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A “Barbarous Relic”: The French, Gold, and the Demise of Bretton Woods

By Michael J. Graetz and Olivia Briffault

By the time 730 delegates from 44 countries met at the Mount Washington Hotel in Bretton Woods, New Hampshire, in July 1944 to create a new post-war international financial order, two decades had passed since John Maynard Keynes had described the gold standard as a “barbarous relic.” But the French were never convinced: to them, gold was the key to international monetary stability and an essential paving stone for their path to global political prominence.

The French attachment to gold dates back as far as the French Revolution. In 1789, the National Assembly began issuing “assignat” or paper money backed by the value of the properties that had been confiscated from the Catholic Church. Rampant inflation and illegal exchanges for old regime coins caused the assignat to depreciate quickly. In an attempt to combat this hyperinflation, Napoleon established official bimetallism in 1803 with the fixing of the ratio of silver to gold at 15:1/2:1.¹ The history of the assignat and the first major hyperinflation instilled in French politicians a fear of hyperinflation and a preoccupation with the stability of gold.

¹ Michael Bordo and Finn Kydland, “The Gold Standard as a Rule,” *Federal Reserve Bank of Cleveland Working Papers* 9205 (1992).

By the end of the nineteenth century, not only France but also the United States and all the powers of Europe had adopted a gold standard that permitted people to convert their money into gold on demand. Gold served as the “nineteenth-century global monetary anchor.”² Indeed, from the earliest use of bills and coins as money until August 1971 money was a claim on gold.³

On Sunday, August 15, 1971, at 9:00 p.m., Richard Nixon, the thirty-seventh president of the United States, announced what he called a “New Economic Policy.” Most of what he said described domestic economic policy changes designed to help ensure Nixon’s reelection the following year: income tax cuts for the middle-class and for businesses, elimination of an excise tax on automobiles, and most dramatically, a 90-day freeze on all U.S. wages and prices along with a new government agency (the Cost of Living Council) to maintain price stability after the freeze expired. Nixon also announced a ten-percent surcharge on all imports. Finally, in a move that, along with the import surcharge, produced shock and dismay around the world, Nixon announced that the United States, which had long been willing to exchange dollars for gold at the rate of \$35 per ounce, would no longer do so routinely at any price.⁴

Beyond understanding that this meant the U.S. dollar would be devalued, especially against the Japanese yen and the German mark, no one knew exactly what Nixon’s “closing the gold window” implied. But it soon became clear that in a few short paragraphs the president had dismantled the existing international monetary system and abrogated the agreements of Bretton Woods, a key plank of which had required each country to maintain the exchange rate of its

² Ibid., 81-83.

³ Benn Steil and Manuel Hinds, *Money, Markets and Sovereignty* (Cambridge: Yale University Press, 2010), 88.

⁴ Nixon’s speech on going off the gold standard is available at <http://www.presidency.ucsb.edu/ws/?pid=3115>. See also Richard Nixon, Executive Order 116165 – Providing for Stabilization of Prices, Rents, Wages, and Salaries (August 15, 1971), <http://www.presidency.ucsb.edu/ws/?pid=60492> and Proclamation 4074 – Imposition of Supplemental Duty for Balance of Payments Purposes (August 15, 1971), <http://www.presidency.ucsb.edu/ws/index.php?pid=107023>.

currency within one percent of a specified value of gold. What would follow, however, was unknown.

The French knew what they wanted: a return to a gold standard with its price doubled. No topic sounds more grounded in economics than international monetary arrangements. But for the French—without denying the critical economic role of international currency relationships—international politics had long played a crucial role. To achieve its political and economic objectives, the French hungered for gold to be reinstated as the centerpiece of any worldwide monetary agreement.

Before Bretton Woods

Richard Nixon was not the first U.S. president to abandon the gold standard. In 1933, shortly after Franklin Roosevelt took office, the U.S. – faced with a growing imbalance of payments with imports exceeding exports despite large tariffs – dissolved the link between the dollar and gold. By executive order, Roosevelt required private citizens to turn their coins and bullion over to the Federal Reserve and prohibited any exports of gold. Congress then followed with a law overriding the gold payment requirements of public and private contracts, a decision that was ratified by a 5-4 vote in the Supreme Court two years later.⁵ Roosevelt had become convinced that his only choice was between devaluation of the dollar or domestic deflation, and he preferred the former, a sentiment shared by the twenty-five other nations, including the UK, that had already devalued and de-linked their currencies from gold beginning in 1931.⁶

The French, however, stayed on the gold standard, and that produced serious imbalances between the value of the French currency and those of the U.S. dollar and UK sterling. By going

⁵ Benn Steil, *The Battle of Bretton Woods: John Maynard Keynes, Harry Dexter White, and the Making of a New World Order* (Princeton: Princeton University Press, 2013), 25.

⁶ *Ibid.*

off the gold standard, the U.S. and UK had devalued their currencies – lowering export prices and raising import prices -- while the French franc stayed strong and the French economy continued to stagnate.⁷ This imbalance was further exacerbated by fears among owners of French assets following the formation in 1936 of a French socialist Popular Front government led by Léon Blum. In combination, these events induced major gold outflows from France and forced the French also to devalue their currency in 1936 but without abandoning the franc's relation to gold.⁸

In 1934, Roosevelt, using powers Congress had granted him, set the price of gold at \$35 an ounce, devaluing the dollar by nearly 60 percent.⁹ (Gold's previous price had been \$20.67 an ounce.¹⁰) This sharp devaluation was intended to stabilize domestic prices, improve the U.S. economy, and provide greater liquidity to the capital markets.

