than any sound economic objectives: "...a strong challenge to Bretton Woods and through Bretton Woods to the United States had already been launched by President de Gaulle of France. The French had long made plain their sensitivity to perceived encroachments on their autonomy and a strong antipathy to what they felt was the economic domination of Europe by the United States." (Volcker and Gyohten, 1992, p. 42).

This widely held view draws support from the obvious fact that French policy was a challenge to the economic and political dominance of the United States in Western Europe. Under the gold-dollar standard--the legacy of the Bretton Woods international monetary conference of 1944--the United States benefitted from the extraordinary position of being the provider of a currency which was held as official reserves convertible into gold by central banks. This position enabled the United States to finance ongoing balance of payment deficits without having to make the adjustments required of other deficit countries.

The size and persistence of American balance of payment deficits were of particular concern to France during the 1960s. The conventional view attributes French complaints strictly to nationalistic political considerations, based on the observation that the United States had a deficit in its capital account and American companies were making massive investments in Western Europe. Thus, it is argued, the French Government resented an international monetary regime which allowed the United States to expand its influence in Europe with more military bases and increased control by American investors of French industry. As long as the United States government was able to finance its balance of payments deficit by issuing dollars which its trading partners would automatically hold as reserves, U.S. power would expand. Hence, the challenge to the gold-dollar standard by the government of General de Gaulle during the 1960s is perceived by proponents of the traditional view as evidence that French international monetary policy primarily followed nationalistic political dictates.

As further evidence that French criticism of the international monetary system strictly 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 moved 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, then to advocating a return to the gold standard, back to a system of reserves denominated in currency units tied in some proportion to gold, and then back again to the gold standard. In 1966, when the United States started to view more favorably the modification of the international monetary system by including a new system of supplementary reserves close to what the French had advocated earlier, the French took a stand against it. As reported in numerous newspaper articles at the time, observers believed that the French government was using its financial policy as a weapon to further the General's political objectives.

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.

This paper is organized as follows. In section II, we describe the French Plan of 1943, its historical antecedents in the gold exchange standard and the Tripartite Agreement, and the reconstruction of France as an economic power from 1945 to 1958 under the rules of the Bretton Woods international monetary system. In section III, we present the chronology of events leading to France's challenge of the Bretton Woods international monetary system as it had developed in the 1960s. The important fact to note is that the French government would shift its stand in favor of a return to the gold standard during periods when the American government displayed less willingness to negotiate a reform of the international monetary system. In section IV, we use a game theoretical framework to discuss why the French would have preferred a system along the lines of the proposals of the Financial Commission at the Genoa conference or the Tripartite Agreement of 1936 to the Bretton Woods' asymmetrical gold-dollar standard of the 1960s. French international monetary policy thus emerges as rational and driven by consistent long-term policy objectives.

II. France and the Bretton Woods System, 1945 - 1958

The Articles of Agreement signed at Bretton Woods in July 1944, creating the International Monetary System which prevailed until the summer of 1971, represented a compromise between plans sponsored by the U.S.--the White Plan for an "International Stabilization Fund" (July 1943)--and by

Britain--the Keynes Plan for an "International Clearing Union" (April 1943). 1/ However, many other countries including France were present at the conference and were consulted in the deliberations leading up to it. The French Plan "Suggestions Regarding International Monetary Relations" reported in *The New York Times*, May 9, 1943 and reprinted in Horsefield (1969) Volume III, pp. 97-102, was written in response to the British and American Plans. At the Bretton Woods conference in July 1944, the French did not offer a plan of their own, the delegates Pierre Mendes-France and André Istel gave support to the final agreement (*Bretton Woods Proceedings*, pp. 1114-5.) 2/ The 1943 Plan we believe gives valuable insights into the views of French policy makers.

The Plan was drafted by Messrs. Hervé Alphand and André Istel, with the help of other high officials of the French Treasury. Alphand was a former French financial attaché in Washington. In wartime London, he worked for General de Gaulle on financial and economic issues, including postwar monetary arrangements (Kuisel, 1981, pp. 160-161). Istel was a former advisor to the Reynaud government and a negotiator of the Franco-British agreement of 1939 (*The New York Times*, May 9, 1943). Unlike the Keynes and White Plans, the French Plan was not an official Plan, but according to the Memoirs of Alphand (Alphand, 1977), de Gaulle supported its positions, albeit ex post. 3/

Under the French Plan the participants would have fixed their official parities in terms of the currencies of the other participants. These parities would only have been changed after consultation. The parities would have been maintained by intervention of each member transacting with the monetary authorities of the other members. Each member would hold other members' currencies, to increase liquidity, up to limits. To protect the members from exchange risk, collateral (in the form of gold, foreign bills, raw materials, approved securities, etc.) would have been required for its own currency held by the monetary authorities of another participating country. A Monetary Stabilization Office was suggested as a possible mechanism to facilitate clearings, to serve as a depository for the collateral, and as a method of international consultation (Horsefield, 1969, Vol. I, p. 37).

1/ For a discussion of the Plans and of the literature on the origins of the Bretton Woods conference see Bordo (1993).

2/ The French accepted but did not applaud the Bretton Woods Plan. In a speech at the Sorbonne in 1944, André Istel hedged whether the plan would achieve its goals of recovery, growth and stability, allowing it to be "a remarkable and constructive effort. In general it is by successive iterations by error and adjustments, that most of humanity's great tasks are accomplished" (Istel, 1944, p. 6).

3/ During the war, de Gaulle tried to steer clear of conflicts in his camp between socialists and liberals over economic policy. Rather than formulate policy, he stated it would be decided after liberation. (Kuisel, 1981, pp. 160-161)

According to the Plan (Horsefield, 1969, Vol. III, p. 100), the system could be considered "as a first step toward a general return to an international gold standard." This would have occurred because of the link between the dollar and gold. By successfully pegging their currencies in terms of dollars, gold could be used by members both as an international reserve asset and an international means of settlement. Members later could have defined their currencies in terms of a fixed weight of gold. However, the restored gold standard would not have been regulated automatically by the classical adjustment mechanism. It would have been managed by monetary authorities using their discount rates to preserve both internal and external balance. 1/

The French Plan of 1943 and the French proposals for international monetary reform in the 1960s had strong antecedents 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, which would have fixed parities. 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 (Triffin, 1960; Solomon, 1982; Bordo, 1993). If one country is responsible for providing the non-gold component (convertible in gold) of official reserves to the rest of the

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1/ 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). Williams would have had the U.S. and Britain follow the experience of the Tripartite Agreement of 1936. In the Williams plan, the monetary authorities of the U.S. and Britain would have set up a joint Exchange Stabilization Fund to stabilize the dollar-pound exchange rate. The two countries would also have co-ordinated their monetary policies to maintain full employment. Other countries would initially be allowed to float until their currencies could be stabilized in terms of the key currencies. Ultimately, the world would evolve into a key currency system with other countries using the key currencies to finance payments imbalances.

world via a deficit of its balance of payments, and if these deficits are persistent, the country's liabilities may start exceeding 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 of the 1960s.

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. 1/ 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 (Eichengreen, 1992, pp. 158-159). Following the recommendations at Genoa, many countries adopted statutes permitting their central banks to back their liabilities with foreign exchange in addition to

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

gold. Most also adopted fixed gold cover ratios (Eichengreen, 1990, p. 248).

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 Agreement 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 stabilization funds successfully reduced currency fluctuations (Eichengreen, 1992, pp. 278-281). The predecessors to the French Plan of 1943 shaped French thinking about international financial arrangements.

But the French vision was not apparent at the Bretton Woods conference. The Articles of Agreement at Bretton Woods contained a number of features which differed from the French Plan. Three points are pertinent here. (See Bordo, 1993, pp. 34-36). First, 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. Secondly, members were supposed to make their currencies convertible for current account transactions (Article VII), but capital controls were permitted (Article VI.3). However, countries could avoid declaring their currencies convertible by invoking Article XIV, which allowed a three-year transition period after establishment of the Fund. Finally, as under the White Plan, members could obtain resources from the Fund to help finance short or medium-term payments disequilibria.

The System faced a number of problems in getting started. It took twelve years before the system achieved full operation. It was not until December 1958 that the Western European countries made their currencies convertible for current account transactions. (Although the obligations to Article VIII were not formally accepted until February 1961). Under the system, each member, (except the U.S.) 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. The U.S. Treasury in turn pegged the price of the dollar at $35.00 per ounce by freely buying and selling gold. Thus, each currency was anchored to the dollar and indirectly to gold.

Instead of the symmetrical arrangement conceived by the architects, the system that developed in the decade after 1945 evolved into an asymmetrical variant of the gold exchange standard--the gold dollar system (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. Parallel to the decline of sterling was the rise in the dollar as a key currency. 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 international reserves. Thus the convertible Bretton Woods system that began at the end of 1958 was a gold dollar standard under U.S. dominance.

French influence in the early years of the postwar monetary system was almost minimal because of the enormous problems of domestic reconstruction. France's weak position gave the United States, and by extension the IMF, an ability 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, under Article IV, Section 5, censured France for creating broken cross rates between the dollar and other currencies, thereby diverting exports to be re-exported to the U.S. via France (Horsefield, 1969, p. 203). France was then denied access to the Fund's resources until 1952. Italy also followed a similar practice but was not denied access to the Fund. The only other country to be denied access to the IMF's resources in response to a par value violation was Czechoslovakia in 1953, (Dominguez, 1993, p. 36). This event may have influenced French attitudes towards the Fund in future years.

