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Money and Power : the political and monetary relationship between the United States and France,1965-1973

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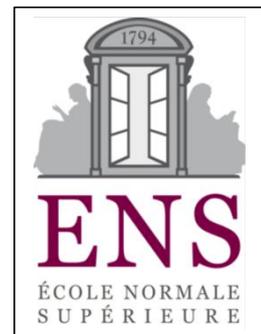
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THÈSE DE DOCTORAT
DE L'UNIVERSITÉ PSL

Préparée à l'École Normale Supérieure de Paris
Dans le cadre d'une cotutelle avec East China Normal University

La monnaie et la puissance:

Les relations politiques et monétaires entre les États-Unis et la France, 1965-1973

Money and Power:

The political and monetary relationship between the United States and France, 1965-1973

Soutenue par
Wenfei WANG
Le 20 / 05 / 2019

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Abstract

Based on original documents from French and U.S. archives, this thesis outlines the weakness in the International Monetary System which depended on U.S. balance of payments position, and also explores U.S. measures to maintain the value of the U.S. dollar and reform the Bretton Woods system, from 1965 to 1973. Since the U.S. imbalance of international payments was directly related to its military expenditure overseas, that became one significant consideration for the U.S. government in deploying its military forces in Europe, especially in West Germany. Money, political and military force interacted closely during the Kennedy, Johnson, and especially the Nixon years: the Americans expected to establish a political linkage between trade, money and defense, by promising to engage the presidential authority in a successful solution to all major issues. The initiative of the “Year of Europe” was therefore an endeavor to apply the “link” concept into specific matters.

The U.S. attempt to reform the Bretton Woods system was however challenged by the French from the mid-1960s. Focusing on how French policy makers, governments officials and financial technicians assessed the defects of the Bretton Woods system, the U.S. international monetary policy, and the countermeasures — such as the proposal of the Collective Reserve Unit, the convertibility of dollars into gold, the indifferent attitude toward the SDRs and the refusal to enlarge the exchange rate bands — that the French devised, this thesis explores the role of opposition that the de Gaulle and Pompidou government played in the monetary domain, and analyzes how the monetary issues merged with political, military and diplomatic matters. Though the disputes over the monetary issues and the NATO alliance existed, dialogues between the United States and France were never broken. The continuity of the negotiations guaranteed an exchange of views, and in the face of emergencies, like the May-June crisis of 1968 in France, and the invasion of Czechoslovakia, the United States and France maintained consistency.

The thesis also examines how the U.S.-French, or broadly speaking, the U.S.-European alliance developed in the transitional period of the Cold War. The conclusion highlights the fact that monetary issues could be politicized and used as bargaining power, but faced with dangers that threatened the survival of the whole western world, the United States and France would coordinate with each other through sacrificing some of their present interests to save the alliance.

Key words: the United States, France, the monetary relations, U.S.-French relationship, the Bretton Woods system, the Cold War

Résumé

À partir d'archives financières et politiques inédites, collectées en France et aux États-Unis, cette thèse analyse l'évolution du système monétaire international et la façon dont il est affecté par le déficit de la balance des paiements des États-Unis. Elle tente d'évaluer l'efficacité des mesures prises par les États-Unis pour maintenir la valeur du dollar américain et réformer le système de Bretton Woods de 1965 à 1973. Le déséquilibre des comptes extérieurs étant directement lié à ses dépenses militaires à l'étranger, le gouvernement américain ne souhaite pas se désengager dans le contexte de la guerre froide. Bien au contraire, il compte davantage déployer ses forces militaires en Europe, en particulier en Allemagne de l'Ouest. Ainsi, la monnaie et la force militaire ont étroitement collaboré au cours des années Kennedy, Johnson et surtout Nixon. Les Américains ont essayé d'établir un lien politique entre le commerce, la monnaie et la défense, dans le but de faire participer le prestige du président à une solution efficace à tous les problèmes majeurs. L'initiative de « l'Année de l'Europe » visait donc à appliquer le concept de « lien » à des questions spécifiques.

Le projet de réforme du système de Bretton Woods proposé par Washington, dès le milieu des années 1960, a cependant été contesté par Paris. Notre analyse met l'accent sur la manière dont les décideurs politiques français et les techniciens financiers ont évalué les défauts du système de Bretton Woods, la politique monétaire internationale américaine et les contre-mesures préconisées. Entre autres, la proposition de l'unité de réserve collective, la convertibilité du dollars en or, l'indifférence face aux DTS et le refus d'élargir les bandes de taux de change. Cette thèse explore le rôle d'opposition joué par les gouvernements de de Gaulle et de Pompidou dans le domaine monétaire. Elle montre comment les problèmes monétaires renforcent les enjeux politiques, militaires et politiques.

Bien que les différences concernant les questions monétaires et l'alliance de l'OTAN aient existé, le dialogue entre les États-Unis et la France n'ont jamais été rompu. La continuité des négociations garantissait un échange de vues tout en maintenant la cohérence, y compris face à des situations d'urgence telles que la crise de mai 1968 en France et l'invasion de la Tchécoslovaquie en 1968.

La thèse examine également comment l'alliance américano-française, ou plus largement l'alliance américano-européenne s'est développée pendant la période de transition de la guerre froide. La conclusion souligne une forme de politisation des questions monétaires et constituent un instrument incontournable dans la conduite de négociations. Mais face aux

dangers qui menaçaient la survie du monde occidental, les États-Unis et la France se coordonneraient en sacrifiant certains de leurs intérêts actuels pour maintenir l'équilibre de l'alliance.

Mots clés: les États-Unis, la France, les relations monétaires, les relations américano-françaises, le système de Bretton Woods, la guerre froide

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Abbreviations

ABDF: Archives de la Banque de France
AN: Archives Nationales de la France
BIS: Bank for International Settlements
CAEF: Le Centre des archives économiques et financières, France
CAP: Common Agricultural Policy
CEA: Council of Economic Advisers
CIA: Central Intelligence Agency
CIEP: the Council of International Economic Policy
CRU: Collective Reserve Unit
C-20: The Twenty Committee
DBFPO: Documents on British Foreign Policy Overseas
DDRS: Declassified Documents Reference System
DNSA: Digital National Security Archives
DOD: Department of Defense
EC: European Community
EEC: European Economic Community
EMA: European Monetary Agreement
EMU: Economic and Monetary Union
FRG: Federal Republic of Germany
FRUS: Foreign Relations of the United States documents
G-10: The Group of Ten
GAB: General Agreements to Borrow
GATT: General Agreement on Tariffs and Trade
IET: Interest Equalization Tax
IMF: International Monetary Fund
IMS: International Monetary System
IPE: International Political Economy
MBFR: Mutual and Balanced Force Reductions
MLF: Multilateral Force
NARA: National Archives and Records Administration
NATO: North Atlantic Treaty Organization

NEP: New Economic Policy of 1971

NSA: National Security Agency

NSAM: National Security Action Memorandum

NSDM: National Security Decision Memorandum

NSSM: National Security Study Memorandum

OECD: The Organization for Economic Co-operation and Development

OEEC: The Organization for European Economic Co-operation

RG: Record Group

SALT: Strategic Arms Limitation Talks

SDRs: Special Drawing Rights

Introduction

“A trade deal with the U.S. will be far better for the Chinese if they solve the North Korean problem,” President Trump declared in one morning of 2018 in his twitter post. Here, two irrelevant issues at first glance: “trade deal” and “North Korean problem,” seemed to have “secret” ties behind the scenes, which reveal the close relations between economic issues and defense as bargaining chips of two negotiators.

The U.S. strategy of trading one domain for another was not the first time known to the world. Since the 1960s, when the American economy was troubled by the deficit of the balance of payments and lower-speed growth than its Western partners, the U.S. authorities began to consider a feasible way to ask the Europeans to offer financial aid and make consensus in the monetary domain by threatening its troops’ withdrawal in this region. This attempt unsatisfied and worried the Europeans, even the result turned to be fruitful for the United States: it signed several two-year agreements with West Germany.

As U.S. “opponent” partner in the West camp since the end of Second World War, France always played a particular role regarding the reform of the International Monetary System, NATO affairs, strategic weapons, and the Vietnam War. On the one hand, it refused U.S. endeavor to link the economic and monetary issues with others, by pointing out that U.S. military protection in Europe was the utmost importance. On the other hand, it took a harsh position against the United States concerning the monetary issues. De Gaulle’s open rebuke on dollar’s hegemony and his demand on the return to the gold standard in the press conference on February 4, 1965, arrived at the climax of Franco-American conflict in the monetary domain. Meanwhile, France kept a watchful eye on U.S.-German offset negotiations and was anxious about the possibility that the series of negotiations would be in the sacrifice of European effort to establish a common monetary and economic policy.

This thesis sets forth an overall examination of the monetary affairs in the American-French relationship from 1965 to 1973. This was a period which started with de Gaulle’s open criticism on dollar’s privilege and ended with the attempt of the Nixon government to link the monetary issue with other domains. These include first of all the problems produced by the fundamental disequilibrium in the Bretton Woods system and U.S. balance of payments deficit from 1944 to 1964, the U.S. and French

proposals to reform the International Monetary System, the controversy role of gold, the divergence on the introduction of the new assets, and the fluctuations within a certain margins from 1965 to 1973.

Since it is well recognized that the global monetary relations after the World War II were highly politicized.¹Hence concentrating on the monetary issues means including other issues into the total consideration. The U.S.-French monetary relationship is a perspective through which the disagreement on the military affairs, the divergence in the political domain are exposed. The line of this study was therefore drawn under the following aspects: the interaction of monetary, political and defense realms between the United States and France.

So far, the outline of the thesis has been stated. It is a question of articulating economic history and the history of international relations, as well as monetary and diplomatic history. It is also an attempt to explore the interaction of one domain on others.

Moreover, the deterioration of the U.S.-French monetary relationship did not come in a sudden, it was related to the context of the Cold War. Since the end of the Berlin crisis in 1961, the de Gaulle government evaluated that the United States became the No.1 superpower in the world. Its hegemony was represented in the military domain as well as the role of U.S. dollars. Demanding a monetary system which was not founded on one currency not only responded to French government's consideration about the changing external environment but also corresponded to its pursuit of independence and the European identity. But constrained by the differences in the ideology during the Cold War period, France could not step out of the West camp, it would still remain in line with the United States in the face of emergencies that would threaten the survival of the whole west alliance.

Academic review

The study of the U.S.-French international monetary relationship influenced by U.S.balance of payments deficit, U.S. military expenditure in Europe, and French international strategy since the 1960s involved several fields of study. It is at the center of the problematic of the double articulation between the economy and the

¹ See Francis Gavin, *Gold, Dollars, and Power: The Politics of International Monetary Relations, 1958-1971*(North Carolina: UNC Press Books, 2004).

politics, between the national and the European levels.

The first generation of researchers conducted the theory about International Political Economy (IPE): Charles Kindleberger,² Benjamin Cohen,³ Robert Gilpin,⁴ and Georges-Henri Soutou,⁵ who have developed the close link between money and force. According to their theory, both of the two factors function as weapons and contain elements of persuasion and compulsion. They ensure the smooth conduct of negotiations between nations or threaten one side to make concessions to the other.

During the same period, some researchers study some specific problems, such as U.S. stationed troops in Europe and the military spending there. We could consult, for example, the work of John Newhouse, *US Troops in Europe: Issues, Costs, and Choices*,⁶ and that of Gregory F. Treverton, *The Dollar Drain and American Forces in Germany, managing the Political Economics of Alliance*.⁷ The sources in both books come from the press and government reports, but they do show a clear picture about the links between political strategy, economy and military spending, which established the basis for future researches.

In the 1980s, two publications made their appearances in the historiography on American troops and the expenditure: the first one studies the transatlantic negotiations on the sharing of the military burden, see Christopher S. Raj, *American Military in Europe, controversy over NATO burden sharing*,⁸ the other explores the role of the U.S. Senate in the military deployment from the United States to Europe, see Phil Williams, *The Senate and US troops in Europe*.⁹

Meanwhile, since the arising of problems and final breakdown of the Breton Woods system from the 1950s to the 1980s, numerous works, conducted by the expertise of economists and scholars in political science, concentrated on the monetary and economic factors that contributed to its collapse, like Robert Triffin,

² Charles P Kindleberger, *Power and Money, The Politics of International Economics and the Economics of International Politics*(London: Basic Books, 1970).

³ Benjamin Cohen, *Organizing the world's money: the political economy of international monetary relations*(New York: Basic Books, 1977).

⁴ Robert Gilpin, *The Political Economy of International Relations* (New Jersey: Princeton University Press, 1987).

⁵ Georges-Henri Soutou, *L'or et le sang. Les buts de guerre économique de la Première guerre mondiale*(Paris: Fayard, 1989).

⁶ John Newhouse, *US Troops in Europe: Issues, Costs, and Choices* (Washington D.C.: The Brookings Institution, 1971).

⁷ Gregory F. Treverton, *The Dollar Drain and American Forces in Germany, managing the Political Economics of Alliance* (Ohio: Ohio University Press, 1978).

⁸ Christopher S. Raj, *American Military in Europe, controversy over NATO burden sharing* (New Delhi: ABC Publishing House, 1983), chapter 5.

⁹ Phil Williams, *The Senate and US troops in Europe* (New York: The Macmillan Press Ltd., 1985), chapter 4.

Gold and the Dollar Crisis, the future of convertibility, 1961;¹⁰Jacques Rueff, *La Reforme du System monétaire international*, 1973;¹¹Alfred Eckes, *A Search for Solvency: Bretton Woods and the International Monetary system, 1941-1971*, 1975¹² and John Odell, *U.S. International Monetary Policy: markets power and ideas as sources of change*, in 1976.¹³

As early as the 1990s, based on declassified archives, important works about European-American political and monetary relations emerged with a sizable quantity, see for example Harold James, *International Monetary system since Bretton Woods*, and Barry Eichengreen, *A retrospective on the Bretton Woods system: lessons for international monetary reform*,¹⁴ According to some authors, in the era of General de Gaulle and President Johnson, French disagreement in the monetary field was to a significant degree due to the general consideration of de Gaulle, see, for example, William C Cromwell, *The United States, and the European Pillar: The Strained Alliance*. However, there are certain scholars, like Michale Bordo, Dominique Simard, and Eugene White, hold the view that the conventional historians have misinterpreted French international monetary policy, and in fact “French international monetary policy 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 French economy than the asymmetric Bretton Woods system.”¹⁵

Since 2000, much more attention is paid to the link between U.S. troops in Europe and the problem of the deficit of payments or the weakness of the dollar. Three historians and their works should be highlighted here: Hubert Zimmerman,¹⁶ Marc Trachtenberg¹⁷ and Francis Gavin.¹⁸ A large number of archives contribute to

¹⁰ Robert Triffin, *Gold and the Dollar Crisis, the future of convertibility* (Massachusetts: Yale University Press, 1961).

¹¹ Jacques Rueff, *La Reforme du System monétaire international* (Paris: Plon,1973).

¹² Alfred E. Eckes, *A Search for Solvency, Bretton Woods and the International Monetary system, 1941-1971* (Austin: University of Texas Press,1975).

¹³ John Odell, *U.S. International Monetary Policy: markets power and ideas as sources of change* (New Jersey: Princeton University Press,1976).

¹⁴ Michael D. Bordo and Barry Eichengreen, *A retrospective on the Bretton Woods system: lessons for international monetary reform* (London: University of Chicago Press, 1993).

¹⁵ M. Bordo, Dominique Simard and Eugene White, *France and the Bretton Woods international monetary system: 1960 to 1968* (Cambridge: National Bureau of Economic Research,1994), 1.

¹⁶ Hubert Zimmermann, *Money and Security: Troops, Monetary Policy, and West Germany's Relations with the United States and Britain, 1950-1971* (Cambridge: Cambridge University Press, 2001).

¹⁷ Marc Trachtenberg, “The French Factor in U.S. Foreign Policy during the Nixon-Pompidou Period, 1969-1974”, *Journal of Cold War Studies* (Volume 13, 2011).

¹⁸ F. Gavin: *Gold, Dollars, and Power: The Politics of International Monetary Relations, 1958-1971...op.cit.* See also, “The Gold Battles within the Cold War”, *Diplomatic History*26, Issue 1 (January 2002).

unveil the complexity of the relations between the army and the currency in the transatlantic relationship.

Hubert Zimmermann explores U.S. and UK strategies on their military spending in West Germany from the 1950s to the 1970s. According to the author, it has been for a long time that the two countries have considered restoring a conventional German army to lighten their financial burdens: “The rationales behind the re-creation of a German army were no longer limited to the military arguments of the generals or to the political argument of aligning the Germans with the West. Now they were founded on powerful economic necessities, too.”¹⁹ In his book, Zimmermann does not discuss the French role in the U.S.-German negotiations, but it is clear that France has had a profound influence on the considerations and actions of the Federal Republic of Germany (FRG). For example, the French withdrawal from NATO's integrated command increased the feeling of insecurity among the Germans.²⁰ Influenced by this insecurity, military cooperation between the FRG and the United States deepens. From this point of view, France was a catalyst, which played a delicate role in accentuating the importance of the American troops stationed in Germany.

In his article, “The Improbable Permanence of a Commitment: America’s Troop Presence in Europe during the Cold War,”²¹ Zimmermann extends his study to the mandate of Richard Nixon. Unlike the policies of Kennedy and Johnson, the Nixon government's policies on troop withdrawal reflected the confrontation between the President and U.S. Congress. On one side, the President urged the importance to keep U.S. force level in Europe; on the other side, the Congress put pressure on the President to remove about half of U.S. troops stationed in Europe.

Zimmermann's articles and book provide details about U.S. European strategies and policies in the context of the continuous deficit of the balance of payments. The American military protection was good leverage for U.S.-German negotiations; in this way, the deficit of the United States could be reduced to some extent. Moreover, in the international arena, the Germans had to cooperate with the Americans on other domains, like the reform of the international monetary system.

Furthermore, special emphasis should be placed upon the researches of Marc Trachtenberg and Francis Gavin. In the article titled "The French Factor in US

¹⁹ H. Zimmermann, *Monetary and...*, *op.cit.*, 14.

²⁰ *Ibid*, 165.

²¹ H. Zimmermann, “The Improbable Permanence of a Commitment: America’s Troop Presence in Europe during the Cold War”, *Journal of Cold War Studies* (Volume 11, 2009): 3-27.

Foreign Policy during the Nixon-Pompidou Period, 1969-1974," Trachtenberg refers to Digital National Security Archives (hereafter DNSA), documents in the Declassified Documents Reference System (hereafter DDRS), and telephone records of Henry Kissinger to explain the French influence on American policies. The author chooses some typical events: the end of the Bretton Woods system; the year of Europe; U.S.-Soviet detente and the Yom Kippur War, to discuss in details how Franco-American relations evolve from a relatively good relation to the tensions from 1973 to 1974.

This study is to be compared with the study of Francis Gavin, the former student of Trachtenberg, who does much research on the interactions of military and monetary policies between the United States, France, and West Germany during the 1950s and 1960s. He reveals the influence of the American deficit on the consideration of the withdrawal of troops, and the divergent viewpoints of U.S. departments: the Treasury Department (Secretary Douglas Dillon), and the State Department (George Ball) / the Council of Economic Advisers (Walter Heller). The only deficiency is that the author does not consult the French or German primary sources; therefore, are not well concrete and complete.

Besides, the European monetary unification process represented Europe's ambition to achieve closer cooperation in the monetary and economic domains. Whereas the work of Dimitri Grygowski: *Les États-Unis et l'unification monétaire de l'Europe (The United States and the monetary unification of Europe)*²² shows a new perspective on U.S. European policy, the history of the transatlantic monetary relationship, and the history of European monetary unification. His research retraces the monetary relationship between the USA and Europe from the end of the 1950s to the 1980s in the light of a considerable amount of archives: U.S. national archives, documents of Banque de France, etc; the research of Laurent Warlouzet: *Le Choix de la CEE par la France: L'Europe économique en débat de Mendès France à de Gaulle (1955-1969)(France's choice about the CEE, Economic Europe in debate from Mendes France to de Gaulle(1955-1969),*²³ who provides numerous aspects about France's consideration on European project; the collection edited by Robert Boyce

²² Grygowski Dimitri, *Les Etats-Unis et l'Unification monétaire de l'Europe*(Bruxelles, P.I.E. Peterlang, 2009).

²³ Laurent Warlouzet: *Le Choix de la CEE par la France: L'Europe économique en débat de Mendès France à de Gaulle (1955-1969)(France's choice about the CEE, Economic Europe in debate from Mendes France to de Gaulle(1955-1969)* (Paris: CHEFF, 2011).

and Olivier Feiertag: “La France face au dollar: les chemins de la mondialisation au XXe siècle. Introduction”, develops the relationship between franc and dollar, as well as France and the United States.²⁴

To conclude the research cited above, it appears that the historiography of monetary, military and political interactions between the United States and France has not been sufficiently studied. The approaches are dominated by the study of the monetary-military relations between the United States and West Germany in the 1960s and 1970s. Furthermore, less access to the original documents of the American and French presidencies limits the depth of the researches. However, these researches on all accounts illuminate the following studies, by throwing up specific observations and instructional historical documents to the public. Based on these excellent works, and with the help of abundant archives, this study intends to shed light on the interaction of monetary, political, and military domains between the United States and France in 1965 to 1973.

Questions and objectives of the study

The U.S.-French relations are complex, ranging from political, diplomatic, military and monetary aspects, such as the disagreement on the nuclear issues, the Vietnam War, the problem regarding the FRG, or the construction of the Common Market. Here we will confine ourselves to U.S. balance of payments problems, the monetary affairs, political and military matters, by applying approaches such as: exploring the separate viewpoints of the U.S. and French successive governments; elaborating the internal discussion of the decision-makers, advisers and middle-level officials regarding political, military, and monetary matters in each government; and trying to understand the compromises and negotiations between the two countries, sometimes with the intervention of the Common Market.

In the light of financial and political declassified archives, we will see how different domains interact, and solve the following questions:

1. Since the Bretton Woods system was characterized by U.S. wills, and was finally abolished by the United States, then during this process, how did the United

²⁴ R. Boyce, O. Feiertag, « La France face au dollar : les chemins de la mondialisation au XXe siècle. Introduction », *Histoire@Politique*, 2013/1 (n° 19), 1-5.

States adjust itself to the change of external environment, especially when it realized that it had lost the capability to dominate the monetary and economic orders in the West camp?

2. Taking U.S. allies in Western Europe, especially France for example, how did they cope with the challenges of the United States? Did they passively obey U.S. proposals of adjustment, or did they hope to grasp the opportunity of the changing economic structure to build European monetary and economic integration?

3. How did the interaction of monetary, political and military relations proceed? When exchange rate arrangements become a stumbling block to U.S.-European relations, could this situation be overcome through political negotiations? Was U.S. military protection to Europe an ace card in negotiating with its allies in other domains? What was the impact of the political and military negotiations on resolving the conflicts between the USA and European monetary problems?

4. What was the relationship paradigm between the United States and its European allies from mid-1960s to the early 1970s: affiliation, partnership, or both?

Primary archives and official documents

This thesis will first consult the primary archives and official documents from the French side and the U.S. side, in order to understand the U.S.-French monetary and political relationship. The rich archives allow the author to rethink the model of transatlantic alliance in the years of 1960s to 1970s, and well analyze the political impact on U.S.-French monetary relations, and the consequence of the monetary crisis on the political, military matters.

— The archives from the French side:

(1) The Presidential documents in the National Archives (Pierrefitte-sur-Seine) of the de Gaulle and Pompidou governments— series 5AG1 and 5AG2— offer detailed discussion about the international monetary reform in the *Conseil Restreint*. The presidential archives allow us to explore for example how the de Gaulle government's gold policy developed and how the Pompidou administration handled with the Nixon New Economic Policy declaration.

(2) Michel Debré papers in the National Archives (Pierrefitte-sur-Seine), series 4DE/5DE, mainly present Debré's dialogues with international monetary authorities as Economy and Finance Minister and his officials' counseling reports on

international monetary policy.

(3) Jean-René Bernard papers in the National Archives (Pierrefitte-sur-Seine), series 86AJ, unfold the process of decision making for certain economic affairs and currency negotiations, which help us to better understand the details of the negotiations in the Pompidou government.

(4) The archives of the Banque de France principally deal with some technical questions, like the U.S. deficit in the balance of payments. Besides, some reports were interesting to be mentioned, for example, an analytical report of 1966 ever referred to the hypothesis that the Johnson government would suspend gold-dollar convertibility and it then provided French with possible measures to counter the negative effects.

(5) René Larre papers and Valéry Giscard d'Estaing's documents in the Center for Economic and Financial Archives (CAEF), cover the reform of the international monetary system negotiations.

(6) The archives in the Ministry of Foreign Affairs contained the ambassador reports about U.S. economic situation etc.

(7) Claude Pierre-Brossolette's oral archives in the Institute of Pompidou revive the negotiations about the reform of the international monetary system, specifically French internal discussion on the adoption of a two-tie ex-change rate market since August 19, 1971.

— Archives from the U.S. side:

(1) Documents in U. S. National Archives II Record Group 59, reveal the process of U.S.-German offset negotiations. A portion of archives includes the exchange of high-level visits.

(2) Documents in U. S. National Archives II Record Group 56, mainly include groups papers and discussions about the economic and monetary issues in the Treasury Department.

(3) Archival collections or databases, like *FRUS*, *DNSA* and *DDRS*, are essential for this study. They involve precise analyses about U.S.-Europe relationship and the development of French American policies, in which all sorts of subjects: monetary affairs, diplomatic contact are included.

(4) Annual reports, public papers of the Presidents, Department of State Bulletin, and survey of current economy provide a panorama for U.S. each year's domestic/external economic and monetary policies.

— Archives from other institutions:

(1) UK database, such as Documents on British Policy and The Nixon Years, 1969-1974 (sources from the National Archives, UK), Annual reports of the Bundesbank and the Annual Reports of the IMF will be used to summarize the overseas reaction on sterling crises, speculation on mark and the French-U.S. relations in the eyes of a third country.

(2) Digital sources, like that in the Virtual Centre for Knowledge on Europe (<https://www.cvce.eu>) reveal the primary archives about the development of the European Community since its foundation.

—Memoirs and biography, present the issues that the main actors themselves have experienced them, like Nixon's and Kissinger's memoirs, biographies about de Gaulle and Pompidou etc.

Organization of chapters

The present approach is chronological based on rich historical documents, memoirs of the major actors and the previous researches. I divide the research into four parts:

— Background: from 1958 to 1964

With the return of power of General de Gaulle, France saw its economic and social recovery since the end of the 1950s. This period was also characterized by French and American monetary cooperation.

First of all, since the end of the Eisenhower government, the United States has been chronically suffered from the balance of payments deficit. To maintain the dollar's value, France participated in the gold pool; to manage the monetary system well, France agreed with the General Agreements to Borrow. She also took a positive measure to save the value of the pound sterling.

Secondly, France did not embarrass Americans about the gold issue. France was cautious in the face of the speculative movement of gold that hit the European markets in October 1960. In the *Conseil Restreint* of 1963, there were officials, such as Guillaume Guindeguy and Valéry Giscard d'Estaing, proposed not to ask for the return of the gold standard, de Gaulle himself agreed with them too.

As a result, the most intense disagreement between France and the United States in the monetary field, in other words, the public announcement of de Gaulle, came later than their differences over political and military affairs. The beginning of 1963

already tested the double refusal of France on the entry of Great Britain to the prevailing market and on the proposal of the "Multilateral Nuclear Force." Nor did the French want to share the military burdens of the United States in Europe. The Franco-American political and military relations deteriorated remarkably from that moment. However, we have seen that until 1963, in the monetary field France made efforts to maintain its cooperation with the United States. In 1964, the French still proposed an international reserve unit in order to ensure liquidity and adjustment of the balance of payments. With the rapid refutation of this idea by the Americans and the British, the French Government saw the possibility of a new reserve dominated by the Americans. This disappointing experience finally hardened de Gaulle's decision on attacking the U.S. currency hegemony on February 4, 1965.

— Part One: from 1965 to 1968

Chapters two and three (1965- 1968) describe how the Johnson government limited the capital outflow by implementing the Interest Equalization Tax and the voluntary programs. To diminish the deficit, the American government continued its talks with the FRG from 1965 to 1968 and got two two-year offset agreements. However, these efforts were counteracted by U.S. broad participation in the Vietnam War. The deficit was still there and even deteriorated from 1967 to 1968.

To stabilize the international monetary system and add additional liquidity, the United States proposed an extensive discussion on the creation of new assets. The introduction of the Special Drawing Rights was finally placed on the agenda, while on the other hand, the de Gaulle government fought against U.S. attempt and insisted on the monetary role of gold. U.S.-French monetary problems gathered with their political and military disagreements. 1965 to 1966 was then marked with the outbreak of the overall conflicts, especially the French opposition against the United States in all dimensions.

Even the two administrations could not always reach the consensus, their exchange of views continued. Since the May-June strike 1968, France has been dramatically weakened in the social and economic fields, and the Soviet invasion of Czechoslovakia highlighted its aggressiveness and the necessity of U.S. force presence in Europe. The joint effort to face the security and currency challenges permitted the two governments to get closer than the years before, which lay a good foundation for the contact of U.S. and French new governments since 1969.

—Part Two: 1969-1971

Chapters four and five analyse the new era of the U.S.-French relationship: Nixon's visit to Paris in February 1969 and Pompidou's visit to the United States in 1970. The two sides realized their high-level exchanges, during which, an in-depth and frank point of views on the German issues, the Vietnam War, the international economic and monetary affairs, were shared by both of the two administrations. The first crisis confronted the Pompidou government, and the European countries were the unilateral announcement of U.S. President Nixon on the suspension of dollar-gold convertibility and the ten percent surtax. The negotiations to solve the Nixon economic shock and the signing of the Smithsonian Agreement reflected the cooperative spirit in the West camp in front of a significant divergence of interests again.

—Part Three: from 1972 to 1973

Chapters six and seven present the aftermath of the Smithsonian Agreement (1971), U.S. further action to end the Bretton Woods system and the Year of Europe initiative. With the fluctuation of the dollar at the beginning of 1973, the fixed exchange rate system was over. The misunderstanding caused by the monetary affairs sped the pace of the establishment of the European monetary union. Moreover, the Nixon administration proposed a solution to put everything in a package, that is to say, to solve the economic matters, the defense, and the diplomatic issues in the framework of its political initiative, the "Year of Europe altogether". However, the U.S. aim was clear, to use its military advantages to force Europe to make concessions in the economic field. In short, during this period, defense, currencies, and politic issues intertwined each other, which are both weapons and play cards for France(the Nine as a whole) and the United States on the international political spectrum.

Part I From the “dollar gap” to the “dollar glut”, 1944-1968

Prologue

The United States dollar, symbol of the U.S. economic and financial flow, occupied the pivot position in the international monetary system (IMS) in the aftermath of World War II. Its official position was firmed up during the Bretton Woods conference in July 1944, which made the U.S. dollar convertible to gold. One ounce of gold could be exchanged for U.S. \$35.²⁵ Other countries' currencies would be pegged to the U.S. dollar and the floating rate would be kept at plus or minus one percent.²⁶

However, the IMS relying on gold-dollar linkage maintained its stability for just over a decade. With the deterioration of the U.S. balance of payments and the exacerbation of U.S. capital outflows in the late 1950s, central banks accumulated a growing portion of their international reserves in the form of U.S. dollars; it was thus doubtful that the United States would guarantee gold-dollar exchange rate at U.S. \$35 per ounce, which directly led to an increase of speculative activity. More foreign dollar holders then chose to convert U.S. dollars into gold, and since the beginning of the 1960s, numerous gold and dollar crises broke out.²⁷

From the “dollar-gap” to the “dollar glut”, what happened to the U.S. dollar and its issuing country? Was the Bretton Woods system with the U.S. dollar as its core, the booster for the United States to promote its economic hegemony? Or did the system bring about unspeakable difficulties? The international monetary relationship reflected political and diplomatic interactions, when the U.S. economic position declined and the status of the dollar deteriorated, did the political, military and diplomatic relations in the western world change as well?

In fact, the transformation in the international monetary relationship between France and the United States was delicate, and typical, since the 1960s. During this period, France was unsatisfied with U.S. hegemony in all aspects - it pursued the

²⁵ The Roosevelt government, with regard to the reduction of federal gold reserves, passed the Gold Reserve Act on January 31, 1934, declaring a depreciation of the US dollar. The price of gold was adjusted from US\$20.67 to US\$35 an ounce. This parity applied to the Bretton Woods agreement.

²⁶ Benn Steil, *The Battle of Bretton Woods, John Maynard Keynes, Harry Dexter White, and the making of a new world order* (New Jersey: Princeton University Press, 2013).

²⁷ Numerous books concern the history of the early years of the Breton Woods system and the dollar crises. The author selected the most recent and representative ones here: M. Bordo and B. Eichengreen, *A retrospective on the Bretton Woods system: lessons for international monetary reform* (London: University of Chicago Press, 1993); Harold James, *International monetary cooperation since Bretton Woods* (New York: Oxford University,1996); Filippo Cesarano, *Monetary Theory and Bretton Woods: the construction of an international monetary order*(Cambridge: Cambridge university Press,2006); Eric Helleiner, *Forgotten foundations of Bretton Woods: international development and the making of the postwar order* (New York: Cornell University, 2014).

so-called “independence” in military and diplomatic domains. It was the same case for monetary affairs. When France’s propositions in regard to the reforms of IMS were refused or ignored by the Americans, the de Gaulle government hardened their attitude. The year of 1965 was therefore a turning point which witnessed the drastic denouncement of General de Gaulle on the dollar’s hegemony. France’s international monetary policy reflected its overall international strategies, and the way to resolve monetary problems influenced French-US international political, economic, and military relations as a whole.

This chapter will focus on the process of alliance negotiations on different domains. It is worth mentioning that the conflicts between the monetary and military fields were quite in the same rhythm. The United States used their military strengths to force the Europeans to make economic and monetary concessions. But thinking about this period from another angle perspective, we are allowed to recognize that because of the fact that Europe had improved their economic and monetary status, that their economic advantages finally pushed the United States to come to the negotiating table.

The alliance would no longer be conducted by one side, the transatlantic relationship was transforming somewhat from “affiliation” to “partnership”. And as one of the leading countries in EC, France’s sense of autonomy became much more manifested: it accelerated the pace of pursuing independent diplomacy and economic policies with the intensification of French-U.S. divergences. There are two essential objectives characterized the foreign policy of General de Gaulle: the first was to create a multipolar international system, which would replace the current bipolar system by allowing the formation of a group of independent European countries, first in Western Europe, then in the whole of Europe...the second goal of de Gaulle was to acquire the leadership in Europe for France.”²⁸

²⁸ In his article, André Eshet divided the foreign policies of de Gaulle into three periods, the first phase, from 1958 to the end of 1962, France was influenced by the Algerian war, then by the process of peace and independence; as long as the Algerian conflict lasted, General De Gaulle could not conduct his great policy abroad. The second phase, from 1963 to the end of 1965, was marked by the easing of tensions between the USSR and the Western powers. On the one hand, there existed the quarrel over the integrated multilateral forces project, and NATO's nuclear strategy. On the other hand, it was the time of France's gradual withdrawal from its obligations as a NATO partner. The third phase coincided with the “Détente” - in any case according to the ideas of General De Gaulle - and with the gradual rapprochement between France and the socialist states by the declaration of General De Gaulle in February 1966, when he announced that he would withdraw France from the Alliance's military organization. It was during this last phase that the General developed his doctrine of independent action. André Eshet, “Aspects stratégiques de la politique étrangère gaullienne”, in Élie Barnavi and Saul Friedländer, *La Politique Étrangère du Général De Gaulle* (Paris: Puf, 1985), 75-78.

Chapter I The heavy heritage from 1944 to 1964

The chaotic international financial order between two world wars and the disastrous mistakes brought about by the Great Depression in the 1930s were widely known by the Western countries. How to reorganize the post-war international financial order, recover the economic health, prevent vicious speculation, and eliminate competitive devaluation, became main themes during the Bretton Woods Conference in July 1944. During this conference, one a common agreement was that the freedom of current payments, especially trade payments, should be guaranteed, in order “to facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.”²⁹

The "Keynes Plan" submitted by the United Kingdom and the "White Plan" of the United States were two hot topics, both of which wanted to set up a fixed exchange rate system that was not based, as in the nineteenth century, on the constant use of deflation by debtor countries. But their disagreements were remarkable. “Keynes plan” advocated a system which could eliminate gold as the reserve currency and give no privileged role to one national currency. Throughout history, it was the ambiguous role of the pound-sterling and gold that ultimately frustrated the world monetary system before WWII. The British plan encouraged the formation of a “Bancor”, which had no relations with gold and was defined only by different national currencies.

The "White Plan" proposed to establish a link between US dollar and gold. During World War II, as President Franklin Roosevelt’s adviser, Harry D. White had already worked to persuade other countries to peg their currencies to the U.S. dollar. And at institutional level, White envisaged the IMF as a smaller multilateral institution, supervised by different countries, which lent national currencies to the debtor nations rather than create new international assets.³⁰ White, of course, was working to promote U.S. economical and political interests, just as Keynes was focusing on British interests. White’s conception of the post-war system essentially

²⁹ Articles of Agreement, International Monetary Fund, United Nations Monetary and Financial Conference, (Washington D.C.: International Monetary Fund, July 1 to 22, 1944), 4-5.

³⁰ James M. Boughton, “Why White, Not Keynes? Inventing the Postwar International Monetary System”, *IMF Working Papers*, (March 2002): 3.

was attributable in part to the superior economic strength of the United States.³¹

However, these two had a common deficiency; the new international monetary institutions depended too much on state power. When the issuing countries of reserve currencies, like the United States and the Great Britain wanted to pursue their self-interests and the maximization of profit, the system could not last for long.

Looking back to the Bretton Woods conference. It was obvious that the United States' strong economy, stable dollar status, and huge gold reserves have influenced the final decision. Regulars of the Bretton Woods monetary system were eventually dominated by the "White Plan", which stated that:

"The par value of the currency of each member shall be expressed in terms of gold as a common denominator or in terms of the United States dollar of the weight and fineness in effect on July 1, 1944. The Fund shall prescribe a margin above and below par value for transactions in gold by members, and no member shall buy gold at a price above par value plus the prescribed margin, or sell gold at a price below par value minus the prescribed margin."³²

With the failure of Britain's attempt to convert freely in 1947 and the sterling depreciation in 1949, the U.S. dollar alone assumed the responsibility for providing international liquidity.³³

This chapter has two main purposes: (1) to trace world financial developments under Bretton Woods from 1944 to 1964, and explore why this system engendered difficulties for Western countries and (2) to reveal the French-U.S. monetary relationship since the 1960s and the interactions among different spheres: the monetary affairs, the defense problems and the political strategies.

I. The international monetary aftermath of World War II

At the early stage of Bretton Woods monetary system, it functioned relatively smoothly, by facilitating world trade's expansion and post-war economic recovery. During 1944 to 1958, the U.S. dollar existed as a scarce commodity and was eagerly

³¹ Ibid, 3.

³² "Articles of Agreement," 4-5.

³³ Even after the Second World War, the British economy was declining, but pound sterling was still an important international reserve currency. In July 1947, with U.S. loans, Britain announced the free convertibility of pound-sterling. However, with the rapid drain in foreign exchange reserves, they once again announced the implementation of foreign exchange control in one month. It was not until the end of 1958 that the British reestablished their currency's convertibility.

chased by various countries - the term “dollar shortage” no doubt reflected this phenomena. However, since 1956, or more strictly speaking, since the breakout of the Korean War in 1950, the United States had imported an increasing amount of goods with its current account advantage decreasing. A much more significant change lay in the capital account. The trend of capital outflows had increased, and since 1958, the U.S. balance of payments has suffered chronic deficits, so that as early as 1956, Professor and Diplomat Richard Gardner, commented that the Bretton Woods system based on White’s as well as Keynes’ plans had been far from solving the central problems of international monetary stabilization and they even did not discuss the allocation of responsibility for adjustment between creditor and debtor nations.³⁴

The failure of the Bretton Woods institutions widely discussed since the late 1950s was doomed. The speculation on gold, the insufficiency of self-restoration, and the dependency on negotiations from the national level, contained elements of instability and disintegration.

1.1.1. The development of the International Monetary system (1944-1958)

In the aftermath of WWII, the U.S. dollar was regarded as a "rare currency" for a long time. On the one hand, Europe was in ruin during the world war, and had immense need for capital to meet the primary construction and restored social orders. On the other side, the United States, the world’s most powerful country, could provide products that Europe wanted. Due to the considerations of anti-communism and desire to recover Europe’s economic and social orders, the Truman administration quickly decided to offer economic assistance to Western Europe. In 1947, in a speech to Congress, the Secretary of State George Marshall stated that: “the remedy lies in breaking the vicious circle and restoring the confidence of the European people in the economic future of their own countries and of Europe as a whole.”³⁵ Following this statement, between the years of 1947 to 1953, the United States transferred to the rest of the world - in the form of grants and loans— 33 billion dollars.

Besides, the announcement and realization of the Marshall Plan³⁶ vested the

³⁴ Richard N. Gardner, *Sterling-dollar diplomacy* (Oxford: The Clarendon Press, 1956), 100.

³⁵ “Remarks by the Secretary of State, European Initiative Essential to Economic Recovery”, June 15, 1947, *The Department of State Bulletin 415*, (Volume XVI 1947): 1159.

³⁶ Numerous archives and works concentrate on Marshall Plan. In Harry S. Truman Presidential Library&Museum, there is a special collection focusing on the Marshall Plan covering the years 1946 through 1953. See more details at: https://www.trumanlibrary.org/whistlestop/study_collections/marshall/large/index.php From the French point

U.S. dollar much more meaning, which was of great significance not only in the economic sense but also in political and ideological dimensions. The reconstruction of allied-occupied Germany demanded the liquidity of dollars. France, Great Britain, Japan and other countries needed American aid as well. Under the name of the Marshall Plan, the European countries received \$11.8 billion in the form of grants and \$1.8 billion in the form of loans from mid-1948 to mid-1952.³⁷

Even U.S. dollars were exported to the world; the Western countries never received sufficient liquidity. Take the Western Europe for example, and the reasons why dollars were rare at that time:

First of all, there were important reconstruction requirements in Europe which had to be satisfied if Europe was to regain its position as an important world trader and supplier. Second, in the period 1946-49, the rest of the world, especially Europe, was unable to produce the kind of goods available in the United States. Third, private capital flows from the United States were not forthcoming. This last factor can be explained in brief. American investors, not unlike other investors, responded to the once-burned twice-shy behavior pattern.³⁸

These three factors contributed to the favorable situation for U.S. dollars in the international capital markets. The rest of the world sought all means of payments in dollars and were eager to buy goods and equipment from the United States. And the pursuit of dollars existed not only in Europe or Japan, South American countries like Chile and Argentina demanded U.S. dollars as well.

To conclude, from 1945 to 1949, the credibility and usage of U.S. dollars were relatively stable. It functioned as “the principal currency in which international transactions are denominated and settled; it is the preferred instrument of international short-term capital investment and has become the largest reserve currency used by issuing institutions worldwide; finally, it serves almost exclusively as the means of intervention for central banks on the exchange markets.”³⁹

of view and French-U.S. relationship under the Marshall Plan, see Gérard Bossuat, “Le plan Marshall dans la modernisation de la France”, in Serge Bernstein and Pierre Milza, *L'Année 1947* (Paris: Presses de Sciences Po, 1999), 45-73. Matthias Kipping: *La France et les Origines de l'Union européenne, Intégration économique et compétitivité internationale* (Paris: CHEFF, 2002). Micheael J. Hogan: *America, Britain, and the Reconstruction of Western Europe, 1947-1952* (New York: Cambridge University Press, 1987).

³⁷ Jean Denizet, *Le dollar: Histoire du système monétaire international depuis 1945* (Paris: Fayard, 1985), 47

³⁸ Francis Lee, “The U.S. balance of payments in the postwar period”, *Financial Analysts Journal* 21, No. 3 (May - Jun., 1965): 31-38.

³⁹ Archives de la Banque de France (hereafter ABDF), 1489.2004.02, volume 31, La politique du dollar, conférence, prononcée à l'Institut des Hautes Etudes de la Défense Nationale, le 2 Mars, 1971.

With the devaluation of main western countries' currencies in 1949,⁴⁰ their exchange rates remained comparatively constant, which laid the foundation for economic and social recovery. During this period, the U.S. economy maintained a strong dynamic of development, the surplus of the balance of payments reached about 2 billion dollars a year, except that the outbreak of the Korean War led to an increase of the military expenditure and the balance of payments deficits, "the marked shift in the relationship of exports to imports in 1950 developed largely as a result of the Korean hostilities and the accompanying speculative rush for materials which accelerated U.S. imports and exports."⁴¹ The Korean War witnessed the first emergence of the U.S. balance of payments deficits, but apart from that, the American economy maintained its vitality, and the U.S. dollar kept its vitality.

During the whole of the 1950s, the amount of dollars held by foreign countries did not cause major problems, foreign central banks sought to restore the reserve margins that they lacked and the internal and external situation of the U.S. economy and the dollar were still strong. Since the end of the 1950s, however, with the recovery of the European and Japanese economies and the convertibility of the OECD members' currencies, the problems of U.S. capital outflows and the challenges met by the U.S. economy became remarkable. The American export advantage reduced, the Europeans and the Japanese competed with them in the global market, and these situations led the United States to a large balance of payments deficits over the years. The phenomenon of the "dollar-gap" was quickly replaced by the period of "dollar of mistrust" and "dollar glut".

In fact, there were already U.S. officials who warned that in the period from 1950 to 1957, increasing amounts of funds in the form of capital and military expenditures had already left the United States, but these were largely offset by U.S. surpluses on trade and services. Thus, the annual U.S. balance of payments deficit was less than \$2 billion. In 1958 there was still a substantial surplus on current account (comparing favorably with prior years, except 1956 and 1957), capital outflows were, however, considerably higher than in the pre-1956 period ; The situation became worse in 1959, with a large reduction in the export surplus, "the latest estimate for 1959 is for a drop in the surplus on trade and services by \$2.5

⁴⁰ The devaluation of European currencies amounted to 30 percent for the British and the Netherlands, 8 percent for Belgium, 13 per cent for the Italy, 22 per cent for France, 21 per cent for the Germans.

⁴¹ "The United States balance of payments", *Monthly Review of Federal Reserve Bank of St Louis* 43, No. 3, (1961).

billion below that of 1958... The change is nearly all in the merchandise trade account: a slight further decline of exports and a \$2 billion increase in imports. The overall deficit for 1959 is estimated at \$5 billion.”⁴²

As reserve currency and means of payment in global trade, the unique role of the dollar influenced the stability of the IMS. However, the dollar’s health was decided by the performance of the U.S. balance of payments. When the United States suffered from continuous deficits, the credibility of the dollar would be in trouble as well. With regards to this point, Professor Robert Triffin offered his explanations.

1.1.2. The liquidity problem and the Triffin dilemma

The liquidity problems have been discussed in the academic circle since the 1950s and, step by step, spread to the official circle. Robert Triffin was certainly the one who pioneered this discussion, and as early as the late 1950s, he began to critique the Bretton Woods system in public and queried the gravity of outflow of dollars.

In his famous book, *Gold and the dollar crisis, the Future of Convertibility* written in 1958 and 1959, Triffin explained clearly his concerns on the U.S. balance of payments position and the results brought about by the deficits: if the United States corrected its persistent balance of payment deficits, the growth of world reserves could not be fed adequately by gold production at \$35 an ounce, but if the United States continued to run deficits, its foreign liabilities would inevitably come to exceed by far its ability to convert dollars into gold upon demand and would bring about a gold and dollar crisis.⁴³ This paradox was then called after his name, the Triffin dilemma.

Instead of giving detailed remedies for the international monetary system, in his book, Triffin’s advice was more directed at the U.S. international economic situation. At the beginning, he came straight to the point that the U.S. confronted several problems on its current account and capital account:

“(1) to strengthen, or recover, their competitiveness in world trade, by arresting creeping inflation here, while stepping up their rates of growth and productivity by appropriate investments in research and technology.

⁴² *FRUS* 1958-1960, Vol. IV, doc.49, Paper prepared in the Department of State, July 24, 1959.

⁴³ R. Triffin, *Gold and The dollar crisis: Yesterday and Tomorrow* (New Jersey: Princeton University Press,1978), 2.

(2) to press more and more vigorously for the elimination of remaining discrimination on dollar goods and the further reduction of other obstacles to trade and payments by foreign countries, and particularly by prosperous Europe.

(3) to stimulate our own producers to devote more attention than they do now to prospecting foreign markets and expanding their sales abroad.

(4) to do everything to prod European countries to assume their fair share of development financing abroad, particularly through multilateral assistance programs rather than through bilateral, tied loan, procedures.

(5) the current relaxation of world tensions may possibly enable us to reduce the terrifying and disproportionate defense burdens— internal as well as external— which probably account, more than any other single factor, for the revolutionary shift which has taken place in the international dollar balance from pre-war to post-war days.”⁴⁴

According to Triffin, the primary measure the United States should take was to eliminate the overall balance of payments deficits and put an end to the constant deterioration of the monetary reserves. When referred to the IMS, Triffin mentioned several points: (1) the gold problem; (2) international liquidity; and (3) the exchange rate regime.

First of all, he argued that the reserve currency should not be made up of one national currency, and the role of gold as international reserve should be eliminated. Looking backward, the increased amount of gold could not meet the expanding world economy's need. Numerical data showed that the role of gold in gross world reserves had fallen from 85 per cent in 1913 and 95 per cent in 1933-34 to about 60 per cent in 1962. Even more striking was the steadily decreasing role of Western gold production as a source of current reserve increases, from 78 per cent of such increases in 1934-37 to 51 per cent in 1938-49, 30 per cent in 1950-57 and less than 19 per cent in 1958-62,⁴⁵ so that “any reevaluation of the price of gold would have to be very stiff indeed to meet the problem and would promise only a temporary breathing spell rather than a permanent solution to the question of international liquidity.”⁴⁶

Moreover, the change in the price of gold was not only a financial event, but also

⁴⁴ R. Triffin, *Gold and the dollar crisis, the Future of Convertibility* (New Haven: Yale University Press, 1961), 7-8.

⁴⁵ R. Triffin, *The Evolution of the International Monetary System, historical reappraisal and future perspectives* (Karachi: State Bank of Pakistan Press, 1964), 27.

⁴⁶ R. Triffin, *The world money maze, national currencies in International Payments* (New Haven and London: Yale University Press, 1966), 75.

a manifestation of a political significance. Under the present monetary system, gold producing countries, such as the Soviet Union, China and South Africa could menace the stability of the gold market, the speculation of gold would therefore increase with the weak position of the U.S. economy and U.S. dollars.

Secondly, according to Triffin, the greatest weakness of the current monetary system lay in the shortage of international credit. He proposed that “the satisfactory functioning of such a system necessarily requires an expanding pool of world monetary reserves and international liquidity, to bridge temporary and unavoidable fluctuations in each country’s external receipts and payments.”⁴⁷ This judgement was the most controversial part in Triffin’s thesis; different people regarded the liquidity problem from their own perspectives. The French and the Dutch thought that Triffin’s plan exaggerated the problem of international liquidity development...It was not necessary for central banks' reserves to grow at the same rate as the world trade...if all countries are to make reasonable efforts to keep their balance of payments in balance, they do not need too large reserves.⁴⁸

Thirdly, Triffin noticed the rise of worldwide discussions on exchange rate regime in the early years of the 1960s. He expressed clearly his opposition towards floating rate regime, due to the fact that in the long run, “it would merely end in currency collapse in the case of protected inflationary developments.”⁴⁹ In regard to this aspect, in the U.S. academic and financial circles, economists could not arrive at an agreement. For Milton Friedman and Gottfried Haberler, they argued that the major problem in the IMS was the rigidity of exchange rates and unwillingness of the states to live within their means.⁵⁰

Triffin’s overall views on the international liquidity, the gold position and the exchange rate regime had a profound impact on the U.S. government. Most of his diagnoses were shared by the Kennedy and Johnson governments, especially that he emphasized the possibility of the shortage of international liquidity and eliminating the reserve function of gold. But his propositions were hard to put into practice because he suggested introducing a new credit to avoid the risk that one national currency’s instability, highly dependent on individual countries’ decisions, affected

⁴⁷ R. Triffin, *Gold and the dollar crisis, the Future of Convertibility, op.cit.*, 8.

⁴⁸ Archives Nationales de la France (hereafter AN), 5AG1, volume 2346, “Note à l’attention du Général De Gaulle, problème monétaire internationaux”, le 25 mars 1963.

⁴⁹ R. Triffin, *The Evolution...op.cit.*, 40.

⁵⁰ Jacqueline Best, *The Limits of Transparency: Ambiguity and the History of International Finance* (London: Cornell University Press, 2007), 99.

the whole global monetary market. It meant the United States would lose their privileges in IMS.

After all, Triffin's propositions offered the possibilities to reform the Bretton Woods system, and the U.S. governments under Kennedy and Johnson administrations also quickened their pace to encourage the creation of new international reserves, and the central role of gold in IMS alerted the U.S. government to keep a watchful eye on its hidden danger.

1.1.3. The interactions between money, security and politics

Money, security, and political issues; three different domains at first glance, but were in fact closely related.⁵¹

Above all, the instability of the U.S. dollar came from the long term deficits in the balance of payments in the United States. And the deficits were, to a large extent, affected by U.S. military protection and wars overseas. Protecting Europe on the one hand and competing with European products in global economic market on the other, finally became the mainline which connected the monetary affairs, military protection and U.S.-European political relations as a whole.

Let us consider these three domains from a dual approach:

Firstly, from the United State's side - since 1958, the Americans gradually realized that they were losing their advantage in an international commercial sphere; European, Japanese and Canadian products were competing with theirs for international markets without reservation. At the same time, however, the United States spent huge amounts of money each year to defend the security in these regions. Such a strong contrast reminded the Americans of the fact that the European countries should compensate U.S. troops' expenditure. In the last two years of Eisenhower's tenure of office, therefore, special attention was paid to the talks with West Germany, France, and possibilities to reduce U.S. balance of payments deficits. In one system, when members, such as Western Europe and Japan, continued to make profits and their leader, the United States, offered a free ride at the expense of its own benefits,

⁵¹ Surveys of U.S.-Europe military relations, especially that concern economic expenditure include Hubert Zimmermann translated by Robert Kimber and Rita Kimber, 'Occupation Costs, Stationing Costs, Offset Payments, The Conflict over the Burdens of the Cold War', in Detlef Junker, David Lazar, and Christof Mauch, *The United States and Germany in the Era of the Cold War, 1945-1990: A Handbook* (New York:Cambridge University Press,2004),333-340.

both the American people and the U.S. government would show a growing feeling of dissatisfaction. The Eisenhower government obviously saw the seriousness of the U.S. deficit and large speculation on gold. The finance minister Robert Anderson announced in the meeting of the National Security Council in 1959 that it was the imbalance in the Euro-American commerce that brought about this situation:

“In fact, what we are now tending to do is to have the U.S. finance European exports. These European countries should themselves be urged to take some of the same measures we take to finance our own exports... If the balance of payments disparity continues for any considerable number of years, we in the U.S. would be in for real trouble.”⁵²

As time passed, the U.S. government formed a strategy to use their military advantages to influence economic negotiations with Europe, in order to force the Europeans to make concessions and give the United States more convenience on economic and monetary issues. This strategy was broadly used in the Kennedy, Johnson and Nixon governments.

Secondly, from Western Europe’s perspective - since the end of WWII, U.S. allies acquiesced to the fact that being the supplier of the world’s money, the United States had been given a major source of power and independence. At the same time, the Europeans used the hegemony system governed by the United States to promote their own economic prosperity. As long as this bargain was sustained and not overly abused, the Bretton Woods system survived. When gold speculation and dollar crises broke out at the beginning of the 1960s, however, many Europeans and Japanese began to believe that the United States was abusing the political and economic privileges conferred on it by the primacy of the dollar.⁵³

France was evidently a typical ally who fought against U.S. privileges from monetary, military and political aspects. They regarded the Bretton Woods system as a U.S. monetary machine which freely printed paper money for the U.S.’ own purposes, the Vietnam war was at the expense of a worldwide inflation. The dollar hegemony was therefore proof that the U.S. abused its power, and the international monetary affairs became one of the most intense battlefields between the two countries. Furthermore, as Europe’s military protector, the Americans intervened in

⁵² *FRUS* 1958-1960, Vol.IV, doc.101, Memorandum of discussion at the 409th Meeting of the National Security Council, June 4 1959.

⁵³ Robert Gilpin, *The Political Economy of International Relations...*, *op.cit.*, 139.

NATO affairs arbitrarily and prevented France from developing the *force de frappe* independently.⁵⁴

U.S. global policies had allowed its power to expand indefinitely. After the Cuban missile crisis, France saw the United States as the first power in the world. France's growing discontent with the United States and its desire to pursue independent policies covered a wide range of monetary affairs, military issues and political strategies.

II. The measures to defend the U.S. dollar (November 1959 - November 1963)

From the late Eisenhower administration to the Kennedy government, the United States had suffered from continuous balance deficit, to the extent that Kennedy told his advisers the two things which scared him most were nuclear weapons and the payments deficit.⁵⁵ The U.S. large payments deficit was contributed mainly by the economic competition of its allies, such as the Europeans, the Japanese and the Canadians etc. However, the United States spent hundreds of millions of dollars on protecting the above countries every year, thus the question of defending the U.S. dollar or defending Europe emerged. U.S. government began to ask their allies to compensate U.S. military expenditure overseas, especially the Americans regarded its military protection for the FRG as one of the most remarkable reasons that caused its international payment deficit. Like the following table showed, the United States had kept a considerable quantity of troops stationed in FRG. Since the last years of Eisenhower mandate, military protection, economic deficit and monetary negotiations became three topics closely linked and influenced.

⁵⁴ See Phil Williams, *The Senate and US Troops in Europe* (New York: St. Martin's Press, 1985); Lawrence Kaplan, *NATO Divided, NATO United: The Evolution of an Alliance* (Westport: Praeger Publishers, 2004); Andrew Priest, *Kennedy, Johnson and NATO: Britain, America and the Dynamics of Alliance* (New York: Routledge, 2006). Andreas Wenger, Christian Nuenlist, and Anna Locher, ed., *Transforming NATO in the Cold War, Challenges beyond deterrence in the 1960s* (London: Routledge, 2007), 65-128.

⁵⁵ Francis Gavin, "The Gold Battles within the Cold War", *Diplomatic History* 26, Issue 1 (January 2002): 1.

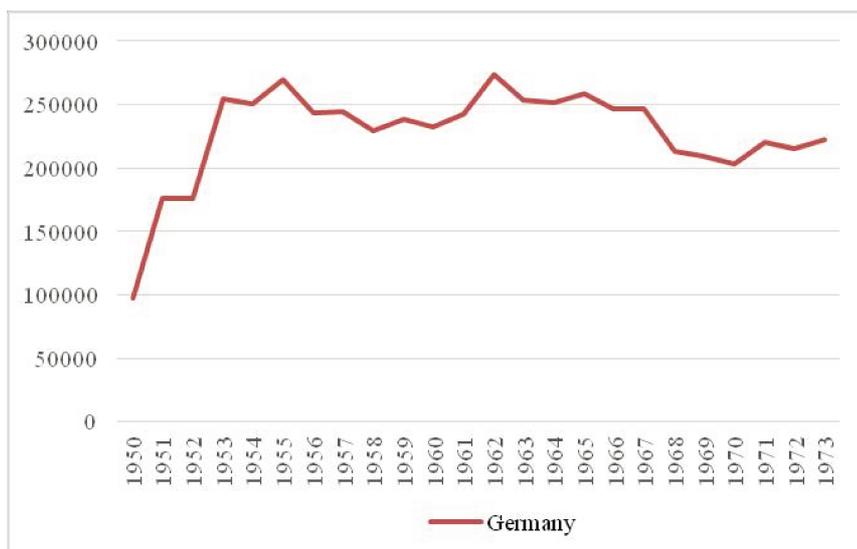


Figure 1 U.S. troops in Federal Republic of Germany (1950-1973). Source: DOD Deployment of Military Personnel by Country⁵⁶

1.2.1. The Gold Crisis and the reactions of the European press (October 1960)

October 20, 1960 witnessed the sudden augment of the gold price, which once rose from \$35 to \$40.6 dollars per ounce. The superficial reason for this augment was due to the possibility that Kennedy was to be elected as the new American president, whose monetary policy could be much looser and gold could be the only hard reserve currency in the world. However, by exploring the deeper causes why this problem emerged, we find that because of the outflow of the short-term capital from the USA to outside countries and the persistent U.S. balance of payments deficits, people lost confidence in dollars. In fact, since 1950, the U.S. exports had increased by about a third, nevertheless, exports had not grown at a sufficiently rapid pace to finance capital outflows with the proceeds of current receipts. Capital outflows from the United States since the beginning of 1960 were to a large extent due to the existence of a considerable gap between the interest rates charged abroad and those applied in the United States.⁵⁷ The outflow of U.S. capital contributed to accumulated dollars overseas, which surpassed the gold reserves in the United States, therefore “the increase of the gold price is the symptom of a profound sentiment of insecurity.”⁵⁸

As to gold price change in the London market, the European press promptly

⁵⁶ See original data at <http://www.dior.whs.mil/mm/military/history/309hist.htm>

⁵⁷ ABDF, 1489.2004.02, volume 45, “La défense du dollar”, le 26 Novembre, 1960.

⁵⁸ ABDF, 1489.2004.02, volume 30, “La hausse des cours de l’or à Londres”, le 21 Octobre 1960.

made their reactions, which to a certain degree, reflected the overall intense emotions of the Europeans. There were increasing numbers of people discussing the weakness of U.S. dollars and the possibility of its devaluation. Actually, at the beginning of October 1960, *the Economist* had already discussed the *pros and cons* of a dollar devaluation and found the cons to be overwhelming.⁵⁹ In October 1960, Raymond Aron wrote an article to criticize the hypothesis of dollar devaluation. In his point of view, the situation of the international monetary market had not reached such a point.⁶⁰ Even though it seemed that the United States needed to readjust their balance of payments situation, devaluing the dollar was not the only remedy, since the dollar occupied the central role in the monetary system, it was impossible for the United States to devalue its currency unilaterally.

During an interview, Jean Monnet commented that the problem of the deficit of the U.S. balance of payment was not new, after World War II, the United States had assumed its economic and political responsibilities to provide the world with liquidity. What made others concerned was that, for the first time, foreigners held more dollars than the United States held gold. It was the problem of confidence.⁶¹ According to Monnet, he insisted that re-evaluating the gold price and devaluing the dollar par value were unacceptable for the healthy functioning of the international monetary market: “By appreciating gold price, you would reduce confidence in the dollar. The dollar would become an item with an uncertain value. Everyone would wonder when the next devaluation would come. The entire monetary system of the West would be deeply shaken.”⁶² Monnet also emphasized the severity caused by the appreciation of gold. From the political point of view, the Russians would obviously be the main beneficiaries, because they owned a large amount of gold. If the gold price was to be appreciated, the Russians would certainly grasp this chance.

However, accompanied by the opposition of devaluing the dollar, there was support for the rise of the price of gold. Frederick Leith Ross, Britain's former Economic Affairs adviser had proposed that the price of gold should be raised by a percentage which equaled the decrease in the purchasing power of the dollar.⁶³

⁵⁹ *The Economist*, London, 197: 6110 (Oct 1, 1960): 60-61, in Robert Solomon: *The International Monetary System, 1945-1976* (New York: Harper&Row, Publishers, 1974), 35.

⁶⁰ ABDF, 1489.2004.02, volume 30, “Dévaluation du dollar?”, Décembre 1960.

⁶¹ AN, 5AG1, volume 2390, “Interview de M. Jean Monnet, par Robert Kleiman, correspondant à Paris de U.S. News & World Report”, le 24, Janvier, 1961.

⁶² *Ibid.*

⁶³ ABDF, 1489.2004.02, volume 30, “Le valeur-or du dollar plaidoyer en faveur d’un rajustement ordonné des monnaies (par Sir Frederick Leith Ross)”, le 10 novembre 1960.

In short, the press was generally in favor of maintaining the value of the dollar. The U.S. authorities repeatedly stated that there would be no devaluation in the dollar. After the gold crisis in October 1960, the global gold market went back to stability, but the consequences were not just from the economic side, the political impact was profound as well. For example, mainland China spread a propaganda to Taiwan which stated: “a new economic crisis is now casting a dark shadow over the United States, people are losing faith in the U.S. dollar and the economic prospects of the United States. An unprecedented rush for gold to unload U.S. dollars has occurred in the capitalist world market during this week, causing great alarm among the U.S. financial tycoons... U.S. imperialism cannot avoid decaying as the days go by.”⁶⁴

All in all, the gold crisis warned the Eisenhower government to be cautious of the weakness of U.S. dollar and compelled them to take continuous measures to defend its currency.

In fact, as early as 1959, the Eisenhower administration had already changed certain foreign economic policies aiming to strengthen the U.S. balance of payments. The key changes were as followed:

“-Foreign economic aid will increasingly be tied to the purchase of U.S. goods.

-Next year’s foreign aid request to Congress will be scaled down, probably by \$500 million or more

-Overseas military expenditures will be trimmed all along the line. U.S. officials will try to persuade well-heeled allies such as West Germany and Britain to take on a bigger share of the common defense effort.

-Pressure will be maintained on foreign governments to end dollar discrimination.”⁶⁵

Obviously, the series of measures had failed to improve the U.S. payment deficit. The gold crisis in October 1960 was a visible sign which showed the weakness of the U.S. dollar and the U.S. balance of payments problems.

The support of forces abroad was one of the main factors which brought about the deficits. It led to large gold losses and doubts about the dollar’s future strength as an international currency. An analysis even calculated that quite apart from military costs involved- Americans stationed in Germany spend on average o \$2000 per

⁶⁴ ABDF, 1489.2004.02, volume 45, “Treasury Mulls Curbing Gold Flow by Barring Military Families Abroad”, le 2 novembre 1960.

⁶⁵ ABDF, 1489.2004.02, volume 45, “Payments problem Produces”, le 7 novembre, 1959.

person per year of their own dollar earnings for German goods and services. This means a billion dollars right there being poured into Germany.⁶⁶

Besides, the *New York Times* once estimated that from 1948 to 1960, the gold reserve of the United States decreased from 24 billion to 18.5 billion, the loss of 5.5 billion was due to Western Germany.⁶⁷ Therefore, soon after the gold crisis in October 1960, the U.S. high-level officials went to Europe searching for Europe's financial help in the economic field.

1.2.2. U.S. officials' mission to Europe: asking for financial aid in November 1960

In the last stage of the Eisenhower administration, the United States fell into the predicament of protecting Europe and the huge drain of U.S. dollars. At that time, military spending abroad by the U.S. Pentagon came to about \$3.3 billion, with more than half of this going to West Germany, Japan, Britain and France. Of the total, \$732 million was spent directly by U.S. military personnel and their dependents abroad. Most of the rest was spent on construction of U.S. military facilities, supplies procured abroad for U.S. armed forces and for contractual services.⁶⁸ The gold crisis occurred in October 1960, alerting the Eisenhower government to the importance of evening up the military expenditure in Europe and its international balance of payments problems. Thus a high-level U.S. delegation was sent to Europe for discussing the U.S.-European military affairs and burdens caused by U.S. military expenditure overseas.

Above all, the Eisenhower administration decided not to give up its commitment to the allies on the military domain, but they demanded Europe's financial support, especially the Germans' offset for U.S. military expenditure overseas. In the process of U.S.-European negotiations, the Department of the Treasury played an active role. Robert Anderson, then Treasury Secretary, proposed that the government strengthened U.S. dollar by cutting down its spending abroad. Douglas Dillon, under Secretary of State, was involved as well. The principal aims of the Anderson-Dillon mission were:

“(1) to obtain an increase in the German contribution to NATO's infrastructure

⁶⁶ ABDF, 1489.2004.02, volume 45, “U.S. officials to discuss aid program with Bonn”, le 2 novembre, 1960.

⁶⁷ ABDF, 1489.2004.02, volume 45, “Bonn nominated to increase aid”, le 3 novembre, 1960.

⁶⁸ ABDF, 1489.2004.02, volume 45, “Payments problem Produces”, le 7 novembre, 1959.

with a corresponding decrease on the U.S. side;

(2) to urge the Germans participating in financing the U.S. arms deliveries to Western Alliance members;

(3) to ask the Germans to pay about 700 millions dollars for parking U.S. troops in Germany in order to stop the release of U.S. dollars.”⁶⁹

Before their departure, Eisenhower specially wrote to Adenauer to insist the importance of lessening the gold drain created by American military commitments in Europe. Besides, he asked the Adenauer administration to aid the less developed countries and to increase its share in the NATO defense burden. During the U.S.-German negotiation, Secretary Anderson implied that President Eisenhower was willing to do whatever the United States should do to protect the dollar.⁷⁰ U.S. strategy of demanding financial support with the menace of troop withdrawals troubled Chancellor Adenauer a lot; “there is only one thing that worries him, that is the possibility that we might redeploy some of our troops.”⁷¹

Out of these considerations, the Germans agreed in principle to increase its financial contributions, but only under an arrangement negotiated through NATO. This proposal was refused by the Americans, because bilateral arrangements in the frame of NATO would be much more complicated and could be seen as German dilatory tactics.

In the end, the Germans basically agreed:

-to repay ahead of time Germany’s 800 million-dollar debt to the United States.

-to increase her contribution to the NATO infrastructure, probably from the present 14 percent to at least 20 percent.

-to institute measures for the repatriation of American “escape capital” now placed in Germany-estimated at some \$600 million.

-to make the \$900 million already earmarked for foreign aid available for the purchase of American goods, instead of demanding that it be represented in whole or in part by credits for purchases in Germany.

-to further aid American exports by reducing duties now levied on them.

-to buy as much military equipment as possible from the United States.

⁶⁹ ABDF, 1489.2004.02, volume 45, “Les Entretiens Germano-Américains de Bonn se déroulent dans le secret”, le 22 novembre, 1960

⁷⁰ *FRUS*, 1958–1960, Vol. IV, doc.61, Memorandum of conference with President Eisenhower, November 28, 1960.

⁷¹ *Ibid.*

On November 22, 1960, American-German *communiqué* was published. It insisted U.S.-German common determinations to safeguard the soundness of the financial structure and rebuild the confidence in the monetary system. Anderson and Dillon expressed their satisfaction with Germany's decisions to implement a new program of assistance to underdeveloped countries. "This program would begin in 1961 with the allocation of DM 3 to 4 billion for aid to the underdeveloped countries. 20% of the common external tariff, in accordance with decisions already taken by the EEC. But in regard with the direct financial support, Secretary of the Treasury Anderson asked the West German government to contribute an additional \$650 million to Western defense costs. Adenauer balked at Anderson's figure and offered only \$125 million, it seemed likely at midweek that Bonn finally will come up with around \$300 million."⁷² Anderson and Dillon were thus portrayed as begging for money and, to underline this characterization, the German news magazine *Der Spiegel* printed a photo showing the stout German minister of economics, Ludwig Erhard, lecturing the skinny Anderson.⁷³ The American mission left Bonn without obtaining a promise from West Germany officials to make direct cash payments for the maintenance of United States military personnel stationed in the FRG.

Anderson and Dillon's next stations were France and Great Britain. When met with French Finance minister Wilfrid Baumgartner,⁷⁴ the Americans did not talk much about the monetary and financial problems. What mattered to them more were the economic affairs, such as the French contributions to the NATO infrastructure in the following four years, a decrease of external tariff of the Common Market in matters of tobacco, etc. It was not difficult to find that compared to the stability of the gold price and the international monetary system, the United States was more concerned about how to increase the U.S. current account surpluses by removing Europe's discrimination on the U.S. products and encouraging France to invest more overseas.

In fact, it was France who mentioned the monetary problems first. Baumgartner emphasized the fundamental importance of the stability of the world monetary market. He agreed with the Americans that it was necessary for Germany to make efforts in

⁷² ABDF, 1489.2004.02, volume 45, "New locks on US gold reserves", le 26 novembre 1960.

⁷³ *Der Spiegel* 49 (1960):27, in Hubert Zimmermann, *Money and Security, op.cit.*, 97.

⁷⁴ Olivier Feiertag ever wrote a distinguished book about Wilfrid Baumgartner, *Wilfrid Baumgartner, les finances de l'Etat et l'économie de la Nation, 1902-1978: un grand commis à la croisée des pouvoirs* (Paris: CHEFF, 2006), 650-678.

favor of the developing countries.⁷⁵

On November 24, Anderson and Dillon talked with French Foreign Minister Maurice Couve de Murville. During this meeting, the Americans spoke highly of France's active role in resolving monetary problems brought about by the gold speculation in October. However, when they asked whether France would be prepared to contribute to the costs of American troops based in France, France said no. On the question of whether France would be prepared to ease the U.S. burden with a bigger contribution to NATO, the French replied that before this could be considered, they needed to know if there was possibility for reforming NATO which President Charles De Gaulle was demanding. On the question of whether France could contribute more to the program of aid to underdeveloped countries, the French said they were already doing their maximum, notably in connection with the now independent states of the former French African empire. On the question of whether France would help the U.S. to increase its exports, the French, like the Germans, said: "Yes."

From the talks above, it is clear that the differences between France and the United States in the area of finance was not as significant as it would be in later years. Both of them concentrated more on Germany's balance of payments surplus, and when the U.S. mission went to Great Britain, the British consoled the Americans with their own dismal experience over the issue too.⁷⁶

Besides, it was worth noting that France came straight to reject the proposal of the United States to do more for NATO. The French repeatedly emphasized the need to reform NATO's structure; the disagreement between France and the United States on the military issues⁷⁷ foreshadowed the outbreak of their conflicts in the near future.

The achievements of the Anderson-Dillon delegation were not enough to satisfy the United States. The Europeans indicated to the United States that the main reason for the U.S. deficit lay on its own economic structure and the monetary policy. Meanwhile, within the U.S. government, the State Department's opposition to troop withdrawals was very strong. "Foster Dulles was always against any reduction in our forces in Europe because he thought it would break up the alliance."⁷⁸ Eisenhower

⁷⁵ AN, 5AG1, volume 2390, "Visite de M. R. Anderson à M. W. Baumgartner", le 23 novembre, 1960.

⁷⁶ Hubert Zimmermann, *op.cit.*, 116.

⁷⁷ In 1958, De Gaulle proposed to establish a tripartite meeting, made of the USA, UK and France. The U.S.A and UK were worried that the tripartite would decentralize NATO's leading position in the military field, they showed no interest in De Gaulle's proposal. At the same time, the French refusal toward the flexible response and MLF construction contributed also to the military disputes between France and the United States.

⁷⁸ *FRUS*, 1958-1960, Vol.V, doc.134, Memorandum of Discussion at the 467th Meeting of the National Security Council, Augusta, Georgia, November 17, November 17, 1960.

could not achieve substantial gains before the end of his term. The pressure of troop redeployment in Europe and the deficits of balance of payments were then left to President Kennedy who took office in 1961.

1.2.3. U.S. measures to defend its currency (November 1960-November 1963)

The deficit of the U.S. balance of payments had lasted since the late 1950s. The Eisenhower Administration recognized the seriousness of the problem and adopted a series of measures to improve the situation and tried to maintain the credibility of the dollar. The negotiation with the FRG was thus an important measure at the end of his term.

In addition, the Eisenhower government reiterated its commitment to the convertibility of the U.S. dollar on different international occasions and issued several measures to ease the imbalance in international payments. In November 1960, he spoke in front of a political telecast, that the confidence in the dollar must be maintained: “let us make no mistake about it”, he declared, “the preservation of the soundness of the dollar, as well as the preservation of the confidence that the dollar will remain sound, is absolutely essential, both for the welfare of our citizens at home, and the rest of the Free world.”⁷⁹

Soon after this announcement, on November 16, 1960, the U.S. President published seven orders, aiming to improve the U.S. balance of payments situation.⁸⁰ Among them, the first one was to cut the military expenditure without diminishing the effective military strength. Eisenhower urged the Secretary of Defense to:

(1) reduce and thereafter limit the number of dependents abroad of military and civilian personnel to a total of not more than 200000 at any one time.

(2) take promptly all possible steps to reduce by a very substantial amount the expenditures, from funds appropriated to the military services and for the military-assistance program.

(3) prohibit the purchase of foreign goods by the non-appropriated-fund activities related to the military service.

Eisenhower’s successor, John Kennedy, took a similar approach to deal with U.S.

⁷⁹ ABDF, 1489.2004.02, volume 45, “Treasury Mulls Curbing Gold Flow by Barring Military Families Abroad”, le 2 novembre 1960.

⁸⁰ ABDF, 1489.2004.02, volume 45, “Eisenhower’s 7 orders to protect the dollar”, le 28 novembre 1960.

external deficit, the offset negotiations therefore became the first of many American-German disputes during his three years of presidency.

On the fifth day after Kennedy took the office, January 25, 1961, he announced in a press conference that the United States would not devalue the U.S. dollar, nor re-evaluate the price of gold. On February 6, 1961, Kennedy showed his determination to Congress to correct the deficit of the balance of payments: "there will be no recourse to exchange control measures on trade and investment ...we must now manage to control the position of our balance of payments so as to achieve an overall balance in international payments."⁸¹ Because of a continuing deficit in the balance of payments, the United States had suffered a gold outflow, which was troublesome. Kennedy promised that the new government would cautiously carry out its monetary policy and prohibit large outflow of U.S. capital.

On different occasions, the U.S. President repeatedly reaffirmed his willingness to maintain the dollar's credibility and its convertibility to gold. Like on July 23, 1962, during a press conference, he expressed that the United States did not intend to devalue its currency: "in a sense, all other currencies are tied to ours. If we devalue the U.S. dollar, all the other countries will follow our example...we believe we can restore the balance at the end of 1963, and I think that foreign dollar holders are making a very good investment."⁸² Just before his assassination, Kennedy stated again that the relationship of the dollar with gold, at the current rate of \$35 an ounce, would be firmly maintained, "Every country in the world is directly interested in the security of our currency."⁸³

During his tenure, Kennedy tried to put forward several internal and external policies to improve the U.S. balance of payments situation, like issuing the Roosa bonds, which intended to discourage U.S. alliance to convert dollars into gold; promoting the Interest Equalization Tax (IET),⁸⁴ aiming to make it less interesting for the American citizens to invest abroad; creating Swap, which facilitated the deficit countries to increase their foreign-exchange reserves and allowed the U.S. Federal

⁸¹ AN, 5AG1, volume2390, "Résumé du message présidentiel du 6 février 1961 sur la balance des paiements et l'or", le 6 février, 1961.