Instability in currency markets, which some labeled “currency wars,” led in September of 1936 to what Roosevelt described as a “gentleman's agreement” (certainly not a treaty) among the U.S., the UK, and France under which the Americans and the British agreed not to contest a 30 percent devaluation of the franc.¹¹ The initial French draft of this “Tripartite Agreement” had proposed a system where the franc, the dollar, and sterling would fluctuate within narrow bounds and the three countries would agree not to devalue except by mutual consent. The French aim was to stabilize the relationships among the currencies and to restore gold convertibility.¹² The Americans, however, refused to agree to bilateral rates or to return to a firm link between the dollar and gold, so the final Tripartite Agreement simply stated the three nations' desire to

⁷ Michael D. Bordo, Dominique Simard, and Eugene White, “France and the Bretton Woods International Monetary System: 1960 to 1968,” *NBER Working Paper Series* 4642 (1994).

⁸ Steil, *The Battle of Bretton Woods*, 32.

⁹ Roosevelt's gold proclamation is available at <http://www.presidency.ucsb.edu/ws/index.php?pid=14750>.

¹⁰ Steil, *The Battle of Bretton Woods*, 28.

¹¹ *Ibid.*, 32.

¹² Bordo, Simard, and White, “France and the Bretton Woods International Monetary System,” 5.

minimize exchange rate fluctuations (limit devaluations) and continue free trade.¹³ The agreement, however, required subscribing nations to agree to avoid competitive depreciations of their currencies and to maintain currency values at existing levels (after the 30 percent French devaluation).¹⁴

The Tripartite Agreement, coupled with other economic measures in the U.S., helped stabilize the currencies, at least in the short term, but by 1938, the French had to devalue again.¹⁵ While the French held on to the gold standard in the interest of currency stability and urged a return to a proper international gold standard, Roosevelt was determined to achieve both monetary stabilization and the dominance of the U.S. dollar by establishing the dollar price of gold as an essential monetary benchmark.¹⁶

Years later, at Bretton Woods, the stability of the dollar – not a link to gold – became the key to international monetary stability. And the same divergence in French and U.S. attitudes towards the monetary role of gold would be repeated in the aftermath of Nixon's shattering of Bretton Woods.

Bretton Woods

A monetary and financial conference held in Bretton Woods, New Hampshire to shape the post-war Western economic order and open international trade met in 1944. The most important questions at the conference were with respect to the governance and powers of the international institution that would become the International Monetary Fund (IMF), how to

¹³ The Tripartite Monetary Agreement is available at http://www.bis.org/publ/arpdf/archive/ar1937_en.pdf.

¹⁴ Ibid.

¹⁵ Steil, *The Battle of Bretton Woods*, 33.

¹⁶ Ibid. The US increasingly took control of the gold standard, as the US economy was nearly three times larger than that of either France or Germany. See also Robert A. Mundell, "A Reconsideration of the Twentieth Century," Prize Lecture: Department of Economics, Columbia University (December 8, 1999).

create international liquidity, and how countries could gain access to that liquidity.¹⁷ Although 730 delegates from all 44 allied countries met at Bretton Woods, the United States and United Kingdom dominated the accords and economic agreement.¹⁸ The leading figures drafting and discussing how best to organize the post-war economic order were Harry White from the United States and John Maynard Keynes from the UK. Each drafted their version of an economic agreement and much of the conference was devoted to arguing over their plans. The White Plan advocated a central status for the dollar as the world's sole surrogate for gold, but conceded that the dollar should be backed by gold (reflecting the U.S.'s large gold holdings).¹⁹ Keynes, on the other hand, was repelled by the idea of a gold standard.²⁰ The two plans overlapped, however, in many other features: an end to the economic warfare of the 1930s; the need for an institutional forum for international cooperation on monetary matters; and fixed exchange rates. The governments agreed that, absent floating exchange rates, all states needed the assurance of liquidity through an adequate supply of monetary reserves.²¹ The big disagreement was whether that assurance should be, as proposed by Keynes, provided by a world bank, which could create new reserves called "bancor," or a borrowing mechanism through what became the IMF, as preferred by White.²² After bargaining for some concessions, the other countries at Bretton Woods largely agreed to American proposals for the IMF and World Bank in the expectation that most of them would be net borrowers and that the United States would be the largest creditor. So, the final agreement ended up being closer to the White Plan, reflecting U.S. preferences, with the dollar exchangeable for gold at the fixed price of \$35 an ounce.

¹⁷ Steil, *The Battle of Bretton Woods*, 233.

¹⁸ *Ibid.*, 229.

¹⁹ *Ibid.*, 128.

²⁰ *Ibid.*, 138.

²¹ *Ibid.*, 148.

²² *Ibid.*, 143.

The French had also drafted an economic plan that they presented at the conference. The French Plan of 1943, written by Hervé Alphan and André Istel, was designed to create balance and parity among participating countries – relying on a gold standard.²³ The French plan would have had participating countries fix their official currency values by reference to the currencies of other countries – official values that must be maintained and could be changed only after consultation with all other participating countries.²⁴ The French plan also would have required each member to hold each other's countries' currencies to increase liquidity. The French, for example, would hold dollars and other currencies, especially those of European countries recovering from World War II. Pegging all international currencies with reference to the dollar meant that gold could be used as an international reserve asset and as a means of settlement.²⁵ The French hoped that the agreement would define currencies in terms of a fixed weight of gold.²⁶ The French also proposed a Monetary Stabilization Office to facilitate currency clearings, serve as a depository for collateral, and become the location of international consultation.²⁷ The French would have placed gold, not the U.S. dollar, at the center of the world monetary system. That did not happen.

The French plan had virtually no impact on the structure of the IMF or the World Bank. The Articles of Agreement at Bretton Woods, however, did define international currencies with reference to gold, and members agreed to declare a par value and maintain it within a one percent margin.²⁸ Members also agreed to make their currencies convertible for current account transactions. The U.S. pegged the price of gold at \$35 an ounce.²⁹ Other members would then

²³ Bordo, Simard, and White, "France and the Bretton Woods International Monetary System," 3.

²⁴ Ibid.

²⁵ Ibid.

²⁶ Ibid.

²⁷ Ibid.