In response to the IMF, France ended the broken cross rates and adopted a stabilization plan. France's return to stability was aided by rapid economic growth under the Marshall Plan. The stabilization plan fixed the exchange rate at Ffr350 to the dollar in 1949. The early to mid-1950s witnessed a period of unsurpassed rapid economic growth and price stability in France. This spurt masked the underlying problems of a large and growing budget deficit. When economic growth began to slow, inflation and balance of payments problems arose.

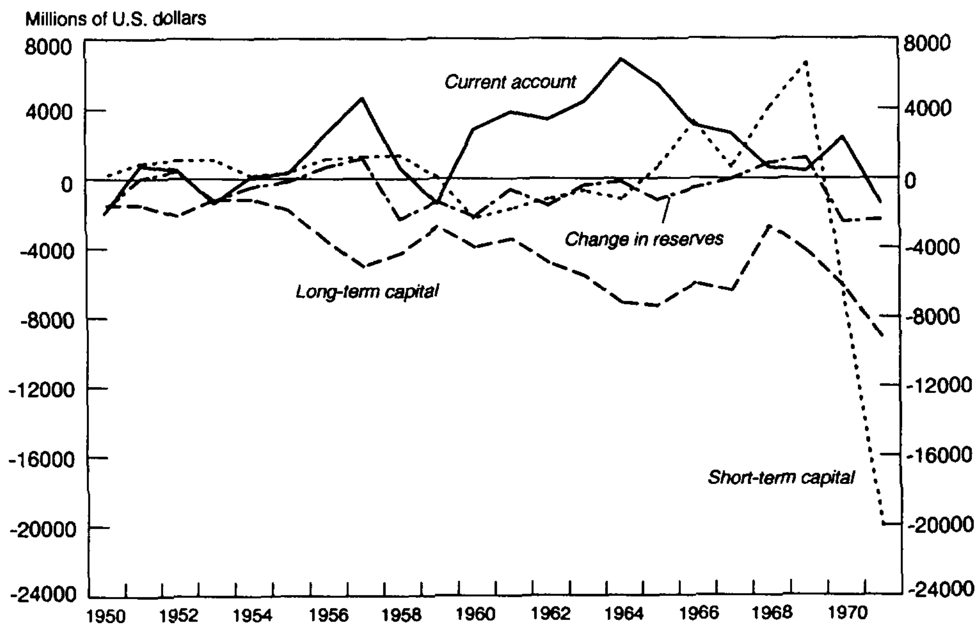
The solution to this long term problem came with the proclamation of the Fifth Republic in 1958 and the political consolidation under President de Gaulle. The severe cuts in expenditure and tax increases that were required to close the deficit were enacted and the franc was devalued in 1958 to Ffr493.7 to the dollar. The result was the "Grande Epoque" of 1959-1967. The stern stabilization measures 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 that it was time to move away from the use of the dollar as the key reserve asset and towards the use of gold. This policy continuity was partly the result of a continuity in personnel. In 1958, Jacques Rueff, then Inspector-General of Finance, was the head of the special commission (and principal author) that wrote the *Report on the Financial Situation of France* (Rueff 1963). Virtually all the recommendations in the report were adopted by De Gaulle's government in its reform decrees of 1958. Afterwards, while he did not assume an official role, he appeared to have considerable influence on the French government, especially the Elysée Palace (Le Monde, December 15, 1963). Jacques Rueff's principal link to President de Gaulle was Maurice Couve de Murville (New York Times, April 2, 1965), foreign minister from 1958 to 1968 and then premier from 1968 until de Gaulle's departure. Rueff was an important figure in French policy during the interwar years and Couve de Murville had been his assistant in the French Treasury during that period. Rueff advised Poincaré on the stabilization program in 1926 (Rueff 1967). Rueff was also a key player in the Tripartite Agreement of 1936. He was the financial attaché at the French Embassy in London during the crucial years, 1930-1936, and upon returning to France became the Director of Mouvement Général des Fonds from 1936 to 1939.

Rueff's interpretation of the failure of the Tripartite Agreement is in sharp contrast to the British view, and it is informative about French intentions in the 1960s. Rueff (1963) praised Britain for leaving gold in 1931. France had to abandon its parity in 1936 but it did so "unfortunately without turning off the inflation tap--thus leaving herself open to a gradual depreciation of her currency," (Rueff, 1963, p. 19). 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. By obtaining internal balance, the government could credibly set a new exchange rate parity. In Rueff's eyes, 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 dominating role of the U.S. dollar. In an article that received widespread attention (Rueff 1961), published in many newspapers and magazines on both sides of the Atlantic, Rueff, with the apparent approval of the French government, criticized U.S. policy. Like Robert Triffin's famous study, *Gold and the Dollar Standard* (1960), Rueff pointed to the huge build up over the period 1951 - 1960 of U.S. balance of payments deficits totalling $18.1 billion (See figure 1). These deficits were allowed to persist for ten years because the U.S. was not really 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 reserve center it was permitted to generate new internal purchasing power. To remove the danger, Rueff recommended the introduction of a new symmetric

Figure 1
Balance of Payments: United States, 1950–1971



Source: Bordo (1993).

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 which could be eased by raising the price of gold.

III. France's Strategic International Monetary Relations 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 the government supported all of Rueff's prescriptions for a new international monetary system. It is likely that the harder line advocated by Jacques Rueff--the return to a pure gold standard--was 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 to 1968 period seems to indicate 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. The first one, from 1960 to the end of 1964, was characterized by a more conciliatory position of the French government towards the United States, while the second one, from January 1965 to May 1968, was 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, which followed upon the demise of the Gold Pool and the creation of a two-tier gold pricing system in March--an event that threw off course the de Gaulle government's strategy for the modification of the gold-dollar standard.

1. 1960 - 1964

At the beginning of this period, the French government showed little official concern about the depletion of American gold reserves. In a speech in Washington, on September 29, 1960, the French Minister of Finance, Wilfrid Baumgartner attributed the growing U.S. balance of payment deficit to temporary political uncertainty about the upcoming Presidential election. This relatively relaxed outlook stood in contrast to the view of Selwyn Lloyd, the British Chancellor of the Exchequer, who stated the deficit was a result of a "fundamental disequilibrium" (*The Journal of Commerce*, September 29, 1960). However, I.M.F. statistics show that France more than doubled its holdings of gold in 1960, most of which was purchased from the

U.S. Treasury by converting French dollar holdings 1/ (*The Journal of Commerce*, November 4, 1960).

The year 1961 was marked by a disagreement between France and the reserve currency countries, Britain and the U.S., over a plan to expand the IMF's resources. Known as the General Arrangements to Borrow (GAB), this scheme was originally proposed by Per Jacobssen the managing director of the IMF and promoted by the reserve currency countries. The GAB would have added another $6 billion in commitments by member nations (to the existing $10 billion limit on gold and hard currency resources of the IMF) (Horsefield, 1969, Vol I. pp. 502-520). It would make resources available to the Fund for emergencies such as the defence of the dollar against speculative attacks (*The Wall Street Journal*, April 11, 1961). The French and the Dutch expressed some difficulties with the original scheme. They were unpersuaded that there was a serious shortage of world reserves, and they feared that the scheme would provide a "seemingly limitless" source of reserves for nations in difficulty, thus watering down the "discipline" imposed on national financial policies by the existing system (*The New York Times*, May 1, 1961). It was during this debate that Rueff's widely reprinted article attacking the U.S.'s persistent deficits, first appeared.

At the annual IMF meeting in Vienna on September 21, Wilfrid Baumgartner defended his opposition to the British-American scheme by, recommending that care should be taken to avoid having currency convertibility jeopardized by insufficiently precise procedures 2/ (*The Journal of Commerce*, September 21, 1961). France, acting as spokesman for the Common Market countries, appeared to win this debate when on December 13 after a meeting of the finance ministers of the G-10 in Paris, Wilfred Baumgartner announced that the additional credits would not be "purely and simply" put at the disposal of the IMF, instead they would be submitted to examination and subordinated to guarantees which would be discussed at meetings of the G-10 Finance Ministers (*The Financial Times*, December 14, 1961).