⁸² ABDF, 1489.2004.02, volume 9, "Résumé de la presse étrangère Etats-Unis", le 24 juillet 1962.

⁸³ ABDF, 1489.2004.02, volume 9, "Le président Kennedy déclare: pas de dévaluation du dollar", le 30 septembre 1963.

⁸⁴ See for example, Robert A. Butterworth, Jr, "The United States Interest Equalization Tax", *Lawyer of the Americas*2 (June., 1970): 164-172; James P. Hawley, *Dollars and Borders: U.S. Government Attempts to restrict capital flows, 1960-1980* (New York: Routledge,2016), 45-62.

Reserve to intervene in the Eurodollar market.⁸⁵ Moreover, the Kennedy administration searched for co-operation with the alliance to stabilize the international monetary system. In 1961, the “General Agreements to Borrow”(GAB)⁸⁶ was signed, for the purpose of providing the IMF with additional resources in case of monetary crises. In November 1961, eight nations agreed to set up a Gold Pool in order to defend a gold price of US \$35 per ounce. In 1962, the Ministers of the Group of Ten (G10)⁸⁷ issued a *communiqué* with the ambition: “the modern world is well armed; we can face any crisis. There is no fear for the international monetary system.”⁸⁸

Another important measure taken by the Kennedy administration was to look for continuous financial aid from West Germany. Soon after gaining power, President Kennedy, and then Secretary, Dillon, expressed their dissatisfaction with Germany’s small amount of aid donations. By contrast, the Germans held the opinion that the U.S. balance problem was temporary, they could make only a single payment to ease the problem⁸⁹: what Bonn offered was a “one-shot” package of nearly \$10 billion, which was made up of arms purchases (\$350 millions), an increase in old arms orders of \$125 millions, increase in West Germany’s contribution to NATO facilities, and prepayment of \$787 millions in post-war debts owed to the United States.⁹⁰ President Kennedy publicly stated that the amount could not resolve U.S. financial problems, Germany’s offer should be continuous and not consist of a single payment.

On February 16, 1961, German Foreign Minister, Heinrich von Brentano, visited Washington, and he was the first German high-level official to come to the United States since Kennedy came to power. In the text submitted to Minister von Brentano, the Americans insisted their great concerns on the offset agreement and the U.S. contributions to protect its western alliance:

⁸⁵ M. Bordo, Owen F. Humpage, Anna J. Schwartz, *The Evolution of the Federal Reserve Swap lines since 1962*, Working Paper 20755 (MA: National Bureau Of Economic Reserve, 2014), 2.

⁸⁶ See Michael Ainley, *The General Agreements to Borrow* (Washington D.C.: International Monetary Fund, 1984). The participants of General Arrangements to Borrow were: the United States of America, Deutsche Bundesbank, United Kingdom, France, Italy, Japan, Canada, Netherlands, Belgium, and Sweden. See also, *Annual Report, 1962* (Washington D.C.: International Monetary Fund, September 1962), 234-245.

The GAB, which became effective in 1962, are designed to provide supplementary resources to the Fund in order to forestall or deal with impairment of the international monetary system. These ten countries agreed to lend to the Fund up to a total of the equivalent of \$ 6 billion in their respective currencies, subject to a case-by-case examination of specific Fund proposals to borrow. Switzerland, has associated with the GAB by agreeing to provide up to 865 million Swiss francs to GAB participants. The GAB has been activated seven times since its inception, in the total amount of \$2155 million.

⁸⁷ Group of ten countries are those which participate in the IMF’s GAB.

⁸⁸ AN, 5AG1, volume 2387, “Conférence de Monsieur André de Lattre, directeur des Finances Extérieures au Ministre des Finances”, le 17 novembre 1964.

⁸⁹ ABDF, 1489.2004.02, volume 45 “Kennedy is irked by Bonn aid plan”, le 9 février 1961.

⁹⁰ Ibid.

“The economic issues currently under discussion between the United States and Germany are not bilateral issues. The deficit of the balance of payments of the United States, as a whole, originates from the common defense of the free world... What is gained by one nation can only be at the expense of another...a substantial part of Germany's surplus is directly related to the defense programs of the free world.”⁹¹

The United States repeated their military commitments to the Europeans, furthermore, they searched for long-term financial aid from Germany to help relieving the U.S. balance of payments deficit. The consent was achieved soon after von Brentano visited; “the German share of the NATO infrastructure cost was raised from 13.72 to 20 percent, whereas the American share fell from 37 to 30.85 percent.”⁹²

Getting aid from Germany in regard to NATO infrastructure, however, was marginal in the whole of the aid plans. What the Americans looked for, was to obtain Germany’s procurement in the United States and reduce the cost of contractual services for U.S. military establishment for which they would then pay Germany. When he met Adenauer on April 12 and 13, Kennedy again stressed the urgency to prevent gold loss and asked the Germans to jointly use the facilities with the American troops. Moreover, he expressed the wish that Germany bought U.S. supplies, “since this would be a second very significant step forward.”⁹³ At the end of the talk, the U.S. President indicated that he hoped these matters could be explored further through Ambassador Dowling and Under Secretary Ball. It was necessary to strike a better balance since that would improve the overall situation of the United States.⁹⁴

In summary, negotiation with allies in the framework of G10 and the International Monetary Fund(IMF), and demanding offset from West Germany, became two important means for the United States to improve its balance of international payments, stabilize the credibility of the dollar, and prevent the loss of gold.

In the process of reforming the IMS, the French government played an active and forward-looking role as well. Especially in the mid-1960s, under the influence of Jacques Rueff’s⁹⁵ thoughts, De Gaulle called on other central banks to convert their

⁹¹ ABDF, 1489.2004.02, volume 45, “Texte de la note remise le 20 février par le Gouvernement américain à M. Von Brentano sur la situation financière internationale”, le 20 février 1961.

⁹² Hubert Zimmermann, *op.cit.*, p.128.

⁹³ *FRUS*, 1961-63, Vol. IX, doc. 44, Memorandum of Conversation, April 13, 1961.

⁹⁴ *Ibid.*

⁹⁵ Works about Rueff’s thoughts and influence, see J. Rueff, *The role and the rule of gold*,(New Jersey: Princeton

reserves of U.S. dollars into gold, which triggered a major conflict between France and the United States in the financial area. How this conflict fermented and finally broke out, and the interaction between monetary affairs and the French political strategy will be discussed in the following part.

III. French reflexion on the reform of the Bretton Woods system, 1959-1964⁹⁶

The Bretton Woods Conference confirmed the central position of the U.S. dollar in the IMS, and dollar became the uncontested reserve currency. Nonetheless, during the 1950s and 1960s, the United States' overall deficit was around \$1 billion; from the 1960s to 1970s, it arrived at more than \$3.5 billion.⁹⁷ With the deterioration of the U.S. balance of payments, continuing payments deficits further increased the liquid dollar holdings of foreign countries, and there was always the pervasive influence of such deficits on confidence in the dollar.⁹⁸

The fact that countries outside the United States were holding massive amounts of dollars, created a lot of uncertainty and problems. Since 1961, the French government had begun to convert part of its dollar reserves into gold. In a press conference on February 4, 1965, President De Gaulle even proposed a return to pure gold standard regime, because "the gold, which does not change of nature, is pure and indifferent...it has no nationality, which could be held, eternally and universally, as the unalterable and fiduciary value."⁹⁹ This became the most intense and direct battle between France and the United States, in which France was the attacker.

In fact, at the very beginning, policies of the De Gaulle administration were not so radical. When he gained power in 1958, Charles de Gaulle focused more on the

University, 1965); J. Rueff, *Le péché monétaire d l'Occident* (Paris: Plon, 1971); J. Rueff, *Pour un succès immédiat et certain, La réforme du système monétaire international* (Paris, Plon, 1973); Christopher S. Chivvis, *The Monetary Conservative: Jacques Rueff and Twentieth-century free market thought* (Chicago: Northern Illinois University, 2010).

⁹⁶ Scholars have conducted in-depth studies on the French-U.S. currency relationship between 1960 and 1965, such as *De Gaulle en son siècle*, t. 3: *Moderniser la France*, (Paris: Fondation De Gaulle, 1992), chap. 2 et 3; Jean-Marcel Jeanneney, "Deux exemples de contestation française à l'application du système Bretton Woods", in *La France et les institutions de Bretton Woods, 1944-1994*(Paris:CHEFF,1998),79-82; H. James, *International Monetary Cooperation Since...op.cit*, chap. 6 Researches from the US side are for example, Edward A. Kolodziej, "French monetary diplomacy in the sixties: background notes to the current monetary crisis", *World Affairs*135, (No,1,1972): 5-39.

⁹⁷ ABDF, 1489.2004.02, volume 31, "La politique du dollar, conférence, prononcée à l'Institut des Hautes Etudes de la Défense Nationale", le 2 Mars, 1971.

⁹⁸ *FRUS*, 1961-63, Vol. IX, doc.48, Memorandum From Secretary of the Treasury Dillon to President Kennedy, Washington, August 31, 1961.

⁹⁹ Charle De Gaulle, *Discours et Messages, Tome IV, Pour l'effort 1962-1965* (Paris: Plon, 1970), 330-334.

domestic economic and social affairs, such as the internal inflation and French balance of payments deficit. Between the years of 1960 to 1964, France and the United States had differences in the international monetary area and there existed frank exchanges and co-operation in the meantime. The French's intense discussions about the hegemony of dollar and the instability of the gold exchange system were accompanied by U.S. deficits and gold crises.

It is also worth noting that France's reflections on the gold exchange system and the purchases of gold by the De Gaulle cabinet were inextricably affected by French economist, Jacques Rueff. Up until 1965, Rueff's criticisms of the growing dollar imbalances leading to inflation were heeded by the French president, who changed French dollar reserves into gold and created a dramatic tension with the United States.¹⁰⁰

1.3.1. Jacques Rueff's propositions on the role of gold

To trace the theoretical origin of the French's actions, it is worth noticing that there was one French economist who profoundly influenced President De Gaulle on the international monetary affair and give him timely support: Jacques Rueff. He was a pioneer who advocated the crucial placing of the metal coins in the IMS and he had critiqued the gold exchange standard system since 1950.

One of the opportunities for Rueff to gain de Gaulle's cabinet's attention was when he participated in France's economic reform, at the very beginning of the Fifth Republic. During this period, the measures that he proposed, such as controlling internal inflation and devaluing the franc externally, eventually gained great success. Rueff believed that the French franc should be convertible, that is to say, freely interchangeable with other currencies.

"His role as the architect of the 1958 financial reforms afforded him a high level of access to de Gaulle and his inner circle"¹⁰¹- the recovery plan was put into practice, the balance of the trade balance was almost restored, the rate of unemployment was reduced and the rate of production was increasing.¹⁰² When the internal economic

¹⁰⁰Laure Quennouelle-Corre, "Reviewed Work: The Monetary Conservative: Jacques Rueff and Twentieth-Century Free Market Thought by Christopher S. Chivvis", *The Business History Review* 86, No. 3, (Autumn, 2012): 630-632.

¹⁰¹ Christopher S. Chivvis, "Charles De Gaulle, Jacques Rueff and French International Monetary Policy under Bretton Woods system", *Journal of Contemporary History* 41, No. 4 (Oct., 2006): 701-720.

¹⁰²AN, 5AG1, volume 2369, Programme économique, no date, 1959.

stability of France was achieved and the outflow of the U.S. dollar became increasingly severe, Rueff's criticism turned to the international monetary system. He criticized the gold exchange standard, in which some countries' reserves were partly gold and partly dollar. The dollar, as a national currency, could be issued without limit and indiscriminately, then the U.S. inflation could be spread worldwide. Since gold had a centuries old reputation, Rueff insisted that a liberal, inflation-free world had to rely on automatic mechanisms, such as gold, rather than on the weak hand and wavering minds of men. He was convinced that "the U.S. balance of payments deficit would not disappear if the gold exchange standard was maintained."¹⁰³ Under the current monetary system, the price of gold should be raised and metallic money should gradually replace national currencies as reserve currency.

In January 1959, the European Payments Union was replaced by the European Monetary Agreement, which greatly facilitated the settlement of transactions in the currencies of and between the monetary areas of the Member countries. Accompanied by the expansion of European trade and a large influx of the dollar, Rueff strongly argued that the world financial situation resembled that of 1931, because "there will be no more dollars available for payments...then we will have the same dislocation of the system."

In 1959, in a letter to the French Minister of Finance, Jacques Rueff had suggested an initiative to defend the U.S. dollar worldwide. This was, however, not retained by the French Ministry of Finance. In 1961, in his letter to Charles de Gaulle, Rueff strongly expressed his concerns about the gold exchange system: "the present situation is the product of the collective error that the Western issuing banks have made by agreeing to substitute for the regime of 'gold standard' known only under the name of Anglo-Saxon's "gold-exchange standard" ... to the extent that the new system has been applied, it has, in fact, exempted the United States from settling its debts abroad. They were able to lend, give and even buy outside their borders without much concern for their own faculties. It allowed them to gain all the benefits of international generosity without immediately experiencing the disadvantages. My fears were essentially based on the resemblances between the international monetary evolution of the years 1958-1961 and that of the end of the years 1926-1929."¹⁰⁴

Rueff did not agree with the Triffin plan. According to Rueff, the Triffin plan

¹⁰³ J. Rueff, *Le P  ch   mon  taire de l'Occident* (Paris: Plon, 1971), 108.

¹⁰⁴ *Ibid.*, 13.

gave monetary authorities the power to determine how much credit should be created. Furthermore, he was not in favor of floating exchange rates either: “I am not in favor of daily changes in exchange rates. But I am convinced that when faced with very exceptional situations, it may be necessary to resort to exceptional measures.”¹⁰⁵

“The core of Rueff’s argument throughout the 1960s was that the emerging dollar system was inflationary, inequitable and, in combination with perpetual U.S. balance of payments deficits, would lead ultimately to a collapse of the world economy and a second Great Depression.”¹⁰⁶ However, from 1960 to 1964, the majority of French officials did not adopt his thesis. Especially the Finance officials, like Wilfred Baumgartner and Valéry Giscard d’Estaing, considered Rueff’s ideas obsolete and antique. When he met U.S. president Kennedy in 1963, Couve de Murville admitted that inside the De Gaulle administration, the majority was dissent with the proposition of gold re-evaluation, as a U.S. report recorded: “he (Couve de Murville) said he had had no more success in persuading us to accept his ideas on what should be done to remedy the situation, than in persuading his own government (the Foreign Minister was alluding here to his recommendation that the price of gold be raised).”¹⁰⁷

From the early 1960s to the mid-1960s, Rueff bombarded Charles De Gaulle with notes and letters. After witnessing the unimproved situation on the U.S. balance of payments and the instability of the International Monetary System, Rueff’s economic thoughts finally became a political arm used by the French president and his cabinet (mainly Couve de Murville) to attack U.S. international monetary policies.

1.3.2. French *Conseil Restreint* in 1963

1963 was a remarkable year in the geopolitical history of the post-war French-U.S. relationship. In the beginning of this year, France launched a double refusal by declaring that they refused the Great Britain’s demand to join the European Community, and they refused to accept the U.S. proposal about the Multilateral Force (MLF).¹⁰⁸ However, except disagreements in the geopolitical and military fields, the

¹⁰⁵ Ibid, 108.

¹⁰⁶ Christopher S. Chivvis, art.cit.: 701-720.

¹⁰⁷ *FRUS*, 1961-1963, Vol. XIII, doc. 275, Memorandum of Conversation, October 7, 1963.

¹⁰⁸ The initiative of “multilateral force” firstly came from the Bowie’s report in the late years of the Eisenhower administration, and was carefully studied by the Kennedy government. It aimed at limiting US allies’ independent construction of nuclear forces outside the framework of NATO, sharing the key information about the *force de*

De Gaulle government did not take radical measures against the U.S. in the monetary field. On the contrary, in the analytical report and in French *Conseil Restreint*,¹⁰⁹ De Gaulle and his cabinet indicated it was not the right time to convert dollar into gold for a large mass. From 1960 to 1964, France's overall views on the monetary policies of the United States and the IMS could be concluded in a few points:

In the first place, the De Gaulle government suggested that the United States should take greater responsibility for the IMS. They pointed out that the principle problem lay in the asymmetrical structure of the U.S. balance of payments, which did not cease to contain a considerable surplus, and stopped for only one year.¹¹⁰ The real trouble was resulted from the fact that there was too much export of U.S. capital abroad,¹¹¹ the huge investment overseas by the United States contributed to the deficits in the capital account.

Table 1 U.S. balance of payments status (1959-1961)

	1959	1960	1961
Current account balance	2.2	5.9	6.9
Governmental transactions balance	-4.7	-5.4	-5.3
Private capital movements			
-long term	-1.7	-2.3	-2.2
-short term	-0.4	-1.4	-1.2
Errors and omissions	0.8	-0.7	-0.7
Global balance	-3.8	-3.9	-2.5

Source: ABDF, 1489.2004.02. volume 30, Situation du \$ US: hypothèse de l'embargo sur or, le juillet 1960.

Then in the annual conference of IMF in 1961, French Finance minister

frappe with members and preventing the proliferation of nuclear weapons

¹⁰⁹ *Conseil Restreint* referred to the reunions held by French ministers from different departments. In each *Conseil Restreint*, ministers discussed specific subjects. Generally speaking, in the *Conseil Restreint* for economic affairs, participants composed Pompidou, Debré, Couve de Murville, Brunet, Maurice Pérouse, Wormser

¹¹⁰ AN, 5AG1, volume2390, "L'Amérique et l'Europe, partenaires égaux, un programme économique", le mars 1963.

¹¹¹ *FRUS*, 1961-63, Vol. XIII, doc.271, Memorandum of Conversation, May 25, 1963.

Baumgartner indicated that the most effective contribution the West could make to the monetary order was to practice a sound national policy and to prevent, in a rising world, the renewal of inflationary tendencies.¹¹²

In the notes of Guillaume Guindey, (general manager of the Bank of International Settlements), on November 4, 1963, he listed three intrinsic defects of the current international monetary system:

“Firstly, the system is anarchic, because it makes the volume of reserve monies creation relaying on the decisions of certain countries.

Secondly, the system is dangerous, because its proper functioning depends entirely on the wisdom of the banker's country, that is, the wisdom of the United States.

Thirdly, the system has a disparity, at least in its principal, to the detriment of the main countries of continental Europe...the part of the U.S. deficit not covered by gold has been financed by an increase in the dollar's holdings of foreign central banks, mainly the European banks, which exceeds the growth rate of international reserves that would have been justified.”¹¹³

In the second place, despite the disagreements and contradictions above, the De Gaulle government was willing to co-operate with the United States in the framework of IMF and the G10. In 1962, for example, when Valéry Giscard d'Estaing met U.S. treasury secretary Dillon and undersecretary of state, George Ball, the Americans expressed their gratitude for the measures taken by France to assist the United States in the balance of payments; more generally, they were satisfied with the spirit of co-operation and France's assistance. By contrast however, they opposed Great Britain's attitude, which was solely concerned with their own interests.¹¹⁴

On July 21, 1962, at the news conference in the United States, Valéry Giscard d'Estaing declared that: “under the current circumstances, we do not intend to significantly increase our foreign exchange reserves, nor to change the proportion of our reserves into gold, which is currently around 70%.”¹¹⁵ Valéry Giscard d'Estaing in addition suggested that there should be a multilateral approach to deal with

¹¹² Le Centre des archives économiques et financières (hereafter CAEF), B0069897, “Discours prononcé par M. Wilfrid Baumgartner Ministre des Finances et des Affaires Economiques et Gouverneur de la Banque pour la France aux débats annuels du Fonds”, le 20 Septembre 1961.

¹¹³ AN, 5AG1, volume 2346, “de la part et avec les compliments de M. Guindey”, le novembre 1963.

¹¹⁴ CAEF, B0069897, “Projet de télégramme”, no date.

¹¹⁵ CAEF, B0068330, “MM. Giscard d'Estaing et Dillon se félicitent du renforcement du système monétaire international”, 22-23 juillet, 1962.

monetary problems, any unilateral action by either side to deal with the monetary problem would be undesirable, either to devalue or to change the dollar parity....He proposed that five countries: the United States, the UK, France, Germany and Italy, could work together on these issues.¹¹⁶

From the dialogue above, it was evident that the French were interested in co-operating with other countries in the monetary field, including the United States. Central banks, including the Bank of France, had committed themselves not to buy gold on the free gold market and set up a limited "pool" to support prices in this market. Drawing rights were opened as well by some central banks; signing the GAB and the establishment of the Gold Pool were two examples of co-operation. Even though in 1963, when France introduced a stabilization policy to control domestic inflation rate, they expressed several times their dissatisfaction with U.S. inflationary economic policies at the *Conseil Restreint*, the French government still recognized the necessity of not directly fighting against the United States. In the beginning of 1963, a note from French Finance Ministry to president De Gaulle proposed that for the coming year (1964), France could not abandon their principle ideas which were as followed:

“We do not see, first of all, what interest it would have in provoking a dollar crisis by asking for the total conversion of our assets into gold; it should be recalled that the reserves we hold are the recent acquisition and that, therefore, morally, there is no valid reason for requesting the revaluation of gold price...It is, moreover, difficult to foresee the future evolution of the balance of payments of different countries; it is not entirely excluded that, if prices continue to remain stable for a long time in the United States and in Britain, and prices rise in continental Europe, the balance of payments equilibrium will tend to recover in the long run...in the short term, as we continue to keep balance of payments surpluses, we should, in my view, stick at our previous policy of paying external debts and moderately require for the conversion of dollars into gold.”¹¹⁷

The *Conseil Restreint* on November 28, 1963, deserves to be mentioned, as it reinforced the willingness of De Gaulle cabinet not to convert dollars into gold in a

¹¹⁶ *FRUS*, 1961-63, Vol. XIII, doc.258, Memorandum of Conversation, July 20, 1962.

¹¹⁷ AN, 5AG1, volume 2346, “Note à l’attention du Général De Gaulle, problème monétaires internationaux”, le 25 mars 1963.

large amount, but it was not the right moment to ask for a return to the pure gold standard. This *Conseil Restreint* was composed by the prime minister Pompidou, foreign minister Couve de Murville, finance minister Valéry Giscard d'Estaing, the general secretary of the Elysée, Etienne Burin des Rozières, chairman of the Bank of France, Olivier Worsler, the general manager of the Bank of International Settlements, Guillaume Guindeguy and the director of foreign economic affairs at the Finance Ministry, André de Lattre. When Charles De Gaulle summarized what Guindeguy had proposed, he wrote down the following sentence: “now, re-evaluated the price of gold — excluded; maintain the gold exchange standard.”¹¹⁸

Besides, members of the De Gaulle cabinet agreed that if it was necessary to introduce a reserve currency, it must be operated under a strict controlling mechanism. The decisions therefore made on November 28, 1963 were:

“Considering that it is not in our interest for the franc to become a reserve currency, the idea of a multiplication of reserve currencies could be rejected... international oppositions to return to the gold standard system— and a revaluation of gold prices— are currently too strong to be considered as a realistic solution. But it is not appropriate for us to take a stand against such a solution, which could be imposed in the more or less distant future.”

“In these circumstances, a system comprising the possible creation of a collective reserve currency may be considered by the Ten as an acceptable solution, under the condition that the currency is created and managed in the framework of restricted institutions and respected to the unanimity rules, such as the OECD and the BIS. Such a system will operate only if it is deemed necessary to create additional reserve elements as a result of the disappearance of a substantial portion of the existing dollar assets.”¹¹⁹

In addition to the emphases on not adopting the aggressive measures to exchange dollars into gold, during this period, Rueff's ideas were not accepted by the majority in the Ministry of Finance: “In the first place, he supposes that the system of the gold exchange standard, in which we are now settled, has been deliberately designed; the system has in fact been established spontaneously. During the post-war period, each central bank, and each private bank has voluntarily kept dollar assets, because it was

¹¹⁸ AN, 5AG1, 2346, “Résumé fait par GdG des idées Guindeguy”, le 28 novembre 1963.

¹¹⁹ AN, 5AG1, 2346, “Conseil restreint du 28 novembre 1963 sur les questions monétaires internationales”, le 28 novembre 1963, and CAEF, B0069897, “*Conseil Restreint* du 28 novembre, 1963 sur les questions monétaires internationales”, le 28 novembre 1963.

the currency of the greatest use. Secondly, it is wrong to claim that the gold exchange standard system should be responsible for inflation in Europe: if it is true that surpluses in the European balance of payments could lead to an increase in internal money supply, and consequently an increase of the inflation rate, it must be understood that whether these surpluses are paid in gold or in dollar, the risk is the same. Finally, if it is true that the system of the gold exchange standard allows countries whose currency is accepted as a reserve currency to maintain their balance of payments for a certain period of time without suffering any inconvenience, it should be stressed that this situation can only last for a while, since by accumulating this reserve currency, the surplus countries end up worrying about the progress of these assets and seek either to reduce their surpluses or to convert their reserves into gold.”¹²⁰

So far we have realized that the *Conseil Restreint* in November 1963, including the previous analyses from the French Ministry of Finance and their reports to President De Gaulle, suggested that the great majority of people in charge of economic affairs in the De Gaulle cabinet advocated a moderate attitude towards the role of gold and the United States. Rueff’s initiative to return to the gold standard could not represent the majority’s position, and the transportation of gold from New York to Paris not only represented a monetary operation, but would be considered by the United States as a badge of mistrust from the political aspect.¹²¹ In a press conference in 1963, Valéry Giscard d’Estaing stated that, “obviously, it is more dangerous to hold the dollar than gold, but I do not expect any change in the value of the dollar.”¹²²

The event that finally brought about a sharp turn in French international monetary policies was dated from the ignorance and rejection of the proposition of Collective Reserve Unit (CRU)¹²³ on international occasions by the British-American scheme in September 1964. If the period of 1960 to the end of 1964 were regarded as

¹²⁰AN, 5AG1, volume 2346, “Note à l’attention du Général De Gaulle, problème monétaire internationaux”, le 25 mars 1963.

¹²¹AN, 5AG1, volume 2346, “Localisation de l’or de la Banque de France”, le 25 mars 1963.

¹²² ABDF, 1489.2004.02, volume30, “A new look at the dollar What World Bankers Say about U.S. money problems 1963”, le 7 octobre, 1963.

¹²³ No specific works talk about the Collective Reserve Unit, it was just regarded as one of the propositions about liquidity before the introduction of SDRs, and was quickly abandoned by the de Gaulle government after 1966. See: R. Solomon, ‘Creation and Evolution of the SDRs’, in James M. Boughon, Peter Isard, and Michael Mussa, *The Future of the SDRs in light of changes in the international monetary system* (Washington D.C.: International Monetary Fund, 1996), 29-30.

France's conciliation towards the United States,¹²⁴ then that of 1965 to 1968 would witness the direct confrontation between the two countries. Thus, what happened in the year of 1964? Why did it become the key point in the French-U.S. monetary relationship of the 1960s?

1.3.3. U.S. rejection of the French proposal about the CRU and the deterioration of the French-U.S. monetary relationship (September 1964 to January 1965)

In fact, though French-American co-operation in the international monetary area dominated the mainstream from 1958 to 1963, their contradictions were growing gradually, mainly in several aspects: France's criticism on U.S. inflationary economic policy, the De Gaulle government's exchange of dollars into gold and the different understanding on the insufficiency of liquidity.

In a consulting report of René Larre, French financial adviser in Washington from 1961 to 1967 on October 17, 1964, he explained the first divergence precisely, that is, the U.S. deficit itself, and the functioning of the IMS perpetuated by the U.S. deficit, threatened the stability of the IMS and even the French domestic economy. He accused that the U.S. government attributed its deficits for the interests of the free world, particular in terms of military spending and aid to the developing countries. Moreover, the United States considered that Europe's contribution to the military burdens was insufficient and it drew an argument for asking these countries to make an effort to help to defend the dollar. On the French side, on the contrary, the accent was put on the responsibilities of the Americans and, in particular, on the danger of U.S. monetary policy. The Europeans regarded the U.S. deficit as one of the main causes of inflation in most countries on the continent, while the U.S. administration considered that the European inflation had internal causes that had nothing to do with the U.S. balance of payments situation.

On different occasions, the French authority emphasized the severity of large U.S. capital outflows. The ministers of Finance, like Baumgartner and Valéry Giscard d'Estaing, tried to insist the importance for the U.S. government to adjust their balance of payments, which, in their eyes, was the best way to stabilize the IMS. But no matter what appeal they had called for, the French saw no efforts made by the U.S.

¹²⁴ M. Bordo, Dominique Simard, Eugene White, *France and the Bretton...op.cit.*,9.

government and throughout the whole presidency of Kennedy, they considered that the Americans did not sufficiently restrict short-term capital movements abroad.¹²⁵

Another factor that influenced French international economic policies was their own domestic inflation problem. In the *Conseil Restreint* in 1963, the high-level officials repeatedly underlined the importance to keep internal economic stability by limiting money supply: if 1964 were to be truly the year of stabilization, the expansion of the money supply should be slowed down¹²⁶. Pressing the United States on their international monetary policy was an important means to restrict the import of foreign currencies into France.

The second conflict lay in the policies of converting dollars into gold by the De Gaulle government. France was always skeptical about the United States on the issue of gold, and from a technical perspective and in consideration of the domestic reserve system's stability, the Bank of France began to exchange U.S. dollar reserves for gold from the early 1960s. Taking the amount of gold purchase from July to September, 1962, for example, France bought about 214 million in gold, with the contrast that the British bought 64 million. During the years of 1963 and 1964, France purchased almost 1 billion dollars of gold from the U.S. treasury.

Table 2 Gold Holdings of selected countries (million of dollars)

	1937	1960	1961	1962	1963
USA	12790	17804	16643	15946	15596
UK	4141	2801	2267	2581	2484
France	2749	1641	2121	2587	3175
Germany	-	2971	3664	3679	3343

Source: CAEF, B0068330, "Gold holdings of selected countries", June 3, 1964.

In July 1960, there was a report which began to talk about the hypothesis that the United States set up a gold embargo to prevent gold from flowing out.¹²⁷ It was 11 years earlier than Nixon's announcement about the suspension of gold-dollar convertibility. At that time, this report did not draw large attention by the public, who chose to believe in the firmness of the gold exchange standard and the Bretton Woods

¹²⁵ CAEF, 1489.2004.02, volume 9, Note Bruxelles, le 22 juillet, 1963.

¹²⁶ AN, 5AG1,2346, Note, le 4 novembre 1963.

¹²⁷ ABDF, 1489.2004.02, volume30, "Situation du \$ US: hypothèse de l'embargo sur or", le 4 juillet 1960.

system, it was however noticed by the general direction of foreign services in the French Ministry of Finance. Starting in 1965, the Bank of France sped up their move to convert dollars into gold, which became one of the most controversial issues between the two countries.

The third problem was about the discussion on international liquidity, which was actually one of the most important topics from 1961 to 1969. When the gold crisis broke out on October 20, 1960, this question began to be discussed much more widely. At the very beginning, according to French government, liquidity was not the main cause of problems in IMS, it was the U.S. asymmetric balance of payments which brought about the gold speculation and instability in the international monetary market. In 1961, Baumgartner told Dillon that France did not go along with Triffin's proposal about increasing the world liquidity: for political and economic reasons, the French were not in favor of extending the Gold Exchange Standard. They did not think, on the other hand, dollar had the problem in 1961. There may be problems for the pound, but it seemed that this problem could be solved by the IMF without contributions under Article VII.

The U.S. government, influenced by the theory of Triffin, advocated on the contrary, that for the sake of international liquidity, there should be worldwide discussions on this topic. In 1963, Robert Roosa,¹²⁸ the U.S. undersecretary of the Treasury, began to promote vigorously such discussions. In his article "reforming the international monetary system", published in *Foreign Affairs* on October 1963, Roosa introduced three possibilities to reform the IMS: the first one was to return to a full gold standard by re-evaluating the price of gold; the second one indicated that "each currency fluctuate against others"; the third approach was to introduce a more flexible and larger volume of foreign exchange or internationalized credit than is used today.¹²⁹ In Roosa's point of view, the third one was the best way to deal with the potential shortage of international liquidity, which was also the U.S. official preference.

Later, with the vigorous discussions on international liquidity, the French made their concessions. Either introducing new reserves or credits, the mechanism must be

¹²⁸ Robert V. Roosa, 'Reforming the International Monetary System', *Foreign Affairs*, October 1, 1963, foreign affairs, October 1963 Issue, available at: <https://www.foreignaffairs.com/articles/1963-10-01/reforming-international-monetary-system>, see also CAEF, B0069897, "Reforming the International Monetary System", le 19, Septembre, 1963.

¹²⁹ Ibid.

based on gold. In September 1963, as the French Finance Minister, Valéry Giscard d'Estaing proposed France's own plan: the Composite Reserve Unit (CRU), founded by gold, composed by the currencies of G10 and handled by G10 in co-operation with the IMF.

The French proposal was the logical follow up from its well-known criticisms of the reserve currencies' role in the IMS. In their point of view, the current usage of reserve currencies had the disadvantage of connecting the change in the volume of reserves to the evolution of the U.S. deficit. With the introduction of CRU, firstly, the proportion between gold and CRU could be stable, and the CRU would only be used in a limited group of countries. Secondly, the mechanism would relate the CRU with the basic reserve element. Gold could not be arbitrarily created, and the national holdings of the reserves may come from loans, deposits or cross-operations and could be artificially increased.¹³⁰

Table 3 Multiple Reserve Currency Plans, 1943-63

Plan proponent	Role of Gold	Credit Asset	or Ad Hoc or Permanent	
Keynes 1943	Gold Link	Asset	Permanent	Central Bank
EPU, later the European Monetary Agreement unit of account	Gold Link	credit	Permanent	central Bank
Zolotas 1961	Gold Link	Asset	Permanent	Central Bank
Lutz 1962	Gold Link	Asset	Permanent	Central Bank
Posthuma Plan 1962	Gold Link	Asset	Permanent	Central Bank
Roosa Plan	Non	Asset	Permanent	Central

¹³⁰ ABDF, 1397.2006.02, volume18, "Note d'information Objet: travaux du Groupe Ossola sur la création d'instruments de réserve", le 20 juin 1965.

1963				Bank
Bernstein Plan 1963	Gold Link	Credit	Stand-by	Central Bank
Jacobsson Plan 1963	Gold Link	Credit	Ad hoc or stand-by	Central Bank
D'Estaing Plan 1963	Gold Link with gold price increase	Credit	Permanent in G10	Central Bank
Maudling Plan 1964	Gold Link	Credit	Permanent	Central Bank and IMF

Source: This chart is based on the analyse of Carol M Connell, in *Reforming the World Monetary System: Fritz Machlup and the Bellagio Group*(London: Pickering & Chatto, 2012),104-105.

However, the French proposition was not realistic according to the Americans and the British: it did not meet the world's monetary needs, and was particularly disadvantageous to the deficit countries, which restricted rather than facilitated the expansion in world supply of reserves. It involved the total supply rigidly to gold and would therefore stimulate private speculation. It took no account of the monetary needs of countries outside the group and diminished the importance and usefulness of the IMF by vesting crucial monetary functions in a rival agency. For the United States, it may well mean an initial loss of gold reserves, with no commensurate *quid pro quo*.¹³¹ Thus the link between the CRU and gold meant that if the Americans accepted the French proposition, it would jeopardize the entire international monetary system.

During the annual meeting of the IMF in September 1964, the U.S. delegates, supported by those of Great Britain, led the question of the validity of a comprehensive approach and sought to propagate the view that the requirements of fiduciary reserves in the IMS mattered to the countries whose balance of payments was in deficit. The French representatives, of course, protested against this; they did not support the mandate of the Ossola Group and tried to reduce the admitted distinction between reserves and credit facilities.

Another divergence between France and the United States lay on the framework

¹³¹ DDRS, CK2349483449, "Report of the president's task force on foreign economic policy", November 25, 1964, Gale, Declassified Documents Reference System.

within which the additional reserve instruments could be created. The French delegates insisted that a new fiduciary reserve should only be put into practice among a small number of industrialized countries, and the U.S. delegation defended a position radically different from those of France. They emphasized that creating new reserve instruments to a small group of countries with the highest standard of living would appear to be a kind of discrimination for underdeveloped countries, because “the Fund is a world-wide organization. U.S. leadership should seek to strengthen world-wide organizations such as the Fund, rather than building up competing organizations of narrower membership.”¹³²

The U.S. point of view was supported by Japan, Canada, and Italy. While the French proposition with regard to CRU was backed by the Dutch. Later, this point of view was strengthened by the Kaysen report,¹³³ which was outlined by the Task Force¹³⁴ on economic affairs in the Johnson Administration.¹³⁵ It advised the U.S. government to press for certain changes in the Fund regardless of France and Holland’s approval, and try to split the Six, particularly obtaining support from the countries who sympathized with the U.S. position, like Italy and Germany. It also suggested that the United States could probably count on the support of the UK, Canada, Japan, the Scandinavian countries, and most of the rest countries in the world. The French saw the Germans as the most unstable element for forging a common front with the Americans, as André de Lattre,¹³⁶ then participant in the negotiations in G10 with regard to new fiduciary reserves, commented, “in order not to displease the Americans, they are more reserved.”¹³⁷

After the rejection of CRU at the annual IMF Conference in September 1964, France’s position on the monetary relationship became hardened. The decisions made in the *Conseil Restreint* in November 1964 were then as follows:

1. The Bank of France is authorized to grant the Bank of England a short-term loan of \$200 million to support the pound.

¹³² Ibid.

¹³³ The “Kaysen report” represented a genuine consensus on the nature of our goals in foreign economic policy, their relative importance in US foreign policy as a whole, and the principal means to achieve them.

¹³⁴ The Task Force included consultants from outside the Government, all of whom have had intimate experience with the problems of foreign economic policy in both Government and non-Government activity, and experienced and responsible officers of your Administration in this sphere.

¹³⁵ DDRS, CK23494834, “Report of the president’s task force on foreign economic policy”, November 25, 1964, Gale, Declassified Documents Reference System.

¹³⁶ André de Lattre played an important role in the international monetary negotiations, especially in the dialogue between France and the United States. See his memoir: André de Lattre, *Servir aux Finances*(Paris: CHEFF, 1999).

¹³⁷ Benedikt Schoenborn, *La mésentente apprivoisée De Gaulle et l’Allemand, 1963-1969* (Paris:Puf, 2007), 52.

2. It is decided to reduce the share of dollars in the foreign exchange reserves of the Bank of France. Besides, it is decided to accelerate the repatriation to France of gold currently deposited in New York and London. The Minister of Finance will get the Government's approval as soon as possible for implementing these two decisions.

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Table 4 Composition of foreign currencies and gold reserves in France
(million of dollars)

	Gold	Currencies	Total
December 31 1963	3175(71.2%)	1282	4457
December 31 1964	3729(73.1%)	1375	5104
April 30 1965	4255(79.3%)	1110	5365
Surplus in April: 50 million \$ will to be converted into gold in May.			

Source: AN, 5AG1, volume 2349, Note à l'attention du Général De Gaulle, le 27 avril 1965.

Conclusion of Chapter I

During the period between 1958 to 1964, the Bretton Woods monetary system ran into various problems which in fact was deeply influenced by the continuous deficit of the U.S. balance of payments: U.S. trade advantages reduced, accompanied by decreasing surpluses in the current account. Moreover, significant deficits were derived from the capital account, that is, the large outflow of U.S. dollars to foreign countries. The deterioration of the balance of payments in the United States had damaged the reputation of the U.S. dollar, and whether the U.S. could guarantee the exchange of gold at a rate of 35 U.S. dollars per ounce became therefore doubtful, and the speculation of gold in October 1960 was a reflection of the public's distrust on the U.S. dollar.

Since the last years of the Eisenhower administration, the U.S. government

¹³⁸CAEF, B0069897, *Conseil Restreint* du 26 Novembre 1964, sur les problèmes monétaires internationaux, le 26 novembre 1964.

began to discuss measures to correct imbalances in the U.S. balance of payments and its expenditure at home and abroad. One of the measures adopted was to negotiate with West Germany, France and the United Kingdom, to ask the Europeans to bear more military burdens and protect their security. Particularly, the Germans should compensate for U.S. military expenditures. These demands revealed the fact that when U.S. economic power was declining, they attempted to use their strong points to settle problems in the weak domains.

In addition to military means, the United States and European countries tried to cooperate in the international monetary area in order to stabilize the international monetary market. For example, the signing of GAB and the establishment of the gold pool in the framework of the G10 in 1961 and 1962, and warm discussions on liquidity issues within the framework of the IMF. During this period, with regard to the monetary affairs, France and the United States had some divergences, such as whether international liquidity was insufficient, and whether it was urgent that the United States corrected their balance of payments deficit. But as a whole, it was evident that these two countries achieved more co-operation and more understanding, than the disagreements. France paid their war-debt on time and signed military compensation agreement with the United States. Even with regard to gold issue, the French pressure on the United States was less than that of the United Kingdom. In the *Conseil Restreint* in November 1963, French officials in charge of economic affairs, represented by Guindey, advised President de Gaulle that the French should not exchange large amounts of dollars into gold, for politics sake. His points of view were shared by Valéry Giscard d'Estaing and André de Lattre, who played an active role in co-operating with the Americans aiming at reforming the IMS. De Gaulle himself admitted that the years of 1963 and 1964 were not the right time to ask for a return to the pure gold standard.

It is well worth noting that the year of 1964 witnessed the change of the U.S.-French monetary relationship. First of all, the conflicts between France and the United States in the political and military spheres had a subtle effect on economic issues. From 1962 to 1963, there was a significant rift between the two countries. In 1962, France rejected the British application to join the European Community, and France's independent nuclear plan contradicted the U.S. multilateral force program. Kennedy's flexible response strategy needed a large number of conventional troops, but France refused to give him sufficient support. When the French Foreign Minister

Couve de Murville met Kennedy in May 1963, he explained that the French were trying to find their own identity. Western Europe also wanted to create its unity. In the economic and commercial fields, Europe was outward-looking in relation both to the liberalization and increase of trade, and its responsibilities toward the less developed countries. He pointed out that the common external tariff of the EEC was lower than that of the British, and relatively lower than the U.S. tariff average. Couve de Murville then repeated again that in any case the United States could not be left out of the life of Europe in the political and defense fields.

Another dispute between France and the United States lay in the nuclear field. The French wanted its own defense system formed especially to build nuclear weapons. However, the United States felt that since it had more than enough to deter the Soviet Union, it was a waste for others to build nuclear weapons. The United States then regarded the De Gaulle government as too impatient to go for independence:

“Since his return to power in 1958, General de Gaulle has stubbornly and determinedly pursued fundamentally the same foreign policy that he proclaimed when he raised the standard of Free France in 1940. France should be, and must be recognized as a proud, sovereign, and independent great power, participating as an equal among the leading world powers—in short, France must live up to De Gaulle’s mystical concept of French grandeur. De Gaulle’s view of international relations is essentially an 18th-century one of non-ideological power struggles between sovereign states. He believes that states act according to permanent national interests, which are derived from their geographical and historical situations and are little modified by ideologies. In the present distribution of world power, De Gaulle considers France a natural ally of the United States and the United Kingdom in a power struggle against the USSR which is worldwide and not merely confined to Europe.”¹³⁹

In his book *NATO divided, NATO united, the evolution of an Alliance*, Laurence Kaplan explained clearly the deeper reasons why De Gaulle asked for independence during the 1960s: “De Gaulle’s actions in the 1960s proceeded on the assumption that the Soviet threat of aggression was seriously diminished...an anecdote circulating in Europe in the 1960s referred to a dangerous world which two Caliban monsters, in the Shakespearean image, required the civilizing functions of an

¹³⁹ *FRUS*, 1958–1960, Western Europe, Vol. VII, Part 2, doc. 201, Intelligence Report Prepared in the Bureau of Intelligence and Research, December 6, 1960.

Ariel to keep the peace. In this context the distinctions between the United States and the Soviet Union disappear, and the European Ariel becomes the key to moderating, if not terminating, the Cold War. De Gaulle's France would be the center of a European order in which the nations would recognize Paris as the arbiter of Europe's interests."¹⁴⁰

Secondly, the French proposition about the CRU was ignored by the Americans and British. According to the testimony of André de Lattre, this idea was abandoned as soon as it was presented officially by the French. The foreign oppositions to this plan were indeed evident from the end of 1964, especially from the United States and the United Kingdom, which countered the French initiative by drafting alternative proposals in which the creation of reserves would not be limited by the gold.¹⁴¹ The De Gaulle government could not see the United States' willingness to correct its balance of payments deficits and restraint on the inflation tendency. The United States preferred to create a fiduciary reserve that was still centered on the U.S. dollar. Therefore, the French government hardened their attitudes on international monetary affairs, and at the press conference in February 1965, De Gaulle specially mentioned the failure of CRU to express his dissatisfaction.¹⁴²

The French refusal of Britain's entree into the European Community and the rejection of the initiative of the multilateral forces proposed by Kennedy became the key points in the deterioration of the political relationship between France and the United States. The U.S. ambassador to France evaluated that the relations between France and the United States were difficult in 1962-63. But at the same time, French international monetary policies were still restrained and co-operative with the United States. As France's initiative to reform the IMS was completely ignored in the end of 1964, the conflict broke out finally in the monetary sphere. After that, French-U.S. problems in monetary, military, and political domains tended to converge. The years of 1965 to 1966 then saw the strained relationship between these two countries: in the monetary aspect, France exchanged large amounts of U.S. dollars into gold, advocating the return of the IMS to gold standard; in the military field, France

¹⁴⁰ Lawrence S. Kaplan, *NATO divided, NATO united, the evolution of an Alliance* (London: Praeger Publisher, 2004), 30-33.

¹⁴¹ Eric Monnet: "Une coopération à la française, la France, le dollar et le système de Bretton Woods, 1960-1965", in O. Feiertag and Robert Boyce, eds., *La France face au dollar, Histoire@Politique*, (n° 19, 2013):83-100, Monnet's article focuses on French government's cooperative attitudes and policies before 1965. The author emphasizes that French propositions towards the reform of IMS had a certain similarities with that proposed between the two world wars.

¹⁴² Charles De Gaulle, *l'Espeit de la Ve République* (Paris: Plon, 1994), 912.

retreated from the commandant of NATO step by step, which became the crest of the French-U.S. overall conflicts.

Chapter II Two turbulent years: 1965-1966

1965 and 1966 were two remarkable years in the history of French-U.S. relations after WWII. De Gaulle publicly accused the U.S. dollar of hegemony and France withdrew its forces from the NATO. Its tough stance was undoubtedly exposed to the world, however, we cannot simply define the two years as conflict or as being uncoordinated, since inside the two governments, there was opposition. Externally, France and the United States never thought that only one nation could decide the direction of international affairs. The contacts between the two sides were cautious and careful, with the door of negotiation always open. Looking at the issues from a comprehensive perspective, we can better understand the U.S.-French relationship in 1965 to 1966 and its development in the years to come.

This chapter will show the interaction of monetary policy with other areas. The following aspects will unfold: firstly, how did the Johnson Administration regard the deficit of the balance of payments, and how would they continue the dialogue with West Germany and coordinate the reform of the international monetary system with France? Secondly, what were the reasons for de Gaulle government's "anti-American" behaviors and how were these behaviors reflected in the international monetary domain? Thirdly, how were U.S.-French bilateral talks going and what was the result?

I. The U.S. economic and financial position, 1965-1966

For the Johnson administration, 1965-1966 allowed two years to implement its economic and political policies. Like the former administrations, the problem of the balance of payments haunted the Johnson administration. According to the annual report of the International Monetary Fund, the U.S. balance of payments situation could be summed up as:

“On the one hand, the surplus on account of current transactions was reduced under the impact of the economic expansion; on the other hand, an improvement on capital account was brought about by the measures introduced to restrain the outflow of capital. Imports were 16 per cent higher than in 1964; exports increased only 4 per cent for the year.”¹⁴³

During 1965-1966, the U.S. measures to restrict capital outflow included: 1) the introduction of the IET and the cooperation with the banking industry to limit loans termed less than a year duration to foreigners; and 2) the voluntary cooperation, led by Albert J. Nickerson, aiming to limit the direct foreign investments or seek to finance them abroad.¹⁴⁴ However, affected by the decline of nearly \$1.9 billion in the trade surplus and the rising costs in Southeast Asia in the military and aid programs, the deficit in balance of payments arrived at \$1.3 billion in 1965 (\$2.8 billion in 1964 and \$2.7 billion in 1963),¹⁴⁵ and the net gold sales amounted to nearly \$1.7 billion (\$1.3 billion gold sales).¹⁴⁶

In 1966, the balance of payments deficit amounted to \$1.42 billion. The most striking feature of this deterioration in the United States' trade position in 1966 was its increase in imports: 19 per cent more than in 1965. The second determining factor that characterized the external deficit was a steady rise in federal spending: overseas military operations and foreign aids.¹⁴⁷ The net gold loss in 1966 amounted to \$571 million, about one-third of the 1965 figure of \$1.7 billion.

¹⁴³ *International Monetary Fund Annual Report, 1966* (Washington : International Monetary Fund, 1966), 93.

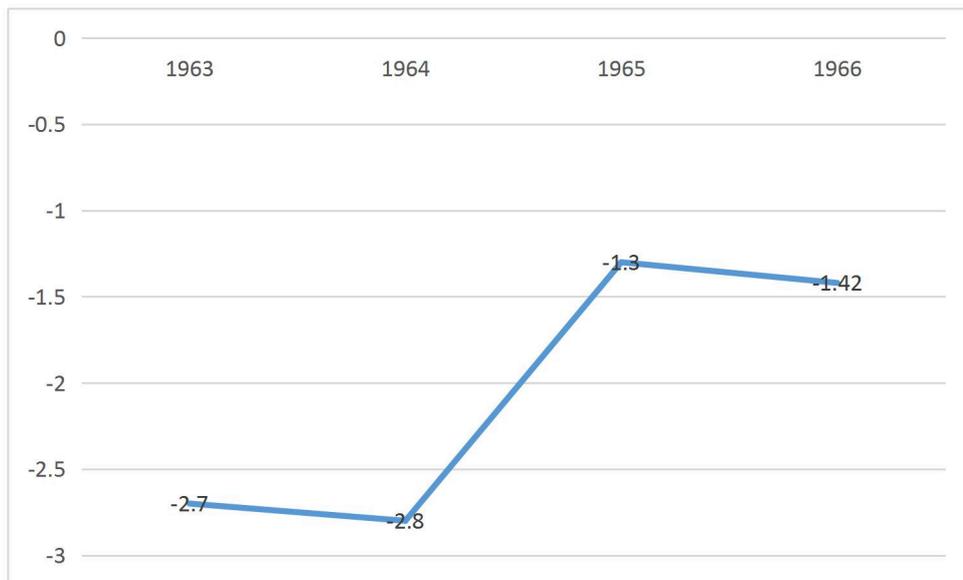
¹⁴⁴ ABDF, 1489.2004.02, volume 43, “Remarks by the Honorable Henry H. Fowler Secretary of The Treasury at a news conference on the balance of payments of the United States in 1965”, February 14, 1966.

¹⁴⁵ ABDF, 1489.2004.02, volume 43, “Statement by secretary of commerce John T. Connor on the US balance of payments”, February, 14, 1966.

¹⁴⁶ ABDF, 1489.2004.02, volume 43, “Remarks by the Honorable Henry H. Fowler Secretary of The Treasury at a news conference on the balance of payments of the United States in 1965”, February 14, 1966.

¹⁴⁷ ABDF, 1489.2004.02, volume 43, “29ème réunion des experts de l’or et des changes”, 13 mars 1967.

U.S. deficit of balance of payments, 1963-1966, in billions of dollars



Source: ABDF, 1489.2004.02, volume 43, “Statement by secretary of commerce John T. Connor on the US balance of payments”, February, 14, 1966.

Although the restricted measures improved the balance of payments to a certain extent, the negative impact was far-reaching, causing difficulty in financing world trade and payments in the course of the next few months of 1965. The chairman of the Board of Directors of the Continental Illinois National Bank, David Kennedy, then suggested the U.S. firms to invest in the world.¹⁴⁸ Later, he became the Secretary of Treasury during the Nixon presidency, and promoted the reduction of the foreign investment restrictions.

For the Johnson administration, the best solution was for the surplus countries of continental Europe to ease their credit restrictions sufficiently to supply part of the demand for credit,¹⁴⁹ asking for a compensation of U.S. forces in Europe, and looking for the substitute of gold as a reserve asset. Because of the Vietnam War and the expenses of the aiding programs overseas, the United States had increased its needs for signing the offset agreements with West Germany, and accelerated the pace of the construction of new international liquidity.

¹⁴⁸ ABDF, 1489.2004.02, volume 43, “David Kennedy : US balance of payments : the role of the private sector”, October, 7, 1965.

¹⁴⁹ ABDF, 1489.2004.02, volume 43, “The US balance of payments and international liquidity”, June 18, 1965.

2.1.1. The Vietnam War and the U.S. balance of payments problem

The Vietnam War escalated in mid-1965 with a large build-up of direct and indirect costs of the U.S. military and aid operations in Southeast Asia.¹⁵⁰ The Johnson administration poured thousands of millions of dollars each year into this war. This was one of the main reasons for domestic inflation, and putting high pressure on wages and prices. The balance of payments deficit was certainly affected. The “progress toward achieving equilibrium in the balance of payments has been arrested,”¹⁵¹ and an analysis calculated that the Department of Defense alone was responsible for a \$1.7 billion deficit in 1965 as a result of the war in Vietnam.¹⁵² In the first quarter of 1966, the direct deficit on Defense accounts in all areas abroad ran much higher than the annual rate in the first half of 1965¹⁵³ when the Vietnam War had intensified the increase in economic activities domestically and increased the import.¹⁵⁴

Table 5 U.S. armed forces and personnel stationed in Vietnam (in thousands)

Date	Total armed forces
December 31, 1964	2726
June 3, 1965	2680
November 20, 1965	2795
June 25, 1966	3099
November 24, 1966	3322

¹⁵⁰ Numerous works concern the Vietnam War and President Johnson, see for example, Warren I. Cohen and Nancy Bernkopf Tucker (eds), *Lyndon Johnson confronts the World, American foreign policy 1963-1968*, NY: Cambridge University Press, 1994; H.W. Brands, *The Wages of Globalism: Lyndon Johnson and the Limits of American Power* (New York: Oxford University Press, 1995); Micheal H. Hunt, *Lydon Johnson's War, America's cold war crusade in Vietnam, 1945-1968*(New York: Hill and Wang, 1995); Thomas Schwartz, *Lyndon Johnson and Europe: In the Shadow of Vietnam* (Massachusetts:Harvard University Press,2003).

¹⁵¹ ABDF, 1489.2004.02, volume 43, Remarks of the Honorable Henry H. Fowler Secretary of the Treasury, at a news conference on the balance of payments in the first quarter of 1966, May 18, 1966.

¹⁵² ABDF, 1489.2004.02, volume 43, Le déficit de la balance des payments pour 1965 est le plus faible des Dix dernières années, Agefi, 15, février 1966.

¹⁵³ ABDF, 1489.2004.02, volume 43, Remarks of the Honorable Henry H. Fowler Secretary of the Treasury, at a news conference on the balance of payments in the second quarter of 1966, August 17, 1966.

¹⁵⁴ Gale, CK2349506178, Summary of a conversation between US and French officials regarding balance of payments issues between the two countries, September 24, 1966.

In a speech to the Congress in early 1966, the Secretary of Treasury, Henry Fowler, called on the government to take "all reasonable steps" to offset the growing impact of the Vietnam War on the balance of payments - like settling for an interim objective of equilibrium exclusive of the costs of Vietnam. He appealed that two factors must be taken into account: (a) the rising balance of payments costs in Southeast Asia of both the military and the aid programs and (b) the direct and indirect impact of Vietnam on the domestic economy and the balance of trade.¹⁵⁵

Contrary to the Treasury Department, officials in the State Department, like the deputy of National Security adviser, Francis Bator, suggested to Johnson not to over dramatize the impact of the Vietnam War. "It will be difficult enough over time to maintain room for Presidential maneuver and hold off pressure from those who still believe in the notion of a simple, clear-cut military victory."¹⁵⁶

During the ministerial meeting in March 1966, McNamara stated the U.S. defense budget would be \$300 million more than the previous year, and there was no possibility of reducing deployment of troops abroad. What the U.S. government could do was demand other countries purchase more U.S. goods and negotiate the offset problems with Japan, Spain, and West Germany. He added also that, "the Germans would be faced in this negotiation with the prospect of 'no money—no troops'."¹⁵⁷ In contrast, pursuing balance of payments equilibrium was their first goal for the Treasury Department, and they tried to reduce the negative effect of the Vietnam War to the lowest level.¹⁵⁸

Aside from the high costs of the Vietnam War, it was widely believed that the nations of Western Europe should carry more financial burden for their own security. "Military expenditures in Europe are a major item in the U.S. balance of payments, amounting to \$1.5 billion in 1964, only slightly under the 1960-63 average. Some European countries helped offset these costs by purchasing military equipment and supplies in the United States...but this remains a very heavy drain on the international reserves of the United States."¹⁵⁹

¹⁵⁵ ABDF,1489.2004.02, volume 43, Remarks of the Honorable Henry H. Fowler Secretary of the Treasury, at a news conference on the balance of payments in the first quarter of 1966, May 18, 1966.

¹⁵⁶ *FRUS*, 1964-1968, Vol.VIII, doc.79, Memorandum From the President's Deputy Special Assistant for National Security Affairs (Bator) to President Johnson, Washington, November 16, 1965.

¹⁵⁷ *FRUS*,1964-1968,Vol. VIII, doc.88, Minutes of Meeting of the Cabinet Committee on Balance of Payments, March 25, 1966.

¹⁵⁸ *FRUS*, 194-1968, Vol. VIII, doc.97, Circular Telegram From the Department of State to Certain Posts, May 18, 1966.

¹⁵⁹ ABDF, 1489.2004.02, volume43, "Direct investment and the U.S. balance of payments program in relation to the Economy of Western Europe," July 8, 1965.

Therefore, in 1966, the U.S. State Department officially urged the Europeans to do more for U.S. military expenditures: “We believe the time has come when European nations should demonstrate intention to cooperate more fully with the U.S. financially...since extreme care must be taken to avoid misinterpretation of U.S. action and loss of confidence in the U.S. dollar, approaches will be conducted quietly under cover provided by scheduled multilateral meetings and with approaches tailored to specific country situations.”¹⁶⁰

Since the military actions in Vietnam had resulted in significant worsening of U.S. balance of payments, like the Kennedy administration before it, the Johnson administration saw the offset negotiations as an important way to reduce the U.S. deficit. In addition, U.S.-German talks concerned not merely the U.S. balance of payments position, but it influenced the internal relationship among the European Six, including Franco-U.S. relations as well.

2.1.2. The U.S.-German offset negotiations in 1965-1966

The escalation of the Vietnam War brought enormous financial and military burdens to the United States. However, in 1965-66, the Johnson administration did not intend to withdraw troops from Vietnam or stop its participation. How were they to reduce its financial expenditure overseas? The United States found the answer from Western Europe.

In the presidential message on February 10, 1965, Johnson stressed the importance of increasing offset purchases of military equipment in the U.S. by their defense partners, namely the Federal Republic of Germany (FRG). Continuing to sign the offset agreements with West Germany was an important way to ease the deficit in the balance of payments, which in the eyes of Americans, offered mutual benefits for both of the two countries: the Germans obtained the most modern military equipment to meet the NATO defense, and the United States could obtain balance of payments benefits to keep its force levels in Germany and in the NATO.

In terms of the Treasury Department, the U.S. government needed to link the fulfillment of the offset agreement with American force levels in Germany. In a letter from Henry Fowler to the Secretary of State Dean Rusk, Fowler believed that

¹⁶⁰ *FRUS*, 1964-1968, Vol.VIII,doc.96, Circular Telegram From the Department of State to Certain Posts,Washington, May 13, 1966.

Germany had the financial capacity to continue a full offset, both in orders and payments. Again, he emphasized that U.S. military expenditure in Germany was too high, and there was an adverse trend in the German defense budget to buy more goods from France and the UK. Hence, Fowler suggested reminding the FRG of the relationship between the offset and U.S. force levels in time for them to make necessary efforts on their side.¹⁶¹

In fact, the strategy of linking the financial compensation with military forces was set forth as early as the Kennedy government. During the meeting of Hassel and Rusk in October 1963, Rusk said that U.S. NATO policy was influenced by two factors, one being the offset negotiations. "If our gold flow was not brought under control, the question could become an issue in next year's elections. The continuation of Germany's payments under the offset agreement is vital in this respect."¹⁶² The balance of payments and the outflow of gold were two conditions for continued U.S. troop presence. Johnson followed this policy. Especially for the Treasury Department, the link between offset negotiations and balance of payments came to carry more weight. In McGeorge Bundy's memorandum of Presidential guidance to the Secretaries of State, Treasury and Defense on May 9 1964, he demanded the U.S. officials make clear the direct relationship between offset fulfillment and the levels of U.S. forces. Bundy's proposition was shared by the Treasury Department and Department of Defense, who strongly believed that the U.S. government should be prepared to reduce its military troops in Europe. Concerning the escalation of the Vietnam War, forces should be redeployed from Europe to Southeast Asia, and according to Fowler, "if the FRG should seek to withdraw from its present offset commitments, it would be logical to assume that the FRG no longer considered it necessary to maintain U.S. combat troops in Germany at present levels."¹⁶³ In contrast with the Treasury Department, the State Department adopted a reserved position about making this kind of link. The redeployment of force signified a political sense more important than the economic sense; they wanted to wait until the Germans clearly failed to meet the offset commitments - in other words, the U.S.

¹⁶¹ DDRS, CK2349143261, Letter to Secretary of State Dean Rusk from Secretary of the Treasury Henry H. Fowler regarding the U.S. military offset agreement with West Germany, 22 Apr. 1965.

¹⁶² Memorandum on Hassel-Rusk talks, Oct 25, 1963, McGhee papers, 1988 add., box 1, cited in Hubert Zimmermann, *Money and Security*,..., *op.cit.*, 162.

¹⁶³ DDRS, CK2349032901, Treasury Secretary Henry Fowler recommends that President Johnson discuss the military offset agreement during the visit of Chancellor Erhard.

government should not make the direct link unless they really mean to use it.¹⁶⁴

The U.S. expectation was that the FRG fulfilled its commitment for military procurement of \$1.35 billion to offset U.S. defense expenditures in Germany during the years of 1965-66. However, “many of these payments were on orders that would be delivered much later and even on orders not yet placed.”¹⁶⁵ For the Germans, the fulfillment of the offset agreement in 1965 to 1966 was influenced by the presidential election in October 1965. During Erhard’s visit to the United States in December, 1965, he admitted and explained that after the election he was forced to reduce the budget by 10 percent. President Johnson replied that the payment was needed because of the balance of payments situation and in order to retain confidence in the dollar.¹⁶⁶ Moreover, the Johnson administration was discontent at Germany’s lack of support of the Vietnam War. Finally, the Germans agreed to place \$1.35 billion of military orders in the United States during the calendar years of 1965-1966 and to make payments of that amount during the U.S. fiscal years of 1966-1967. When the current agreement expired on June 30, 1967, there would be no specific plan for continuity. And with the certainty that there were enough weapons for the Germans, the Erhard administration sought to reduce military procurement and bought the nonmilitary goods or substitutes.

Even if the two sides signed the offset agreement for the years of 1965-1966, during the course of performance, the FRG was reluctant to carry it on because they were “behind on pro-rata payments, even including the promised DM 1 billion prepayments, and badly behind on orders.”¹⁶⁷ Moreover, German society and its press’ political attacks had never stopped against the Minister of Defense, von Hassel, and Chancellor Erhard, on their pro-American foreign policies. In the end, such dissatisfaction became one of the reasons for the failure of Erhard’s reelection in 1966. In the German-U.S. relationship, the single greatest source of friction, which could be even greater in the future, was still the offset agreement.¹⁶⁸

In addition to U.S.-German talks about the offset issues, the Johnson administration attempted to conduct negotiations about the introduction of new world

¹⁶⁴ DDRS, CK2349032901, Treasury Secretary Henry Fowler recommends that President Johnson discuss the military offset agreement during the visit of Chancellor Erhard.

¹⁶⁵ Memorandum on Hassel-Rusk talks, Oct 25, 1963, McGhee papers, 1988add., box 1, in Hubert Zimmermann, *Money and Security...*, *op.cit.*, 167.

¹⁶⁶ *FRUS* 1964-1968, Vol. XV, doc. 140, Memorandum of Conversation, December 20, 1965.

¹⁶⁷ *FRUS*, 1964-1968, Vol. XV, doc. 156, Telegram From the Embassy in Germany to the Department of State, July 7, 1966.

¹⁶⁸ *Ibid.*

liquidity, which could both alleviate U.S. gold drain and meet the needs of world economic development.

2.1.3. Negotiations about the introduction of new liquidity in 1965-1966

Since the beginning of 1960s, member countries of the IMF and the Group of Ten considered the necessity of reforming the IMS.¹⁶⁹ With the expansion of the world economy, there was a major trend that it was necessary to introduce additional reserves in the form of reserve assets or credit facilities.

Inside the Johnson administration, there were two groups responsible for international monetary affairs and the balance of payments problems. In June, 1965, Johnson wrote to Fowler that he wished to organize a small, high-level study group to develop and recommend advises to him—through Fowler, and the other principals directly concerned. In November 1965, George H. Willis, Deputy to the Assistant Secretary of the Treasury for International Affairs, assumed responsibility for coordinating the activities of this Study Group, which became known as the Deming Group. Approximately 50 percent of the documents distributed to the Deming Group were IMF papers and reports. Others were public statements by U.S. and foreign government officials related to international monetary matters, and some of the papers originated from the business and academic communities. The Deming Group papers included transcripts of G-10 Deputies' meetings. Another group who studied the monetary matters was the Council of Economic Advisers (CEA), whose members included: the former Secretary of the Treasury, Douglas Dillon, and a distinguished group of experts including Robert Roosa, former Under Secretary of the Treasury for Monetary Affairs; Kermit Gordon, former Director of the Bureau of the Budget; Edward Bernstein, economic consultant specializing in international monetary policy; Andre Meyer, spokesman for the investment banking firm of Lazard Frères; David Rockefeller, President of the Chase Manhattan Bank, and Charles Kindleberger, Professor of Economics at MIT. This type of staff composition decided their advice was more economical than political, which contrasted with that of the Nixon government.

As far as the U.S. government was concerned, gold could play a role in the new

¹⁶⁹ See Guillaume Guindeg, *The International Monetary Tangle, myths and realities*, (Oxford: A Blackwell Library Edition, 1977), 26-42.

reserve asset, but the new reserve asset should not be limited exclusively by gold. The discussion on world new liquidity in 1965 to 1966 finally led to the birth of Special Drawing Rights (SDRs).¹⁷⁰ During this process, the Johnson administration executed an active impact, and focused its attention on the rejection of the French proposition of the CRU.¹⁷¹

In the framework of G-10, a study committee under the chairmanship of Ossola was established to analyze various types of proposals regarding the creation of reserve assets. It was suggested that the new asset should contribute to a greater stability of the international monetary system and should be able to adapt the volume of reserves to global needs, as opposed to individual shortages.¹⁷² In this regard, this report was of great importance not only for the exclusion of French CRU schemes, but also for the formation of U.S. ideas about the new world reserve assets, because the CRU's link with the ratio of gold would surely bring about speculation and uncertainty to the IMS. The Ossola report was therefore highly appreciated by the Americans; the Secretary of Treasury, Fowler, said that it provided a useful guide to current concepts as well as bringing out clearly that the obstacles to progress were but policy issues concerning how, when and where to create and distribute them.¹⁷³

Since the distribution of the Ossola report, the U.S. government realized furthermore that it was time to “press forward with our studies and beyond, to action-evolving arrangements which will continue to meet the needs of a fast-growing world economy.”¹⁷⁴ The U.S. Congress also pushed for the development of the U.S.’ own plan on reforming the IMS, and continued to give priority to eliminate the deficit in its balance of payments.¹⁷⁵

¹⁷⁰ See Margaret Garritsen de Vries, *The International Monetary fund, 1966-1971* (Washington D.C.: IMF, 1976); Dorothy M. Sobol, *Europe confronts the Dollar, the Creation of the SDR, 1963-69* (New York: Garland Publishing, Inc, 1982); Juanita Roushdy, *The role of the SDR* (Washington D.C.: IMF, 1987); Christopher M.D. Wilkie, *Special Drawing Rights (SDRs), The First International Money* (New York: Oxford University Press, 2012), 9-76; Michel Lelart, “a France et les Droits de Tirage Spéciaux”, in *La France et les institutions de Bretton Woods...op.cit.*, 127-144.

¹⁷¹ See André de Lattre, “De 1958 aux accords de la Jamaïque(1976)”, in *La France et les institutions de Bretton Woods...op.cit.*, 73-78.

¹⁷² U.S. National Archives and Records Administration (hereafter NARA), Record Group (hereafter RG) 56, volume NND 978028. Report of the Study group on the creation of reserve assets, May 31th 1965

¹⁷³ NARA, RG56, volume NND 978028, Remarks of the Honorable Henry H. Fowler Secretary of the Treasury of the United States and United States Governor of the International Monetary Fund before the Annual meeting of the International Monetary Fund, Sheraton park Hotel, Washington DC, September 29, 1965.

¹⁷⁴ NARA, RG56, volume NND 978028, Remarks of the Honorable Henry H. Fowler Secretary of the Treasury before the Virginia state bar association at the Homestead, Hot Springs, Virginia Saturday, July 10, 1965.

¹⁷⁵ NARA, RG56, volume NND 978028, Off dead center : some proposals to strengthen free world economic cooperation, a report to the Joint Economic Committee Congress of the United States by representatives Henry S. Reuss (chairman, subcommittee on International Exchange and payments) and Robert F. Ellsworth, December 1965.

Under President Johnson's encouragement, Secretary Fowler regarded the establishment of the new world asset as “the major task facing our Treasury and the financial authorities of the rest of the Free World in the next few years.”¹⁷⁶ Based on the improvement of the U.S. balance of payments situation, Fowler announced in the annual meeting of the IMF on September 9, 1965 that it was time to negotiate new monetary arrangements to enable the nations of the world to deal with future demands upon the international monetary system. The U.S. Secretary also stated that the world should not rely upon the dollar to continue to supply the majority of the growth in world reserves, and it was urged to perfect the defenses of the international monetary system against its vulnerability to massive destabilizing movements of funds.¹⁷⁷

When it was determined that new reserves were to be introduced, the Americans stepped up their pace on the design of new liquidity, and promoted worldwide discussion on this subject. The Congressional report “guidelines for improving the International monetary system” proposed that the United States should work on a plan for new reserve creation that would not encourage or require countries to convert existing balances or new acquisitions of reserve currencies into gold or the new reserve medium,¹⁷⁸ and it insisted that the U.S. dollar should continue to play an important, perhaps even growing, international role.

Meanwhile, the United States clearly understood the divergence between the United States and Europe, namely, the Europeans believed that there was too much liquidity around the world, since “they have had large-scale annual increases in reserves amounting to about 10 percent a year. They believe these increases have contributed to the inflationary pressures which present to them their most difficult internal problem of economic policy.”¹⁷⁹ However for the Americans, even though there was no index indicating that the world needed additional asset for that moment, it was better to set up a new one in consideration of the annual growth rate of world GDP, as gold would not provide an adequate basis for world trade and payments.

At the same time, the Johnson administration realized that the European

¹⁷⁶ NARA, RG56, volume NND 978028, Remarks of the Honorable Henry H. Fowler Secretary of the Treasury before the Virginia state bar association at the Homestead, Hot Springs, Virginia Saturday, July 10, 1965.

¹⁷⁷ NARA, RG56, volume NND 978028, Remarks of the honorable Henry H. Fowler Secretary of the Treasury of the United States and United States Governor of the IMF before the annual meeting of the IMF Sheraton park Hotel, September 29, 1965.

¹⁷⁸ NARA, RG56, volume NND 978028, Guidelines for improving the international monetary system, report of the subcommittee on international exchange and payments of the Joint Economic Committee, Washington, 1965.

¹⁷⁹ NARA, RG56, volume NND 978028, Remarks by the Honorable Frederick L. Deming, Under Secretary of the Treasury for Monetary Affairs at the Joint Luncheon Meeting of the Southern economic association and southern finance association at the Deauville Hotel, Miami Beach, Florida, November 12, 1965.

countries had not formed a unified stance. Therefore the Americans actively negotiated with Germany and Italy, looking to drive a wedge into Western Europe.

Followed by the Ossola report was the report of Emminger, which was published in July 1966. Until that time, there still existed genuine differences of opinion among the Deputies of the Group of Ten. France especially, did not accept either of the two plans because it estimated that the dollar would always play a major role in the scheme. Besides, the British also believed that the new asset should link with gold, since a main purpose of the new asset was to provide an alternative and a supplement to gold. “A gold-value guarantee, however, is indispensable.”¹⁸⁰

Both the Ossola study and the Emminger report were exploratory and preliminary, “hence the Ossola and Emminger reports have to be regarded as only the first stages of a long process of international negotiation, the end of which is not yet in sight.”¹⁸¹ In September, Otmar Emminger announced that even though there existed divergences among the Ten, they still achieved a certain degree of agreements, which were:

- “1. There is general agreement that at some point in the future the existing types of reserves may have to be supplemented by the deliberate creation of additional reserve assets.
2. It is agreed that this deliberate reserve creation should not be directed to the financing of individual balance of payments deficits, but should take place on the basis of a collective judgment of the reserve needs of the world as a whole.
3. Such reserve creation should not be a short-term ad hoc operation on the basis of short-run or cyclical movements in international demand and trade, but should be geared to long term trends in the global needs for a period of 3-5 years ahead, with the possibility of limited adjustment in the light of circumstances.
4. Deliberately created reserves should be allocated to all member countries of the Fund on the basis of a general formula, such as IMF quotas, etc.; thus the principle of “universality” has been fully accepted.
5. Such new reserve assets should be unconditional in principle, but

¹⁸⁰ NARA, RG56, volume NND 978028, International Monetary Reform summary of UK views, January, 24, 1966.

¹⁸¹ Brian Tew, *International Monetary Cooperation 1945-67*(London: Hutchinson University Library, 1967), 212.

possibly with some safeguards against misuse.

6. While the precise form and nature of a new reserve asset-- e.g., drawing rights or reserve units-- was left open, it has been generally realized that whatever form would be decided upon, any such reserve asset would basically confer the right to obtain other participants' currencies.

7. The participants having widely usable currencies would inevitably have to bear the major portion of the financial burden of any such scheme. It is as yet an open issue how their interests could best be safeguarded. This problem is closely connected with the difficult problem of decision-making.

8. Finally, there is a wide consensus that, although there exists at present no global need for new reserve creation it would be prudent to begin preparing for such a contingency already. There was also agreement that such a contingency plan should not be set in motion ("activated") before a genuine global need for reserves was ascertained by a collective judgment."¹⁸²

The two studies canvassed and highlighted the necessity of establishing an additional asset. Apart from France, the other member countries of G-10 agreed on the necessity to build a new reserve, which laid the foundation for the creation of SDRs in the years to come. The discussion about a new asset was not limited to the framework of G-10, members of the IMF also participated. William Dale, U.S. deputy in the IMF, set a negotiating timetable for the IMF member countries. He clarified the two reports as the first stage and during the second phase of the discussion, "the interest and views of all members of the Fund will be adequately expressed and taken into account as we proceed to construct a climate of official opinion which will enable a convergence of views to emerge around the steps needed. This second phase is to proceed by means of a series of joint meetings among the Deputies of the Group of Ten and the Executive Directors of the Fund, which will begin shortly."¹⁸³

¹⁸² NARA, RG56, volume NND 978028, Text of Mr Emminger's Remarks at Luncheon, Shoreham Hotel, September 27, 1966.

¹⁸³ NARA, RG56, volume NND 978028, International Liquidity in Perspective remarks by William B. Dale U.S. Executive Director International Monetary Fund at Balance of Payments Symposium Sponsored by Chamber of Commerce of the United States, Oct 19, 1966.

II. De Gaulle government's attack on the U.S. hegemony

Between 1965 and 1966, the contradiction between the de Gaulle government and the Johnson administration broke out on a full scale. At the press conference on February 4, 1965, de Gaulle called on other countries to convert the reserves of U.S. dollars into gold, which directly intensified the conflict between France and the United States in the monetary field. In addition, France's withdrawal from the NATO in 1966 also deteriorated their bilateral relationship. What happened during this period clearly reflects the interaction between the monetary affairs, the military and international political strategies. Through these interactions, we can better understand the changes in de Gaulle's attitudes toward the United States and the important moments when the Western allies encountered major differences of interests.

2.2.1. The press conference of de Gaulle in February 1965 and French international monetary policies

The sentiment of dissatisfaction with the disequilibrium in the Bretton Woods system have existed for a long time. Since the early 1960s, when U.S. dollar crises occurred frequently, the French officials publicly began criticizing the U.S. international economic policies and the international instability as having resulted from the dollar's hegemony. Although full of complaints, in the international arena, France and other Western countries had actively participated in the actions to improve the function of the IMS.

1964 was, however, the turning point of the international monetary policies of the de Gaulle government. That year saw the rejection of the proposal on CRU from the French Finance Minister, Valéry Giscard d'Estaing, by the British and the Americans. A report from September 1964 showed that the statement of Valéry Giscard d'Estaing in the annual meeting of IMF about the proposal of CRU was in accordance with the wish of de Gaulle, who strongly insisted on the importance of gold in the international monetary system. Additionally, de Gaulle reminded Valéry Giscard d'Estaing of the need to state clearly the French preference in the international occasions and among the deputies' meeting of EEC, even if it was not shared by the

other partners.¹⁸⁴ Thus it was comprehensible to know how disappointed de Gaulle was when he saw the rejection of French proposition in the world occasion. Since then, the French administration turned to a series of radical actions, moving things in an anti-American direction: such as reducing the dollar reserves in the Bank of France, while increasing the amount of gold reserves.

As it was shown in the table below, in the year of 1965, France's dollar reserves fell from 26.9% of foreign exchange reserves to 12.7%. The gold reserve rose from 75.1% to 87.3%. According to the statistics of the Bank of France:

Table 6 Situation and location of French gold and foreign currency reserves

	Foreign currency		Gold		Total	
	M.S	%	M.S	%	M.S	
On 31-12-1964	1375	26.9	3729	75.1	5104	
On 24-02-1966	693	12.7	4774	87.3	5467	
Locations of French gold reserves						
	Paris		London		New York	
On 31-12-1964	1265	38.2	1304	39.3	745	22.5
On 18-2-1966	3830	90.9	177	4.2	206	4.9

Source: AN, 5AG1, volume 2351, Situation et localisation de nos réserves en or et en devises, no date.