²⁸ Steil, *The Battle of Bretton Woods*.

²⁹ Bordo, Simard, and White, "France and the Bretton Woods International Monetary System," 6.

intervene in foreign exchange markets by either buying or selling dollars to maintain the value of their currency within the one percent margin.

The last attempt the French made to shape these international arrangements related to gold quotas. Each country's gold quota determined their position in the directorship. The French wanted a more important gold quota so they could hold a rank in the directorships of the IMF and World Bank. The first three ranks were the U.S., the UK, and Russia. The French wanted the fourth rank, but it was given to China whose economy was growing more quickly.³⁰ Pierre Mendès, the head of the French delegation, complained, "the Americans have taken key positions which are against the French." To placate the French and affirm the US commitment to France, Henry Morgenthau, the U.S. Treasury Secretary and President of the Bretton Woods conference, added a fifth directorship for the French up from the previously planned three. He responded to Mendès, "I told you I would not go to bed until I tried to correct [the] impression that the American delegation was unfriendly to France."³¹

From its inception, the Bretton Woods system became an asymmetrical dollar-gold system.³² Instead of turning dollars into gold and holding gold, countries held dollars, and the dollar became both the private and official international currency.³³ As the system moved farther away from a gold standard and closer to a "dollar standard," there was little the French, who so wanted a return to gold, could do. France's reconstruction problems – including chronic external and internal imbalances – limited its influence in the postwar monetary system. Because of its

³⁰ Steil, *The Battle of Bretton Woods*, 233.

³¹ Ibid.

³² Ibid.

³³ Ibid.

weak economy, France had to devalue the franc multiple times to comply with the Bretton Woods agreement.³⁴ The U.S. – by far the wealthiest and most stable Western country – basically dominated international monetary arrangements. The Bretton Woods system, therefore, never actually became a convertible system of international currencies into gold as the agreement seemed to imply, but instead was effectively a dollar standard, with the dollar pegged to a fixed price of gold.

“Banaliser le Dollar”

If French policymakers had any policy priority in the period between Bretton Woods and when Nixon closed the gold window in 1971, it was to “banaliser le dollar” (dethrone the dollar).³⁵

By 1947, postwar difficulties and domestic reconstruction needs, along with troubles for the British around the world (especially in India, Greece, and Palestine), had undone the British Empire and simultaneously any potential for sterling to compete with the dollar as an international reserve currency.³⁶ The French viewed the British as overly sympathetic to American needs. The beginning of the Marshall Plan the following year, coupled with large U.S. military expenditures, provoked an unprecedented outflow of dollars from the U.S. The French regarded the enormous power the U.S. held in the international community as an attempt to control the world economy for selfish purposes.

Over the next decade, the fragility of the Bretton Woods arrangements became apparent. In 1959, the economist Robert Triffin told Congress that the use of “national currencies in

³⁴ Ibid., 6.

³⁵ Harold James, “The Multiple Contexts of Bretton Woods,” *Oxford Review of Economics Policy* 28:3 (October 2012), 91.

³⁶ Steil, *The Battle of Bretton Woods*, 309-311.

international reserves” was a “built in” destabilizer to “world monetary arrangements.”³⁷ Foreign governments that accumulated dollars as reserves could not use them at home, so they either lent any dollars in excess of the costs of the imports they purchased back to the United States or held them as reserves. The Triffin Dilemma, as it became known, is that there was no practical way for the U.S. to provide sufficient dollars to satisfy the world’s liquidity needs for trade and international capital transactions and simultaneously limit the number of dollars to guarantee that they could be redeemed for gold at a fixed price.³⁸

Jacques Rueff, an extremely influential French economist committed to a gold standard, agreed. Here is how Rueff described the problem of deficits in the U.S. balance of payments while the dollar serves as the international reserve currency:

The United States... pays the creditor country dollars, which end up with its central bank. But the dollars are of no use in Bonn, or in Tokyo, or in Paris. The very same day, they are re-lent to the New York money market... So the key currency country never feels the effect of a deficit in its balance of payments. And... there is no reason whatever for the deficit to disappear... [I]f I had an agreement with my tailor that whatever money I pay him he returns to me the very same day as a loan, I would have no objection at all to ordering more suits from him.³⁹

In theory, dollars could be converted into gold at \$35 an ounce, but it did not take long for the number of dollars in circulation to overwhelm the capacity of the U.S. to redeem them in gold. In 1962, British Prime Minister Harold MacMillan told President Kennedy that most of the world’s monetary difficulties would be solved if the U.S. doubled the price of gold to \$70 an ounce, but Kennedy regarded such a devaluation as signaling U.S. weakness and he refused.⁴⁰ Nor was Kennedy willing to accept austerity at home, so the U.S. kept expanding its money

³⁷ Ibid., 333.

³⁸ Steil, *The Battle of Bretton Woods*, 333. See also Robert Triffin, *Gold and the Dollar Crisis: The Future of Convertibility* (New Haven: Yale University Press, 1960).

³⁹ Jacques Rueff and Fred Hirsh, “The Role and the Rule of Gold: An Argument,” *Princeton Essays on International Finances* 47 (June 1965), 2-3. See also Jacques Rueff, *The Monetary Sin of the West* (New York: Macmillan, 1972), available at <http://mises.org/library/monetary-sin-west>.

⁴⁰ Ibid., 334.

supply. By the mid-1960s, the dollar shortage of the early 1950s had turned into a dollar glut.⁴¹ And the ratio of U.S. gold reserves to the number of dollars circulating through the world had shrunk. The French, unsurprisingly, were unhappy. More than 30 countries around the world had devalued their currencies since the war. France, which had faced ongoing economic difficulties including budget deficits and trade imbalances, had devalued its franc numerous times by 1958.