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 officially 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

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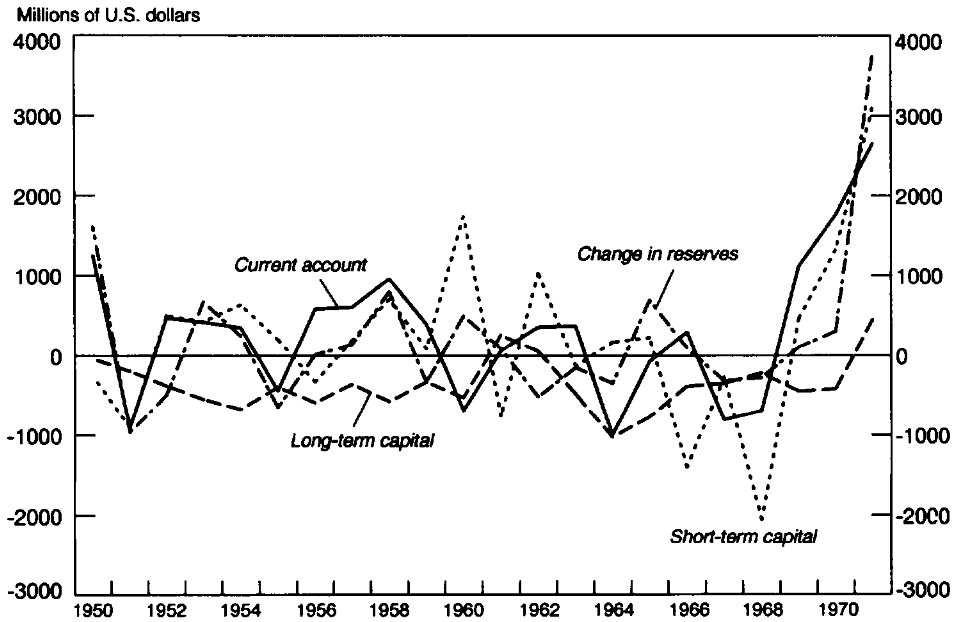
1/ "IMF statistics show that...in January of 1959 France's gold reserve stood at $812 million. In September of this year the French gold stock had risen to $1,627 million. French short term dollar assets in the meantime rose from $656 million in the first quarter of 1959 to only $726 million in mid-1960." (*The Journal of Commerce*, 11-4-60)

2/ He made two additional points: (1) automatic rigid solutions like the proposed scheme should be avoided, (2) automatic compensation of capital movements might entail a danger of widespread inflation. (*The Journal of Commerce*, 9-21-61)

Figure 2
Balance of Payments: United Kingdom, 1950–1971



Source: Bordo (1993).

d'Estaing, the new Minister of Finance, warned that the countries responsible for providing the reserve currencies should reestablish equilibrium in their balance of payments. He stressed that this goal was more pressing than the reform of the international monetary system 1/.

On March 5, 1963 Jacques Rueff warned that the surplus of purchasing power in France (due to its accumulation of international reserves see figure 3) was a grave threat to the 1958 economic recovery. 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 veiled reference to President de Gaulle (*The Financial Times*, March 6, 1963).

Rueff's diagnosis was shared by the French authorities but neither the government nor the Bank of France followed his radical prescription. Instead, they sought changes within the existing system. In the Bank of France's 1962 annual report, Governor Jacques Brunet condemned any change in the current international monetary system (*The Financial Times*, May 7, 1963). On September 10, 1963, on the occasion of a meeting of finance ministers of 6 European Common Market countries in Paris, Giscard d'Estaing held a press conference and 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" (*The New York Times*, 9-11-63). On October 2, 1963, at a meeting of the IMF governors in Washington, Giscard d'Estaing criticized the international

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1/ "The stability of (the international monetary system) is giving rise to two problems different in nature and chronologically distinct. The first concerns the pressure brought to bear of late on certain currencies, especially those whose traditional role is to make international reserves. The second is that of ascertaining whether there exists a satisfactory relationship between international liquid assets and the quantity of transactions they allow. It is obvious that the terms of these problems are different. It is no less clear that the first is a source of present concern whereas the other pertains to the future. As far as recent differences are concerned, they seem to proceed less from the concept of the international monetary system than from problems peculiar to certain currencies. Their solution must be sought in the practical rather than the theoretical field. To my mind, international monetary equilibrium results from the sum of balanced individual currencies as does any equilibrium. Individual balances have to be strengthened. If anything is beyond imagination, it is to alter the concrete terms of a problem. No expedient or aid or compensatory device can dispense with the initial need to balance a currency for any length of time." (Giscard D'Estaing, 9/18/62) monetary system on three points: (a) "the lack of mechanisms to correct balance of payments' deficits; (b) the asymmetry between countries whose currencies were held as reserves by other countries, which theoretically had an easy means of financing deficits, and the rest of the world, that had no such means; and (c) the unevenness between countries of the risk of holding reserves, depending upon the type of reserves--those countries that held gold running the largest risk that their holdings would be subjected to devaluation" (Devries, 1976, Vol. I, p. 30). In November 1963, Giscard d'Estaing declared in the French National Assembly that no monetary regime is harsher than the gold standard on political, economic and social grounds because it required the tight control of all credit 1/.

However, the French government did not speak with one voice, and the Elysée Palace followed a more orthodox line on the gold standard (à la Rueff) than the Bank of France or the Finance Ministry (Le Monde, December 15, 1963). This widely reported divergence may have been purely strategic. While the French government criticized the United States for running large balance of payment deficits, the Bank of France and the Federal Reserve Bank of New York engaged in currency swaps. On June 10, 1964, the two institutions agreed to a $50 million exchange, where the French central bank could transfer this sum in US dollars from its own account to that of the Federal Reserve and in turn, receive the equivalent amount in French francs (*The New York Times*, June 11, 1964). These tactics were in complete contrast to the official position.

The next switch in French policy occurred on September 9, 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. He emphasized that: (1) gold remained at the heart of the international monetary system, but (2) additional liquidity was required, (3) multilateral surveillance to prevent destabilizing policies was essential and (4) the financing of long term deficits with short term assets must be avoided. (*Summary Proceedings of the Tokyo Annual Meeting of the Board of Governors of the International Monetary Fund*, Washington, 1964, pp. 201-207). To provide more liquidity Giscard declared support for creating a new reserve asset along the lines of the composite or collective reserve unit (CRU) scheme first suggested by Edward Bernstein, the former Research Director of the IMF) 2/.

1/ "monsieur Giscard d'Estaing a declaré à l'Assemblée Nationale à propos de l'étalon-or:" Il n'y a pas de régime plus dur politiquement, économiquement et socialement, car il signifie la suppression de tout credit." (Jeune, Novembre 1963)

2/ Under the Bernstein Plan, each member of the G-10 (plus Switzerland) would subscribe an amount of its own currency to a pool and receive in exchange a corresponding amount of CRU's, which could then be used as equivalent to gold. Each country would hold reserve units totalling at least one half of its gold reserves. (Bernstein, 1963, pp. 1-8)

The French proposal for a new international reserve asset along the lines of the CRU was vigorously opposed by Douglas Dillon, Secretary of the U.S. Treasury (*The New York Times*, September 12, 1964) and by Reginald Maudling, the British Chancellor of the Exchequer (*The New York Times*, September 11, 1964).

Behind this evolving official policy, the French continued to accumulate dollar reserves and to convert them into gold, thus preparing the basis for the next stage of the game. By December 31, 1964, gold accounted for 73 percent of French reserves (*The New York Times*, April 20, 1966). See Figure 4.

2. 1965 - May 1968

In early 1965, the French began to aggressively convert dollars into gold (*The New York Times*, January 5, 1965). On January 12, 1965, during a luncheon address to the Franco-Japanese Press Association, Giscard d'Estaing defended the dollar for gold conversions. He claimed that doing nothing would bring on a crisis faster and that it was now necessary for all those responsible for the world monetary system to act jointly to reform the monetary system. Setting the stage for de Gaulle, he boldly advocated a return to the original system created at Bretton Woods (*The New York Times*, January 13, 1965).

On February 4, 1965, during a press conference at the Elysée Palace, 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 was now serving to cloud the fact that the system provided substantial seignorage to the U.S.. He recommended that the international monetary system be changed and mentioned the reinstitution of the gold standard as a possibility, given consultation among all the main financial powers within the existing forums, including the IMF "......once it was no longer a matter of perpetuating the gold exchange standard, but of replacing it" 1/. Although such a leading

1/ Charles de Gaulle (1965), p. 7.

authority as Triffin (1965) disputes it 1/, de Gaulle was then widely perceived as having publicly adopted Rueff's views for the first time and of disavowing the Finance Ministry's CRU proposal.

Following the President, Giscard d'Estaing gave a speech at the University of Paris Law School on February 11. In the speech he elaborated on the French objections to the existing international monetary system: the asymmetry of the balance of payments adjustment mechanism between reserve currency countries and other deficit countries; its fragility because of the potential of a run on U.S. gold reserves; and its inflationary bias (DeVries, 1976, Vol I, p. 62). The French position on gold was put forward by the Minister of Finance's call to the world's leading financial powers to sign a solemn declaration pledging themselves to settle their international debts only in gold. However, Giscard d'Estaing's speech cannot be interpreted as strictly a stand in favor of the gold standard, because a large portion of his exposé focused on what the Bretton Woods accords initially meant for the International Monetary System and how it had evolved away from its initial intentions 2/.