¹⁸⁴ AN, 5AG1, volume 2386, Note à l'attention du Général De Gaulle, le 1er Septembre 1964.

The changes in reserve items were actually in line with what de Gaulle announced at the press conference held in February 4, 1965. In this conference, he announced that the Bretton Woods system gave the U.S. dollar too much privilege and the system could not adapt to the current international situation: “The articles of the Bretton Woods that give the dollar a transcendent value as an international currency no longer rest on its original base.” Then, he called on countries to convert their dollar reserves into gold because gold had no nature, gold had no nationality.¹⁸⁵

De Gaulle’s declaration was really a big shock for the whole international community. Since the end of World War II, it was the first time that the head of western countries openly criticized the Bretton Woods system and the supremacy of the U.S. dollar. Except for the superficial opposition, this announcement in fact indicated France’s deep considerations about national interests and independent objectives. In July, September and November of 1963, the possibility of gold’s appreciation was discussed in detail, and it was concluded that it was not a good time to ask for gold to appreciate. France needed to cooperate with other countries within the framework of the IMF. In June 1964, however, the *Conseil Restreint* voted for a proposal to appreciate the value of gold. De Gaulle’s speech at the beginning of 1965 was therefore traced.

Monetary policy was a reflection of national sovereignty. Under the Bretton Woods system, national autonomy gradually disappeared and European countries passively condemned themselves to suffer the repercussions of American policy and the deterioration of the IMS. The political and monetary aspects closely intertwined, and the General could hardly admit this asymmetry in international monetary relations was incompatible with the independence he wanted for France and for “European Europe;” This was the main reason why, in February 1965, the General engaged in a great battle for the reform of the international monetary system.¹⁸⁶ In addition, there were some scholars who proposed that during 1960 to 1966, the economic policy of the de Gaulle government “relied above all, on the confirmed renewal of the French power, whose economic base appeared particularly solid in the middle of the decade: the French growth rate (5.8% per year on average in the sixties, compared with that in the United Kingdom 2.9%, the United States 3.9% and even Germany 4.9%); the

¹⁸⁵ “Le conférence de presse tenue au Palais de l’Élysée”, Charles De Gaulle, *Discours et Messages, pour l’effort, 1962-1965* (Paris:Plon, 1970), 332.

¹⁸⁶ Alain Prate, *les Batailles Économique du général de Gaulle*(Paris: Plon, 1978), 206.

French economy opens up on the outside and increases its competitiveness...”¹⁸⁷ In this sense, de Gaulle proposed some external policies based on thoughts of independence and transformation of the international order.

On January 5, 1965, in the notes of Jean Dromer (technical adviser to the General Secretariat of the Presidency of the Republic) to de Gaulle, the author summarized all the problems faced by the current international monetary system, such as: the contrast between the proportion of gold and the dollars in the international currency circulation. Gold’s ratio decreased from 72% in 1949 to 66.2% at the end of 1957, and 63.9% at the end of 1962, finally 61.8% in June 1964. In summary, Dromer evaluated that the Bretton Woods system, which was increasingly reliant upon the dollar as reserve currency, had serious disadvantages in itself, especially for the European countries.¹⁸⁸

After de Gaulle’s press conference, Valéry Giscard d’Estaing held another one to elucidate France’s thoughts about the IMS and reaffirmed their criticism on the current status of the Bretton Woods system. In response to why France had an active monetary policy since 1965, Valéry Giscard d’Estaing explained it was in accordance with France’s position in the world and conformed with its consistent stand. Furthermore, he pointed out several aspects which the French cared most about, which could be summed as follows:

—First of all, Bretton Woods system was the result of compromise, which should be founded on gold. But now it was based on the dollar, and the later was *de facto* the only reserve currency. This result was contrary to the original intention of the Bretton Woods system.

—Another element that worried the French government was IMF’s increase of quota, which was strongly proposed by the British and the Americans. According to the Bretton Woods agreements, it was quite clearly and compulsorily stipulated that this increase must be paid up to 25% in gold and up to 75% in its national currency, however, the Americans tried to avoid paying by gold, and decreased gold’s quota. France estimated that there was no need to establish new liquidity, since the quotas were already increased and there was inflation worldwide. According to Valéry Giscard d’Estaing, four criteria could be applied to judge if the monetary system were

¹⁸⁷ Frédéric Bozo, *Deux stratégies pour l’Europe, De Gaulle les Etats-Unis et l’Alliance atlantique, 1958-1969* (Paris: Plon,1996), 133.see also, Serge Berstein, *la France de l’expansion*, vol. I, “la République gaullienne 1958-1969”, (Paris: Le Seuil, 1989), 151.

¹⁸⁸ AN, 5AG1, volume 2386, Le problème monétaire international, le 5 janvier 1965.

to keep its value: first, whether it served the mutual interests of the member countries. The second was whether it allowed the proper functioning of adjustment mechanisms, that was, whether it led countries to restore balance of payments equilibrium. The third condition it must meet, was to supply the world with sufficient liquidity to meet all payments and global economic expansion. The fourth quality was that it must be a solid system. However, the current international monetary system could not solve the disequilibrium of the balance of payments. And the United States could not arrange its balance deficit.

Because of these problems, in the interview of Valéry Giscard d'Estaing, he summarized de Gaulle's idea as four points:

“1. The first is a solemn and unequivocal declaration by major states to proceed to the settlement of their deficits by direct payments in gold, not by the creation of additional reserve currencies.

2. Our second proposal is to retain only the means provided by the international agreements in force, i.e. the Bretton Woods agreements for the IMF, and the Paris Agreement for financing the deficit.

3. Our third proposal is to make the reform of the monetary system, as it exists, the precondition for the call for new resources.

4. Finally, our fourth proposal is that this reform should be developed jointly by the interested countries according to the following principles: The account balance could just be settled by gold among central banks; Central banks could only hold two kinds of reserves: gold, and the so-called "owned reserves", which are deducted from gold (to the exclusion of all currencies exceeding normal needs of current transactions); It is then necessary to provide for the progressive elimination of the excess reserve currencies, starting by ensuring that the conditions of the use of these reserves can no longer be remunerative for those who hold them, so as to put an end to the preference they may be subject to. In parallel with this absorption of surplus reserve currencies, there may be a gradual repayment of debts resulting from financial assistance; At the end of this elimination of excess reserve currencies, the currencies of all countries with international financial responsibilities would become convertible into gold vis-à-vis central banks.”¹⁸⁹

¹⁸⁹ CAEF, B0069897, Conférence faite par M. Valéry Giscard d'Estaing ministre des Finances et des Affaires Economiques à la Maison du Droit le 11 février 1965.

Evidently, these propositions failed to attract other countries' attention. Among the EEC, the other five could not agree with such radical measures, therefore "the proposals of de Gaulle government did not achieve the goals that they wanted."¹⁹⁰

Under such huge pressure, how and why did the de Gaulle government form and implement these international monetary policies? Was it true that the French regarded the return to the gold standard regime as a feasible way, or was it just a deliberate objection against U.S. hegemony?

2.2.2. Discussions about the reform of IMS inside the De Gaulle government

On the occasions when France has shown a fierce anti-American standpoint, within the de Gaulle government, were all the participants: such as the Ministry of Economy and Finance, the Bank of France, the President's councilors and the President himself, always in agreement with this kind of international monetary strategy? What were their respective opinions, and how was the final foreign monetary policy put forward? Numerous works have already discussed their divergences,¹⁹¹ in this part, we will see more detailed discussions through the *Conseil Restreint* and the correspondences among different departments.

The first player was surely de Gaulle himself. Between 1965 and 1966, contradiction with the United States in the nuclear field and in the framework of the NATO politically accelerated the deterioration of currency relations. In addition, since 1961, the thoughts of Jacques Rueff, who had been touting the return to the gold standard system in front of the President, had become a weapon for de Gaulle to attack U.S. dollar hegemony. Jean Yves Haberer, technique adviser of the Finance

¹⁹⁰ Henri Bourguinat, "Le général De Gaulle et la réforme du Système monétaire international, la contestation manquée de l'hégémonie du dollar", in *De Gaulle en son siècle, tom III..., op.cit.*, 110.

¹⁹¹ See also: *De Gaulle en son siècle, Tome III: Moderniser la France, Paris, Plon, 1992*. This book contains a series of articles, which mainly contains the discussion about De Gaulle era's economic and monetary policies. Some of the articles can be used as oral materials, since whose writers are policy-makers or participants in the 1960s. Such as: Sylviane Guillaumont-Jeanneney, "La politique monétaire française pendant la présidence du général De Gaulle", 74-93; Henri Bourguinat, "Le général De Gaulle et la réforme du système monétaire international. La contestation manquée de l'hégémonie du dollar", 110-125; R.Solomon, "De Gaulle et le système monétaire international", 126-129. "Les relations monétaires extérieures: de 1958 à 1964", exposé de Claude Pierre-Brossolette, 143-147; "de 1964-1966", exposé de Pierre Esteva, 148-152; "de 1966 à mai 1968", exposé de Jean-Yves Haberer, 153-158. —Eric Bussière, "La banque de France et la réforme du système monétaire international: entre impératifs nationaux et solidarité des banques centrales européennes (1963-1968); *Histoire, Économie & Société* 18, (No. 4, 1999): 797-814. This article mainly introduces the embarrassing situation of the Bank of France to make a choice between the national administrative orders and the cooperation of European banks in response to the defects of the Bretton Woods system.

Minister Michel Debré, explored the close link between nuclear policy and monetary policy. He thought that the two issues actually reflected the fundamental interests of one country. In both areas, the United States was committed to the non-dissemination of stocks, but under the pressure of its allies, the Americans were forced to admit a multilateralization of instruments; in both areas, France has indicated its willingness to pursue an entirely independent policy; and in both areas, the main problem was posed by Western Germany, which refused possession of nuclear weapons and gold stock. While the Germans could obtain the second, notwithstanding pressure from the Americans, they converted their reserves of dollars into gold; in both areas, multilateralization was the method used by the United States to prevent Germany from yielding to the temptation to imitate French policy of national independence. In both areas, "multilateralization", which offered a vast field of action to the ingenuity of experts, could be attempted without France.¹⁹²

In past research, more attention was paid to the nuclear issue and France's resistance to the United States with regard to the withdrawal of the NATO. However, French-U.S. confrontation in the monetary field epitomized the overall strategy of General de Gaulle, whose goals were to pursue France's independent monetary policy, bring French propositions onto the international negotiation table, and share the fruits of economic development and security with other big powers. Unfortunately, the development of international relations was not as good as de Gaulle's had hoped, similar to what happened with the proposition of "Tripartite" at the end of the 1950s in the military field, and the proposition of "CRU" in 1960s. He then implemented France's own independent plan, without touching the bottom of the Western Alliance, such as retreating forces from the NATO headquarters as well as converting dollars into gold. In March 1966, de Gaulle instructed that:

- “1. There can be no valid international "currency" besides gold as a standard and as the only standard.
2. The so-called "isolation" of which we are threatened does not matter as long as we keep our own balance of payments in a good order. Moreover, we have already "isolated" ourselves, and by automatically converting all of our dollars into gold.
3. The Americans, who see their gold stock outflow and can no longer support

¹⁹² AN, 5AG1, volume 2351, Note pour le ministre, problème des liquidités internationales, 24 février 1966.

the "gold exchange standard", are trying to create systems that spare them the need to put their balance of payments in order. This is the purpose of the various projects "Emminger"¹⁹³ and the other projects. We do not have to participate in these rescue operations, which have no real future."¹⁹⁴

The three-point instruction showed de Gaulle's firm determination on international monetary affairs. Even if France was isolated by its European allies, he still insisted the central position of gold in the IMS. At the same time, he maintained great vigilance against the establishment of the new world liquidity, since on the one hand, French technicians estimated that international liquidity was not lacking, the creation of SDRs would only strengthen the hegemony of the U.S. dollar; the other reason was due to the strategic considerations, as Jean-Yves Haberer claimed above, the change of French attitude toward the creation of SDRs would make French propositions unreliable and incredible: "Our policy can only be taken seriously if we are faithful to it. We would break faith if we participate in the creation of a reserve unit unrelated to the gold holdings."¹⁹⁵

Inside the de Gaulle government, the politicians and technicians took a coherent attitude toward the creation of new liquidity; the Ministry of Finance, especially those led by Debré, took a hard line. At the meeting of Finance Ministers among the European Community, he argued that the search for creating new liquidity would not be helpful or timely as long as the U.S. balance of payments deficit persisted. It would even be dangerous, at the moment, to study the new mechanisms in this direction.¹⁹⁶

Despite condemning the creation of new reserves, de Gaulle and Debré did not close the door on France's participation in the international negotiations. Officials in charge of international monetary affairs suggested that France's participation and timely opposition could make a difference to the decision making process manipulated by the Anglo-Americans, and could "avoid cutting us from the other countries and suffering the weight of all the mistakes made by others,"¹⁹⁷ since the isolation was hardly shielding the French economy from the inflationary pressures that would be created or sustained by an unreasonable issuance of a new international

¹⁹³ Plan Emminger ("Draft outline of a scheme for Reserve Creation"), submitted by the EEC member countries in February 1966, was one of the proposals aiming at the creation of new reserves.

¹⁹⁴ AN, 5AG1, volume 2351, Note du Général De Gaulle, 31 Janvier, 1966.

¹⁹⁵ AN, 5AG1, volume 2351, Note pour le ministre, problème des liquidités internationales, 24 février 1966.

¹⁹⁶ AN, Fonds Debré, 4DE-47, M. Debré conteste l'opportunité de rechercher la création de liquidités nouvelles, 21 Juin, 1966.

¹⁹⁷ AN, 5AG1, volume 2351, Note à l'attention du Général De Gaulle, le 16 juin 1966.

currency.¹⁹⁸ Influenced by these propositions, at the *Conseil Restreint*¹⁹⁹ on February 25, 1966, de Gaulle decided: “the objective of the French delegation must be, without compromise on the substantive positions, to keep the negotiations open, so as to preserve the possibility of bringing the Ten to a collective refusal of unreasonable choices.”²⁰⁰

Furthermore, the decision makers and technicians all agreed with the fact that any real reform of the IMS was impossible as long as the significant deficit in the U.S. and UK balance of payments remained. In accordance with the resolutions in the *Conseil Restreint* in February 1966, the representatives of Group of Ten, the Treasury director Maurice Pérouse and the chairman of the Banque de France Bernard Clappier decided to abandon the idea of creating a collective reserve unit and tried to persuade “our partners in the drafting of a report essentially showing the current inadequacies of the IMS and the need, before any action, to restore U.S. balance of payments.”²⁰¹

However, regarding the price and status of gold, the divergence existed. De Gaulle and Debré, including Couve de Murville, preferred a more radical way of dealing with the status of gold. For example, in March 1966, De Gaulle repeated the importance of using gold as the only standard. De Gaulle's consideration of the country's foreign monetary policy as one of the elements of his foreign policy, and the impulses he gave in this area, greatly reduced the Bank's ability to influence its international monetary policy decisions. The intervention of General de Gaulle on the role of gold greatly embarrassed the Bank of France, as well as a part of the French experts in charge of the discussions on the reform of the international monetary system.²⁰²

At the end of the year, in November, Debré talked with Pérouse about the next round of negotiations on international currency issues, saying that: “France defended a doctrine that was clearly defined by General de Gaulle. Our position is inspired by the facts that global economic cooperation should be based on the respect for both the independence of nations and the solidarity that associate them...An unavoidable aspect of our doctrine has never been officially clarified: the price of gold... If we consider that there is or there will be a shortage of international means of settlement, a

¹⁹⁸ AN, 5AG1, volume 2351, Note pour le ministre, le 10, février, 1966.

¹⁹⁹ Participants were Pompidou, Debré, Couve de Murville, Brunet, Maurice Pérouse, Wormser and De Gaulle.

²⁰⁰ AN, 5AG1, volume 2351, *Conseil Restreint* du 25 février 1966, sur les problèmes monétaires internationaux, relevé de décision.

²⁰¹ AN, 5AG1, volume 2351, Note à l'attention du Général De Gaulle, le 16 juin 1966.

²⁰² E. Bussière: “La Banque de France...”, art.cit.”

reevaluation of the price of gold is one of the solutions. Philosophically and politically, it is the best one because it is based not on the supremacy of a national currency, but on the recognition of the fundamental principle of the Bretton Woods system, which makes gold the true world currency and the basis of credit between nations. To succeed, it is important to keep close contacts first with our European partners, members of the European Economic Community, also with the Swiss ... The French delegation will have to ask that the studies of the Ten and the Thirty discuss the price of gold. It is desirable to obtain a discreet, attentive and contradictory study made by the experts, and the French delegation should seize this opportunity... A French delegation will participate in all the discussions, even if they show their hostility or reserves about some points.”²⁰³

On the one hand, this dialogue confirms the previous description of the author: from 1965 to 1966, despite France fiercely opposing the international monetary reform oriented by the United States, it still participated in the negotiations. The purpose was not to allow the United States to completely control the direction of negotiations. “The General had understood that he should not make France complicit of the deviation of the IMS, even if the deviation had the ingenious skins. That is why until today French authorities have constantly warned their partners and the world opinion against the dangers of loosening monetary disciplines and the risk of advocating the advent of a new international monetary order.”²⁰⁴

On the other hand, Debré’s words showed that he always emphasized the importance France attached to the status of gold. In the report to de Gaulle on December 3, 1966, he specifically mentioned the similar status of the Soviet Union in regard to gold.

Thirdly, the repetition of the role of gold by the French government reflected the fact that the reserving status of gold had been increasingly abandoned by the Americans. In 1966, the report of Assistance to director of Treasury for External Affairs Claude Pierre Brossolette judged that the United States could possibly cut gold’s convertibility. He warned that if a prior agreement of the main European countries was not obtained, a unilateral decision of the American authorities would lead to a dislocation of the existing system. The French suggested:

“(1) We do not share the operating responsibilities of the new system...we in

²⁰³ AN, Fonds de Debré, 4DE-9, Instructions à Monsieur le Directeur du Trésor, le 14 novembre 1966.

²⁰⁴ Pierre Esteve, “Les relations monétaires extérieures de 1964 à 1966... art.cit.”

fact accept the main implications of continuing to buy dollars on the foreign exchange markets and could sell them against gold on the London international market.

(2) We could try to coordinate our attitude with that of the gold-producing countries and try to lead the system more directly by making agreements with them that would reduce the supply of gold on the London market, or under this hypothesis, establishing an international gold market in Paris.”²⁰⁵

The officials in the Ministry of Economy and Finance had always been “rational” about this issue, that is, regarding the pure return of gold standard as an impractical solution to reform the IMS. Even if the role of gold was often emphasized in the world occasions, the negotiators’ final aim was to urge the United States to correct its imbalance of international payments. As Valéry Giscard d’Estaing had put it in the beginning of 1965: “the return to gold discipline can, at least, put an end to the anomaly that the deficit created by these operations is financed by the holding of reserve currencies.”²⁰⁶ They also admitted that the French cannot alone bring the Western world to reevaluate the price of gold, which would lead the western world to panic, and if the French government went to the bottom, “the supporters of a revaluation of the price of gold in France will be in minority and the Head of State himself is not in favor.”²⁰⁷

Though insisting the importance of the role of gold, the researchers could not exaggerate de Gaulle’s attachment to gold, since he had never proposed the complete reestablishment of the gold standard. Alain Prate showed doubt, saying, “I’m not even sure he knew anything about the mechanics of a gold standard system that never worked in the nineteenth century.” What de Gaulle wanted was that the IMS should never be based on a national currency. De Gaulle once admitted to Alain Prate: “I proposed gold; I could have accepted any provided monetary unit which is independent of the Anglo-Saxon currencies.”²⁰⁸

In addition, the Ministry of Finance and the Bank of France were more likely to seek the Common Market's unified policy to deal with the issue of international currency reform, than General de Gaulle. On July 20, 1965, a report from the

²⁰⁵ ABDF, 1489.2004.02, volume 30, Suspension de la convertibilité en or du dollar, no date.

²⁰⁶ CAEF, B0069897, Conférence faite par M. Valéry Giscard d’Estaing ministre des Finances et des Affaires Economiques à la Maison du Droit le 11 février 1965.

²⁰⁷ AN, 5AG1, volume2351, Note, le 17 février, 1966.

²⁰⁸ It mentioned to the reestablishment of gold standard regime. *De Gaulle en son siècle, La sécurité et l'indépendance de la France*, Tome 4 (Paris: Plon, 1992), 152.

monetary committee stated that it was best for the six European countries to form a unified response. They needed to give up some interests and reach an internal compromise,²⁰⁹ such as the insistence on the reevaluation of gold's price, which would undermine the confidence in the various national currencies: "The movement towards the Monetary Union is essential for the Community itself, but also for the future of the international monetary system, because if the monetary cohesion within the Common Market reaches a degree sufficient to form a unit vis-à-vis the outside, the search for the international equilibrium will be simplified by reducing the number of centers of decision-making and by the possibilities offered by a partnership between equals."²¹⁰

As for the member countries of the EEC as a whole, it was asked to make a distinction on three groups: 1. The member countries of the Community; 2. The United States, and 3. The other countries, some of which were represented in the G-10.

The Commission of the EEC asked the Six to agree with three fundamental points:

--1. the creation of new liquidity must be done according to the overall liquidity needs and not according to the individual deficits;

--2. the decision on the desirability and the modality of a possible creation of new liquidity must be entrusted to a group of restricted industrialized countries; it could be limited inside the G10 or a somewhat different composition;

--3. the distribution of new liquidity should be in accordance with a predetermined formula.

Here, point 2 was a true reflection of French willingness. Although a direct link between the new liquidity and gold had so far met with strong opposition on the American side, it nevertheless seemed necessary to insist, on the continental side, the retention of gold at the central role of the IMS; how and in what way the new liquidity was linked to gold should be precisely defined as well. In view of this point, an exact common position of the Six was still difficult to be identified at the time. Perhaps an idea recently launched by Roosa could be a starting point for the Monetary

²⁰⁹ ABDF, 1489.2002.05. volume 262, Position commune de négociations pour les Six en ce qui concerne la réforme monétaire internationale, Bruxelles, le 20 juillet 1965.

²¹⁰ CAEF, B0069897, Extrait de la déclaration de Monsieur Robert Marjolin, vice-président de la Commission de la Communauté Economique Européenne, devant le Parlement Européen, le 23 mars 1965, sur certaines questions monétaires.

Committee's discussions. Active participation in the creation of new liquidity would be limited to countries who were willing to buy and sell gold at the official rate against their own currencies, as the United States has done so far.²¹¹

On July 15, 1965, during the meeting of the monetary committee, the representatives of the member states of EEC stated that the Six should try to stop an Anglo-American resolution. The discussion about liquidity would be done on the G-10 platform. This meeting repeated the necessity that France participated in international discussions as soon as possible,²¹² because the absence of the French had singularly complicated everything.

These judgments exposed how the EEC regarded their interactive relationship with France. Both of them were mutually needed and mutually beneficial. The European Community saw France as a power to counterbalance the United States, and it was in fact reluctant to always take the United States position first. In order to protect the interests of the European region and keep the stability of national currencies, it was hoped that France would come out to contain the American impact. While in the meantime, France hoped to use the process of European monetary unification as a breakthrough to oppose the influence of the United States.

Also, to put the EEC into a broader framework— the Group of Ten—the situation was much more complicated. The result of the work of the deputies during 1965 to 1966 could be summarized as follows:

They fully clarified a number of basic issues. Some points were still open to discussion, either because there was not sufficient time to go into all the technicalities and ramifications of a problem, or because the deputies wanted to have exchanges of view in a wider forum before forming their own final opinion. The main points of agreements were that:

“1. There is general agreement that at some point in the future the existing types of reserves may have to be supplemented by the deliberate creation of additional reserve assets.

2. It is agreed that this deliberate reserve creation should not be directed to the financing of individual balance of payments deficits, but should take place on the basis of a collective judgment of the reserve needs of

²¹¹ ABDF, 1489.2002.05, volume 262, Position commune de négociations pour les Six en ce qui concerne la réforme monétaire internationale, Bruxelles, le 20 juillet 1965.

²¹² ABDF, 1489.2002.05, volume 262, Réunion du comité monétaire de la CEE du 13 Juillet 1965.

the world as a whole.

3. Such reserve creation should not be a short-term ad-hoc operation on the basis of short-run or cyclical movements in international demand and trade, but should be geared to long term trends in the global needs for a period of 3-5 years ahead, with the possibility of limited adjustment in the light of circumstances.

4. Deliberately created reserves should be allocated to all member countries of the Fund on the basis of a general formula, such as IMF quotas, etc.; thus the principle of ‘universality’ has been fully accepted.

5. Such new reserve assets should be unconditional in principle, but possibly with some safeguards against misuse.

6. While the precise form and nature of a new reserve asset-- e.g., drawing rights or reserve units—was left open, it has been generally realized that whatever form would be decided upon, any such reserve asset would basically confer the right to obtain other participants’ currencies.

7. The participants having widely usable currencies would inevitably have to bear the major portion of the financial burden of any such scheme. It is as yet an open issue how their interests could best be safeguarded. This problem is closely connected with the difficult problem of decision-making.

8. Finally, there is a wide consensus that, although there exists at present no global need for new reserve creation it would be prudent to begin preparing for such a contingency already. There was also agreement that such a contingency plan should not be set in motion (“activated”) before a genuine global need for reserves was ascertained by a collective judgment.”²¹³

Apart from questioning the nature and form of any such reserve asset (drawing right or reserve unit), the G10 had not yet found an agreed solution on the provisions for making a new reserve asset fully acceptable and preventing it from being a one-sided burden on some members; here, the question of a link of the new reserve asset with gold (or of so-called “holding limits”) came in... and the provisions for

²¹³ NARA, RG56, volume NND978028, Text of Mr Emminger’s Remarks at Luncheon, Shoreham Hotel, September 27, 1966.

decision making, were also among the open issues.²¹⁴

In conclusion, during this period, France insisted on the necessity for the Americans and British to correct their deficit and the central monetary role of gold in the IMS. These questions were hotly debated by the principal western countries. At the same time, even though France showed a strong position on the international monetary issues, it looked for cooperation among the Six and the Group of Ten, revealing the diversity of policies and considerations of the French government, especially their respective opinions inside the French Economy and Finance Ministry.

III. French-American meetings in the ministerial level, 1965-1966

In the era of General de Gaulle, especially since the mid-1960s, French public attacks on the present international monetary system were a significant irritant in Franco-U.S. bilateral relations and caused some tension in multilateral discussions. The accusation was motivated at least partly by the French's political desire to strike new blow for "independence" from the United States,²¹⁵ and partly by the interaction with other domains, like French-U.S. disputes on the Vietnam War and on the organization of the NATO. Meanwhile the personal meetings between Presidents Johnson and de Gaulle was rare, which deepened the misunderstanding between the two governments as well.

2.3.1. The overall relationship between the United States and France in 1965-1966

U.S.-French relations were rapidly deteriorating on a variety of critical fronts in 1965 and 1966, including the NATO and nuclear issues, the Vietnam War, the different attitudes toward the Soviet Union and China, and the personal relationship between the two heads of States. De Gaulle ever said that he did not get on well with President Kennedy, who seemed to have a grand design of his own and was not in agreement with the views of General de Gaulle.²¹⁶ Johnson and de Gaulle's personal relationship was even worse, during whose tenures, they only met twice - at

²¹⁴ Ibid.

²¹⁵ *FRUS*, 1964-1968, Vol. XII, doc.45, Telegram from the Embassy in France to the Department of State, March 11, 1965.

²¹⁶ *FRUS*, 1964-1968, Vol. XII, doc.32, Memorandum From the President's Special Assistant for National Security Affairs (Bundy) to President Johnson, June 1, 1964.

Kennedy's and Adenauer's funerals. These conflicts contributed to the overall aggravation of the bilateral relationship, which had an interactive impact with the negotiations of the international monetary affairs.

1. NATO and nuclear issues²¹⁷

The United States and France's contradictions in the military arena had existed for a long time. In September 1958, the de Gaulle government even proposed to reform the military organization by introducing a "tripartite" directorate, whereby the United States, Great Britain and France worked on an equal way to discuss military and nuclear strategies. In de Gaulle's project, this was an organization far beyond the NATO, but due to this element, the proposal was finally refused by Eisenhower and Macmillan. The anti-American actions of the de Gaulle government, especially French-U.S. military relationships in the framework of the NATO, were not a one-step process.²¹⁸ As early as 1959, France had already withdrawn its Mediterranean naval fleet and refused the presence of American nuclear weapons on its territory.

Although the line was gradually drawn by the de Gaulle government, the French did not give up hope of a discussion with the United States and Britain to reform the structure of the NATO. Even in 1964, the French President repeated his desire "to bring about structural changes in the NATO— as distinct from the Alliance—" which "really involved a destruction of the existing structural organization of the Treaty, including SHAPE and all its varied functions, the command structure, the assignment of forces, infrastructure, and in short any aspect of the NATO which contained elements of integration."²¹⁹ De Gaulle's proposition was always ignored by the Anglo-Americans; the contradictions accumulated and eventually broke in 1965 and 1966.

According to an explanation by de Gaulle and Couve de Murville, the reasons why France had retreated from the NATO were due to France's insistence on the

²¹⁷ A huge amount of works talked about the conflicts of the two countries regarding NATO and the military relations, such as : Philip G. Cerny, Anne Krief (traductrice), *Une politique de Grandeur, aspects idéologiques de la politique extérieure de De Gaulle*, (Paris: Flammarion, 1986), 205-214. Maurice Vaïsse, Pierre Melandri and Frédéric Bozo, eds., *La France et l'OTAN 1944-1966* (Paris: Complexe, 1996), et Maurice Vaïsse, *La grandeur, politique étrangère du général De Gaulle, 1958-1969* (Paris : Fayard, 1998); Sebastian Reyn, *Atlantic Lost, The American experience with De Gaulle, 1958-1969* (Amsterdam: Amsterdam University Press, 2009), 249-306.

²¹⁸ Withdrawal of the French Mediterranean fleet; refusal of the presence of American nuclear weapons in France (1959); non-reassignment to the NATO command of diversions withdrawn from Algeria (1962); non-allocation of French forces to the "defense of the front" set up by SACEUR along the iron curtain (1963); withdraw from the French Atlantic fleet (1964). see *La France et l'OTAN*, 332.

²¹⁹ *FRUS*, 1964-1968, Vol. XII, doc.42, Telegram From the Embassy in France to the Department of State, January 5, 1965.

necessity to reform the military organization. When he met with U.S. Ambassador to Paris, Bohlen, de Gaulle pointed out that the current situation had changed a lot, since the Russians had ceased to be menacing and the Germans had begun to have pretensions and become more demanding. The alliance was one thing while the organization was another. Alliance could be preserved without a treaty, and great events and great decisions were made in the time of war; in time of peace there was nothing but political intrigue.²²⁰ This represented de Gaulle's thinking about the change of international environment and the French-U.S. relationship in the 1960s. Later, in the interview, Couve de Murville repeated de Gaulle's points of view: at the peacetime, it was unnatural to place officials, generals from all the countries of the alliance under the direction of a single leader. He also mentioned the difference between the definitions of "alliance" and "organization": the alliance was a treaty which united all the member countries and protected member countries from an unexpected attack, whilst an organization was a completely different thing not needing to exist permanently, especially since the French were not the master of themselves. Couve de Murville then explained clearly that: "We want to be independent. We want to be masters at home...The United States is an essential element, the leading element of the Atlantic organization, and as soon as we do something about this organization, it seems to be done against them ... but we do it because we think that it corresponds to the national interest for which we are responsible."²²¹

The Franco-U.S. differences in the military domain was one of the main topics between these two countries. De Gaulle's government evaluated that the current military organization could not need the world development, and the commanding rights could not be owned by one nation. France pursued its independence, and what they tried to prevent was "the political or military institutionalization of U.S. presence in Europe after the military necessity has disappeared and consequently the forces themselves withdrawn."²²²

The Americans also realized that their military forces could not stay in France permanently. Before 1966, they had already retreated their troops and closed some

²²⁰ DDRS, CK 2349422960, De Gaulle's "Attack" on the Atlantic Alliance, Oct. 28, 1965.

²²¹ AN, Fond Debré, 4DE-9, Interview radiodiffusée donnée le 6 avril 1966 par Monsieur Couve de Murville Ministre des Affaires Etrangères au poste Europe No.1.

²²² *FRUS*, 1964-1968, Vol. XII, doc.42, Telegram From the Embassy in France to the Department of State, January 5, 1965.

installations in France. They estimated that the French challenge to the Alliance was disruptive. One negative effect was that other countries shared in the passivity and apathy to the Alliance: “It would be hard to get many of the signatory countries to sign a NATO Treaty today and the French attitude is at least forcing a beginning of re-examination by the others of the value of the Alliance to them.” For the United States in this sense, either in the monetary domain or in the military domain, France’s actions could be harmful for the stability of the whole alliance and set a bad example to other countries. It seemed that de Gaulle’s view of Europe was incompatible with partnership with the U.S., as the Americans understood it, i.e., involving European integration and European dependence on the U.S. “His definition of Atlantic partnership is narrower than ours; de Gaulle’s view of the world and France’s role in it is based on this estimate of a decline in the relevant power of the superpowers (U.S. and USSR). The Sino-Soviet conflict does favor his objectives, e.g., intra-European political maneuvering because it increases the options open to France in world politics...”²²³

2. The Vietnam War²²⁴ and the dialogues between West and East

In light of its role as the No. 1 topic among U.S.-French foreign problems, Vietnam held a special significance. The two governments focused on two different ways to resolve the Vietnam issues. De Gaulle proposed to achieve the Neutralization of Indochina by bilateral and multilateral negotiations, not through the escalation of war, because it was more a political and psychological war. However, the Americans hoped to win in Vietnam through military means, and had deployed more forces since 1965. In his September 1, 1966 speech in Phnom Penh, compared to Cambodian neutrality, de Gaulle stated: “That is why, while your country managed to save its body and soul because it was its own master, we saw the political and military authority of the United States settle in turn in South Vietnam and, at the same time, the war is revived in the form of national resistance...”²²⁵

²²³ *FRUS*, 1964-1968, Vol. XII, doc.31, Informal Notes of Secretary of State Rusk’s Special Staff Meeting, April 24, 1964.

²²⁴ About U.S.-French debates on Vietnam, see both the works from US and French sides. For example, Pierre Journoud, *De Gaulle et le Vietnam War (1945-1969)*(Paris, Tallandier, 2011), chapter 4 l’impissance; Frank Cain, *America’s Vietnam War and its French connection* (New York: Routledge, 2017). Jonathan Colman, *The Foreign Policy of Lyndon B. Johnson, the United States and the World, 1963-1969* (Edinburgh: Edinburgh University Press,2010), 85-86; Fredrik Logevall, “De Gaulle, Neutralization and American Involvement in Vietnam, 1963-1965”, *The Pacific Historical Review*61,(1,1992): 69-102.

²²⁵ Discours de Phnom-Penh, 1er septembre 1966, available at <http://www.charles-de-gaulle.org/wp-content/uploads/2017/03/Discours-de-Phnom-Penh.pdf>, see also, Telegram From the Embassy in France to the Department of State,*FRUS*, 1964–1968, Volume XII, doc.66.

“You are the master of your body and soul”, was the consistent opinion of General de Gaulle. To put it clearer, it was: to control the destiny of one’s own country and pursue its national independence.

After 1962, De Gaulle contested that the Soviet’s danger was diminished, and the Sino-Soviet schism weakened the Eastern Bloc and that the United States was the only real superpower.²²⁶ “He unquestionably believes that the Soviet menace will progressively diminish, and that the sharp differences which exist in the ideological and organizational field between Communist states of Eastern Europe, including the Soviet Union on one hand and the nations of Western Europe on the other, will tend to disappear.”²²⁷ During 1965-1966, France and the Soviet Union looked for closer cooperation in the economic and diplomatic domains. According to U.S. analysis, it appeared that both the Russians and de Gaulle were seeking to profit from secondary, or psychological, effects of rapprochement they were cautiously exploring.²²⁸ The different understandings of the Vietnam War and East-West relationship worsened U.S.-French bilateral relations.

Beyond the infrequent personal contact between Johnson and de Gaulle, Johnson described him as “old man de Gaulle puffing through his hat”, etc.

The deteriorating U.S.-French relationship made Americans very upset. According to historical documents, from 1965 to 1966, the U.S. Department of European Affairs held intensive meetings to discuss de Gaulle’s anti-U.S. policies and the actions they could take to weaken the embarrassing effects and prevent other allies from imitating the French. The Americans found themselves in a dilemma: accept, as of yet, imprecise French ideas, or find ways of continuing without France. The Johnson administration evaluated that they did not have much leverage with France neither before nor after the election, this reflected in their awkwardness toward the de Gaulle administration, even though “European affairs were always their first concerns.”²²⁹

President Johnson said that Europe remained the center of his foreign policy, but it was hard to prove that Europe was the “heartbeat” while they were expending so much blood and treasure in other parts of the world. Ambassador Stevenson suggested

²²⁶ Maurice Vaïsse, *La grandeur...*, *op.cit.*, 363.

²²⁷ *FRUS*, 1964-1968, Vol. XII, doc.42, Telegram From the Embassy in France to the Department of State, January 5, 1965.

²²⁸ *FRUS*, 1964-1968, Vol. XII, doc.46, Telegram From the Embassy in France to the Department of State, April 24, 1965.

²²⁹ NARA, RG59, volume NND989736, European Political unification and Defense, May 19, 1965.

that the Johnson administration reconsider their policies, not as to whether they were good in the past, but to reassess them in light of present conditions. He suggested that the Americans should listen, watch, and wait without taking any action now in regard to the European situation: “Our interests with Europe are common: vis-a-vis the Communist world and the ‘new emerging forces’ of the less developed countries...But what can we do to make our common interests more effective? There are three stages : stage one— greater political consultation, that is, exchange of views, in the NATO; stage two— harmonization adjustments; stage three— concert of policies to achieve common ends.”²³⁰

The above analysis showed that French and U.S. governments’ thinking was quite different. France had hardened their attitudes since 1965, meanwhile the United States had no choice but to face their anti-American actions. The Americans hoped to avoid the head-on confrontation with the de Gaulle government, however embarrassing situations still occurred. These included a press conference, where de Gaulle publicly brought up the hegemony of U.S. dollar, and accused them of withdrawal from the NATO command organization.

When it came to negotiations, they had to be prepared. At the monetary level, high-level economic exchanges had been relatively frequent since 1965. Regardless of whether the outcome of the consultations was-- good or failed-- in brief, the United States and France had a new understanding of each other and formed a new pattern of getting along with each other.

2.3.2. U.S.-French bilateral talks on monetary issues 1965-1966

From 1965 to 1966, as discussed before, there was not much direct contact on the presidential levels. U.S.-French discussion about international monetary issues was limited to the financial circles, such as the visit of U.S. Secretary of the Treasury to Paris, or the French Finance Minister’s visit to Washington.

As early as the last months of 1964, the Americans had already found it unpromising to talk with the French in regard to monetary matters. Valéry Giscard d’Estaing clearly told Dillon that the obstructive position of the French government was approved by President de Gaulle. Even the Finance Minister was unsympathetic

²³⁰ NARA, RG59, volume NND 989736, Atlantic Affairs conference, May 17-21, 1965.

toward this strong attitude, and “particularly Foreign Minister Couve de Murville, had wanted to take an even tougher stand against the dollar.”²³¹ At the end of 1964, Dillon reported to President Johnson that the French government would approximately double their regular monthly taking of gold from the United States, increasing the figure to about \$65 million.²³² Their negotiations on debt prepayment was also in trouble.

Since the press conference of de Gaulle in February 1965, the problems escalated. In these limited bilateral exchanges, it was clear that the two sides could not reach an important consensus on the reform of the IMS. Both of them were only testing the bottom line of one another, and the United States was trying to persuade the de Gaulle government to accept the establishment of international new liquidity.

In different world occasions, the U.S. deputies tried to insist on their effort to correct the deficit of the balance, and the necessity of introducing a new asset. During the American Bankers Association meeting, held in Princeton from March 17 to 19, 1965, with the participation of representatives of Guindey and René Larre, the U.S. chairman of Federal Reserve Martin made a noticeable statement about the actions taken by the Johnson administration. He specifically mentioned that the Americans should not blame General de Gaulle where the Americans themselves were guilty and said that no country should have to keep more dollars than it wanted to hold. He then said that international liquidity was not insufficient but superabundant, that a revaluation of gold would cause the general rise in prices and he concluded that the origin of the French proposals was due to a lack of confidence in the Americans' ability to redress their own situation.

President of the Bank of Italy Guido Carli replied that the return to the "gold standard" could only lead to disappointments. And the return to the pure "gold standard" and the rise in the price of gold did not attract the attention of the conference permanently. But the Europeans insisted on the necessity of forming a unified front.²³³ At this meeting, the proposal for gold appreciation or return to the gold standard was completely isolated.

In July, 1965, Valéry Giscard d'Estaing met U.S. Under Secretary of the

²³¹ DDRS, CK2349021854, Memorandum for the president, May 26 1964.

²³² *FRUS*, 1964-1968, Vol. XII, doc.40, Memorandum from Secretary of the Treasury Dillon to President Johnson, December 23, 1964.

²³³ CAEF, B0069897, La réunion de l'association des Banquiers américains à Princeton (18 et 19 mars 1965), le 23 mars 1965.

Treasury for Monetary Affairs Frederick Deming in Washington. The topics that most concerned them were still the international payments situation and the reform of the IMS. Valéry Giscard d'Estaing pointed out that the French were continuing to experience heavy inflows of foreign exchange. If this trend continued, it had been decided at the beginning of the year that the Bank of France would continue, as in 1964, to purchase 30 tons of gold every month and then in the following month would adjust its purchase to make up the difference between the 30-ton minimum and the actual growth of reserves during the month in question. Then they talked about the situation of pound-sterling. What Valéry Giscard d'Estaing proposed was that the French did the best to help with the British. "Now it was up to those upon whom fell the major responsibility for the functioning of the present system—namely, the reserve currency countries—to accept that responsibility and decide how they wanted to deal with the problem."²³⁴

Behind this, Valéry Giscard d'Estaing implied that the Americans should also make efforts to reduce the deficit of balance of payments. The reform of the IMS could not be carried out in a turbulent environment.²³⁵ This conversation then contributed to some possibilities, such as sterling's devaluation and France's future responses, etc. Deming admitted that the U.S. Government had no specific "plan" for reforming the monetary system. It had been considering the problem, and was continuing the exchange of views with the other countries principally concerned.

In the dialogue between Valéry Giscard d'Estaing and Fowler in August 1965, Fowler also confirmed that they had no hard, fixed conclusions to offer, as the government was in the process of exploring the pros and cons.

During this meeting, both sides exchanged their point of views profoundly, and made their divergences and convergences much clearer. At this time, the French had not changed their views on the judgement that there was enough liquidity in the world at that moment²³⁶ and for the immediate future. They deemed it necessary to create a system of multilateral exchange of information, a role carried out in WP-3,²³⁷ and agreed for a moderate increase in IMF quotas. The figure was 25%.

The French position could be summarized as four points:

²³⁴ *FRUS*, 1964-1968, Vol. XII, doc. 50, Memorandum of conversation, July 8, 1965.

²³⁵ *Ibid.*

²³⁶ The summer of 1964.

²³⁷ About the group of WP-3, see more on Floriane Galeazzi, *Le rôle des experts du Groupe de Travail n.3 de l'OECD, La France et la réforme du système monétaire international(1961-1987)*, (Rouen: Phd dissertation of Université de Rouen, 2015), under the direction of O. Feiertag.

- “1. The direct linkage to gold is basic. It is necessary to have a close link with gold.
2. The creation of additional monetary through credit must be done only by countries which maintain strict monetary discipline.
3. The IMF cannot be put aside. But decisions on these matters cannot be taken in the IMF. The real role of the IMF is to finance deficits. It should have adequate resources but not deal with the creation of liquidity.
4. There is also the problem of how the system should be constructed. Rules for making decisions should not have the effect of paralyzing the system. On the other hand, there should be a means for each country to have its voice heard.”²³⁸

Valéry Giscard d'Estaing also said that the French has not rigidly fixed their attitudes, the discussion was still open and they were always ready to prepare for the future talks between France and the United States, and Europe-the United States.

In June 1965, French ambassador to Washington Alphand commented that de Gaulle did not know much about gold or international monetary matters, he had just Rueff guiding him: “What he has asked for, I believe, is not a return to the Gold Standard as much as he has asked the allies to look for a better standard than what we have now.”²³⁹

In September 1965, Fowler and Deming came to Brussels and met the EEC Commission vice president Marjolin. Fowler again emphasized the need to add international reserves “since sooner or later a lack of adequate additions to reserves was bound to slow down the growth of international trade and economic prosperity.” Marjolin stressed that additional liquidity should not be created just to help countries in deficit, though a shortage would show up in particular countries. Marjolin expressed his satisfaction with the improvement of U.S. balance of payments position. He felt that the maintenance of a balance in U.S. payments was the greatest contribution the United States could currently make to international liquidity. Fowler indicated that the purpose of his trip was to consult with his colleagues. He did not

²³⁸ DDRS, CK2349518981, Summary of a meeting between French Minister of Finance Valéry Giscard d'Estaing, Secretary of the Treasury Henry Fowler and various U.S. and French government officials regarding the state of the international monetary system, August 31, 1965.

Summary of a meeting between French Minister of Finance Valéry Giscard d'Estaing, Secretary of the Treasury Henry Fowler and various U.S. and French government officials regarding the state of the international monetary system, United States: Department Of The Treasury, 1965.

²³⁹FRUS, 1964-1968, Vol. XII, doc.49, Memorandum from Horace Busby of the White House Staff to President Johnson, June 10, 1965.

have a substantive program as yet, but wanted to hear the points of views of his colleagues both on procedure and substance before the U.S. arrived at a definite position itself. Marjolin indicated that he, too, had not yet made up his mind as to what was feasible and desirable regarding the reform of the international monetary system.

An interesting fact worth noting is that although the Secretary of the Treasury had reported to the Johnson Administration in 1964, there was difficulty communicating with France. However, the French and the U.S. had not given up on the possibility of negotiations. In their following negotiations, the two sides maintained a cautious attitude and each claimed that they did not form a completely affirmative plan. The French ambassador even ridiculed de Gaulle's unfamiliarity with international monetary affairs. He only had Rueff on his side. The implication was that other officials in the French government intended to contact the United States. But since 1966, as the NATO issues dominated the quarreling table between the two sides, their monetary relations had become increasingly politicized. France regarded the currency issues more as a means of confronting U.S. hegemony. For example, in the meeting of Wilson and Johnson, the British Prime Minister mentioned that due to the vulnerability of Anglo-American currencies, they became the attacking target of the de Gaulle government. "The French have acted in this sense by selling sterling at the time of the bombing near Hanoi and Haiphong; in doing this they were really aiming at the United States. Secretary Fowler said that the only rationale for French policy on gold is a political one. The events at the Hague meeting indicated that we have to keep the pressure on the Dutch, Italians, Germans and Belgians to hold them firm in connection with the French. The Prime Minister said the French policy in economics was the policy of Rueff, which is outdated and, in fact, was outdated before 1931."²⁴⁰

Conclusion of Chapter II

1965 and 1966 were two years that observed the deterioration of the U.S.-French monetary relationship. Both of the two governments had taken a proactive approach to defend their own interests in the international monetary arena. Being neglected by

²⁴⁰ DDRS, CK2349486176, Summary of a meeting between President Lyndon B. Johnson and British Prime Minister Harold Wilson concerning the international monetary situation. Department Of State, 29 July 1966.

the Americans on the proposition of CRU, the de Gaulle government quickly reacted by launching a series of fierce actions against the dollar's hegemony. As counterattack, from the second half of 1965, the United States advocated an open discussion on the creation of new reserves. U.S.-French "battle" in the monetary domain was intense, and there were multiple factors contributing to this situation:

First of all, the alternation of U.S. governments brought about changes in the U.S. external and international situation, such as the active participation in the Vietnam War, and the Great Society programs,²⁴¹ which have, to a great degree, led to an increase in inflation rate domestically and capital outflows overseas. Those changes brought about further changes in the U.S. diplomatic and monetary relationship with France. The French criticized that due to the inflation policy and the deficits in balance of payments, the IMS bearded so much turbulence.

The second element existed in the alternation of positions in de Gaulle government (Michel Debré replaced Valéry Giscard d'Estaing as Finance minister) and France's economic growth during these years. Debré adopted a Gaullist strategy in the monetary domain and had a significant difference from that of Valéry Giscard d'Estaing. The economic growth permitted de Gaulle to adopt a more independent international economic and financial policy.

Since the beginning of the 1960s, France perceived the IMS as having an irrational structure. Its unfairness and instability were related to the privileged currencies supported by their issuing countries. But why there was not a "monetary revolt" before 1965? According to the explanation of the ancient Secretary General of the National Council of Credit Pierre Esteva, thanks to the openness and understanding of President Kennedy and Secretary of the Treasury Douglas Dillon, the Americans relatively welcomed French propositions, the French government could well participate in the game of international negotiations from 1960 to 1964. France had hoped for a long time that a major effort would be made to reform the SMI in depth, but ever since mi-1965, it practically gave up hope of convincing its partners to engage in the actions as radical as those proposed by the General. In the meantime, U.S. position was stiffened as soon as they felt that the Ten's negotiation,

²⁴¹ See more about the Great Society programs on Joshua Zeitz, *Building the Great Society : Inside Lyndon Johnson's White House* (New York: Viking, 2018); Randall B. Woods, *Prisoners of Hope, Lyndon B. Johnson, the Great Society and the Limits of Liberalism*(New York: Basic Books, 2016). Jeffrey W. Helsing, *Johnson's War/ Johnson's Great Society, the Guns and Butter Trap*(London: Praeger, 2000). In Helsing's book, the author shows us how the military decisions regarding Vietnam and domestic and economic policies such as the Great Society mutually affected each other ,3.

particularly the plan to create a gold-related reserve unit, could become a war machine against the dollar.²⁴² The conflict between the two nations was inevitable.

Influenced by the strong position of the de Gaulle government, the Banque de France, including the French representatives in the European Community, was placed in an awkward situation. In spite of the willingness to cooperate with other central banks in the level of the European Community to solve the so-called "lack of liquidity", the reality was that from the diplomatic and political perspectives, French central bank was deeply affected by de Gaulle's adoption of a more proactive anti-U.S. monetary policy.

The third remark was the interaction between the currency matter and other issues. In regard to the press conference of de Gaulle in February 1965, the *Times* commented that the General's statements on the gold standard and the inadequacies of the Gold Exchange Standard System were clearly political. The available financial means had been used, but for the achievement of a political objective: the adjustment of the balance between America and Europe. The current international monetary system allowed the United States to gain political goals far beyond its capabilities. Therefore, the French government had to put forward its proposition to return to the gold standard system to end such a *statut quo* which was harmful to the world but beneficial to United States. Since 1966, it was much more evident to find that the de Gaulle government had combined the monetary issues with other French-U.S. divergences. "French public attacks on the present international monetary system on ground it gives special position to dollar and unjustified advantages to United States are a significant irritant in our bilateral relations and cause us some difficulty in multilateral discussions."²⁴³ But the Johnson administration still tried to avoid a serious direct conflict with France. The door of dialogue was always open to France. It was shown that the United States did not want to have a public dispute with France, nor did it want to make any decision that could become targets of de Gaulle. The Johnson administration was extremely cautious when it got along with France. In the National Security Action Memorandum (NSAM) No. 336, George Bundy specially stated that all addressee agencies should take special measures to prevent U.S. activities in France which could needlessly embarrass United States relations with

²⁴² Pierre Esteve, "Les relations monétaires extérieures de 1964 à 1966," in Institut Charles de Gaulle, *De Gaulle en son siècle...op.cit.* Tome III, 152.

²⁴³ *FRUS*, 1964-1968, Vol.XII, doc. 45, Telegram from the Embassy in France to the Department of State, March 11, 1965.

France,²⁴⁴ as to not expose alliance's disharmony to others.

The French-American relationship between 1965 and 1966 could be surmised as "talks within the conflicts". It was true that strains and tensions have loomed large throughout the entire history of the Western alliance,²⁴⁵ especially that the Franco-U.S. relations occupied the most time of Johnson and de Gaulle administrations, but no doubt, the two sides belonged to the same camp, whether there were disputes on military or monetary issues, their mutual communication was never interrupted, which foreshadowed the relaxation of France and the United States relations in the years to come. For example, when the May 1968 riots broke out, the United States gave prompt support to the de Gaulle government. Thus we could never underestimate the divergences of interests between France and the United States, nor could we exaggerate their worsening relationship in 1965-1966.

²⁴⁴ *FRUS*, 1964-1968, Vol. XII, doc. 51, Nation Security Action Memorandum, No.336, August 6, 1965.

²⁴⁵ Anna Locher, "A crisis foretold, NATO and France, 1963-1966), in Andreas Wenger, Christian Nuenlist, and Anna Locher, ed., *Transforming NATO in the Cold War, challenges beyond deterrence in the 1960s...op.cit.*, 107.

Chapter III Confrontation and cooperation, U.S.-French monetary and political relations in 1967-1968

In the years of 1965 and 1966, U.S.-French relations were severely tested. The disagreement over the structure of NATO finally led the French government to withdraw from NATO's command integration; because of the divisive opinions in the currency field, de Gaulle publicly accused the US dollar of hegemony.

However, in spite of a lack of agreement between the two governments on some of the basic questions confronting the people of the world, the communication between both sides were never interrupted. The last two years of the Johnson and de Gaulle administrations witnessed a complex relationship between the two countries: on one hand, there existed competitions and criticism, and on the other hand, both of them helped each other in the emergent periods, such as the months after the gold crisis in 1968, when France stopped their conversion of gold to dollars; in face of the upheaval in May-June of 1968, the United States gave cordial support to the French authority. In a meeting between Charles Lucet and Eugene Rostow, the French ambassador in Washington appreciated the actions and statements of the Americans during the French monetary crisis in November. And the Americans suggested that the de Gaulle government could take a new look at the SDRs proposals since the French position on this question was not fixed yet.²⁴⁶

To compared with the previous years, if the years of 1965 and 1966 could be defined as a chaotic period in the after-war history of the bilateral relationship, then 1967 and 1968 would be described as a revival of the U.S.-French alliance. This chapter will show the perplexing relationship between the two countries. The two countries could be analyzed by their reactions to the monetary issues and how this played out in other domains.

I. The troubled situation inside and outside the US government in the last two years of the Johnson administration, 1967-1968

Between 1967 and 1968, the domestic and international status of the United

²⁴⁶ DDRS, CK2349142390, Memorandum regarding a meeting between Eugene V. Rostow, Under Secretary of State for Political Affairs, and Ambassador Charles Lucet regarding France's economic stability and its relations with West Germany, 25 Nov. 1968.

States faced severe challenges. The programs of the “Great Society” did not bring about social prosperity, but on the contrary, domestic unemployment and inflation rate remained high. In addition, due to the Vietnam War, U.S. overseas spending continued to grow. The government could only reduce the capital outflow by implementing temporary austerity policies such as voluntary programs, interest equilibrium tax, etc. Thanks to these restrictive policies, the US balance of payments deficit had improved to some extent - the balance of payments deficit in 1966 was half of that of 1964 and one-third of that in 1960.

On December 13, 1966, Fowler announced the administration’s balance of payments program for 1967, which included the continuation of the Department of Commerce’s Voluntary Cooperation Program for U.S. business corporations and financial institutions: “the overall objective in 1967 should be to continue to move toward balance-of-payments equilibrium as fast as the continuing foreign exchange costs of Vietnam permit”. To achieve these goals, a continued and determined program was required to restrain both the Government overseas expenditures and private capital flows.²⁴⁷ Since then, the US’ international economic policy has been implemented for achieving this goal. Besides, the United States continued to negotiate with the FRG on the signing of the offset agreement. The United States promised to continue to pay for the maintenance of the free world security, but would continue to distribute the burden to other countries.

Closely related to international economic issues was the reform and stability of the international monetary system. In March 1968, the Gold pool was finally collapsed; the United States vigorously promoted the creation and promotion of Special Drawing Rights, and attached great importance to it. These two years were of great importance in the history of the international monetary system after the second world war, and the international economic and monetary policies of the Johnson administration directly affected the stability and development prospects of the world economy.

3.1.1. The Johnson government’s balance of payments plan in 1967-1968

In early 1967, President Johnson made it clear in his annual economic report that

²⁴⁷ *Annual Report of the Secretary of the Treasury on the State of the Finances*, June 30, 1967, (Washington D.C. United States Government printing office, 1968), 326.

the goal of the United States that year was to achieve equilibrium in the balance of payments, by limiting the dollar drain. This proposition was consistent with the statement from the Secretary of Finance, Fowler. They proposed several measures, such as: extending the Interest Equalization tax, in strengthened form, to July 31, 1969; soliciting foreign visitors; requesting continuation and expansion by \$4.5 billion of the lending authority of the Export-Import Bank in order to support the expansion of exports; continuing to urge other countries to participate in the development of better means sharing the resource burdens and neutralizing the balance of payments effect arising from the common defense and foreign assistance efforts.

In reference to the international monetary system, Johnson stressed that all countries should continue to participate in the negotiations to strengthen the monetary arrangements; surplus and deficit countries should assume their full responsibility for proper adjustment of international payments imbalances, and cooperate in efforts to lower the world interest rates; full agreement should be reached on a constructive contingency plan for the adequate and orderly growth of world monetary reserves. He particularly regarded the agreement on international monetary reform as a matter of increasing urgency, and pointed out that the Common market had a tendency of turning inward. “In the interest of a growing and healthy international economy, we hope that this tendency will be arrested.”²⁴⁸

The above reports fully showed the direction of the U.S. international economic and monetary policies in 1967, namely: 1. Controlling the capital outflow with the intervention of the U.S. government by extending the IET and continuing the Department of Commerce’s Voluntary Cooperation Program; 2. Reforming the international monetary system by increasing new reserves to meet the needs of international economic growth; 3. Continuing to require allies to adjust the balance of payments, and share the burden of the U.S. military overseas and aid spending.

With regard to the first point, as early as January 1967, the Secretary of Finance had proceeded to submit a draft to extend IET. It was urgent because the IET was about to expire on July 31, 1967. The fact had proven that the IET was extremely useful in holding down U.S. balance-of-payments deficit by limiting new foreign borrowing in U.S. capital markets, and limiting purchases by U.S. residents of

²⁴⁸ 1967 joint economic report, report of the Joint economic committee congress of the United States, march 17, 1967(Washington D.C.: US government printing office, 1967), 4.

outstanding foreign issues.²⁴⁹ IET was also an important supplement to the voluntary credit restraint program, by deterring borrowers in developed countries from even applying for long-term credits at U.S. banks and other financial institutions. “The effect of our overall program to moderate private capital outflows has been greatly reinforced by the tightening of U.S. monetary and credit conditions...the IET is required as a means of keeping the outflow of U.S. capital within acceptable limits from the viewpoint of the U.S. balance of payments equilibrium.”²⁵⁰

However, despite the increase in international trade and the implementation of the restrictive measures mentioned above, the US balance of payments deficit in the first three quarters of 1967 reached \$1.7 billion, far higher than those in the 1965 and 1966. The reasons were complex. First of all, a run by private speculators domestically and abroad could quickly pour billions of dollars into the hands of foreign central banks. Secondly, a renewal of speculation on a hike in the gold price forced the U.S. authorities to part with up to \$320 million of gold in a week to support the price in the London market. Thirdly, the U.S. overseas spending rose more than 500 million in 1967. Based on these factors, the Department of State put forward a stronger plan about the balance of payments, which could be concluded as: 1. Border tax adjustment— a tax of 2 percent or more on imports and an equal subsidy on exports. 2. A per diem tourist tax 3. A major tightening of the commerce program on direct investment - still leaving it voluntary - designed to save over \$1 billion and to ensure greater cooperation through better administration 4. A set of offset negotiations to get other countries to bear a greater share of the foreign exchange costs of our troops abroad 5. A tightening of the Fed voluntary programs for banks and financial institutions from the program already announced for 1968. This comprehensive plan should be worth several hundred million.²⁵¹

On December 31, 1967, President Johnson officially announced the US balance of payments plan for the year of 1968. Both temporary and long-term measures were included:

“1. Direct investment — To reduce our balance of payments deficit by at least \$1 billion in 1968 from the estimated 1967 level, I am invoking my

²⁴⁹ *FRUS*, 1964-1968, Volume VIII, doc.117, Current Economic Developments, January 31, 1967.

²⁵⁰ DDRS CK2349482910, Paper regarding the need to extend the Interest Equalization Tax (IET), a tax designed to restrict foreign debt issues sold into the U.S. market. This tax stimulates the development of European capital markets by deflecting foreign demand for long-term credit, Dec.21, 1966.

²⁵¹ DDRS, CK2349423606, A memorandum to the President from Gardner Ackley, Chairman of the Council of Economic Advisers, is transmitted and the history of US balance of payments deficits reviewed, Dec. 22, 1967.

authority under the Banking laws to establish a mandatory program that will restrain direct investment abroad.

2. Lending by financial institutions — To reduce the balance of payments deficit by at least another \$500 million, I have requested and authorized the Federal Reserve Board to tighten its program restraining foreign lending by banks and other financial institutions.

3. Travel abroad— I am asking the American people to defer for the next two years all non-essential travel outside the Western Hemisphere; I am asking the Secretary of the Treasury to explore with the appropriate Congressional committees legislation to help achieve this objective.

4. Government Expenditures overseas — recently, we have reached important agreements with some of our NATO partners to lessen the balance of payments cost of deploying American forces on the Continent— troops necessarily stationed there for the common defense of all... I believe we should set as our target avoiding a drain of another \$500 million on our balance of payments.

5. Export increases — I shall ask the Congress to support an intensified five year, \$200 million commerce department program to promote the sale of American goods overseas. I shall also ask the Congress to earmark \$500 million of the Export-Import Bank authorization to:

- provide better export insurance
- expand guarantees for export financing
- broaden the scope of Government financing of our exports

6. Non-tariff barriers— in the year immediately ahead, we expect to realize an improvement of \$500 million.

7. Foreign investment and travel in the US.”²⁵²

Besides this, Johnson emphasized the importance of the introduction of the SDRs, which was for a long time regarded as a supplementation to gold and dollars, and could strengthen the gold exchange standard.

Soon after the announcement, Under Secretary of the Treasury, Deming, went to Europe to explain the US’ new balance of payments plan and observed their respective responses. The policies contained the border tax, the tourism program, the

²⁵² DDRS, CK2349174203, Message to the nation by Johnson on the balance of payments. White House, 31 Dec. 1967.

investment policy, the export expansion, and the neutralization of military expenditures abroad. His overall impression was that the US program was seen by the European central banks as necessary, courageous and “they seemed prepared to see their reserves fall somewhat and agreed that activation of the new special drawing rights in the IMF would have to come more quickly.”²⁵³ The only worries lay on the shortage of funds, credits and reserves, caused by the IET and US domestic higher interest rates; and the risks of an outbreak of protectionism, brought about by the border tax legislation. In the memorandum from Under Secretary Eugene Rostow to Secretary Rusk, Rostow suggested that more efforts should be spent on managing the adjustment between the US deficit and the EC surplus, by cutting US deficits, reducing the current surpluses for Germany and Italy, and reducing reserves on the part of France, Belgium and the Netherlands.²⁵⁴

3.1.2. US offset negotiations with West Germany, 1967-1968

On the one hand, the US suffered a continuous deficit, and on the other hand, it had to protect the surplus countries militarily. Since the Eisenhower government, the United States sought to ask Germany’s financial aid. Like their predecessors, the Johnson government always regarded German financial help as an important way to persuade the U.S. Congress to keep troops in FRG and relieve U.S. financial burdens. From 1966 to 1968, this problem was complicated by Britain’s deficit of balance of payments and their continuous threat to reduce a great amount of troops in Germany. In July 1966, Deputy national security adviser Francis Bator presented U.S. President Johnson with possible British actions to help decrease the subject country's balance of payments problems. British Chancellor of the Exchequer James Callaghan may either cut British foreign exchange spending in overseas defense or influence private British holders of US securities to sell off substantial amounts of their holdings.²⁵⁵

The Americans were sensitive with the retreat of the British force, since it would

²⁵³ DDRS, CK2349092113, Report by Katzenbach, Deming and Roth on the findings of their European trip regarding balance of payments. Major issues covered: border taxes; tourism; investment; export expansion; neutralization of military expenditures abroad; gold. White House, 7 Jan. 1968.

²⁵⁴ DDRS, CK2349071550, Memorandum from Eugene V. Rostow to Secretary Rusk on the balance of payments program; next steps after the first round of talks, 8 Jan. 1968.

²⁵⁵ DDRS, CK2349507206, Francis Bator presents President Lyndon B. Johnson with possible British decisions to help decrease that country's balance of payments problems. British Chancellor of the Exchequer James Callaghan may either cut British foreign exchange spending in overseas defense or influence private British holders of U.S. securities to sell off substantial amounts of their holdings, July 4, 1966.

affect the confidence of U.S. and Canadian troops stationed in Western Europe. On October 11, 1966, President Johnson announced that the trilateral conversations would be held by the United States, the FRG and the United Kingdom, whose purpose was “to undertake a searching reappraisal of the threat to security and— taking into account changes in military technology and mobility— of the forces required to maintain adequate deterrence and defense in central Europe.”²⁵⁶

The final objectives of the series of meetings were not only for the longstanding of the western military organization, but to help solve the U.S. and Britain’s balance of payments problems and the dollar-gold monetary system. However, the negotiations had been progressing slowly, and were influenced by the domestic situation of the FRG.

In December, Ludwig Erhard was replaced by Kurt Kiesinger. The new government then spent most of the time evaluating the trilateral conversations. During this period, Germany’s first State Secretary in political and administrative affairs, Schuetz, publicly announced that there would be no money in the 1967 German budget for offset payments beyond the current agreements.²⁵⁷ This statement created a severe problem for the British, emotionally and financially. And at the same time, the urgent task for the Americans was to appease and persuade the British to keep troops in the FRG. The Johnson government evaluated that France had already withdrawn from NATO, and the Western military camp could not afford to be divided again. The widening impact of de Gaulle’s position, and the prolonged uncertainty about US intentions with regard to Europe, had strengthened those who advocated a more independent course for Europe.²⁵⁸ Hence on different occasions, the US authorities emphasized that their troops would be in Europe “only for reasons of national security, and should be shifted only if considerations of security justify such a change... for these reasons, we do not favor reductions in the effectiveness of NATO military.”²⁵⁹

The Secretary of State, Dean Rusk, also warned that the United States could not

²⁵⁶ “Statement by the President on the Forthcoming conversations between Washington, London, and Bonn”, October 11, 1966, Lyndon B. Johnson: 1966 (in two books): containing the public messages, speeches, and statements of the president. [Book 2], available at:

<https://quod.lib.umich.edu/p/ppotpus/4731549.1966.002/513?view=image&size=100>

²⁵⁷ *FRUS*, 1964-1968, Vol. XV, doc.197, Telegram From the Embassy in Germany to the Department of State, January 27, 1967.

²⁵⁸ DDRS, CK2349054460, Instructions for McCloy to use at meeting of the Trilateral Group and at the Defense Policy Committee of the NATO Council, 9 Feb. 1967.

²⁵⁹ *Ibid.*

afford either the military or the financial consequences of the collapse of NATO. In a high-level ministerial meeting, Rusk recalled the huge dollar cost of the 1961 Berlin crisis. He said that cutting US forces in Europe would hand the Republicans an issue in the next election. He suggested the Johnson Administration exert maximum pressure on both the Germans and the British to close the \$40 million gap themselves, and favored a Presidential letter to German Chancellor Kiesinger. Johnson then told John McCloy, U.S. President's envoy, that he wished for him to tell the Germans that he was under strong Congressional pressure to cut two divisions. However, he would try to contain the cut to one division. It was necessary to make the Germans do more. McCloy replied that he could convince the Germans to accept a one division cut. He thought Kiesinger understood that the fundamental problem was not military but political.²⁶⁰

As a whole, from 1966 to 1968, the Johnson government persisted in its determination not to reduce troops in FRG. Even under the Congressional pressure, there was finally no division cut. As a positive feedback, the Kiesinger government agreed not to purchase gold from the US, and approved of the content in the letter from Kiesinger to Johnson, and supported U.S. policy of international monetary cooperation. The two governments also signed a new agreement about the offset problem consisting of:

— \$100 million of commercial purchases of military equipment. (in addition, the Germans probably will buy about \$250 million of government military procurement but this will be deducted from the advance payments of about \$900 million that they still have on deposit with us.)

— \$500 million in Bundesbank purchases of special four and one-half year Treasury securities

— \$125 million on commercial bank purchases of special Treasury securities.²⁶¹

When the United States, the UK and the FRG were occupied by negotiating the offset agreement, a large-scale speculation hit the pound and pushed the UK's labor government to devalue its currency in November. Following by the sterling crisis, came the gold crisis. How would the Johnson administration respond to the severe test of the International Monetary System?

²⁶⁰ DDRS, CK2349233128, Francis M. Bator's notes on trilateral meeting, 9 Mar. 1967.

²⁶¹ DDRS, CK2349072905, Memo from Ed Fried to Walt Rostow on the next steps in the German offset problem, Dec.5, 1968.

3.1.3. Gold crisis in November-December 1967 and the U.S. reaction

Due to the imbalance of international payments, and the devaluation of sterling in November 1967, the speculation on gold intensified from November 1967 to March 1968, and finally resulted in the collapse of the gold pool. The series of crises further marked the instability of the gold exchange standard and the unpromising future of the Bretton Woods system. It is beyond the scope of this thesis to attempt to retrace the history and functioning of the Gold Pool²⁶² before 1968; in this chapter we will only observe U.S. reactions to the gold crisis and its impact on the Bretton Woods system, which shed light on the U.S. monetary policy and U.S.-French relationship during that period.

The Gold Pool was established in the end of 1961, aiming to stabilize the gold price with the cooperation of central banks among the members of the Group of Ten. It worked fairly smoothly, and effectively from 1961 to the early days of 1967. Even at the beginning of November, the U.S. CIA optimistically estimated that the pound crisis would not cause a large-scale speculation on the dollar. There were still three active operations in support of U.S. dollars. The first one was that all the members in the Gold Pool had pledged not to place additional strain on U.S. gold stocks by refraining from any conversions of officially held dollars to gold. The second act of dollar support consisted of agreements to permit a substantial increase in the so-called “swap” operations among the major central banks— from \$3.15 billion to \$6.55 billion. The third act of support, promised by West Germany, the Netherlands and Belgium, consisted of central banks conducting forward dollar operations with their own commercial banks.²⁶³

The reasons why the gold market began to break up suddenly at the end of November 1967 could be summarized as a combination of internal and external reasons. First of all, there was the Wilson government’s decision on the devaluation of sterling. According to Bordo, Monnet and Naef’s explanation, the devaluation of sterling in November was an external shock that caused major losses for the Gold

²⁶² M. Bordo, Alain Naef and E. Monnet make a distinguished work on this question, see *The Gold Pool (1961-1968) and the Fall of the Bretton Woods System*, National Bureau of Economic Research, 2017. see also, B. Eichengreen, “Global Imbalance and the Lessons of Bretton Woods”, Working Paper 10497, available at <http://www.nber.org/papers/w10497>, 14-22.

²⁶³ DDRS, CK2349049071, Repercussions from sterling devaluation outlined. Central Intelligence Agency, 1 Nov. 1967.

Pool, leading to its demise, and the devaluation of sterling made a devaluation of the dollar possible.²⁶⁴

At the emergent moment, that is, the end of November 1967, a French journalist called Paul Fabra added fuel to the fire of the gold crisis. He continued to publish accurate and unsettling news about international financial developments, and this news quickly spread to public.²⁶⁵ The most stunning item was news that France had withdrawn from the gold pool months before, with the United States shouldering France's 9.3 percent share of pool losses as well as its own share of 50 percent. Many of the contents were discussed among the deputies of the members of the Gold Pool, which meant the closed society of central bankers had a large leak. Nobody knew exactly who made the leaks, but as the Americans estimated, it meant that: "a small coterie of overzealous Gaullists was attempting to push the world monetary machinery over the edge to increase the price of gold."²⁶⁶ The action of leaking negative news to the public corresponded with de Gaulle government's intentions for a long time.

The rumors also played a crucial role in this crisis. In the memorandum from the Special Assistant for National Security Affairs, Walt Rostow, to President Johnson, Rostow analyzed that it was the rumors that were responsible for the sudden rise of the price of gold. "Rumors are circulating that the price of gold will not be held on the London market. These rumors have been fed by leaks out of Paris on the operation of the gold pool and French withdrawal from the pool (which actually took place in June)."²⁶⁷

During the whole year of 1966, the Gold Pool lost about \$260 million. What was astonishing was from the devaluation of sterling to the end of December 1967, where a total loss of \$1.5 billion was seen. In January 1968, the Treasury Department compared this gold crisis with the financial crisis during 1929/1931. It was believed that the two features of the tragedy of 1929 had reappeared in 1967/68, which could be summarized as:

"(a) The weakening of demand among primary producers— today the weakness

²⁶⁴ M. Bordo, E. Monnet, A. Naef, *The Gold Pool (1961-1968)*..., art.cit.,.3.

²⁶⁵ AN, Fonds de Debré, 4DE-5, *le Monde*, 21 Novembre 1967.

²⁶⁶ DDRS, CK2349291409, Report on French actions in recent gold crisis. Central Intelligence Agency, 1 Mar. 1968.

²⁶⁷ DDRS, CK2349428344, Rumors that the price of gold would be increased were responsible for sizable gold pool losses. Federal Reserve Chairman Martin will call on US gold pool partners to support the US in a statement affirming business as usual.] Memorandum, Walt W. Rostow, Spec. Asst. to the Pres., to the President. Nov. 22, 1967.

of many material prices and the steady decline in aid threaten the same consequence.

(b) The seizing-up of the gold exchange system because Britain could not reflate for fear of losing its gold reserves, while America could not check its boom for fear of attracting too much gold. France, which Poincare as the de Gaulle of the late twenties, pushed up its reserves and hoarded gold. Demand fell away, tariffs rose, protectionism grew, and in 1929/30 world trade fell by two-thirds in nine months. Today, Britain once again is in trouble. It faces the complete loss of its reserves. France is playing only for gold. True, America can afford to check its deficit. But this only increases the risk of deflation.”²⁶⁸

Under these circumstances, the U.S. measures to fight against gold speculation became crucial to stabilize the international gold market. In mid-December 1967, the State Department made some suggestions to the President, among which, the importance was stressed on U.S. determination to hold the \$35 price per ounce gold. Both the State Department and the Treasury Department all agreed that the U.S. authorities should oppose a two-price system and should show confidence in the Gold Pool, since the main risk of such a two-price system would cause panic for the whole monetary market. “The central banks, particularly those in countries outside Europe, would be worried about their dollar holdings and would request us to convert them into gold. This could get everyone nervous, rapidly deplete our gold stock, and cause a general flight from the dollar.”²⁶⁹In addition, the State Department urged that the United States announce a strong balance of payments program within 10 days,²⁷⁰ to

²⁶⁸ DDRS, CK2349420257, The Gold Market [if the free market price of gold rises, it would be evidence that the reappeared: the weakening of demand among primary producers and the "seizing-up of the gold exchange system" because of Britain's economic troubles. A high-level banking-business task force to advise the Pres. and cooperate with European counterparts should be created, a grace period for sterling should be worked out with Britain, the Supplementary Drawing Rights scheme in the IMF should be ironed out, a working party on impediments to growth and trade among developing nations should be tabled, the "straightjacket of bullion" should be escaped, and the US should effect a transfer of technology to Europe if a disaster is to be avoided.] [Treasury Dept.?] Memorandum. Jan. 23, 1968.

²⁶⁹ DDRS, CK2349422617, Gold Problems [the gold market broke out again in the last week. This was caused by a speech by Sen. Javits, widespread talk about changes in the gold system, weakness in Sterling and the Canadian dollar, and general uncertainty about the international monetary system. The preferred response is to beat back the speculative attack. Discussions will start on possible action with other gold pool countries. If these efforts fail, other options must be considered. These include supporting the London gold market alone, letting the London price go and selling to central banks out of New York, restricting sales in London to industrial users, or suspending all gold sales]. Memorandum, Henry H. Fowler, Secy of the Treasury, to the President, March 4, 1968.

²⁷⁰ DDRS, FAYEQG239635418, In a memorandum to President Lyndon B. Johnson, National Security Adviser Walt Rostow expresses concern over the loss of \$172 million in the gold pool as of 12/14/1967. Heavier losses are expected today. Resulting from this, the U.S. will soon announce a program to cut its balance of payments deficit, Dec. 15, 1967.

indicate that the U.S. dollar would not be devalued. The Special Drawing Rights should be activated as soon as possible.

Here then came the new balance of payments program, which have already been discussed above. However, the measures did not work efficiently, and in March 1968, the speculation became worse and more frequent. During the first week of March, the Gold Pool lost about \$123 million. On March 8, the Gold Pool suffered its third biggest loss, \$179 million in one day. The chairman of the Federal Reserve, Martin, achieved agreement on the statement and the willingness to back the gold pool with \$500 million, with another \$500 million contingent, and the Europeans were prepared to close down the London gold market and let the free market price of gold float.

Once again facing the speculation in gold, opinions of the senior officials in the Johnson administration were divided in two. One proposed that the Gold Pool should be closed, and one was against the closing. The Dillon Committee²⁷¹, backed by the Treasury Department, put forward five points: “(1) The tax bill is a must. They agreed on a strong public statement which they will release next week after going over it with Fowler; (2) They are unanimously opposed to an increase in the price of gold as a way of dealing with the present crisis; (3) Most would prefer to keep the present gold pool arrangement going but they do not believe it will be possible to negotiate with the Europeans the arrangements necessary (specifically, the gold certificate proposal) to turn the market around and restore calm; (4) They, therefore, believe we will have to close the gold pool operation and let the market price go. They believe it is essential we do this in cooperation with our gold pool partners and preferably at their request; (5) They are somewhat fussy on particular plans for getting non-gold pool members to cooperate and suggest we perhaps use the IMF for this purpose. They believe we will have to act within 30 days and must have a clear idea of where we want to go and how we plan to get there.”²⁷²

Point 4 raised the problem of whether or not to close the Gold Pool. According to the Treasury Department, the Gold Pool could be closed in order to avoid losing gold, since such loss would further shake the confidence of central banks and trigger

²⁷¹ Secretary Fowler’s advisory committee, consisting of: Dillon, Bob Roosa, Walter Heller, Kermit Gordon, David Rockefeller, Edward Bernstein, Frazer Wille, Andre Mayer, and Bator.