The rebellion of a division of the French Army in Algiers in May of 1958 revealed the weakness of the French Fourth Republic. This attempted coup led to the return of Charles de Gaulle to political power. De Gaulle blamed the constitution and the institutions of the Fourth Republic for France's economic and political weakness. He drafted a new constitution with Michel Debré that emphasized a strong executive in a presidential regime with bicameralism. This new constitution ushered in the French 5th Republic. De Gaulle wanted to create a new image of France: politically unified, economically strong, and internationally powerful.⁴²

De Gaulle addressed the country's ongoing deficits through tax increases, large cuts in government spending, and another devaluation of the franc in 1958.⁴³ This austerity, de Gaulle believed, was necessary to restore France to its rightful place at the center of world affairs and to offset the predominance of the United States. De Gaulle appointed Jacques Rueff to lead a commission to pave a path to economic expansion, which he believed to be the first step toward French domination. Rueff concluded that the major obstacle to French economic strength was that the United States blocked and manipulated interest rates.⁴⁴ Returning to a real gold standard and a strong French franc was a centerpiece of his plan to regain economic domination.

⁴¹ Benjamin J. Cohen, "Bretton Woods System" in *Routledge Encyclopedia of International Political Economy*, ed. R.J. Barry Jones (Routledge, 2002).

⁴² Bordo, Simard, and White, "France and the Bretton Woods International Monetary System," 6-7.

⁴³ Cohen, "Bretton Woods System."

⁴⁴ Marc Flandreau, *Money Doctors: The Experience of International Financial Advising 1850-2000* (New York: Routledge, 2003).

The Treaty of Rome, signed in 1957 by six countries – France, Germany, Italy, the Netherlands, Belgium, and Luxembourg – had liberalized and expanded trade, especially within Europe, and by the mid-1960s the European economies were enjoying robust postwar economic growth.⁴⁵ This was accompanied by growing European concerns with domination by the U.S. government and by American multinationals. No one expressed this unease more forcefully than Charles de Gaulle. “The purpose of Europe,” he said, “is to avoid domination by the Americans or Russians.” “Europe,” he added, “is the means by which France can once again become what she has not been since Waterloo, first in the world.”⁴⁶

At a press conference on February 4, 1965, de Gaulle urged major changes in international monetary arrangements. He described a monetary system based on any single nation’s currency as a danger to the world and sang praises to gold.⁴⁷ Gold, he said, “does not change to nature” and is “in all places and at all times, the immutable and fiduciary value par excellence.”⁴⁸ In his memoir, de Gaulle was even more explicit. He described the countries of the West as having “no choice” but to accept the international monetary system of Bretton Woods in which “the dollar was automatically regarded as the equivalent of gold.”⁴⁹ This, de Gaulle said, enhanced American hegemony, and the surplus dollars exported by the U.S. to France, he added, “put a strain on our currency” that benefited only the Americans. “[T]he monumentally over-privileged position that the world has conceded to the American currency since the two world wars,” he said, “left [America] standing alone amid the ruins of others.”⁵⁰ So, beginning in 1965, the French adopted as official policy the conversion of its dollar reserves into gold to induce the

⁴⁵ James, “The Multiple Contexts of Bretton Woods,” 36-37.

⁴⁶ James, “The Multiple Contexts of Bretton Woods,” 37.

⁴⁷ See Charles de Gaulle, “Monetary Crisis Ghost of 1965,” <https://www.youtube.com/watch?v=Q9r1NLMFixo>.

⁴⁸ Rueff and Hirsh, “The Role and the Rule of Gold,” preface.

⁴⁹ Charles de Gaulle, *Memoirs of Hope: Renewal and Endeavor*, trans. Terrence Kilmartin (New York: Simon and Schuster, 1972), 371-372.

⁵⁰ *Ibid.*, 371.

U.S. to begin reform of the international monetary system.⁵¹ The U.S. and France were on a collision course over their differing visions of international monetary reform and over the role of gold.⁵² France had become the principal antagonist of the U.S. in monetary affairs.

This was in sharp contrast to Germany, which relied heavily on the U.S. military commitment. The German Bundesbank promised the U.S. that it would hold onto dollars. Given the inflation that the U.S. experienced in the 1960s and the accompanying influx of dollars to Germany, this was a decision the Germans came to regret. In a 1970 interview, Karl Blessing, president of the Bundesbank, said, “we should aggressively have converted the dollars into gold until [the Americans] were driven to despair.”⁵³ The French were convinced that the Germans were being manipulated by American desires. The very different frustrations of the French and the Germans inspired both to seek a more coordinated international financial policy; this, in turn, would, two decades later, result in the creation of the euro, in part at least, as a counterweight to the dollar.

In 1961, nine central banks from the U.S. and eight European countries created the London Gold Pool in an attempt to maintain fixed convertible values for their currencies and the \$35 price for an ounce of gold.⁵⁴ Half the required supply of gold for the pool came from the U.S. But by 1965, the pool could not stem the outflow of gold. The world gold supply had not increased to match the growing supply of dollars, the U.S. deficit had ballooned, and U.S. inflation was increasing as a result of spending on both social programs and the Vietnam War. By the late 1960s, the Bretton Woods agreement had largely unraveled.

⁵¹ Bordo, Simard, and White, “France and the International Monetary System,” 12; James, “The Multiple Contexts of Bretton Woods,” 64.

⁵² Bordo, Simard, and White, “France and the International Monetary System,” 14.

⁵³ James, “The Multiple Contexts of Bretton Woods,” 64.

⁵⁴ Peter M. Garber, “The Collapse of the Bretton Woods Fixed Exchange Rate System” in *A Retrospective on the Bretton Woods System: Lessons for International Monetary Reform*, eds. Michael D. Bordo and Barry Eichengreen (Chicago: University of Chicago Press, 1991), 464.