One can surmise that French officials mentioned a return to the gold standard or an increase in the price of gold as a form of threat to the U.S. with the apparent aim of furthering international negotiations to reform the international monetary system. Indeed, while Jacques Rueff made it clear that he was not speaking for the French government, he recommended on April 15, 1965 that the dollar price of gold be doubled. This statement was widely reported in the American press (*The New York Times* and *The Journal of Commerce*, April 16, 1965), only to be followed in May by Giscard saying on a French television program that France had never taken a position on the

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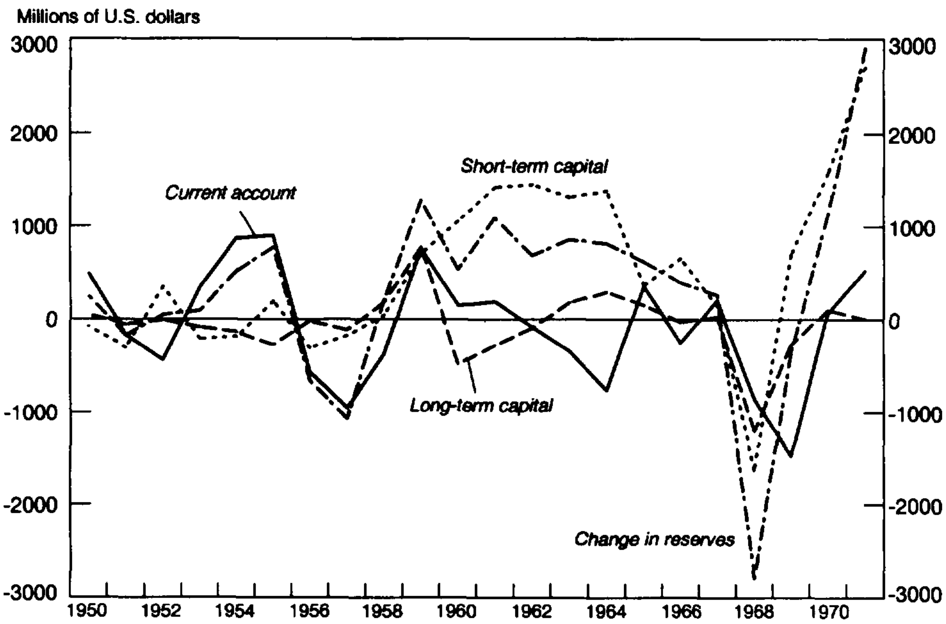
1/ "I find it difficult to believe that President de Gaulle has really reversed the position of France in this respect, and has now rallied to the views of Jacques Rueff, ...one of the most prominent proponents of a return to a pure gold standard. Such views were well known by de Gaulle six months or a year ago as they are now, and he has completely rejected them at the time. His speech of February 4 specifically refers not only to gold, but also to the studies and negotiations now under way in the IMF and the Group of Ten to organize, on a more solid and appropriate basis, the international credit system necessary to complement gold metal in the renovated gold standard which he envisages as a substitute for the present gold exchange standard." (Triffin 1965)

2/ "The (Bretton Woods international monetary) system has gradually changed in nature and has become a system characterized by the holding of very large amounts of a single currency. We therefore found ourselves placed again (as in the aftermath of the international monetary system designed at the Genoa conference), without anyone probably realizing it clearly, on a sort of *de facto* gold-exchange standard, consisting in holding substantial amounts of the currency of a single State." (Valéry Giscard d'Estaing (1965))

Figure 3
Balance of Payments: France, 1950–1971



Source: Bordo (1993).

question of a rise in the price of gold (*The New York Times*, May 16, 1965).

During a lecture delivered by Valéry Giscard d'Estaing at the Institut d'Etudes Bancaires et Financières on June 15, the French proposals for the CRU were detailed and explicitly linked to guidelines established at the Genoa conference of 1922. 1/ 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 (Williamson, 1977, p. 20 and Solomon, 1982, p. 76). From the French perspective, this system would have constituted an improvement over the gold dollar 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 semester of 1965 was marred by disagreements between the U.S. and France. They sparred 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 clash between the French and American views was highlighted in the Ossola Report, published on August 11 by the group of Ten (*The Financial Times*, August 11, 1965). The Report considered the merits of alternative proposals for increasing world liquidity: the creation of reserve units by a group of countries (including various CRU schemes); proposals to create reserve accounts through the IMF; and schemes to provide holders of currency with an alternative asset (Devries, Vol. 1, 1976,

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1/ "The most simple way (of collective reserves creation envisaged by us), and one which would enable the device to be gauged forthwith, would be the deposit solution. These cross-deposits would guarantee the operation to begin with and illustrate the reference to gold in the scheme. This reference would re-emerge in the distribution of these reserve units when carried out in proportion to the holdings in gold. These units would replace gold to some extent in all uses between member countries. Everything would be enacted as though central-bank settlements were affected in equal amounts by collective reserve units and gold. This would lead back to the inspiration of Genoa by a roundabout way. What the Genoa conference sought to do and wisely so was to economize on the use of gold. Its efforts were unsuccessful and it would be needless for me to hold yet another post-mortem. They were unsuccessful because the idea of economizing on gold was distorted into a substitution for gold in its monetary uses of currency which did not hold out the same conditions of stability and creation." (Giscard d'Estaing, 1965)

p. 60). 1/ At the end of a year when the French proposal for international monetary reform was criticized by the reserve currency countries, the percentage of gold in French official reserves had climbed to 86 percent (*The New York Times*, April 20, 1966) (See Figure 4). Furthermore, Michael Debré replaced Valéry Giscard d'Estaing as Minister of Finance, a move that was perceived at the time as a strengthening of the orthodox Gaullist line in the French government.

The entire year 1966 witnessed a theater of confrontation between the U.S. and the French government 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 (in the forums dedicated to the revision of the international monetary system) between the Common Market countries and the United States.

The payoffs to the French strategy in 1966 were twofold, if small. First, at a meeting at the Hague on July 26, the Finance Ministers of the G-10 countries partially espoused a view stated earlier by the French and the other EEC countries by recommending that "there should be a better balance of payments equilibrium between members" before any monetary reform could take place, 2/ and by indicating 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) (*The Washington Post*, July 27, 1966). 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 France

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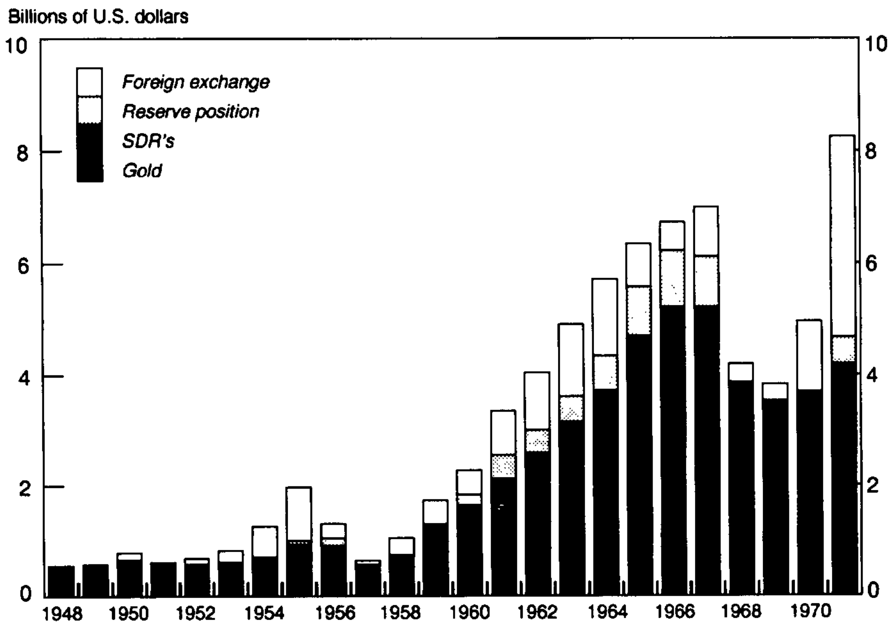
1/ In particular, the report focused on the four main political problems which had to be solved before any reform of the monetary system could be brought about: (1) Should there be a link between a new reserve asset and gold, and how close should it be? (2) Should a new reserve asset be confined to a limited group of industrialized countries, like the Group of Ten or extended to all IMF members? (3) Should the new reserve asset be created through the IMF or independently? (4) Should decision-making on the use and distribution of the new asset be based on unanimity or some form off majority voting? (*The Financial Times*, 8-11-65).

2/ However the French Finance Minister, Michael Debré 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*, 07-27-66).

Figure 4
France International Reserves



Source: IMF Financial Statistics.

would make it clear that she would not favor an increase in the world price of gold (*The Financial Times*, December 31, 1966). 1/

At a meeting of the Deputies of the G-10 in Paris, at the end of January 1966, Frederick Deming, the U.S. Under Secretary of the Treasury, suggested a currency reserve unit not linked to gold as a possible way to increase world liquidity (*The Journal of Commerce*, February 1, 1966). 2/ The American plan also offered to increase the drawing rights of member nations in the IMF (*The Journal of Commerce*, February 1, 1966). The main players in the French government then decided to adopt a hard bargaining line by publicly considering a return to the gold standard and temporarily dropping their support for the CRU 3/.

For nearly nine months France opposed new discussions on international monetary reform, merely putting itself in an isolated position. On September 12 after a meeting of the Common Market Finance Ministers France indicated that it would agree to study alternatives to increasing international liquidity, while maintaining its opposition to an increase, until the U.S. had achieved payments balance. (*The New York Times*, September 13, 1966).

1/ 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.

2/ According to Solomon (1982, pp. 128-129) the U.S. CRU plan was part of a 'dual approach' to reserve creation by the Dillon Committee of the U.S. Government. The other strand emphasized the creation of a new reserve asset in the form of increased automatic drawing rights at the IMF.