²⁷² DDRS, CK2349428344, The Gold Issue [the Dillon Committee believes that a tax bill is a must, opposes an increase in the price of gold, and favors closing the gold pool and letting the market go. Prompt action is essential]. Memorandum, Walt W. Rostow, to the President. Mar. 9, 1968. 1 p.; (50) [Secy Fowler despairs over getting Congressional cooperation for a tax-expenditure policy. Europeans cannot understand that the Executive Branch and Congress are incapable of generating such a policy.] Memorandum, Walt W. Rostow, to the President. Mar. 14, 1968.

the conversion of dollars into gold. In addition, it would be much easier to arrange an emergency meeting of the Gold Pool countries in the days to come. However, the members in the NSC, like the Special Assistant for National Security Affairs, Walt Rostow, for example, were against this proposition. He thought that closing the market would strengthen the hand of those who believed the official price of gold would be increased. This action may then reduce the U.S. bargaining position with the Europeans and give the Americans another fling at the Gold Certificate proposal.²⁷³

It was obvious that there were different starting points for the National Security Council and the Treasury Department. The latter was more realistic. In order not to lose gold any more, the operation in the Gold Pool could be stopped. The NSC considered more about the political consequence and international influence of this action. If the Gold Pool was closed, then “speculators would become more confident the US would have to raise the official price for gold and see gold as an attractive investment...if the Gold Pool closed, the London price would go up substantially, because, under current conditions, speculation would feed on itself.”²⁷⁴

Rostow therefore offered three ideas to the President, and listed their respective advantages and disadvantages:

- to soon create an international paper reserve to substitute for gold and provide regular additions to liquidity;
- or, to raise the price of gold and provide a one-shot addition to liquidity;
- or, to abandon the system of stable exchange rates altogether.²⁷⁵

He supported the first measure, but it required the full cooperation of all industrial countries. “The key to the success of this policy is keeping speculation in check”. Therefore he proposed two additional measures to strengthen the Gold Pool operations: asking the Gold Pool partners to agree to U.S. gold certificate proposal; gradually changing the rules under which the Gold Pool bought and sold gold in London so as to put the speculator under greater risk.²⁷⁶

According to Rostow, embargoing gold was the most dangerous way. It was true that the US would be insulated from speculation on gold and, in part, from the

²⁷³ Ibid.

²⁷⁴ DDRS, CK2349428344, Where We Are on Gold [the problem for the international monetary system, created by pressures on the US gold stock, is outlined. Three policy alternatives for the US are weighed: to maintain present policy, to close the gold pool and let the London price go up, and to embargo gold]. Memorandum, Walt W. Rostow, to the President. Feb. 14, 1968.

²⁷⁵ Ibid.

²⁷⁶ Ibid.

pressure of the outstanding dollar balance, increasing its bargaining position in financial negotiations. But the disadvantages were evident: the United States would break its promise on the commitment to convert dollars to gold; the outstanding dollar balances would still exist, and would still be a threat to the United States. This situation would furthermore force a difficult choice on the European surplus countries: either to support the U.S. exchange rate and in the process accumulate more dollars, or to let the U.S. exchange rate depreciate in relation to theirs and thus improve the U.S. trade position in relation to European trade position. The world monetary market would still suffer the instability. In this regard, the Treasury Department agreed with the viewpoint of Rostow, “a gold embargo will lead to exchange rate wars and trading blocks with harmful political, as well as economic, effects. The spillover to the domestic economy could be serious.”²⁷⁷

With the common belief that the gold loss could not last for long: “the longer it continues, the more people become convinced that the price of gold will change,”²⁷⁸ and after realistic considerations, the U.S. authorities finally adopted the advice of the Treasury Department, namely, closing the gold pool operations. The Governors of the Central Banks of Belgium, the FRG, Italy, the Netherlands, Switzerland, the United Kingdom, and the United States then convened in Washington on March 15 and 16, 1968, and announced that:

“They agreed that, henceforth, gold held by central banks hold be dedicated only to effect transfers among central banks. Hence, they will no longer supply gold to the London gold market. This will stop the drain of gold out of monetary reserves into speculative hoards. They noted that there has been no change whatsoever in the commitment of the U.S. Government to buy and sell gold at the existing price of \$35 per ounce in transactions with monetary authorities, that any change in this commitment is neither necessary nor desirable, and that the monetary authorities concerned will

²⁷⁷ DDRS, CK2349422617, Gold Problems [the gold market broke out again in the last week. This was caused by a speech by Sen. Javits, widespread talk about changes in the gold system, weakness in Sterling and the Canadian dollar, and general uncertainty about the international monetary system. The preferred response is to beat back the speculative attack. Discussions will start on possible action with other gold pool countries. If these efforts fail, other options must be considered. These include supporting the London gold market alone, letting the London price go and selling to central banks out of New York, restricting sales in London to industrial users, or suspending all gold sales]. Memorandum, Henry H. Fowler, Secy of the Treasury, to the President, March 4, 1968.

²⁷⁸ DDRS, CK2349481898, Paper by Under-Secretary of State Eugene Rostow regarding a possible plan to stabilize the international monetary situation. Rostow's solution includes: end of gold losses to speculators and hoarders; preservation of the unity and flexibility of the world monetary system; high levels of employment and growth; maintenance of the price of gold at \$35 an ounce; activation of the Rio Agreement; reform of the gold pool. Department Of State, 13 Mar. 1968.

cooperate fully with the U.S. authorities in measures to support this commitment and to maintain the stability of the international monetary system.

The Central Bank Governors declared that gold now held by monetary authorities is sufficient in amount, at the existing price of gold, for the working of the international monetary system, in view of the perspective creation of SDRs. They agreed to rely on the SDRs for future additions to monetary reserves, taking into account the losses of gold from the system's reserve since the recent devaluation of sterling."²⁷⁹

The Governors' decision in effect led to two gold markets: one for official transactions just with the price fixed at \$35 per ounce, and the second for private transactions with the price freely determined by supply and demand.²⁸⁰

During the meeting in Washington, all the members agreed that SDRs should be ratified and activated by the end of 1968. The pace of the activation of SDRs was accelerated, and on March 29th and 30th, the Finance Ministers and Central Bank of Governors of the G10 gathered in Stockholm to discuss the draft amendments to the International Monetary Fund Agreement based on the consensus arrived at in the IMF annual meeting in Rio de Janeiro on September 29th, 1967: "Outline of a facility based on Special Drawing Rights." Except Debré, who doubted that the SDRs were more like reserve accounts than supplementary credit, and reserved his position on the introduction of SDRs, the other members of the Group of Ten agreed to publish a common *communiqué* which reaffirmed their determination on the creation of "paper gold", and on the cooperation in the "maintenance of exchange stability and orderly exchange arrangements in the world."²⁸¹

The gold crisis from the end of 1967 to the beginning of 1968 finally became a benefit to the United States from this perspective. This crisis allowed the United States to successfully persuade other countries to recognize the impact of international speculation on the price of gold, by suggesting the role of SDRs in stabilizing the international money market. The Johnson administration saw the Washington Gold Pool decisions and Stockholm decision as "building blocks in the development of a

²⁷⁹ DDRS, CK2349509014, Draft of Deputy to the Assistant Secretary for International Affairs George Willis' paper on the international monetary crisis in preparation for the meeting of Central Bank Governors. Problems include: gold transactions; flow of funds across exchanges and Euro-dollar market; pound sterling, 14 Mar. 1968.

²⁸⁰ *FRUS*, 1964-1968, Vol.VIII, doc.191, Editorial Note.

²⁸¹ *FRUS*, 1964-1968, Vol.VIII, doc. 193, Editorial Note.

stronger monetary system,” which brought order to the financial markets and gave the United States time to move on its fiscal and balance of payments programs.²⁸²

II. Domestic problems and the international actions taken by the de Gaulle government

France had ever played a remarkable role in the reform of the IMS, especially it was recognized that the de Gaulle government emphasized on the monetary role of gold and kept a reserved attitude toward the introduction of a new asset from 1964 to 1966. However, the limit of French power in the international monetary affair was exposed during the following years, since the SDRs was widely accepted by the international monetary authorities, France was hesitating and finally accepted it. The May-June crisis has furthermore witnessed the decline of French economic strength.

3.2.1. France’s strategy after the introduction of the SDRs

From 1967 to May 1968, France’s attitude towards SDRs experienced several changes.²⁸³At the beginning of 1967, it still repeated the cliché that gold was the ultimate reserve and the preconditions for reforming and improving the IMS were a general understanding of the “real situation between creditors and debtors.”

In the dialogue with Fowler, however, Debré admitted that there was a place in the system, at some level, for reserve currencies and other non-specified kinds of assets, and there should be suitable reform of IMF credit facilities. Fowler then referred to the CRU put forward by the French former Minister of Finance. Debré quickly responded that the French position has changed. For the world economy and monetary order, the real danger was the U.S. payments imbalance. He then made clear that he was not talking about a return to the gold standard of the last century; he was talking about a system which contained gold, plus ‘good currencies,’ plus ‘credit facilities.’²⁸⁴

Additionally, France never stopped the participation in the negotiations on the

²⁸² *FRUS*, 1964-1968, Vol.VIII, doc.194, Memorandum From the President’s Special Assistant (Rostow) to President Johnson, April 2, 1968.

²⁸³ See also, Michel Lelart, “La France et les Droits de Tirage Spéciaux,” in *La France et les institutions de Bretton Woods, 1944-1994...op.cit.*, 127-144.

²⁸⁴ DDRS, CK2349058080, Summary of 1/22/67 meeting between U.S. and French officials statements appearing in the French press about the price of gold, 6 Feb. 1967.

establishment of the liquidity scheme in the framework of Group of Ten and the IMF. This kind of participation was backed by de Gaulle himself. On February 22nd, 1967, de Gaulle approved that the French deputies to the international monetary meetings could accept an extension of the possibilities of the intervention by the IMF, provided that the status of the Fund be revised to increase the influence of the European countries, and the extension should be repayable credits instead of a new international reserve unit.²⁸⁵ In July 1967, in a conversation between Kiesinger and de Gaulle, Kiesinger mentioned that means must be found for a compromise between the views of the US and Europe on the question of liquidity. He had the impression that de Gaulle did not object to this statement, but it would be difficult for him because of the harsh statements he had made on this issue in the past. Emminger, German Deputy on the Committee of Ten, agreed with Kiesinger's judgement, he thought that a compromise between France and the United States was possible.²⁸⁶

Since April 1967, France conducted its participation at three levels: the Common market; the Group of Ten; and the franc area. By exploring the three meetings and their *communiqués*, the persistence and compromise of French government on the introduction of drawing rights could be revealed clearly.

(1) In the Munich Conference in April 1967, the Six tried to establish a European common position;

(2) In the London Conference in August 1967, Ten countries which participated in the "General Loan Agreements" developed the outline of an intervention mechanism to be submitted to the IMF Governors;

(3) In the Dakar Conference in September 1967, where France, 14 African countries and Malagasy of the Franc Zone decided to propose to the international authorities the creation of special mechanisms, in order to complete the financial assistance.

The first meeting was held by the Ministers of Finance and Economy in the Common Market. The Six admitted that a shortage of international liquidity did not exist at present, but they did not exclude the reflections on the measures to be taken in case of future needs.

This agreement meant that France admitted it necessary to create new reserves,

²⁸⁵ AN, 5AG1, volume 887, Note, le 21 Mars 1968.

²⁸⁶ DDRS, CK2349471891, West German Chancellor Kurt Georg Kiesinger meets with U.S. Ambassador George McGhee to discuss Kiesinger's conversation with French President Charles de Gaulle. Department Of State, 17 July 1967.

but the prerequisite was that the facility should be based on a better functioning of the adjustment process, and should arrive at a better international financial equilibrium. French deputies also demanded the chance to get out of the agreement if “it did not consider the circumstances favorable to the creation of new liquidity.”²⁸⁷ The French proposition was shared by the other five. All of the Six agreed that the new facility should meet the long-term needs, and it must prevent drawing rights from being used to change the composition of the reserves. Drawing Rights in the International Monetary Fund were not directly transferable; The question of the bilateral voluntary transfer-ability of new drawing rights, which should in any case be under the control of the IMF and should not change the repayment obligation of the original shipper country, still required further study.²⁸⁸

The most important and noticeable result was that France did not fight against the introduction of drawing rights, and looked for cooperating with its EC partners. The agreement arrived by the Six on the preconditions and the process of the new liquidity paved way for the consensus for the members in the Group of Ten.

The second meeting which is worth noting, was held in London by the Group of Ten. Founded on the consensus of the Europeans, during this conversation, the Ten quickly agreed on some points, such as:

— Decisions on the base period, schedule, amount and allocation rate of new drawing rights would be decided by the IMF Board of Governors, with a majority of 85% of the total number of participants .

— Over a period of five years, the net average utilization of the new facility by a participant shall not exceed 70% of its total allocation.

— The participants will also have to take into account the interest in maintaining a certain balance between their holdings of special drawing rights and their other reserves.

— The reconstitution rules will be reviewed before the end of this first period.

This meeting marked “the closest the United States and France ever came to an agreement on international monetary reform.”²⁸⁹ 85 percent at IMF Governors meeting was required to make decisions about Special Drawing Rights and the veto power was conferred to the EEC. “This proposition was in line with the multilateral surveillance

²⁸⁷ M. Bordo, “France and the Bretton Woods system, 1960-1968...art.cit”, 20-21.

²⁸⁸ AN, 5AG1, volume 2391, La conférence de Munich. Communiqué publié à l’issue de la réunion des ministres des finances des Six, le 18 avril 1967 à Munich.

²⁸⁹ Ibid

power constantly advocated by France.”²⁹⁰

The third meeting was made of African, Malagasy and French Finance Ministers, which opened on 21 September and ended on 22 September 1967 in Dakar. The ministers discussed recent developments and prospects for the franc zone's balance of payments. The most important problems facing African and Malagasy countries in ensuring economic development and improving the standard of living, were to be solved by stabilizing commodity prices at a remunerative level.²⁹¹

These changes were in line with the United States' previous judgment that the French attitude may be loose on the introduction of new liquidity. First of all, France did not want to be isolated from its EC partners. The participation in the negotiations could make their voice heard. “Confronted by a lack of support from other EEC countries, French new Finance Minister Debré’s²⁹² stance became more conciliatory. He turned to insist the Common Market countries’ voting powers in the IMF and its comparability with that of the US.”²⁹³

Secondly, France did see the possibility of the lack of liquidity in Europe. The creation of new reserves was approved by the majority of members in the IMF. In the meeting between Debré and Fowler, Debré took the initiative in calling for closer coordination of financial policy and recognizing the inevitability of closer international financial links. Debré even indicated to Fowler to establish a mechanism for fairly frequent meetings of Finance Ministers where the French can exert a strong voice, make a compromise on the liquidity discussions quickly, and de-escalate interest rates.²⁹⁴

In light of these conversations, Lisle Widman, director of office of Industrial Nations in the U.S. Treasury Department told Deming that the French attitude “suggested a willingness to renegotiate and compromise—presumably to following policies determined primarily by economic and financial considerations. It does not seem to be consistent with a rigid, politically dictated policy.”²⁹⁵

With a consensus arrived at in the three meetings, the French participants, headed

²⁹⁰ Ibid.

²⁹¹ AN, 5AG1,volume2391, La conférence de Dakar, communiqué(extraits) publié à l’issue de la Réunion des Ministres des Finances de la Zone franc, le 22 Septembre 1967 à Dakar.

²⁹² L. Warlouzet, “L’Europe monétaire face au dollar, l’offensive Debré(1966-1968)”, *Histoire@Politique*, (n° 19, 2013):114-127.

²⁹³ M. Bordo, “France and the Bretton Woods system, 1960-1968...art.cit”, 17.

²⁹⁴ DDRS, CK2349516032, Memorandum to Under-Secretary of the Treasury Frederick Deming from Office of Industrial Nations (OIN) director F. Lisle Widman regarding the significance of French statements and actions in the field of international liquidity. Department Of The Treasury, 5 Jan. 1967.

²⁹⁵ Ibid.

by Debré, announced on September 26, 1967 in Rio-de-Janeiro that:

“The special drawing rights are in no way a revolutionary provision: they do not give and cannot give birth to a new currency, which would replace gold. If that were to be the scope of the agreement, it is quite clear that France would not sign it.

In the first place, the mechanism can only work after a collective finding of a global shortage of liquidity.

This means that it is not possible to pre-calculate the amount of drawing rights, nor to state that a portion of these credits must be opened each year.

Secondly, the mechanism can only work after improving the functioning of the current adjustment mechanisms.

Thirdly, this mechanism can only work after the disappearance of the deficit on the balance of payments of the countries whose currency is called the reserve currency.”²⁹⁶

Even though the French showed a relatively cooperative attitude on the SDRs in the Rio conference, since October 1967, however, it had once again hardened its stance because of the evolution of the interpretations of the consensus arrived at the London and Rio conferences, and the sterling crisis.

The draft agreement in the Rio conference contained on the one hand, a right of veto for the countries of the European Community, and on the other hand the specific obligations for the reimbursement of SDRs. The Six had well expressed its insistence that the activation of the new system would be subject to a "better balancing of payments" and to the "collective finding of a shortage of international liquidity". Under these preconditions, the French Delegation had agreed to accept it. However, even the drafting of the projects of the treaties, which had been entrusted to the IMF, did not fail to raise great difficulties; various additions have been proposed by the Fund that are gradually tending to transform the credit facilities accepted in Rio into a real reserve unit in accordance with American wishes.

At the Rome meeting held by the Finance Ministers of the common market on February 1968, Debré reaffirmed his support for the creation of special drawing rights,

²⁹⁶ AN, 5AG1, volume 2391, la position française à la conférence de Rio-de-Janeiro.

but the objective could not be “to finance the persistence of the deficits by a new subterfuge adding the current practices of swaps and other liquidities outside multilateral surveillance.”²⁹⁷ Besides, among the Six, they had divided on several points, such as France asking that the “option out” (right not to participate in a special drawing) could be taken in the first year, otherwise it would not sign the agreement. Whereas the partners of France did not follow it in this way.

The pound crisis was undoubtedly one of the climaxes of France's disappointment with the gold exchange system. For one thing, the French saw how vulnerable the reserve currencies were in face of the attack. When received by *Le Monde*, Rueff said that he underestimated the process of collapse of the Bretton Woods system. It was less slowly than he estimated, but the result was more catastrophic. The sterling accident marked the need and urgency for the reestablishment of an international monetary system that does not systematically violate truth and common sense.²⁹⁸

Furthermore, if the first line of defense of dollar has been lost, would the depreciation of dollars be far behind? The monetary authorities in the de Gaulle government began to envisage the possibility that the United States would put an embargo on gold:

“The devaluation of the pound would pose two series of problems to the American authorities: some relating to the suspension of convertibility to gold of the dollar, the others to the parity of their currency in relation to the pound and other European currencies:

On the monetary side, international speculation that would have triumphed over the pound would turn against the dollar...on the political side, the Administration would find a pretext for breaking the link between the dollar and gold, which the persistent deficit in the U.S. balance of payments makes inevitable. But the monetary authorities are reluctant to decide.”²⁹⁹

Soon after the devaluation of sterling in November 1967, the French Ministry of the Economy and Finance had prepared a plan to face the challenge if the United States suspended the convertibility of the dollar into gold. It called for a common

²⁹⁷ AN, Fonds Debré, 4DE-47, Rome: Les ministres des Finances des “Six” n’ont pu établir une attitude commune sur la politique monétaire internationale, 28 février 1968.

²⁹⁸ AN, Fonds Debré, 4DE-47, M. Rueff: la dévaluation de la livre montre la vulnérabilité des monnaies de réserve, *le Monde*.

²⁹⁹ AN, Fonds Debré, 4DE-47, La situation de la livre sterling et la position française à son sujet, le 12 Octobre 1967.

policy to fight against “U.S. unilateral modification of the SMI, contrary to the Bretton Woods agreements”, by taking a stand in favor of the reinstatement of purchases and sales of gold against dollars at a new price. If EEC countries failed in this way, they could oppose the introduction of the new monetary system based exclusively on reciprocal credits, and the exclusion of the gold settlement. “In any case, the EEC countries should establish between themselves and, if possible, with other countries, a settlement mechanism which, admittedly, has a legitimate share in the credit, but is ultimately based on gold transfers.”³⁰⁰

From 1967 to the beginning of 1968, France’s attitude towards special drawing rights had changed several times and eventually developed in the direction of approving it with prerequisites. In the *Conseil Restreint* on March 22, 1968, the French authorities affirmed that the creation of SDRs could be a useful element for a renewed international monetary system, provided that it was indeed a form of international credit in the management of which European countries would play their proper role, and above all that the American balance of payments was previously cleaned up. France’s refusal to join this system could have monetary consequences and perhaps accelerate the creation of a "dollar zone" extending to the other countries in the western world.³⁰¹

Moreover, despite the differences within Europe, the idea of a joint effort among the Six confronting the pound and the gold crises has been greatly strengthened. The French regarded the sterling crisis and the U.S. austerity measures, (Debré ever threatened that if America imposed a special import tax, no European Parliament would ratify the Kennedy Round Treaty), as two accidents, which signed the fragility of the current international monetary system. “They have created a climate of uncertainty that is why all eyes are turned to the Common Market, which can play a corrective training role not only for itself, but for the entire global economy.”³⁰²

3.2.2. France’s consideration on gold: the quit from the gold pool and the consideration on the gold crisis, 1967-1968

As important parts of the reserve mechanism, the role of gold and the

³⁰⁰ La difficulté de la livre sterling, not precise date, the author evaluate that it was after November 15, 1967.

³⁰¹ AN,5AG1, volume 887, *Conseil Restreint* sur les affaires monétaire internationales du 22 mars 1968, le 25 Mars 1968.

³⁰² AN, Fonds Debré, 4DE-47,Ce qu’a précisé le ministre française, l’aurore, le 7 février 1968.

introduction of SDRs were two problems closely attached. In the early days of 1967, on account of French resistance on the SDRs, the other countries regarded its recent moves on gold as motivated partly by fear that agreement on the SDRs would be reached without them on a new form of international reserve asset, because “the French Government would go on using international monetary questions for political purposes against the United States.”³⁰³

By examining France’s insistence on the role of gold, and the necessity for the United States to redress its deficit, some scholars analyzed that they were in fact France’s “bargaining chip to obtain a more important voice for Europe in the revision of the international monetary system.”³⁰⁴ Hence compared to the problem of SDRs, the status of gold had assumed more political and practical meanings, and since the beginning of the 1960s, the de Gaulle government asked for an increasing role of gold in the IMS, which became one of the major questions to perplex the U.S.-French relationship.

Since Debré became the Finance Minister, he publicly used a more radical tone concerning the gold issue. Taking his announcement in January 1967 in Canada for example, he declared that France considered that the only international currency was gold, and called for a return to the gold standard: “The monetary relations between nations could be established on a currency quite distinct from each national policies, and the economic equilibrium between nations and their political cooperation are established with respect for their sovereignty.”³⁰⁵ Among French officials, there was a noticeable figure, who attracted the U.S. and the European governments’ attention: Jean-Yves Haberer, inspector in the Finance Ministry and cooperated closely with Debré.³⁰⁶ He played an active role in increasing the price of gold, which coincided with the viewpoints of Rueff and Couve de Murville’s. In a report from the U.S. Deputy to the Assistant Secretary of the Treasury for International Monetary Affairs, George Willis talked about his conversation with the Italian Deputy on the Group of Ten Ossola. The latter told him privately that the other members of the European Economic Community were quite disturbed and unhappy with the French gold politics. Ossola suggested that he thought Haberer had been very active in the recent

³⁰³ *FRUS*, VIII, doc.115, Record of Meeting, January 21, 1967.

³⁰⁴ M. Bordo, “France and the Bretton Woods system, 1960-1968...art.cit.”, 18.

³⁰⁵ AN, 5AG1, volume2391, Exposé de Debré sur la reforme monétaire internationale devant la Chambre de commerce française au canada janvier 1967.

³⁰⁶ For more details, see L. Quennouëlle-Corre, *La Direction du Trésor 1947-1967, l’Etat-banquier et la croissance*(Paris: CHEFF, 2000), 402-437.

French campaign on the gold price, but neither the Treasury director Maurice Pérouse³⁰⁷ nor the Bank of France had been active in this campaign or been sympathetic with the approach. Ossola noted that Brunet had not attended the recent Basel meeting, and that Clappier had answered questions in a manner which indicated no personal enthusiasm for the gold campaign. Ossola said he was convinced that the French were now engaged in a definitely escalating a campaign on the price of gold. He was fearful that the next step would be a French withdrawal from the gold pool to which they would give wide publicity.³⁰⁸

The result of the gold campaign ended with France's withdrawal from the Gold Pool, and the United States took the quota of France by 9 percent. Moreover, after quitting the Gold Pool. French authorities reiterated their stereotype on the international monetary issues, and carried out the threats to stimulate speculation concerning an increase in the price of gold. On November 27th, 1967, during a press conference, de Gaulle pointed out the seriousness of the crisis of sterling on the world monetary system, and declared that:

“It is quite remarkable that the total of U.S. annual deficit of balance of payments during eight years is precisely the amount of the American investments in the countries of Western Europe ... we know that France wishes that this abuse can be terminated in the interest of the entire universe, and even in the interest of the United States, for which the deficit of the scales and the inflation are deplorable as they are for everybody...It is possible that the storms that blow, and take the rate of the pound and threaten that of the dollar, will ultimately lead to the reestablishment of the international monetary system based on the immutability, impartiality, universality which are the privileges of gold.”³⁰⁹

On March 20th, 1968, after an exchange of views at the Council of Ministers on the recent international monetary crisis, de Gaulle again declared:

“Now, the current dollar and pound crisis shows that the current system

³⁰⁷ US Ambassador to Germany McGrew reported that Pérouse was generally considered a “lame duck” who continued in office until a suitable post can be found for him. René Larre, the Financial Attache in Washington, continued to be mentioned as his successor.

³⁰⁸ DDRS, CK2349508871, Memorandum to Secretary of the Treasury Henry Fowler from George Willis regarding international reactions to a French campaign with respect to gold pricing, 17 Jan. 1967.

³⁰⁹ Charles de Gaulle, *l'Esprit de la Ve république* (Paris: Plon, 1994), 1061.

based on the privilege of reserve currencies is not only inequitable, but henceforth inapplicable... A monetary system established on the basis of gold, which alone has the character of immutability, impartiality and universality, must therefore be practical...A real and complete recovery of the balance of payments in the United States and the United Kingdom would, in any case, be desirable.”³¹⁰

German chancellor Kiesinger continually asked de Gaulle why he took the line that he had done toward the United States. De Gaulle replied that without being hostile to the American people, he wanted to prevent the U.S. domination of Europe. By joking that “whisky might conquer the world but never vodka”, he indicated that the U.S. ambitions were more than that of the Soviet Union. Additionally, de Gaulle implied that due to the internal reasons, he should react in an anti-American way: “There were certain Frenchmen (Kiesinger interpreted this to mean Monnet and the Atlanticists) who were willing to give up France’s national identity by accepting an Atlantic community dominated by the US. De Gaulle found it necessary to take the line that he did with respect to the US in order to neutralize their influence.”³¹¹ De Gaulle had never offered such an explanation, the gold battle, as well as the criticisms at the United States were for a part due to the internal considerations.

France’s public insistence on the monetary role of gold had never changed, even with the resignation of General de Gaulle and Pompidou’s gain of power. But compared with de Gaulle’s sharp accusation, Pompidou’s attitude was much more peaceful, and the trend of the reduction of the role of gold became clear since the announcement of the “New Economic Policy” by President Nixon in August 1971.

3.2.3. The crisis of May-June 1968 and French refusal of devaluing its currency ³¹²

U.S. CBS journalists continuously described 1968 as a year of “horrors and failures.”³¹³ It was a year full of shocks and traumas. Disorder, disarray, destruction,

³¹⁰ AN, 5AG1, volume 887, Communiqué publiée à la suite du conseil des ministres du 20 mars 1968.

³¹¹ DDRS, CK2349471891, West German Chancellor Kurt Georg Kiesinger meets with U.S. Ambassador George McGhee to discuss Kiesinger’s conversation with French President Charles de Gaulle. Department Of State, 17 July 1967.

³¹² See Garret Joseph Martin, *General de Gaulle’s Cold War: Challenging American Hegemony, 1963-68*, (New York: Berghahn Books, 2013), 171-191; Brigitte Gaïti, “La décision à l’épreuve du charisme, le général de Gaulle entre mai 1968 et avril 1969”, in *Politix* 2008/2 (n. 82): 39-67.

³¹³ Chester J. Pach, Jr, “TV’s 1968: War, Politics, and Violence on the Network Evening News,” *South Central*

and death occupied the most space in the international affairs. For the French, 1968 marked a turning point, not only in social orders, but also in economic and diplomatic domains. According to some French scholars, Michel Margairaz and Danielle Tartakowsky for example, the May-June upheaval put an end to the economic and financial liberalization measures initiated since 1966-1967 by Debré and Haberer, by loosening the banking system or opening the financial and monetary markets. This event also shocked and had an impact on the international monetary system in 1971-1973, or the oil crisis in 1973-1974.³¹⁴ According to U.S. experts, de Gaulle's successor— Gaullist or whatever they were called— would be more limited by domestic political considerations than de Gaulle has been.³¹⁵

In fact, French economic recession was to some degree predictable and imaginable. At the very beginning of 1968, Debré wrote to de Gaulle that it would be a difficult year, however, a 5% rate of growth compared to 1967 was still expected. France was confronted with three difficulties: the first one was the trend in rise of the price; the second one came from the abuses of American politics and the third one was the social order problem. Regarding the third difficulty, Debré proposed that the rate of unemployment should be avoided.³¹⁶

Then in May and June 1968, the stoppages broke out, and this violence changed the picture radically. Students and workers “threatened the government's overthrow, weakened France's international standing and influence, and struck at President de Gaulle's own prestige and stature.”³¹⁷ During the period, the wages and costs increased due to the consensus made by the de Gaulle government, and the strikes led to a radical worsening of the French external position. “The strikes were reflected not only in the imports of France but to an even greater extent in its exports, and then in the second-quarter imports of other countries. French production in the third and fourth quarters accelerated sharply and imports recovered even more strongly.”³¹⁸

France's reserve losses after the disturbances of May-June resulted largely from a flow of funds into the Euro-dollar market. Foreign-held franc balances in France fell

Review 16.7-17.1(Winter 1999-Spring 2000): 29.

³¹⁴ Michel Margairaz, Danielle Tartakowsky, “Mai-Juin 1968 et ses suites”, in Michel Pigene et Danielle Tartakowsky, dir., *Histoire des Mouvements Sociaux en France*(Paris: La Découverte, 2014): 474-485.

³¹⁵ DDRS, CK2349253946, *De Gaulle and the Fifth Republic, 1958-1968. outlined*. Central Intelligence Agency, 20 Dec. 1968.

³¹⁶ AN, Fonds Debré, SDE-2, De Michel Debré au Général de Gaulle, le 6 janvier 1968.

³¹⁷ Edward A. Kolodziej, *French international policy under de Gaulle and Pompidou, the politics of Grandeur*, (London: Cornell University, 1974), 391-392.

³¹⁸ *Annual Report of IMF*, 1969, Washington D.C.: IMF, 47.

sharply and Euro-francs virtually disappeared from the market...European commercial banks increased their purchases of dollars from their central banks for investment in the market.³¹⁹ In 1968, the deficit arrived at \$3.2 billion, compared with \$500 million in 1966 and \$300 million in 1967.

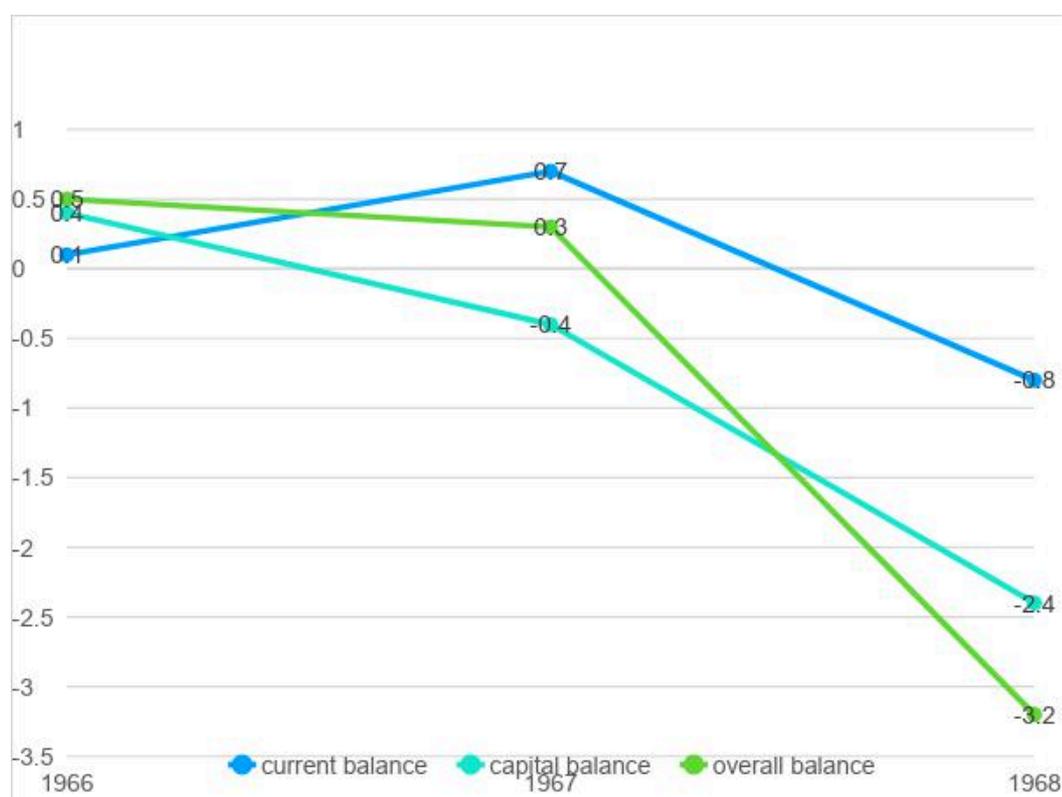


Figure 2 French Balance of payments summary. Source: Balance of payments summary(in billion), 1966-1968, Annual Report of IMF, 1969, 56.

Accompanied by the outbreak of national strikes and the closing of French commercial banks, including Banque de France in May, there were increasing rumors about the devaluation of the French franc. The valuation of franc was called into question, and worse still, “The sellers of francs were understood to be seeking refuge in Swiss francs, Italian lire and Dutch guilders. The French franc was weak against each of these currencies and in Amsterdam the Dutch central bank as a heavy buyer.”³²⁰

It had become clear that the French government’s policy of allowing substantial

³¹⁹ *Annual Report of IMF, 1969...op.cit.*,84.

³²⁰ DDRS, CS354119358, Keith Payne. "Pressure on franc builds up as sellers switch currencies." *Times*, 30 May 1968, 21. The Times Digital Archive.

wage increases to boost output, while at the same time following a lax monetary policy and not acting effectively to dampen price rises, had led into a traditional balance of payments/inflationary crisis. French authorities hoped to put pressure on the Germans to revalue the Deutsche Mark in order to relieve the speculative pressure on the franc.³²¹

Inside the government, whether or not to devalue the franc became a heated topic as well.³²² There existed in principle two different viewpoints: (1) a huge devaluation of franc; or (2) holding the franc at its present parity or a very minor change in parity.

The first suggestion was put forward by Michel Debré, Foreign minister at that time. The second one was supported by Maurice Couve de Murville, the Premier Minister, and the President.

Debré proposed that the franc could devalue by 20%, with some extremely strict measures, surpassing the budgetary deficit, the price politics, and salary treatment during 18 months. In a letter from Debré to Couve de Murville, Debré explained that a devaluation too low and one that was not accompanied by a work effort or an effort to control wage prices, would be a missed, and quickly missed, devaluation. He believed that the absence of a return of capital and the required external borrowing—sanction of this exchange— would lead France to a situation of major crisis— to which neither the regime nor the General could resist.³²³

Compared with Debré's propositions, Couve de Murville's intentions contained a devaluation of the franc of 12% or less. This measure would be accompanied by a revaluation of the mark and perhaps a number of tax provisions. In the first place, it was inspired by a conception not to provoke the rupture of the international monetary system and not to incite a crisis of dollar. Secondly, from the internal point of view, the modest rise in production costs could give an impression that the French economy had chances.³²⁴ If there was a great devaluation, according to Couve de Murville, the French would incite American hostility and break the solidarity of the Six. It was therefore a question of whether the common agricultural policy could resist. For the internal consideration, there was a risk of a general strike.³²⁵

³²¹ DDRS, CS219508592, "Crisis for French currency." Times, 16 Nov. 1968, p. 13. The Times Digital Archive.

³²² See Bertrand Blancheton, Christian Bordes, "Débats monétaires autour de la dévaluation du franc de 1969", *Revue européenne des sciences sociales* (2007/2).

³²³ AN, Fonds Debré 5DE-1, Copie d'une lettre personnelle du Ministère des Affaires Etrangères à M. Maurice Couve de Murville, Premier Ministre, le 22 novembre 1968.

³²⁴ AN, Fonds Debré 5DE-1, Entretien avec M. Couve de Murville, November 20, 1968.

³²⁵ AN, Fonds Debré, 5DE-2, Examen de quelques arguments avancés contre une forte dévaluation le 21 novembre 1968 (note par le Ministre au général de Gaulle).

De Gaulle finally announced not to depreciate franc through a broadcast on November 24th, 1968, with the belief that the franc would come back to a normal position, and for the intention to fight against the speculation. Before the crisis in May, the French franc was still a currency of refuge, like the Deutschmark, and the Swiss franc. The arrival of the serious handicap of the French economy and the high costs of production were the main reasons why the franc was then in trouble. For most of the officials in the de Gaulle government, what the French should do in the first place was to restore the internal economy, increase foreign reserves, and learn not rely on persistent international financial help.³²⁶ Therefore, on November 19th, 1968, Couve de Murville announced that the budget deficit for 1969 would be cut severely and eliminated for 1970.³²⁷

Another consideration that influenced de Gaulle's decision was that the devaluation could only be successful if, "it was accompanied by a three-year staggering of the application of the Grenelle agreements and the agreements followed by the reduction of hours of work, a flat-rate blockage for 1969 about the tolerable rise in wages and salaries, budgetary savings, and tight credit controls, etc. At the same time, other measures will have to boost production and productivity. Not to mention the maintenance of the authority of the State, a decisive element of trust."³²⁸ The second-effect and the complexity finally drove the de Gaulle government not to change franc's parity, "that is why, all things considered, I have, with the Government, decided that we must complete our recovery without recourse to devaluation."³²⁹

The French authorities searched for internal measures to improve the French's internal and external economic situation, at the same time asking the German government to revalue its currency. In a frank conversation between the French Treasury director René Larre and Deming, Larre outlined the French position to Deming, saying that: "(1) French did not want to devalue. Couve was absolutely firm on this; de Gaulle was also. There were too many political disabilities. Couve also believes there is no economic necessity for the French to devalue. (2) If Germans moved up, Couve believed it would relieve pressure on the franc and was confident the French could hold. The prevailing view in the French Treasury emphasized concern about money flows reacting on France after a German revaluation..."

³²⁶ AN, Fonds Debré, SDE-2, Note, le 19 Novembre 1968.

³²⁷ DDRS, CS184774515, *The Times*, "The French crisis", November 19, 1968.

³²⁸ Ibid.

³²⁹ Charles de Gaulle, *l'Esprit de la Ve république...op.cit.*, 1117.

Deming agreed that the franc could not be held without a mark change. In this regard, the interests of the United States and France were the same. Emphasis was on the mark, and the United States would not be “neutral on this subject in Bonn, as Fowler had intimated to Ortolí.”³³⁰

The events of May-June 1968 and the monetary crisis had a great disastrous effect on French internal and external positions. But from another perspective, France’s miserable experiences had improved the Franco-U.S. relationship to some degree. In face of the French financial crisis, the Johnson government showed its prompt support for de Gaulle’s decision. This cooperative attitude and contact henceforth laid a foundation for the rapprochement of the two governments in the last months of the Johnson-de Gaulle period and the Nixon-Pompidou era.

III. French-U.S. relations in late 1968: the attempt to cooperate in different areas

“To take our own place and carry out our own action, to serve peace and security in the Western world to which we belong without having to confine ourselves to it.”³³¹ This ambitious announcement was declared by de Gaulle on June 13, 1958, thirteen days after he regained power. It could be regarded as the foundations of the foreign policy of the de Gaulle government, in which independence, equality played a major role in dealing with foreign relationship.

During de Gaulle’s whole presidency, he concentrated on bringing France back to a principal place in the world dominated by two superpowers. Either in the economic or diplomatic domains, this philosophy did not change. For reestablishing its role in the international arena, the attempt to try to keep French independence from U.S. domination had therefore moved on to the front burner of the international monetary, military and political agendas. These kinds of conflicts lasted for almost one decade, and were especially reflected in several events, like the refusal of the Nassau offer in 1963, the withdrawal from NATO in 1966, as well as de Gaulle’s press conference about monetary issues in 1965.

For the Americans, the U.S.-French relationship was always a great problem

³³⁰ *FRUS*, 1964-1968, Vol. VIII., doc.206, Telegram From the Embassy in Belgium to the White House, November 15, 1968.

³³¹ Maurice Ferro, *De Gaulle et l’Amérique, une amitié tumultueuse* (Paris, Plon, 1973), 159.

since de Gaulle's return to power. It was not a typical partner with whom the United States could get along well with. Their bilateral oppositions seemed to be existing in all realms: the divergent points of view regarding the Vietnam War; the quarrel in the nuclear matters; the monetary issues; the contact with the Soviet Union, etc...

From the U.S. side, the Johnson administration did not do well to improve the U.S.-French relationship. Johnson's foreign policies illustrated the degree to which he was fixed on a harsh attitude toward France. He often remarked that de Gaulle was "a grouchy old grandfather grumbling by the stove," who had to be tolerated as "as long as he stayed in the house."³³² In October 1968, during a conversation with Debré, Johnson did admit that he had not been able to "find the bridge to traverse these differences so that our two great nations could come closer together."³³³

However, along with some unexpected affairs at the end of Johnson's administration, there was some improvement in the U.S.-French relationship. Johnson reexamined the U.S. foreign policy toward communist countries, as well as their connection with Western Europe, like Thomas Schwartz put it, "using the Czech situation to strength the Western alliance."³³⁴

3.3.1. The dialogue and cooperation between France and the United States on the monetary issue before and after May 1968

Since the beginning of the 1960s, the international monetary issue was one of the battlefields where the two countries competed and argued violently. The French always criticized that the real cause of the crisis in the gold exchange standard system was indeed the U.S. balance of payments deficit and it was the weakening of the dollar which jeopardized the existence of the monetary system. Nonetheless, France had increasingly realized its limits in proposing measures about IMF's reform. For example, in April 1968, French ambassador to Washington, Charles Lucet, gave a speech in Princeton, and said that France had abstained for more than 18 months from converting their surplus dollars into gold, it fully recognized in the face of expanding international trade, some credit measures may be needed, for example, in the form of

³³² T. Schwartz, *Lyndon Johnson and Europe...op.cit.*, 94.

³³³ DORS, CK2349224577, Johnson meets with French Foreign Minister, Michel Debre, and Charles Lucet, Ambassador of France, topics discussed: U.S.-French relations; Soviet intervention in Czechoslovakia; Middle East; Vietnam. White House, 11 Oct. 1968.

³³⁴ T. Schwartz, *Lyndon Johnson and Europe...op.cit.*, 219.

drawing rights from the resources of the IMF.³³⁵ With the outbreak of the crisis in May and June, France had furthermore lost its confrontational stance toward the United States. French-U.S. conversations became more open and sincere. In early November 1968, Fowler took his farewell trip to Europe and had an honest conversation with the French Finance minister, François-Xavier Ortoli. Fowler sincerely reminded Ortoli that U.S. congressmen were against the revaluation of the price of gold. Any serious consideration of a move to raise the official price of gold would encounter very strong resistance in Congress. At the same time, the United States' public were interested in maintaining a monetary role for gold. It did not want to reduce the gold value of existing assets. Fowler persuaded the French government to accept the SDRs without reservation. Ortoli took a forthright attitude with Fowler's suggestion. He admitted that there existed problems with the French economy, the first problem was the capital drain and the uncertainty in the monetary field. The second one was that France had too large credits, and there was a sign of inflation domestically. Ortoli understood that there would be no change in the official gold price, and he appreciated the Secretary's point that the SDRs was a major substitute for other ways of providing liquidity.³³⁶

Therefore, the events of May-June 1968 were a crisis as well as an opportunity for the rapprochement of the two governments. By walking through the crisis, both of them exchanged their opinions openly, and changed - more or less - their economic and monetary policies. On November 24, 1968, once de Gaulle announced not to devalue the franc, Johnson showed cordial support for this decision. In his telegram to de Gaulle, Johnson said: "I have read today of the decision you have taken. I know that the American people will wish me to tell you of the common hope that your course of action will be successful and that we are ready to cooperate in any way we can to achieve your objective consistent with our national purposes."³³⁷ His assurances were followed by the Secretary of the Treasury Henry Fowler with an immediate American financial assistance. Several days later, the U.S. Federal Reserve announced that it would increase its bilateral swap arrangement with the Bank of France by \$300 million to a total of \$1000 million.³³⁸ All help would be given to France, in particular

³³⁵ CAEF, B0068330, Discours prononcé par S.E. Monsieur Charles Lucet, Ambassadeur de France à l'Université de Princeton, le 18, avril 1968.

³³⁶ DDRS,CK2349518862, Summary of a conversation between French Finance Minister Francois-Xavier Ortoli and Secretary of the Treasury Henry Fowler regarding international financial and economic issues, 12 Nov. 1968.

³³⁷ *Department of State bulletin*(Washington DC: US Government Printing Office, 1968), 628.

³³⁸ The increase was part of the United States contribution, totaling \$500 million to the credit package arranged

by speedy provisions if needed of the U.S. contribution of \$500 million in the aid package. There were no strings tied to this aid.³³⁹

De Gaulle quickly replied to Johnson that: "I greatly appreciate the wishes and the offer of cooperation which you have made in the name of the United States for the success of the enterprise in which France is engaged and which can lead our two peoples to better join their efforts in the economic and monetary field which are of world interest."³⁴⁰ This conversation affirmed the friendly atmosphere of the two governments in face of the franc crisis. Later in an interview, U.S. Secretary of State Fowler repeated his support for de Gaulle's decision to hold the franc. He compared the cooperation in monetary domain among central banks and ministers of finance as a group of alpine climbers, "if each one tries to scale the Alps alone, one after another will fall to the bottom. Our only hope for continued progress is to tie ourselves together with the strands of international financial cooperation and then, when one man's foot slips, the others can lend him help."³⁴¹

The comparison, together with the correspondence between Johnson and de Gaulle, showed how different circles of high officials — chiefs of state, diplomats, the ministers of finance, and central bankers— cooperated when confronted with the monetary crisis in November. The urgency also offered an opportunity for the implementation of SDRs, as Rostow indicated to Lucet on November 25th, 1968, France may take a new look at the SDR proposals...SDR's would be necessary because of the shortage of gold.³⁴²

3.3.2. Franco-U.S. relationship in other aspects

In the last months of 1968, especially since the May-June upheaval, Franco-U.S. relations were improved and lubricated by the economic and monetary problems faced by both countries. Mutual cooperation and understanding were furthermore reinforced in other domains, like similar attitudes against the Soviet Union's invasion of Czechoslovakia, the possible peace talks about the Vietnam war, West Germany's

for France in Bonn, the remaining \$200 million of the United States share coming from the Treasury.

³³⁹ DDRS, CS285831034, David Spanier, "US boosts its support for France." Times, 26 Nov. 1968, The Times Digital Archive.

³⁴⁰ Ibid.

³⁴¹ *Department of State bulletin...op.cit.*, 629, 631.

³⁴² *FRUS*, 1964-1968, Vol.XII, doc.86, Memorandum of Conversation, November 25, 1968.

contact with Eastern Europe, etc. At the same time, the United States was keeping a close eye on the possibility of mutual accommodation between US and France, because they knew that in the political arena, it was hard to coordinate some policies. For the United States, it was impossible to persuade France to rejoin the military organization of NATO, but they felt also hard to get out of Vietnam. However, without changing their views on basic issues, for both nations it was still possible to be accommodating. A demonstrated willingness on Paris' part to consult and exchange information on matters of importance to both countries would be welcome.³⁴³ In a conversation between Debré and Rostow in October 1968, Debré pointed out that Johnson's talk about the Vietnam issue had opened the way for peace talk.

The sudden outbreak of the Prague Spring reinforced the idea that the Soviet Union was still a threat to the Western world. The whole of Europe was shaken by the Soviet intervention, and it seemed that "de Gaulle's idea of a European concert of powers without the United States was dead."³⁴⁴ According to the report outlined by CIA, Soviet intervention in Czechoslovakia reduced the already slight possibility that de Gaulle would leave the Atlantic alliance in 1969. It may also slow down, for a time at least, the Franco-Soviet cooperation in science, space, and telecommunications.³⁴⁵

A second encouraging sign lay on the French decision to halt nuclear testing in the Pacific in 1969. There was a good prospect of improved the U.S.-French relations when Mr. Richard Nixon took power. "The word now reaching Washington is that General de Gaulle has considerable admiration for Nixon."³⁴⁶

These political and diplomatic rapprochement and signals, along with the financial help of the Johnson government, improved the bilateral relationship of the two countries in those last months. This change however, could be exaggerated, since de Gaulle was still vigilant on America's hegemony in Europe. The present international situation had not changed, the Vietnam war did not finish. The fundamental modification of U.S. diplomatic and monetary policy did not happen yet. As the CIA report noted, de Gaulle's "conviction that the present international

³⁴³ DDRS, CK2349244070, Possibilities for accommodation between the U.S. and France. Central Intelligence Agency, 28 Aug. 1968.

³⁴⁴ T. Schwartz, *Lyndon Johnson and...op.cit.*, 219.

³⁴⁵ DDRS, CK2349566366, National Intelligence Estimate (NIE) no. 22-1-68 entitled: "The Outlook for France." Topics include: the current political situation; social and economic problems; implications for foreign policy; the long-term political outlook, Central Intelligence Agency, 28 Aug. 1968.

³⁴⁶ DDRS, CS68513660, Ian McDonald, "Closer ties with Paris for U S." Times, 28 Nov. 1968, 4. The Times Digital Archive.

monetary system gives the U.S. unjustifiable advantages over other nations.”³⁴⁷

In the meantime, Franco-U.S. relationship should not be underestimated neither: the two sides belonged to the same camp. In the face of urgency, they would work together to fight against any attempt which touched the bottom line, as had happened during the monetary crises, Berlin crisis or Soviet invasion of Czechoslovakia. Johnson emotionally said to Debré: “in any crisis that threatens the American people, France would always be with us,”³⁴⁸ Debré answered with passion: “there would never be the slightest difference between France and the United States regarding fundamental matters...it is natural that our interests and objectives do not always coincide, but the great advantage of friendship is that we can speak freely to each other.”³⁴⁹

Conclusion of Chapter III

The long year of 1968 was finally over and was recorded as a year which changed world history. It was composed of seismic social upheavals and political turbulence across the world. As the two main characters in this thesis, both the United States and France suffered domestic and international turmoils: anti-Vietnam war demonstration, civil rights movements in the United States, along with strikes and monetary crisis in France.

At the very beginning of this episode, the Johnson administration was occupied by the balance of payment deficit. Two-year improvement of the international payment situation did not continue for long and stopped for reasons of capital outflow and the unpromising Vietnam war. Hence reducing the deficit, promoting the implementation of SDRs, and negotiating with the FRG continued to be its major tasks. As for the de Gaulle government, their endeavor was poured into the fight against U.S. hegemony in the alliance. Its criticisms on the dollar’s privilege, U.S. secret contact with the Soviet Union, and the deep involvement in the Vietnam war all highlighted the French role as a special ally in the Western camp.

As a whole, from 1967 to the early months of 1968, U.S.-French cooperation in

³⁴⁷ DDRS, CK2349566366, National Intelligence Estimate (NIE) no. 22-1-68 entitled: "The Outlook for France." Topics include: the current political situation; social and economic problems; implications for foreign policy; the long-term political outlook, Central Intelligence Agency, 28 Aug. 1968.

³⁴⁸ DDRS, CK2349566366, Johnson meets with French Foreign Minister, Michel Debré, and Charles Lucet, Ambassador of France, topics discussed: U.S.-French relations; Soviet intervention in Czechoslovakia; Middle East; Vietnam, 11 Oct. 1968.

³⁴⁹ Ibid.

the monetary and political domains was limited; even France took a certain compromise in the monetary matters. The true opportunity for both countries to improve their relationship lay in the contact during and after France's May-June strikes. The support offered by the Johnson government and the help of other European countries made it possible for the de Gaulle administration to convert their reserves, by means of the swap in the IMF (or through the Group of Ten). The United States also took France's crisis as a good chance to promote the implementation of the SDRs which could cover the worldwide gold shortage.

International attempts to reform the international monetary system continued. Three crises in the financial realm in 1967-1968 alerted the West into being conscious of the uncertainties of the Bretton Woods system. Political and economic issues were eventually left to the Nixon administration, as well as to the Pompidou government.

Meanwhile, Franco-U.S. exchanges in the field of security reached a deeper level with the Soviet invasion of the Czechoslovakia. The Prague Spring made the United States aware of the need to keep the force level in Europe, and the de Gaulle administration also realized that it could not leave the Western security system.

Economic shocks and the common conscience of the Soviet military menace had deepened Franco-U.S. mutual trust, although we cannot assert that de Gaulle or Johnson have henceforth given up their basic understanding and judgement on financial and military issues. U.S. Congress pressure on the withdrawal of force, its balance of payments position and France's refusal to rejoin the NATO defense system indicated that U.S.-French cooperation in the defense area was limited by the domestic and external consideration. The demand for re-deploying U.S. military forces in Europe was again massively raised in the Nixon era.

Part II 1969-1971, a good beginning for the U.S.-French relationship?

Chapter IV Leadership transitions in the United States and in France, 1969-1970

During the Johnson Administration, American-French relationship had been tested in different aspects, such as international monetary issues, defense and political affairs. Johnson's successor, Richard Nixon wanted to seek a better way to communicate with the French in order to repair the U.S.-French relationship and form a new transatlantic partnership with its Western alliance. During the beginning of his tenure, Nixon put forward the "Nixon Doctrine"³⁵⁰, aiming to share U.S. military responsibilities with others. He visited Europe to boost the U.S.-Europe relationship, promoted his diplomatic ideas, and exchanged opinions with de Gaulle in March 1969.

With respect to international monetary issues, Nixon's government advocated the expansion of floating margins, encouraged the implementation of SDRs, and weakened the position of gold. But it was still difficult for the United States and France to reach an agreement. As a result, to weather the increasingly turbulent international monetary market, France increased its cooperation with other EEC members, played an active role in the Hague Summit in December 1969 and determined with the other EEC members their common will to build a European economic and monetary union.

In June 1969, Georges Pompidou became the second president of the Fifth Republic. As a Gaullism adherent, he emphasized the independence of France, refused to join NATO, and maintained a skeptical attitude towards U.S.-Soviet negotiations, etc. At the same time, he adopted a pragmatic way to deal with foreign relations. From 1969 to 1970, the relationship between France and the United States improved to some degree, especially when it came to the world monetary and economic issues, where the Pompidou cabinet was more willing to communicate with the American government. He admitted that gold alone could not bear the reserve

³⁵⁰ On Nixon's foreign policies, especially U.S. European policies, see Robert S. Litwak, *Détente and the Nixon Doctrine, American Foreign Policy and the Pursuit of Stability, 1969-1976* (New York: Cambridge University Press, 1984); Luke A. Nickter, "Richard Nixon and Europe: Confrontation and Cooperation, 1969-1974", Dissertation of the Bowling Green State University (August 2008); Michelle Frasher Rae, "International Monetary Relations between the United States, France, and West Germany in the 1970s", Texas: Dissertation of Texas A&M University, August 2003; Wilfrid L.Kohl, "The Nixon-Kissinger Foreign Policy System and U.S.-European Relations: Patterns of Policy Making", *World Politics* 28, (No.1, Oct., 1975): 1-43; W.Wessels, "U.S.-EC Relations—Foreign policy aspects, an Intra-European and Transatlantic Panorama"(Washington: ESCA Congress, May 27-29, 1993); Hang Thuy Thi Nguyen, "A historical review of the Nixon Administration and European Political Cooperation", *Slovak Journal of Political Sciences* 16, (2016, No.1):20-34.

function. The French-U.S. diplomatic, political, as well as monetary relationship ushered in a new era.

I.The Nixon doctrine and U.S. international monetary strategy

On January 20, 1969, Richard Nixon took office as the 37th president of the United States. The U.S. foreign diplomacy, international economic, financial, and military policies all took a new look - much different than those of his predecessors.

As for foreign relations with its allies, the U.S. President developed the “Nixon Doctrine” as his general philosophy, under which the bipolar international system would be replaced by a multipolar system and the role of the United States as the world’s policeman would be limited. He encouraged the U.S. allies to contribute more for their own security, and continuously negotiated with the Europeans on the offset issues.

In the monetary domain, at the very beginning, Nixon did not regard international monetary affairs as the focus of his overseas policies. He told his cabinet that he did not want to be bothered with international monetary matters, and did not need to see the reports on international monetary matters in the future.³⁵¹ What he favored was to achieve a stable monetary system and set free the United States from a systematic crisis. He then took some actions: such as demanding the allies to adjust their exchange rates, which was “a greater effort to persuade surplus countries to accept their responsibilities in the functioning of the international adjustment mechanism;”³⁵² advocating the activation of SDRs, and encouraging a greater flexibility of the margins. These are the three elements that constructed the Nixon government’s principle international monetary policies.

4.1.1. The “Nixon Doctrine” and the new form of the transatlantic partnership

From the late 1960s to the early 1970s, the world changed dramatically. Western Europe and Japan’s economy and society have greatly recovered from the WWII. The Sino-Soviet alliance deteriorated into profound hostility. The emergence

³⁵¹ *FRUS*, 1969-1972, Vol.I. doc.61, Memorandum From President Nixon to his Assistant (Haldeman), His Assistant for Domestic Affairs (Ehrlichman), and his Assistant for National Security Affairs (Kissinger), March 2, 1970.

³⁵² 1970, *Joint Economic Report* (Washington D.C.: U.S. Government printing office, March 1970), 51.

of politically independent and active states in the colonial areas exerted a tremendous impact on international politics, and the Cold War structure, where only two superpowers dominated the world, step by step gave way to a multipolar system. “We live in a new world,”³⁵³ announced Nixon in a conservative club in California in 1967. Henry Kissinger defined the international tendency as “political multipolar.”³⁵⁴ Soon after Nixon became president, an NSC report analyzed that “many of the salient characteristics of the present period of international politics spring from the diffusion of independent political activity among and within states following the decline of the cold war, the loosening of cold-war alliances, and the assertion of national and sub-national loyalties in the wake of colonial dissolution.”³⁵⁵

In fact, as early as October 1967, Nixon already published an article, “Asia after Viet Nam” in *Foreign Affairs* to publicly express his thoughts in regard to the international political structure and the diplomatic strategy:

“Other nations must recognize that the role of the United States as the world’s policeman is likely to be limited in the future. To ensure that a U.S. response will be forthcoming if needed a new system must be created that is capable of satisfying two conditions: (a) a collective effort by the nations of the region to contain the threat by themselves; and, if that effort fails, (b) a collective request to the United States for assistance...”

“Military security has to rest, ultimately, on economic and political stability. One of the effects of the rapidity of change in the world today is that there can no longer be static stability; there can only be dynamic stability. A nation or society that fails to keep pace with change is in danger of flying apart.”³⁵⁶

Two years later, on July 25, 1969, President Nixon announced his famous Asian policies at Guam by pointing out that “except for the threat of a major power involving nuclear weapons, that the United States was going to encourage and had a right to expect that the problem would be increasingly handled by, and the

³⁵³ *FRUS*, 1969-1972, Volume I, doc. 2, Address by Richard M. Nixon to the Bohemian Club, July 29, 1967.

³⁵⁴ Henry Kissinger, *American Foreign Policy: Three Essays by Henry Kissinger* (New York: W. W. Norton, 1969), 51-97.

³⁵⁵ *FRUS*, 1969-1972, Vol I, doc. 41, Memorandum From the President's Assistant for National Security Affairs (Kissinger) to President Nixon, October 20, 1969.

³⁵⁶ Richard Nixon, “Asia after Viet Nam”, *Foreign Affairs* 46, (No. 1, October 1967): 113-125.

responsibility for it taken by, the Asian nations themselves.”³⁵⁷This announcement was later called in his name, the “Nixon doctrine”, which in fact insisted that the U.S. foreign policies would be more realistic and its allies should do more to bear their own military burdens:

“It is against this background that we have been urging other nations to assume a greater share of responsibility for their own security, both individually and together with their neighbors...It is not my belief that the way to peace is by giving up our friends or letting down our allies. On the contrary our aim is to place America's international commitments on a sustainable, long term basis, to encourage local and regional initiatives, to foster national independence and self-sufficiency, and by so doing to strengthen the total fabric of peace.”³⁵⁸

Later, Nixon further developed his Asian policies as a global strategy. In an announcement made in 1970, he put it in detail as three principles for achieving peace: “Peace requires partnership; peace requires strength; peace requires a willingness to negotiate.” Among these, “peace requires partnership” was specifically the stretch of the Nixon Asian policies, which were mainly related to U.S. foreign policies with its Western allies since the end of 1960s. It had been out of date that the United States commanded and maintained the Western camp unilaterally. The old form of alliance-ship should be replaced by bilateral interactions and mutual support:

“The United States will participate in the defense and development of allies and friends, but that America cannot—and will not—conceive all the plans, design all the programs, execute all the decisions and undertake all the defense of the free nations of the world...”³⁵⁹

In Europe, our policies embody precisely the three principles of a durable peace: partnership, continued strength to defend our common interests when challenged, and willingness to negotiate differences with

³⁵⁷ Informal Remarks in Guam With Newsmen, July 25, 1969,

See details at: <http://www.presidency.ucsb.edu/ws/index.php?pid=2140>

³⁵⁸ *FRUS*, 1969-1972, Volume I, doc. 37, Editorial Note.

³⁵⁹ *FRUS*, 1969-1976, Vol.I. doc.60, U.S. Foreign Policy for the 1970's A New strategy for peace, A report to the Congress by Richard Nixon, President of the United States, February 18, 1970.

adversaries...in an ever more interdependent world economy, American foreign policy will emphasize the freer flow of capital and goods between nations. We are proud to have participated in the successful cooperative effort which created Special Drawing Rights, a form of international money which will help insure the stability of the monetary structure on which the continued expansion of trade depends.”³⁶⁰

In essence, “Peace requires partnership” meant asking the U.S. allies to make concessions on economic, financial, and military domains, as “The balance of burdens and responsibilities must gradually be adjusted to reflect the economic and political realities of European progress.”³⁶¹ It represented “an attempt to harmonize the United States' still vast global interests and commitments with its declining capabilities and the emergence of a multi-polar world order. Kissinger and Nixon, who assumed that the United States was moving from a position of ‘predominance to one of partnership,’ used the doctrine to promote self-sufficiency among U.S. allies in Asia, Latin America, and Europe.”³⁶²

One of the regions that the U.S. government invested most of its time and money in was the West Europe. As early as on January 20, 1969, the inauguration day of the new government, a report of CIA pointed out that it was a permanent problem whether the European countries would bear its considerable responsibilities, because “in a defense system that depends ultimately on the deterrent power supplied by one member, it is difficult for the others to calculate the relevance of their particular contributions or to defend them before their parliaments.”³⁶³ At that time, the number of U.S. troops in Europe and the Mediterranean were about 320,000, which was constituted by two armored regiments, 32 Air Force squadrons, and 26 battleships of the Sixth Fleet. The United States paid about half of the direct costs of NATO’s defense and provided the nuclear shield. Under Secretary of the Treasury for Monetary Affairs, Paul Volcker estimated that the U.S. gross military expenditures abroad had risen in 1969 to \$4.8 billion, up from \$4.5 billion during the previous year.³⁶⁴ Since 1964, U.S. military expenditures abroad had consistently risen year

³⁶⁰ Ibid.

³⁶¹ 1970, *Joint Economic Report...*, *op.cit.*, 46-49.

³⁶² *FRUS*, 1969-1972, Volume I, Summary.

³⁶³ *FRUS*, 1969-1972, Vol. XLI, doc. 1, Intelligence Memorandum Prepared in the Central Intelligence Agency, January 21, 1969.

³⁶⁴ The balance of payments cost of US defense program was \$4.5 billion for 1968, \$4.2 billion for 1967. There

over year, and in 1969 the rise continued despite the advertised curtailment of U.S. involvement in Southeast Asia.³⁶⁵

In view of this situation, the Nixon government offered several advises to the Europeans, such as: “(a) to keep the United States physically committed to the defense of Western Europe, so that the engagement of our nuclear power is assured; and (b) to buy a right to be consulted by the United States on anything affecting their security.”³⁶⁶ The Secretary of Defense Melvin Laird repeatedly suggested to the President to urge the Europeans to arm themselves, and support themselves with their own conventional force development.³⁶⁷

In April 1969, when giving a speech to North Atlantic Council, Nixon looked back at NATO’s history and admitted that after the WWII, cooperation between western countries was of great significance. Now the transatlantic relationship needed substantial vigor to be maintained. The Europeans should bear their military burden, with the cutting back on the U.S. conventional forces in Europe.³⁶⁸

In accordance with the report, on May 26, 1969, a memorandum from the Under Secretaries Committee to President Nixon proposed to reduce about 27,400 U.S. military personnel, 1800 U.S. civilians and 7100 foreign national personnel for an annual budget savings after FY 1972 of \$355 million and \$128 million in the balance of payments.³⁶⁹

As for the so-called “substantial vigor”, it referred to the U.S.-European offset negotiations, especially the U.S.-German negotiations. The USA demanded that the Europeans compensated U.S. troops’ expenditure stationed in Europe. This strategy was formed as early as the late 1950s, accompanied by the declining economic position and deterioration of balance of payments of the United States. From the Kennedy era to the Johnson government, the Americans repeatedly insisted the importance that West Germany offered financial support to the United States, and when Nixon took office in 1969, this issue was again raised, whether to “(a) continue

were some offsets, and which reduced the figures to \$3.3 billion and \$2.4 billion. The military budget and national economic priorities, *Hearings before the subcommittee on Economy in Government of the Joint Economic committee congress of the United States*, part 2-3, June 10-13 and 17, 1969 (Washington D.C.: US Government printing office, 1969), 649.

³⁶⁵ 1970, *Joint Economic Report...op.cit.*, 48.

³⁶⁶ *FRUS*, 1969-1972, Vol. XLI, doc.4, Telegram From the Mission to the North Atlantic Treaty Organization to the Department of State, January 23, 1969.

³⁶⁷ *FRUS*, 1969-1972, Vol. XLI, doc. 8, Memorandum From Secretary of Defense Laird to President Nixon, February 20, 1969.

³⁶⁸ *FRUS*, 1969-1976, Vol. I, doc. 18, Address by President Nixon to the North Atlantic Council, April 10, 1969.

³⁶⁹ *FRUS*, 1969-1976, Vol. XLI, doc.18, Editorial Note.

to link our troop levels to offset; (b) drop the link between troop levels and offset but continue to seek German assistance in our balance of payments problems; or (c) seek some German cooperation in international monetary problems in exchange for troop levels.”³⁷⁰ The U.S.-German offset negotiations were not affected by the alternation of governments, and had become one of the foundations of U.S. foreign economic policies since the late 1950s.

4.1.2. U.S. offset negotiations with Germany and U.S. deficits in balance of payments

For almost a decade, the United States had viewed the offset negotiations with NATO members as an important means to correct its imbalance in its international payments. They had always believed that the allies did not make enough efforts to maintain the common defense system. The U.S. Congress asked for a long time that the United States redeployed their troops overseas to relieve the financial stress. According to a governmental calculation, the United States contributed about 10% of their gross national product to defense; by contrast the European countries’ averaged around 5%, with Germany at 4.5%.³⁷¹

Being trapped in the Vietnam War, coupled with heavy burden of military expenditure overseas, and economic stagnation, the new government took measures to change the U.S. global participation policies and the large-scale military actions yielded to flexible diplomatic strategy. In regard to the U.S.-European relationship, the United States expected other countries to contribute more for the common defense.

“When some countries felt that they had responsibility to make a plan, they inclined to provide more necessary financial resources for the implementation of this plan.” The Nixon government believed that if all of the burden was exerted on the U.S. shoulders, it was neither in the interests of the allies nor in those of the U.S.. Thus in the beginning of the Nixon presidency, the U.S. officers continued to contact with Germany’s Kurt Kiesinger cabinet about the offset negotiations for U.S. fiscal years 1970 and 1971. In the National Security Decision Memorandum (hereafter NSDM)

³⁷⁰ *FRUS*, 1969–1976, Vol. XLI, doc.10, Memorandum From the Counselor of the Department of State (Pedersen) to Secretary of State Rogers and the Under Secretary of State (Richardson), March 26, 1969.

³⁷¹ *FRUS*, 1969–1976, Vol. XLI, doc.8, Memorandum From Secretary of Defense Laird to President Nixon, February 20, 1969.

12, Nixon directed that the Under Secretaries Committee coordinated and monitored U.S. preparations for the offset negotiations.

Moreover, one remarkable feature for this time was President Nixon's desire to include the monetary affairs into the U.S.-German negotiations: "We should indicate to the Germans our willingness to explore a broadening of the discussion in future years to include discussions of monetary cooperation in general. As this year's negotiations proceed, the President will wish to re-examine the package being negotiated to determine if we should move the offset negotiations into a broader monetary context in the present round."³⁷²

The Under Secretaries' Committee of the Nixon government, followed by NSDM12, held three rounds of meetings with the Germans (in Washington on May 1-2, May 13-14, in Bonn on May 20 and 21, June 2-3, and 7-8³⁷³). These meetings were led by Deputy Under Secretary of State Nathaniel Samuels, in close cooperation with Paul Volcker. Department of Defense and NSC staff also participated actively. Mixed results were obtained from the meetings:

(a) It was possible to increase the military procurement payments from \$350 million per year to \$400 million on condition that a two-year agreement be reached.

(b) It would be difficult to reach an agreement if the German proposal on direct investment in the United States was dropped, owing to the political sponsorship (Franz Josef Strauss) and public statements relative to this proposal.

(c) The Germans believed whether a satisfactory financial package (including a ten-year loan to the United States and possible purchase by the German Government of Eximbank and AID paper) could be achieved was dependent partly on the United States Government foregoing interest rate concessions as extensive as the United States have requested.³⁷⁴

In summing up, the deputy of the Germans, Günther Harkort (Second State Secretary) stressed Germany's desire to get offset out of the way well before the Chancellor's visit.³⁷⁵ With mutual willingness to sign another two-year agreement, on

³⁷² National Security Decision Memorandum 12, April 14, 1969.

³⁷³ NARA, RG59, volume NND969000, Memorandum for the President, Offset negotiations with the Federal Republic of Germany, May 29, 1969.

³⁷⁴ NARA, RG59, volume NND969000, Memorandum for the President by Elliot Richardson, July 7, 1969.

³⁷⁵ NARA, RG59, volume NND969000, Offset, July 3, 1969.

July 9, 1969, the offset agreement was finally confirmed: there would be an inflow of foreign exchange to the U.S. in the amount of 1.52 billion dollars. These inflows would be achieved by \$925 million of procurement of U.S. goods and services (61% of total agreement) and \$595 million of financial measures (39% of total). The details are as followed:

Table 6 Details of U.S.- FRG talks

Military procurement in the Unites States	800 million
FRG loan to the U.S. (repayable after 10 years)	250 million
Purchase by FRG of loans held in portfolio of Eximbank and of outstanding Marshall Plan loans	118.75 million
Civil procurement in the U.S. by FRG	125 million
Creation of fund in U.S. by FRG to encourage German investment in U.S.	150 million
Advance transfers by the FRG for debt repayment to the U.S.	43.75 million
Retention in the U.S. of interest earned by the FRG on U.S. Treasury deposits	32.5 million
Total	1520 million

Source: NARA, RG59, volume NND969000, U.S.- FRG talks July 9, 1969.

The Americans were more than satisfied by the new offset agreement with the Germans. This time however, the Americans did not point to the monetary issue together with the offset negotiations, for the reason that the U.S. deputies estimated that there would be no indications of fruitful possibilities by insisting the monetary issues at the moment.³⁷⁶

In any case, it was the U.S. government that linked the monetary issues directly with the offset problems at the first place. Since then, they used this strategy in dealing with the international monetary, economic, and military affairs. Money and security, or more specifically speaking: money, the balance of payments, and troop redeployment in Europe, were officially and formally connected with each other in

³⁷⁶ NARA, RG59, volume NND969000, Memorandum for the President, Offset negotiations with the Federal Republic of Germany, May 29, 1969.

the negotiations between the Nixon government and its foreign allies.

4.1.3. The considerations of the Nixon government on monetary problems

Since the late years of the 1960s, influenced by the U.S. dollar crisis and the pressure of gold outflow, U.S. policy makers had already considered feasible ways to reform the IMS. Although Nixon's foreign policies were dedicated on several points, like the Vietnam War problems, Sino-American relations, and negotiations with the Soviet Union on Strategic Arms Limitation Talks (SALT I)³⁷⁷, international economic and monetary affairs were still major concerns of the government.

Before Nixon's entry into the White House, U.S. international economic situation faced severe challenges: "The trade surplus declined from \$6.8 billion in 1964 to \$0.6 billion in 1968 and the current account balance had declined from a \$5.8 billion surplus to, for the first time since 1959, a \$0.5 billion deficit in 1968. The trade surplus remained constant at \$0.6 billion in 1969 while the current account deficit mounted to just over \$1.0 billion."³⁷⁸

On the fourth day of his presidency, January 23, 1969, the National Security Council asked the State Department, the Department of Defense, the Department of Finance, and the CIA to draw up an "overview of the international situation", in the hope of obtaining an assessment of U.S.-Europe bilateral and multilateral relations in political, economic, and security domains. When referred to the economy and defense of France, these following questions were of concerned:

"What are the prospects for significant economic and political instability in France? What are the primary sources of likely instability? What are the implications of various kinds of instability for French foreign and defense policies?

What sorts of U.S. assistance for the development of French nuclear forces are desired by various groups within France? What would be the effect

³⁷⁷ On U.S.-Soviet negotiations on SALT, see John Newhouse, *Cold Dawn, the story of SALT* (New York: Holt, Rinehart and Winston, 1973); David Tal, *U.S. Strategic Arms Policy in the Cold War, negotiations and confrontation over SALT, 1969-1979*(New York: Routledge, 2017); Matthew J. Ambrose, *The Control Agenda: A history of the Strategic Arms Limitation Talks*(London: Cornell University Press, 2018), 25-54.

³⁷⁸ *FRUS*, 1969-1972 Vol. III, doc. 2, Action Memorandum From Richard Cooper and C. Fred Bergsten of the National Security Council Staff to the President's Assistant for National Security Affairs (Kissinger), January 28, 1969.

on the French military nuclear program of U.S. assistance comparable to that which we have given the UK?

What measures to ease the international monetary situation would be most acceptable to the French government and public ? Less acceptable? Unacceptable?"³⁷⁹

At the end of the report, the National Security Study Memorandum (hereafter NSSM) commented on the U.S. balance of payments problems and the IMS reformation: "What measures are now in force to seek improvement in the balance of payments? ...What is the status of the SDR process? What agreements now cover the gold markets? What is the status of discussion, if any, concerning other changes in the system? What are the reserves and short-term liabilities of the other Group of Ten countries?"³⁸⁰

From the above questions, it was clear to find the U.S. points of interests with regard to French domestic and international policies: 1) France's economic and political stability after the turbulence of May 1968; 2) Franco-U.S. cooperation in nuclear field; 3) Monetary affairs. And it was worth mentioning that in the questionnaires about Western Germany, the problem of DM reevaluation was noticed as well.

At the same time, on January 21, 1969, the President directed to create a permanent working group to make recommendations on U.S. international monetary policy to the NSC and to implement policy decision. This group was finally chaired by Under Secretary of the Treasury for Monetary affairs, Paul Volcker.³⁸¹

In the first analytical report of Volcker Group, the long-term aspects of U.S. international monetary and exchange policies were prioritized. It called for an early activation of the SDR, and suggested how the United States could move away from the gold-dollar commitment in a graceful manner at some time in the future without causing undue disturbance to the monetary system and with a fair measure of international approbation.³⁸²

President's Assistant for National Security Affairs Kissinger expressed the same

³⁷⁹ Review of the International Situation, National Security Study Memorandum 9, January 23, 1969.

³⁸⁰ Ibid.

³⁸¹ The Volcker Group was composed by Paul A. Volcker, NSC member, Fred Bergsten, Board of Governors of the Federal Reserve System, Dewey Daane, member in the Council of Economic Advisers, Hendrik S.Houthakker and deputy Under Secretary of State for Economic Affairs, Nathaniel Samuels.

³⁸² *FRUS*, 1969-1972, Vol III, doc. 111, Editorial Note.

attitude toward the gold-dollar commitment: the deficits in balance of payments were always a problem, which restrained U.S. domestic and external policies. The United States should search for measures to reduce these limits and reform the IMS step by step. Secretary of Finance David Kennedy estimated that, terminating the convertibility would be advantageous to the United States, and that the flexibility would be enforced and the international monetary regime would be based on dollar standard.

Table 7 U.S. balance of payments and its financing, 1968-72
(in billions of SDRs)

	1968	1969	1970
Balance on goods and services	2.5	1.9	3.6
Transfers and long-term capital	-3.9	-4.9	-6.7
Basic balance	-1.4	-3.0	-3.1
Short-term capital (including banking liabilities)	3.0	5.8	-7.7
Official settlements balance	1.6	2.8	-10.8

Source: *Annual Report of the Executive directors for the fiscal year ended April 30*, (Washington D.C.: the IMF Fund, 1973), 38.