De Gaulle's attempts to control the international monetary system, however, did not stop at simply controlling imports and exports of gold. Beginning in 1965, de Gaulle began exchanging France's dollar reserves for gold. This was de Gaulle's attempt to punish the British, as he believed their economic policies were also being unduly influenced by the United States. In 1966 France stopped contributing to the international gold pool, forcing the U.S. to increase its contribution to the gold pool by the amount previously supplied by France. By 1966, gold accounted for more than 70 percent of French international holdings.⁵⁵ When the U.S. rebuffed France's pressure to devalue the dollar by increasing the price of gold, the French continued accumulating gold. President de Gaulle refused to devalue the franc calling the idea, "the worst possible absurdity," a refusal that was widely criticized by the international community.⁵⁶ French economic and political difficulties then created large imbalances of payments for France that produced substantial reserve losses. After de Gaulle retired to his country home in April 1969, the newly elected Georges Pompidou was soon forced to devalue the franc. The *Chicago Tribune* called the decision a thankful "break with de Gaulle's monstrously absurd foreign exchange policy."⁵⁷

By May 1968, the Gold Pool had completely fallen apart and had been replaced by a two-tier gold system with separate private and public gold markets. Governments traded gold in the public market at a fixed price while in the private market the price of gold was set by supply and

⁵⁵ Bordo, Simard, and White, "France and the International Monetary System," 12.

⁵⁶ "After the French Devaluation," *Chicago Tribune*, August 13, 1969, 24.

⁵⁷ *Ibid.* The 1969 devaluation was particularly important as parity between the French franc and the German mark was an important topic in the 1969 German elections. Germany was debating whether it should revalue the mark upwards. Germany welcomed the French devaluation because it removed the disparity of a key currency with the mark and suggested that an upwards revaluation was "wholly unnecessary." Germany relied heavily on its relationship to the franc as it struggled between national pressures to maintain the mark's value and the American desire for the mark to be revalued upwards.

demand.⁵⁸ The next year, the Gold Pool nations stabilized the price of gold by agreeing to stop selling gold in private markets and by allowing the price of gold for nonmonetary transactions to fluctuate.⁵⁹

In the meanwhile, private gold markets faced separate pressures. Economic sanctions against South Africa for its policy of apartheid and its relations with the Soviet Union made the Kruggerand – which accounted for close to 90% of the global gold coin market -- an illegal import in many Western countries (including the United States). This limited the supply of gold, and contributed to anxiety about the status of gold in the international monetary system.⁶⁰ The reduced supply of gold from South Africa was accompanied by speculation about a potential devaluation of the dollar. In March 1968, the IMF abandoned a single fixed price for gold and reversed its policies regarding purchases of gold from South Africa.⁶¹ By September 1969, Germany informed the IMF that it was unable to maintain values for the mark within the prescribed limits around par value.⁶² A year and a half after that, in a contentious decision, especially upsetting to the French, Germany decided to float the mark.⁶³

French Minister of Finance Giscard D’Estaing then declared, “The world monetary system must be set in concentric circles: the first one being gold, and then, the second, if necessary, recourse to deliberate and concerted creation of either reserve assets or credit facilities. The inner circle is gold. Experience in recent years has shown us that, aside from any theoretical preference, gold remains the essential basis of the world payments system.”⁶⁴

According to D’Estaing (in a speech to the National Assembly in May 1971), the French

⁵⁸ Margaret de Vries, *The International Monetary Fund 1966-1971, Volume I: Narrative* (Washington D.C.: International Monetary Fund, 1976).

⁵⁹ Ibid.

⁶⁰ Ibid.

⁶¹ Ibid.

⁶² Garber, “The Collapse of the Bretton Woods Fixed Exchange Rate System.”

⁶³ Ibid.

⁶⁴ De Vries, “Volume I: Narrative.”

Government had three main concerns: to protect the French economy from the international upheaval in currency markets; to fix the roots of international monetary problems; and to ensure that any measures taken in response to international monetary difficulties not compromise the French desire to create a monetary and economic union in Europe.⁶⁵ D'Estaing criticized Germany's decision to float its currency – complaining that it was not a European community decision and would not help in creating a European economic monetary union.⁶⁶ D'Estaing was willing instead to accept a collective revaluation of international currencies.⁶⁷ In such a case, the European countries would compensate for the United States' monetary inflation by deflation in Europe.⁶⁸ But D'Estaing would accept this sacrifice *only* if it meant continuing the gold standard.

By the late 1960s, it was unmistakable that U.S. gold reserves, which had been falling relative to U.S. dollars since 1957, were inadequate to fund convertibility of dollars into gold at the fixed price of \$35 an ounce.⁶⁹ In 1968, riots in both France and the U.S. essentially took international monetary reform off the agenda. In 1969, George Pompidou succeeded Charles de Gaulle as president of France, and Richard Nixon succeeded Lyndon Johnson in the U.S. Domestic disorder on both sides of the Atlantic was a harbinger of the next decades' social, economic, and international upheavals. In the period leading up to Richard Nixon's August 1971 policy shift, the U.S. balance of payments deteriorated substantially: the \$3.2 billion deficit in the second quarter of 1971 exceeded the deficit for all of 1970. In the third quarter, the deficit was \$3.1 billion, hardly better. One of the few constants, however, was the continuing divergence of American and French views concerning the proper role of gold in international monetary affairs.

⁶⁵ “La politique étrangère de la France: textes et documents,” dir. de publ. Ministère des Affaires Etrangères. Paris: La Documentation Française, Octobre 1971. “Déclaration de Valéry Giscard d'Estaing à l'Assemblée nationale” (12 Mai, 1971), 162-167.

⁶⁶ De Vries, “Volume I: Narrative.”

⁶⁷ Ibid.

⁶⁸ Ibid.

⁶⁹ Bordo, Simard, and White, “France and the International Monetary System,” 18 and Figure 5.