3/ On February 5, 1966, it was reported in *The Washington Post* that French negotiators had been instructed to press as hard as possible for the most conservative solution. On March 5, 1966, it was reported in *Le Monde* that de Gaulle had met the previous Friday at the Elysée Palace with Pompidou (premier), Couve de Murville (minister of international relations), Debré and Jacques Brunet, governor of the Bank of France. The President declared that the CRU project had to be abandoned, at least temporarily. On March 8, 1966, during a meeting of the G-10 in Paris, French officials took the position that the only aspect of international finance that could be fruitfully discussed at the present time was the U.S. balance of payments situation. On April 20, 1966, in an article of *The American Banker*, Debré restated France's monetary stand. After repeating the usual French criticisms of the dollar-exchange standard, brushing an historical portrait of France's recovery and reminding the world of the colossal amount of reserves accumulated by France, he asserted the following: "To the French Government balance of payments deficits and surpluses should be settled in gold, the only reserve instrument that has a universally recognized and unquestioned objective value." (reported in *The New York Times*, April 20, 1966)

Michel Debré's conciliatory position was maintained throughout the annual IMF meetings, which started on September 27 in Washington, and contrasted with the French government's posturing in the first semester on gold. In a speech during the meetings, Debré took the same line of criticism of the dollar exchange standard as his predecessor Giscard d'Estaing 1/. During these meetings, Debré tacitly accepted U.S. Treasury Secretary Fowler's timetable for approval of a contingency plan for the creation of a new international reserve instrument at the next annual IMF meeting. "By the end of next year, Mr. Debré predicted, a plan for deliberate creation of some form of reserves to supplement gold, US dollars and pounds will be undergoing ratification in the Free World's parliaments." (*The Wall Street Journal*, September 30, 1966). Furthermore, he 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 (*The Wall Street Journal*, September 30, 1966). 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 (*The New York Times*, December 3, 1966).

On November 29 in Washington at the first Joint meeting of the Deputies of the Group of Ten and the 20 Executive Directors of the IMF 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 (*The Washington Post*, November 30, 1966). 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 should be paid in gold in accordance with the fund's statutes." (*The New York Times*, November 30, 1966) Aside from these issues, the report reflected the general perspective of the French

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1/ On September 27, 1966, the salient points of Debre's speech were the following: (1) No monetary system could be based on anything but gold, (2) The U.S. dollar was seeking to replace gold and should be stopped from doing so, (3) There was an overall excess of international liquidity which threatened inflation on a global scale. In addition, he said that the gold exchange standard system had been seriously perverted because an attempt was being made to bring it systematically to the level of a world-wide rule to the benefit of a single currency. He claimed that the gold exchange standard seemed to be dangerous since there was no corrective mechanism to offset the deficit of certain reserve currencies. He concluded his expose by saying that, in short, the incessant issue of reserve dollars provoked an unlimited outflow of capital and that this situation caused a world wide inflationary trend which casted a growing shadow on the future. The cure was a respect for fundamental equilibria and the acknowledgement of gold as an international currency (*The Financial Times*, September 28, 1966).

government 1/. At first, the Ministry of Finance's spokesman said that the report represented 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" (Nossiter, November 30, 1966).

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 proportions to gold. Whenever their demands were not given due consideration by the United States, representatives of the French government resorted to advocating either an increase in the price of gold or the return to the gold standard as a monetary regime.

The world economy became more turbulent in the period January 1967-May 1968. 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 (Bordo, 1993). Following the devaluation of the pound in November 1967, the dollar began to weaken. Within this context, the lack of agreement between the French and the Americans encouraged the French to discuss the role of gold in the international monetary system more frequently. This may have contributed even further to the speculative attacks against the dollar. Although the French may have thought that the weakened position of the reserve currency countries benefitted them, their strategy backfired because of the breakdown of the Gold Pool and the creation of the two-tier gold pricing system. The gold dollar standard was defacto terminated ending the leverage conferred by dollar to gold conversions. Thus, this period merits close scrutiny.

1/ Mr. Pérousse said the reform of the international monetary system demanded that "different means should be explored" and added that the problems of gold had not been the subject of sufficiently deep studies. Pérousse also said that the creation of new reserves would be justified only in the case of a real need for extra reserves and "if it was not possible to meet the requirements by other means. As well, he added that "Even if we now base our reasoning on a theory of the maintenance of the price of gold unchanged for a generation, which has seen changes in all other prices, it seems adventurous to imagine in what circumstances such a need may crop up in the future." Pérousse also called for the following: multilateral surveillance in new fields such as: (1) condition of issue and (2) holding and circulation of reserve currencies. This was interpreted by observers as centering on the interest paid on dollars, one of the reasons why central banks maintained dollar reserves as opposed to gold. He also urged that in Washington, negotiators agreed to French demands to put gold on the agenda (*The New York Times*, November 30, 1966).

On January 9, 1967, a weekend statement by Michel Debré caused a fever of gold speculation in France 1/. *Le Monde* published Debre's declaration that France was still pressing for an international examination of the official fixed price of gold (*The New York Times*, January 10, 1967). Pressure on the gold markets put the U.S. on the defensive. 2/ On January 13, 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 Valéry Giscard d'Estaing when he was the Minister of Finance 3/, 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

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1/ 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*, January 10, 1967).

2/ On January 10, 1967, the U.S. Treasury issued the following statement. "The price of gold is determined by its relationship to the U.S. dollar. This relationship has been fixed at $ 35.00 per ounce since 1934 and will remain there. Any suggestion that the price of gold be raised--either to meet the needs of international liquidity or for any other reason--is completely unacceptable to the United States. Further international monetary arrangements must be based on this fact. This has been made clear to French financial authorities." (*The New York Times*, January 11, 1967)

3/ Consider the following excerpts from his speech: "Le dollar et la livre sterling ne devraient avoir un rôle à jouer que dans la mesure où ces monnaies servent de complément à l'or. Il est normal que le dollar et la livre sterling aient un rôle à jouer....La base du système est en fait le respect de l'étalon-or, comme d'ailleurs au lendemain de la deuxieme guerre mondiale, les experts réunis à Bretton Woods l'ont affirmé....Il est possible (mais je dis seulement il est possible) que le retour a un système, considérant que l'or est la monnaie de base des échanges internationaux, la monnaie élémentaire pour les réserves des banques centrales, fasse qu'on aboutisse à reconsiderer le prix de l'or"..."Ce que nous souhaitons, c'est qu'on établisse les rapports monétaires entre les nations sur une monnaies distincte, tout à fait distincte, des politiques nationales de chacun."..."...on établit un équilibre économique entre les nations et leurs coopération politique dans le respect de leur souveraineté." (*Revue de la chambre de commerce française au Canada*, février 1967) as a "bargaining chip" to obtain a more important voice for Europe in the revision of the international monetary system 1/.

France's stance became more conciliatory, both as a result of the "gentleman's agreement" concluded at the end of the previous year and of the lack of support from other Common Market countries on increasing the price of gold. On January 17, 1967, during the two day meeting in the Hague of the E.E.C.'s Finance ministers, Debré abandoned his demands for a reexamination of the price of gold at the following week's joint meeting between the Executive Directors of the IMF and the Deputies of the G-10 countries (*The Wall Street Journal*, January 18, 1967). He proposed instead that the Common Market countries' voting powers in the IMF be increased to a level comparable with that of the U.S. 2/ However, no progress was made at the joint meeting on January 27, 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 not to ask to buy gold except in the case of unavoidable need, despite the U.S. pledge to pay out gold at $35.00 per ounce (Janssen, *The Wall Street Journal*, March 20, 1967). During this period, the French attitude became

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1/ "One influential school of thought inside the French government is sympathetic to Mr. Rueff's plan for doubling the price of gold and would like this to be used as a bargaining counter with the British on the Common Market issue. But another, more orthodox, group--strongly entrenched in the Finance Ministry and the Central Bank--are, like their colleagues in other countries, deeply opposed to any radical international monetary upheaval. Members of this group would probably like to see the French government use its bargaining position to extract better terms in the discussions now going on in the Group of Ten on the creation of a new paper international reserve unit." (Brittan, January 2, 1967)

2/ 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*, January 20, 1967) more conciliatory towards the United States, 1/ as France was reported to have made advance repayments on its debt to the U.S. and to have refrained from purchasing U.S. gold for a few months (*The Wall Street Journal*, March 20, 1967).