In response to NSSM 9:“Review of the International Situation” on January 23 1969, the analytical report dated on October 1969 gave a detailed plan in facing the international monetary and economic challenges. It admitted that two principal deficiencies in the present system had become evident in recent years, (1) the inadequacy of international liquidity and (2) defective imbalances in international payments. The solution to the former problem was to create the SDRs, which could offer “a new form of surrogate gold unrelated to any particular national currency”, and solve the problem posed by the shortage of gold. Resolutions for the latter problem included changing the exchange rate among currencies, and improving the adjustment process.³⁸³

To cope with the first problem, the Nixon government accelerated its pace with the activation of the SDRs. In 1971, the IMF allowed the first allocation of SDRs to its members, in an amount of \$3.5 billion.

³⁸³ *FRUS*, 1969-1972, Vol.III doc. 26, Paper Prepared by Consultants, undated.

In the report of March 1969, the Volcker Group gave a much clearer explanation on the measures to reform the IMS: (a) negotiating substantial but evolutionary changes in present monetary arrangements,³⁸⁴ or (b) suspending the present type of gold convertibility with subsequent attempt to negotiate a new system, in which the United States would undertake a more limited and less exposed form of convertibility of the dollar. The second course, which was essentially a unilateral action by the United States, shocked other countries when released.³⁸⁵

The conclusion drawn by Volcker Group was that, it was not the proper time to suspend gold convertibility. But some risks should be noticed: U.S. domestic and external policies should be more flexible, “If it becomes clear that progress on evolutionary improvements is too halting, this year or next, we should resign ourselves to the need for suspension of convertibility and a resumption of negotiations with the Europeans from that different posture.”³⁸⁶

This report as well as the deliberation to terminate the gold-dollar convertibility by the Americans were finished on March 17, 1969, which was two years earlier than the publication of the New Economic Policy (August 15, 1971). It was evident that the thinking of the elimination of the gold-dollar convertibility took its shape in the early 1969.

In regard with the balance of payments deficit, however, the Nixon administration tended to ease the U.S. capital outflow policy, by reducing the IET from 1.25% to 0.75%. The restrictions on overseas investment policies adopted by Johnson’s cabinet was quickly abandoned, since it was a ubiquitous agreement in the Treasury department and CEA that these tightened policies of the Johnson administration had undermined the strength of the U.S. balance of payments in the long term through a decline in profits and dividends from abroad, drop in earnings from the sale of technology and managerial services, and loss of exports to subsidiaries and to foreigners making purchases through U.S. dealer-subidiaries.³⁸⁷

Even with the realization that removing the investment restrictions would lead to

³⁸⁴ For example, activate the Special Drawing Rights of \$15-20 billion during 1969-73, beginning in September 1969; support a general increase in IMF quotas in 1970; seek an appreciation of the Deutschmark and either exchange appreciation or some substitute such as border tax adjustments from other surplus countries; consultations should begin with other leading countries on the proposals for limited exchange flexibility; achieve a more satisfactory NATO offset; resist European pressure to agree in advance to convert enough dollars into gold in future years to prevent a rise in global dollar reserves; and an increase in the official dollar price of gold would not be part of either approach.

³⁸⁵ *FRUS*, 1969-1972, Vol.III doc. 119, Volcker Group Paper, March 17, 1969.

³⁸⁶ *Ibid.*

³⁸⁷ 1970, *Joint Economic Report....op.cit.*,46-49.

a substantial liquidity deficit in the U.S. balance of payments, and with reports indicating that these actions could seriously jeopardize the U.S. efforts in the activation of SDRs, the Nixon administration did not take additional measures to limit the outflow of dollars, and the U.S. authorities believed that the measures to loosen overseas investment could help increase U.S. firms competitiveness worldwide. Hence on April 4, 1969, President Nixon publicly announced:

First, I have today signed an Executive order [11464] reducing the effective rate of the interest equalization tax from 1 1/4 percent to 3/4 of 1 percent. This measure was designed to close a large gap--which has now narrowed--between foreign and domestic interest rates. I shall, however, request the Congress to extend the President's discretionary authority under the interest equalization tax for 18 months beyond its scheduled expiration in July. Second, I have approved a recommendation to relax somewhat the foreign direct investment program of the Department of Commerce. This means that most firms investing abroad will have substantially more freedom in planning these investments. Third, I have been informed by Chairman Martin of modifications in the Federal Reserve program which will provide more flexibility for commercial banks, particularly smaller and medium-sized banks, to finance U.S. exports.³⁸⁸

The consequence of lowering the IET was evident: foreigners could easily obtain U.S. capital through securities and bank loans than before; relaxing overseas investment projects incited U.S. companies to form affiliated companies overseas. Both measures directly aggravated U.S. capital overseas, and “put the balance-of-payments cost at least \$2,100 million if the direct investment program were abandoned for 1969.”³⁸⁹

However, in the short-term, the result was not so positive. U.S. Secretary of Treasury David Kennedy reported to President in May 1969 that the balance of payments for the first quarter of 1969 was not so good: “all sophisticated observers will recognize that the structure of our balance of payments is in poor shape. The

³⁸⁸ Statement on the Balance of Payments, April 4, 1969. See more details at: <http://www.presidency.ucsb.edu/ws/index.php?pid=1988>

³⁸⁹ *FRUS*, 1969-1972, Vol.III, doc. 5, Memorandum From the Assistant Secretary of the Treasury for International Affairs (Petty) to Secretary of the Treasury Kennedy, January 28, 1969.

major culprit is the long period of domestic inflation and excess demand, which has dwindled away our historic large trade surplus averaging \$4 to \$6 billion in the first half of the 1960's—to a small deficit. Consequently, earnings on the trade account are simply not available to pay for the balance of payments costs of our aid and military commitments overseas, or for private foreign investment.”³⁹⁰

This U.S. move was defined by the Western media as the U.S. “benignly neglect” the balance of payments deficit, and manifested that the Nixon administration did not regard the balance of payments problems and the stability of U.S. dollars as their priorities.³⁹¹

In summary, the Nixon administration's diplomacy and monetary policy differed from its predecessors. He inherited the “unwelcome” Vietnam War and the inflation brought by the great social plan of the Johnson Administration. Before being elected president, Nixon already claimed that the United States could no longer afford a global containment policy. Nixon's Asian policy was thus put forward under this context in 1969: unless the allies were exposed by a nuclear threat, the United States encouraged them to assume their own defense duties. Later, the President expanded the “Nixon doctrine” into his global strategy, and encouraged Europe to assume their responsibility of defense. However, in essence, the “Nixon Doctrine” still advocated that “The United States played the role of central balancer in the mediation of relations between these rival heterogeneous power centers.”³⁹² The Europeans saw it as a controversial part in U.S. foreign policies and in 1973, when the United States put forward the initiative of “the Year of Europe”, Western Europe took it as U.S. attempt to re-obtain its hegemony in the West.

In addition, the U.S. international economic policy, especially the indifferent attitude to deficits in balance of payments, not only stimulated the outflow of U.S. capital, encouraged the government to suspend gold-dollar convertibility and to surcharge the foreign imports, but also exacerbated U.S.-European commercial and monetary conflicts, and finally had a severe impact on the Western camp.

II. 1969, the beginning of the Pompidou era

³⁹⁰ *FRUS* 1969-1972, Vol.III, doc.21, Memorandum From Secretary of the Treasury Kennedy to President Nixon, May 13, 1969.

³⁹¹ *FRUS* 1969-1972, Vol.III, doc.29, Letter From the Chairman of the Board of Governors of the Federal Reserve System (Martin) to Secretary of the Treasury Kennedy, Oct 21, 1969.

³⁹² Robert S. Litwak, *Détente and the Nixon Doctrine...op.cit.*, 76.

Since May 1968, the de Gaulle administration focused the whole attention on recovering from the internal turmoil and regaining its global economic competitiveness. When Pompidou took office in June 1969, he soon announced the devaluation of French franc in August 1969. In December 1969, with the convening of the Hague Summit, the member countries of the common market determined to accelerate their pace in establishing the economic and monetary union, and entrusted Pierre Werner to lead a group of experts in drafting steps. It was recognized that from 1969 to 1970, the French governments did take actions in the economic and monetary domains, so as to recover the domestic and international orders.

In regard to foreign relationship, especially the relations with the United States, the French government tendered its attitudes and looked for Franco-U.S. cooperation. Specifically, since Nixon was elected as U.S. new president in 1969, de Gaulle and Pompidou showed their sincere welcome and goodwill.

Fundamentally speaking, in certain domains, there still existed divergences between France and the United States. For example, France had no intention of rejoining NATO military organizations; on the issue of reforming the IMS and the role of gold, their debates had never stopped. However, the inclination of discussion from the two sides was strong. This was reflected in the conversations between de Gaulle and Nixon in March 1969 and also in the summit of Pompidou-Nixon in the United States in 1970.

4.2.1. The Pompidou government and its international monetary policies: a combination of Gaullism and pragmatism

“The succession of de Gaulle was heavy,”³⁹³ said Pompidou to Shriver in July 1969. “Enfin seuls,”³⁹⁴ sighed Pompidou when met with Nixon at de Gaulle’s funeral ceremony on November 12, 1970. It could be translated into English as “finally, we are alone”, and the above two sentences represented a kind of frustration and loneliness as the giants’ successors. In fact, since April 28, 1969, the date when de Gaulle resigned from President of France, France had entered into the post-De Gaulle

³⁹³ NA, 5AG2, volume 1022, Audience de M. Shriver, ambassadeur des Etats-Unis le 23 juillet 1969 de 16h 15 à 17h 10.

³⁹⁴ R. Nixon, *The Memoirs of Richard Nixon* (New York: Grosset & Dunlap, 1978), 386.

era, a new era characterized by the complex combinations of Gaullism and pragmatism.

On the one side, Pompidou inherited the Gaullist style to deal with diplomatic issues, that was, to keep France's independence in the international arena, and to keep France sheltered from the threat of U.S.-Soviet condominium: "his goal was to allow France to play a central and pivot role in the Western world."³⁹⁵ He tried to keep the French foreign policies modest, as what he told to U.S. senator Jacob Javits in October 1969: "maintain good relations with everyone, including the East, while remaining allied with the United States and having with them links that may have been mediocre."³⁹⁶

On the other hand, Pompidou did not make copy of his predecessor. He insisted his own particularity, which followed the world new trend and inclined to be cooperative with the Americans.³⁹⁷ He clearly explained his differences from de Gaulle in the meeting with French journalist Raymon Tournoux in January 1970:

The first necessity for a man in power was to constantly put forward his own ideas. The world is constantly changing, situations change. You have to be prepared to possess new ideas that you live on. Otherwise we are conservative. Well! I'm not conservative ...The Gaullism, it was developed when de Gaulle was in power. These were the General's ideas and actions. It does not belong to anyone...I was the General's collaborator for twenty-five years.³⁹⁸

In handling with diplomatic and monetary matters, Pompidou preferred a pragmatic way to get along with the Europeans (the Economic and Monetary Union and the Entry of Great Britain into Common Market) and the Americans. He believed that Franco-American cooperation was necessary in supervising Germany's *Ostpolitik* and in the military and monetary affairs, etc. Besides, according to Eric Roussel, writer of *Georges Pompidou*, that in the eyes of Pompidou, France without de Gaulle no longer weighed the same weight as before,³⁹⁹ thus bilateral and multilateral discussions with the allies were essentially important for France to prevent itself from

³⁹⁵ Nicolas Vaicourdt, "The troubled partnership, encore et toujours: Pompidou, Nixon, Kissinger, and the New Atlanticism," in *Atlantic, Euratlantic, or Europe-America?..., op.cit.*, 129.

³⁹⁶ AN, 5AG2, volume 116, Audience du sénateur Javits mardi le 21 Oct 1969 de 15h30 à 16h30.

³⁹⁷ For Pompidou's speeches and foreign policy, see *Entretien et discours de Georges Pompidou* (Paris: Plon, 1975); Jean René Bernard, François Caron, Maurice Vaisse et Michel Woimant, ed., *Georges Pompidou et l'Europe* (Paris: Complexe, 1995); Jean-René Bernard, "Pragmatisme et ambition dans l'action européenne du Président Pompidou" in Association Georges Pompidou, *Georges Pompidou et l'Europe* (Paris: Éditions Complexe, 1995).

³⁹⁸ Raymond Tournoux, *Le Tourment et la fatalité* (Paris: Plon, 1974), 399.

³⁹⁹ Eric Roussel, *Georges Pompidou* (Paris: Édition Jean-Claude Lattès, 1984), 368.

being isolated.

To sum up, Pompidou's foreign policies had both the stigma of De Gaulle and his own characteristics. In the international monetary area, this combination was extremely prominent, for the reason that France was always against the hegemonic position of the United States in the Bretton Woods system. However, as a banker, Pompidou understood the complexity and difficulty to reform the IMS. He insisted on the importance of maintaining a fixed exchange rate system, but would not call for a pure return to gold standard system. In his cabinet, the large majority of the politicians and experts in charge of economic affairs also adopted a pragmatic way and were willing to negotiate with the United States and its European allies to deal with the international monetary problems.

The following pages will cover the French domestic and international monetary policies, in order to show how the combination of Gaullism and pragmatism functioned during the early years of the Pompidou government.

As we all know, the economic and monetary situation faced by Pompidou administration was severe in 1969: floating capital left France in a great amount and incited speculation on Deutschmark in November 1968. At the same time, the strike had caused France to lose more than a month's production while wage increases were going to cause an increase in consumption. In addition, although French production had reached its maximum, it never ceased to consume more than it produced, so that this country had to import more than they export⁴⁰⁰...

Before Pompidou was elected as the French president, the Nixon government had already evaluated that the whole economy may run into trouble because of the high-cost production, the inflationary pressures, the labor problems, and an industrial plant that tends to be outmoded with certain key exceptions.⁴⁰¹ The Americans even prepared to "immediately and publicly offer our full monetary support along with the IMF to maintain the franc's integrity if a crisis should come."⁴⁰²

Thus for the Pompidou government, the first thing to do was to bring their money back to its true value.⁴⁰³ Pompidou once described French franc as a runner

⁴⁰⁰ AN, 5AG2, 1089, Conférence de presse de M. Georges Pompidou, président de la République, 1e jeudi 10 juillet 1969, au palais de l'Élysée.

⁴⁰¹ *FRUS*, 1969-1976, Vol. XLI, doc. 127, Response to National Security Study Memorandum 55, May 15, 1969.

⁴⁰² *FRUS*, 1969-1976, Vol. XLI, doc. 127, Telegram From the Embassy in France to the Department of State, April 26, 1969.

⁴⁰³ AN, 5AG2, volume 1089, Conférence de presse de M. Georges Pompidou, président de la République, 1e jeudi 10 juillet 1969, au palais de l'Élysée.

who doped at the beginning of a long and hard race. It seemed that he could run for a few steps, but eventually it would lose the game. “It was therefore necessary to give him his real course. This was the subject of the devaluation, and since then it is necessary to reestablish what the Minister of Economy and Finance has called the general balances: sell as much as we buy, do not consume more than we produce.”⁴⁰⁴ Pompidou believed that the main French preoccupation must be to return to its own equilibrium, to restore its own situation, because what we must do, above all, is to give us the economic power, the industrial power, so as to have the solid foundations of our policy and our independence.⁴⁰⁵

On August 8, 1969, the Pompidou government announced therefore the devaluation of franc by 11.1%, and during the following press conferences, the President explained the necessity and urgency of this decision.

He recalled that in April 1968, France had already arrived at its limits, with the sudden outbreak of the shock in May 1968. France had lost 2 to 3 billion dollars, later another 1 billion, with the speculation on the mark and the increase of wages. At that time, Pompidou once thought about the possibility that a small devaluation of franc around 6-7% was appropriate to restore the equilibrium, but it was finally refused by the de Gaulle cabinet. Up till November 1968, “We continued to lose foreign currencies, the trade deficit maintained in the range of 200 to 250 million dollars per month, and that is why I am convinced that the devaluation became increasingly necessary.”⁴⁰⁶ Therefore Pompidou government adopted a different approach toward the cooperation with the Ministry of Economy and Finance to cool the French overheated economy at the end of 1960s by devaluating French franc in 1969.

Another difference lay on the new French government’s attitudes towards gold’s role in the IMS. In an interview with Journalist Painton,⁴⁰⁷ Pompidou referred to the role of gold and the world monetary system. Same as before, he insisted that a sustainable international monetary system should be based on a stable reference. He recognized however that gold could not be the only reserve currency: “In the nineteenth century, gold was this benchmark and also, to a large extent, the pound

⁴⁰⁴ Ibid.

⁴⁰⁵ Ibid.

⁴⁰⁶ AN, 5AG2, volume 1089. Conférence de presse de M. Georges Pompidou, président de la République, le 22 Septembre 1969.

⁴⁰⁷ AN, 5AG2, volume 1089, Présidence de la République, Entretien avec M. Painton, le 2 Février 1970.

sterling. At the present time, it was desired that gold no longer serve as a reference; I see this and admit that, for various reasons, gold alone may not be enough to serve as a basis for the international monetary system, but what is certain is that there must be a term of reference and this reference must be stable.”

With regard to the position of dollars in global monetary market and the introduction of SDRs, the attitudes of the Pompidou government were the same as that of de Gaulle administration. Pompidou affirmed that the franc did not try to make "war" on the dollar, but the global monetary issue worried everyone, because it was perilous and deeply depended on the economy and politics of the United States. “We are concerned about this (situation), not because we think the Nixon administration is following a bad policy, but because the entire monetary and economic situation of the West may be dependent on the function of the economic situation and the policy of the United States.”⁴⁰⁸

In reference to the creation of SDRs, Pompidou still kept a skeptical attitude towards the SDRs, which was regarded by the French as an expenditure,⁴⁰⁹ far from solving the basic problems. When met with Shriver, Pompidou admitted that the French have not been very supportive of the American position in this area. There was the principle and also the quantity that needed to be discussion worldwide. He insisted that the French did not ask the pure attachment of SDRs with gold, but considered that it was necessary to have a certain point of attachment, which could force every country to fight against their own inflation. However, the system of SDRs, as it was conceived, ultimately allowed the dollar, a national currency, as the attachment of SDRs. Therefore France preferred something much more neutral than U.S. dollars as the attachment of SDRs.⁴¹⁰

During the press conference in France on July 10, 1969, Pompidou again mentioned the creation of SDRs. This time, he softened French attitude, and recognized that they have not fixed their position toward SDRs, “Anyway, whatever the position that we finally took with respect to the agreement of Stockholm and the decisions of Rio-de-Janeiro, for us there should be a certain number of prerequisites, which in our eyes are for the interests of the franc zone, and in the benefits for a joint action of the Six. Out of these considerations, that the Six have not fixed their

⁴⁰⁸ AN, 5AG2, volume 116, Audience de M. Shriver, ambassadeur des Etats-Unis, le 23 juillet 1969.

⁴⁰⁹ AN, 5AG2, volume 116, Audience du sénateur Jacob Javits, mardi le 21 oct 1969.

⁴¹⁰ Ibid.

position.”⁴¹¹

To sum up, in the early years of the Pompidou government, the French kept its continuous skeptical attitude on U.S. dollars, and criticized America’s international economic policy which resulted in the aggravation of the deficits on U.S. balance of payments and the exportation of U.S. inflation overseas. Pompidou himself refused to accept a new world reference based on one national currency, and reserved his position on this domain. However, different from the de Gaulle cabinet, the Pompidou government adopted a more practical way to deal with international problems: they announced a devaluation of French franc and arrived at cooling domestic over-heated economy. With regard to international monetary policy, the French administration admitted that gold could not be the only reserve reference and opened their mind on the affiliation of SDRs, which laid the root for France’s joining the SDRs in the near future. At the same time, France quickened their pace on the construction of European economic and monetary union, and the years 1968-1972 remained, in the collective memory, as the first attempt of the Economic and Monetary Union. The context of these years brought about, paradoxically, optimism as well as dangers. Optimism was because the Western Europe were still in this happy period of growth. It was felt that growth would continue, and the European construction had achieved significant success. Worry, however, was due to the fact that a series of monetary events saw the extreme fragility of the SMI and risked undermining a fragile European construction.⁴¹² France played an active role in this process, which was to the French interest to fight against the U.S. dollar’s hegemony, and this indicated that the Pompidou administration wished to project French grandeur in the European Community.

4.2.2. The Summit of Hague and French Road to European monetary integration

Since 1960, the dollar crises and gold speculation had occurred frequently. The instability of the single currency-oriented monetary system brought about endless problems to the West. In order to avoid the negative impacts of the crises, in 1968 and 1969, the countries of the EC began to seek greater financial and monetary policy

⁴¹¹ AN, 5AG2, 1089, Conférence de presse de M. Georges Pompidou, Président de la République, le jeudi 10 juillet, 1969, au Palais de l’Élysée.

⁴¹² Michel Dumoulin, Marie-Thérèse Bitsch, etc. *La Commission européenne 1958-1972-Histoire et mémoires d’une institution* (Luxembourg: Office des publications officielles des Communautés européennes, 2014), 414.

cooperation. Among these attempts, the "Barre Plan"⁴¹³ and the "Werner Plan"⁴¹⁴ oriented the direction and set up the timetable for the construction of the European Economic and Monetary Union (hereafter cited as EMU).

However, the drafting of the "Barre Plan" and "Werner Plan" did not go smoothly. The "monetarist"⁴¹⁵ represented by France and Belgium and the "economist"⁴¹⁶ represented by Germany and Netherlands held different point of view during the construction process. The disagreements not only reflected that foreign relations were still dictated by national interests, but also indicated a long and rough road of building the economic and monetary union in the European Community.

According to the European Monetary Accords signed in 1955⁴¹⁷, since January 1959, currencies of the members of the Organization for European Economic Cooperation(OEEC) returned to their formal convertibility.⁴¹⁸ With this improvement in the monetary sphere, the economy in EEC countries developed in a much greater speed. However, since the beginning of 1960, the EEC still faced with three contradictions, "the first one was much important, which related to the problems in the situation of the balance of payments in the free countries. The EEC countries were in surplus, with the contrast that the Unites States suffered from continuous deficits. The second one was differed from the first problem, which related to the short-term capital outflow, and it would increase the imbalance in balance of payments. The third problem was the insufficiency of international liquidity."⁴¹⁹

This was a report from the vice-President of the Commission of the EEC, Robert

⁴¹³ On February 12, 1969, the Barre Plan was presented to the Council of Ministers of the EEC. The main aim of the plan was the co-ordination of economic policies and monetary cooperation. See more detailed description, at Peter Coffey and John R. Presley, *European Monetary Integration* (London: Macmillan St Martin's Press, 1971, 35).

⁴¹⁴ For the recent research about the EMU, see David J. Howarth, *The French Road to European Monetary Union*, (New York: Palgrave, 2001); E. Bussière, ed., *Georges Pompidou face à la mutation économique de l'Occident, 1969-1974* (Paris: PUF, 2003); Paul De Grauwe, *Economics of Monetary Union* (Oxford: Oxford University Press, 2005); Gérard Bossuat, *Histoire de l'Union européenne, fondations, élargissements, avenir* (Paris: Belin, 2009).

⁴¹⁵ In this context, the monetarist does not refer to Milton Friedman and his school of thought. Here it meant the propositions of France and Belgium during the process of EMU.

⁴¹⁶ Here, the economist referred to the propositions of Germany and Holland, which preferred to a way of coordinating economy policies first during the process of EMU.

⁴¹⁷ The European Monetary Agreement (EMA) was signed in August 1955 by 17 countries and formally put into practice in January 1, 1959.

⁴¹⁸ In order to coordinate the economic recovery programme of Western Europe (the Marshall Plan), the OEEC was put into practice on January 1, 1948. The member countries were: Austria, Belgium, Denmark, France, Greece, Iceland, the Republic of Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey and the UK, and Allied Occupation of Germany. In 1961, the OEEC was replaced by the OECD, which include the Unites States and Canada as its members.

⁴¹⁹ La situation monétaire et commerciale du point de vue de la Communauté Européenne, introduction par Robert Marjolin, vice président de la Commission de la C.E.E. 3-4 mai 1962, EU Speech NonPeerReviewed, From OAIster, provided by the OCLC Cooperative.

Marjolin, which analyzed the situation of international capital flows between 1958 and 1961, stressing the imbalance in international payments between the United States, Britain, and the EEC countries. The manifest contrast between the balance of payments deficits and the surplus countries directly threatened the status of U.S. dollar and the stability of the IMS.

At the beginning of the 1960s, therefore, when deficits in the U.S. international balance of payments became more pronounced and the U.S. dollar suffered a series of crises, the European countries were generally aware of the importance of establishing a coordinated mechanism in the monetary sphere to avoid losses caused by the turbulence in the U.S. dollar.

In October 1962, the European Parliament passed two resolutions, aiming to improve the coordination among EEC members in the monetary domain. "It is not, however, intended to isolate the EEC from the free world in the monetary field."⁴²⁰ However since 1962, cooperation among the Six in political and monetary domains were unsatisfactory. In 1965, the chase-vide crisis deteriorated French relationship with the other Five. In 1967, the pound-sterling crisis left pressure on the other European countries,⁴²¹ and the reevaluation of mark highlighted the insufficient communication of the Six. Even the high-level officers in the de Gaulle cabinet admitted that the *Rome Treaty* in 1958 had grand strategy for the economic cooperation of the Six, and it did not point out clearly the path of the monetary cooperation, neither was the responsibilities of the European Monetary Committee clear.⁴²²

In 1969, the opportunity for European cooperation arrived, with the alternation of French and German governments. The new heads of both states had great faith and enthusiasm for promoting the development of the process of unification in monetary and economic domains. Especially for President Pompidou, the French economy was encountering the most serious problems domestically and externally since the World War II:

⁴²⁰ Résolutions du Parlement européen du 17 octobre 1962 en faveur du renforcement de la coordination des politiques économiques, *Journal officiel des Communautés européennes* 62 (le 12 novembre 1962), 2664.

⁴²¹ On November 18 1967, the pound sterling devaluated by 14.3%. As the second largest reserve in the world, the devaluation of pound brought about turbulence to international monetary market.

⁴²² Institut Charles de Gaulle, *De Gaulle et son siècle, Tome III*, Paris: Plon, 1992, 157. See also: M. Rae, *International Monetary Relations Between...*, op.cit., 67-68. and D. C. Kruse, *Monetary Integration in Western Europe: EMU, EMS and Beyond* (London: Butterworth-Heinemann, 1980), 13-14.

3. Domestically: Since the crisis of May 1968, the outflow of capital has intensified and French franc has been seriously overvalued; the ongoing strike has brought about great loss for France.⁴²³

4. Externally: The relationship between France and the United States has deteriorated in the international monetary field. France has criticized the Americans for a long time and they diverged in the introduction of SDRs and the hegemonic role of U.S. dollars.

In view of these challenges, France urgently needed to consolidate its relations with the European allies in the economic and monetary fields. At the very beginning of his administration, Pompidou therefore strengthened his links with the other Five, and played a major role in the Hague Summit in December 1969 and later in the process of drafting "Werner Plan" in order to form common policies in monetary and economic domains.

The Hague Summit, as an important conference that threw light on the future road of the European economic and monetary integration, should be mentioned here first.

The Hague Summit was held on December 1 and 2, 1969, by the initiative of French and Dutch governments. During the series of meetings, Pompidou and German Chancellor Willy Brandt⁴²⁴ successively presented their propositions, under the auspices of the "completion, deepening, and enlargement". Completion referred principally to resolve the differences over the common agricultural policy. Deepening meant defining the process of economic, monetary and political unification. Enlargement meant enlarging the Community by the accession of four candidate countries: Denmark, the United Kingdom, Ireland and Norway. In the conference, Pompidou made a statement:

⁴²³ AN, 5AG2, volume 1089, "Conférence de Presse de M. Georges Pompidou, président de la République, Lundi 22 septembre 1968".

⁴²⁴ Brandt played a major role in the establishment of the EMU. While during this process, he insisted the importance of the enlargement of EC. In the Summit of Hague, he declared that: "The German Parliament and public expect me not to return from this Conference without concrete arrangements regarding the enlargement of the Community. This issue has been exercising our minds for years. In the first place, experience has shown us that postponing the question of enlargement threatens to paralyse the Community." "Déclaration de Willy Brandt au sommet de la Haye (1er décembre 1969)", *Bulletin des Communautés européennes*. Février 1970, n° 2. Luxembourg: Office des publications officielles des Communautés européennes. "Déclaration de Willy Brandt", 37-45.

“At a time when, as we all know, the superpowers—the Soviet Union, but also the United States, view European problems as they affect their own interests, and cannot but view thus, we owe it to our peoples to revive their hopes of seeing Europe in control of its own destiny. It was because of this and with this idea in mind that I suggested calling this Conference, whose outcome will condition not only the Community’s future but also the future policy of each of the nations assembled here, and certainly that of France⁴²⁵.”

Coordination in the monetary sphere was one of the focus of Pompidou’s talk. Brandt’s statement was similar to that of Pompidou but he emphasized the importance of enlarging the membership of EC. If Pompidou’s three principles of the Hague Summit were ranked in order of importance as: completion-deepening-enlargement, then Brandt’s were completion-enlargement-deepening. According to Pompidou’s and Brandt’s statements, scholars pointed out that: “France wanted a final decision on the financing of agricultural policy, while the other five partners insisted on the importance of enlargement.”⁴²⁶

Moreover, the main protagonists in the monetary debate were also France and Germany. The French, in view of monetary troubles, wanted the speedy organization of automatic short-term, and even automatic medium-term, financial aid for members of the Community experiencing balance of payments difficulties. The Germans on the other hand were willing to give financial aid if the French would agree to the coordination of the economic and growth policies of the individual member states.⁴²⁷

Thirdly, in regard to European institutional cooperation, the West Germany insisted the importance of economic stabilization and political, and they were “willing to move along the road to economic and monetary union, soberly and realistically, step by step. Structural differences between our States, and the differences which still persist in our economic targets and behavior, are facts which can only be changed by perseverance and joint efforts. Converging attitudes on the part of the main social groups will also be needed.”⁴²⁸ In contrast with Germany’s prudence, France showed

⁴²⁵ Discours du 1er décembre 1969 à la Haye, Georges Pompidou, *Bulletin des Communautés européennes*, Février 1970, n.2. (Luxembourg: Office des publications officielles des Communautés européennes. "Déclaration de Georges Pompidou"), 35--37.

⁴²⁶ Andreas Wilkens, “Willy Brandt, L’Europe et le Mark”, in E. Bussière, *Georges Pompidou face à la mutation économique de l’Occident, 1969-1974* (Paris: Presses Universitaires de France, “Politique d’aujourd’hui”), 49-50.

⁴²⁷ Peter Coffey and John R. Presley..., *op.cit.*, 35-36.

⁴²⁸ Déclaration de Willy Brandt au sommet de la Haye (1er décembre 1969), available at: https://www.cvce.eu/obj/statement_made_by_willy_brandt_at_the_hague_summit_1_december_1969-en-840ec5a

warm welcome to cooperation in the monetary domain: “The process of economic integration cannot live without monetary stability, especially for the consolidation of CAP and the development of European industrial and business needs. Monetary stability could also protect EEC members against the impact of the U.S. dollar crises and the turmoil in the world monetary system.”⁴²⁹

The French and German propositions directly expressed their different viewpoints on the construction of European economic and monetary integration. In the end of the Hague Summit, the Six reached a compromise: deepening and at the same time negotiating with the four candidates on the affairs of enlargement. The Council of European Community appointed Prime Minister and Finance Minister of Luxembourg Pierre Werner to organize experts to design the concrete way to form the economic and monetary unions.

From March to October 1970, the Werner Group held altogether 11 conferences. The interim report of May 20, 1970 manifested evidently the divergences of “monetarist” and “economist” and gave no measures to this incompatible situation. While the final version of October 8, 1970 finally presented a compromise between the two sides, which affirmed the principle of a parallel progression of the convergence of economic policies and monetary integration: (1) narrow the margins among the Six and (2) establish two institutions: the center of decision for economic policy, exercising independently, in accordance with the Community interest,⁴³⁰ the constitution of the Community system for the central banks, like the type of the Federal Reserve System operating in the United States. The former one encountered failure due to the floating of mark in May 1971; the latter one was postponed by the opposition of France.

So far, one of the contradictions between France and Germany in the construction of a monetary union could be concluded as follows: the Six held different opinions on the integration of economic and monetary policies. France saw more in the common monetary policy and queried the possibility to transfer national sovereignty.

The second divergence lay on the fact that France and the West Germany held

[1-a449-4822-9662-49e92450c706.html](https://doi.org/10.1-a449-4822-9662-49e92450c706.html)

⁴²⁹ E. Bussière et Emilie Willaert, *Un projet pour l'Europe...op.cit.*, 218.

⁴³⁰ “Rapport au Conseil et à la Commission concernant la réalisation par étapes de l'Union Economique et Monétaire dans la Communauté, Rapport Werner (texte final)”, *Supplément au Bulletin 11-1970 des Communauté Européennes*, (Luxembourg: Conseil-Committee des Communauté Européennes), 13.

different standpoints on the role of gold and on the United States. The Germans were not keen for gold like the French, and advocated actively the introduction of SDRs: “the establishment of the SDRs facility in the IMF will be one important step in the orderly evolution of that system.”⁴³¹ However, the French kept vigilance on SDRs and during the whole era of the de Gaulle government, they proposed a return to gold standard regime, which was unacceptable for the Germans, who kept a majority of their reserves in U.S. dollars.

The attitudes towards the United States and its impact on the process of European monetary integration were another divergence between the two countries. Considering the need of U.S. military protection, the Brandt government did not want to fight against U.S. dollar by forging a common European stance. Besides, they looked for America’s support for its *Ostpolitik*,⁴³² and wanted to establish an institutionalized forum for European-U.S. dialogue.⁴³³

The special relationship between the United States and Germany was watched by the French government. In fact, as early as 1960s, one high-level officer in the de Gaulle cabinet evaluated that: “Whenever there were consulting meetings between Europeans, the State Department announced that, in order to reduce the external deficit of American payments, a possible reduction in the number of American troops in Germany was being examined. Immediately the Germans told us: ‘we have no choice, we must take the American position into consideration.’”⁴³⁴

It is worth pointing out that, compared to the Germany’s moderate monetary policy toward the United States, the intense monetary relationship between France and the United States was a strong motivation for the French government to push the construction of the European Monetary Union. Since the Bank of France began to convert its dollar reserve to gold in the beginning of 1960s, Charles de Gaulle’s public call for returning to gold standard regime in February 1965, France’s withdrawal from the *gold pool* in 1967, and the refusal to accept the general terms of SDRs in 1968, the de Gaulle government clearly demonstrated its harsh position and an uncooperative stance with the United States in the monetary domain. When Pompidou took over as president in 1969, he saw the European monetary integration as an effective solution

⁴³¹ *FRUS*, 1969-1976, Vol. III, doc. 128, Telegram From the Department of State to the Embassy in Germany, June 3, 1969,

⁴³² M. Rae, *op.cit.*, 133.

⁴³³ *FRUS*, 1969-1976, Vol. XXXI, doc. 37, Telegram From the Department of State to the Mission to the European Community, March 19, 1973.

⁴³⁴ “Exposé de Jean-Yves Haberer”, *De Gaulle en son siècle Tome 3..op.cit.*, 157.

in regard to the dollar crises:

In fact, if we could not action quickly in the monetary domain, the European countries are still in the dollar zone. It should be hard for us to refuse the inflow of dollars⁴³⁵.

In general, even though France and Germany faced differences in the steps of the construction of European monetary union, the EC as a whole was heading towards the coordination of monetary and economic policies. The cooperation of the EC members in economy and the monetary spheres was the means to protect themselves from the dollar crises, and it was their ace card during the negotiations with the United States in the political, diplomatic fields.

III. U.S.-French rapprochement in 1969 and 1970

In 1969 and 1970, France and the United States contacted much more than before in the highest political level. There were several reasons contributed to this improvement: (1) France suffered from the May 1968 and hoped to improve the relationship with its allies, especially its ties with the United States; (2) During French monetary crisis, the Johnson administration gave proper support to the de Gaulle's government and the French francs: "It is probable that France is interested for domestic reasons in maintaining good relations with the U.S.",⁴³⁶ (3) as an emergency, the Soviet Union invaded Czechoslovakia, which imputed De Gaulle to reexamine French foreign policies and to rethink Germany's policies toward the East. The fears of West Germany's neutralism has increased the contact between the French and the U.S. government; (4) With the political change of power, the United States made more efforts to ease the U.S.-Franco relationship. Soon after taking office, Nixon chose Europe as his first destination of trip overseas, he met with de Gaulle and the two presidents exchanged views on international affairs. In 1970, the second year of Pompidou's tenure, French president paid a state visit to the United States. The United States and France have then achieved the highest level of mutual visits in

⁴³⁵ AN ,5AG 2, volume 58, *Conseil Restreint* du 16 juillet 1970 sur les affaires européennes, 16 Juillet, 1970.

⁴³⁶ *FRUS*, 1969-1976, Vol. XLI, doc.117, Memorandum From the President's Assistant for National Security Affairs (Kissinger) to President Nixon , February 14, 1969.

two years. Their relationship has entered into a new era.

4.3.1. de Gaulle's attitudes towards the Nixon government, January-April 1969

It was widely recognized that the Johnson and Nixon administrations saw the deterioration of Franco-U.S. relations in all aspects. To a large extent, these challenges were launched by the French side, such as France's refusal to join the MLF (1962), the recognition of the People's Republic of China (1964); anti-U.S. policy toward the Vietnam War; call for a return to gold standard (1965), and withdrawal of forces from the NATO integrated command (1966), the divergence regarding the Israel-Arab war, and the appeal of independence in Quebec (1967). The French censured that the USA wanted to keep its hegemony in the West and by contrast, the Americans did not understand why France hardened their attitudes toward the United States with U.S. troops in Europe to protect the Europeans. The hostile events and expressions from the two sides were too numerous to mention one by one. In the highest political level, both presidents did not have willingness to get together and discuss bilateral matters profoundly. De Gaulle ever said he did not get on well with President Kennedy, who seemed to have a grand design of his own and was not in agreement with the views of his,⁴³⁷ not mentioned President Johnson.

Since May-June 1968, the relations between the two countries have improved considerably. First of all, de Gaulle's administration was deeply weakened by the crisis of May-June 1968. The strike settlements resulted in a wage increases averaging 13 per cent on an annual basis. The French balance of payments, which had been in equilibrium in 1967, showed a deficit in 1968 of over \$3 billion. Most of the deficit was caused by outflows of French and foreign capital fearing devaluation and controls. The current account balance also deteriorated, especially in the last four months of the year when domestic demand was rising strongly.⁴³⁸ Besides, the French Franc was jeopardized to be devalued. In face of the crisis, the French had no choice but "to ask for and obtain the support from the foreign central banks, and in particular that of the

⁴³⁷ *FRUS*, 1964-1968, Vol.XII, doc.32, Memorandum From the President's Special Assistant for National Security Affairs (Bundy) to President Johnson, Washington, June 1, 1964.

⁴³⁸ DDRS, CK2349679409, Council of Economic Advisers (CEA) chairman Paul McCracken provides President Richard M. Nixon with a brief summary on monetary conditions and economic prospects for the following countries in preparation for Nixon's 2/23-3/2/1969 European trip: Great Britain; France; West Germany; Italy; Belgium, 12 Feb 1969.

Unites States, to save the franc threatened in July and November 1968.”⁴³⁹

The Unites States seized this opportunity to show a friendly gesture. In the letter from Johnson to de Gaulle, the American president promised that, “We are ready to cooperate with you in any way to achieve those of your objectives consistent with our national goals.”⁴⁴⁰ For Johnson, “The instability of France can only be a general problem.”⁴⁴¹ During and after the crisis of May 1968, the relationship between France and the United States seemed to ease to some extent.

Secondly, it was the Soviet invasion of Czechoslovakia in August 1968 that alerted the de Gaulle government to re-examine its foreign policies, especially the attitudes toward West Germany. The French criticized that the Germans contacted too much with the satellite countries of the Soviet Union, which finally brought about Soviet military and hostile action on Czechoslovakia. French position inclined to that of the Unites States, which preferred to keep a safe distance with the East. This emergency also manifested that, when facing a crisis (war danger), the French government would keep its solidarity with the Unites States and Alliance without hesitation, like what happened during the Berlin crisis and Cuba missile crisis.⁴⁴² In the autumn of 1968, de Gaulle even called for a return to his September 1958 proposal for a Western triumvirate:⁴⁴³ France, the Unites States, and the Great Britain, as the group of three, discussed together the important issues concerned European security.

France and the Unites States shared the same anxiety about Germany’s policy toward the East, which could well explain one of the reasons why the two countries came closer than before. This kind of worry became much more intensified during the early years of the Nixon and Pompidou administrations. As what historian Marc Trachtenberg put bluntly, “They were worried about German nationalism and German neutralism, about the Germans’ interest in eventually doing away with NATO...Too much independence for Germany would be too dangerous; Germany was viewed more as a problem than as a partner”⁴⁴⁴.

⁴³⁹ Yves-Henri Nouailhat, “Nixon-de Gaulle, un épisode original des relations franco-américaines”, *Revue Française d’Etudes Américaines*, No 32, (avril 1987): 309-318.

⁴⁴⁰ M. Ferro, *De Gaulle et l’Amérique...op.cit.*, 408.

⁴⁴¹ M. Ferro, *op.cit.*, 409.

⁴⁴² *FRUS*, 1964-1968, Vol. XII, doc.27, Paper prepared by the Ambassador to France (Bohlen), undated.

⁴⁴³ DDRS, CK2349571134, U.S. Ambassador Henry Cabot Lodge summarizes U.S. Ambassador Robert Sargent Shriver, Jr.’s conversation with French President Charles de Gaulle concerning West European defense worries resulting from the Soviet invasion of Czechoslovakia.

⁴⁴⁴ Marc Trachtenberg, “The French Factor...art.cit.”, 3.

A few days after the U.S. presidential election, U.S. Ambassador to France Sargent Shriver suggested to schedule a meeting as soon as possible between de Gaulle and Nixon, “to maintain forward movement in improving the climate of our relations with France, and use it as a vehicle for helping to achieve our objectives in Europe and to explore the possible domains to cooperate with the French.....We should frankly recognize that timing of Nixon-de Gaulle meeting will be given great significance here. If for broader political reasons or because of problems of scheduling, a Nixon-de Gaulle meeting could not be held until after NATO meeting.”⁴⁴⁵

For Nixon and de Gaulle themselves, they also had a good chemistry. De Gaulle once praised Nixon as “one of those frank and firm personalities on whom we feel we could count for the big business.”⁴⁴⁶ Nixon and Kissinger expressed several times their admiration to de Gaulle. In January, Nixon wrote to de Gaulle and emphasized once again his close feeling for France, which has always had— and will continue to have— a special place in the hearts of all Americans.⁴⁴⁷When getting news that de Gaulle lost his referendum in April, Nixon wrote a personal letter to de Gaulle, “I believe history will record that your resignation was a great loss to France and to the cause of freedom and decency in the world.”⁴⁴⁸

Both of the American President and de Gaulle were looking forward to meeting each other in the beginning of 1969, and the details of the series of meetings will be unfolded in the third part of this chapter.

4.3.2. Nixon’s visit to Europe and his talks with de Gaulle on monetary affairs

Every new U.S. Administration since 1960 has come into office convinced that its predecessor neglected Atlantic relations, proclaiming it would give high priority to remedying this shortcoming and promising bold new programs.⁴⁴⁹ In order to emphasize the importance of Europe, the Nixon administration has chosen Belgium, Britain, Germany, Italy, France, and the Vatican as its first overseas trip. In addition,

⁴⁴⁵ DDRS, CK2349293071, Secretary Rusk and Ambassador Shriver discuss possible meeting between President-elect Nixon and President de Gaulle. Department Of State, 23 Nov. 1968.

⁴⁴⁶ Général de Gaulle, *Mémoires d’Espoir, le renouveau*, 1958-1962, (Paris: Plon, 1970), 257.

⁴⁴⁷ DDRS, CK2349641375, Text of a letter to French President Charles de Gaulle from President-elect Richard M. Nixon in which Nixon expresses a desire for a closer working relationship between France and the U.S. Department Of State, 13 Jan. 1969.

⁴⁴⁸ R. Nixon, *op.cit.*, 385.

⁴⁴⁹ H. Kissinger, *White House years*(Boston: Little, Brown & Company, 1979), 380.

the United States hoped to meet with de Gaulle before the NATO meeting in April, thus finally, the dates of visit to France were fixed at February 28 to March 2, which evaluated by Nixon as his high point of the European trip.⁴⁵⁰

Before the visit, both the United States and France made full preparations. In the letter from Nixon to de Gaulle on February 12, 1969, the U.S. president expressed that, “In the years ahead, you and I will maintain the closest contact, and that we will deal with each other in a spirit of frankness and candor.”⁴⁵¹

There were too many affairs that the two heads of countries could talk about: the Soviet threat and its stance in the world; the Middle East conflict; Sino-Soviet conflicts; the EEC economic and political cooperation, etc... In regard with the economic and monetary affairs, the Nixon administration estimated that de Gaulle would surly mention the price of gold. Thus in the letter from CEA chairman Paul McCracken to President Nixon, McCracken proposed that:

“Our position, it seems to me, is that we see no advantage, and considerable danger, in raising the price of gold. Nevertheless, there might be an advantageous total package which would reduce the significance of the specific danger. We may not get anywhere on the vital matter of improving the international monetary system unless we show a minimum of flexibility on gold. It is, in short, important not to be completely rigid. It is equally important not to allow the French, or anyone else, to see any signs of flexibility on gold except in the context of our general position. If we are to be cooperative on gold, there must be a total package that makes it worth our while.”⁴⁵²

For international commercial issues, the American councils proposed that Europe-Western Europe, especially U.S.-France should try to avoid a trade war. And on the second day of the state visit (March 1, 1969), Nixon and de Gaulle focused on European military and economic issues.

President Nixon firstly spoke of U.S. troops’ withdrawal problem. He admitted that there were great political pressures for a substantial reduction of U.S. Forces in Europe and more particularly in Germany. Before the invasion of Czechoslovakia,

⁴⁵⁰ R. Nixon, *The Memories...*, *op.cit.*, 371.

⁴⁵¹ DDRS, CK2349522889, In a letter to French President Charles de Gaulle, President Richard M. Nixon expresses his anticipation over his scheduled meeting with de Gaulle during Nixon’s European trip.

⁴⁵² DDRS, CK2349676348, Council of Economic Advisers (CEA) chairman Paul McCracken provides President Richard M. Nixon with background information in preparation for Nixon’s upcoming meeting with French President Charles de Gaulle concerning international monetary reform and apprehension over a possible increase in the price of gold. White House, 20 Feb. 1969.

Senators Fulbright and Mansfield had already present bills requiring the return to the U.S. of two divisions⁴⁵³. But Nixon promised that the United States would continue its commitments in Europe, with the full consideration to the new world situation.

With regard to the U.S.-French bilateral relationship, Nixon recognized that the two countries did not always agree on everything. But after these conversations, it seemed that they were moving towards the same goals.

In the matter of monetary problems, Nixon proposed that the experts on monetary affairs should get together and see their divergences. De Gaulle commented he did not believe that a large conference would be useful but could only engender speculation. Time had changed thus there should be change in IMS as well. French might find one person on their side to talk with U.S. expert and they could advance cautiously and clarify the problems.

These conversations were conducted in a friendly and cordial atmosphere. When back to Washington, Nixon evaluated this trip as a trip of “trust”,⁴⁵⁴ which strengthened U.S.-Europe ties and repaired U.S.-French bilateral dialogue. The meeting between Nixon and de Gaulle lay also the foundation for the later years of the improvement of U.S.-French relationship.

4.3.3. The Nixon and Pompidou governments’ perceptions of each other

After the resignation of General de Gaulle on April 1969, the alternation of French government always concerned the Nixon administration. In the NSSM 55 and 60, the State Department, the Department of Defense, CIA and the Department of Treasury discussed in detail the United States policies toward post-de Gaulle France. Besides, the U.S. government paid attention to French NATO policy, its probable changes of policies toward European unity and Britain’s entry into the Common Market; the bilateral relations in the areas of military cooperation and possible sharing of nuclear weapons technology information, etc.

Generally speaking, in the late 1968 and early 1969, the U.S.-Franco bilateral relationship had already showed the sign of improvement. Even there would be the

⁴⁵³ Memorandum of Conversation, March 1, 1969, available at: <https://www.nixonlibrary.gov/virtuallibrary/documents/jan10/088.pdf>

⁴⁵⁴ Remarks at Andrews Air Force Base on Returning From Europe, March 2, 1969, available at <http://www.presidency.ucsb.edu/ws/index.php?pid=2440> More details on de Gaulle-Nixon Summit, see also *FRUS*, 1969-1976, Vol. XLI, doc.118, Memorandum of Conversation, March 1, 1970.

change of governments in France, the Nixon government estimated that their relationship should continue to improve.⁴⁵⁵ The Americans, such as U.S. ambassador to France Shriver, thought that Pompidou could be de Gaulle's successor, and he appreciated Pompidou as the front-runner and a man with whom the United States could work. In the memoirs, Kissinger spoke highly of Pompidou:

“With a skeptical, penetrating intelligence that never descended to the cynical, he made up in analytical acumen and shrewdness what he lacked in international experience. He had been professor and banker. He knew the world of letters as well as the world of affairs. While free of the anti-American bias of his predecessor, he shared the French intellectual's assumption that in the long run America was too naive, clumsy, and unstable to be entrusted with the fate of Europe. On the other hand, he was realistic enough to understand that America was too powerful to be ignored and France too weak to go it alone.”⁴⁵⁶

When visiting France in August 1969, Kissinger expressed the President's wish to establish close cooperation between France and the United States, “He asked me to tell you that the sentiments he had expressed to General de Gaulle naturally extended to his successor, especially the direct communications that should be maintained. He hopes to inaugurate a long series of close consultations.”⁴⁵⁷

Referring to the role played by the French government in European economic and monetary integration, the Nixon administration expressed their support, which was to some degree in accordance with the *Nixon Doctrine*. The United States hoped that the process of European integration could encourage these countries to take the responsibility for defense. When Rogers met with Pompidou on December 8, 1969 and spoke of the Hague Summit, he appreciated: “The U.S. government has been very pleased with the success you have achieved in the Hague, and President Nixon is very pleased with it.”⁴⁵⁸

Therefore, when Nixon took over as President of the United States in January 1969, he and his cabinet had great enthusiasm for improving the relationship between the United States and France. Especially after Pompidou was elected as the new president of France, from July to December 1969, several key staffs of the Nixon

⁴⁵⁵ *FRUS*, 1969-1976, Vol.XLI, doc. 127, Response to National Security Study Memorandum 55, May 15, 1969.

⁴⁵⁶ H. Kissinger, *Years of Upheaval* (Boston: Little, Brown & Company, 1982), 129.

⁴⁵⁷ AN, 5AG2, volume 1022, Entretiens entre le President de la République et M. Kissinger Paris le 4 aout 1969 de 15h35 a 17h.

⁴⁵⁸ AN, 5AG2, volume 1022, Entretien entre Pompidou et M. William Rogers, le 8 décembre 1969 de 15h15 à 16h40.

administration met Pompidou and conveyed their good wish to him. When learned that Pompidou was interested in visiting the United States, Nixon's cabinet immediately drafted plans to prepare for the presidential summit. In the talks with Kissinger, Pompidou said that: "Thanks for his invitation. It is with great pleasure that I will make an officer visit to the United States. I wish that on every occasion our contacts are very close and that we exchange our ideas very freely; we will not always be of the same opinion; but we are always on the same side and that's what's important."⁴⁵⁹

As for the new French government, similarly, Pompidou was willing to contact with the Nixon government and solve bilateral problems. At that time, there still existed many unsolved problems between the United States and France, such as Franco-U.S. conflicts in regard to NATO; the disagreement on Vietnam problem; French dissatisfaction with U.S.-Soviet secret contact on military affairs, and the reform on IMS...Despite numerous differences, France and the United States shared some similar problems, such as a skeptical assessment of Soviet motivations, the potential German nationalism⁴⁶⁰ and the "dangerous" plan carried out by Brandt, et...Another domain that the two could cooperate was on the military atom sphere, which was decided in principle during the visit of Nixon to de Gaulle in February-March 1969, and later was charged in secret by Jobert and Kissinger. Pompidou admitted that: "We want to stay in the Alliance, which we know we need; but without being one part of the United States or the Soviet Union in the military sense, we are what we are and we have our possibilities."⁴⁶¹

With the good willingness of cooperation from the two sides, the United States and France quickly developed their relationship and became close to each other. This amicable atmosphere continued especially when Pompidou visited the United States in the beginning of 1970. During this presidential trip, the two heads of states exchanged deeply their points of view on world affairs, including the international monetary system and the role of gold, which according to Pompidou, one of the most difficult problems faced by the two countries.

4.3.4. Pompidou's visit to the United States and their discussion on international

⁴⁵⁹ AN, 5AG2, 116, Entretiens entre le President de la République et M. Kissinger Paris, le 4 août 1969 de 15h35 à 17h.

⁴⁶⁰ H. Kissinger, *Years of...op.cit.*, 129.

⁴⁶¹ AN, 5AG2, 1022, Audience de M. Shriver, ambassadeur des Etats-Unis le 23 juillet 1969 de 16h 15 à 17h 10.

monetary issues

The possibility of rapprochement between France and the United States emerged at the end of the presidency of Charles de Gaulle, and with the change of French government, both France and the United States tended to be more willing to talk. Then from February 23 to March 3, 1970, Pompidou paid his state visit to four cities of the United States: Washington, San Francisco, Chicago and New York. This state visit witnessed the improved friendship between the two sides, as well as the emerging problems which have haunted them since then.

Pompidou arrived at Washington on 23, February, and his first formal meeting with Nixon was set in the morning of 24. The two heads of states discussed the integration of the Common Market, Great Britain's entry into the CEE, the Vietnam War and French-U.S. bilateral relations. Pompidou was very concerned about Americans' views on European integration. In fact, before visiting the United States in February 1970, he once asked the U.S. Secretary of State Rogers in December 1969 that if the assimilation of the Great Britain into the European economic and monetary union be a confusion for the United States? Rogers clearly answered that this would be a problem in the short term...Nevertheless in the long term, it was important for Europe to be strong and united and it would not be inconvenient for European-U.S. relations.

During the meeting with Nixon, Pompidou again asked Nixon's attitude towards Western Europe's integration. Nixon affirmed that with the enlargement of EEC and the entry of the UK, it would pose serious competition concerns for the United States, but he believed that in the long run a strong and productive European Community, including the UK, was in the interest for the world peace and stability.⁴⁶²

For almost a decade, the international monetary issues disturbed the United States and France. During this trip, the two governments spent much of their time on the discussions of IMS and U.S. monetary policies. On February 25, Pompidou specifically met with U.S. Secretary of Finance David Kennedy. Kennedy firstly introduced U.S. domestic measures to Pompidou, such as they had already made a budget cut in the military domain, squeezed demand in some degree and reduced the interest rates. In order to avoid a recession, the government had reduced its

⁴⁶² AN, 5AG2, volume 116, Entretien entre President Nixon et President Pompidou à la maison blanche, jeudi 26 février 1970, 10h40-12h40.

construction program by 75%. By modifying the restriction policy in April 1969, the United States could provide "incentives" to economic activities, so that "we had a surplus in 1969, and we anticipate surpluses for 1970 and 1971, so that we move from deficit to surplus."⁴⁶³

Pompidou was obviously dissatisfied with the domestic and foreign economic policies of the United States. The relaxation of export policies and reduction of IET had stimulated a large outflow of the dollars. In fact, in the dialogue with Shriver in July 1969, Pompidou had already stated that: "We think the Nixon administration is following a bad policy...Do you believe that the measures taken by your government will have an effect? Will inflation, which does not only manifest itself in the United States stop? Or, on the contrary, will there be a recession? We do not know. In any case, our situation is such that we are primarily concerned with getting it back on track and that is what we will try to do in the coming months. Nevertheless, we have to take into account these questions to which I have just referred."⁴⁶⁴

In the dialogue with Kennedy, Pompidou mentioned again his viewpoint on U.S. inflationist economic policy. He emphasized the influence of U.S. policies on Western Europe's economy: "Inflation makes our efforts difficult. I think it was President Roosevelt who said that inflation is nice for a while before it becomes very dangerous. It is important that we do everything that can curb inflation."⁴⁶⁵

Kennedy explained that the Americans had done efforts to restore the balance of payments and to reduce inflation. The chairman of the Fed, Arthur Burns, one of Nixon's close collaborators,⁴⁶⁶ also promised that: "We are determined to curb inflation; this is our first goal...U.S. monetary policy was in a period of transition, we have cooled the economy, but the inflationary fever is not yet fully curbed. We must therefore act with caution and, in particular, not relax the measures on credit too much. In the Fed, we want to do everything to avoid any recession. We also want to lower our interest rates, but this can only come gradually because we are in transition, and especially because we do not want to give up the fight against inflation... The Fed is therefore rethinking its monetary policy and expects to act with the utmost caution in

⁴⁶³ AN, 5AG2, volume 116, Entretien entre le President et M. David Kennedy, secrétaire au trésor le 25 février de 10h à 11h30.

⁴⁶⁴ AN, 5AG2, volume116, Audience de M. Shriver, ambassadeur des Etats-Unis le 23 juillet 1969 de 16h15 à 17h10.

⁴⁶⁵ AN, 5AG2, volume116, Entretien entre le President et M. David Kennedy, secrétaire au trésor le 25 février de 10h à 11h30.

⁴⁶⁶ For Arthur Burns, see, Wyatt C. Wells, *Economist in an uncertain world, Arthur Burns and the Federal Reserve, 1970-78*, (New York: Columbia University Press,1994).

the weeks and months ahead.”⁴⁶⁷ However, it was evident that Pompidou kept a skeptical attitude to the U.S. promise. In his speech in March 2 in New York, he referred for another time to the U.S. economic policy and its influence on the international monetary problems. According to Pompidou, it was the U.S. capital’s outflows that brought about endless deficits in the balance of payments and the dysfunction of IMS.⁴⁶⁸

For the reason that the monetary issues were always intertwined with economic problems and dollar’s unique role in the IMS, U.S. deficits in the balance of payments still affected the stability of the IMS. In the New York speech, Pompidou criticized that the metal currency no longer played its regulatory role, the issuance of SDRs, the agreement with South Africa and its endorsement by the IMF proved these actions tended to make the dollar the only real reserve currency and the standard of the international monetary system.⁴⁶⁹

In another dialogue with Kennedy, Pompidou pointed out clearly that the monetary system could last and could work effectively to the extent that the reference currency was truly stable. If the reference currency was losing its value continuously, it could engender two bad effects: (1) all the other currencies would do the same, which would lead to a general inflation and trouble for all of their economies; or (2) some currencies would maintain their value and eventually be urged to reevaluate. Pompidou insisted that if certain European currencies managed to maintain their stability and were forced to reevaluate every three to four years, they would have to face insurmountable political difficulties.⁴⁷⁰ Besides, he attacked the idea of enlarging the exchange rate margins. Pompidou took the similarity of reforming the exchange rate regime to floating rate system as the operation of painless labor, “There would be no crises, but there would be perpetual devaluation and revaluation, even if they occurred gradually and at various intervals.”⁴⁷¹

For the French as well as for the Europeans, Pompidou wanted to establish a narrower margins and European monetary union. Kennedy showed his agreement on European monetary integration and said: “if your currencies unified, it will be good for

⁴⁶⁷ Ibid.

⁴⁶⁸ AN, 5AG2 volume1089, “Discours prononcé par M. Georges Pompidou à l’Hôtel Waldorf-Astoria, New-York,” 2 mars 1970.

⁴⁶⁹ Ibid.

⁴⁷⁰ AN, 5AG2, volume 116, Entretien entre le President et M. David Kennedy, secrétaire au trésor le 25 février de 10h à 11h30.

⁴⁷¹ Ibid.

the stability of the International Monetary System.”⁴⁷²

When referred to the exchange rate regime, Arthur Burns indicated that the United States would not be satisfied to see a system of floating exchange rates. However, they thought it might be useful to widen to some extent the margins. Thus according to Burns, the United States preferred a widened margins in the framework of fixed exchange rate regime.

Another problem that disturbed the Nixon government was their military expenditure overseas, a fairly large part of U.S. deficits corresponded to the military spending abroad. During this meeting, Volcker told Pompidou that the United States had reached a maximum level and that in the future a certain relaxation would be possible. This attitude worried the Europeans a lot. When there was the problem of U.S. balance of payments, what occurred to the Americans' mind was to reduce their troops stationed in Europe. In the dialogue with Rogers in December 1969, Pompidou clearly expressed his opposition to America's redeployment in Europe and the secret talks between the United States and the Soviet Union. He told Rogers: “We are not in favor of a balanced reduction of forces in Europe. If the Soviets seized the fishing rod that we threw to them, they would present us with the plans similar to those of Mr. Rapacki,⁴⁷³ whose effect would be to increase the imbalance of conventional forces in Europe and to neutralize Western Europe somehow. We do not support it.” Rogers explained that the United States intend to keep the current level of their troops, at least until the middle of 1971... As for the declaration on the reduction of forces, it was demanded by some senators for a long time, including Mr. Mansfield, who provoked to reduce U.S. forces unilaterally.⁴⁷⁴

From the above dialogues, it can be seen that the United States was determined to talk with the Soviet Union on Mutual and Balanced Force Reductions. This was one of the reasons why the United States redeployed their troops in Europe during the Nixon period and that deeply concerned the Europeans and became an important aspect of the differences between Europe and the United States in the near future.

Pompidou's U.S. trip ended in a harmonious atmosphere. Georges Pompidou had deliberately put aside his concerns since his stay in Washington. The reception of the

⁴⁷² Ibid.

⁴⁷³ Rapacki Plan was submitted by Polish foreign minister Adam Rapacki in October 1957, aiming at central Europe's demilitarization. It had not been put into practice due to the rejection of the United States, the United Kingdom and West Germany.

⁴⁷⁴ AN, 5AG2, volume1022, Entretien entre Pompidou et M. William Rogers, le 8 décembre 1969 de 15h15 à 16h40.

federal government was charming.⁴⁷⁵ The two heads of state exchanged opinions on international affairs, on March 3, 1970, Pompidou returned to France from New York.

There was an episode in this presidential trip. Before Pompidou's departure to the United States, France had just sold more than one hundred Mirage jet fighters to Libya. When he arrived in Chicago, the French president and his team encountered a huge demonstration by about 10,000 people. Nixon decided to fly to New York and accompanied to Pompidou. "My appearance at the dinner came as a dramatic surprise, and nothing I said in our many talks over the years on substantive matters did as much to win Pompidou's friendship and cooperation as this gesture⁴⁷⁶. Regardless of the unsolved problems, such as the international monetary affairs, the Middle-East disputes, and the military concerns, in the beginning of their tenures, Nixon's and Pompidou's got a relatively good relationship. Jobert's evaluation could well summarize the presidential trip as well as their overall relationship as: between old allies, we know clearly where to find each other in the crossroad. The uncertainty will be dispel when we meet the next time.⁴⁷⁷

Conclusion of Chapter IV

From 1969 to 1970, both the United States and France experienced the alternation of presidencies. Nixon and Pompidou adopted some similar policies like their predecessors as well as some different measures advocated by themselves. The new American president abandoned Johnson's great social plan and was dedicated to stimulate exports and overseas investment, which caused an increase in the outflow of U.S. dollars. In regard to international monetary policy, they promoted the implementation of the SDRs, the reduction of the role of gold as reserve currency, and the negotiations with West Germany on offset issues. Besides, Nixon formed the policy to link the discussion on reforming IMS with the military issues, which, for the first time, that the U.S. government officially tried to use their ace card to negotiate with its Western allies.

In the end of the 1960s, the French disagreed with the United States on various domains as before. However, apart from the economic and monetary differences, this

⁴⁷⁵ Michel Jobert, *L'autre regard* (Paris: Grasset, 1976), 135.

⁴⁷⁶ R. Nixon, *The Memoirs of Richard Nixon...op.cit.*, 480.

⁴⁷⁷ Michel Jobert, *op.cit.*, 140.

period witnessed the easing of the bilateral political relations of France and the United States. In particular, since Pompidou took power, he used a pragmatic style to deal with issues with foreign countries, and as a result, high-level exchanges between France and the United States increased a lot. The two presidents were practical, and preferred a political way to deal with divergences in other domains. Pompidou's state visit to the United States in the beginning of 1970 deepened the bilateral relationship and even two years later in 1972 when he took an interview with the New York Times columnist James Reston⁴⁷⁸, he affirmed that he favored consultations "at the highest level" to clarify economic and above all political relations among the democracies... matters of money and trade were secondary to these larger political and philosophical questions that had been neglected in recent years.⁴⁷⁹

⁴⁷⁸ James Reston, "Pompidou Favors U.S.-Europe Talks," *New York Times*, December 14, 1972.

⁴⁷⁹ H. Kissinger, *op.cit.*, 130.

Chapter V An uncertain rapprochement: the Franco-American monetary and political relations from March 1970 to December 1971

On August 15, 1971, President Nixon unveiled a “New Economic Policy” (hereafter cited as NEP), aiming at controlling the internal inflation, reducing the external deficits and depriving the function of gold as reserve currency:

“I have directed Secretary Connally to suspend temporarily the convertibility of the dollar into gold or other reserve assets, except in amounts and conditions determined to be in the interest of monetary stability and in the best interests of the United States...As a temporary measure, I am today imposing an additional tax of 10 percent on goods imported into the United States.”⁴⁸⁰

Closing the gold window and suspending the convertibility of the dollar *de facto* put an end to the Bretton Woods system. The whole situation, aggravated by the ten percent import surcharge, led the Western world into overall chaos. This event has thus been cited as “among the most important historical dates, not only of the post-war period but of the economic history of mankind.”⁴⁸¹

As a consistent advocate of fixed exchange rate regime and great follower of gold as reserve currency, the French government showed great concerns and dissatisfaction with U.S. unilateral declaration. The kind of action France should take and how the transatlantic negotiation would be conducted, triggered fierce discussions inside the government. The Finance Minister and Chairman of the Banque de France proposed a more economical way regarding America’s suspension of the dollar-gold convertibility, by adopting a dual exchange market; whereas the Foreign Minister’s approach was more “Europeanist”, insisting on a common response of the EEC. Attitudes of the French authorities, above all, represented their national considerations,

⁴⁸⁰ Richard Nixon, Address to the Nation Outlining a New Economic Policy: “The Challenge of Peace,” August 15, 1971, *Public Papers of the Presidents of the United States Richard Nixon 1971*, (Washington D.C.: U.S. National Archives and Records Service Office of the Federal Register Public Papers of the Presidents of the United States), 886-891.

⁴⁸¹ Jean Denizet, *Le Dollar...*, *op.cit.*, 119. For the Nixon’s new economic policy, see Peter Peterson, *The United States in the changing world economy* (Washington D.C.: U.S. Government Printing), 1971; Joanne S Gowa, *Closing the Gold Window: Domestic Politics and the End of Bretton Woods*, (Ithaca: Cornell University Press, 1983); Christien Thomas Ritter, *Closing the gold window: Gold, dollar and the making of Nixonian Foreign economic policy* (MI: A dissertation in History presented to the faculties of the University of Pennsylvania, 2007).

however, unlike the government of General de Gaulle, this time the Pompidou cabinet highlighted the common interests of the Six.

This chapter will focus on the measures taken by the Nixon government to defend U.S. dollars before and after the introduction of the NEP, on August 15, 1971, and the French government's reactions. However, economic conflicts could not be solved without political intervention. An important factor for the maintenance of the Western alliance was that, in the face of crises, each country was willing to negotiate and make compromises to resolve their divergences of interests. The negotiations and signing of the Smithsonian Agreement were thus a good example to show how the mechanism of compromise functioned inside the Western camp.

I. Nixon government's measures to defend the U.S. dollar, 1970-1971

Between 1970 and 1971, the Nixon administration took a series of actions in the international monetary field, which pushed the Bretton Woods system to the edge of collapse, such as encouraging the discussions on increasing flexibility of the margins; putting an end to the convertibility of dollars to gold, floating U.S. dollars and reducing gold's role in the IMS, etc...

Whether the declaration of the NEP or the disintegration of the Bretton Woods system both reflected the fact that due to the turbulent situation of the international monetary market and the lost confidence of the U.S. dollar, the United States could no longer comply with the articles of the Bretton Woods Agreement signed in 1944. The dollar-gold convertibility had become the sword of Damocles suspended over the head of the Americans, so that Nixon described the closing of gold window and letting the dollar float as "the best thing that came out of the whole economic program I announced on August 15, 1971."⁴⁸²

5.1.1. Fixed or floating exchange rate regime?

The discussion about the flexibility of the exchange rates was raised as early as the 1950s. In 1951, the IMF was already concerned with the issue of greater flexibility and the difficulties brought about by the maintenance of a given exchange

⁴⁸² R. Nixon, *The Memoirs...*, *op.cit.*, 517-520.

rate.⁴⁸³ Since late 1968, accompanied by the worsening world money-market, the position of the U.S. dollar and the rising of the U.S. prices level, the U.S. Treasury Department held informal policy-level discussions among financial experts.⁴⁸⁴ The German revaluation experience in 1969 had furthermore inspired the consideration of what provision might be made to permit or legitimize temporary floats of a new parity within the rules of the Fund,⁴⁸⁵ which finally led the Americans to think more about the increase of flexibility.

For the Americans, increasing a moderate degree of flexibility for the exchange rates could reduce the speculation on U.S. dollars and favor U.S. commercial transactions overseas. Their view on limited exchange flexibility was that it should constitute part of the continuing process of improving the functioning of the IMS, which contained two aspects— (a) strengthening the process of balance of payments adjustment by facilitating the ready use of exchange rate changes in appropriate circumstances, and (b) enabling the major countries to cope more effectively with mobile capital movements and exchange speculation, through somewhat wider margins and other changes to facilitate more timely parity changes when necessary.⁴⁸⁶ Thus the Americans advocated wider margins (fluctuations within somewhat wider bands around parity, perhaps 2-2.5 percent rather than the present 1 percent); smaller, more frequent rate changes,⁴⁸⁷ and unified fluctuating exchange rates as a transitional measure.

On January 16, 1970, in the air-gram from the U.S. State Department to the Embassies and Consulates of the major financial centers and industrial countries, the Americans stated that:

“The U.S. Government fully supports the discussion of this subject (limited exchange rate flexibility) in the IMF and wishes to encourage member countries to participate as actively as possible in order to improve mutual understanding of the present international monetary situation and international consensus on ways in which it

⁴⁸³ *International Monetary Fund Annual Report*, 1951 (Washington: International Monetary Fund), 37.

⁴⁸⁴ NARA, RG56, volume NND35596, Limited Exchange rate flexibility, Jan 16, 1970.

⁴⁸⁵ NARA, RG56, volume 35596, Draft talking paper on limited exchange flexibility for G10 deputies meeting, April 23, 1970.

⁴⁸⁶ NARA, RG56, volume 35596, Position paper on exchange flexibility, from George Willis to Under secretary Volcker, September 15, 1970.

⁴⁸⁷ NARA, RG56, volume 35596, Limited Exchange rate flexibility- a progress report January 16, 1970.

might be improved. At the same time the U.S. Government does not now have any fixed views on what the outcome of these talks should be nor of the particular reforms which should be favored.⁴⁸⁸

It was evident that such a statement from the U.S. promoted a worldwide discussion on greater flexibility, and for the Nixon government, the ideal objectives that the reform of IMS could achieve were:

1. to find internationally acceptable measures for improving the means by which international payments equilibrium and uneconomic payment structures can be alleviated or eliminated;

2. to improve the mechanisms that may help in reducing destabilizing international capital flows which in turn motivate undue emphasis on protecting international monetary reserve asset holdings;

3. to reduce tendencies toward protectionism in trade and payments;

4. to work toward improvements in the international monetary system which reduce or eliminate the devaluation bias that may be inherent in the present system. This bias results from pressures which make revaluations easier to resist and less frequent than devaluations;

5. to achieve a more appropriate sharing of the adjustment burden between surplus and deficit countries;

6. to restore more of the flexibility in the procedure for rate adjustment which was originally envisaged at Bretton Woods but never adequately realized, in the hope that the development of major equilibrium and abrupt exchange rate changes can be minimized in the future.⁴⁸⁹

From the air-gram, it was manifested as well that the Nixon government had not fixed their decision on the degree of flexibility. Out of the consideration that there still existed some opposition in developing and developed countries, the United States could not press for an early formal action at that time, thus “pursuit of this objective would best be carried on persistently but in a low key.”⁴⁹⁰

⁴⁸⁸ NARA, RG56, volume 35596, Limited exchange rate flexibility, January 16, 1970.

⁴⁸⁹ NARA, RG56, volume 35596, Limited exchange rate flexibility, January 16, 1970.

⁴⁹⁰ NARA, RG56, volume 35596, Position paper on exchange flexibility, from George Willis to Under secretary Volcker, September 15, 1970. See also *FRUS, 1969-1976*, Vol. III, doc.148, the Volcker Paper.

Hoping to enlarge the margins, the Americans looked for intensive talks with the opposing countries in the framework of IMF, the Group of Ten and the Working Party No. 3 of OECD, and they knew clearly that the consensus may not emerge very soon: “We should not assume that a consensus will emerge this year⁴⁹¹ on the desirability of, or on the substantive content of, an IMF amendment that would be sufficiently attractive to warrant action by the Fund membership.”⁴⁹²

From January to April, 1969, the Executive Directors of the IMF held a number of informal discussions along with top staff members of the Fund. Their attitude toward the fluctuating exchange rates had changed with time. At first, the IMF was strongly opposed to an enlarged margin both “because there is no provision in the Articles of Agreement for approval of a unitary fluctuating rate, but more importantly, because there was a conviction that the system of fixed exchange rates embodied in the Articles had to be firmly implemented to ensure order in international exchange dealings.”⁴⁹³ Since the beginning of the 1970s, the International Monetary Fund believed that it was desirable to introduce a somewhat greater degree of flexibility of exchange rates and to encourage members to make use of this flexibility insofar as this would promote the achievement, in a balanced way, of all of the Fund’s purposes.⁴⁹⁴ The year of 1970 therefore witnessed the continual study of the rate flexibility. “There has been a growing feeling among economists and some officials that more prompt adjustment of exchange rates might have been helpful...decisions could be tempered by the techniques of wider margins, of small adjustments, or transitional floats.”⁴⁹⁵

Besides, the Americans regarded the G-10 deputies’ meetings as a good opportunity to let their voice be heard. In the drafting talking paper, the U.S. officials stated that expanding the margins would not necessarily weaken the resistance to domestic inflationary pressures, but it could avoid the danger of competitive depreciation in the sense of undervaluation of currencies.⁴⁹⁶

⁴⁹¹ “This years” indicated the year of 1970.

⁴⁹² NARA, RG56, volume 35596, Position paper on limited exchange rate flexibility , April 3, 1970.

⁴⁹³ NARA, RG56, volume 35596, Fund experience with Fluctuating exchange rate system, April 10, 1970.

⁴⁹⁴ NARA, RG56, volume 35596, International Monetary Fund The Mechanism of Exchange Rate Adjustment, an outline of possible conclusions, prepared by the Economic Counsellor, march 2, 1970, General records of the department of the treasury.

⁴⁹⁵ NARA, RG56, volume 35596, Position paper on exchange flexibility, from George Willis to Under secretary Volcker, September 15, 1970.

⁴⁹⁶ NARA, RG56, volume 35596, Draft talking paper on limited exchange flexibility for G10 deputies meeting, April 23, 1970.

However, the major members in the G-10 did not give the United States a positive response. Other countries felt that the Bretton Woods system gave too much power over money creation to the United States.⁴⁹⁷ The Western camp could be divided into two parts in regard to the flexibility: one was represented by the United States, Western Germany and Italy, the other was France, Belgium and Japan. The two sides were caught in constant disputes. In the case of Germany, it had an enormous trade surplus, and needed a way to change their exchange rates routinely. The Germans argued that the French opposition might be partly due to a fear that under any flexibility arrangement, the franc might have to move up with the Deutschmark and weaken the French competitive position.⁴⁹⁸ The Germans pointed out as well that the United States had not yet taken a stronger line. The Americans criticized the Germans and Italians for being involved in the struggle toward financial integration of the EEC.⁴⁹⁹ “There is evidence that the prospects for early consensus on the desirability of major changes in the world’s exchange rate system are dim. Many spokesmen from developed and developing countries alike exhibit a reluctance to adopt major new approaches, and at present there appears to be tendency for views to become less receptive, rather than more receptive, to specific changes as the discussions proceed.”⁵⁰⁰

Table 8 G-10 countries’ positions on flexibility

	U.S.	UK	France	Germany	Italy	Belgium	Netherlands	Sweden	Japan	Canada
Wider bands	Support wider band of 2% as adjunct of crawling peg	Not important	OK to study but not acceptable within EC	Possible for vis-a-vis rest world	Possible for ECEC vis-a-vis rest world; Fund needs wider scope	Least attractive; doubts of utility of the idea	Possible special cases; bad effect on speculation	Only desirable if in conjunction with upward peg	Negative	Cool

⁴⁹⁷ NARA, RG56, volume 35596, Professor Harry Johnson’s summary of Arden House meeting, March 31, 1970.

⁴⁹⁸ NARA, RG56, volume 35596, Conversation with Some executive Directors on progress of discussions in IMF and Approach in Forthcoming deputies’ meeting, April 3, 1970.

⁴⁹⁹ NARA, RG56, volume NND35596, Position paper on limited exchange rate flexibility, April 3, 1970.

⁵⁰⁰ Ibid.

Small and frequent parity changes	Supports discretionary crawling peg of 2-3% year	Useful method, especially in upward direction; need specific fund approval	Possible under articles but opposed for philosophical reasons	Support of crawling peg of 3% a year, without prior fund consent	Need for more study. Could prevent fundamental disequilibrium. From occurring. Appeals to central bankers	Downward peg is dangerous, upward is paradoxical and utopian	Should not exceed 2% a year; not exempt; need increased consultation	Needs more technical exploration; should not move	Might work if combined with wider bands	Hard to analyze consequences; would need Fund approval
Transitional regimes (transitional float)	Area which needs more study	No objection; can be handled within existing Fund rules	Can be handled within existing fund rules	—	No general conclusion provided by German experience	Serve as experimental period for new system	Six month maximum; need Fund approval; cross-rates need not be maintained	—	—	German example a success; Fund should deal with situations individually
need for amendment	Necessary for establishment of wider margins	Not needed for wider bands, note preferable for crawling peg	Not necessary to implement proposals	Necessary to implement proposals	No need; Fund needed to exercise more discretion	Not needed unless real difficulty arises	Not necessary	—	Not desirable nor necessary	Wider bands require amendment; questionable if necessary for small changes in parity
Basic disposition towards increased flexibility	For	Sympathetic	Opposed	Sympathetic	Sympathetic	Opposed for EC reasons	Sympathetic	—	Opposed	—

Source: NARA, RG56, volume NND35596, G-10 countries' propositions on flexibility, no date.