After the “Nixon Shock”

In August 1971, French president Pompidou sent a battleship to New York harbor to remove France’s gold from the vault of the New York Federal Reserve Bank and to transport it to the Banque de France in Paris. Soon thereafter, gold accounted for 92 percent of French reserves. On August 11, the British requested that the Treasury remove the \$3 billion of gold from the U.S. depository of Fort Knox to the New York Federal Reserve vault, where the gold of foreign governments was stored. As Paul Volcker, who was then treasury undersecretary for monetary affairs, put it: “If the British, who had founded the system with us, and who had fought so hard to defend their own currency, were going to take gold for their dollars, it was clear the game was indeed over.”⁷⁰ When Nixon spoke on August 15, 1971, the U.S. held less than 10,000 tons of gold, less than half of what it once had.⁷¹

Nixon’s August 1971 decisions caught foreign government by complete surprise. They also surprised most U.S. policymakers and officials. Nixon’s speech and the policies it announced had been suggested to him a few weeks earlier by his charismatic Treasury Secretary, John Connally, and the details had been developed at a meeting of Nixon’s economic advisors who had been sequestered at Camp David the weekend before Nixon’s Sunday night address. As Paul Volcker had told the group, billions might be made with advance knowledge of what the president was planning to do. The necessary secrecy, however, had meant that both technical and strategic planning for its aftermath could not happen until the new policies had been announced. In the weeks following Nixon’s announcement, Connally, Volcker, and other administration officials spent much of their time traveling to foreign capitals attempting to assuage foreign

⁷⁰ Paul Volcker and Toyoo Gyohten, *Changing Fortunes: The World’s Money and the Threat to American Leadership* (Three Rivers Press, 1993), 77.

⁷¹ One metric ton of gold is composed of 32,150 troy ounces.

leaders who were apoplectic about the import surcharge and insecure about the new U.S. monetary policy – whatever that might be.

Within the U.S. government, efforts to fashion a new international monetary agreement did not jell until mid-November 1971 in anticipation of a meeting of the G-10 in Rome later that month. The U.S. position was heavily influenced by the need for the French – its principal antagonist – to agree. For economic reasons primarily having to do with trade, the U.S. wanted a substantial devaluation of the dollar *vis a vis* the German mark and the Japanese yen. For its trade policy, the French needed to maintain the relationship between the franc and the mark, but because its trade with the U.S. was relatively small, France had little concern about the relationship of the franc and the dollar. The French government, however, cared deeply about the price of gold and, unsurprisingly, wanted to preserve an official relationship between the U.S. dollar and gold. Not only did the French government hold the bulk of its official reserves in gold, but virtually every French resident also had a little gold stashed away.

On November 29, 1971, the arguments and discussions culminated in a meeting of the finance ministers of the world's ten richest countries (the G-10) in Rome. At the Rome meeting, the chairmanship, which rotated, was held by the U.S.'s John Connally and he insisted, so that he could be "impartial," that Paul Volcker would present the U.S. position. Volcker then announced that the U.S. – which had refused since the 1930s to change the official price of gold from \$35 an ounce – would accept an upward revision of that price and would eliminate the import surcharge in exchange for an appreciation of other OECD currencies by a weighted average of 11 percent. This devaluation of the dollar was greater than the other G-10 countries expected, and not well

received by the other finance ministers. The only real outcome of the meeting was an agreement to hold another meeting the next month in Washington, DC.⁷²

In the interval between the two meetings, crucial negotiations took place between Nixon and Pompidou in the Azores. Pompidou began their meeting with a “Gaullist lecture on gold and the evils of the dollar standard.”⁷³ Ultimately, however, Pompidou agreed to a rise in the price of gold from \$35 to \$38 an ounce, a rise of 8.5 percent, significantly less than the 11 percent the U.S. had wanted.

Soon thereafter, the G-10 meeting took place at the Smithsonian Castle on the Mall. The negotiations, as in Rome, centered on trade agreements and tariffs, the need to devalue the dollar, future exchange rates, and the convertibility of the dollar into gold.⁷⁴ The U.S. was adamant about its desire to move away from gold. The French were equally adamant to the contrary.

The difference in French and U.S. policies were neither new nor driven solely by the economics of the time. French policy was, to be sure, based upon the longstanding French position. By December 1971, the French held enormous gold reserves, but had limited international economic power. The U.S. was in the opposite position: its gold reserves had dwindled, but it still had immense international economic sway. The U.S. was determined both to maintain its global economic dominance and to improve economic conditions at home.

The first issue discussed at the Smithsonian meeting was gold convertibility. The French insisted on maintaining gold convertibility, arguing that such convertibility was essential to a fixed currency parity system, and that under the IMF agreement the U.S. was required to

⁷² These events were related in Edwin S. Cohen, *A Lawyer's Life Deep in the Heart of Taxes* (Tax Analysts, 1994) and the collections of his papers at the University of Virginia Law Library, Box 102, “Institutional Monetary Issues.” Cohen’s account is confirmed in Volcker and Gyohten, *Changing Fortunes*.

⁷³ Volcker and Gyohten, *Changing Fortunes*, 88-89.

⁷⁴ Garber, “The Collapse of the Bretton Woods Fixed Exchange Rate System.”

maintain to fixed currency relationships.⁷⁵ The French expressed their dismay that the U.S. had violated international law, and were determined not to reward the U.S. for breaking its international commitments.⁷⁶ For the French, Nixon's unilateral action was just one more example of how the U.S. behavior transgressed the laws that all other countries must obey. The only way to force the U.S. to act like other countries, the French believed, was to force the U.S. to return to a gold standard.

The French argued that, although the dollar was clearly overvalued, the only proper way to devalue the dollar was to adjust the price of gold – otherwise the system would remain biased in the U.S.'s favor.⁷⁷ When countries allow their currencies to stray too far from the price of gold, the French insisted, they must revalue their currency.⁷⁸ Georges Pompidou criticized the American approach, "I cannot conceive that the U.S. thinks it can make up the deficit in its balance of payments with exports to Europe. The U.S. balance-of-payments deficit is an American problem."⁷⁹ After Nixon suspended convertibility in August 1971, the French had urged Europe to make the U.S. pay.⁸⁰

Paul Volcker, then undersecretary of the treasury, said that the fundamental structure of the IMF would have to be changed for convertibility to be maintained.⁸¹ Volcker believed that gold should no longer play a role in the international monetary system and instead that SDRs (Special Drawing Rights issued by the IMF to play the role of an alternative reserve currency)

⁷⁵ Jacques Amalric, "Les dirigeants américains paraissent résignés à la dévaluation du dollar," *Le Monde*, 17 August 1971, 1.