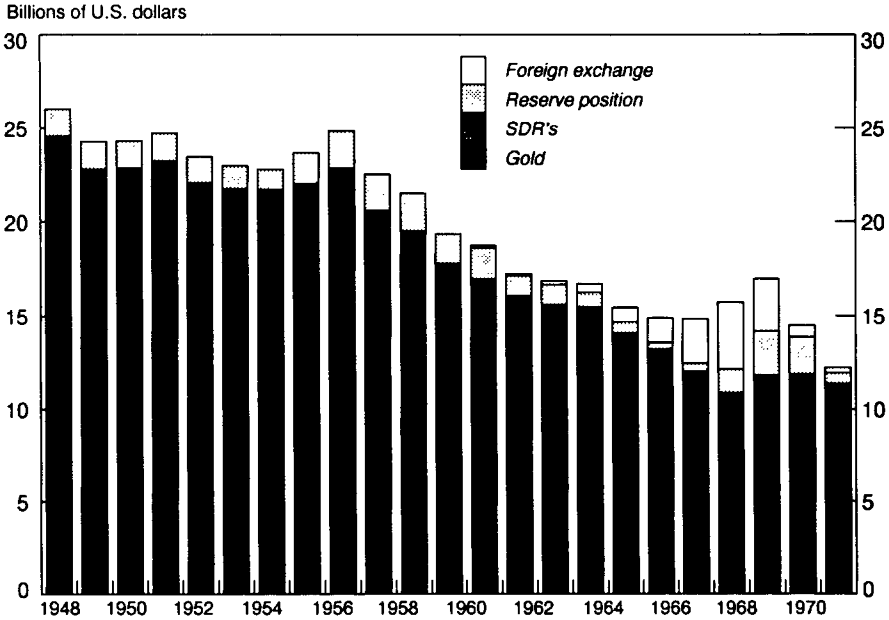
This perceived weakened position of the United States to ensure the full convertibility of dollars for gold did not bring it closer to an agreement on new reserve assets with the French or for that matter the other Common Market countries. Both a joint IMF/G-10 meeting in Washington on April 26 and a G-10 meeting in Paris on May 20 ended in a deadlock 2/. This lack of progress on the international monetary scene led the French government to harden once more its position on the creation of new liquidity. On May 24, 1967, René Larre, financial counsellor to the French embassy in Washington and executive director of the IMF, declared that the apparent 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 (*The Journal of Commerce*, May 25, 1967). 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. 3/ The United States then had to increase its contribution to the gold pool by the same amount, an additional 9 percent, formerly contributed by France (Vicker, November 28, 1967).

1/ On April 16, 1967, an apparent softening of the French position was reported. The French proposed that: when the U.S. would balance its international balance of payments and if a shortage of world liquidity developed thereafter, there should be an increase in borrowing rights at the IMF and a portion of these rights could be exercised *automatically*. The detail of the new French position was approved on the previous Thursday by de Gaulle in a top level strategy session at the Elysée Palace, in anticipation of the Munich meeting of the common market countries on April 17, 1967. (*The New York Times*, April 17, 1967)

2/ The meeting of the G-10 countries in Paris revolved around the problem of controlling a new reserve asset, which the Common Market countries wanted to take the from of additional drawing rights on the IMF. To make it of any value at all the new unit had to be available for settling international debts, though the French were anxious to prevent it from being used to finance persistent balance of payments deficits. In addition, the French, favoring some kind of repayment obligation, demanded that the new unit be considered more like credit than money. (*The Financial Times*, May 22, 1967)

3/ This decision was officially announced by the French Information Minister Georges Gorse on November 25, 1967. He said that "the decision taken by the Bank of France not to give new contributions to the gold pool "had been decided (in) June and then communicated to the other central banks. The Bank of France estimated that it was appropriate to limit its contributions to a ceiling fixed by common agreement on that date and should not commit itself beyond that." (*The Washington Post*, November 26, 1967)

Figure 5
United States International Reserves



Source: IMF Financial Statistics.

The closest the United States and France ever came to an agreement on international monetary reform was on August 27, 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. The main points of the new proposition were twofold. First, a Special Drawing Rights (SDR) scheme was elaborated as a contingency plan to remedy any potential shortage of world liquidity. Second, the ministers agreed that a majority of 85 percent of the total voting power of an IMF governors meeting would be required in decisions concerning the period, timing, amount and allocation of special drawing rights to a country in need--thus conferring veto powers to the Common Market countries (totalling 17 percent of the voting power in the IMF). This proposition was in line with the multilateral surveillance power constantly advocated by France.

A special drawing account was set up at the Fund, separate from the general account. In contrast to the early CRU scheme, access to SDRs was made available to all members, not just the G-10. Members were credited SDRs in proportion to their quotas. One SDR was equivalent to one gold dollar (Bordo, 1993, pp. 66-67). Also, unlike the CRU, the SDR was a fiat obligation; it was not backed by gold. Its acceptability stemmed from the obligation by other 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 (Dam, 1982, p. 154). To prevent the SDR from aggravating the confidence problem (Williamson, 1977, p. 23), the SDR could be used to finance only balance of payments deficits. Furthermore, members were required to hold on average a balance over a five year period of at least 30 percent of its allocation. This 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 (Dam, 1982, pp. 163-164). Otherwise, members were free to use SDRs unconditionally. To use them, 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 (Williamson, 1977, p. 22). As part of its continuing struggle against U.S. hegemony, France, in effect accepted the provisions that the SDR scheme could be activated only when the U.S. balance of payments deficit was eliminated. 1/ This was in opposition to the American view that the introduction of SDRs would then allow it to reduce its deficit.

1/ In actual fact, the French were not successful in making the elimination of the U.S. deficit a condition, but the procedures were so designed as to give the European Economic Community a veto over the timing and amount of any SDR allocation. (Dam 1982, pp. 165-66)

The apparent harmony between Europe and the United States disintegrated at the annual meeting of the World Bank and the IMF in Rio on September 25 to 29. U.S. Treasury Secretary Fowler reconsidered putting forward specific proposals giving a veto to the Common Market countries within the year 1/ (*The Financial Times*, September 27, 1967). Michel Debré replied by declaring that the agreements on reforming the IMF were an absolute condition for France's agreement to the liquidity plan. In addition, he repeatedly emphasized that France would not have supported the SDRs if they had been in any sense a substitute for gold as a basis of the world monetary system. He laid down the following three conditions for the activation of the SDR plan: (1) a collective agreement that a liquidity shortage existed; (2) an improvement in the operation of the adjustment process; and (3) the elimination of payments deficits of reserve currency countries (Jay, September 27, 1967).

The most significant event of the remaining part of 1967 was the devaluation of the pound on November 18. As displayed in figure 2, the United Kingdom had been experiencing serious balance of payments problems since 1964. The British counted on joining the Common Market to improve their position. However, at the end of October, Maurice Couve de Murville, the French foreign minister who was speaking in Luxembourg, laid down the following two conditions for British membership in the European Common Market: first, the British had to drop sterling as an international reserve currency and second, they had to achieve equilibrium in their international balance of payments (*The Journal of Commerce*, November 6, 1967). The French had succeeded in building a common front with the five other Common Market countries concerning their demands for a veto power within the IMF and of a reduction in the balance of payments deficits of the United States and Great Britain, the reserve currency countries.

In November, representatives of the G-10 countries conducted secret negotiations to support the pound. 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 2/ (Tanner, November 25, 1967). After a day marked by a rush on gold on the Paris stock

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1/ "Mr. Fowler said that if the proposals for the reform of the Fund put to the Executive Directors were controversial and involved a change in voting rights, it was certain that they could not be expected to put forward specific proposals next year. (The resolution under debate calls for proposals by the end of next March.)" (Fisher, September 27, 1967)

2/ In fact, France had no intentions of devaluing its currency. On November 22, Debré appeared on national television to reassure the French of their government's intentions after the devaluation of the sterling. He declared that there was no need for a devaluation of the Franc because only one tenth of France's trade was with Britain and that, furthermore: (1) the devaluation of the sterling was moderate, (2) France was strong, (3) the Common Market excluded the possibility for member countries to devaluate their currencies. (Tanner, November 23, 1967) market, 1/ the British currency was officially devalued by 14.3 percent (from \$2.80 to \$2.40) (Solomon, 1982) on November 18.

In the aftermath of the devaluation, the news that France had stopped contributing to the gold pool in June was leaked to the press (Lee, November 24, 1967). This set off a huge wave of buying on the London and Paris gold markets. 2/ 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 3/ (Lee, November 24, 1967). 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 November 27, President de Gaulle declared during a press conference in Paris: "It is *possible* 4/ 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" (Vicker, November 28, 1967).

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, a curb on capital exports that successfully lowered their outflow of reserves (Farnsworth, January 25, 1968; *The Wall Street Journal* February 29, 1968). All the Common Market countries except France perceived that this reduction in U.S. reserve outflow was creating a shortage of international liquidity. As a consequence, they did not want to impose a reestablishment of the U.S. balance of payments equilibrium as a prior condition to the introduction of new instruments of international liquidity. The Common Market countries'

1/ "Dealers at the Paris Bourse made a rush on the gold market today as a safeguard against a possible devaluation of sterling. They bought 12,270,000 francs (\$2,454,000) almost three times the amount traded yesterday. Buyers of gold were holders of sterling and of other European currencies that would have to follow suit if the pound was devalued." (Tanner, November 18, 1967)

2/ In London, "The current buying of gold as an apparent hedge against dollar devaluation soared on Tuesday, reached a record yesterday and intensified further today. Demand was said to have been in excess of that either during the Cuban missile crisis of 1962 or the Middle East was last June" (Lee, November 24, 1967). Meanwhile, the volume of trading on the Paris gold market represented about ten times more activity than during a normal trading session. (Farnsworth, November 24, 1967)

3/ 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*, February 29, 1968)

4/ Our emphasis.

united front in international monetary negotiations was showing some strain (Davidson, February 26, 1968).