On the whole, between 1969 and 1970, the United States and the international organizations focused on the issues of greater flexibility. Since 1968, the U.S. government became much more inclined to increase exchange rate flexibility. The attitude of international organizations also shifted from ambiguity to gradual support.

It was noticed that, during this period, the general attitude of the U.S. government was relatively conservative, and it was hoped that bilateral and multilateral dialogues with other countries could be conducted to promote a widening in margins. However, up until August, 1971, feasibility on increasing exchange rate margins was limited to discussion level, “the systematic approach to flexible exchange rates did not come to a definitive conclusion, and swamped by the speculative storm of 1971,”⁵⁰¹ the Americans accelerated their speed towards a larger range of fluctuation in market exchange rates and Nixon’s NEP finally became a decisive blow to the fixed exchange rate regime.

5.1.2. The implementation of Special Drawing Rights and the process of lowering the role of gold in the SMI

At the IMF annual meeting in 1967, the creation of SDRs was formally endorsed as amendments of the Articles of Agreement of the Bretton Woods conference signed in July, 1944. According to the annual report of the IMF: “During the period January 1, 1970 to June 30, 1971, special drawing rights have become established as usable and acceptable reserve assets in transactions among participants and in transactions and operations between participants and the General Account.”⁵⁰²

As “the first truly international money to be created by fiat,”⁵⁰³ the implementation of SDRs was welcomed by the majority of participant countries. Pierre-Paul Schweitzer, Managing Director of IMF appreciated that “In my judgement, the experience up till now with the operation of the special drawing rights facility has been highly successful, and it can be stated that the SDR has become established as a reserve asset.”⁵⁰⁴ The German Deputy in IMF Otmar Emminger evaluated, the SDRs

⁵⁰¹ R. Solomon, *op.cit.*, 175.

⁵⁰² *International Monetary Fund Annual Report 1971* (Washington: International Monetary Fund), 38.

⁵⁰³ Christopher Wilkie, *Special Drawing Rights...op.cit.*, 9.

⁵⁰⁴ “Pierre-Paul Schweitzer, Managing Director, addressing the Twenty-Fifth Annual Meeting of the Board of Governors on September 21, 1970”, *The IMF 1966-1971, the system under stress, Volume I:narrative*, 208.

would be an alternative to dollars as the reserve asset: “The year 1969 saw the final setting up of the new system of SDRs in the IMF. This is very likely to lead us into a system where the dollar will no longer be the main source of reserves, and it may in time evolve into a “managed international reserve standard⁵⁰⁵”...SDRs were designed to meet a large part of future needs for reserve increases. SDRs may, quantitatively speaking, overtake the dollar in its role as a reserve asset.”⁵⁰⁶

Since 1969, the international monetary policy of the Nixon administration also attached great importance to the implementation and expansion of SDRs. In the press conference of David Kennedy, the U.S. Secretary of Treasury announced that its allocation would be a U.S. primary consideration during the years ahead.⁵⁰⁷ What mainly concerned the Americans were the following points: 1. Establishing the SDRs as an important international monetary asset, and persuading the opponents like France to accept the SDRs, and 2. Expanding the allocations of SDRs.

Referring to the first point, like its predecessors, the Nixon administration looked for dialogue with the French and other opponents. Its measures concluded that, firstly, they would persuade France by discussing the failed experiences caused by the speculation on gold and the problems brought about by the insufficient liquidity in the world. The second means referred to “menacing”, to put it more specifically, the Nixon government would use the influence and pressure of some Congressmen⁵⁰⁸ to compel the French to make a consensus. During conversation between Kennedy and Valéry Giscard d’Estaing in 1970, U.S. Secretary of Treasury threatened that there were some people who pushed them very hard on this question of SDRs. For example, at the time of the SDR legislation, Congressman Henry Reuss proposed to introduce a provision that would have required the Americans to take SDRs instead of gold.⁵⁰⁹

For the French, the Franco-U.S. conflict mainly lay in the fact that the United States could not reduce their deficits in the balance of payments and the new world asset may bring about much more inflation. In order to dispel the concerns of France, the Americans promised that they did not regard the activation of SDRs as absolving

⁵⁰⁵ NARA, RG56, volume NND 35596, Otmar Emminger, the situation of the Key currencies, May 19, 1970.

⁵⁰⁶ Ibid.

⁵⁰⁷ *FRUS, 1969–1976*, Vol. III, doc.141, Telegram From the Department of State to the Mission to the United Nations, October 24, 1969.

⁵⁰⁸ A number of influential members of Congress (Patman, Widnall, Senator Long, Reuss, Senator Bennett) seem likely to be doubtful or critical. Some don’t like to pay out gold to foreigners. Some want to reduce the role of gold, in *FRUS, 1969–1976*, Vol. III, doc.153, Paper Prepared in the Department of the Treasury, May 9, 1971.

⁵⁰⁹ *FRUS, 1969–1976*, Vol. III, doc.146, Memorandum of Conversation, May 3-5, 1970.

themselves from the fiscal and monetary discipline needed to improve their balance of payments position.⁵¹⁰

As for the second point — expanding the allocations of SDRs — since 1969, the Americans decided to activate and expand the usage of SDRs as early as possible. In June 1969, Kennedy urged to activate the SDRs for a five-year period.⁵¹¹ According to U.S. calculations, the early and prompt implementing of SDRs could be a signal to the exchange and gold markets that the speculation could not profit from the uncertainty, and the SDRs would not leave individual monetary authorities under political pressure to build up their gold reserves to an unnecessary and undesirable degree.⁵¹²

After the implementation of the first allocation of SDRs on January 1, 1970,⁵¹³ the Nixon government again emphasized that the rate of allocations was too small: “In the context of an agreed exchange rate policy aimed at producing a sustained U.S. official settlements surplus of \$2-3 billion per year, other countries would necessarily be much more vulnerable to balance of payments difficulty, and might well be willing to support a higher rate of SDRs. Even at an allocation rate of \$6.5 billion, the United States would receive around \$1.6 billion per year, so that our net reserve position would be improving by around \$4 billion per year.”⁵¹⁴

Accompanied by the discussion on SDRs, the price and the principal reserving role of gold also moved on to the front burner of the international monetary arena. For U.S. economy policy-advisers and makers, one of the objectives of establishing the SDRs was to disperse the role of gold as a liquid dollar claim, so that the SDRs could better serve the functioning of the IMS. However, before January 1970, gold was still the main component of reserves, and there was still a grand appeal to reevaluate the price of gold worldwide. Against this point of view, the United States announced in May 1971, that they would not change the price of gold, and they would furthermore resume responsibility for conversion of dollars into SDRs or their claims on the Fund,

⁵¹⁰ Talking Paper Prepared in the Department of the Treasury Washington, February 18, 1969, *FRUS, 1969–1976*, Vol. III, doc.115.

⁵¹¹ Memorandum From Secretary of the Treasury Kennedy to President Nixon, Washington, June 23, 1969, *FRUS, 1969–1976*, Vol. III, doc.130.

⁵¹² *FRUS, 1969–1976*, Vol. III, doc.115, Talking Paper Prepared in the Department of the Treasury Washington, February 18, 1969.

⁵¹³ The first allocation was at SDRs 3414.1 million, the SDR's value was set equal to the value of 1/35 ounce of fine gold. This was the same as the gold value of the U.S. dollar at the time.

⁵¹⁴ *FRUS, 1969–1976*, Vol. III, doc.150, Memorandum From the U.S. Executive Director of the International Monetary Fund (Dale) to the Under Secretary of the Treasury for Monetary Affairs (Volcker), November 23, 1970.

rather than gold. The Americans made an analogy of a moderate increase in the gold price to the “Munich settlement”, which could last just for a short time and encouraged the speculation on gold: “Central banks holding gold would have gained a gold profit, while holders of dollars would not, many central bankers would face public criticism for holding dollars. This would be likely to induce substantial requests for conversion of dollars into gold, especially by smaller central banks.”⁵¹⁵

As the NEP was announced by President Nixon on August 15, 1971, the reserving role of gold was deprived definitively. The international monetary market entered into the paper currency-standard and the role of SDRs became increasingly manifest as well.

5.1.3. The second round of U.S.-German offset negotiations and U.S. demand for monetary cooperation in 1971

In addition to taking measures to defend the U.S. dollar, the Nixon administration continued to conduct the negotiations with West Germany on the offset problems.

The years of 1970 and 1971 saw the drastic change of U.S. political and monetary relations with its European allies. Due to world economic competition and lax U.S. monetary policies, its deficits in the balance of payments had not been alleviated, therefore to continue the offset negotiations with West Germany in military field was relatively important for the Nixon government. All in all, according to an analytical report to the government, “U.S. deficits have been forcefully affected the U.S.’ heavy external costs for military expenditures to protect Europe and Japan.”⁵¹⁶

However, the offset negotiation for the years of 1972-1973 encountered more difficulties than the previous ones. Since the Nixon era, the Americans prepared to hold Mutual and Balanced Force Reductions (hereafter MBFR) talks with the Soviet Union. The secret negotiations between these two countries triggered a crisis of confidence from the Europeans.

On the one hand, Europe feared that the United States and the Soviet Union reached an agreement of bilateral force withdrawals by sacrificing Europe’s interests.

⁵¹⁵ *FRUS, 1969–1976*, Vol. III, doc.153, Paper Prepared in the Department of the Treasury, May 9, 1971.

⁵¹⁶ *FRUS, 1969–1976*, Vol. III, doc.153, Paper Prepared in the Department of the Treasury, May 9, 1971.

The sentiment of uncertainty was spreading in Europe. During the Secretary of Defense Melvin's trip to Europe, for example, he became directly aware of Germany's feeling of mistrust in U.S. future actions and the fear of U.S.-Soviet agreement on reducing U.S. and Soviet forces by 5% without prior consultation with U.S. NATO allies.⁵¹⁷

On the other hand, in the eyes of the United States, Western Europe hoped to regard MBFR negotiations as an opportunity to reduce their contributions to NATO. Negotiation to update the two-year contract in 1971, was therefore a symbolic signal to indicate that the United States hoped to seek continuous financial aid from Europe, and it was also a chance to reaffirm the Nixon government's European defense commitment. Nevertheless, the U.S.-German negotiations were deemed to be hard due to the changes in the external environment. There was a strong voice from Congress which asked for U.S. troop redeployment in Europe.

For the Germans, as early as June, 1970, German Defense Minister Helmut Schmidt, mentioned that if the Germans had all the basic military equipment they needed, their government would not carry on the current form of offset agreement. It was hoped that European Defense ministers established a new type of multilateral contribution from European NATO countries to assist the U.S. in meeting its defense burdens in Europe.⁵¹⁸

Against this background, the offset negotiations lasted for more than 7 months. The two sides held at least four rounds of negotiations in Bonn and in Washington (except the behind-the-scenes maneuvering and consultations). The first round took place in Bonn on March 10 and 11, 1971. The second was held in Washington on April 15 to 16, 1971, due to the grand divergences on the amount of direct budgetary support and the level of military procurement; the third was postponed until June 28–29 in Bonn, and the fourth was held in Washington August 3–4. U.S.-FRG offset agreement was finally signed in Brussels on December 10, 1971 by Deputy Under Secretary of State Nathaniel Samuels and Ministerial Director Dr. Axel Herbst. It contained an amount of DM 3950 million (equaled to \$1130 million) for procurement

⁵¹⁷ *FRUS*, 1969–1976, Vol. XLI, doc.74, Memorandum From Secretary of Defense Laird to President Nixon, November 9, 1971.

⁵¹⁸ *FRUS*, 1969–1976, Vol. XLI, doc.41, Telegram From the Embassy in Germany to the Department of State, June 12, 1970.

of U.S. defense goods and services, the investments for troop facilities and Bundesbank credits.⁵¹⁹

The U.S.-German negotiations on the offset agreement finally came to an end in December, 1971. Through these formal and informal meetings, the Nixon administration realized clearly that Germany would not implement the offset agreement separately, and both of the two sides turned to consider a new form of military compensation: “the Brandt government is under pressure not to make any more bilateral financial arrangements to offset our troop costs, but in 1973, to replace it with a NATO-wide multilateral arrangement. This is probably in our interest as well.”⁵²⁰

However, the pressure from U.S. Congress for force withdrawal did not decrease as Europe compensated U.S. military expenditure. In May, 1971, Senate Majority leader Mansfield presented a proposal to reduce the number of troops stationed in Europe to 150,000. Although Mansfield’s proposal was finally rejected by the Senate, this event sounded the alarm for the Nixon government. According to the officers in charge of economic and financial affairs, the burden of the huge overseas military forces was indeed one of the reasons for the weakness of the dollar. As Volcker put it bluntly: “Shouldn’t we consider that we may be getting into an unsustainable position if we take a stand that we will never move troops out of Europe? Obviously, we don’t want the Mansfield resolution, but we ought to look into the possibility that we are not going to be able to sustain our present position...we are already in this position after a little flurry on the exchange markets. Where will we be if something really serious happens⁵²¹?” Here, Volcker linked the military burdens with the U.S. exchange problem directly. And this view was shared by a large majority of officials in the Nixon government, which later became one of the main standpoints of the U.S.-European negotiations.

5.1.4. The turbulence in the international monetary market and Nixon's announcement of the “New Economic Policy”

⁵¹⁹ *FRUS*, 1969–1976, Vol.III, doc.86, Telegram From Secretary of State Rogers to the Department of State, December 10, 1971.

⁵²⁰ *FRUS*, 1969–1976, Vol. XL, doc.333,Memorandum From the President's Assistant for National Security Affairs (Kissinger) to President Nixon, December 24, 1971.

⁵²¹ *FRUS*, 1969–1976, Vol. XLI, doc.62, Minutes of a Legislative Interdepartmental Group Meeting, May 12, 1971.

Since early 1971, the international monetary market suffered from the continuous turbulence and speculation. Loosening capital controls of the Nixon government enlarged the gaps between U.S. and European business cycles and interest rate differentials. This action was viewed as negative U.S. attitude toward the balance of payments deficit: “benign neglect” and had unfortunate monetary effects. Beyond that, it would further encourage foreigners to seek ways of insulating themselves from the effects of U.S. economic and monetary policies.⁵²² U.S. economic policies aggravated the U.S. dollars’ outflow.

Nevertheless, the new Treasury Secretary, John Connally,⁵²³ did not take the balance of payments and the dollars’ outflow as being the US’ own problems. He advocated “monetary restraint was not the solution, and the need was for strong measures to alter the balance of payments structure.”⁵²⁴ When he met with the French Finance Minister, Connally reinstated that the basic trade adjustments were needed and the U.S. spent too much abroad.⁵²⁵ The nomination of Connally as the Secretary of the Treasury Department was an evident signal that the Nixon government prepared to adopt a more radical measure in dealing with the international monetary problems, especially the gold issue and the convertibility of U.S. dollars to gold.

For the Treasury Department under the governance of Connally, the monetary and economic problems were due to the impact of the external environment, so they did not want to change U.S. economic policy. U.S. short-term capital outflows continued and the deficit for the first half of 1971 on the official settlements basis amounted to \$22 billion at an annualized rate.⁵²⁶

On May 5, 1971, in a paper prepared in the Department of the Treasury, the Group of Volcker proposed that the United States could use the following negotiating tactics with Western Europe and Japan, such as: (i) suspension of gold convertibility; (ii) imposition of trade restrictions; (iii) diplomatic and financial intervention to frustrate foreign activities which interfere with the attainment of our objectives; and (iv) reduction of the U.S. military presence in Europe and Japan, and make clear from the start that the U.S. would be prepared to live with the floating rate systems indefinitely. U.S. fundamental goals were to achieve:

⁵²² *FRUS*, 1969–1976, Vol. III, doc.62, Memorandum From the Deputy Under Secretary of State for Economic Affairs (Samuels) to the President’s Assistant for International Economic Affairs (Peterson), April 8, 1971.

⁵²³ John Connally took office as Secretary of the Treasury from February 1971 to June 1972.

⁵²⁴ H. James, *op.cit.*, 216.

⁵²⁵ *FRUS*, 1969–1976, Vol. III, doc.156, Memorandum of Conversation, May 20, 1971.

⁵²⁶ H. James, *op.cit.*, 217.

- a) A significant revaluation of the currencies of major European countries and Japan as a result of floating rates or other actions.
- b) A fairer sharing of the balance of payments and budgetary costs of the military burden.
- c) An improvement in the trade policies of the European countries and Japan.
- d) A sharing of foreign aid, which takes into account U.S. defense burdens.
- e) Monetary improvements, including greater rate flexibility and phasing out of gold and avoidance of excessive use of controls.⁵²⁷

Looking beyond these tactics and objectives, we can find that as early as May, 1971, the Nixon administration had already formed their basic negotiating strategies: ending the gold-dollar convertibility; imposing trade restrictions; discussing military affairs with Europe and Japan. But they did not talk much about the possible reactions of the Europeans and Japanese. Furthermore, the Nixon cabinet regarded the floating of DM and Dutch guilder in May as a signal to adopt more flexible monetary policies, “Germany provided almost a mirror image of the U.S. position.”⁵²⁸

At the beginning of August, 1971, the international exchange market experienced another upheaval. On August 2, Nixon met with John Connally and Director of the Office of Management and Budget, George Shultz, to discuss the responses. The two were in the group of an economic kitchen cabinet—the “Quadriad,”⁵²⁹ and the reasons to be chosen were that “they were not, as he saw them, among the ‘ideologues who grew up with Bretton Woods and just don’t want anything to change.’”⁵³⁰ According to Nixon’s assistant, H.R. Haldeman, Connally was the “first architect” to form the NEP, and this meeting achieved a huge economic breakthrough based on the international monetary situation which would provide a closing of the gold window, a floating of the dollar, a wage and price freeze for six months in the United States, a re-institution of the 7 percent investment tax credit, and the imposition of a 10 percent import tax quota.⁵³¹

⁵²⁷ *FRUS*, 1969–1976, Vol. III, doc.152, Paper Prepared in the Department of the Treasury, May 8, 1971.

⁵²⁸ H. James, *op.cit.*, 214.

⁵²⁹ The other two were the President’s Assistant for National Security Affairs, Peter Peterson and the Chairman of the Council of Economic Advisers, Paul McCracken.

⁵³⁰ Nichter, *op.cit.*, 107.

⁵³¹ H. R. Haldeman, *The Haldeman Diaries: Inside the Nixon White House* (New York: Berkley Books, 1995),

On August 10, 1971, affected by the pound crisis, the Heath government had asked for \$3 billion to be converted into gold, which put the Nixon government into a great dilemma: “if we gave it to them, other countries might follow suit. If we didn’t, they might wonder if we had enough gold to support the dollar.”⁵³²

The turmoil in the foreign exchange market in early August and the influence of Connally and Schultz on the President's decision-making process finally led Nixon to announce the most famous economic policy during his tenure. Domestic measures included freezing wages prices, rents and dividends for 90 days, cutting federal spending; the measures on international economic and monetary issues included closing the gold window, imposing a 10% import surtax, and cutting foreign aid spending by ten percent.⁵³³

Although the NEP temporarily eased the pressure on international speculation against the U.S. dollar, the Chairman of the Council of Economic Advisers, Herbert Stein, was frank to admit that during the Camp David meetings, the Nixon cabinet did not specify the direction of their international economic policies. In the absence of members of the National Security Council and members of the State Department, the Nixon administration failed to discuss the consequences of its international economic policies as well.

II. The monetary and political strategy of the Pompidou government, 1970-1971

Between 1969 and 1971, the Pompidou government devoted itself to enhancing the international competitiveness of French products and the establishment of an integrated economic and monetary union inside the European Community. In the international monetary field, the Pompidou government had not insisted on returning to pure gold standard for a long time and gradually accepted the introduction of SDRs.

However, short-term dollars continued to flood into Europe, and changed the pace of Europe’s effort, by forcing the Brandt government to close the foreign exchange market in May 1971. What was worse, on August 15, 1971, the Nixon administration suddenly announced the closing of the gold window and added 10%

407-408.

⁵³² Ibid, 413.

⁵³³ Proclamation 4074—Imposition of Supplemental Duty for Balance of Payments Purposes, August 15, 1971, online visit at <http://www.presidency.ucsb.edu/ws/index.php?pid=10702> visited on March 1st, 2017.

surtax. Although the U.S. president proclaimed that these foreign economic measures did not refer to any countries, the termination of gold-dollar convertibility and ten percent surtax had in fact a great impact on Western Europe. As an advocate of fixed exchange rate regime and vindicator of narrowing the margins of exchange rates, the Pompidou government had paid much attention to this series of changes, instead of emphasizing France's needs and discontent, this time the French showed a pragmatic style in dealing with international economic issues, insisting the common interests of the Six and playing an active role in negotiating with the United States.

This section will examine the negotiation strategies of the French government in dealing with international monetary issues. Looking through the restrained meetings of the Pompidou cabinet, the ministerial meetings of the Six, and the summits of Pompidou with other heads of state, it is revealed how the Western countries used diplomatic and political skills to resolve major economic divergences and maintained the stability of the alliance.

5.2.1. Global monetary market in 1971 and the floating of D-Mark and Dutch guilder in May, 1971

According to the final version of the "Werner report", the Six would implement the coordinated monetary measures during the first stage since January 1, 1971.⁵³⁴ However, even compromises were made in the Report; it was no longer politically feasible. Since March 1971, inflows of U.S. dollar into G-10 countries became intense, and during the Ministerial meeting inside the EEC in April, German Finance Minister Schiller reportedly suggested two approaches to the other five about dealing with the dollar inflows: a temporary joint float of EEC currencies or a multilateral parity adjustment. Schiller personally preferred the former,⁵³⁵ by contrast, the French and the Italians rejected any suggestions. Deeply perturbed by the currency pressure, the German and Dutch economic authorities finally decided to close their exchange windows and float the currencies in May, 1971, while capital controls were introduced in the other countries of the Community to try to stem the speculation.

Since May, 1971, the measures proposed by the "Werner Report" for the first

⁵³⁴ On February 1971, the the Council of the EEC approved the Werner Plan, and decided that since June 15, the exchange rates among the Six would reduced from $\pm 0.75\%$ to $\pm 0.60\%$.

⁵³⁵ *FRUS*, 1969–1976, Vol. III, doc.151, Editorial Note.

stage were interrupted, and its objective — limiting the fluctuations in the rates of exchange between their currencies to narrower margins than those resulting from the application of the margins in force for the dollar at the time of the adoption of the system⁵³⁶— failed.

The impact for the financial crisis and Germany's action were severe. According to Dimitri Grygowski, the monetary crisis of May, 1971, was a decisive moment for the Europeans: the crisis was truly a crisis of dollar, but during which, the U.S. Treasury reacted as a spectator sitting among the quarreled Europeans.⁵³⁷ The upheavals in world monetary markets in May raised serious doubts about the feasibility of the “Werner Report” and the plan envisaged for the first stage.

The Pompidou government was particularly dissatisfied with the actions adopted by the German and Dutch authorities, since they disordered the European and the global monetary markets. The regional monetary system was not as solid as the Pompidou government planned to be, and France's influence for balancing the impact of the United States was diminished as well. On different occasions, President Pompidou criticized the unilateral actions of Germany and Holland on floating their own currencies. In the press conference of May 26, 1971 and the meeting between Pompidou and Brandt, he condemned:

The recent decisions taken in Brussels⁵³⁸ have badly disguised a situation that is not communal, which is fundamentally anti-community. When I speak of the Federal Republic, I do not criticize it at all... she had her problems therefore she wanted to solve them and she had her solutions...I dare to hope that the deadlines set by the Community will be taken into account, we will settle the questions between Europeans and between European currencies in such a way that we can restart our march towards the monetary union ...⁵³⁹

However, when the Six were busy trying to harmonize their policies' divergence, on August 15, U.S. President Nixon announced the suspension of the dollar-gold

⁵³⁶ Report to the Council and the Commission on the realisation by stages of economic and monetary union in the Community, October 8, 1970, in *Bulletin of the European Communities*, 1970 (Supplement 11/70): 22.

⁵³⁷ D. Grygowski: *Les Etats-Unis et l'unification monétaire de l'Europe...op.cit*, 132.

⁵³⁸ It indicated to the European Community agreement to the float of Deutschmark.

⁵³⁹ AN, 5AG2, volume 1089, “La conférence de presse tenue par Georges Pompidou,” 26 mai ,1971.

convertibility. The dysfunction of gold brought the world monetary system into the *de facto* dollar-based system. Even worse, this move had disrupted the pace of the European Community to construct their monetary union. The U.S.-European relationship and the internal relations of the Six became much more tense and fragile after that.

5.2.2. France's response to the "Nixon Economic Shock": the discussions of *Conseil Restreint* on the crisis management (from August to November, 1971)

Though the targets of New Economic Policy were “inflation, unemployment, and speculation,”⁵⁴⁰ and during his speech on August 15, 1971, Nixon emphasized the domestic program over international proposals, arguments quickly and violently arose from Western Europe and Japan. The Japanese described this declaration as a “Nixon shock”; the Europeans, more seriously, took it as a hostile action against EC.⁵⁴¹

The day after the announcement, U.S. Under Secretary of the Treasury for Monetary Affairs, Paul Volcker, flew immediately to London to explain their goals. Similarly with the President, he stressed the administration’s priority against the internal inflation and unemployment. Then he turned to the key issues deeply concerning the Europeans, namely, the United States would not change the parity of gold due to the gradual disappearance of its monetary role; whether the U.S. dollar could come back to the convertibility was not yet decided. However, the Europeans struggled to accept his explanations. Germans and Italians concentrated on the surtax, while the French and Belgians were concerned more with the stability of the fixed system and dollar’s convertibility.

After collective talks, French Finance Minister, Valéry Giscard d’Estaing, met Volcker bilaterally. Ignoring Volcker’s repetition of U.S. worries about the internal affairs, Valéry Giscard d’Estaing quickly pointed to the international monetary issues: “Are you still adherent to the fixed parities in the frame of the Bretton Woods system?” With a little hesitation, Volcker replied: “Generally speaking, yes. But in order to restore the convertibility of dollar and respect the fixed parity regime, as I

⁵⁴⁰ Richard Nixon, Address to the Nation Outlining a New Economic Policy: “The Challenge of Peace,” August 15, 1971.

⁵⁴¹ AN, 86AJ, volume 132, “Projet de compte rendu du *Conseil Restreint* du 18 août 1971, consacré aux problèmes monétaires”.

have explained, we need to re-organize the Bretton Woods system for a better external monetary environment: this is the aim of the program of Nixon.”⁵⁴²

Then Valéry Giscard d’Estaing emphasized the gravity of the situation due to U.S. actions:

By deciding to adjust your external payments and letting your currency float, you have taken a serious risk with regard to the international monetary organization and the fixed parities. A return to the competitive devaluations like 1930s is not excluded...the U.S. decisions will fundamentally change the operating conditions of the international monetary system. Under the floating dollar regime, central banks will not acquire dollars at the fixed parities and will refuse to change dollars to Special Drawing Rights. You have undermined the mechanism of SDRs...⁵⁴³

During this brief conversation, Valéry Giscard d’Estaing mentioned several important problems: the fixed parities and the introduction of SDRs. Though he did not make the French proposition clear, the Americans were well aware of French demands and oppositions: “the French persistent underlying objective has been (a) a substantial increase in the price of gold, large amounts of which are in French hoards, and (b) the imposition of very stern discipline on the U.S. through severe limitations on the future of the dollar as a reserve currency.”⁵⁴⁴ This was a continuance of French requests from the de Gaulle era that the French strongly demanded the United States to devalue the dollar and change the price of gold.⁵⁴⁵ Being aware of the divergences and willingness to ameliorate the American-French relationship in the early days of his administration, nevertheless, Nixon would not intend to make concessions on issues touching U.S. national interests. Under great pressure of the balance of deficit payments and the weak position of the dollar, the Nixon government decided to take

⁵⁴² CAEF, B52111, Compte-rendu de l’entretien du mardi 17 aout 1971 entre M. Valéry Giscard d’Estaing et M. Volcker, le 17 aout 1971.

⁵⁴³ CAEF, B52111, Compte-rendu de l’entretien du mardi 17 aout 1971 entre M. Valéry Giscard d’Estaing et M. Volcker, le 17 aout 1971.

⁵⁴⁴ DDRS, CK2349603172, “Talking paper on international monetary reform in preparation for President Richard M. Nixon’s 2/28-3/2/1969 trip to France”. United States: Department Of State, 18 Feb. 1969.

⁵⁴⁵ M. Rae, *op.cit.*, 103.

measures against the French demands, and this event eventually became an impressive point in the bilateral relations in the Nixon-Pompidou years.

The announcement of the NEP was a big challenge for the Pompidou cabinet, not only because the French proposals for the reform of IMS since the 1960s were totally abandoned by the U.S. government, but also because it disrupted and endangered the European integration process, especially the common agricultural policy (CAP) and the future establishment of Economic and Monetary Union. What France could do to save the fixed exchange rate system and how the Six could react in a common approach deeply perplexed the Pompidou government.

On August 18, President Pompidou convened the Premier Ministre Chaban-Delmas, the Minister of Foreign Affairs Maurice Schumann, the Minister of the Finances Valéry Giscard d'Estaing, and the Chairman of the Bank of France Olivier Wormser, to study the current monetary and economic situation. The President pointed out that three important problems were to be solved: 1) determine an immediate French attitude; 2) reflect on the way in which the French think that ultimately the IMS will get the stability; 3) find a solution at the European level and seek opportunities to take the initiative.⁵⁴⁶

In response to the first problem, Valéry Giscard d'Estaing gave four possibilities, among which, two were extreme: 1. maintain the *status quo* with the current dollar-franc parity; 2. accept the flotation of the currencies; 3. maintain the fixed exchange rate in the zone as large as possible (EEC, UK and perhaps Japan); 4. introduce dual exchange rate system.⁵⁴⁷ Valéry Giscard d'Estaing evaluated the four possibilities and believed that no matter what the nature of the initiatives to be taken at the international level, it was important to find an immediate way to lead the French economy along the right line.⁵⁴⁸

In his opinion, the first two measures were to be eliminated and the last two had their feasibility:

- The franc retains its fixed parity, according to the articles of IMF of 1969: 160 mg of fixed gold;

⁵⁴⁶ AN, 86AJ, volume 132, "Projet de compte rendu du *Conseil Restreint* du 18 août 1971 consacré aux problèmes monétaires".

⁵⁴⁷ Ibid.

⁵⁴⁸ Ibid.

- Based on the principles, a double market or even a triple market is to be instituted;

- For all the commercial transactions, the purchases of foreign exchange sales could be in accordance with the official exchange market, with the intervention of the Bank of France to regularize prices within the current margins ($\pm 0.75\%$) or margins of the IMF ($\pm 1\%$).

- At the same time, the financial market on which the Bank of France would not intervene could allow the free floating of francs for non-commercial needs. Currencies needed for tourism, "invisible" trade, capital transactions would be processed in this market.

Olivier Wormser, governor of the Bank of France, agreed with Valéry Giscard d'Estaing's proposals. Keeping the *status quo* was impossible; currency floating meant the victory of the United States and the death of the CAP; common flotation in the Community was unrealistic because it would create a mark zone. Taking all the problems into consideration, the French had no choice but to adopt a dual exchange markets⁵⁴⁹.

When referring to the construction of Europe, according to Valéry Giscard d'Estaing, there were two aspects to be noticed:

Politically, the Community has been paralyzed by the disagreement on monetary area since May. The prerequisite is Germany and Netherlands' return to fixed parities. Now the Germans are disconcerted, they prefer to stay at the flotation. Unless there will be a strong political pressure against them, we will not get anything from them. It is important to take a European political stance, but we should be realistic not to expect a solution in the days to come.

Technically, we could think about two common solutions. Parities are welded within the Community, and European currencies float together against the dollar. Or set up a double market on the scale of the common

⁵⁴⁹ According to Claude Pierre-Brossolette, the French Treasury director, the idea of dual market was first proposed by him soon after the Nixon announcement, for the reasons of protecting the merchandises and restricting the influx of U.S. dollar. His proposition was quickly adopted by M. Clappier and M. Giscard, and the latter raised the suggestion during the conseil restraint meeting. See the interview of de Pierre-Brossolette, le 30 janvier 1998, Association Georges Pompidou.

market. In the latter case, commercial transactions could be at fixed parity, the exchange rate in financial markets could be consulted among the Six...in any case we would have made a community proposal...⁵⁵⁰

After discussing the technical problems, the Minister of Foreign Affairs, Maurice Schumann pointed to the negotiation tactics. He suggested it was better to avoid the insistence about the CAP; instead, the French could take an initiative with the European characters, and avoid two dangers: the risk of arriving at the dollar standard and the risk of accepting a zone of D-mark.

On the same day, August 18, 1971, a summary about the meeting of the European Monetary Committee warned that France should avoid repeating the experience of isolation like on May 9th. Michel Jobert⁵⁵¹ considered that it was better to know what would happen with the opening of the foreign exchange market. In this case, the solution of the double market seemed to be the least negative; in addition, he believed that in order to reject both the American diktat and the cloistered anarchy, politically it was necessary to take a positive attitude on the European plan which could replace the Schiller plan of May and allow the French to cooperate with the British.

Rebuking the hegemony of dollar and refusing an IMS under the dollar were understandable. Just like Marc Viénot, French Deputy in IMF, who stated in the session of IMF that the dollar must no longer enjoy a privileged position in the system.⁵⁵² To be unexpected, the Pompidou government left an eye on the influence of mark and kept vigilant of the possibility of creating a zone of German currency. Another point worth noting is that almost all of the French executives emphasized the importance of a French initiative in the European Community's scale. In fact, preventing the formation of a mark zone, or raising the French initiatives were two problems well-related, as the aim was the same: to maintain the French leadership in the Community and keep the voice of France heard in the world.

This internal meeting and report, set up the framework for French international negotiations in the days to come. Soon after the restricted council meeting, the press

⁵⁵⁰ AN, 86AJ, volume 132, "Projet de compte rendu du *Conseil Restreint* du 18 août 1971 consacré aux problèmes monétaires".

⁵⁵¹ Michel Jobert, General Secretary of the Presidency of the Republic from the 1969 to 1972.

⁵⁵² ABDF, 1489.2002.04, volume 31, "Statement by Mr. Viénot at Informal Session 71/11-September 8, 1971".

agency of the President stated that:

“The French Government observes that the decisions made by the United States are not in conformity with the articles of IMF, the General Agreement on Tariffs and Trade and the agreement on the use of SDRs...

The French government will keep attached to the principles of the fixed parities, based on the value of gold and the value of the monies...

...the French government suggested that the Six should determine a common policy so as to assure the regular development of their internal exchanges...during the Council of Ministers of the EEC convened on Thursday August 19 in Brussels, the French Delegation will propose to its partners the following measures: in order not to leave the value of the currencies influenced by the uncertain laws of supply and demand in a world covered by speculative movements, according to the IMF articles, access to foreign exchange markets operating would be reserved for commodity transactions. The intervention of the central banks in the financial markets would be discussed by the Community later.”⁵⁵³

This announcement was consistent with the internal discussion on August 18, 1971, and the dual exchange rates system was soon put into practice. Although the cabinet of the Pompidou government had agreed on measures for the Nixon economic shock, for the EC as a whole, the controversy was far from being solved since the flotation of DM and florin. When the U.S. NEP was published, the European monetary and economic situation became more complicated.

5.2.3. The negotiations between France and the EC members

Just like the French internal discussion indicated, the Pompidou government expected to put forward an initiative in the face of the U.S. challenge. Negotiations inside the European Community actually concerned two different processes, one from a national level and one from a community level.

On August 19, the ministers of the Six met for the first time after the U.S.

⁵⁵³ AN, 5AG2, volume 1089, Note, 18 août 1971.

statement, but could not reach a consensus: “The European Community, at its Ministerial meeting on August 19, was unable to agree on a common approach, but decided that when foreign exchange markets reopened on Monday, August 23rd, each member would adopt its own approach.”⁵⁵⁴ Being conscious of the divergences, those in charge of Finances and Economic affairs of the Six (including the UK) met bilaterally, and the Council of the Community decided to hold another meeting on September 13, 1971.

Being the most important countries in the EC, either disagreement or consensus between France and Germany could become the key factor to influence a common monetary policy. Undesirably, it was hard to reach that consensus. A memorandum from the French Finance Department recorded clearly Germany’s positions, such as: for the sake of international monetary and economic readjustment, demanding the devaluation of dollar, revaluation of yen and asking the United States to cancel the discriminated tariff measures; for European monetary relationship, creating immediately a pivot rate among the currencies of the Six. The new parities could be based on the decisions reached May 19, 1971:

West Germany: +6%

Netherlands, Belgium,(France): +3%

Italy: 0

For external policies, the Germans passionately advocated of an enlargement of the margin, which from their point of view would be the best temporary solution to protect the monetary market in the Community.⁵⁵⁵

In this memorandum, France showed no offensive response to German proposals, but in another meeting between France and Great Britain, Valéry Giscard d’Estaing expressed his strong discontent: “West Germany did not want to fix their parity of DM. It was technically impossible to assure the fixed parities among the Six and adopt a common attitude with the rest of the world.”⁵⁵⁶

Another divergence rested in their attitude towards the role and price of gold.

⁵⁵⁴ “Editorial Note”, *FRUS*, 1969-1972, Vol. III, doc. 172.

⁵⁵⁵ CAEF, B0052111, “Note pour le Ministre”, le 31 Aout 1971.

⁵⁵⁶ CAEF, B0052111, Compte-rendu des entretiens Franco-Britanniques, du 7 Septembre 1971.

The French firmly called for revaluing the price of gold, while Germans were more indifferent on the subject: “gold could play a certain role but was impossible to be the ideal instrument as reserve money. It could be exposed to the speculation.”⁵⁵⁷

In this sense, the German authority was against the revaluation of gold in reason of the danger of inflation and the movement of speculation. The judgment of Germany and France corresponded as well to their reserve proportion, like the table shows below:

Table 9 Reserves of the principal countries (June 10, 1971: million of dollars)

	Gold (A)	Currency (B)	Other reserves (C)	Total (D)	A/D
United States	10.5	0.3	2.7	13.5	78%
France	3.5	1.8	0.1	5.4	65%
Germany	4.0	10.6	1.4	16.0	25%
Italy	2.9	2.6	0.5	6.0	47%

⁵⁵⁷ CAEF, “Note pour le Ministre”, 31 Aout 1971, B-0052111.

Belgian	1.6	0.7	0.7	3.0	51%
Netherlands	1.8	0.6	1.0	3.4	54%

Source: AN, 86AJ, volume 132, "Renseignement statistiques sur la composition des réserves de la France et des principaux pays et note sur les swaps", le 10 June 1971.

Germany kept a low rate of gold reserves and in contrast, France and Belgium retained a large proposition. Under these circumstances, France could not give up the gold as reserve money, but metallic reserves did not make a difference for the Germans.

In meeting with the Benelux, French Treasury Director, Pierre-Brossolette, repeated his basic positions on reforming the IMS, such as: call for a return to the fixed parities, inter-convertibility of the principal monies, abolition of the hegemonic role of dollar, partial consolidation of the dollar balances, and installation of an effective control of the capital movements. He underlined the French hostility against all forms of flexibility added to the fixed system and eliminated the possibility of revaluing the franc. His ideas were supported by Étienne Davignon, the political director at Belgium's Ministry of Foreign Affairs. On the contrary, the Dutch kept reserved opinions on fixed parities, the chief of the Holland delegation proposed that they were agreed with "the devaluation of dollar, the diminution of its role as instrument of reserve", but preferred "the enlargement of the margins".⁵⁵⁸

Obviously, there were divergences among propositions of France, Netherlands, Belgium and Germany. Up until the beginning of September, the Six could not reach any consensus.

In the meantime, the Commission of the Community published a report and stated several problems faced by EEC and tried their best to show a common basic

⁵⁵⁸ CAEF, B0052111, "Compte-rendu sommaire des entretiens du 10 Septembre 1971 entre la France et les Pays du Benelux au niveaux des experts", le 10 Septembre 1971.

standpoint:

1. In the international payment relations, a satisfactory balance will not be restored unless the realignment is built among the currencies. Such a realignment should include the currencies of all the industrial countries, including the dollar;

2. Reforms to the international monetary system should respect the principle of fixed parities, which is necessary for the security of transactions and the expansion of trade. The Community, as the world's largest trading group, is particularly interested in this part.

3. International liquidity should continue to be based on gold and, to an increasing extent, on reserve instruments collectively created and managed at the international level; this includes the adaptation and development of the special drawing rights system.⁵⁵⁹

According to the conclusion of this report, it was essential for the Europeans to form a common policy towards the outside as well as the inside, make sure they establish the fixed and realistic exchange rates between member countries, and introduce a degree of flexibility in foreign exchange, particularly through the use of a moderate widening of the margins of fluctuation vis-à-vis the third country.

This report, produced by the executive department of the Community, was the first official paper to make clear the common measures after the U.S. announcement on August 15. It reflected the willingness of the Six to form a common EC policy, and indicated the coordination among members. Most of the French propositions were adopted, which laid the fundamental root for the Ministerial meeting on September 13, the Franco-American negotiation on Azores and the Smithsonian Agreement (except that gold never found its convertibility since August 15, 1971). However, to some extent, the flexible exchange rate gained increasing importance, when the dollar crises and speculation occurred again in 1972 and 1973, compromise on keeping the fixed parties came to the end, and the monetary cooperation of the Six suspended as well.

Based on the published paper of the Commission, on September 13th, the

⁵⁵⁹ ABDF, 1489.2002.05, volume272, "Communication de la Commission au Conseil sur les problèmes posés par la situation monétaire actuelle, Bruxelles", le 9 septembre 1971.

ministerial meeting repeated their principle accordance, such as “respect the principles of the fixed parties; fight against capital speculations; maintain the role of gold (develop and adapt the usage of Special Drawing Rights); reforge the IMF’s authority.”⁵⁶⁰ Different from the preceding reports, this declaration emphasized the importance of adjusting national currencies to the balance of payments and the necessity of realigning the dollar’s parity.

In conclusion, up until mid-September, the Six struggled for a common response to the U.S.’ “offensive” actions. Finally they decided that the fixed parities should be kept and gold could continue to play a role in the IMS. Pompidou also admitted that the official document of the Ministerial Meeting on September 13 reflected a certain degree of the French ideas.⁵⁶¹ However, Germany’s demand for the joint float and the widened margins became the mainstream on both the European and international level, which predicted the instability of the establishment of European EMU as well as the disintegration of the Bretton Woods system. Exactly as the Journal “Entreprise” indicated: “the Europeans would find it difficult to agree among themselves. Any compromise can only be a *pis-aller* that solves nothing.”⁵⁶²

5.2.4. Pompidou’s “pragmatism” and discussions between two persons in charge of European monetary affairs

In front of the U.S. unilateral declaration, the western world dropped into full-scale turmoil. The huge changes in economic and monetary fields impeded the European integration process; what’s more, it gave rise to the bilateral/multilateral talks of the Six, their willingness of cooperation and their reluctance to compromise.

When speaking of compromise, according to the European official declaration reached in September, the Six were willing to reserve the fixed exchange rate regime and retain the role of gold. It meant that the Germans and the French reconciled in the basic standpoint on the monetary system; it also meant that the French administration realized the world tendency towards the application of SDRs and limited flexible exchange rate mechanism.

⁵⁶⁰ CAEF, B0050481, “Conseil des Ministres de la CEE (Ministres des Finances du 13 septembre 1971)”, 15 Septembre, 1971.

⁵⁶¹ AN, 5AG2, volume 1089, Conference de presse, le 23 Septembre 1971.

⁵⁶² ABDF, 1489.2002.04, volume 31, “Entreprise-831/832”, le 21 août 1971.

On September 23, 1971, at a press conference, Pompidou stated that the French approach was more practical than theoretical in coping with this emergency. Namely, monies should be convertible, not merely pegged to gold - it was a dream to lay only on gold - but they should be convertible with each other. Central banks accepted not only the gold as their reserves, but also the SDRs and other diverse reserves. As for margins of fluctuation, he mentioned "it is necessary to widen them slightly...but should not be too broad."⁵⁶³

The acquiescence of the widened margins and acceptance of the usage of SDRs suggested that Pompidou adopted a more moderate approach to dealing with international monetary affairs and adapted to the world's tendency. His cabinet also shared these views. Jean-René Bernard talked about the fluctuation of the German mark; since May, 1971, he considered that "it is not reasonable to ask our main partner to come back immediately to the fixed parties"⁵⁶⁴

The pragmatic way to deal with the monetary affairs laid the groundwork for the communication of the Group of Ten and the settlement of the Smithsonian agreement. Besides, Pompidou emphasized the importance of the European internal cooperation. France accepted Schiller's point of view regarding the parallel construction of the Economic Union and the Monetary Union. As one of the officers in the Pompidou government commented: "The style of President Pompidou proceeded from the conjugation of the intelligence of external world and a temperament marked modesty and respect for others."⁵⁶⁵

Like Pompidou's, the Brandt's administration insisted on the coordination of their interests with the French cabinet. During the talks with French officers, Ludwig Poullain, on behalf of Chancellor Brandt, stated clearly that Brandt would rather seek a common line with France than an agreement between Germany and America. Unlike German Finance Minister Schiller, a fan of flexible exchange rate regime, Brandt preferred to take political measures than just rely on the technical solutions. Chancellor's representative repeated that the Germans were more European than transatlantic: "I believe that we must immediately remove the obstacles between our two countries. Then we could look for a solution within the EEC framework. Finally,

⁵⁶³ "Conférence de presse", le 23 Septembre, 1971, AN, 5 AG2, 1089.

⁵⁶⁴ "Compte-rendu de Deux Conversations avec M Poullain (président de l'Association des Caisses d'épargne allemandes Girozentrale Bank)", le 21 octobre 1971, AN, 86AJ 117.

⁵⁶⁵ Jean-René Bernard, "Pragmatisme et ambition dans l'action européenne du Président Pompidou...art.cit.", 46.

we try to assert this position in relation with the United States.”

Until mid-September, the French and German propositions in coping with U.S. declarations came closer. They were trying to reach consensus and form a common response. This consensus was reclaimed by the Pompidou cabinet in their restricted council on November 10, 1971. During this meeting, the French emphasized again the importance of Franco-German cooperation. The officials spent a lot of time on the arrangement of the conversation between Pompidou and Brandt. Maurice Schumann proposed that the two presidents meet before the conference of the Group of Ten so that their divergences would not be so obvious in the international conference: “whether there is a global solution or a regional solution, there is a basic need for a Franco-German agreement. Therefore, the President of the Republic and Brandt must meet very shortly before the meeting of G10.”⁵⁶⁶ His preference was more political and diplomatic than technological. In contrast, propositions of the Financial Minister and Premier Minister were more practical. Valéry Giscard d’Estaing thought that: “if Pompidou meets Brandt before the G10 meeting, he can only agree with Brandt on a devaluation of the dollar...there are several possibilities to be considered: first of all, we can conceive of what the United States is going to say, such as reach an agreement within the G10. In front of the confrontation, we risk being sacrificed and it will be difficult to prevent such a big agreement in the G-10 conference. The second case is that the United States will say beautiful words, but in the end, all of which are useless. The third hypothesis is that the pressure of the United States will be totally put on the G10, and Connally could say: that's enough; the surtax will increase to 15%, no more aid abroad. In this case, our partnership collapses.”⁵⁶⁷ Therefore, according to Valéry Giscard d’Estaing, the Franco-German meeting should be held after the conference of G10, in order to deal with the possible emergent situation. The Premier Minister was more negative towards the consensus of G-10. He believed that the Pompidou-Brandt meeting was not a bad choice, which could open the way to the so-called regional solution. Besides, the chairman of the Bank of France highlighted the French interest, which relied on the devaluation of the U.S. dollar and the revaluation of mark, but the degree of the devaluation should be controlled, being

⁵⁶⁶ AN, 86AJ, volume 117, “Compte-rendu du Comité restreint du mercredi 10 novembre 1971, sur les questions monétaires”, AN, 86AJ, 117.

⁵⁶⁷ Ibid.

neither too small nor too great.

To sum up, in this restricted Council, the cabinet concentrated on the arrangement of the Pompidou-Brandt conference and the French negotiating strategies. Regardless of the Franco-German divergences, the Pompidou administration needed cooperation and support on the world stage, not only because of the necessity of Community construction, but also for the purpose of “avoiding the isolation from the United States.”⁵⁶⁸

5.2.5. French-German summit and their consensus on the settlement of the Nixon shock

The French-German summit was held at the beginning of December 1971. Just like the French restricted council preconceived, the two heads of the governments came across and would solve more problems that arose in the G-10 meeting.

First of all, it was the problem of the exchange rate adjustment. According to Pompidou, it was appropriate that the dollar devalued by 5 to 7 percent and Deutschmark was revaluated by 5 to 6 percent.⁵⁶⁹ In the meeting with Brandt, the French president obviously showed his opposition to a great devaluation of the dollar, which would engender competitive devaluation. Pompidou then stated:

U.S. proposition does not bother the German nor the Japanese, if the dollar devalued alone. But it is certainly annoying for the French, the Italian and the British... The French position was not yet fixed when U.S. dollar devalued by 5, 5.5, 8 or 10%. Whatever, in any case, we cannot take the different measures from the British and the Italian.⁵⁷⁰

On the contrary, Brandt encouraged a higher devaluation on the American side, the revaluation of the German mark should not pass 5%, with the devaluation of dollar by 5.5%, “Before Schiller went to Rome, I told him not to exceed 5%.”

⁵⁶⁸ AN, 86AJ, volume 117, “Compte-rendu du Comité restreint du mercredi 10 novembre 1971, sur les questions monétaires”.

⁵⁶⁹ AN, 5AG2, volume 189, “*Conseil Restreint*”, le 10 novembre, 1971.

⁵⁷⁰ AN, 5AG2, volume 1011, “Entretien en tête-à-tête entre Georges Pompidou et Willy Brandt au Palais de l’Elysée”, le 3 décembre 1971.

Secondly, it was a problem of margins. For the Pompidou government, they already made concession on the enlargement of margins, 2% hence became the bottom line. Margins inside the EC could be 1.5%, 1.75% for the outside. As for fluctuation margins, the German Chancellor quite approved with narrow margins within the EC but wanted larger margins outside. Like the United States, Germany asked for wider margins, that is, 3 percent.

In contrast with Pompidou's stress on monetary affairs, Brandt showed more interest on the removal of surcharge. What haunted the German government was the commercial negotiation with the United States. "Trade with America plays a greater role for us than for you." As for Pompidou, he suggested that without a solution to the monetary affairs, it was impossible to solve other issues: "We cannot be satisfied with a U.S. promise of devaluation accompanied by commercial concessions on our part, and then their Congress could disagree on the exchange rate arrangement."⁵⁷¹

With basic consent on the fixed parities and narrowed margins inside the Community, the two heads of States finished their conversations and the *communiqué* concluded:

They welcomed the progress achieved during the negotiation of Group of Ten in Rome and underlined the importance of a solution for international developments in both the economic and political spheres. They expressed the hope that it would be possible in the near future to achieve realistic exchange rates adjustment on the basis of the principles of fixed parities. They stressed the paramount importance of monetary and trade issues for the future of the EEC.⁵⁷²

However, the truth was that the French-German summit ended without specific results. Brandt gave a vague attitude towards the mark's adjustment, all the decisions counted on U.S. actions. As for the Pompidou cabinet, the settlement of the four-month turmoil depended also on the meeting between France and the United States.

⁵⁷¹ AN, 5AG2, volume 105, "Entretiens entre Pompidou et Willy Brandt au Palais de l'Elysee", le 4 december 1971.

⁵⁷² AN, 86AJ, volume 116, "Partie économique et monétaire du compte rendu des entretiens entre M. Brandt et le President de la République, lu par les porte-parole".

III. The Franco-American summit and the signing of the “Smithsonian Accord”, December, 1971.

When the Europeans negotiated internally, the discussions between Americans and Europeans continued. At the national level, the most important meeting was the summit between French and American leaders. During this series of meetings, France and the United States made arrangements for the exchange rates of the world's major countries, which cleared the way for the signing of the Smithsonian agreement.

5.3.1. The Group of Ten Conference and Connally's Proposal to reform the IMS, November, 1971

Negotiations about the international monetary affairs were carried out simultaneously on several international occasions with internal government discussions. Regional organizations, like the European Commission, and the monetary committee of EC, were also fully engaged in the monetary settlement.

Among all the discussions, the G10 deputies meetings played a remarkable role in the realignment of the Bretton Woods system. Deputies of G10 met on November 29 and 30. In fact, this series of meetings was planned two weeks earlier, but because of the lack of sufficient consultation within each government, it was postponed until the end of November.

The consideration of floating rates had been ruled out at the beginning of the meeting, but representatives arrived at a consensus that there was the need for an adequate exchange rate adjustment. As for the role of gold, the French and Dutch (as the table above shows, the Netherlands kept a great proposition of gold reserve) sought to change the price of gold. With respect to the margins among currencies, the Belgians and the British — supported by the French — called for a return to the fixed exchange rate regime and margins less than 3%, opposite to the U.S. and German proposition of $\pm 3\%$.

For the Europeans as a whole, the intention of the United States was difficult to ascertain. Firstly, even they agreed on the adjustment of exchange rate, but differed on the exact figures of devaluation/revaluation. It was well-known that for the last three months, the U.S. administration had resisted any suggestion of devaluing the

U.S. dollar. While stunning for all, during the meeting of G10, Volcker and Connally put forward a bold hypothesis that the United States could devalue their currency by 10 to 15 percent. When Volcker asked: “What would the gentleman’s reply be, if I suggested ten percent,”⁵⁷³ the other Nine dropped into awkward silence. 10% to 15% was a gigantic devaluation, which might bring about competitive devaluation and trade inequality. “The silence was broken by the British Chancellor of the Exchequer, Tony Barber, who candidly admitted, ‘we could never agree to such a devaluation’.”⁵⁷⁴ Until the end of the meeting, the Ten did not reach an agreement on the figures of the readjustment of exchange rate and margins of floating.

Secondly, uncertainty of the approval of U.S. Congress on devaluation existed. Connally and Volcker repeatedly emphasized on the authority of the Congress, that President Nixon could never recommend to Congress any such change if it were either too small or did not contain assurances about defense burden sharing and trade. The Americans wanted to tie the exchange rate adjustment, commercial affairs and burden sharing together, among which, trade was central to Secretary Connally’s opinion, he advocated that “the question is really how tough you want to be because we can make a trade...we should probably hang on to either the gold or the surcharge until we get some of these trade concessions.”⁵⁷⁵

U. S. strategy of negotiation annoyed other participants. Actually, representatives of each country were financial and economic ministers; in other words, they cared more about realistic approaches. They could not give full weight to the political dimension of the situation. In this case, there could not be a settlement during the G10 meeting, but what the ministers could do was to expound their respective positions and discuss the measures by their professional perspectives. The U.S. proposal of the 10 percent devaluation was a strategy which provided a variety of possibilities and the real settlement of the international monetary affairs relied on the summits of heads, with the political, economic and even defensive considerations. As Connally reported to Nixon on November 23, the essential objective of the G10 meeting was that “we can make an offer that they won’t accept and they can make an offer that we won’t accept. And we’ll talk about it. The fact that these meetings are

⁵⁷³ Christien Thomas Ritter, *Closing the gold window: Gold, dollar and the making of Nixonian Foreign economic policy*(Philadelphia:University of Pennsylvania), 398-399.

⁵⁷⁴ Christien Thomas Ritter,*op.cit.*, 399.

⁵⁷⁵ Christien Thomas Ritter,*op.cit.*, 367.

being held gives hope.”⁵⁷⁶

5.3.2. The meeting of Pompidou and Nixon in Azores

The French-U.S. meetings on December 13 and 14, were followed by the summit of Pompidou and Brandt. This summit was more like a physiological battle between France and the United States. Both of the sides knew each others' propositions and oppositions for a long time, but they could never reach an agreement on monetary issues. Now with the development of the turbulent situation in the world monetary market and the political willingness to solve the problem, this summit would surely result in some achievements.⁵⁷⁷

In the eyes of the United States, the French possessed a dominant role in the Common Market. Britain and West Germany had the same line as France, the key to resolve the economic problems relied on the talk with French president Pompidou. As for Nixon himself, monetary affairs were hardly the foremost in his mind, especially the day when Nixon departed to Azores, the crisis between India and Pakistan reached its climax. Therefore, the American president was eager to solve the economic affairs and he chose France as the first negotiator: “The president wanted a solution, not a discussion of exchange rates... as always when involved in negotiations rather than general exchanges of views, he was nervous to the point of anxiety. He wrapped himself in general observations, not all of them equally germane.”⁵⁷⁸

Kissinger pushed for a political solution as well. He seriously told Pompidou during their first conversation that, when two heads of state meet, the overwhelming push was for a successful conclusion: “My presence as a negotiator guaranteed that we wanted an outcome compatible with the self-respect and needs of each side; it was the only political viable result.”⁵⁷⁹

Likewise, the Pompidou administration attached great importance on the French-

⁵⁷⁶ Christien Thomas Ritter, *op.cit.*, 375.

⁵⁷⁷ See more details on, H. Kissinger, *White House years* (Boston: Little, Brown & Company, 1979); H. R. Haldeman, *The Haldeman Diaries: Inside the Nixon White House* (New York: Berkley Books, 1995); Paul Volcker and Toyoo Gyohten, *Changing fortunes, the world's money and the threat to American Leadership*, (New York: Times Books, 1992); E. Bussière, Georges Pompidou, les Etats-Unis et la crise du système monétaire international: 1969-1974, in *Georges Pompidou et les Etats-Unis...*, *op.cit.*, 133-145.

⁵⁷⁸ H. Kissinger, *White House Years...*, *op.cit.*, 1133.

⁵⁷⁹ *Ibid*, 960-961.

U.S. summit. The politicians, as well as the technicians had discussed the French strategy for quite some time. Their particular focus was put on: (1) the convertibility of U.S. dollar; (2) realignment of currencies; (3) enlargement of margins; (4) the normal function of the IMF and the problem of capital movement control.

On the morning of December 13, Pompidou took breakfast with Kissinger. The latter recalled the session as “reconnoiter the terrain”⁵⁸⁰. During this meeting, most of their conversation was devoted to the monetary issues: the realignment of main currencies, the removal of surcharge, and the margins of floating exchange rate. Kissinger informed Pompidou that Nixon would consider a realignment of the dollar in relation to the franc, of 9 or 10 percent, apart from this, the German mark should be located some 4 to 5 percent above the franc, the yen 5 percent in relation to the mark, and the pound and the lira would maintain their present relationship to the franc. “For our part we would prefer a devaluation of the dollar of about 6 percent and a revaluation of the franc of 3 percent. This is not a hard attitude on our part and if you insist, we are prepared to act alone.”⁵⁸¹ The response of Pompidou was clear, after summarizing the economic situations in France, in Britain and in Italy, he admitted that a 9% to 10% devaluation of U.S. dollar was unacceptable for them:

Neither Great Britain nor Italy in particular, nor France could consider a differential of 9 or 10 percent in relation to the dollar. Nevertheless, we can discuss this problem... Germany would like a differential of 4 to 5 percent in relation to the franc. Brandt referred to 5 percent.⁵⁸²

Aside from the disagreement on exchange parities, the subject turned to commercial issues. In contrast with the interest on monetary affairs, France cared less about the commercial negotiation. The volume of trade between France and the United States was not so great that ten percent of surcharge was bothersome for the French. In any case, Pompidou promised that with the arrangement of exchange rates adjustment, the EC, led by France, would help the United States on the commercial negotiations, but all should enter into effect only after the vote of the U.S. Congress on the dollar’s devaluation. Pompidou then stated that “We must, however, know

⁵⁸⁰ Ibid.

⁵⁸¹ NDSA,KT 00407, “Memorandum of Conversation”, December. 13, 1971.

⁵⁸² Ibid.

whether the new parities will be defended...we feel everyone should defend its currency.”⁵⁸³

At the end of the discussion, Pompidou demanded the United States to redress the U.S. balance of payments. “Measures must be taken to consolidate present dollar balances on the condition that this not become a perpetual consolidation.”⁵⁸⁴

Afterward, the morning session between Pompidou and Nixon contributed to a review of the international situation. The two heads of government agreed to cover monetary matters at the afternoon session.

On the afternoon of the December 13, Pompidou softened his strategy of negotiation, he acquiesced that:

I understand that the United States cannot now declare that they will return to such convertibility for two reasons:

1. It is likely that their balance of payments will not recover right away. I am sure, however, that if a solution are to be reached, there would inevitably be a return to the convertibility.

2. What is more certain is that the existence of a mass of dollars outside the United States, held by the central banks or in the form of Euro-dollars, means that they cannot be convertible overnight.

In order to gain the U.S. concession on monetary issues, the French president highlighted his difference from de Gaulle and Jacques Rueff, who advocated a double price of gold: “we now consider the problem in a general context, that is, fixed parities should be restored between liberal nations... to come back to fixed parities, there must be a contribution from the U.S. side.”⁵⁸⁵

Another problem that dawned on Pompidou was the figure of the DM revaluation. He reaffirmed his desire on this revaluation to Nixon: 7 percent of revaluation was satisfactory, 6 was the minimum.

The French did not want to have to consider periodic revaluation of the

⁵⁸³ Ibid.

⁵⁸⁴ Ibid.

⁵⁸⁵ AN, 5AG2, volume 1022, “Extrait du compte-rendu de l'entretien du 13 décembre 1971 dans l'après-midi , relatif aux questions monétaires ”,le 13 décembre 1971.

mark all of the time. There might be some advantages but it would really mean a continued rise of prices and salaries by contagion. That was why when he spoke of the parity between the pound, lira and franc, they should try and find figures for a permanent settlement.⁵⁸⁶

Up to this point, the French intentions were well expressed. Firstly, there should be a return to fixed parities. Secondly, along with the fixed parities, there should be a certain devaluation of the dollar. Thirdly, all states must commit themselves to the defense of the new parities, and finally, there was the problem of convertibility.

Nixon and Kissinger's reactions to the French propositions were positive but a little oblique. Both Nixon and his National Security adviser agreed to defend the U.S. dollar as soon as the establishment of the new parities. However, they did not give up the strategy to link the monetary affairs with burden sharing and commercial issues. The improvement of the U.S. balance of payments depended on the commercial negotiations and less burdens, which meant other states should make greater effort:

You already know that we are willing to yield on two things: change the price of gold, remove the surcharge. However, for achieving this objective, there has to be a realignment, the figures could be negotiated. As long as we are going to abandon the surtax, we would like to see the progress in the trade area.⁵⁸⁷

Pompidou obviously played ball regarding the trade issues. He envisaged that talks concerned with commercial affairs should firstly be conducted in the frame of the European community, then the EC give a common draft to the United States. For such reasons, he refused to intervene much in this domain.

Thus, it was hard to judge how fruitful the afternoon sessions were. At any rate, the two sides agreed on some basic consensus, that is, the United States would give up the surcharge and devalue their currency, the French consented on the non-convertibility of dollar for the moment and did not demand a great revaluation of gold's price.

⁵⁸⁶ AN, 5AG2, volume 1022, "Extrait du compte-rendu de l'entretien du 13 décembre 1971 dans l'après-midi , relatif aux questions monétaires ",le 13 décembre 1971.

⁵⁸⁷ DNSA/00408, "Memorandum of Conversation", December 13 1971.

In the evening, Kissinger and Connally prepared for a proposal to Pompidou for the next day. Kissinger preferred to present a position somewhere between U.S. minimum and maximum positions and stuck to it. “It should be reasonable enough for Pompidou to be able to accept it in principle, and adequate to our needs. Connally was not by temperament inclined to this negotiating method, but he finally agreed that it was the best he could do with an unworldly professor.”⁵⁸⁸

Based on the consensus achieved by Pompidou and Nixon the previous day, Kissinger presented a set of undertakings drawn up in consultation with Connally, which he marked up during the breakfast meeting on December 14. However, with regard to the U.S. proposal, the two sides diverged. Kissinger argued that if the exchange alignment was correct then the United States would be prepared to operate the Bretton Woods system, and the statement could be:

Discussions will promptly be undertaken in the appropriate forums to resolve the longer term issues of the IMF. Attention should be directed to appropriate means and division of responsibilities for defending established exchange rates; the proper role of gold, reserve currencies and special drawing rights in the operation of the system; the volume of liquidity and reexamination of permissible margins in established exchange rates and other means of establishing suitable flexibility in exchange rates. It is recognized that the decision in each of each of these areas will be interdependent.⁵⁸⁹

For the French president, it was not easy to go along with the draft. He refused to accept the absence of any mention of fixed parities and the existence of the dollar’s privilege. Moreover, he doubted the U.S. intention of enlarging the margins: “Pompidou wished to stress the matter of flexibility of currency rates...if it means that margins are a means of perpetuating revaluations and devaluations, with no fixed parities and flexible rates, then he could not agree.”⁵⁹⁰

In response to the French query, Kissinger assured Pompidou that all the ideas were founded on the fixed parities. Reassured by the promise, Pompidou affirmed that

⁵⁸⁸ H. Kissinger, *White house years, op.cit.*,1134.

⁵⁸⁹ DNSA/00410, “Memorandum of Conversation”, December 14, 1971.

⁵⁹⁰ DNSA/00410, “Memorandum of Conversation”, December 14, 1971.

members of the EC, except Germany, would not change their parities, Brandt agreed to revalue the DM by 5 percent. As for margins, Kissinger and Pompidou finally reached an agreement to split the difference between 2 to 2 1/2, the price of gold could be \$37 or \$38 per ounce.

Presidents Nixon and Pompidou then met from 9:35 a.m. to 1:35 p.m, later Connally, Volcker, Valéry Giscard d'Estaing, plus Rogers and Schumann joined. Nixon always preferred to use his political vision to influence the trend of negotiation. For opening the conversation, he openly said that:

I took the monetary affairs from a political point of view, and Kissinger spoke to you a little while ago. The question is economic and of the utmost importance to our two countries, but the fundamental decision must be taken by heads of state, that is, by ourselves, rather than let the ministers argue and in the end, the recommendations proposed by them might not be viable politically.⁵⁹¹

These remarks made clear again that Nixon decided to solve the economic problems, regardless of the divergence and conflict. He longed to bring certain fruits to the United States. Followed by technical exchanges on specific issues, Nixon officially reaffirmed the removal of a ten percent surcharge and the devaluation of the dollar's parity, France would not change their parities and the two countries would work together for a long-term stabilized international monetary system. The new margins would be ± 2.25 percent. This summit then ended with a common statement, which emphasized their willingness to cooperate in different domains and set up a basic framework for the upcoming meeting of the Group of Ten.

As soon as the summit terminated, Pompidou informed Heath and Brandt of the result of the U.S.-French negotiation. Heath was totally in agreement with their arrangement and promised that "for my part, I can assure you that on the same basis and according to this understanding, we should maintain the current parity of the pound vis-à-vis gold."⁵⁹²In contrast, Brandt refused to make its "assigned" contributions to the mark's settlement, he did not approve French proposal relating to

⁵⁹¹ AN, 5AG2, volume 1022, "Entretien entre Nixon et Pompidou", le 14 décembre 1971.

⁵⁹² AN, 86AJ, volume 116, "Lettre de Heath à Pompidou", le 16 décembre 1971.

a 6 percent revaluation of German mark. In a letter of reply, Brandt doubted such a possibility, saying that “I had told you the considerations with which Schiller went to Rome. The difference between the franc and the Deutschmark in the paper of Dutch experts seemed to me to too high.”⁵⁹³ This letter indicated that some uncertainties existed, just right before the meeting of the Group of Ten. Besides the divergence on currencies’ realignment, both Brandt and Pompidou wished for an agreement on monetary affairs, as Kissinger recalled later that “for the West, there is no greater danger than an economic crisis and they must therefore try and get out of such a situation.”

5.3.3 The latest attempt to defend the fixed exchange rate regime: the Smithsonian Agreement

The Nixon-Pompidou summit paved the way for the upcoming conference of the Group of Ten. Considering the consensus already arrived at by the two heads of the principal countries, it became much easier for the Ten to finalize the currencies’ alignment and fix the floating band.

During the G10 meeting on December 19th in Japan, Germany and Italy were the last three to make up their mind. With Japanese and German objections resolved, and the lira devalued by 1 percent, the final agreement was reached: the Deutschmark settled on a 13.58 percent rise, the dollar devalued by 8.57 percent, all the delegates agreed to return to fixed rate with the margins of floating enlarged to ± 2.25 percent.

The reactions of governments and international press to the Smithsonian agreement were generally positive. Especially, the French regarded the final outcome as a French “victory”. In an interview with a journalist, President Pompidou was generous to express his satisfaction with the Smithsonian Agreement, not just because most of the French propositions were adopted, but also they felt privileged to be chosen as the U.S.’ first negotiator.⁵⁹⁴

The signature of the Smithsonian Agreement was a remarkable point: it meant in one conference ten countries could agree on the realignment of their currencies;

⁵⁹³ AN, 86AJ, volume 116, “Lettre de Brandt à Pompidou”, le 16 décembre 1971. The dutch report referred to the Zjilstra report, which demanded the German mark to reevaluate by 6% vis-a-vis the franc.

⁵⁹⁴ “Entretien radiotélévisé avec M. Zitron(O.R.T.F.)”, le 22 Decembre 1971, *Entretien et Discours de Georges Pompidou, 1968-1974* (Paris: Plon, 1975), 51-52.

which showed the determination of Europe, particularly France's desire to keep the *status quo* of the Bretton Woods system. However, we should understand that the Washington Agreements were both incomplete and hidden with full crises. As Pompidou indicated later that, "in order for this international monetary settlement to be possible, it is firstly necessary for the United States to assume the moral commitments which it has made, that is to say, by their own efforts and not merely by the mechanic efforts of the devaluation, they should retrieve their balance of payments."⁵⁹⁵ Ironically, the agreement lasted for just six months. With the malfunction of the sterling and dollar crises, the Bretton Woods system finally came to its end in 1973.

Conclusion of Chapter V

The Smithsonian agreement was finally signed on the last days of the year of 1971, and it did not mean a success, since the IMS was still stuck in an impasse and the fixed exchange rate regime could not stop its pace to fall apart. However, lessons drawn from the Smithsonian Agreement aside; some aspects about the French crisis management, the way of thinking of the Pompidou government regarding the international monetary affairs, and their general political philosophy towards international negotiations, are worth noticing.

First of all, the Pompidou administration gave a prompt response to U.S. unilateral announcement. Inside the government, they discussed the French negotiating strategy in detail. Furthermore, their desire to cooperate with the Six was strong, particularly after the failure of the Community's ministerial meeting on August 19. According to Pierre-Brossolette, France was isolated by the other five since the flotation of the German mark and Dutch florin in May. It could be one of the main explanations as to why the Pompidou cabinet stressed the importance of a French initiative on the restricted Council. Meanwhile, the internal discussions exposed the French vigilance about the influence of the German mark, which illustrated the fact that during the construction of the monetary integration, the interests of the two countries were closely connected, but they kept watch on each

⁵⁹⁵ Ibid.

other. This kind of subtle relationship would engender potential problems in the years to come and bring about a more complicated situation in the western camp.

Secondly, in the face of the U.S. challenge, the Pompidou cabinet showed a pragmatic way to deal with the emergency. They sought concessions in some aspects, namely, narrowed margins and the convertibility of the dollar to gold, in exchange for currencies' reasonable realignment and the maintenance of a fixed regime. Their pragmatism manifested again when negotiations dropped into deadlock. The French tried to adopt an acceptable way to convince their opponents. Pompidou himself was satisfied with the negotiations' outcome; some of the French regarded the Smithsonian Agreement as a French victory. It thus became a win-win for both sides. Later in 1973, when the Americans recalled the signature of the Smithsonian Agreement, they also appreciated it as: "an example of European resistance to something that had to be done in both our interests. That was a good agreement."

As for the Americans, under the influence of the huge capital outflows and related reserve increases on a scale, and with the belief that U.S. partners should allow access to decrease trade barrier and bear more responsibility of defense, the Nixon government finally decided to close the gold window and impose the surtax on August 15, 1971. "The U.S. actions in the international field represented a turning point in U.S. foreign economic policy. They were a signal that the United States no longer had the financial or economic capacity to underwrite a system that was becoming more and more unbalanced."⁵⁹⁶ However, they did not carefully figure out the consequences of their actions. In the Camp David meeting, according to Paul Volcker's recollection, the Nixon governments failed to obtain any real achievements for long-term reform of the monetary system.⁵⁹⁷ It was obviously shown that the implementation of U.S. economic policies were not always reasonable and fair, just like in this case, they put forward a bold initiative and left others to quarrel and to argue.

The decisive factor in solving this crisis was that all the participants had the will to solve the problems and the political leaders would come forward to the bargaining table. The crisis management after the U.S. announcement had an obvious political

⁵⁹⁶ NARA, RG56, volume NND40977, Background material on legislation modifying the par value of the dollar, February 15, 1972.

⁵⁹⁷ Paul Volcker and Toyoo Gyohten, *Changing fortunes...op.cit.*, 78.

slant. Both the French-German meetings and the French-American summit showed that political leaders played a central role in the settlement of the crises.

Adding to the fundamental disequilibrium in the balance of payments caused by the outflow of dollars and U.S. large military financial aid overseas throughout this period, worryingly, the Congress pressure on the redeployment of troops in Europe seemed to be interminable throughout the years. The proposal of the Mansfield amendment invigorated the link between the military issue with the monetary and economic negotiations, and in the two subsequent years, especially in 1973, the United States officially put forward the package negotiations of connecting the economic, defense and diplomatic issues together with the Europeans.

**Part III The end of the Bretton Woods system and the return to the tension of
U.S.-French relationship, 1972-1973**

Chapter VI From the Smithsonian agreement to the end of the Bretton Woods system, 1972

From the economic point of view, 1972 was a hectic year for the U.S. financial and economic authorities: bringing inflation down to 2 to 3 percent; trying to return to a period of economic vitality; creating jobs for 5 million people, and dealing with the new problems followed by Nixon's New Economic Policy.

From the perspective of politics and diplomacy, the Nixon administration was monopolized by the negotiations with U.S. enemies: strengthening Sino-U.S. relations and conducting talks with the Soviet Union. Efforts were made on the connection with U.S. rivals. As a result, alliance-relationship was put aside to some extent. Taking the monetary issues, for example, the Smithsonian agreement, symbol of cooperation and mutual assistance between allies, seemed to be a piece of paper. The world currency market was full of instability, and the sterling crisis that broke out in the middle of the year has sounded the death knell for the Bretton Woods system. France, as the U.S. largest rebel in this field, has accused the Nixon administration of ignoring the instability caused by U.S. overseas investment and benign neglect of payments deficit. Nevertheless, the currency issue was only one part of the political relationship between the two countries. The fundamental problem lay in the reduction of mutual trust. Franco-U.S. competition in many fields has replaced cooperation and win-win strategy, 1972 finally witnessed the worsening relationship between the two countries.

This chapter will start with U.S. internal discussions about the reform of IMS, and French cooperation with its European partners in the monetary field. U.S.-French divergence on the implementation of the Smithsonian Agreement , as well as the divisive point of views regarding world affairs indicated the future dispute between the two countries and the dim relationship between the United States and Europe.

I. The disintegration of the Bretton Woods system and U.S. emphasis on the sharing of military and economic burdens

The year 1971 was a watershed for the Nixon government in diplomatic, military or monetary areas. In 1971, Kissinger paved the way for Nixon's visit to Beijing; the United States kept on the strategic arms limitation talks with the Soviet Union; the

signing of the Smithsonian agreement bought about a new environment for the world's monetary and trade development.

If we regard 1971 as a year which saw the great transformation of U.S. foreign relations with the allies and adversaries, then 1972, a time of reappraisal, was the continuity of this transformation. In 1972, these activities mentioned above continued, aiming at a much more in-depth exploration and discovery for West-East contact. As for the relations with allies, U.S. principal task was to find a better way to reform the international monetary system in the long-term and create a freer atmosphere for world commercial transactions.

6.1.1. U.S. objectives in reforming the IMS

The realignment agreed during the Smithsonian meeting was only the first step toward more fundamental reform. The talks on monetary issues never stop. In the top level, Nixon met with British and Japanese Prime ministers: Edward Heath and Eisaku Sato. When receiving the Japanese, Nixon particularly insisted on the urgency to build a stable and productive free world economy with trade and monetary stability. His hidden meaning was to ask the Japanese to contribute for the maintenance of the economic order and make concession on the trade and monetary negotiations with the United States. "The recovery of economic strength and political vitality by Western Europe and Japan, with the inexorable result that both their role and ours in the world must be adjusted to reflect their regained vigor and self-assurance."⁵⁹⁸

Restructuring the International Monetary System was one of most important measures to confront financial instability, and promote economic growth. On September 1972, at the opening session of the annual meeting of the Boards of Governors of the IMF and the International Bank, Nixon furthermore pointed out that: "There must be a thoroughgoing reform of the world monetary system to clear the path for the healthy economic competition of the future. We must see monetary reform as one part of a total reform of international economic affairs encompassing trade and investment opportunity for all."⁵⁹⁹

Then, what exactly this kind of monetary reform refer to?

⁵⁹⁸ Ibid.

⁵⁹⁹ *FRUS*, 1969-1976, Vol. I, doc.121, Remarks by President Nixon, September 25, 1972.

The reformed monetary system should firstly contain the element of balance, which did not indicate the balance of trade or international payments balance, but a balance between flexibility and stability. It should encourage mutual interest of all the participants, and pulled for freer trade transactions and the flow of capital.

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The second principle was the request to develop an ordinary regular to safeguard and reinforce the structure of the open economic order, such as "no competitive devaluation" and "most-favored-nation treatment."

The third fundamental need was to improve the international adjustment process.

Fourthly, each participant was free to choose their instruments of adjustment.