⁷⁶ *Ibid.* By participating in and creating the Fund, the U.S. had promised to tie the dollar to gold; by stopping dollar convertibility the U.S. effectively broke its promise.

⁷⁷ Jacques Rueff, "La Reevaluation Des Monnais, Faux Problem," *Le Monde*, September 10, 1971, reporting the French insistence that the way to fix Bretton Woods would be to enlarge the margin of fluctuations and change the price of gold – not remove gold from the picture.

⁷⁸ *Ibid.*

⁷⁹ Clyde H. Farnsworth, "Europeans Re-Examine Goals," *New York Times*, January 14, 1973.

⁸⁰ Rueff, "La Reevaluation Des Monnais, Faux Problem."

⁸¹ Edwin S. Cohen, "The Highlights of the Group of Ten Deputies Meeting at the International Monetary Fund at 11:00 am, November 16, 1971," in *International Monetary Problems, f.202*, ed. Special Collections (University of Virginia Law School, December 16, 1971).

should be extended.⁸² Volcker proposed to increase liquidity, but without any link to gold, and he insisted that in order to maintain the necessary liquidity the U.S. must be free to adjust its own exchange rate. The French rejected Volcker's arguments, continuing to insist on a return to gold convertibility in order to limit the role of the U.S. dollar in international economic arrangements. The U.S., having consistently rejected French proposals for monetary reform since before the Tripartite Agreement, held firm.

It was difficult for the French to gather much support for their position. If gold remained at the center of the international monetary system and the U.S. doubled or even tripled the price of gold in dollars, other countries' exchange rates with the dollar would also have to change – many by a large amount.

Unsurprisingly, the discussion at the Smithsonian then turned to the question of fixed versus floating exchange rates. By the time of the Smithsonian meeting, not only Germany but also the UK, Canada, and several other nations had begun to float the value of their currencies against the dollar as fixed exchange rates had been difficult to maintain with the ongoing decline in the value of the dollar. The U.S. had already decided to lift its import surcharge for nations that agreed to float their currencies against the dollar and was also interested in floating the dollar.⁸³ But the French were adamantly opposed to floating rates. In the French view, floating exchange rates caused unnecessary instability and price uncertainty.⁸⁴ On the other hand, fixed exchange rates created a need for the U.S. to constantly adjust its domestic economic policies and increased the likelihood that the U.S. would erect and maintain significant trade barriers to

⁸² Ibid.

⁸³ Department of the Treasury, "Memorandum: Preliminary Notes on International Monetary Problems," ed. Edwin S. Cohen (Washington DC: University of Virginia Law School, September 16, 1971).

⁸⁴ Ibid.

solve its balance of payment deficit problems.⁸⁵ The French thought that a two-tier market for gold would solve this problem: governments would privately trade gold and francs at a fixed exchange price, but in the public market supply and demand would determine the price of gold.⁸⁶

According to the French, floating rates were highly selfish. A *Le Monde* article from September 1971, reflecting French government opinions on floating rates, compared floating exchange rates to a state of anarchy.⁸⁷ The article suggested that by floating a currency a country is freer to pursue any policy it would like – as opposed to being constrained by the linkage of its currency to that of other countries.⁸⁸ Flexible rates allow countries to pursue autonomous economic and monetary policy. The French insisted that floating rates, free from fixed links to the currencies of other countries, would in the long run create even greater international disorder.

A central reason that the French wanted to maintain fixed exchange rates was that fixed rates would make the transition to a European economic union, which could compete against the United States, easier. The French believed that Europe needed a common currency.⁸⁹ The French regarded a link to gold as helping to facilitate the monetary unification of Europe, and with monetary unification, the French expected greater political unification and enhanced French influence in world affairs.⁹⁰ An “écu” (European Currency Unit) could be linked to gold and might replace the ubiquity of the dollar in international transactions.⁹¹ Transition to the écu would be made easier by maintaining fixed exchange rates. The French planned to have the écu defined by its relationship to gold and guaranteed by a European reserve fund.⁹² A European

⁸⁵ Ibid.

⁸⁶ De Vries, “Volume I: Narrative.”

⁸⁷ Paul Fabra, “La Faillite Du Système Monétaire,” *Le Monde*, September 25, 1971

⁸⁸ Ibid.

⁸⁹ Léon Lambert, “Une Monnaie Européen Tout De Suite,” *Le Monde*, 20 December 1971.

⁹⁰ Ibid.

⁹¹ Ibid.

⁹² Ibid.

currency would then help France counterbalance the U.S. in international economic matters by providing the world an alternative currency that might compete with the dollar.

In a final attempt to salvage the Bretton Woods agreement, the negotiations at the Smithsonian meeting concluded with the result that the Azores agreement between Nixon and Pompidou had preordained: the dollar was pegged to gold at \$38 an ounce (up from the previous \$35) with other countries agreeing to appreciate their currencies by a fixed amount with respect to the dollar. This resulted in an official devaluation of the dollar of 8.57 percent, less than the U.S. had proposed at Rome, but more than other countries had initially anticipated.⁹³ The G-10 also set wider margins for currency fluctuations based on the new dollar value. The group agreed to help balance the world trading system through special drawing rights (SDRs) issued by the International Monetary Fund.⁹⁴ The U.S. also agreed to eliminate its new 10 percent surtax on imports. President Nixon announced the agreement at the Smithsonian's Air and Space Museum, then next door to the Castle where the meetings had been held.