During a meeting of the ministers of finance of the Common Market countries, ending in Rome on February 27, 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 implementing the scheme if it did not consider the circumstances favorable to the creation of new liquidity 1/. Thus, the Rome meeting failed to produce unanimous agreement by all the Common Market countries.

Mounting speculative pressure on the U.S. dollar in the gold markets quickly led to a momentous change in international monetary arrangements. On March 17, the remaining members 2/ 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 (Heinemann, March 19, 1967). The key decision 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 (Rowen, March 20, 1967).

1/ 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, February 29, 1968)

2/ 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, March 19, 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, March 24, 1968)

The French reaction to this event was to restate their public support for an international monetary system tied to gold. It was reported on March 24 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. What the French President [wanted], in effect, [was] a new Bretton Woods conference" (Tanner March 24, 1968). On March 29, at the opening of the Ministerial meeting of the Group of Ten in Stockholm, Michel Debré openly declared that there was a case for considering an increase in the price of gold. This was the first time that a French government official publicly stated his support for an increase in the price of gold 1/. In addition, he said that France would insist on a restrictive interpretation of the outline agreements reached between the Ten in London and at the IMF meetings in Rio in 1967 (Davidson, March 30, 1968). On March 30, 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 (Lee, March 31, 1968).

Michel Debré justified the French decision not to ratify the Stockholm agreement during the regular monthly meeting of the Parisian 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, that is, they were closer to money than to credit. Furthermore, he said, the proposal stated 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. Finally, 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. 2/

Debré enumerated the two fundamental principles guiding French international monetary policy: first, the international monetary system should be based on the equality of the industrialized countries and, second, all these countries' currencies had to 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 argued that these principles were closer in spirit to the initial intention

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1/ As usual, that strategy was effective. The reply of Secretary Fowler to Debré's speech "was taken to imply that the American delegation would be willing to drop its opposition to European demands for more stringent voting rules on major IMF decisions, so as to give the Common Market countries a blocking vote-provided the French made corresponding concessions on their side." (Davidson, March 30, 1968)

2/ "La France a donc décidé de ne pas entériner les propositions faites à Stockholm bien que sur plusieurs points la thèse française ait été entendue." (Le Monde April 6, 1968) 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." (Le Monde, April 6, 1968).

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. The recourse of mentioning the possibility of returning to an orthodox gold standard was used as a strategy by the French government to bring the Americans to agree on the modification of the international monetary system 1/. As argued by Triffin (1968), "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."

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. The events of May 1968 further ensured France's future impotence.

IV. A Noncooperative Bargaining Game with a Rational Threat

The international monetary relations between France and the United States in the 1960s can be stylized in terms of a game where the equilibrium sustained by the threat of French dollar-for-gold conversions eventually broke down following the escalation of the Vietnam War in the mid 1960s. The Bretton Woods gold-dollar exchange standard in the 1960s can be represented as an equilibrium where the United States was committed to peg the price of gold in terms of dollars at $35.00 per ounce while the

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1/ "Au total, le système monétaire que M. Debré esquisse ainsi n'est pas tellement différent de celui qui a été mis en place à Bretton Woods. Il ressemble en tout cas beaucoup plus au Gold Exchange Standard-correctement joué- qu'à l'étalon-or cher à M. Rueff. Et si le ministre de l'économie rejoint l'académicien dans son nouveau refus d'une démonétisation de l'or comme d'une monnaie-marchandise internationale, il s'en éloigne sérieusement en ce qui concerne la réévaluation de l'or envisagée." (Mathieu, April 6, 1968) remaining countries were committed to peg the prices of their currencies in terms of the dollar. There was an asymmetry in the system in the sense that the United States international reserves were essentially all in the form of gold while the remaining countries held reserves in the form of gold or dollars. Since dollar reserves paid interest, countries had an incentive to hold dollars instead of gold and dollars became a substitute for gold. As a result, while the money supplies in the remaining countries had to adjust endogenously to the movement of reserves required to peg the exchange rate at parity, the United States had full control over its money supply.

As suggested by Canzoneri and Henderson (1991), this situation can be viewed as a fixed exchange rate game where the leader (the reserve currency country) first determines its rate of monetary growth and the follower has to adjust its monetary growth in order to stabilize the exchange rate between the two currencies at the parity level. The asymmetry inherent in the Bretton Woods regime of the 1960s led the United States and France to play the fixed exchange rate game with different control variables. The United States, the leader, had full control over the rate of monetary growth while France, the follower, was faced with a portfolio choice in terms of the allocation of its reserves between dollars and gold. The optimal portfolio allocation between the two types of assets would depend on their relative expected returns. The return on dollar reserves was the rate of interest that they earned. The return on gold reserves was the expected welfare gain associated with converting dollars into gold. The expected welfare gain associated with converting dollars into gold hinged on the likelihood that the United States would abandon its commitment to peg the dollar price of gold, as a consequence of an excess in the world's demand for gold against dollars relative to the total stock of U.S. gold reserves. As a result of this situation and of its balance of payments surplus, France would benefit from the capital gain on its gold reserves that would follow an increase in the price of gold.

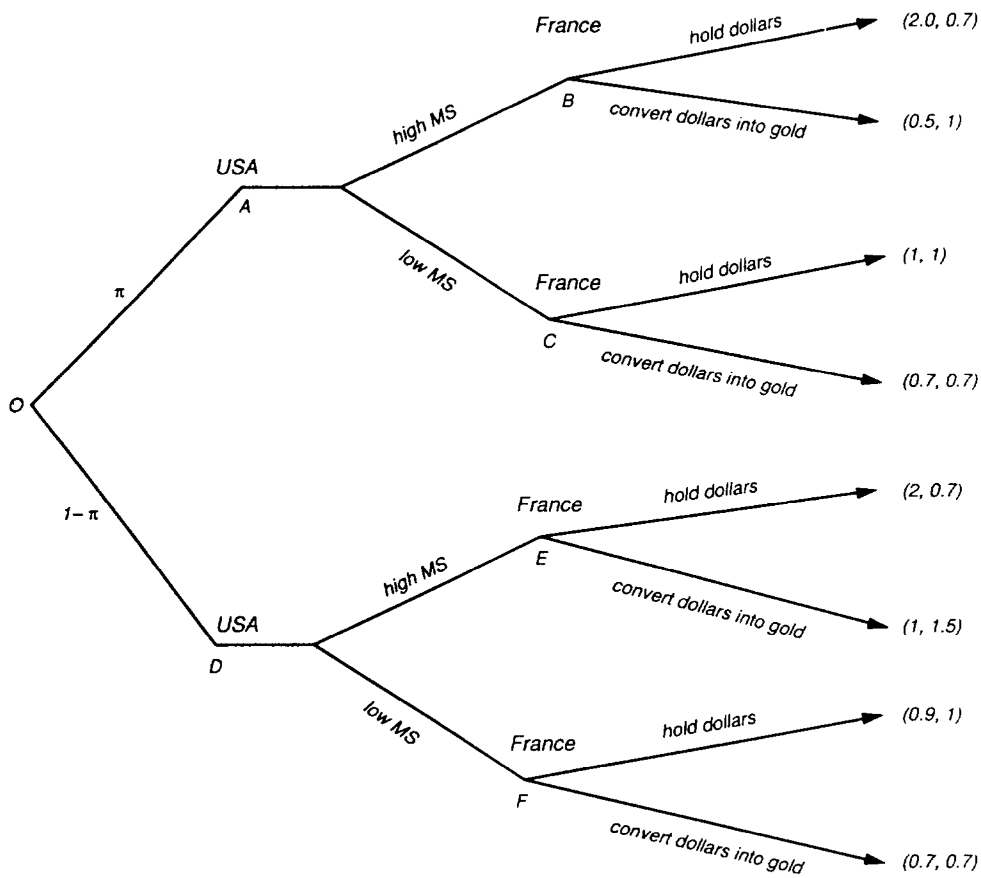
The game representing the earlier and later stages of the Bretton-Woods international monetary regime can be illustrated in the following extensive form:

The first number in each pair of payoffs accrues to the United States while the second one accrues to France. These numbers represent examples of the welfare level achieved by each country for different pairs of strategies carried on respectively by France and the United States. If France is willing to hold dollars as reserves, its welfare is lower for a high rather than for a low rate of monetary expansion by the United States. In the case of rapid U.S. monetary growth, given its commitment to peg the value of its currency to the dollar, France would have to adjust to its own domestic policy objectives, thus creating excessive rates of inflation. Given a large monetary expansion by the United States, France would achieve a higher welfare by converting its dollar reserves into gold than by holding the additional dollars because the expected welfare gains from increasing its stock of gold would alleviate some of the welfare costs from excessive inflation.

In turn, for any given rate of monetary growth, the United States would be worse off if France converts its dollars into gold than if it just holds dollars as reserves. French dollars for gold conversions would deplete the stock of U.S. gold reserves and weaken the ability of the United States to back up its currency in circulation throughout the world with its official reserves, in turn threatening the American leadership position. Following the root of the above decision tree are two branches associated with π and $1-\pi$ respectively, associated with the probability of a low and a high fiscal shock randomly experienced by the United States. Once this fiscal shock is realized, at nodes A or D, the U.S. monetary authorities must decide on a low or a high rate of growth of the U.S. money supply. Once the U.S. chooses its rate of monetary growth, France must decide on whether to hold dollars as reserves or to demand conversion of its dollar reserves into France's best interest, the U.S. determines its optimal strategy and the international monetary equilibrium is established.