The fifth principle was that new incentives for trade liberalization should be sought and added for the existing monetary and trading systems.⁶⁰⁰

The above five points were U.S. anticipation for the future reform of the IMS. U.S. economic philosophy was consistent with Nixon's evaluation of U.S. political and diplomatic role in the world. The United States was still the primary exporter of industrial and agricultural products worldwide. However, it has gone from a country of seemingly infinite economic largesse to a country of still vast but limited economic resources. It has passed from a time when the United States played by its own set of economic rules. There are many new players in the game, and the rules were no longer the U.S. its own.⁶⁰¹

The U.S. authorities recognized that the trend of multipolarity has increased; therefore, U.S. decision-makers, as well as the senior officials took it for granted to fight for U.S. own interests. At the top level, the Government continued its negotiations with the allies by demanding them to share U.S. military burdens and foreign aid, since it was unfair for long that "we has been a constant drain and theirs has been a constant gain."⁶⁰²

⁶⁰⁰ *FRUS*, 1969-1976, Vol. I, doc.122, Statement by Secretary of the Treasury Shultz.

⁶⁰¹ NARA, RG56, volumeNND40977, Remarks by the Honorable John B. Connally, Secretary of the Treasury before the Conference Board, January 21, 1972.

⁶⁰² *Ibid.*

Hence, how to fight for U.S. own right in the world? By which means that the Nixon government would do to redress its balance of payments deficit and endeavor for a monetary system which favored the process of adjustment? There were some aspects that could be made in the monetary and economic realms, and these efforts were mainly conducted by the Department of the Treasury, the Volcker Group.

First of all, although the Smithsonian Agreement was signed at the end of 1971, and the major countries had agreed with the realignment of their parties, the approval of the change of par value was still pending before the U.S. Congress.

The Treasury Department was an active promoter of maintaining the new parity. In the early days of 1972, Secretary Connally was busy with persuading the Congress and financial institutions to accept the proposal of dollar's devaluation. At the Banking and Currency Committee, Connally stated that the devaluation of U.S. dollars could increase exports and improve U.S. products' competitiveness in both domestic and overseas markets. With the devaluation of U.S. dollars, U.S. primary deficit, included current account plus long-term capital flows in 1972, would be substantially below the roughly \$1 billion deficit of 1971. The official reserves transactions deficit included short-term capital flows would be reduced from \$30 billion recorded in 1971.

At the same time, U.S. officials promised that the monetary role of gold would continuously be diminished. A change in the official monetary price of gold did not have any economic significance in itself, what mattered was U.S. dollars' exchange rate in terms of other currencies.⁶⁰³ The devaluation did not mean the increasing role of gold, on the contrary, for US' sake, "the official price of gold in terms of the number of other currencies will decline...the ensuing speculation in private gold markets emphasize furthermore the need to move away from dependence on gold in the monetary system internationally, an objective long since achieved by virtually all countries domestically."⁶⁰⁴

In addition to press the Congress to approve the devaluation, the U.S. government believed that some legislation and institutional affairs have not yet to do, nor the role of gold, and the implementation of SDRs have formulated.

⁶⁰³ DORS, CK2349525058, Background material on the proposed modification of the par value of the dollar. Issues include: the Smithsonian Agreement (currency exchange rate plan) and related negotiations on trade and defense; the need for change in the U.S. gold price as part of exchange rate realignment; background on the monetary crisis of 1971; long-term monetary arrangements.

⁶⁰⁴ NARA, RG56, volume NND40977, Statement by the Honorable John B. Connally Secretary of the Treasury before the banking and currency committee, U.S. House of Representatives, March 1, 1972.

The composition of Group of Ten⁶⁰⁵ was a typical question which caused an extensive discussion inside the international monetary communities. In the existing forums, such as in the Group of Ten, membership was limited to a relatively small group, among which the European countries occupied a preponderant role. It gave much too voice to a relatively large number of small European nations while excluding all less developed countries' and all non-industrial developed countries. The Americans calculated that " present membership has recently tended to result in continuous U.S. isolation or near isolation on key issues... this problem will get worse as EC moves toward greater unification and EC members are increasingly reluctant to disagree, even in G-10 debates, from an agreed EC party line." ⁶⁰⁶ In an analytical report, U.S. officials criticized Germany's position on the gold by illustrating the Europeans' cooperation among themselves: Germany initially had little or no interest in pressing for the price increase of gold but ended up supporting it because France and other EC members wanted it. While in contrast with the G-10, the IMF executive board contained too many LDC representation, and these countries were not of sufficient caliber or were not influential enough in determining their governments' policies on critical financial issues.

Besides, OECD was rather an organization for trade and adjustment matters than for monetary issues, such as the Working Party 3 of OECD, dealt mainly with the balance of payments problems. GATT has not been very effective and was full of tariff problems. In different occasions, the U.S. officials expressed their willingness to discuss the monetary affairs in a new forum, together with the trade matters. After achieving a wide consensus, the Committee of Twenty was established, and the LDCs were also presented. The reform of the monetary system was debated by the Committee of Twenty instead of the Group of Ten.⁶⁰⁷ These were the reasons why the Committee of Twenty⁶⁰⁸ finally came out.

These were the reasons why the Committee of Twenty finally came out.

⁶⁰⁵ The Group of ten countries were: Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom, and the United States.

⁶⁰⁶ NARA, RG 56, volume NND35597 Proposal for a new international negotiations forum, January 17, 1972.

⁶⁰⁷ For more detailed discussion about the establishing of C-20, see NARA, RG 56, volume NND35597, Notes on Meeting of Deputies (G-10) at Bank of England, April 23, 1972.

⁶⁰⁸ The Committee was made up of 20 Governors based on the constituencies of the 20 Executive Directors of the IMF, so that all members of the Fund could regard themselves as being represented. Nine Governors should be from industrial or more developed primary producing members and eleven from developing members. See Margaret Garritsen de Vries, *The International Monetary Fund, 1972-1978, Cooperation on Trial*, Volume I: Narrative and Analysis (Washington D.C.: IMF, 1985), 155-156.

The reinforcement of the SDRs instrument and whether 1973 could begin the second activation of SDRs were other questions considered by the Nixon government. The amount to be allocated during the second activation has not yet decided. On the one hand, there was a general recognition that without the need for large deficits on the part of the reserve country, the SDRs could provide sufficient liquidity. Therefore, it should be treated as a desirable international reserve instrument, and its position should be increased as the principal fiduciary element of the system. On the other hand, the present monetary system was marked by the excessive holding of the inconvertible dollars. The assumption of convertibility was not a practical possibility, with the full effects of the exchange realignment on U.S. balance of payments becoming evident only in two years or more.⁶⁰⁹As a result, some countries argued that "liquidity creation has been excessive during the last two years and will probably continue to be so through the entire period necessary for the working out of the adjustment process."⁶¹⁰ In the meeting of the Group of Ten, French deputy Pierre-Brossolette ever argued that they could not have a precise idea of global reserve needs before they know bother what the future monetary system was going to be like and how countries were going to behave. When this uncertainty was passed and resolved, there could be a further SDR creation. The French believed that there were a too large amount of reserves, including 10 billion SDRs in existence.⁶¹¹

The Americans welcomed an extensive use of SDRs, and supported SDR creation up to the amounts created in each of the past three years: "allocations of some modest amount could be justified on political or psychological grounds. The numbers put forward in that connection were perhaps SDR 1-1.5 billion a year for two years, or perhaps zero in the first year and SDR 3 billion in the second."⁶¹² However, since the participants of the Group of Ten have not decided the period of allocation and the amount, American deputy Bennett then suggested not to try to reach immediate agreement.

⁶⁰⁹ NARA, RG 56, volume NND40977, Background material on legislation modifying the par value of the dollar, committee on banking and currency house of representatives, February 15, 1972, Washington, U.S. government printing office, 1972.

⁶¹⁰ NARA, RG 56, volume NND35597, Creation of special drawing rights (SDRs) for the second basic period beginning 1973, March 22, 1972.

⁶¹¹ NARA, RG 56, volume NND35597, Informal record of the discussions of the Deputies of the Group of ten meeting at the OECD, on June 13, 1972. Before the new parity of dollars in 1973, \$1.08 equaled SDR1.

⁶¹² NARA, RG 56, volume NND35597, Report by the Economic Counsellor on Meeting of Deputies of the Group of Ten, June 13, 1972.

As for the dollar's return to convertibility, a question concerned by others, the U.S. government took a negative position. The current monetary system offered no solution to U.S. balance of payments deficit, and it did not provide any assurances that the U.S. would ever be able to run the surpluses necessary to pay off their liabilities to the Fund. In the dialogue with Ossola, Volcker complained that "if the U.S. were still in deficit after three years, there would be something more wrong with the present regime."⁶¹³

Moreover, in the U.S. view, the reformed international monetary system should promote prompt and more effective adjustment of the balance of payments disequilibrium. Surplus countries, as well as deficit countries, should bear more active responsibility for a generally satisfactory inter-relationship of balances of payments on current account, and methods of better dealing with or absorbing short and long-term capital flows need to be developed.⁶¹⁴ Under the current situation of disequilibrium, the assumption of convertibility of dollar was not a practical possibility, and the monetary role of gold should be diminished.

In the July 17-18 meeting of EC finance ministers on Monetary reform, the Six , together with European four candidates, discussed long-term monetary reform. According to the Europeans, the new monetary system should:

- “— be based on fixed but adjustable currency parities;
- be designed to reestablish a generalized convertibility of currencies;
- provide for effective international regulation of supply of liquidity;
- secure the necessary adjustment in the balance of payments of participating countries;
- have regard to the need to reduce the destabilizing effects of short-term capital flows;
- entail equal rights and obligations of all participating countries;
- have regard for the interests of developing countries.”⁶¹⁵

The quick response of the Americans merited mentioning. The United States evaluated that the eight points, as well as the plan submitted by Italian Finance Minister Giovanni Malagodi in this EC ministers meeting, offered no solution to

⁶¹³ NARA, RG 56, volume 35597, Memorandum of conversation, July 20, 1972.

⁶¹⁴ NARA, RG 56, volume 40977, Background material on legislation modifying the par value of the dollar, committee on banking and currency house of representatives, February 15, 1972.

⁶¹⁵ NARA, RG56, volume 35597, Brief for your meeting with Rinaldo Ossola, from Sam Cross for Shultz, July 18, 1972.

underlying issues— secure the necessary adjustment in the balance of payments of participating countries. Primarily, the U.S. monetary authorities thought that the points appeared to put them squarely back in the convertibility box they were in prior to August 15, except that "it could be even worse since it would presumably involve a gold guarantee on our liabilities and a binding commitment to pay off the Fund with reserve assets. The United States hope the EC Ministers avoid adopting and announcing fixed positions on questions of monetary reform before negotiations start in the C-20."⁶¹⁶

Furthermore, the Americans doubted the feasibility of point 1, "fixed, but adjustable, parities..." according to the recent UK case. When it became known that a country was considering a parity adjustment, this would trigger speculation.⁶¹⁷ Hence it was difficult to realize the fixed but adjustable parties.

Finally, U.S. troops' overseas expenditure was always a factor which brought about U.S. payments deficit. Through years' persuasion about the sharing of the common defense burden, the United States got some results in negotiating with the NATO members. European NATO participants announced to increase about \$1 billion in their defense budget for 1972 by increasing weapons available to the alliance. In West Germany, a substantial portion of U.S. local currency expenditures was paid through an offset agreement with the German Government. The end of the Vietnam war reduced U.S. defense expenditure to some extent, however, these savings were dissipated by rising prices and the increased cost of foreign currencies. "It seemed desirable that Europe and Japan be asked to carry a larger share of the defense burden, which would mean some increase in their responsibilities of defense, a greater contribution to the cost of maintaining U.S. forces in their areas, or a combination of both."⁶¹⁸ On December 10, 1971, the U.S. government signed a new agreement with the FRG for the fiscal year 1972-1973. The Germans agreed to purchase U.S. defense goods and services in the amount of DM 3950 million, among which, DM 1650 million shall be financed through utilization of funds, and the rest shall be transferred directly to suppliers of defense goods and services in the United

⁶¹⁶ NARA, RG56, volume 35597, Brief for your meeting with Rinaldo Ossola, from Sam Cross for Shultz, July 18, 1972.

⁶¹⁷ NARA, RG 56, volume 35597, Memorandum of conversation, July 20, 1972.

⁶¹⁸ DDRS, CK2349525058, Background material on the proposed modification of the par value of the dollar. Issues include: the Smithsonian Agreement (currency exchange rate plan) and related negotiations on trade and defense; the need for change in the U.S. gold price as part of exchange rate realignment; background on the monetary crisis of 1971; long-term monetary arrangements.

States. There were also items about investments for troop facilities and the cooperation between U.S. federal reserve with Bundesbank regarding the Bundesbank credits.

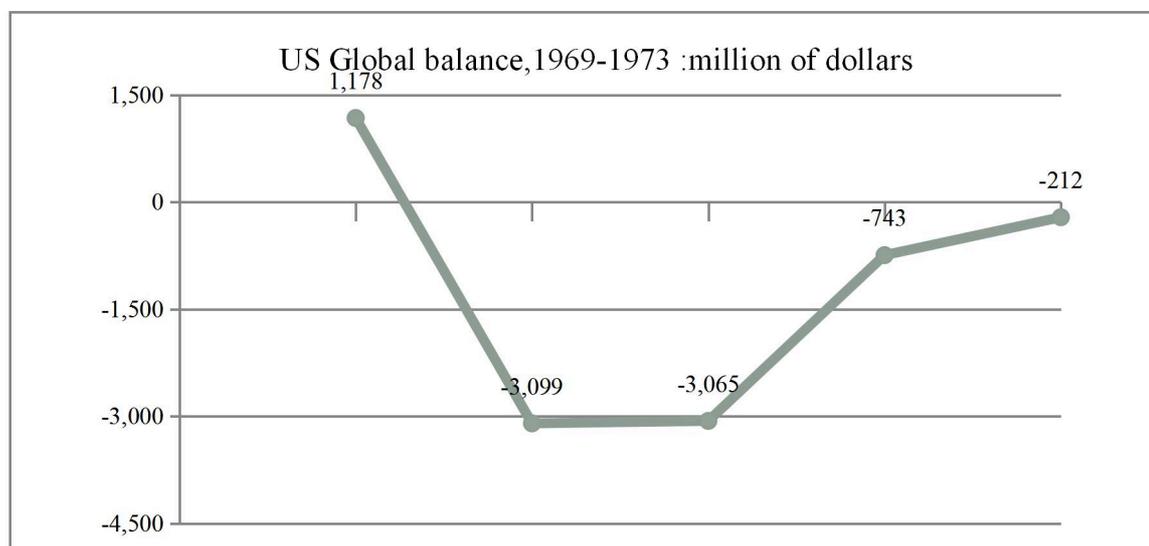


Figure 3 U.S. Global Balance 1969-1973. Source: United States. Bureau of Economic Analysis, *Survey of Current Business*, June 1974, available at: <http://fraser.stlouisfed.org/title/46/item/9642>

These facilities, together with the realignment of currencies' parties, the domestic economic policies, and the confidence in international monetary relationships, contributed to an improvement in U.S. balance of payments position.

6.1.2. U.S. reaction to the sterling crisis in June and the global trend to a floating system

On June, 23, 1972, the British government announced the devaluation of sterling, in response to the balance of payments upset, and the increase of wage and inflation rate. It has suffered a week of heavy pressure on the pound in the exchange markets at a cost to the British of about a quarter, that is \$2-1/2 billion, of their reserves, in order to keep the exchange rate in line with that of the other EEC currencies. UK monetary actions led to the reflection of the Nixon government on the current monetary system and defined, therefore, U.S. approaches for the reform of the IMS.

At the very first, when getting news about the British decision, U.S. officials had hesitated at the measures whether or not to intervene in saving sterling. Stein

suggested to Shultz not to prevent, since, on one hand, “It would suggest a distaste for greater flexibility and a commitment to the old notion of defense of existing parities except in the face of clear evidence of ‘fundamental disequilibrium.’ Such support operations would be a departure from our usual practice under the old system, and would thus set a precedent which might move us away from rather than toward an optimal new system .”⁶¹⁹

On the other hand, since British decision did not reflect the existence of a fundamental disequilibrium in its balance of payments, its move to allow the pound to float just for the consideration that short term money movements were placing too high a pressure on the reserves. UK Chancellor Barber was quoted as saying: "there is nothing in the objective view of our balance of payments position or the level of our reserves to justify the short term capital movements."⁶²⁰

While compared with U.S. internal discussions, the European countries reacted quickly to the UK move, by purchasing dollars to maintain prescribed exchange rate levels arranged at the Smithsonian meeting. Before closing the exchange market, it has been announced that Germany bought nearly \$900 million, the French about \$150 million, the Japanese did have to buy over \$200 million. The sterling crisis led to the floating of the pound, again precipitated massive foreign exchange inflows into the FRG. German officials have expressed the view that a joint declaration with the United States would help to restore market confidence.⁶²¹ Soon after these actions, most of the markets closed, and were reopened on June 28, 1972, exchange rates were being held within the margins agreed upon at the Smithsonian.

Markets remained nervous, and the fear of the breakdown of the Smithsonian agreement raised. The floating of pound again unfolded the problems beneath the Bretton Woods system. Apparently, the Bretton Woods system could not improve major inappropriate adjustments; the changes in the exchange rates were demonstrable as a stopgap, so deep reform of the IMS should be pushed forward. The U.S. monetary authorities realized that the rigidity and imbalances of the old system should give way to greater adaptability and resilience to ensure lasting stability. Some possible approach were considered:

⁶¹⁹ NARA, RG56, volume 31237, Memorandum for George Shultz, June 26, 1972.

⁶²⁰ NARA, RG56, volume 31237, Memorandum for the President, June 23, 1972.

⁶²¹ Ibid.

The first approach was relatively passive, leaving present crisis decisions virtually entirely to the Europeans. This approach would recognize the realities that, in present circumstances, U.S. ability to assist in calming speculative fears is limited.

The second approach referred to limited initiatives to intervene directly in foreign exchange markets to support the dollar. Such an approach would entail borrowing foreign currencies and use of those currencies to buy dollars in selected exchange markets...The objective would be to obtain a favorable psychological impact both from a visible strengthening of the dollar exchange rate and from the mere knowledge in the market that the United States is prepared to take some financial risks in supporting the Smithsonian exchange rate structure.

The third approach indicated a series of broader initiatives beyond that discussed above, containing: (A) A more forceful U.S. and multilateral statements, following a special meeting of Finance Ministers. (B) The borrowing of U.S. dollars abroad from foreign central banks or privately, at somewhat more favorable terms than we pay at home. (C) Some modification of domestic monetary and debt management policies, ranging from modest efforts to increase slightly short-term interest rates while depressing long-term rates to some visible tightening of monetary policy generally. (D) Tightening of controls on banks or corporations in an attempt to reduce outflows of short-term funds.⁶²²

The Treasury Department inclined to engage in limited exchange market intervention, and finally approved the Federal Open market Committee to “reactive the swap network in order to permit operations by the Federal Reserve in the foreign exchange markets.” The Federal Reserve sold a little more than \$30 million of foreign currencies, the speculation flow of funds came to a halt.⁶²³

The sterling crisis and the floating of the pound finally became one of the reasons which invigorated the U.S. monetary authorities to abandon the fixed exchange rate system and pursue a flexible system. In reply to British Prime Minister Heath, Nixon recognized that a crisis was also an opportunity, "Against the background of recent events and the progress in both understanding and forums, I do feel the time is ripe for engaging in the open-minded and candid exploration of certain basic alternatives with our close partners. We should no longer be inhibited by fear certain approaches can be unthinkingly damned by some as too 'radical' a departure

⁶²² NARA, RG56, volume 31237, Memorandum for the President, no date.

⁶²³ R. Solomon, *The International Monetary System...op.cit.*, 224.

from the past." By encouraging U.S. partners to be courageous, what Nixon indicated was that the western world should consider the possibility to move forward to a floating system, and free from the adjustment of disequilibrium. Henceforth, the Americans quickened their speed to promote the discussion about the floating exchange rates, and the international monetary reform negotiations were proceeding in the International Monetary Fund's Committee of 20. U.S. proposals concerned "use of an objective indicator to signal the need for adjustment. The disproportionate changes in a country's international reserves would be the best single objective indicator, and it was suggested to leave to countries broad flexibility concerning how they would adjust." ⁶²⁴

II. French reaction to the development of the IMS

The Smithsonian agreement led to broader margins within the Bretton Woods system. The enlarged monetary bands were however against EC's endeavor to establish the narrowed margins and stabilize the European monetary market. As a proponent to the fixed exchange rates and the construction of European Monetary Union, the year 1972 was, therefore, significant time which saw the development of the Common Market to a more unified monetary policy and French efforts to form the narrowed margins floating inside the Smithsonian band.

6.2.1. France's monetary policy and French proposition about the reforme of the IMS

For the French government, the Smithsonian agreement meant a success, since it gained the possibility to maintain the fixed exchange rates, though the bands were enlarged. However, the dollar's convertibility was unsettled, and the problem of gold kept unresolved. Throughout 1972, the United States attempted to diminish the monetary role of gold, which provoked French discontent. The monetary issues were quickly fermented to be a political matter, which worsened the Franco-U.S. relationship and pushed forward the EC's construction of universal float system.

⁶²⁴ NARA, RG56, volume 31237, International Monetary Reform Background Paper, no date.

The first disturbing question was the role of gold. After the announcement of Nixon's NEP on August 15, 1971, the convertibility of dollar to gold was suspended. Since then, gold's role became more controversial. The U.S. government inclined to the usage of gold-valued assets,⁶²⁵ mainly, the SDRs. According to the reserve statistics of the IMF, gold in August 1972 comprised 26 percent of global reserves of countries, the absolute figure was \$38.8 billion, out of global reserves of nearly \$150 billion. The U.S. Treasury Department listed some major disadvantage of gold as a reserve asset. First of all, due to gold's scarcity, the small annual increase in the stock, and the competition of the private demand for gold, "the private price has moved to a substantial speed above the official price, and this makes gold a hoarded reserve in the hands of monetary authorities, which is not readily transferred to other monetary authorities." Secondly, any growth in world gold reserves has to be achieved by a generalized rise in official prices, and this would produce a distribution of reserve additions among countries that was not satisfactory to much of the world. Thirdly, the continuation of gold as a monetary reserve, with a probably inevitable spread between the official and the private price at any level of the official price, contributed to the maintenance of large private hoards of gold which represent an unproductive use of world savings that could be invested to increase world productivity.⁶²⁶

Due to these undesirable consequences, the United States preferred a diminution of the role of gold as an international reserve. However, the French reaction to this trend was negative. In the letter entitled "Gold and the International monetary negotiations" from René Larre to Arthur Bruns, Larre insisted settling the problem in gold. He announced that:

"(1) It does not appear realistic to expect that governments will give up gold entirely as a reserve asset in the new system, if only because of the size of the gold reserves held by their central banks; it is even doubtful that the United States would be prepared to part with its gold reserves, either by liquidation or by entrusting them to an international institution.

(2) Secondly, the continued development of SDRs as the basic reserve asset of the system seems to be widely accepted, which means that a consensus exists on a gradual reduction of the position occupied by gold in official reserves.

⁶²⁵ There were three categories of reserves— gold , gold-valued assets and foreign exchange.

⁶²⁶ NARA, RG56, volume 35596, The Role of Gold in the international monetary system, December 11,1972.

(3) However, no reform of the monetary system would be either complete or practical that did not resolve the problems caused by the wide disparity between the official and market prices of gold, as it is a barrier to the effective use of gold as reserves, as well as to SDRs and transactions with the Fund. Hence, any agreement on this problem may be considered a positive contribution to the general settlement;

(4) Although the two-gold price arrangement has distinct drawbacks, the two-tier market has some justification. By separating monetary from non-monetary gold, it, on the one hand, prevents the non-monetary market from being affected by central bank transactions, while on the other hand, it shelters the monetary gold stock speculative attacks."

Larre suggested in the end of the letter that without changing the official price, the monetary community should think out an arrangement whereby "central banks that found it convenient to use gold in current settlements could, by mutual consent, do so at the equivalent of the market price."⁶²⁷

However, as Larre has admitted, the status of gold in the system was indeed being gradually replaced. The special drawing rights were accepted by the public and assumed an essential function as the reserve asset. France has played a limited role in this issue, and with the currency crisis that followed the May-June strikes in 1968, France's gold reserves plummeted. Besides, there was no unified attitude within the European Community regarding the issue of gold. It was true that the French, the British, as well as the Hollanders emphasized the role of gold in the monetary system. In the EEC's Monetary Community in 1972, for example, the French, British and Holland deputies agreed that SDRs quantity of distribution was worrisome, the link between SDRs and gold should be discussed. Regarding the creation of an enlarged monetary community—the Group of Twenty—the European monetary authorities generally held a positive attitude. However, the Germans and the Italians, they preferred to use the gold-value liquidity as part of the international reserves. When the Europeans discussed the establishment of common credit, Italy even proposed that gold should be excluded from the regulations between member states.

The French knew that compared with the emphasis on the role of gold, it was more important to demand the dollar's convertibility and the survival of the fixed exchange rate system. In these two aspects, Western Europe could form a common

⁶²⁷ NARA, RG56, volume 35596, Gold and the International Monetary negotiations.

posture in the face of American initiatives and reduce the side-effect of dollar's instability.

According to their growing importance, UK Second Permanent Secretary to Treasury Alain Neale has ever listed the main elements of the problems for the current monetary system:

- “-The regulation of short-term capital movements;
- Strengthening the credibility of Washington's realignment agreements;
- Restoration of dollar's convertibility (UK repayment to the IMF is only part of the problem).⁶²⁸

The discussion held between different European countries showed that dollar's return to convertibility was fundamentally crucial for the British, even it required a long-term stabilization of the dollar and sterling balances. Furthermore, Neale set out the basic principles of the reform of the IMS, which to some degree catered for France's propositions, such as asking the fixed parities, with an appropriate degree of flexibility linked to the magnitude of the fluctuation margins. Without any radical change in the role of gold, using SDRs, whose rules would be modified, as substitution of reserve currencies. At the same meeting, Jacques de Larosière, head of the International Affairs in Department of the Treasury in France, made three observations:

First, it was necessary to tackle the reform of the IMS quickly within the framework of Community, even if the results of the negotiations were undoubtedly long to take shape;

Secondly, if one wished to return to an active form of international cooperation, it was enough to draw on a few simple principles: to keep the fixed parities; to respect the minimum rules for convertibility; alongside gold, to create of objective liquidity which replaced reserve currencies; to ensure the equal operation of the adjustment process;

Thirdly, in any case, it was necessary to strengthen the monetary individuality of the enlarged European Community.⁶²⁹

To keep the fixed parties, on June 30, 1971, and March 21, 1972, the Common Market decided to establish the European Monetary Cooperation Fund, whose

⁶²⁸ CAEF, B0050481, Compte rendu de la réunion du Comité Monétaire de la CEE du 24 mars 1972.

⁶²⁹ Ibid.

ultimate aim was to form the European Monetary Union.⁶³⁰ The negotiations were conducted in the level of the Monetary Committee of the Community, Committee of the governors of the Central Banks, and the meetings of the ministers of Economy and Finance. The French favored the establishment of such a Fund and encouraged the action taken to reduce the fluctuation margins between the currencies of the Community. In April 1972, the Basle Agreement and its practice brought about the European currency snake in the tunnel, the fluctuation margins therefore fixed by $\pm 2.25\%$.

The devaluation of sterling of June 1972 highlighted the urgency of the common monetary policy. In July 1972, when Valéry Giscard d'Estaing met Schiller, both of them shared their anxiety about the future situation of the U.S. dollar. Valéry Giscard d'Estaing pointed out that a Community attitude was technically possible since the new party was in his view appropriate concerning the relative parities of European currencies and it was politically necessary to keep a common attitude. He indicated that three types of solutions could be conceivable following the devaluation of sterling:

"1. The protection of a single market by administrative measures would probably mean the large purchases of dollars;

2. Generalizing the dual foreign exchange market could be practicable. The system operating in France is simpler than the German authorities seem to think and there would be only advantages for one of Schiller's representatives to examine the details of this system;

3. A concerted float in European currencies would only make sense if, in practice, it meant a floating of the dollar... This would lead to separation (of world monetary markets) into three zones: dollar zone including America and Asia, European zone including Europe and Africa, the zone of socialist countries. This would have significant political and commercial consequences, and means that the European countries would in practice be driven out of the dollar zone."⁶³¹

⁶³⁰ For more discussion on the European exchange rate system, see Rainer Hellmann, *Gold, the dollar, and the European currency systems: the seven year monetary war*, New York: Praeger Publishers, 1979; Valéry Giscard d'Estaing, *Le pouvoir et la vie, volume 1: La rencontre* (Paris; Compagnie 12, 1988), 136-142; David J. Howarth, *The French Road to European Monetary Union French Politics, Society and Culture Series Studies in Modern History* (London: Palgrave Macmillan, 2001); B. Eichengreen, *The European Economy Since 1945: Coordinated Capitalism and Beyond* (Princeton: Princeton University Press, 2007); Emmanuel Mourlon-Druol, *A Europe Made of Money* (Ithaca: Cornell University Press, 2012).

⁶³¹ CAEF, 1A0000054, Réunion franco-allemande des 3 et 4 Juillet, 1972, Compte-rendu de Séance.

Based on the accord within the EEC, in the meeting of the Governors of Central Banks Committee in October, 1972, some consensus were furthermore arrived, such as, (1) there should be the concertation between central banks for the needs of narrowing margins; (2) there should be the multilateralization of positions resulting from financing in Community currencies and the multilateralization of intra-Community regulations; (3) a European Monetary Unit of Account should be put into practice; (4) there should exist the management of short-term monetary support between central banks.⁶³²

In 1972, France monetary authorities, on the one hand, intensified its consultation with the European Community about the implementation of the common monetary policy, by creating the monetary cooperation fund, and signing the Basel Agreement to approve the European currency snake. On the other hand, it continued to emphasize the fixed exchange rate system and the monetary role of gold in international monetary affairs. France's monetary policy, after all, was not only a response to its own economic interests, "such as increased inter-European trade and more industrial development for France," but "Pompidou closely linked the European monetary union as a means of establishing a distinctly European identity in EC/U.S. relations, to realize its political strategy."⁶³³ When the United States unilaterally suspended dollar's convertibility on August 15, 1971, France comprehended one more time the instability that the dollar's hegemony had brought to the international monetary market. Franco-U.S. differences in the U.S. monetary policy, military approach with the Eastern countries have led the Pompidou government to rethink the problems and the relationship between monetary and political issues.

6.2.2. The Pompidou Government's thinking on the link between currency and political issues

France's final agreement to form a common float regardless the possibility to create a marked zone was due to the consideration that "the monetary union with smaller bands could fix a distinct and powerful European voice in monetary and political affairs, and offer a measure of independence from the Americans."⁶³⁴ It can

⁶³² AN,5AG2, volume 75, Note sur le Fonds Européen de Coopération monétaire agréée par les Ministres des Finances, le 12 septembre 1972.

⁶³³ M. Rae, *International Monetary Relations Between...op.cit.*, 132-133.

⁶³⁴ *Ibid*, cited from Simonian, *the Privileged Partnership*, 127.

be seen that the monetary affairs, especially the establishment of the European Monetary Union, was an essential means for European countries to make them heard in the world currency affairs.

It can be seen that the monetary affairs, especially the establishment of the European Monetary Union, was an essential means for European countries to make them heard in the world currency affairs.

Apart from economic and financial considerations, French international monetary issues served its diplomatic and political goals. "Questions relating to EMU should in no way be considered as not just the technical affairs. Georges Pompidou took them into account as fundamentally political issues, relating to all the scales of his actions. It concerned first of all Europe's future of economic integration." The creation of the common economic policy and the development of the CAP depended on the monetary stability, "the 1967 pound crisis opened the door to the dollar and the final crisis of the system. It is therefore at once a matter of affirming European solidarity both internally and externally."⁶³⁵

As a whole, the Pompidou government took a realist position in dealing with monetary matters, by resolving some specific questions for French and European monetary turbulence. France's request to form the Monetary Union was for resisting the currency market turmoil caused by the instability of the U.S. dollar. Likewise, in the field of security and defense, Pompidou realized that the U.S.-Soviet contact and its condominium may be achieved at the expense of European interests. In an interview on December 12, 1972, Pompidou pointed out with concern that: "There are very large and important technical, monetary and commercial issues that need to be addressed. But I have the feeling that in Washington there is no philosophy or guiding principle: there is no political intention to guide EU-Europe-Japan relations. In fact, politics is what is most important, much more important than technical, commercial or even monetary discussions."⁶³⁶ Pompidou mentioned additionally that: "trade and even monetary problems are ultimately secondary. Either we see only political solutions, or they are easy to solve. I do not think a new monetary system is so difficult to implement. It will take time, we will have arguments, but we all know or almost know where we are going, and what will be the system that we want to have in

⁶³⁵ E. Bussiere et Emilie Willaert, *Un projet pour l'Europe Georges Pompidou et la construction européenne* (Paris: P.I.E. Peter Lang, 2010), 217.

⁶³⁶ AN, 5AG2, volume 74, L'interview de Pompidou avec le journaliste de New York Times, Reston, December 12, 1972.

the next two or three years...The political problem is to know what relations between the United States and Europe should be, and I am not talking about individual European states but about theirs as a whole. In my opinion, given the enormous Soviet forces at our borders, Western Europe must remain the ally of the U.S. So there is the problem of the scope of U.S. engagement in Europe, and the question of how far it will go. It is the presence of troops and the existence of organizations that are the sign of this commitment. There is also the fact that the alliance between the United States and Europe must be accompanied by each political independence.”⁶³⁷

This above statement indicated French government's prior consideration regarding foreign affairs. Political matters occupied the first plan, and along with U.S.-Soviet SALT and MBFR negotiations, West Europe's unsafe sentiment became increasingly stronger. The insecurity in the political and military realms was aggravated by the monetary and economic affairs, which in the end generated the misunderstanding of the United States and France (or U.S.-Europe in general).

III. A transitional year in the Nixon-Pompidou era

The years 1969-1971 were a brand new era for U.S.-French relations. The almost simultaneous leadership transitions have brought a new look to the political relations between the two countries. Both Nixon and Pompidou were interested in improving the unfavorable reputation set by their predecessors. The mutual understanding reinforced by the Nixon's talks with de Gaulle in February 1969 and Pompidou's visit to the United States in 1970. Both sides received warmed welcome.⁶³⁸

Despite the efforts to promote bilateral relations, however, the pressure from the economic and the monetary domains never stopped. In 1971, Nixon's announcement of closing the gold window and imposing additional taxes directly worsened the relationship between the United States and the rest of the western world. In fact, this idea was envisaged two years earlier than 1971, and was strongly pushed by the U.S.

⁶³⁷ Ibid.

⁶³⁸ For U.S.-French relationship in the Nixon-de Gaulle and Nixon-Pompidou era, see Marc Trachtenberg, “The French factor in U.S. foreign Policy during the Nixon-Pompidou Period, 1969-1974”, *Journal of Cold Studies*13, Vol.1, (Winter 2011): 4-59; Helga Haftendorn, G. Soutou, al., eds, *The Strategic Triangle, France, Germany, and the United States in the shaping of the New Europe* (Baltimore: The Johns Hopkins University Press, 2006), 171-208; E. Bussière, François Dubasque, al.,eds., *Georges Pompidou et les Etats-Unis, une relations spéciale, 1969-1974*, (Paris: P.I.E. Peterlang,2013); Giles Scott-Smith and Valérie Aubourg eds., *Atlantic, Euratlantic, or Europe-America?* (Paris: Soleb, 2013).

then Secretary of the Treasury John Connally.⁶³⁹ It finally took into shape and was put forward on August 15, 1971. The Nixon economic shock was a turning point in the U.S.-French relations at both the political and economic levels. The following year then became a year of transition, in which the two countries readjust their foreign policies.

6.3.1. U.S.-French overall relationship in 1972

During the first half of 1972, the Nixon government focused most of its attention on the relationship with its enemies. On the one hand, it conducted negotiations with Soviet Union and China, on the other hand, it paid attention to Europe's contact with the East, especially the *Ostpolitik* of the FRG. It worried that Germany played a too active role in contacting with the East, which could eventually lead to Europe's Finlandization.⁶⁴⁰

As for the Pompidou government, it also kept a reserved attitude in the approach to Germany's New Oriental Policy.⁶⁴¹ On the German issue, the U.S. and France have taken a similar stance since 1969, Nixon and Pompidou took office. Moreover, they shared a similar point of view regarding the Vietnam War. However, why the relationship between the two countries did not get closer, and the dispute on some specific issues even became more intense?

We will explore the reasons from two aspects: 1. U.S.-French relationship in the security and political domain; and 2. U.S.-French divergence on the monetary issues.

The collapse of U.S.-French relationship could be firstly understood in defense realm. The direct contact between the United States and the Soviet Union was one of the major concerns for France as well as West Germany. On one hand, France refused to join and did not favor the SALT and MBFR negotiations, because it believed that it would take place anywhere outside of France and that, if it were involved, it would

⁶³⁹ About John Connally, see James Reston, Jr. *The Lone Star, the life of John Connally*(New York: Harper& Row, Publishers, 1989). John Connally and Mickey Herskowitz, *In History's Shadow, an American Odyssey*(New York: Hyperion, 1993).

⁶⁴⁰ Like Journal of Baltimore Sun pointed out on September 3, 1972, "Finlandization reflects the growing apprehension that it is the long-term aim of the Soviet Union not merely to neutralize Western Europe, but to "Finlandize" it: to bring it effectively, that is, "under the Soviet Union's hegemony." In an atmosphere of detente, it was reckoned, the rich but harassed democracies of the West would soon tire of the burdens involved in keeping their collective fence in good repair, and public opinion in the U.S. would soon demand the withdrawal of American forces from an ungrateful and disputatious Europe. And so, sandwiched between the Soviet." "The 'Finlandization' of Europe seems the object of Soviet policy", September 3, 1972, NARA, RG56, volume 35596.

⁶⁴¹ For French position on the contact between RFG and the Eastern countries, see G. Soutou, *L'alliance incertaine, les rapports politico-stratégiques franco-allemands, 1954-1996*(Paris, Fayard, 1996).

assume the partial responsibility and, probably, would become prisoners.⁶⁴² On the other hand however, France feared to be trapped in a situation where U.S. withdrew its troops without consulting its European allies. This withdrawal may not be the true intention of the Nixon administration, but people could not ignore the huge pressure of U.S. Congress, like the Mansfield Amendment⁶⁴³ in May 1971.

In the dialogue between Kissinger and Pompidou, Kissinger explained that the Nixon administration has already undertaken the task to persuade Congress the necessities of the security and the European Defense. Kissinger made clear the U.S. standpoint, “Our position is this: we are willing to address these issues, and deal with them in a positive spirit by indicating general directions, but not to present specific proposals. These can only be discussed after the elections and after prior agreement with our closest allies. We recognized that there can be no question of establishing a condominium between the United States and the USSR, that a possible agreement could in no way imply that the United States and the USSR would not launch a nuclear war against each other...that we think it is wiser to focus on ways of eliminating the causes of conflict rather than seeking to limit armaments. We will not engage in such an action that would be tantamount to suicide. One of the tasks that President Nixon wants to accomplish during his second term is to build the alliance on a firmer footing.”⁶⁴⁴In another dialogue between André Bettencourt, French Minister Delegate to the Minister of Foreign Affairs, and John Nichol Irwin II, U.S. Deputy Secretary of State, the French official asked if, with U.S.-Soviet negotiation, the United States would withdraw part of their forces, and without negotiation, the United States would retreat all its military force from Europe. Irwin replied in a pretty sure tongue that if the United States did not start negotiations on the MBFR in 1973, the chances would be increased of a unilateral withdrawal decided by the Congress, a withdrawal that might not be very large in the beginning. But he did not think the Congress demanded a total withdrawal in the foreseeable future. The opinions were divided in the Nixon government: some wanted a withdrawal at 50%, some at 30%, some wanted a symbolic gesture; but no one suggests removing all the troops. Senator

⁶⁴² AN, 5AG2, volume 117, Entretien 1972 compte-rendu d'un entretien entre M. Bettencourt, ministre délégué et M. Irwin, secrétaire d'Etat adjoint 25 oct 1972.

⁶⁴³ See for example, Péter Lázár, *The Mansfield Amendments and the U.S. Commitment in Europe, 1966-1975*, thesis in Naval Postgraduate School, June 2003; and Phil Williams, *The Senate and U.S. Troops in Europe*, (London: The Macmillan Press, 1985), 139-167.

⁶⁴⁴ AN, 5AG2, volume 1022, Audience de M. Henry Kissinger, Conseiller du Président Nixon, le 15 Septembre 1972.

Mansfield preferred to withdraw 50% of U.S. troops while adding that it was essential to maintain a strong NATO. Irwin then remarked that the MBFR negotiation would be very long, like the SALT, and that it would last for years during which the U.S. authorities hoped to be able to contain and even reduce the pressure of the Congress. Irwin stressed that he had made it clear to the Congressmen that it was essential to maintain a strong alliance and a sufficient number of American soldiers in Europe. However, some people always held the opinion that Europe had become more productive for the past four years, while the U.S. was experiencing growing difficulties with its balance of payments. If Europe increased its defenses, the U.S. would not need to maintain as many forces on its territory.

On this issue, Pompidou believed that France had already made a sufficient military effort. He recognized that the European countries must increase their efforts and France was trying to push them in this direction where France would continue on its side. However, under the current situation where the Europeans did not make enough effort to help to reduce U.S. deficit, the Nixon government preferred to use the linkage of military and economic issues as bargaining leverage. When Reagan met French Premier Minister Pierre Messmer in July 1972, he stated that it would be risky to separate economic and security considerations. Concerning that, it could give weight to Congress members who would try to act contrary to the will of the president.⁶⁴⁵

Regarding the MBFR and SALT negotiations, the United States, in fact, encouraged France's participation, which could be manifested from the Irwin's talk with Bettencout, "we would like France to participate, because our goals are the same and none of us would want to undermine Europe's basic military security. On the other hand, we do not believe that, as you fear, real negotiations take place between the United States and the USSR and not at the conference table. That's not the way we look at negotiation. Even in the case of the SALT where we are talking directly with the USSR, we have taken great care to keep our NATO allies informed. Negotiations on MBFR should therefore be multilateral and France could make a lot of difference through its participation." ⁶⁴⁶

⁶⁴⁵ AN, 5AG2, volume117, Le 10 juillet 1972, photocopie du compte rendu de l'entretien du premier ministre(Messmer) avec le gouverneur Reagan, le 10 juillet 1972.

⁶⁴⁶ Entretien 1972 compte-rendu d'un entretien entre M. Bettencout, ministre délégué et M. Irwin, secrétât d'Etat adjoint 25 oct 1972

6.3.2. U.S.-French monetary relationship in 1972

In addition to the controversies in military and political domains, the monetary relationship between the United States and France worsened in 1972. The Smithsonian Agreement did not produce much stability to the international monetary market, since some participants, especially the United States took counteraction against the fixed exchange rate. The French violently criticized the negative attitude of the U.S. government on the movements of capital, its low-interest rates policy, and the in-convertibility of U.S. dollars, U.S. failure in defending its currency undermined the cooperative spirit in the Azores summit and the Smithsonian meeting. French disappointment has manifested in the letter from Pompidou to Nixon on February 4, 1972. Pompidou remarked that he did not believe U.S. policies could afford in the best of circumstances for the defense of the new parity of the dollar which Nixon has fixed, and "the widening of the dollar margins, which was decided in Washington following our meetings, gives speculators the possibility to realize more substantial gains in capital without a new modification of the parity of your currency."⁶⁴⁷ In the reply, Nixon above all explained the reasons of the deficit and assured that the U.S. deficit was the result of a purposeful acceleration of Government expenditures to provide some needed impetus to nudge the economy. He even showed his surprise in saying that both the French and the Americans recognized the question about the flexibility would need to remain an open issue and it was U.S. view that "questions of convertibility of the dollar should be discussed in the context of broad consideration of the many inter-related aspects of future reform of the monetary system."⁶⁴⁸

Nixon's vague answer evidently did not satisfy the French government. On March 11, 1972, Ambassador Watson sent a telegram to the Department of State entitled "French Reaction to International Monetary Developments Causing Growing Strain on Franco-American Relations." U.S. 'benign neglect' international position of dollar; failure support dollar devaluation with appropriate monetary and fiscal policies, as evidenced by our large budget deficits and low interest rates; unwillingness to commit ourselves to even partial return to convertibility; and indifference to problems

⁶⁴⁷ *FRUS*, 1969-1976, Vol.III, doc.223, Letter From President Pompidou to President Nixon, February 4, 1972.

⁶⁴⁸ *Ibid.*

caused for Europeans by their role in defending new exchange rate structure”⁶⁴⁹—such an answer irritated French official and unofficial persons as well as the media.

In order to appease the irritation, U.S. official recommended to the Nixon cabinet that it was time to hold some more “high-level U.S. effort to counter European charges that U.S. is indifferent to fate of dollar.”⁶⁵⁰ Therefore on September 21, 1972, Kissinger called to Jacques Kosciusko-Morizet that “in general we agree to go back to some system of convertibility which your President urged on us last year. But what we want you above all to know is that in implementing it we will deal with you bilaterally so that we can follow the President of the Azores.”⁶⁵¹ In the meantime, Pompidou told to Kissinger that he was not crazy to ask for the reevaluation of gold, or declare war on the dollar. This would be absurd,⁶⁵² and basically, “we are in solidarity. I hope that at the next meeting of the IMF we can talk generously and we will not tackle the big problems that cannot be solved for a long time.”⁶⁵³

The above statement shows that the conflict between France and the United States in the monetary field has not been resolved with the signing of the Smithsonian Agreement, and the U.S. pursuit of exchange rate flexibility once irritated the French. However, the high-level communication of the two countries continued, and they actively exchanged their viewpoints on world issues. Moreover, France's participation in the European snake exchange rate also indicated to a certain extent that France was aware of the inevitability of the international monetary system entering the floating exchange rate system. The European joint floating was a practicable means that could avoid risks of speculation and international monetary market's instability.

Conclusion of Chapter VI

For the Nixon administration and the Pompidou government, 1972 was the midterm of their mandates. The diplomatic and political policies of both countries have already taken shape. It can be seen that under the guidance of the Nixon doctrine, the United States has gradually used the perspective of reciprocity or alliance-ship to examine post-war U.S.-European relations, by encouraging allies to shoulder greater

⁶⁴⁹ *FRUS*, 1969-1976, Vol.III, doc.226, Editorial Note .

⁶⁵⁰ *Ibid.*

⁶⁵¹ DNSA, Kissinger Telephone Conversations, 1969-1977, France-U.S. relations, Memorandum of Telephone Conversation. September 21, 1972.

⁶⁵² *Ibid.*

⁶⁵³ *Ibid.*

defense responsibilities, and looking for obtaining the benefit maximization through negotiations in the economic and currency fields. In the negotiations to reform the international monetary system, the U.S. advocated further removing the reserve function of gold and, under the leadership of the Secretary of Treasury Shultz, it promoted the floating of the international exchange rate. The establishment of the Committee of Twenty was another means to strengthen the discussion of trade and currency issues.

The U.S. strategy was still contrary to France's long-standing proposition. However, due to the limited influence of the French government on global affairs, it could only rely on the platform of the European Community to amplify the voice of Europe. The construction of European Economic and Monetary Union was both for the development of Europe itself, as well as the far-reaching significance in the political level.

The visit of Kissinger to Paris in September revealed that the future diplomatic center of the United States would return to its allies. The conversation between Irwin and Bettencout in October 1972, furthermore indicated that trade and currency issues between the United States and France were overly discussed, the two sides should focus on the great political strategy and philosophical bases. Such attitudes suggested the strategic direction of the United States in 1973.

Could U.S.-French relations be alleviated with the reform of the international monetary system? Would France tighten its link with the European Community members to counter the adverse effect of the dollar crisis and the new U.S. political initiative? At the end of the Nixon-Pompidou administrations, what kind of fluctuations would happen to the relationship between the two countries then? The United States would return to its allies. The conversation between Irwin and Bettencout in October 1972, furthermore indicated that trade and currency issues between the United States and France were overly discussed, the two sides should focus on the great political strategy and philosophical bases. Such attitudes suggested the strategic direction of the United States in 1973.

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Chapter VII "The year of Europe" and French-U.S. disputes in 1973

In April 1973, Kissinger put forward a political initiative the "Year of Europe", aiming at revising the Atlantic Chapter and negotiating with the Europeans by linking the trade, money and defense issues together.

Monetary affairs were closely related with political and defense affairs, in turn, the attention paid on international monetary relations affected U.S. security strategy and foreign policy towards Western Europe. "The Year of Europe" was at that time a miniature that reflected the U.S.-EC relations: it was a game among allies, which showed the changeable financial and military situation among the United States and the Western European countries. Along with consultations with the Americans, the enlarged European Community accelerated their speed to construct European integration in political and economic realms.

This chapter will focus on the political diplomatic and monetary policies of the Nixon government, and French response to U.S. political initiative. Concurrently, we will talk about the process of European monetary integration and their endeavour to strengthen the political links, because the U.S.-French monetary issues have never been limited to the economic domain, nor had it ever been limited to the bilateral relationship.

I. U.S. new strategy on Western Europe

Unlike in the past, the monetary market became extremely volatile since the beginning of 1973. On January 22, Italy announced the implementation of two markets; one day later, Switzerland decided to float the Swiss franc temporarily. Such actions increased the possibility of the collapse of the U.S. dollar's confidence, and a jittery atmosphere had prevailed in the exchange markets.⁶⁵⁴ International speculation has become increasingly severe. The IMS, the balance of the international trading system, as well as the capability of U.S. dollars became more questionable. From January 22 to February 6, 1973, the outflow of dollars amounted to \$4.3 billion, and \$2.6 of that was poured into the FRG. The last straw to save the Bretton Woods system — the Smithsonian agreement— was not running smoothly; in fact, it had no

⁶⁵⁴ *FRUS*, Vol. XXXI, doc. 2, Letter From the Chairman of the Federal Reserve System Board of Governors (Burns) to President Nixon, February 1, 1973.

significant effect on the improvement of IMS. According to Shultz's explanation, the Smithsonian agreement was not large enough, "in part because there were all sorts of offsets that countries had used, and in part because it's deteriorated."⁶⁵⁵ The appeal of U.S. dollars' depreciation was strong in America, and at the same time, the U.S. Congress was discussing a new trade legislation to give the president the privilege to negotiate and expand world trade and reduce trade deficits and revenues and expenditures, since the balance of payments deficit had increased from \$2.7 billion in 1971 to \$6.9 billion in 1972.

Like preceding years, the financial officials of the U.S. government have pointed out that their deficit was due to the countries in Western Europe and Japan to a high degree. Arthur Burns indicated that: "The United States has provided leadership in the monetary area. So far, we have not been joined sufficiently by others, although Britain has gone further in this direction than any other country."⁶⁵⁶ When Volcker met Japanese Finance Minister Kiichi Aichi, he also pointed out that: "There is a monetary disturbance, and until the causes of disequilibrium are corrected, these disturbances would continue...The imbalance has caused the disturbance, and because Japan is dealing with it by passing dollars on to the rest of the world, its effect appears elsewhere. That is why the President feels strongly that there are serious political (apart from any economic) implications arising from this disequilibrium, which in turn affect the monetary market."⁶⁵⁷

On February 10, 1973, international speculation forced Japan to close the foreign exchange market; two days later, major European countries closed the dollar exchange market; Shultz reported that U.S. authorities were seeking Congress to approve a 10% depreciation of the dollar, and on February 14, 1973, the dollar was eventually devalued. In mid-February, the Western European and Japanese foreign exchange markets reopened. At the end of February, new speculations came back, and the European Central Bank had to absorb massive sums of dollars to keep its value. However, speculative pressures expanded rapidly, on March 2, many European central banks re-closed their exchange window. In the press conference on March 2, Nixon announced that the dollar would not devalue again, and the United States

⁶⁵⁵ *FRUS*, 1969-1976, Vol. XXXI, doc.3, Conversation Among President Nixon, Secretary of the Treasury Shultz, and the Chairman of the Federal Reserve System Board of Governors (Burns), February 6, 1973.

⁶⁵⁶ *FRUS*, Vol. XXXI, doc. 2, Letter From the Chairman of the Federal Reserve System Board of Governors (Burns) to President Nixon, February 1, 1973.

⁶⁵⁷ *FRUS*, Vol. XXXI, doc. 5, Memorandum of Conversation, February, 8, 1973.

would “survive” the international attack upon the dollar by people who made vast sums of money by speculating. The United States would continue to “get the other major countries to participate more with us in the goal that we believe we should all achieve, which we set out at the time of the Smithsonian and other agreements, and that is of getting an international monetary system which is flexible enough to take care of these, what I believe are, temporary attacks on one currency or another.”⁶⁵⁸

According to Nixon’s announcement, the Americans hoped to achieve the goals set during the signing of the Smithsonian Agreement. However, has the United States followed the agreement and fulfilled the requirements of the fixed exchange rate system as it claimed? Moreover, what was the new international monetary order designed by the United States in 1973? How did these changes relate to the changes in the international environment? Did they ultimately affect the relationship between the United States and France, and the development of the U.S.-Europe alliance?

7.1.1. The review of the Nixon cabinet on its European policy and the context of “the Year of Europe”

“In every country, foreign policy success is equated with relations with the enemy. With adversaries.”⁶⁵⁹ During his first term, Nixon focused attention on the foreign relations with the enemy countries, like negotiating with the Soviet Union, and contacting Communist China. While alliance was not in a suitable form in all aspects: they had a crisis of confidence caused by U.S.-Soviet talks about MBFR; they were trapped into economic problems, etc.

The initiative of the “Year of Europe”⁶⁶⁰ was put forward under this context and dated in September 1972 during the Council of International Economic Policy (CIEP) executive committee meeting. After summarizing U.S. economic and monetary relations with Europe, the President’s adviser on international economic affairs Peter Flanigan suggested to “adopt an Atlantic cooperation approach to lay the groundwork

⁶⁵⁸ *FRUS*, 1969-1976, Vol. XXXI, doc. 14, Editorial Note.

⁶⁵⁹ DNSA,KA/10151, “Year of Europe” Initiative; U.S.-Western European Relations, May 24, 1973.

⁶⁶⁰ From the British perspective, see Ardrik Klaassens, “Edward Heath, his vision for Europe, his Government and Henry Kissinger’s Year of Europe,” (MA thesis for History: Political Culture and National Identities, 2011); Keith Hamilton, “Britain, France, and America’s Year of Europe, 1973”, *Diplomacy & Statecraft*, (February 2007): 871-895; From French point of view, see G. Soutou, “Le président Pompidou et les relations entre les Etats-Unis et l’Europe,” *Journal of European Integration History*, 6 (2000): 111–146; Maurice Vaisse, “Les ‘relations spéciales’ franco-américaines au temps de Richard Nixon et Georges Pompidou,” *Relations internationales*, 119 (2004): 345–362; From European angle, see Daniel Mockli, *European Foreign Policy during the Cold War: Heath, Brandt, Pompidou and the Dream of Political Unity* (London: I.B. Tauris, 2009).

in the economic and political area for a possible major political initiative next year.”⁶⁶¹The President completely agreed with this proposal and clearly expressed the hope that political means would be used to resolve the differences in the areas of economy, trade and security. “We should not allow the umbilical cord between the U.S. and Europe to be cut and Europe to be nibbled away by the Soviets. We need to strengthen the bonds of trade, monetary relations, exchanges, etc.”⁶⁶²

In his memoirs, “1999: Victory Without War”, Nixon replayed his determination to reshape the relationship between the United States and Europe in 1973: As President, I sought to make 1973 the Year of Europe in order to focus the energies of my administration on resolving the problems which had arisen from changing times.⁶⁶³

Once the idea of proposing political initiative and strengthening U.S.-European links was confirmed, Nixon immediately implied the U.S. next steps on various diplomatic occasions. When met with French Foreign Minister Maurice Schumann and French Ambassador to the United States Jacques Koscuisko-Morizet, he indicated that he would focus on European affairs the following year; in the correspondences with British Secretary of State for Foreign and Commonwealth Affairs Alexander Douglas-Home and German Chancellor Brandt, he emphasized “ Once we get past the election...I think it’s very important to establish a strong line of communication within the Alliance.”⁶⁶⁴ In early November 1972, when it was clear that Nixon had been re-elected, he instructed the draft of “National Security Study Memorandum 164” and asked the State Department, the Department of Defense, Department of the Treasury, Department of Commerce and the Department of Agriculture, to give an analysis of the developing trend of U.S.-Europe relations in the next four to five years, especially the U.S.-Western European relationship. In accordance with presidential instruction, in the senior review group meeting, Kissinger remarked that the year of 1973 would be the “Year of Europe”, and the U.S. government would be paying increasing attention to Europe.⁶⁶⁵

In the framework of the “Year of Europe”, the Nixon administration wanted to renew the Atlantic Charter, for dealing more specifically with defense, economic and

⁶⁶¹ *FRUS* 1973-1976, Vol. 3, doc.100, Memorandum of Conversation.

⁶⁶² *Ibid.*

⁶⁶³ R. Nixon, *1999: Victory without war* (New York: Pocket Books, 1989), 207.

⁶⁶⁴ Nixon Tapes, OVAL 788-15, September 29, 1972, 4:04 pm – 5:15 pm, cited from Luck Nichter, *Richard Nixon and Europe: Confrontation and Cooperation...op.cit.*,164.

⁶⁶⁵ *FRUS*, 1969-1972, Vol. 41, doc. 88, Minutes of a Senior Review Group Meeting.

political negotiations,⁶⁶⁶ and using the United States' advantage in the military field to force Western Europe to make some concessions in the economic, trade, and monetary fields. “We’ve been talking in general about a global deal—the need for greater political unity, and defense and economic considerations all in one package.”⁶⁶⁷ This was therefore one of the main strategies of the U.S. government in face of U.S.-European negotiations.

7.1.2. The preparation for “negotiations in a package”: Nixon’s linkage of the monetary and defense issues

In fact, with the resurgence of the dollar crisis in early 1973, the Nixon cabinet had already discussed the possibility of negotiating the monetary, military and political issues with Europeans, that is, a “package” of negotiations. The chairman of Federal Reserve Arthur Burns pioneered this proposition. In a letter to the Secretary of Finance, George Shultz, in January, 1973, he suggested that the Americans could emphasize on the severity of the U.S. foreign trade situation to Heath when he visited the United States. The deterioration of economic relations between the United States and Europe would weaken bilateral political and security relationship. During discussion with Peter Peterson, Kissinger said that: “on linking these things together, that is not a negotiating ploy, that is a reality— there is no possible way we can keep our troops here in the middle of a trade war, because Congress won’t let us. So it isn’t any question that the negotiation had to be conducted together, the question that we all understand where we are going...Economic negotiations will certainly produce a confrontation, not at their link with other issues, but if they are not linked.”⁶⁶⁸

Besides, another consideration that drove Nixon to define 1973 as the “Year of Europe” was due to the infiltration of the Soviet Union in Western Europe. The U.S. government had judged that the Soviet Union was taking advantage of “detente” as an opportunity to increase political, diplomatic and trade contacts with Western Europe. In the meantime, the French and federal governments also intended to communicate with the Soviet Union. Brant's understanding of Brezhnev and Kosygin was much

⁶⁶⁶ “Record of meeting: Trend/Kissinger, 04th June 1973” *Documents on British Foreign Policy Overseas, Series III, Vol.IV: Year of Europe: America, Europe and the Energy Crisis 1972-1974*(Hereafter cited as *DBFPO:III:IV*), CAB 164/1233.

⁶⁶⁷ *FRUS*, 1969-1976, Vol.XLI, doc.88, Minutes of a Senior Review Group Meeting, January 31, 1973.

⁶⁶⁸ DNSA, KA/10151, “Year of Europe” Initiative; U.S.-Western European Relations, 24th May, 1973.

deeper than that of the Americans. Kissinger said in a conversation with French Foreign Minister Michel Jobert that nowadays for the Europeans, the distinction between friends and enemies had eroded and, “we wanted the Year of Europe to correct this to some extent.”⁶⁶⁹

The "Year of Europe" had two significance. First of all, through the bilateral and multilateral negotiations, the concession could be achieved with Western European countries in the economic and financial fields. Secondly, it allowed the United States to conjecture the action to woo and pacify its allies in the face of doubts and accusations, in order to construct a much closer relationship with the United States. Against this background, on April 23, 1973, Kissinger made a speech titled the “Year of Europe”:

“This year has been called the year of Europe, but not because Europe was less important in 1972 or in 1969. The alliance between the United States and Europe has been the cornerstone of all postwar foreign policy. It provided the political framework for American engagements in Europe and marked the definitive end of U.S. isolationism. It insured the sense of security that allowed Europe to recover from the devastation of the war. It reconciled former enemies. It was the stimulus for an unprecedented endeavor in European unity and the principal means to forge the common policies that safeguarded Western security in an era of prolonged tension and confrontation. Our values, our goals, and our basic interests are most closely identified with those of Europe.”

The initiative of the “Year of Europe” was therefore planned to redefine the U.S.-European alliance and to activate their partnership. It was one of the major actions of President Nixon following the detente with the Soviet Union, the visit to Mainland China, and the "New Economic Policy." It was the practice of the “Nixon Doctrine,” based on “strength,” “negotiation” and “partnership.”

In the initiative of the “Year of Europe,” the monetary issue has become a major concern between the two sides. In March 1973, the U.S. dollar crisis recurred and the last attempt to save the Bretton Woods system—the Smithsonian agreement failed. The United States accused Europe of not cooperating in the process of reforming the monetary system: “Europe’s economic success and its transformation from a recipient

⁶⁶⁹ DNSA , KT00748, Discussion with Michel Jobert, June 8, 1973.

of our aid to a strong competitor has produced a certain amount of friction. There has been turbulence and a sense of rivalry in international monetary relations.”⁶⁷⁰ Western European countries, especially France, were dissatisfied with the introduction of SDRs and the fluctuation of the exchange rate. The Bretton Woods system was no longer a symbol of stability but had become synonymous with “crisis, chaos, capital controls, and non-convertibility,” and “domestic interests and grand strategic considerations, not supranational institutions and enlightened rules as is often claimed, guided monetary relations. The Bretton Wood system made global monetary relations highly politicized—far more so than they are today— and, more often than not, antagonistic.”⁶⁷¹

Political and financial issues were always interactive. When the problems in the international trade, economic and financial fields rested unresolved, decision makers would resort to diplomatic and political channels, while the economic and financial status determined the negotiating position to a certain extent. The initiative of the “Year of Europe” was, therefore, a negotiating strategy to deal with the rise of Western Europe’s economy, and to face the change of international context, like the relaxing tensions between West and East.

The “Year of Europe” was also a gesture to re-emphasize the importance of an alliance, in the effort to force Western European countries to make some concessions in different domains. The essential idea of “Year of Europe” could be reflected in Kissinger’s interview after the speech of April 23, 1973. He elaborated on the relations between the Nixon Doctrine and the Atlantic relationship in a direct way: “The Nixon Doctrine contained many dimensions. One of the most important aspects was that other countries had to bear more political, military and economic responsibilities. The world peace we are building cannot be achieved through U.S. unilateral efforts and declarations.”⁶⁷²

In 1972, the U.S.-European relationship intensified in the international financial arena. The short-lived stability of the international financial market brought about by the Smithsonian Agreement was overspread by speculation. The United States accused Europe of failing to fulfill the Smithsonian agreement, and the reevaluations of mark and yen were not remarkable and helpful, while Europe accused the United

⁶⁷⁰ *FRUS*, 1973-1976, Vol. XXXVIII, doc. 8, Address by the President’s Assistant for National Security Affairs (Kissinger), April 23, 1973.

⁶⁷¹ Francis Gavin: *Gold, Dollars, and Power...*, *op.cit.*, 9-10.

⁶⁷² FCO 283, Kissinger Briefing on Foreign Policy Report, May 4, 1973.

States of doing nothing to control the financial market and high domestic inflation effectively. The implementation of the NEP “sped the slow decay of the system and forced its participants to take some steps to betray from their reliance to the dollar. It certainly was not the end of U.S. influence in Europe, but the crisis had renewed Europe’s interest in itself.”⁶⁷³ In consequence, the Europeans accelerated the pace of economic and monetary integration, and the degree of participation of the United States in European internal affairs was greatly reduced. Between 1969 and 1972, either the discussion of U.S. NEP or the reform of the Bretton Woods system had profoundly reflected the U.S.-Europe divergences in the economic and financial fields. This was more or less caused by the decline in the U.S. balance of payments and the status of the U.S. dollar. The United States was no longer able to withstand such heavy gold outflow pressure; hence they chose to unilaterally suspend the dollar-gold convertibility and impose a 10% import surcharge, which greatly damaged the U.S.-Europe, and U.S.-Japan relationships. From the economic and monetary perspectives, the reasons why Nixon proposed the initiative of the “Year of Europe” could be therefore summarized as (1) to appease European sentiment, (2) to alleviate the misunderstandings and tensions brought about by the NEP and international financial negotiations, (3) to reaffirm the link between the United States and Europe, and more importantly, (4) to hope that Europe can help the Americans from the heavy military burden and the exportation of U.S. products, etc.: “Many countries we helped to rebuild after World War II are now our strong economic competitors. Americans can no longer act as if these historic developments had not taken place.”⁶⁷⁴ In this sense, the “Year of Europe” was not only an attempt to repair the alliance relationship, but also an initiative to advocate exchange rate flexibility and to direct the trend of the reform of IMS to benefit the U.S. interests.

7.1.3. The flotation of U.S. Dollar in March 1973

Throughout the year of 1972, the United States was busy with the problem of exchange rate fluctuation. International hot money and speculation continued to threaten the financial situation, and the dollar deficit had not eased. Although U.S.

⁶⁷³ M. Rae, *International Monetary Relations between the United States, France, and West Germany...*, op.cit., 130.

⁶⁷⁴ *FRUS*, Vol.XXXVIII, doc.5, Message to the Congress Transmitting President Nixon’s First Annual International Economic Report.

financial officials had declared that they must adhere to the Smithsonian agreement and maintain the Bretton Woods system, they hoped to abandon the fixed exchange rate system altogether and reduce the role of gold. In February and March 1973, when international speculation increased, the main countries' exchange windows were closed. West German Foreign Office State Secretary Karl Moersch stressed Germany's hope that the United States should intervene in the monetary crisis. He even warned that the Europeans needed the time which this would afford to reach agreement among themselves. If they had to act under enormous pressure, there could be unfortunate political consequences which could prejudice the excellent cooperation which exists in other fields such as CSCE and MBFR. Moreover, in a conversation with Volcker in February 1973, Valéry Giscard d'Estaing also criticized that the United States do not do enough to support the existing exchange rate pattern and not live up to their obligations under the Smithsonian Agreement.⁶⁷⁵

Within the Nixon administration, two views on the reform of the Bretton Woods system became mainstream: Shultz supported one, NSC staff Robert Hormats and even Kissinger, who advocated the floating exchange rate. The former pointed out in a meeting in March 1974 that the floating exchange rate regime was the most significant achievement in his life. Kissinger also told Shultz that he learned more and more towards the float against intervention. According to this group of people, the international monetary system could benefit from the abolition of the fixed exchange rate regime. Moreover, in the face of the dollar speculation at the beginning of 1973, the U.S. government could adopt a *laissez-faire* policy domestically and externally. When Brandt sent Nixon an EC memorandum stating that Europe intended to implement a joint floating policy, Shultz and Herbert Stein (Chairman of CEA) suggested that the United States should not interfere in Europe's policy. If interfering, it was inevitable that the United States proposed something which was favorable to Europe. While when the European exchange rate fluctuated, the choice of the United States also opened. The United States could join the European exchange rate system to float the U.S. dollar, it could ignore European policy, or it could use the yen to put pressure on Europe.

Nevertheless, this proposal was opposed by the chairman of the Federal Reserve

⁶⁷⁵ *FRUS*, 1969-1976, Vol. XXXI, doc.10, Notes of a Telephone Conversation Among Secretary of the Treasury Shultz, the Deputy Under Secretary of the Treasury for Monetary Affairs (Bennett), and the Under Secretary of the Treasury for Monetary Affairs (Volcker), February 11, 1973.

Arthur Burns. In his point of view, non-interference policy would only create the illusion that Europe was the leader of the world monetary system. Burns and Peter Flanigan belonged therefore to the second group, who supposed that a floating rate system was not a good form— in both the economical and political senses. They therefore proposed that the international monetary system should be reformed within the framework of a fixed exchange rate regime. They believed that the current situation was not severe and the reforms were too slow. In an effort to correct the U.S. balance of payments deficit, a radical approach should be taken. Arthur Burns played a vital role in the formation of the NEP. He used the U.S. balance of payments deficit and domestic inflation rate as the primary indicators of U.S. foreign economic policy and supported the depreciation of the U.S. dollar, which affected some key persons in Nixon's administration. In February 1973, in a conversation among Nixon, Shultz, and Burns, Burns proposed to negotiate trade problems with Western Europe, linking trade, monetary reform, and military issues together, and escalated the negotiations to the summit level, "On trade, I'm very much discouraged. On monetary reform, well, we're proceeding at a snail's pace...on the monetary side, well, our strong card is defense. We are protecting the world, and they know it"⁶⁷⁶. The President was more inclined to Shultz's opinions toward the reform of the IMS, but praised and supported the linkage of defense, monetary reform and trade negotiations. On March 2, 1973, the U.S.-European negotiations were put on the agenda again as European central banks closed the exchange window. On March 7, in a memo written to Finance Minister Shultz, Stein listed six U.S. objectives in international monetary discussions:

“1. We want to avoid commitment to give up any reserves, accept any liabilities or bear any financial risks to defend any pattern of rates, pending agreement on the basic principles of the reform proposal. If we do not stick to this point we will lose our leverage for advancing the reform proposal.

2. We should emphasize and accept appropriate measures to strengthen the position of the dollar, such as:

—Reduction of withholding taxes on foreign investment income from the United States;

—Elimination of taxes on foreign-owned estates in the United States;

—Liberalization of foreign restraints on capital outflows;

⁶⁷⁶ *FRUS*, 1969-1976, Vol. XXXI. doc. 3, Conversation Among President Nixon, Secretary of the Treasury Shultz, and the Chairman of the Federal Reserve System Board of Governors (Burns) , February 6, 1973.

—Liberalization of foreign restrictions on imports.

3. We should not object to any country's intervening by selling its currency to prevent its price from rising above its band around parity. If (d.v.) the dollar should rise to its ceiling we should be prepared to sell to keep it from going higher. We don't insist on anyone's floating. We don't object to it. But with respect to the countries that now have parities with us we don't want them to go below the bottom of the band.

4. We want agreement in principle to push on to monetary reform.

5. I am very much on the fence about means to reduce the overhang.

6. Basically, we do not want to buy a few weeks or months of quiet by agreeing to live with a system that we find neither desirable nor defensible in the long run.⁶⁷⁷

On the same day, in the memorandum named as “what should we be looking for”, Under Secretary of State for Economic Affairs William J. Casey, stated: “No heavy commitment to intervention in support of a fixed rate.”⁶⁷⁸ Under the overall consideration, the Nixon administration then decided to abandon the fixed exchange rate system and move toward a floating exchange rate. Interfering in the exchange rate market would cause a crisis, so for the Americans, it was better than they floated U.S. dollars.

On March 9, 1973, Paris’ European Community Conference invited Shultz and Volcker to participate. During this meeting, when the Europeans once again demanded the United States to intervene in supporting the dollar and making efforts to maintain current exchange rate regime, U.S. Secretary of Finance and the Under Secretary of the Treasury for monetary affairs declared that there would be no pledge to intervene. From then on, the United States would float its currency. Under the new circumstances, the deputies of EEC decided to meet again on March 16, and their exchange window would be closed until March 19. The US’ indifferent attitude accelerated the establishment of a European common floating system.

The only obstacle that hindered the joint float was the exchange rate arrangement between France and Germany. As West Germany reevaluated DM by 3% and met the request of the French, since mid-March, the common float among the EEC was finally

⁶⁷⁷ *FRUS*, 1969-1976, Vol. XXXL, doc.29, Memorandum From the Chairman of the Council of Economic Advisers (Stein) to Secretary of the Treasury Shultz, March 7, 1973.

⁶⁷⁸ *FRUS*, 1969-1976, Vol. XXXI, doc.28, Memorandum From the Under Secretary of State for Economic Affairs (Casey) to Secretary of the Treasury Shultz, March 7, 1973.

realized. The member countries included West Germany, France, Benelux, and Denmark (the UK and Italy had a wait-and-see attitude, while the pound depreciated by 15% and the lira depreciated by 7%). During this process, the Germans played an active role. Brandt described the joint float as a “way out which strengthens European integration.” And he said to Nixon that “a joint action represents at the same time an element of stabilization in the world political situation. This is to the benefit of all members of the Western world. A weakening of the Community by separate action would be harmful to all.”⁶⁷⁹

Superficially, the U.S. government encouraged Europe’s joint float system, for example, in the dialogue between West German Finance Minister Schmidt, and Kissinger on March 7, Kissinger did not show any objection in the response to whether the U.S. would be happy with a common European float. He stated then that it was not a question of happy—the Americans could live with a common European float if they do not attach too many conditions to it. If the Europeans attached a lot of discriminatory conditions to it, then it becomes complex again: “Well, we would not oppose that. But our concern is that the only way you can get a European float is by accepting so many of the French conditions... We would not oppose a common European float if it were not discriminatory in some of its restrictions.”⁶⁸⁰

However, during an internal discussion, either the President, President’s assistants, or Treasury officials showed their dislike on European joint float attempt. Shultz believed that it would be better if the Europeans did something that could last and that did not hold their currency together so tightly if they were determined to try to do that. The head of the New York Federal Reserve, Alfred Hayes, and Burns called to urge that the U.S. government took the course of the massive intervention. If they could achieve a joint float, then Germany would turn to be closer to the U.S. side, and the United States would be in a strong position. Nixon even said that he was thinking to use a more positive leadership role through possible intervention in order to serve U.S. interests in keeping the Europeans apart; keeping them from developing a united policy against the United States, and he had a negative impression about European leaders: “I think, as I judge the European politicians, except for Heath, every one is a parochial; every damn one. I mean, Brandt doesn't understand anything.

⁶⁷⁹ *FRUS*, 1969-1976, Vol. XXXI, doc.15, Message From West German Chancellor Brandt to President Nixon, March 2, 1973.

⁶⁸⁰ *FRUS*, 1969-1976, Vol. XXXI, doc.15, Transcript of a Telephone Conversation Between West German Minister of Finance Schmidt and the President's Assistant for National Security Affairs (Kissinger), March 7, 1973.

He's a nice, pleasant face, and all that sort of thing, but he's a dullard.”⁶⁸¹

Kissinger saw this problem more politically than economically. He was more concerned about the political impact of exchange rate arrangements and believed that: “European integration was never seen as a substitute for Atlantic or world cooperation, and, therefore, we cannot accept the proposition that a decision like this should be taken without full consultation with the United States.”⁶⁸² As for how to deal with the formation of a unified policy in Europe, Kissinger hinted at linking military and diplomatic relations with exchange rate negotiations saying, “if you lose on this, you can then invoke it in other negotiations, on other subjects where the cards are not so. Eventually we can force them into a position where they have to talk to us on these matters, or we will talk separately on our matters.”⁶⁸³

On the same day, with dissatisfaction with Chancellor Brandt, Nixon replied that “There is no question about the desirability of ending the new currency crisis as rapidly as possible, all the more so as we believe that the exchange rates established some weeks ago are essentially sound. At the same time I cannot agree that the only criterion that should be considered in putting forward a solution is whether it contributes to the strengthening of European integration. As you know, I have strongly supported European integration and intend to continue to do so, but as I believe we both agree, European integration should also be seen as a step towards increased Atlantic cooperation. It therefore seems to me that any proposal to deal with the present currency crisis can only be put forward on the basis of full consideration with countries whose interests are involved—including especially the United States and Japan.”⁶⁸⁴

Nixon also expressed this same thought in a letter to Heath. “It is a bad precedent for allies if they confront each other with a *fait accompli*. Any proposal to deal with the present current crisis can only be put forward on the basis of full consultation with countries whose interests are involved.”⁶⁸⁵

⁶⁸¹ *FRUS*, 1969-1976, Vol. XXXI, doc.16, Conversation Among President Nixon, the Chairman of the Federal Reserve System Board of Governors (Burns), the Director of the Office of Management and Budget (Ash), the Chairman of the Council of Economic Advisers (Stein), Secretary of the Treasury Shultz, and the Under Secretary of the Treasury for Monetary Affairs (Volcker), March 3, 1973.

⁶⁸² *FRUS*, 1969-1976, Vol. XXXI, doc.17. Conversation Among President Nixon, the President's Assistant for National Security Affairs (Kissinger), and Secretary of the Treasury Shultz, March 3, 1973.

⁶⁸³ *Ibid.*

⁶⁸⁴ *FRUS*, Vol. XXXI, 1969-1973, doc.18. Message From President Nixon to West German Chancellor Brandt, March 3, 1973.

⁶⁸⁵ *FRUS*, Vol. XXXI, 1969-1973, doc. 19. Message From President Nixon to British Prime Minister Heath, March 3, 1973.

Judging from the Nixon administration's view of the European joint floating, the United States had not adopted large-scale interventions to prevent European currencies from fluctuating and the foreign exchange market, but they opposed European actions without full consultation with the United States. The United States was trying to dominate the development of monetary negotiations with trade, defense, and politics as a bargaining chip, but unfortunately, it had no remarkable effect. Influenced by the dollar crisis, even France had decided to join the joint floating system.

On March 10, 1973, Nixon continued to express his views on the contradictions between the United States and Europe. In his dialogue with Kissinger, he especially expressed his reproach and dissatisfaction with the inward-looking of Europe.