The French were still not content. They continued to insist that the U.S. return to the gold standard, but the U.S. would not. For the next decade, the French would continue to blame any failures of the Smithsonian agreement on the U.S. refusal to return to a gold standard.

The Smithsonian agreement did not long survive. The rather small margins of currency fluctuations agreed to proved impossible to maintain and as the price of dollars in the free market fluctuated, this put pressure on its official price for exchange. As early as 1972, the French were again criticizing American monetary policy. The French continued to insist that the U.S. should buy surplus dollars from European nations with gold, but the U.S. no longer held enough gold to

⁹³ Garber, "The Collapse of the Bretton Woods Fixed Exchange Rate System."

⁹⁴ Ibid.

do that.⁹⁵ Nor did the U.S. have any intention to do so. The French said: “The dollar cannot be a truly international currency, why not make more use of gold, this fiduciary asset par excellence? The official price of the yellow metal, in order to be credible, must not vary too greatly from the market price. Since Washington insists on an excessive discrepancy between the two prices, let us, the Europeans, decide to fix a realistic price for gold for our own transactions.”⁹⁶

However, the rest of Europe did not support the French view. In June of 1972, the British decided to float the pound, a move that created even greater price discrepancy. The French complained and called the British move a political failure.⁹⁷

On September 11, 1972, Paul Volcker, still undersecretary of the Treasury, testified before a subcommittee on international exchange of Congress’s Joint Economic Committee.⁹⁸ He described the British decision in July to float the pound as disrupting the “period of calm” following “the exchange of rate equilibrium so arduously worked out” at the Smithsonian. He also described the interventions in world currency markets undertaken by the Treasury and the Federal Reserve as necessary to keep the value of the dollar in an appropriate relation to other currencies, and he informed the committee that such interventions would continue at U.S. discretion. Here is what he said about gold:

With respect to gold, the United States has repeatedly expressed the view that the role of that metal in the international monetary system should and must continue to diminish. Such an evolution is, of course, fully consistent with the trend of monetary history over a period of many years. Governments around the world long ago reached the inevitable judgment that domestic monetary systems and policies could not safely be hostage to vagaries in gold demand and supply – the cost in terms of economic stability was simply too high. Internationally, gold 25 years ago accounted for about 70 percent of total national monetary reserves. By 1972, the ratio had declined to some 27 percent.

⁹⁵ Richard Janssen, “Connally Suggests New Monetary Rules Discipline Nations with Chronic Surpluses,” *The Wall Street Journal*, March 20, 1972.

⁹⁶ *Ibid.*

⁹⁷ Roman Eisenstein, “France Has to Back Dollar,” *The Guardian*, 5 August 1972.

⁹⁸ Statement of the Honorable Paul A. Volcker, Under Secretary of the Treasury for Monetary Affairs, Before the Subcommittee on International Exchange and Payments of the Joint Economic Committee, September 11, 1972.

There are irresistible geological, industrial, and economic facts behind these trends. The physical supply of gold is both limited and, in the Western World, virtually entirely under the control of one producing nation. ... Gold is both an attractive and useful metal, but the residual supply is in no way related to the liquidity needs of the world community.

... I suppose there are some who would argue that additional liquidity in a gold-based system can be provided by increasing from time to time the price at which gold is traded among monetary authorities. But surely such an approach would make a mockery of any presumed “discipline” from a gold centered monetary system – the virtue sometimes still attributed to the use of gold. A system relying on gold price increases to regulate liquidity would be both continuously destabilizing to the monetary system and capricious in whom it benefits and whom it hurts.

Obviously referring to the French view, Volcker added, “I do not think it will be easy to resolve differences about what to do about the precise role of gold.” That was an understatement.

The Smithsonian agreement continued to disintegrate. Rather than stabilize the dollar and produce a large U.S. surplus to cure adverse U.S. balance of international payments, the agreement was followed by a weak dollar, and similar problems as before. Early in 1973, the U.S. devalued the dollar to make U.S. products more competitive in world markets and to improve the U.S. balance of payments. This was followed by a dump of dollars into the market in a rush to exchange them for German marks and Japanese yen.⁹⁹ The combination of high rates of inflation and the first oil crisis in the fall of 1973 made the fixed rates agreed to at the Smithsonian untenable. By late 1973, the U.S., Japan, and all the countries of the European treaty had decided to let their currencies float against the dollar.

In the fall of 1975, the principal antagonists, the U.S. and France, reached agreement on a few sentences of amendments to the IMF Articles of Agreement to provide a formal legal basis for floating exchange rates, and in 1976 the IMF Articles were formally amended to reflect the new reality. Both the 1944 agreement of Bretton Woods and the one reached just a few years earlier at the Smithsonian were officially dead.

⁹⁹ Farnsworth, “Europeans Re-Examine Goals.”

Conclusion

The interment of gold as a monetary standard has not ended ongoing debates over its strengths and weaknesses. But despite the periodic calls for its renewal by some analysts and many politicians both in the U.S. and abroad, it is difficult to imagine gold's resurrection as the foundation of international monetary arrangements. Floating rates allow nations to reduce their exposure to the risks of any one currency by diversifying their holdings of foreign currencies. Intermittent national interventions that affect the valuation of domestic currencies to serve domestic economic and political interests remain inevitable. The Maastricht Treaty of February 1992, which led to the adoption of the euro, has, to be sure, reduced the international power of the dollar, but it has also produced some serious economic dislocations in the Eurozone. Some analysts are now looking to the currencies of large emerging countries, such as China, to add stability to the system. But it seems that all we can be sure of – more than seven decades after Bretton Woods and nearly half a century since its demise – is that the stability of the international monetary system rests primarily with judgments of the world's central bankers and of the international monetary institutions, especially the IMF. This state of affairs proved its mettle during the 2007-2010 financial crisis, but it hardly ensures confidence or monetary stability. The French failure in its efforts to return to a gold standard has not, so far at least, become a loss for everyone. But there is more of the story yet to unfold.

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