When the low fiscal shock is realized, the United States' decision node is at point A. If it chooses a high rate of monetary growth thus placing France at decision node B, France will respond by converting dollar reserves into gold and earn a payoff of 1 instead of 0.7, the United States would then collect a payoff of 0.5. Instead, if the United States chooses a low rate of monetary growth and places France at decision node C, France will choose to hold dollar reserves and earn a payoff of 1 instead of 0.7. The resulting payoff to the United States will be 1. In sum, when faced with a low fiscal shock, the United States chooses a low rate of monetary growth. Under this circumstance, France's threat of converting dollar reserves into gold is an effective means of keeping the U.S. rate of monetary growth in check. This mechanism breaks down when the United States is confronted with a high fiscal shock instead. This shock alters the payoffs associated with the various strategies and leads the United States to choose a high rate of monetary growth, even though it is aware that France's best response to this choice of monetary policy is to convert dollar reserves into gold.

Figure 6


France
hold dollars
(2.0, 0.7)
B
convert dollars into gold
(0.5, 1)
high MS
USA
A
low MS
France
hold dollars
(1, 1)
C
convert dollars into gold
(0.7, 0.7)
π
O
1−π
France
hold dollars
(2, 0.7)
high MS
E
convert dollars into gold
(1, 1.5)
USA
D
low MS
France
hold dollars
(0.9, 1)
F
convert dollars into gold
(0.7, 0.7)

This game in extensive form represents a threat-induced equilibrium which eventually broke down when the United States intensified its military commitment in the Viet Nam War in 1965. The Johnson administration chose to finance these additional fiscal expenditures more by increasing the rate of money growth rather than by increasing taxes. The shock caused by the Viet Nam War led the United States to choose a higher rate of monetary growth, despite the French threat of converting its dollar reserves into gold.

Once the U.S. chose to increase the rate of money growth, the best French response was to carry out its strategy of converting its dollar reserves into gold. The move to this new equilibrium inaugurated a new phrase in Franco-American international monetary relations. The French believed that an equilibrium where they would systematically convert U.S. dollar reserves into gold would quickly undermine the United States' leadership position in the international monetary systems by draining them of their gold reserves and bringing them to agree on a revision of that system. The French prescriptions for the international monetary system corresponded to a cooperative regime where the decision to create new liquidity would have to be jointly made by Western Europe and the United States. Any new liquidity would have to be distributed in fixed proportions to existing gold reserves. New liquidity would be formed by a basket of currencies instead of a single one, ensuring that no country would have gained seignorage rights at the expense of the rest of the G-10. This proposed monetary regime would therefore have had an automatic mechanism for balance of payments adjustment, thus limiting the potential negative spillover effects which arise when a reserve currency country finances persistent balance of payments deficits by issuing additional currency. Furthermore, any source of international spillovers remaining under this proposed international monetary regime would have been fully internalized by the joint nature of the decisions made by the United States and Europe, with France as its spokesman.

Since the United States was better off under the asymmetric leader-follower equilibrium represented by the gold-dollar standard than under the symmetric cooperative equilibrium represented by the French gold-exchange standard proposal, it was unwilling to support the international monetary reform implied by moving from the former equilibrium to the latter as long as it had enough gold reserves to honor its commitment to peg the price of gold at $35.00 per ounce. France's strategy was, on the behalf of Western Europe, to pressure the United States into supporting the reform via France's impact on the market for gold.

The United States regularly intervened on the gold market to peg the gold value of the dollar. Whenever the French government gave the impression that it favored the gold standard and/or an increase in the price of gold, it would drive up the price on the free market for gold. 1/ In turn, the United States had to accommodate the demand for gold by selling its gold reserves, thus increasing the gap between its liabilities and its reserve assets. This posed a menace to the reserve currency status of the dollar.

In 1965, once France was pushed to intensify its dollar for gold conversions as a result of the increased rate of monetary growth in the United States, it had converted enough of its reserves into gold that its threat of pressuring for an increase in the price of gold was credible. An increase in the price of gold would have entailed a substantial windfall redistribution in favor of France. Also, by 1965, U.S. gold reserves had fallen below those of the EEC countries. This made U.S. officials acutely aware of a potential confidence crisis.

If France had actually implemented her threat and persuaded other Common Market countries to go along with her--by declaring unambiguously their support for an immediate increase in the price of gold and/or in a return to a more symmetrical gold exchange standard as soon as possible--speculative pressures could have made the United States abandon its commitment to peg the value of the dollar in terms of gold, destroying the foundation of the gold-dollar exchange system. In that situation, in addition to the United States losing its privileged position of seignorage, the international monetary system would have been plunged into considerable uncertainty, which the French regarded as potentially more costly than moving, in a managed fashion, to the alternative equilibrium they proposed.

By using Jacques Rueff's prescription for the international monetary system--to increase the price of gold and return to the gold standard--as a rational threat, the French government may, in our view, therefore have gambled that it would induce the United States into negotiating a revision of the international monetary system along the lines of the cooperative symmetric equilibrium with a built-in balance of payments adjustment mechanism that France had envisioned for the international monetary system. However, the collapse of the gold pool and the establishment of the two-tier gold price system de facto ended the gold dollar standard and moved the system to a dollar standard. The demonetization of gold at the margin in turn greatly weakened the leverage that the French and other continental gold holding countries had over the U.S. and hence effectively precluded the outcome of a symmetrical gold exchange standard which the French desired. France's influence on international monetary affairs was further weakened by the social and political upheaval of May 1968, which forced France to turn

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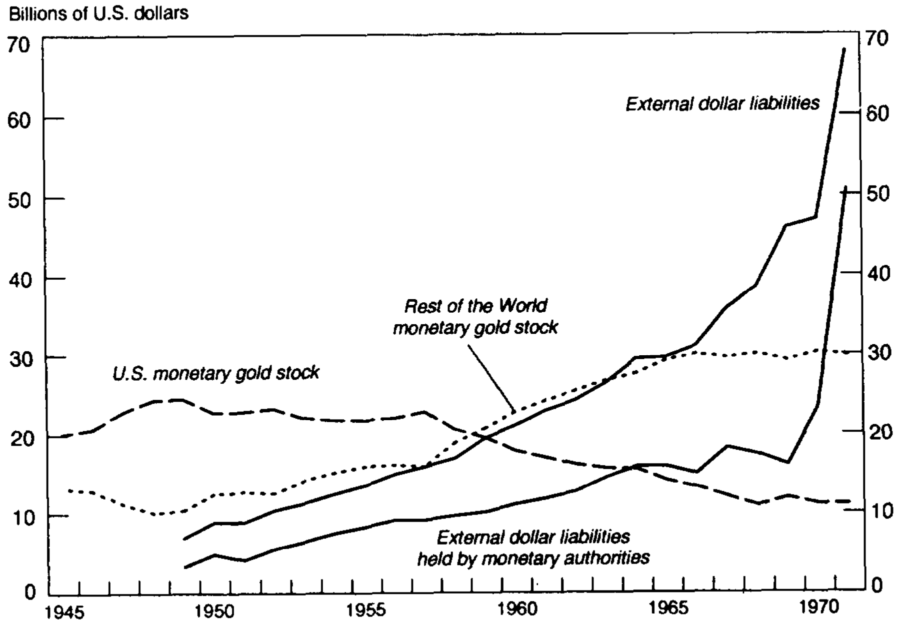
1/ Under the gold-dollar standard, as long as the U.S. government was willing to intervene in the gold market to stabilize the price of gold at $35.00 per ounce, speculation against the value of the dollar was a one-sided bet where there were potential gains (should the United States stop pegging the value of the dollar in gold) and virtually no losses.

Figure 7
Monetary Gold and Dollar Holdings:
The U.S. and the rest of the World, 1945–1971



Source: Bordo (1993).

to the United States for support in its balance of payment difficulties. 1/

V. Conclusion

A frequently stated view in the United States is that France's international monetary policy in the 1960s was an instrument to further President de Gaulle's political goals rather than designed according to any sound long run economic objectives, and as such was one of the causes of the demise of the Bretton Woods international monetary system. Contrary to this view, we argue that France's international monetary policy was conducted according to a vision of the international monetary system that was rooted in the monetary arrangements of the interwar period. This vision was expressed in a consistent fashion through the 1960s. As opposed to the gold-dollar standard into which the Bretton Woods system had evolved by the 1960s, France preferred a gold-exchange standard that would have been based on greater cooperation between Europe and the United States and that would have provided for more equitable balance of payments settlements. France's international monetary policy was conducted as a non cooperative game with a rational threat in order to pressure the United States to move from the asymmetric leader-follower equilibrium of the gold-dollar standard to the symmetric cooperative equilibrium of the French vision of a gold-exchange standard. The threats were provided by President de Gaulle himself, who occasionally made official statements that could have been interpreted as supporting a return to the gold-standard. According to our analysis, the political stature of President de Gaulle was used as an instrument to further a constant and economically rational French position on the international monetary system.

1/ The dollar standard regime collapsed in 1971 as a result of the highly inflationary monetary policies pursued by the United States from 1968 until 1971.

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