“Today, however, when we talk of European unity, and when we look far ahead, we have to recognize the stark fact that a united Europe will be led primarily by Left-leaning or Socialist heads of government. I say this despite the fact that Heath is still in power in Britain and Pompidou probably will retain power by a narrow margin in France. Even in Britain and France we have situations where the media and the establishment pull strongly to the Left at this point, and also where the media and the establishment take an increasingly anti-U.S. attitude...whether it's in the economic field, the political field, or eventually even the military field, we will find that Europe will be in increasing confrontation with the United States rather than joining with us to present a united front against Soviet encroachment. Under these circumstances, political considerations must completely override economic considerations in monetary and trade talks. This is going to be a bitter pill for Shultz to swallow but he must swallow it...What matters now is what we do and we must act effectively and soon or we will create in Europe a Frankenstein monster, which could prove to be highly detrimental to our interests in the years ahead.”⁶⁸⁶

Besides, Nixon recalled the Connally view concerning cooperating with Japan and the under-developed countries in Latin America; and Asia, which would be the US' objective in bargaining with the Europeans. On March 14, 1973, in a conversation with Deputy Secretary of the Treasury William Simon, Kissinger said that he had only one idea, which was to prevent a united European position without showing the U.S. hand. Simon agreed with Kissinger and added that he did not think a

⁶⁸⁶ *FRUS*, 1969-1976, Volume E-15, Part 2, doc.9. Memorandum From President Nixon to the President's Assistant for National Security Affairs (Kissinger), March 10, 1973.

unified European monetary system was in the interest of the United States. Kissinger explained his plans at the end of the dialogue: "I'd rather play with them individually. You know, if it were a question of supporting an individual currency, I'd be much more inclined to do that."⁶⁸⁷

The underlying meaning of this was to use political means to influence a unified European monetary system, by helping some states and leaving others alone. The United States had a clear understanding of the contradictions within the European Community, notably those between France and West Germany since franc and DM were the two principal currencies in the EC. France expressed concern about the possibility of forming a marked zone. If the United States showed a gesture of supporting mark, then the common exchange rate policy may confront with difficulty, "mark's big worry is, not so much its relationship to the dollar, but its relationship to the franc."⁶⁸⁸

Therefore, in the eyes of the Americans, the joint float was established half ideologically and half economically, "the other part of it is, they are frightened to death if any one of their exchange rates is out of line with each other, because that's where most of their trade is."⁶⁸⁹ The financial officials concluded therefore that even if the joint float could be implemented, it would not last long. The Nixon administration judged that the joint floating exchange rate policy was difficult to implement, specifically through the dialogue between Shultz and Kissinger, we could see their evaluation: "the ability to put together some sort of a joint float is quite testing and I don't really think they can do it... They need to put the whole thing in the setting of European problems generally and not regard it simply as a problem in working out an international monetary system...It may develop that the Germans wind up with a national float and Schmidt said that publicly. I called him this morning and I asked him was that published report accurate or not. He said it was accurate; that it was their last choice, not their first choice, but they would do it. That's the first time he had been willing to mention those words...At any rate, if we can develop a cooperative relationship with the Germans and cement that relationship in on

⁶⁸⁷ *FRUS*, 1969–1976, Vol. XXXI, doc.33. Editorial Note.

⁶⁸⁸ *FRUS*, 1969-1976, Vol. XXXI, doc.26. Conversation Among President Nixon, the President's Assistant for National Security Affairs (Kissinger), and Secretary of the Treasury Shultz, March 7, 1973.

⁶⁸⁹ *FRUS*, 1969-1976, Vol. XXXI, doc.16. Conversation among President Nixon, the Chairman of the Federal Reserve System Board of Governors (Burns), the Director of the Office of Management and Budget (Ash), the Chairman of the Council of Economic Advisers (Stein), Secretary of the Treasury Shultz, and the Under Secretary of the Treasury for Monetary Affairs (Volcker)", March 3, 1973.

economic grounds and also with the British, the French election seems to be going badly for Gaullists.”⁶⁹⁰

What the Nixon administration was concerned most with, were the political problems caused by Europe’s joint float. It seemed that their measures were entirely unilateral and without consultation, which disrespected, as well as threatened, U.S. interests. Eventually, the exchange issue would extend to the national political level, and endangered all the aspects of the alliance. “Nixon’s basic feeling was that ‘political considerations must completely override economic considerations... There was a ‘growing tendency’, Nixon thought, for the Europeans to ‘turn inward’ and to distance themselves from the United States... so the whole point of an interventionist policy in this area was not to help the Europeans with their monetary problems, but to keep the Europeans from coming together as a bloc.”⁶⁹¹

The “package” of negotiations (linking the exchange rate, military and diplomacy), and U.S. evaluation on the European Community all reflected the unwillingness of the United States to give up leadership in such a disordered era, especially when the Europeans were in a chaotic state of mind.⁶⁹²

The United States hoped to take a political initiative, such as the “Year of Europe”, to restore the image of the United States in Europe, and to reshape its leading position in the West camp, to improve the U.S.-European relationship and dominate the direction of the GATT and currency negotiations.

Kissinger put economic issues first in his speech. It could be seen that in the “Year of Europe” initiative, the United States hoped to make breakthroughs in the reform of the IMS with Europe. It used the initiative as a platform to establish formal links with the European Community (such as amending the Atlantic Charter), and the role of military protector to influence areas that the United States had lost, such as trade and exchange rate. Nixon further clarified his purpose when meeting with the French president Pompidou, “so the question is, what do we do in the light of these new factors? And this is where the concept of the Year of Europe came in. We at the highest level must talk to see if first the four and then all Europe can work together on security and then economic matters without reference to the old organizations. I must

⁶⁹⁰ DNSA KA/09673. Monetary Policy and Western Europe, March 05, 1973.

⁶⁹¹ M. Trachtenberg, “The French Factor in U.S. Foreign Policy during the Nixon-Pompidou Period, art.cit”, 20-22.

⁶⁹² *FRUS*, 1969-1976, Vol. XXXL, doc.26. Conversation Among President Nixon, the President's Assistant for National Security Affairs (Kissinger), and Secretary of the Treasury Shultz, March 7, 1973.

convince our Congress and then the public opinion that our interests are served by a strong Europe, both economically and militarily. Failing this, isolationism in the U.S. will force the U.S. to withdraw from Europe, playing into the hands of the Russians and leaving Europe naked.” Some scholars, therefore, believe that the United States sought its leadership in the Atlantic alliance by reaffirming Atlantic solidarity, and by the package settlement.

7.1.4. The dollar crisis in July 1973 and the “Year of Europe”

After flotation of U.S. dollar in March 1973, speculation against the U.S. dollar had eased to some degree. However, the dollar crisis “bounced back” again in July 1973. From February to July, the major European currencies were reevaluated by 14% vis-à-vis the dollar. This reevaluation not only indicated the U.S. balance of payments problems, the turmoil in the domestic situation but also reflected “a change in the psychology in the international currency market.” Transnational corporations, banks, and oil-producing countries were convinced that their assets must be converted into strong currencies, such as mark. This kind of psychology caused a move out of dollars and into such currencies, which became a self-fulfilling prophecy leading to a depreciation of the dollar and an appreciation of the mark.

The inflation in West Germany had intensified; it had no choice but to absorb excess dollars. The U.S. ambassador to the Federal Republic of Germany sent a telegram to the State Department detailing the current situation, including Germany’s proposal that the United States sold gold to get back dollars, and increased the confidence in dollars. Schmidt attributed the depreciation of the dollar to a lack of confidence. Once the public’s confidence in the dollars increased, the international monetary situation could be stabilized. While some Europeans, the French, in particular, concentrated more on commercial competition, and they believed that the low value of the dollar had given the United States an unfair advantage. The value of the dollar was moving from an overestimation four years ago to an underestimation, which harmed the exports of EC. On July 27, the U.S. ambassador to France stated in a telegram to Congress that Valéry Giscard d’Estaing believed that the U.S.-European differences on the currency issue would have crucial repercussions on other issues, in particular, on the EC itself, and defense and security issues. “Resolving monetary problems would not resolve all other issues” he said, “but a failure to resolve the

monetary problems would certainly exacerbate other issues.”⁶⁹³

The concerns raised by the currency crisis were bidirectional: Western Europe was worried that due to the chaos of the international monetary system, the U.S. Congress would put pressure on the government to withdraw U.S. troops from Europe. The “Year of Europe” speech especially confirmed the U.S. strategy of linking economics, defense, and strategic issues together; the United States was worried that the dollar crisis would make the EC countries lose interest in negotiating with the Americans, and the prospect of a flexible exchange rate would get into an impasse. Therefore National Security Council staffs, like Charles Cooper, suggested the United States intervene in the market: “The very fact that the U.S. intervened would demonstrate our desire to help alleviate what has, for Europe, become a major economic problem and (because it has contributed to European inflation and placed stress on cooperative European monetary arrangements) a major political embarrassment...If we are successful in arranging an internationally agreed intervention effort in support of the dollar, we will have moved in a practical and tangible way to demonstrate that there is real meaning in our words about the Year of Europe.”⁶⁹⁴

So far, the contradiction between the United States and Europe, the U.S. and France in particular, in the international currency field, had not been reduced with their fluctuation of the exchange rate. The unstable exchange rate and the lack of confidence in the U.S. dollar deepened the turmoil in the international money market. The United States and Europe clearly understood the impact of the currency issue on other areas. In this context, the U.S. “Year of Europe” initiative had succeeded in leading the leaders to the summits, but neither political nor technical issues had been resolved. The relationship between the dollar crisis of July and the “Year of Europe” could be understood as follows: The initiative of the “Year of Europe” attempted to influence the monetary negotiations, whereas the July dollar crisis had deepened the misunderstanding between the United States and Europe. The political initiative itself had also been affected by divergence in the monetary field, and in the end, it was difficult to achieve its original intentions of easing the U.S.-European relationship, and could not promote the resolution of problems in other fields.

⁶⁹³ *FRUS*, 1969-1976, Vol. XXXI, doc. 48. Telegram from the Embassy in France to the Department of State, July 27, 1973.

⁶⁹⁴ *FRUS*, 1969-1976, Vol. XXXI, doc.48. Memorandum from Charles Cooper and Robert Hormats of the National Security Council Staff to the President’s Assistant for National Security Affairs(Kissinger), July 11 1973.

II. The reflection and response of France

In the first two years of the Pompidou mandate, the bilateral relationship between France and the United States made remarkable progress. Since the United States was finally set free from the Vietnam quagmire, and they exercised more distant "leadership" over the Alliance, France took the opportunity to promote, in agreement with its partners, further progress towards unity through the enlargement and deepening of the Community. However, this change of detention did not go so far and was interrupted by French-U.S. mutual censure. As early as 1972, accompanied by the dollar crisis and the apparent divergence on the Middle East problems, the easing of the tension of the two countries was finally trapped into a much deeper difficulty.

How did the Pompidou government view the development of the relationship between France and the United States? What was their internal discussion toward the "Year of Europe" initiative? At the same time, how did France promote the process of European unification to counter the pressures and proposition of the United States fully? Last but not the least, was the initiative of the "Year of Europe" an opportunity for dialogue with the Americans, or in the eyes of the French, was it a U.S. attempt to regain control of Europe? In the face of the disintegration of the Bretton Woods system, what measures did Europe, especially France prepare to take, and what problems had arisen in the implementation process?

7.2.1. The view of the Pompidou government on U.S. European strategy

The beginning of 1973 witnessed the U.S. initiative of the "Year of Europe". Regarding U.S. reaffirmation of Europe's importance, the Pompidou government kept a vigilant eye and vigorously contacted their EC partners. 1973 was also a year which saw the enlargement of the EC. The handling of the relations with the members of the EC and the French-U.S. relationship was particularly important at that moment. On the one hand, France could not completely ignore the voice of its European partners in examining the relations with the United States, and it knew well its economic weakness and the necessity of U.S. troops' existence in Europe. However, on the other hand, the Europeans pursued their own identity and they were afraid of being

completely under the command of the Americans. The pursuit of the European identity became one of the main reasons why de Gaulle put forward his strategies in confronting the hegemony of the United States. During the Pompidou years, it was impossible for the French to accept whatever the Americans proposed. “Its search for independence was again undergoing a modest revival in the first part of the 1970s, though its aspirations appeared more limited than those pursued under President de Gaulle.”⁶⁹⁵

The speech on April 23, 1973, triggered an intense debate in France since the context of the cold war and the status of the EC was much more complicated and delicate than before. From the very start, “diplomats and journalists spent weeks dissecting ambiguous phrases in the search for hidden meanings and concealed intentions,”⁶⁹⁶ but as time passed, they found that the speech did more to raise suspicions than to present solutions.⁶⁹⁷

According to the report from French Foreign minister, Kissinger probably had in mind a more ambitious design, but the vague wording of the speech did not give much insight to the U.S.-Europe relationship. They spoke of a new Atlantic Charter of the division of roles between a Europe with a regional vocation and an America, as a world power, the necessary control of the political authorities over the experts or the consultation on problems such as that of the energy. Kissinger perhaps was thinking of a double enlargement of the Atlantic Council, geographically by the inclusion of Japan (at least in certain fields: it is difficult to imagine that Japan could devote itself to Atlantic Council militarily); materially by extending its jurisdiction to all objects which, in the opinion of the United States, would be of common interest to the Allies. At this point, the French finally realized that the true intention of the United States was to put pressure on Europe and convince the Europeans to discuss monetary and economic issues with the Americans. Like the French Director of Political Affairs, Francois Puaux, declared in the ministerial meeting on May 26, 1973: “The real dialogue was about trade, on which we had a strong position. On politics and defense our position was weak and we should avoid a dialogue.”⁶⁹⁸ So the U.S. initiative was finally regarded as: “trying to create a new Atlantic organization to force the French

⁶⁹⁵ Edward A. Kolodziej, “French Monetary Diplomacy in the Sixties: Background...art.cit.,” 34.

⁶⁹⁶ Andrew J. Pierre, “What Happened to the Year of Europe?,” *The World Today*, Vol.30, No.3, (Mar.,1974): 110-119.

⁶⁹⁷ *Ibid.*

⁶⁹⁸ MWE 3/304/1, ‘UKREP Brussels tel 275’, 25th May,1973, DBFPO:III:IV.

back into NATO, abridging French autonomy, and seeking to force decisions which would split the European Community.”⁶⁹⁹

Moreover, France argued the necessity to establish a four-nation group (U.S., UK, France, West Germany) to discuss and negotiate a new Atlantic Charter. Their emphasis was put on coordinating the European Community's pace without U.S. participation.

Besides the economic divergences and U.S. initiative, what truly confused the Pompidou government was the SALT and MBFR between the United States and the Soviet Union, because such talks, especially that of MBFR would bring about “the creation of a reduction zone in Central Europe that would divide Western Europe into two regions with different statuses. And it would be mortgaging the European future; a reduction of stationary forces was permissible if it is reasonable, but any reduction of European national forces was dangerous for the present and the future.”⁷⁰⁰ As George-Henri Soutou put it, the U.S.-Soviet agreement “might make it easier for the Soviets to use all sorts of indirect methods, methods that took advantage of local Communist parties and revolutionary movements. As for the ‘Year of Europe’ and the ‘new Atlantic Charter,’ it was important to take care to avoid being pulled back into the integrated NATO system through such channels, but the French had no objection to the ‘declaration of principles’ that Kissinger had proposed on April 23.”⁷⁰¹

Concerning the “Year of Europe” initiative, however, there existed different voices inside the European Community. Since it was the first year of the EC’s enlargement, the attitude of the United Kingdom was vague. As a whole, the UK was inclined to cooperate with the Americans. In the memorandum from the Cabinet Secretary, Sir. Burke Trend, to Heath, Sir. Trend stated that: “We could presumably accept in principle the idea of a new Atlantic Charter if it were intended to express in general terms a number of broad underlying objectives in the monetary, trade and defense fields which we and the United States undoubtedly share, although it must at present be uncertain whether our European partners— in particular the French— would subscribe to even this concept at this juncture.”⁷⁰²

⁶⁹⁹ CAB 164/1233, ‘Record of meeting: Trend/Kissinger’, 4th June, 1973, DBFPO:III:IV.

⁷⁰⁰ AN, 5AG2, volume 1023, Note de synthèse, le 18 mai 1973.

⁷⁰¹ Marc Trachtenberg, *Between Empire and Alliance, America and Europe during the Cold War*, (Oxford: Rowman & Littlefield Publishers, Inc, 2003), 82.

⁷⁰² ‘Minute: Trend to Heath’, 2nd May 1973, DBFP:III:IV.

After weighing the differences inside the EC and the propositions of the United States, the Heath government believed that Britain should be a mediator. They persuaded the Americans to give up the strategy of linking the economic, monetary and defense matters together, since this linkage would not advance the development of U.S.-Europe relations, but would put the transatlantic relationship into an impasse. Western Europe would be forced into a difficult situation: being unified to confront the United States, or divided into chaos. Either would affect commercial and monetary negotiations among the Western camp.

To compare with the British, West Germany was more prudent and embarrassed by such a dilemma. First of all, they were worried about irritating their military protector, and by taking the West-East relationship into account, they needed U.S. support on the *Ostpolitik*. Since the Kissinger speech, they insisted that the Nine responded "positively" to Washington's suggestions. Walter Scheel, German Federal Minister of Foreign Affairs, in his July talks with President Nixon and Kissinger, had agreed on the desirability of a solemn declaration which would reaffirm a close association between America and its European allies. The Chancellor, in response to a message from the White House in August 1973, said that there was a "dynamic development" of the relationship between the United States and a more unified Europe. He assured the President that his government valued Kissinger's speech and was ready to take the drafting work forward. In September, when he returned from Washington, he suggested a "summit" between the Heads of State or Government of the Nine and President Nixon.⁷⁰³

Unlike the French, the Brandt government envisaged the drawing of the new Atlantic Charter to be the starting point of a "continuous" consultation mechanism between the Europeans and the Americans. They readily admitted that they, for their part, have no objection in principle to an "institutionalization" of relations between the Nine and the United States. However, the Germans were confused as to whether to accept the U.S. proposition of a "one package" strategy. It was worrisome that the negotiations would force them to make economic concessions and fulfill its responsibility for military defense: "The political 'link' established in Kissinger's speech between trade, money and defense, and underlying his suggestions for a new Charter and for an overall political mechanism of some sort, is clearly the most

⁷⁰³ AN, 5AG2, volume 92, L'Allemagne et les rapports Europe-Etats-Unis, le 15 novembre 1973.

important single element in the speech from the European point of view. Unless carefully handled, it threatens to embitter U.S.-Europe relations at a critical and formative stage in the dialogue...The Kissinger speech threatens to reverse all this. It raises the political stakes by promising to engage the President's prestige in a successful "political" solution to all major issues, and by feeding U.S. domestic expectations. It also threatens to extrapolate the 'link' concept into the President's European tour and his meeting with European leaders. Herr Brandt was quick to see this danger, and took the initiative in rebuffing the President."⁷⁰⁴ Nevertheless, we should not exaggerate the Germans' disagreement with the United States, since they appreciated that Europe has gained "sufficient assurance and independence" to be recognized as a "partner with equal rights" by the United States⁷⁰⁵.

By examining the differences within the European Community, it became much clearer to conclude France's opposition to the U.S. proposal. They doubted the necessity to sign an Atlantic contract, which was regarded as a danger for the identity of the EC. "The American initiative was to create in fact and under the direction of Washington, a Community USA/Europe/Japan which Georges Pompidou rejected at any price."⁷⁰⁶ They rejected expressions such as "partners" or "association" (partnership) to describe the nature of relations between Europe and the United States, but while such the words were looked at as inappropriate and dangerous for the French, they were accepted by the Germans.

These negative relations were further fueled by the unsolved monetary problems and the exploration of the Yom Kippur War in October 1973. Particularly in the monetary and economic realms, the battles never ended.

7.2.2. French reaction on the dollar crisis in 1973

If the U.S.-French economic and monetary relations developed in a relatively right direction in 1969 and 1970, then the unilateral suspension of the gold-dollar exchange and the 10% import surcharge announced by President Nixon in August 1971 was undoubtedly one of the remarkable turning points in the French-U.S. bilateral relationship. Since then, gold lost its convertibility with the U.S. dollar, and

⁷⁰⁴ AMU 3/507/1, 'Exchange of minutes: Overton/Wiggin: U.S. policy towards Europe,' 29th May 1973, DBFPO:III:IV.

⁷⁰⁵ AN, 5AG2, volume 92, L'Allemagne et les rapports Europe-Etats-Unis le 15 novembre 1973.

⁷⁰⁶ Pierre Mélandri, "Une relation très spéciale.. art.cit.",122.

the latter was also inconvertible, which was unacceptable for the French. At the end of 1971, the Pompidou-Nixon Azores summit and the signing of the Smithsonian Agreement restored the declining Bretton Woods system to a certain degree. To some extent, it preserved the fixed exchange rate system and was the result of a compromise between the U.S. and France. However, the unstable situation of the world monetary market did not improve much. Soon after the signing of the Smithsonian agreement, in mid-January, 1972, “the French government is surprised that the U.S. administration does not support the dollar more actively.”⁷⁰⁷

In 1973, monetary and economic issues were still at hindrance between the United States and France. For the Nixon administration, its objectives were to obtain a new global monetary and commercial order that could provide the U.S. economy with better conditions for external expansion, as well as for domestic development. The new global monetary and trade system that the United States wanted to introduce seemed to have dual concern: to devote flexibility in the monetary field and extend it to the commercial sphere; to eliminate, on either plan, the constraints or the obstacles which oppose the free play of a multinational economy. In order to reduce the international needs of liquidity, and foster an expansion of U.S. exports by automatically correcting the effect of domestic inflationary pressures, the U.S. government advocated a system based on flexible parities, the advantaged use of SDRs, the reduction of the role of reserve currencies, and the demonetization of gold. The final aim was clear: to protect the American economy against foreign competition and to promote the development of its exports, by modulating tariff and even quota protection from both internal and external considerations, both economic and financial, and safeguarding the U.S. direct or indirect commercial interests.

However, the financial objectives went against the French and the European countries’ interests since the flexible exchange rate regime would bring about uncertainty to the world monetary market and even harm the EC’s common agricultural policy. The situation that had developed in Europe following the last devaluation of the dollar in February 1973 was neither a satisfactory nor a stable one. The speculation did not diminish, and the Europeans were forced to close and re-close their exchange rate windows. In this context, the Pompidou government urgently demanded that the dollar returned to free convertibility, and “the possibility for the

⁷⁰⁷ D. Grygowski, *Les Etats-Unis et l’unification monétaire de l’Europe...op.cit.*, 186.

Americans to pay their deficits abroad by inexhaustible dollars, is denounced by the French leaders as an unacceptable practice, at the limit of the odious.⁷⁰⁸”

One report from the French Ministry of Foreign Affairs to Pompidou about his summit with Nixon suggested that during their meeting in Reykjavik, Pompidou should stress the importance of U.S. responsibility to keep a stable international monetary environment. Moreover, Pompidou should point out that what was disturbing the excellent functioning of the international monetary relations was the problem of the uselessness of reserve instruments held by the central banks because of the in-convertibility of the dollar and the freezing of gold. At the end of the report, it asked that Pompidou took a European proposal to revalue the price of gold by reintroducing a link between gold and the definition of the currency to be chosen in the new International Monetary System: “we should also confirm our firm attitude with our EC partners in the monetary domain, it may be necessary to search with them for the means of encouraging a return of the pound to a parity more or less fixed with the continental currencies.”⁷⁰⁹ However, it was tough to form a united international monetary policy among the Nine members of the common market. At that time, monetary policies of the Nine were divided into three: one adopted double markets, one had fixed exchange rate and the third floated their currencies. Besides, to protect themselves against the influx of dollars, most members of the Community had been surrounded by national controls, and these controls restricted intra-community regulations as well as regulations from the dollar zone. For example, for the Bundesbank, they would not seek help from a double foreign exchange market. It appeared that administrative controls on the import of capital into Germany were only insufficiently effective. There remained only one measure: the formula of a "flotation" mark against the dollar.

As for French concrete measures to face the dollar crisis, there were different propositions inside Pompidou government: one from the French ambassador to Washington Kosciusko-Morizet, one from Chairman of the Bank of France, Olivier Wormser; and the third from General Secretary Michel Freyche.

Kosciusko- Morizet suggested that it was desirable to reaffirm the principles the French have always supported and should not insist on the propositions which “would surprise our interlocutors and would be considered as a step back.” It was better to

⁷⁰⁸ Thierno Diallo, *La politique étrangère de Georges Pompidou* (Paris: LGDJ, 1992),43.

⁷⁰⁹ AN, 5AG2, volume 1023, Le note de synthèse, le 18 mai 1973.

present a “French, or better, a European plan” for the reform of the IMS, as well as set a realistic timetable for it. Another suggestion lay on the priority treatment of the dollar balance problem.⁷¹⁰

While the second plan was Wormser’s, which insisted on the severe inflationary consequences of current monetary uncertainties. He observed that the Nixon government had no immediate remedy existed against inflation. It would be difficult to convince the President of the United States to return to the convertibility of the dollar. France should seize every chance to influence U.S. attitude. The general viewpoint of the Banque de France therefore was demanding the convertibility and stability of U.S. dollar. It favored a reformed system of general convertibility in which each country could convert balance of their currencies into primary reserves.

Nevertheless, according to Michel Freyche, neither the two plans was practicable, since (a) the presentation of a "French or better European plan" for reform of the SMI would be an unlikely affair; (b) the initiative of proposing to the Americans to "deal first and foremost with the problem of the consolidation of dollar balances" seems equally undesirable; (c) President Nixon cannot be insensitive to the U.S. balance of payments situation, it seemed useless to insist the inflationary situation caused by the United States. He then proposed that the current conditions did not seem favorable to an attempt to speed up the reform of the IMS. “We would run the risk of seeing solutions that are not in line with our interests and jeopardize the real chances of a more satisfactory monetary order. The confidence of economic agents can only be restored when the universal support of this trust, that is to say, gold, has been restored to the central role, whether directly as ‘cash’ of the new international monetary system, or indirectly by establishing a close link between gold and SDRs. In both cases its price will have to be very significantly increased.”⁷¹¹

Michel Freyche emphasized the central role of gold in the international monetary system. He believed that there was a good trend in 1973 that the United States failed to reduce or exclude the role of gold in international payments. Gold has regained its role of "valuable conservative".

In the Pompidou-Nixon talks in Reykjavik, Pompidou integrated the three persons’ opinions, by emphasizing the importance of a fixed exchange rate system

⁷¹⁰ AN, 5AG2, volume 1023, Elements possibles d'une conversation franco-américaine sur les problèmes monétaires internationaux, le 10 mai 1973.

⁷¹¹ AN, 5AG2, volume 1023, Note à l'attention de M. Balladur le 18 mai 1973. Edouard Balladur, Secretary General of the Presidency from April 1973 to April 1974.

and the status of gold in the system. During the press conference in September 1973, President Pompidou repeated that the French adopted a realistic spirit to deal with the reform of the IMS. The principles have not changed, which is the fixed exchange rate regime. “It must first be based on a system of fixed parities, and we add adjustable...It is also admitted that this monetary system will have to allow the reserves of the central banks to be no longer constituted by one reserve currency, a currency having both the advantages and a special status.”⁷¹²Pompidou also recognized that France could not isolate itself monetarily, since the franc was too easy to be attacked, like what had happened in 1968, so franc “must enter into a system admitted by all the world. If, therefore, the reserve element is not gold alone, it must be something else...” When referring to the gold, he made an analogy of housewives/markets with nations/gold transactions: we talk about the demonetizing of gold, if we mean that housewives do not take any more laws to go to their market, and if we mean that gold no longer existed so that no central bank wanted to discuss about gold.

The French viewpoint always reflected its preference regarding the role of gold, which has been existed for a long time. The linkage of gold with other currencies deeply rooted in the mentality of the French.

Besides, even when there were divergences among the Nine in the monetary area, the French government insisted on a common policy as usual, especially for the officers in the Foreign Ministry. This kind of approach lay the foundation for the cooperation of the Nine in all aspects and future success of the UME.

7.2.3. A united response of the Nine: “the European identity”

As it showed in the previous parts, France has stressed the importance of the EC's common plan about the monetary issues. It looked for ways to enter into a system to make its voice heard by others; the European Community was thus the most appropriate platform. In the formation of the European-character scheme, the French Ministry of Foreign Affairs played a critical active role, seeing the Pompidou-Nixon summit as an opportunity to clarify the problems between France and the United States, as well as to present French positions to their eight European partners, and

⁷¹² *Entretiens et Discours 1968-1974...op.cit.*, 55.

maintain European common solidarity .⁷¹³

Numerous memorandums handed over from the Ministry of Foreign affairs to the President talked about the divergences and convergences between the nine members of the EC vis-a-vis the United States. The main difference within the Nixon administration rested in the proposition about whether there should be a summit in the autumn of 1973 among the Nine and the United States. This idea was proposed after the Brandt-Nixon talks, but according to France's Ministry of Foreign Affairs, it was difficult to see exactly what this meeting—a meeting with a hollow character, or as a grouping of the Nine under the American leadership would be like. Moreover, this kind of meeting risked forcing France back into the path of the organization. So the Foreign Ministry indicated that: “we are hostile to the idea of a summit between Mr Nixon and the EEC countries, which would inevitably have led to the preliminary development of a joint *communiqué*, and thus to the differences between the Nine. This negative attitude has the advantage of curbing a movement of ‘understanding’ that would risk taking our partners to accept the American tactics of globalization.”⁷¹⁴

Another divergence among the Nine lay in the political sphere. A report from the Assembly of Western Union recorded that the absence of a unified plan has reduced the status of Europe. Without a real European political force, then the monetary union was impossible. So as long as there was no breakthrough in the political arena, it was very likely that Europe was in a weak position in monetary policy negotiations.⁷¹⁵

Compared with their differences, the EC's similar attitude was made clear towards the military affairs, especially the consensus on U.S. commitments to maintain U.S. forces in Europe and the support that was given to the construction of Europe, pushed the Nine into dialogue with the United States. Besides, the Europeans believed that Kissinger made a mistake in taking a position which offended European susceptibility on one essential point: the role of Europe in the world, which he claimed to be merely regional.⁷¹⁶

Moreover, the outbreak of the Yom Kippur war reaffirmed Europe's common identity and interest because of the decrease in Arab oil deliveries, and the total embargo could only encourage European countries to formulate their policies more

⁷¹³ AN, 5AG2, volume 1023, Note de synthèse le 18 mai 1973, ministère des affaires étrangère.

⁷¹⁴ Ibid.

⁷¹⁵ FCO 82/284 Document 602. Assembly of Western European Union nineteenth ordinary session, Evolution of relations between Europe and the United States, June 1, 1973.

⁷¹⁶ AN, 5AG2, volume 1023, Note de synthèse le 18 mai 1973 ministère des affaires étrangère.

explicitly.⁷¹⁷ In 20 November 1973, the paper on the European identity was finally approved by the Foreign Ministers and was published on 14 December 1973.

On December 12, 1973, during the sitting of the European Parliament, the Nine passed a resolution which called for the formulation of the political identity of the Community, thus “could enable Europe to fulfill its world responsibilities and will facilitate more effective dialogue and cooperation with Europe’s world partners and particularly with the United States of America.”⁷¹⁸ Several days later in the final *communiqué* of the Copenhagen summit conference, the Nine again affirmed their common will that Europe should speak with one voice in essential world affairs. After examining the progress already made in implementing earlier decisions, they agreed:

(d) Invitation to the Community institutions to take measures, so that it could achieve more rapid progress towards the full establishment of economic and monetary union building on the decisions already taken;

(e) Active requirement the definition of a common position on reform of the international monetary situation, in order to increase the instruments at the disposal of the European Monetary Cooperation Fund and to strengthen the coordination of their action to deal with destabilizing capital movements, in order to create an area of stability in Europe.

The European identity, as well as the common communiqué, manifested the EC’s peculiarity and coalition, while the United States, one of the “other industrialized countries”, whose name was even ranked after the Mediterranean, African, and Middle East regions, “the Nine intend to maintain their constructive dialogue and to develop their cooperation with the basis of equality and in a spirit of friendship.”⁷¹⁹

The above statement was in line with France's vision and strategy of the development of Western Europe and the relationship with the United States. As a pivotal member of the European Community, France’s voice was heard by its partners and, as an independent country, it could also engage in discussion with the United States. The Community was precisely the platform which offered France an excellent opportunity to enter or retreat from world affairs.

⁷¹⁷ An, 5AG2, volume 92, Note le 21 novembre 1973, Role et conséquence pour l’Europe du conflit du proche-orient.

⁷¹⁸ The Copenhagen Summit Conference, Bulletin EC December 1973, available at: <http://ec.europa.eu/dorie/fileDownload.do?jsessionid=1KGyQ1tKtTpNjBQwQh6cwgC2yLn7BJMymvTrDq5s2rD3JYR9RfGQ!243197488?docId=203013&cardId=203013>

⁷¹⁹ Ibid.

III. U.S.-French summit and the uncoordinated transatlantic relationship

The United States set the year of 1973 as the “Year of Europe,” hoping to negotiate with European countries to resolve economic, military and diplomatic problems existing between the two sides and take advantage of the sharp point to influence the resolution of the unfavorable domains. When Kissinger’s speech was launched in April 1973, twenty days later, Kissinger opened his trip to Europe, and at the end of May, Nixon and Pompidou met in Reykjavik.

However, the meetings did not achieve substantive results. They only changed their viewpoint on international affairs. Some scholars commented that Pompidou never expected tangible results in Reykjavik, “but just a frank discussion on major issues.”⁷²⁰

Besides, not only the U.S.-French relationship, but the whole U.S.-European relationship met with irreconcilable contradiction. For example, the U.S.-Soviet conversation about the defense issues had brought a sentiment of insecurity to Europeans, the different pursuit of interest had erupted the U.S.-Europe relationship in the face of the Middle East war. These problems directly led to the deterioration of U.S.-European relations. The “Year of Europe” had not only failed to achieve U.S. initial objectives by strengthening U.S.-European links but had made bilateral relations more sensitive and tense.

7.3.1. U.S.-French Negotiations in Reykjavik

In March 1973, the dollar crisis broke out. The yen, the pound and the lira floated, the United States could no longer maintain the fixed exchange rate regime, and the world entered into a *de facto* post-Bretton Woods era— the floating exchange rate standard. During the transition of the international monetary systems, the United States and Western Europe, especially France had severe differences. France accused the United States of exporting inflation, pouring a large number of dollars into the

⁷²⁰ Robert Frank et Nicolas Vaicourdt, *Le voyage aux Etats-Unis et les sommets franco-américains*, in E. Bussière, François Dubasque, Robert Frank et Nicolas Vaicourdt, *Georges Pompidou et les Etats-Unis, une relations spéciale, 1969-1974...op.cit.*, 52.

European market, and suspending the gold-dollar convertibility.

Given the bad relationship, Kissinger took the “Year of Europe” speech on April 23, 1973, and hoped to reduce U.S.-European tensions in the economic, defense and diplomatic fields: “This year we begin comprehensive trade negotiations with Europe as well as with Japan. We shall also continue to press the effort to reform the monetary system so that it promotes stability rather than constant disruptions. A new equilibrium must be achieved in trade and monetary relations.”⁷²¹

However, this speech and U.S. political initiative did not receive a warm response from Western Europe, and due to the sudden outbreak of the Middle East war and the impact of the Watergate incident, the “Year of Europe” ended without any specific result. Now to focus on the international currency issues and look at the U.S.-Europe negotiations after April, 1973. This chapter will end with the discussions on the problems of the “Year of Europe” itself, and the differences between the United States and France in other fields.

At first, both Kissinger and Nixon were full of confidence on the “Year of Europe” initiative. On May 11, Kissinger told President Nixon that: “Following my talks with the British in London, I feel there is good reason to look forwards to major progress in European-American relations by the end of the year. The British leaders are in strong sympathy with your initiative and are gearing up to support you in the effort to establish a new set of guidelines for Atlantic relations that would have significant political appeal on both sides of the ocean and would help override the tendency to haggle about technical issues.”⁷²²

However, things were not going as well as U.S. policymakers had expected. In terms of the construction of the IMS, the U.S. and European Community were still struggling to get an agreement, and it was impossible to achieve U.S. goals by taking advantage of the “Year of Europe” to reform the monetary system.

Although the European Community announced its common float on March 19, 1973, France did not give up its insistence on a fixed exchange rate, while the United States had always advocated the flexibility of exchange rate. In order to coordinate bilateral conflicts and promote understanding, on May 31, the Presidents of the

⁷²¹ *FRUS* 1973-1976, Volume XXXVIII, doc. 8. Address by the President’s Assistant for National Security Affairs (Kissinger).

⁷²² DDRS, CK 3100523112. Henry Kissinger provides President Richard M. Nixon with a synopsis of U.S.-West European issues. Points include U.S.-West European relations; trade issues; monetary reform; defense matters, May 11, 1973.

United States and France met in Reykjavik. This meeting was a significant event during the “Year of Europe,” and for the Nixon government, one of the ways to realize its objectives was to provoke high-level exchange.

On May 1, 1973, Nixon met Brandt, and at the end of this month, he talked with Pompidou. Through these conversations, the Americans could observe Europe’s response on their initiative, but also push the allies to make a package of agreements in the fields of defense, economic domains. Like Kissinger had told French foreign minister Michel Jobert before:

“Our design is really much simpler than what some French newspapers think. We are very concerned at the erosion of the distinction between friends and enemies. And we wanted the Year of Europe to correct this to some extent. Second, there is no public demand for the Year of Europe. The results of the Year of Europe will only bring us difficulties in the United States if we don’t press our economic demands and if we try to keep our troops there—both of which are our intention. Your President said keeping our troops in Europe was our necessity. This is true— but the League of Nations⁷²³ was a necessity too.”⁷²⁴

On May 1, 1973, in a conversation with Brandt, Nixon insisted that economic and commercial affairs mattered in their bilateral relationship. He believed that there was nothing that could be more serious than an economic war between the allies. Brandt agreed but cared more about the military problems. He demanded U.S. troops stay in Europe and wished the U.S. administration not to bound one domain with another.⁷²⁵ During their talks, there was no special content on monetary problems.

On May 18, 1973, Kissinger arrived in France and did some preparation for the U.S.-French summit. When he returned from Paris, Kissinger reported to Nixon that Pompidou wished to talk about international monetary issues at the summit. He added that “monetary and trade issues were crucial to Pompidou not just on economic and domestic political grounds, but because he believed them critical to his vision of the role in the world of France, Europe, and the United States.”⁷²⁶ In response to the

⁷²³ Here Kissinger mentioned the League of Nations, which had a profound meaning. It mainly meant that Western Europe must bear responsibility for its own defense and security. The European military forces were not only the responsibility of the United States, but also the obligation of Western Europe.

⁷²⁴ DNSA KT00748, Discussion with Michel Jobert, June 8, 1973.

⁷²⁵ DNSA, KT/00710, Meeting with Chancellor Willy Brandt of the Federal Republic of Germany, 1st May.

⁷²⁶ *FRUS*, 1969-1976, Vol.XXXI, doc.39. Memorandum from Secretary of the Treasury Shultz to President Nixon, undated.

future talks about the monetary issues, Shultz held a more or less negative attitude. He thought it was impossible to form an agreement that satisfied the French and at the same time did not threaten U.S. interests. "It would be a serious mistake to attempt to settle bilaterally with President Pompidou, in Iceland, any of the concrete issues in these negotiations." But he gave some advice, such as, "1. Nothing in the U.S. plan would endanger the Common Market or impede its moves toward monetary union...2. The plan proposes no special privileges for the United States, and more effective payments discipline all around. 3. The plan is consistent with cutting down the heavy use of the dollar as a reserve currency, and calls for equality of responsibilities and privileges among nations...As you will recall, presentations of the United States plan was accompanied by a United States offer to restore convertibility to the U.S. dollar if adequate assurance of payment adjustment can be built into the reform and if the reform provides the flexibility which has now come to be widely recognized as necessary⁷²⁷".

In Shultz's report, he did not deny the possibility that U.S. dollars went back to convertibility, but the preliminaries were evident: payment adjustment and the flexibility of the exchange rate. His suggestions had a great impact on President Nixon, since, during the summit with Pompidou on May 31, Nixon repeatedly emphasized U.S. support for flexible exchange rate policy, and hoped to reduce the role of gold as a reserve asset and improve the status and role of SDRs: "The problems is that you don't want, and I don't want to return to a system that will be too rigid and break down. It is ironic to say that to be stable the system must be flexible. We have instructed Treasury to follow this line. U.S. experts expect that SDRs will play a major role."⁷²⁸ In response to the question of flexibility, Pompidou proposed that with the devaluation of the U.S. dollars and the improvement of the U.S. balance of payments, it was possible that the U.S. exchange rate returned to the fixed standard. As to SDRs, he questioned what the value of SDRs was based on and doubted whether SDRs could meet two criteria: convenient as well as secure.⁷²⁹ Pompidou took the example of French economists' such as Mendes-France's viewpoint, that money should be based upon raw materials.

In this meeting, the presidents of the two countries fully expressed their views on

⁷²⁷ Ibid.

⁷²⁸ *FRUS*, 1969-1976, Vol. XXXI, doc.41. Memorandum of Conversation, May 31, 1973.

⁷²⁹ Ibid.

the reform of the international monetary system: their attitude towards special drawing rights, their preferences for floating or fixed exchange rate regimes, and US' concerns about its balance of payments problems,⁷³⁰ because the change of tariff brought by the enlargement of the EC would be against U.S. interest. From this dialogue, we can pick up some useful information:

Firstly, before the summit, both the two sides had already recognized it challenging to reach consensus on important issues. Pompidou told Kissinger that only the two presidents could not find a solution to the problems in Reykjavik. Otherwise, it would be hard for the two sides, and it would be uncertain where the conversation would lead to.⁷³¹ Therefore until the end of the meeting, no substantial progress and no joint *communiqué* were published. France's emphasis on the maintenance of an adjustable parity based on a fixed exchange rate was not approved by the United States. The other side questioned the United States' great support on the usage of the SDRs. The two always had significant differences, and on many occasions, they stuck to their insistence.

Secondly, there were new problems that arose with the enlargement of the European Community. The tariff adjustments challenged U.S.-European trade and monetary relations.

Thirdly, there existed some hidden problems; the dollar's fluctuations may lead to competitive devaluation of major national currencies. Whether the dollar was over-valuated or under-valuated would cause problems. The underestimated U.S. dollars would bring about competitive devaluations and the countermeasures adopted by the principal countries in the world: "countries would accept some ineffective form of indicators, and would have the freedom to change parities but without any rules preventing competitive devaluation and other unwarranted changes."⁷³² And in July, 1973, when the U.S. dollar depreciated again, France severely accused the United States of its excessive depreciation of U.S. dollars, which triggered international currency market turmoil.

⁷³⁰ The example that Secretary Shultz took was a remarkable one to explain U.S. concern: under the EC proposal if a German company and a U.S. company were competing in the U.K., the tax for the U.S. company might be reduced from say 15 percent to say 10 percent, but the tax for the German company would be reduced from 15 percent to zero. It was obvious that the competitive position of the U.S. firm would be harmed. Based on this possibility, the United States argued that with EC's enlargement, the Nine countries should give some compensation to U.S. enterprises. *FRUS* 1969-1976, Vol.XXXI, doc.40.Memorandum of Conversation, May 31, 1973.

⁷³¹ DNSA KA/10151. "Year of Europe" Initiative; U.S.-Western European Relations, May 24, 1973.

⁷³² *FRUS* 1969-1976, Vol.XXXI, doc.40. Memorandum of Conversation, May 31, 1973.

However, it seemed from the U.S.-French consultations that the two sides had certain common points. The French president acknowledged that although the fixed exchange rate was the basis, they could be adjusted. To some extent, the French government has accepted the U.S. claim of an adjustable exchange rate. Besides that, in order to expand the world's liquidity, France also recognized the need to add some new reserve instrument "which could play its role as a measure of value."⁷³³

7.3.2. Other controversial aspects of the "Year of Europe"

After getting French's acquiescence on the problems of liquidity and the exchange rate adjustment, within the framework of the Group of Twenty, the tensions brought about by the monetary crises had been appropriately alleviated. Shultz also succeeded in facilitating the process of a fixed exchange rate towards a floating exchange rate regime.

However, the resolution of problems between the United States and Europe was not in the same rhythm. 1973 ended with a deepening of the gap between the two sides and an increase in misunderstanding in the political sense. More specifically speaking, since the introduction of the "Year of Europe" initiative, this concept had been controversial for U.S. transatlantic partners.

In a speech, Kissinger discussed the problems in the Atlantic relationship in three domains:

— In economic relations the European Community has increasingly stressed its regional personality; the United States at the same time must act as part of, and be responsible for, a broader international trade and monetary system. We must reconcile these two perspectives.

— In our collective defense, we are still organized on the principle of unity and integration, but in radically different strategic conditions. The full implications of this change have yet to be faced.

— Diplomacy is the subject of frequent consultations but is primarily being conducted by traditional nation-states. The United States has global interests and responsibilities. Our European allies have regional interests. These are not necessarily in conflict, but in the new era neither are they

⁷³³ *FRUS*, 1969-1976, Vol. XXXI, doc.43. Letter from French President Pompidou to President Nixon, June 1, 1973.

automatically identical.

In short, we deal with each other regionally and even competitively on an integrated basis in defense, and as nation-states in diplomacy. When the various collective institutions were rudimentary, the potential inconsistency in their modes of operation was not a problem. However, after a generation of evolution and with the new weight and strength of our allies, the various parts of the construction are not always in harmony and sometimes obstruct each other.⁷³⁴

In the above paragraphs, there were many different words such as Europe's "regional interests" and the U.S. "global (or collective) interests." Kissinger tried to emphasize the difference between the EC and the United States in the context of the EC's enlargement. However, this statement caused resentment in Western European countries, especially in the press and media circles: "Diplomats and journalists spent weeks dissecting ambiguous phrases in the search for hidden meanings and concealed intentions...the speech did more to raise suspicions than to present solutions."⁷³⁵

On May 18, 1973, in the conversation between Pompidou and Kissinger in the Elysée Palace, Pompidou quoted Kissinger's "regional interest" as saying: "When you speak, in your speech, of the regional position of Europe, I am not particularly shocked by what you say. In this sense I am not entirely in agreement with everyone else...I recognize however that Europe has influence and possibilities for action essentially in Europe, in the Mediterranean basin and in Africa, but that taken together the European countries represent a secondary power. This may shock some but it is more or less true, given that what I say not be taken in a restrictive sense."⁷³⁶

The words of the French president were ironic and showed his dissatisfaction, which indicated that many Europeans had a sentimental attitude toward Kissinger's speech. The misunderstandings between Europe and the United States had not been eliminated with the presentation of the initiative, but had been featured by the distinction between world or regional responsibility. In the dialogue between Kosciusko-Morizet and Kissinger, the former pointed out there maybe a problem with the role of Europe—the Americans considered a worldwide role for the United States

⁷³⁴ *FRUS*, 1969-1976, Vol. XXXI, doc.43. Address by the President's Assistant for National Security Affairs(Kissinger).

⁷³⁵ Andrew J. Pierre, "What Happened to the Year of Europe?,"in *The World Today*, Vol.30, No.3, (Mar.,1974): 112.

⁷³⁶ DNSA, KT/00728. Memorandum of Conversation, 18th May, 1973.

but a regional role for Europe.

Also, in the April speech, Kissinger called for a revision of the Atlantic Charter, which seemed unnecessary for the French. The “Year of Europe” initiative had gone in an opposite direction since its announcement. The beautiful vision of reshaping U.S.-European relations was obscured by the differences between “regional interests and global interests,” the “package negotiations” and the drafting of the “New Atlantic Charter,” and they became the focus of the U.S.-European negotiations, and the most controversial parts in Kissinger’s speech. The United States hoped to tip the scale of the negotiations toward itself, both in posture and in action. However, this spurred Western Europe to choose a more in-wards approach to get along with the United States. The consolidated statement of the Community was proof; since then the U.S.-European relations deteriorated rapidly. The United States accused the European Community countries of not informing the United States of their results in advance, just as when Europe chose to adopt a joint floating exchange rate:

“At the end of July, after we had accepted every proposal made to us by the Europeans, they announced to us that they planned to get together as the Nine to prepare their response and that in the meantime they would not communicate with the U.S. We would hear from the Danish Foreign Minister who would come to us as an instructed representative. We were to know nothing about the drafting process. This started something which the Secretary found extraordinarily worrisome. The declaration itself is not so important...but the Nine won’t discuss with us until they have made their decision and we are faced with the situation where the countries who can negotiate with us won’t talk and those who can talk with us can’t negotiate... we have reached a situation where, under French leadership and with the acquiescence of the British, the Europeans are seeking their identity in opposition to the US.”⁷³⁷

Furthermore, the Watergate incident, and the Middle East War also had substantial impact on the U.S. dollar’s status and the advance of the “Year of Europe.” The Watergate was originally a domestic political scandal, but it had a relatively large impact on the status of the U.S. dollar and the “Year of Europe.” In

⁷³⁷ DNSA, KT 00928, U.S.-European Relations, Nov. 28, 1973. This meeting was gathered directed by Kissinger, and participated by Dean Rusk, Douglas Dillon, David Rockefeller, McGeorge Bundy, and John J. McCloy, all of who were responsible or in charge of Europeans affairs and had a great impact on U.S. foreign diplomacy.

the first year of Nixon's second term, more and more evidence showed that the Nixon administration had abused their power, such as installing the taping system in the President's office. At such a moment, Nixon's "Year of Europe" initiative was easily regarded as a slogan to divert domestic attention, while at the same time, the Watergate itself also triggered a crisis of confidence in the dollar. In May, British Ambassador to the United States, Cromer, told Kissinger that the Watergate issue had overflowed to the monetary field. "In terms of the funds, the dollar had gone to 256, which is about a 5% drop... if this goes into the stock market, the lack of confidence, then we may have one hell of a problem."⁷³⁸

In the meantime, a report that was conducted after the April speech stated, the "U.S. State Department show no sign of having been consulted in advance, though they now appear to have been formally charged with the follow-up. Nor, equally, do Kissinger's own staff, who are busy with many other matters including the Vietnam Peace Settlement, U.S./Soviet relations in the light of Brezhnev's forthcoming visit and so on, appear to have carried their thinking very far. In any case, the Americans have made it clear that they want Europe to put forward ideas... An inevitable consideration is how far Watergate need affect our thinking. Clearly we can't ignore it."⁷³⁹

The motivation of the political initiative had been questioned, and caused troubles for U.S.-European negotiations in other areas. Kissinger had to explain on many occasions that: "If the Administration wanted an immediate political success to distract attention from the Watergate affair, as the French had alleged, a Connally-type confrontation would be far more effective. The Administration's proposals could in fact be a means of strengthening European unity, but if the Europeans did not want to be constructive then the Americans would drop their proposals and take a different course."⁷⁴⁰ In a conversation with Jobert, Kissinger explained that the initiative was concerned more with the transatlantic relationship, it had nothing with the domestic situation: "Many Europeans seem to think that he wants to come to Europe to have a big dramatic scene and that this would help us domestically. Actually, if we are to be responsible about what we wish to achieve, what we do in Europe won't help us, but will only hurt us domestically."⁷⁴¹

⁷³⁸ NDSA, KA/10126, 'Telcon Amb. Cromer/ Mr. Kissinger', May 15, 1973.

⁷³⁹ AMU 3/507/1, 'Letter: Cromer to Brimelow', 08th May 1973, DBFPO:III:IV.

⁷⁴⁰ CAB 164/1233, Record of meeting: Trend/Kissinger, 04th June 1973, DBFPO:III:IV.

⁷⁴¹ DNSA, KT00815, Memorandum of Conversation, September 26, 1973.

If the Watergate was only a domestic political event that triggered Europe's doubts about U.S. intentions, then the fourth Middle East war that erupted in October (also known as the Yom Kippur War, October 6, 1973 - October 26, 1973) intensified the conflict between the United States and Europe.

The EC received supplies of energy from a variety of countries, mainly those in the Middle East. Supporting Israel may have caused ruthless cuts in energy supply from Arab countries, weighed again and again, the nine countries of the European Community decided to remain neutral in this war, and the United States condemned this decision. The post-war negotiations became a battle place for the Americans and the Europeans, in which the United States complained that the Alliance did not give enough support to them and tried to restore peace with the Middle East. Europe accused the United States of treating Europe inhumanely and secretly contacting the Soviet Union without Europe's participation. The U.S.-European bilateral relationship reached its lowest level since the Suez Canal crisis 17 years before. In response to Europe's accusations, at the end of 1973, in a conversation with the French ambassador, Kissinger responded to the European performance during the Middle East War negotiations and the "Year of Europe" with: "Europe humiliated itself, it was not our fault. If Europe is not strong enough, or is not close enough to one of the superpowers to mediate its interest, it has only itself to blame. I am also unhappy with the guidance your press receives. Nothing friendly ever appears. These are all combined to produce a different perception of interests. This also came out in the way the Year of Europe has been treated as an adversary procedure. You know the sentimental attachment the President has to Europe; yet you make it impossible for him to proceed."⁷⁴²

Until then, the "Year of Europe" had ended in a way that completely deviated from its original intention. To be precise, at the end of July, Kissinger had already announced the "over"⁷⁴³ of the "Year of Europe". After experiencing the international monetary crisis, the EC Declaration and the fourth Middle East war, neither the monetary field nor the defense and diplomatic fields had reached a consensus.

Conclusion of Chapter VII

⁷⁴² DNSA, KT 00932, Memorandum of Conversation, December 3, 1973.

⁷⁴³ Nichter, *op.cit.*, 192.

The currency matters and the political issues interacted with each other to form the central theme of the U.S.-Europe negotiations in the "Year of Europe." At the beginning of 1973, the United States suffered a dollar crisis, the U.S. and European countries concentrated on resolving the negative impact of the international monetary market's instability. On April 23, the assistant to the President for National Security Affairs Kissinger officially announced that this year was set as the "Year of Europe," by taking advantage of a political initiative to promote the improvement of U.S.-Europe international economic and trade relations, security and defense relations. The U.S. negotiating strategy was, therefore (a) linking the currency, commerce and defense affairs to politics and (b) taking the tough, comprehensive stand. However, the European Community countries, especially France, remained skeptical about U.S. political initiative and did not agree with the strategy of "one package of negotiations."

Soon after his speech, the Nixon administration discovered that this topic had not been heatedly discussed, "their governments are behaving in a beastly way towards us on the Year of Europe". When currency issues had eased in mid-1973, Kissinger even proposed to Shultz to create some troubles in the monetary domain and affect the process of U.S.-European political negotiations. Kissinger asked Shultz: "Is it possible for you at Nairobi to hang tough cause the Europeans in the meantime have been bastards so that later on we can wrap up some concessions in the monetary field as part of more global negotiation."⁷⁴⁴ He suggested to Shultz to create a situation in which President Nixon could offer the Europeans what they badly wanted, by making a dramatic move in the monetary domain instead of getting the thing sort trickled out. That meant in mid-1973, with the relaxation of the monetary situation, the U.S. government, or at least Kissinger, considered to take it as leverage and push the Europeans to concede the political negotiations. He also predicted the difficulty that U.S.-Europe would meet in September and October as he said to Shultz: "The reason I mention it George is because we're going to head into a really prickly period with the Europeans in September and October..."⁷⁴⁵

It can be seen from these remarks that although defense, politics, and monetary

⁷⁴⁴ DNSA, Kissinger Telephone conversations, 1969-1977. Western Europe-U.S. Relations, Memorandum of Telephone Conversation. August 15, 1973.

⁷⁴⁵ Ibid.

relations affected each other, the core issue was still politics. The problems and contradictions encountered in political and diplomatic relations would finally hinder the development of international monetary relations between the United States and Europe.

The Pompidou government always kept vigilant on the U.S. initiative and the strategy of linking the monetary, economic, and military negotiations together. It retreated from NATO post-1966. According to the French Ministry of Foreign Affairs report, “there are no American troops in France; our national effort is adequate, especially considering the strategic nuclear force(SNF).” The linkage of military affairs with other domains would be detrimental to France’s interest, because some questions, such as which the platform of the negotiations about military affairs could be conducted, always remained intractable. If they were conducted in the framework of the Atlantic Council, it would mean that “we accept the link which we refuse between the military problems and the others; and above all, the American troops stationed in Europe are in the interest of the United States which can not allow the USSR to become the first power of the world.”⁷⁴⁶

Besides, the French authorities doubted the necessity to discuss and draft the New Atlantic Charter. They continually asked themselves “what would be the point of an Atlantic charter? If it were a declaration of good intentions, it would make no sense. If, on the other hand, it were a text corresponded to the spirit of the speech, it could only add new obligations to those resulting from a treaty of alliance.”

Based on the complicated consideration and hesitation, the summit between Nixon and Pompidou in Reykjavik ended with no specific results. The “Year of Europe” had an essential impact on U.S.-European relations in the 1970s, the United States was more aware of the European Union's independence and centrifugal tendency. Atlantic relations ultimately depended on the extent to which the European side was independent of the United States.

In reference to the monetary issues, it was due to the instability of the international money market that the European Community accelerated the process of building its monetary integration, which lay the foundation for the final stage of the EC’s EMU during the Ford-Carter era.

⁷⁴⁶ AN, 5AG2, volume 1023, Note de synthèse le 18 mai 1973.

Conclusion: US-France divided, US-France united

Since the beginning of the 1960s, especially from 1963 to 1968, the U.S.-French relationship was far from stable. The U.S. government blamed France for the fact that it had withdrawn from NATO alliance and complicated relations with its allies. In the meantime, France, under the presidency of de Gaulle, criticized the United States for its privilege in the economic domain, the decisive role in controlling the usage of strategic weapons, and its intervention in European issues. De Gaulle's emphasis on French independence and the status of a world power contradicted with U.S. global strategy; the discord between France and the United States affected the whole spectrum — political, military and economic.

When Nixon and Pompidou took office as presidents of the United States and France respectively, in 1969, they changed the picture of disharmony. At least at the very start of their tenures, they had some frank conversations regarding Vietnam, NATO alliance, and the economic divergence. The realignment of exchange rates during the Nixon-Pompidou summit in the Azores further strengthened the cooperative spirit of the two administrations, and also confirmed France as having an essential international role. However, in the following years, from 1972 to 1973, the U.S.-French relationship experienced a rapid turn for the worse, by witnessing the demise of the Bretton Woods system and creating further misunderstanding between the two countries. Solving the currency problem may not solve other problems, but the unsettlement of the currency problem would certainly perturb the arrangement of others. Monetary matters were not only related to the national economy and international economic transactions; they had significant repercussions on other issues whenever there were differences in opinion between the United States and France.

Principal problems in U.S.-French monetary relationship

Since 1958, the United States suffered a chronic balance of payments deficit, and its gold reserves were often exposed to speculation. The U.S. monetary authorities adopted various measures to reduce the deficit, such as encouraging the Europeans, especially the Germans to increase their procurement of military products; signing agreements like “swap” for the stability of the dollar, and taking loans from the European countries.

At the very beginning, from 1960 to 1964, “France’s record of cooperation in assisting the US in its balance of payments difficulties was as good as that of any other European nation and better than most”⁷⁴⁷: it prepaid the war-debt, the French central bank cooperated fully with the Federal Reserve, and the French government did not largely convert their dollar reserves into gold. On the issue of the world liquidity, it positively presents the proposal of the Collective Reserve Unit, hoping to provide sufficient asset for world economic development.

However, from 1965, the de Gaulle administration hardened its attitude toward the international monetary issues, by openly imposing stern discipline on the U.S. through severe limitations on the future of the dollar as a reserve currency and they continuously asked for a substantial increase in the price of gold.

Another point which France fundamentally differed on from the US, was its criticism on the introduction of the SDRs. According to the French, SDRs were another form of protecting the dollar’s privilege in the IMS. They were skeptical as to whether the world lacked liquidity and it was worrisome if the SDRs would be used as a substitute for gold. Moreover, France claimed that the SDR system could not work because the U.S. economy had gotten out of hand and the Americans were dumping unwanted dollars on the world - the application of the SDRs would additionally, significantly increase other currencies’ dependence on the dollar.

The third controversial point lay in the U.S. encouragement of the enlargement of exchange rate floating bands. The US’ neglect of the deficit in the balance of payments and the nonintervention of the sterling crisis in 1968, accelerated the breakdown of the Bretton Woods system. In 1972, Pompidou blamed the U.S. government for not saving the fixed exchange rate regime, and the Smithsonian Agreement, signed in December, 1971, seemed to be an empty promise.

The role of gold, the SDRs and the fixed exchange rate system became three fundamental problems confronted by the two countries, and never solved according to French willingness throughout the 1960s and 1970s. Its efforts to reform the IMS failed when the system of the SDRs was put into force, the linkage of gold and dollar suspended, and the sterling and dollar floated. The French had to turn to the European Common Market. Based on this platform, its voice could be heard at the international

⁷⁴⁷ CIA Research Reports, Europe, 1946-1976, French Economic Policy toward the Common Market and the US, 20 march 1963, MD: A microfilm project of University Publications of America, Inc.

level. Establishing a unified European monetary and economic policies was then used as French bargaining counters in confronting the influence of U.S. dollar.

Divergence inside each government

Those three issues were the most remarkable in the U.S.-French monetary relationship. Inside the two governments, however, there existed disputes about the role of gold and the floating rate system.

The first debate was whether the U.S. withdrawal of forces in Europe could be used to ask the Europeans to provide financial aid. The main debaters were U.S. Department of Treasury and the State Department. The starting point of the Treasury was to obtain more wealth for the government. On the one hand, it responded to the fact that the tension of the security situation in Europe had lessened since the 1960s, and the trend of multi-polarization had given the United States the opportunity to adjust its international strategy. On the other hand, according to most Americans, unbridled economic competition between Western Europe and the United States had sapped the impulse for the common defense. Establishing a link between security and economic affairs illustrated the seriousness and uniqueness of the economic and monetary issues for the U.S. government.

In contrast, the Department of State hoped to maintain the U.S. military commitment to Europe, and its scope was more inclined to the extensive influence of politics and diplomacy. While the U.S. policymakers often stated that they would remain committed to protecting Europe, at the same time, they regarded the economic reports and the suggestions as a stimulus to put pressure on Europe, taking the offset negotiation between the USA and West Germany for example.

Secondly, the Federal Reserve and the Department of Treasury adopted different approaches to the issue of gold. For example, in the Nixon cabinet, a certain number of people in charge of the international economic and monetary affairs had a significant impact on the president's policy judgment. It was the same case for the de Gaulle and Pompidou governments. The Banque de France and the Ministry of Finance hoped to cooperate with international communities, by helping to stabilize the international monetary system. Whilst, however, the Foreign Minister, Maurice Couve de Murville, and the economist, Jacques Rueff, emphasized the role of gold, by insisting the importance of increasing the price of gold and even a simple return to the

gold standard. This proposition became a tendency from 1965, the year when de Gaulle reexamined the international monetary affairs and regarded it thoughtfully.

Moreover, even during the most stormy years in the after-war history of the U.S.-French relationship, there were still the opponents of de Gaulle's strong anti-American policy. Just as de Gaulle had admitted to the German Chancellor in 1967, one of the considerations that he had toward American policies was that he should be vigilant on the Atlanticists in his cabinet.

After Pompidou took power in 1969, the government's handling of international affairs adopted a more European approach. For example, in the face of the challenges of the U.S. New Economic Policy, the Pompidou cabinet repeatedly emphasized the importance of the unified European voice and prevented France from being isolated. Therefore, whether in the de Gaulle or the Pompidou governments, there were constantly European and transatlantic cooperation initiatives, over narrow national interests.

The above analysis allows us to summarize that: the implementation of the international economic and monetary policies of the Johnson government were mainly based on the recommendations of the departments which were responsible for international economic and monetary affairs, and these policies were finally conducted by the secretary of the Treasury who participated in the international negotiations to finalize the implementation of the policy. The authority of power was not concentrated in one person or one department, nor was it determined by the president's will. The decision-making process of the Nixon administration regarding the international monetary policy, by contrast, was limited within a number of persons or influenced by a certain groups, such as the recommending papers of the Volcker group, Kissinger, Burns, Connolly, and Shultz. The final implementation of the policy was always decided by President Nixon himself, who was good at dealing with International Monetary relations with a political vision, and has been involved directly in the negotiations for the rearrangement of the exchange rates.

Likewise, the de Gaulle and the Pompidou administrations adopted a different way in handling the international monetary issues. De Gaulle preferred to make final decisions and sometimes, his international policies were instruments for achieving a certain political goals. As for the Pompidou cabinet, its considerations took on a European character, and the decision-making process was no longer decided by one person or one ministry.

Interaction between monetary, political and military issues

Historians always left the history of the Bretton Woods system to the economists, and concentrated on the political and military affairs. The financial economists dwell on the details of the monetary issues and ignore the political considerations in the policy-making process. However, if a bridge is found to traverse the diplomatic issues, military redeployment and the international monetary matters, the horizon of the researchers will be enlarged and we can better understand the decision-making of one nation or one administration in regard to the international monetary matters.

Certainly, the Americans were skilled at connecting the military affairs with the balance of payments deficit. This tactic had been proven very successful since the beginning of the 1960s, when the United States negotiated with the Germans about the offset agreements. The actions of the Germans were largely affected by U.S. willingness, hence de Gaulle commented, "I will not rest until the last American soldier has left Europe."⁷⁴⁸ Similarly, Debré told Pompidou that the Germans would not be threatened by the Americans until the last American soldier left their territory.

As the U.S. governments attempted to solve one problem, they found that the solution relied on the resolution of yet another problem. In the Nixon years, it was much more evident that the United States sought to link defense, money and trade together, by adopting a political method to solve the divergences in the monetary and economic domains. The reform of the international monetary system had been put to the political agenda, and in the speech about the "Year of Europe", Kissinger indicated that, "this year we begin comprehensive trade negotiations with Europe as well as with Japan. We shall also continue to press the effort to reform the monetary system so that it promotes stability rather than constant disruptions. A new equilibrium must be achieved in trade and monetary relations. We see these negotiations as a historic opportunity for positive achievement. They must engage the top political leaders, for they require above all a commitment of political will. If they are left solely to the experts the inevitable competitiveness of economic interests will dominate the debate."⁷⁴⁹

⁷⁴⁸ *Newsweek*, November 1, 1965, 44, quoted from T. Schwartz, *Lyndon Johnson and Europe...op.cit.*, 94.

⁷⁴⁹ *FRUS*, 1969-1976, Vol. XXXVIII, doc. 8. Address by the President's Assistant for National Security Affairs (Kissinger), April 23, 1973..

Another example that reflected U.S. strategy to link trade, money and defense affairs, lay on the fact that in the second half of the year of 1973, when the U.S. saw its political initiative did work well and the monetary negotiations were conducted smoothly. Kissinger indicated to Shultz to find some troubles in the monetary negotiations in exchange for the positive response from European countries to the initiative of the “Year of Europe.”

While for the French, it was complicated and difficult to see how political considerations affected the monetary negotiations, because for most of the time, they were conducted by the specialists and senior officials in the European level.

The French attitude towards monetary affairs experienced several stages:

At the very start of the 1960s, it was well known that French economic policy vis-à-vis the United States could not be divorced from de Gaulle’s objectives of promoting French national interests and his leadership in Western Europe. The French government did take some measures to help the U.S. government with its deficit in balance of payments. It actively participated in the monetary arrangements and discussions about the world liquidity, aiming at ameliorating the Bretton Woods system. The monetary issues had not yet been politicized. One of the CIA reports once analyzed that because de Gaulle himself had often expressed disdain for things purely economic or technical, he would not be above using economic policy as one of an arsenal of weapons to gain these broader political objectives. This report even doubted the possibility that France might be following a deliberately hostile course because of political differences with the United States.

In the meantime, in the political and military domain, however, 1962 and 1963 witnessed great divergence between the United State and France. The French government viewed the MLF as U.S. attempt to prevent the European countries, namely Germany and France, from developing a European deterrent independent of U.S. control. It also regarded the rejection of the entry of Britain to the Common Market as an opportunity to reiterate Europe’s vital interests and eliminate any risk which undermined further progress on European integration. The goal of the de Gaulle administration was to obtain greater independence for the European Continent from the United States, while during this process, the French should be the nation leading the charge against U.S. dominance of the system. Hence, during 1962 and 1963, the monetary issues, especially the problem of gold and dollar’s hegemony have not been a weapon for the de Gaulle government. French monetary authorities

conducted the international monetary negotiations in a technical way, the President chaired the *Conseil Restreint* and gave his final accord to the judgment of the technicians and the officials at that time.

From the end of 1964 to the first half of 1968, the U.S.-French cooperation in the international monetary domain was replaced by the intensive conflicts. The gold issue, and the SDRs became significant matters confronted by the two countries. At this period, the monetary affairs merged with other issues, especially the price of gold, which became a hot politicized topic and was used by the French government to menace the gold exchange standard based on dollar's stability.

The above analysis showed that France's dealings with the international monetary issues were not entirely affected by its propositions in 1933 (as the research of Bordo evaluated). Insisting the role of gold could reduce dollar's and the United States' privilege, moreover, since French economy had been greatly enhanced and the political situation was stable during the 1960s, the converging of monetary and political problems was then a reflection of France's independent character. "France used this prestige almost as a type of harassment against U.S. goals, which demanded that the Americans treat France with special attention and more bilateral talks during the GAB and SDR negotiations."⁷⁵⁰

Indeed, French monetary strategy attracted the U.S. attention, to the degree that the United States nearly saw the isolation of France in the negotiations about SDRs in the Stockholm meeting in 1968, as "a victory for the world monetary system and for reason in world financial affairs."⁷⁵¹ Moreover, when the United States terminated gold-dollar convertibility, the head of the Western countries that Nixon met first was French president, Pompidou.

Therefore, the Franco-U.S. dispute in the monetary domain was an important means to highlight the special role of France in the Western alliance: On the one hand, France looked for an equal partnership with the United States; on the other hand, it was likely that this strategy would manifest French particularity in the Common Market. "Almost every major policy decision taken under De Gaulle has included the ultimate objective of strengthening France's role in the Western alliance."⁷⁵²

⁷⁵⁰ M. Rae, *op.cit.*, 265.

⁷⁵¹ *FRUS*, 1969-1976, Vol.XXXVIII,doc.8.Memo for President Johnson from Walt Rostow on the Stockholm monetary conference. White House, 2 Apr. 1968.

⁷⁵² CIA Research Reports Europe, 1946-1976, "Current intelligence weekly summary, Current intelligence weekly summary, Special articles, De Gaulle and French foreign policy, no date," MD: A microfilm project of University Publications of America, Inc.

Unlike de Gaulle, Pompidou himself has shown a pragmatic willingness to adjust his tactical position when necessary. Concerning the international monetary issues, cooperation and divergence took place concurrently. In treating the U.S. “Year of Europe” initiative, there was a widespread feeling that the French government, together with other European countries, should oppose the establishment of a political linkage with economic, military and diplomatic matters. The agreements between the Soviet Union and the United States further fueled a sense among the public and the governments that there would be a condominium of the two countries in the sacrifice of the European interests. In a dialogue between Pompidou and Nixon in Reykjavik, Pompidou emphasized that the political and defense issues were the primary matters, while the economic and monetary issues were secondary. The secondary issues should not be tied up with the essential questions.

Besides, with the development of the European community, French international policies were then characterized by European features. In this sense, it was not unfair to identify that the United States had global interests, while the Europeans had regional interests.⁷⁵³

The model of U.S.-French alliance: a sort of “partnership”

Before trying to analyze the model of U.S.-French alliance, we should in fact know where the specificity of the American-French alliance was, compared to that of the U.S.-Japanese, and U.S.-German alliances in the 1960s and 1970s, and answer the following questions: why and in which way the “small” France attempted to challenge the authoritarianism of the “big” America? How the United States was influenced by French strategy, and why it was willing to sit at the same negotiating table with France?

Compared with U.S.-German and U.S.-Japanese relationship, which could be defined as military protector and protege (or to be more exact, they were linked by a strong political and military commitment), France under de Gaulle and Pompidou inclined to develop its independent nuclear forces, diplomatic, economic and cultural policies. The Americans could take advantage of their identity as military protector to

⁷⁵³ *FRUS*, 1969-1976, Vol.XXXVIII,doc.8. Address by the President’s Assistant for National Security Affairs (Kissinger), April 23, 1973.

ask the Germans and Japanese to make economic concessions, but it was never the case for the French. The economic development and military independence have enabled the de Gaulle and Pompidou governments to dialogue with the United States in a relatively equal stance, and maximized its bargaining leverage with the United States.⁷⁵⁴

However, influenced by the context of the Cold War, it was improbable that France shifted partners when Franco-U.S. negotiations turned to be unsatisfactory. Chinese scholars once compared the differences between the Sino-Soviet relationship with that of the United States and its allies in their writings, to analyze why the Sino-Soviet alliance collapsed in the 1960s, while the Western camp have persisted in the face of significant challenges until today. The authors believe that the principles and criteria for maintaining the mutual relations of Western allies are national interests, especially in the Cold War era, the ultimate manifestation of such national interests was to guarantee the overall security of the Western countries in the confrontation with the communist world. For this fundamental benefit, each state can, and is willing to, relinquish its immediate and individual interests at some point, that is, when it is needed, they can ensure the continuation of the alliance through compromise between each other.⁷⁵⁵

Therefore it could be pointed out that the American-French alliance had such an existence: when faced with major disagreements, or dangers that threatened the survival of the whole western world, the United States and France would quickly coordinate with each other through sacrificing some of their present interests to save the alliance. The interests of national security were paramount, and we cannot exaggerate the impact of economic and monetary issues on political and national defense issues. That was the reason why France gave the United States its support on the Berlin crisis; the United States had helped France through the May crisis of 1968, and the heads of State had come forward to explore the possibility to resolve the international currency crisis in 1971.

The paradigm of the relationship of the United States and France, broadly speaking, the United States and Europe's alliance relations, was not static. It experienced a gradual transformation from European passively requesting for U.S.

⁷⁵⁴ See the theory of Glenn H. Snyder, *The Security Dilemma in Alliance Politics*, *World Politics*, Vol.36, No.4(July.,1984): 461-495.

⁷⁵⁵ Shen Zhihua 沈志华 ed., *The history of Sino-Soviet relations, 1917-1991* 《中苏关系史纲》, Beijing: Xinhua Publisher(北京: 新华出版社), 2007, 471.

capital support and military protection in the postwar period, to a position that they could negotiate with the United States on international monetary and economic issues, by making full use of its commercial advantage and financial stability. Both sides got the bargaining chips they needed, and if only one side were overwhelmingly dominant, the negotiations would not be there.

The characteristics of the U.S.-France relationship of the 1960s-1970s lay between “affiliation” and “partnership”, and moved forward to the “partnership”. If we only concentrate on the nuclear problems or Vietnam issues, the divergence between the United States and France risked to be exaggerated; If the U.S.-French relationship was only examined in the diplomatic occasions, then the complexity of their bilateral relations were hard to explore. The combination of monetary issues with that of politics and defense help us to avoid being trapped by one scope, and better understand the mechanism and origin of governmental decision-making process. US-France divided, and US-France united. Staying in one camp is still the central theme until today, but the discordant factors exist as well.

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RÉSUMÉ

À partir d'archives financières et politiques inédites, collectées en France et aux États-Unis, cette thèse analyse l'évolution du système monétaire international et la façon dont il est affecté par le déficit de la balance des paiements des États-Unis. Elle tente d'évaluer l'efficacité des mesures prises par les États-Unis pour maintenir la valeur du dollar américain et réformer le système de Bretton Woods de 1965 à 1973. Le déséquilibre des comptes extérieurs étant directement lié à ses dépenses militaires à l'étranger, le gouvernement américain ne souhaite pas se désengager dans le contexte de la guerre froide. Bien au contraire, il compte davantage déployer ses forces militaires en Europe, en particulier en Allemagne de l'Ouest. Ainsi, la monnaie et la force militaire ont étroitement collaboré au cours des années Kennedy, Johnson et surtout Nixon. Les Américains ont essayé d'établir un lien politique entre le commerce, la monnaie et la défense, dans le but de faire participer le prestige du président à une solution efficace à tous les problèmes majeurs. L'initiative de « l'Année de l'Europe » visait donc à appliquer le concept de « lien » à des questions spécifiques.

Le projet de réforme du système de Bretton Woods proposé par Washington, dès le milieu des années 1960, a cependant été contesté par Paris. Notre analyse met l'accent sur la manière dont les décideurs politiques français et les techniciens financiers ont évalué les défauts du système de Bretton Woods, la politique monétaire internationale américaine et les contre-mesures préconisées. Entre autres, la proposition de l'unité de réserve collective, la convertibilité du dollars en or, l'indifférence face aux DTS et le refus d'élargir les bandes de taux de change. Cette thèse explore le rôle d'opposition joué par les gouvernements de de Gaulle et de Pompidou dans le domaine monétaire. Elle montre comment les problèmes monétaires renforcent les enjeux politiques, militaires et politiques.

Bien que les différences concernant les questions monétaires et l'alliance de l'OTAN aient existé, le dialogue entre les États-Unis et la France n'ont jamais été rompu. La continuité des négociations garantissait un échange de vues tout en maintenant la cohérence, y compris face à des situations d'urgence telles que la crise de mai 1968 en France et l'invasion de la Tchécoslovaquie en 1968.

La thèse examine également comment l'alliance américano-française, ou plus largement l'alliance américano-européenne s'est développée pendant la période de transition de la guerre froide. La conclusion souligne une forme de politisation des questions monétaires et constituent un instrument incontournable dans la conduite de négociations. Mais face aux dangers qui menaçaient la survie du monde occidental, les États-Unis et la France se coordonneraient en sacrifiant certains de leurs intérêts actuels pour maintenir l'équilibre de l'alliance.

MOTS CLÉS

les États-Unis, la France, les relations monétaires, les relations américano-françaises, le système de Bretton Woods, la guerre froide

ABSTRACT

Based on original documents from French and U.S. archives, this thesis outlines the weakness in the International Monetary System which depended on U.S. balance of payments position, and also explores U.S. measures to maintain the value of the U.S. dollar and reform the Bretton Woods system, from 1965 to 1973. Since the U.S. imbalance of international payments was directly related to its military expenditure overseas, that became one significant consideration for the U.S. government in deploying its military forces in Europe, especially in West Germany. Money, political and military force interacted closely during the Kennedy, Johnson, and especially the Nixon years: the Americans expected to establish a political linkage between trade, money and defense, by promising to engage the presidential authority in a successful solution to all major issues. The initiative of the "Year of Europe" was therefore an endeavor to apply the "link" concept into specific matters.

The U.S. attempt to reform the Bretton Woods system was however challenged by the French from the mid-1960s. Focusing on how French policy makers, governments officials and financial technicians assessed the defects of the Bretton Woods system, the U.S. international monetary policy, and the countermeasures — such as the proposal of the Collective Reserve Unit, the convertibility of dollars into gold, the indifferent attitude toward the SDRs and the refusal to enlarge the exchange rate bands — that the French devised, this thesis explores the role of opposition that the de Gaulle and Pompidou government played in the monetary domain, and analyzes how the monetary issues merged with political, military and diplomatic matters. Though the disputes over the monetary issues and the NATO alliance existed, dialogues between the United States and France were never broken. The continuity of the negotiations guaranteed an exchange of views, and in the face of emergencies, like the May-June crisis of 1968 in France, and the invasion of Czechoslovakia, the United States and France maintained consistency.

The thesis also examines how the U.S.-French, or broadly speaking, the U.S.-European alliance developed in the transitional period of the Cold War. The conclusion highlights the fact that monetary issues could be politicized and used as bargaining power, but faced with dangers that threatened the survival of the whole western world, the United States and France would coordinate with each other through sacrificing some of their present interests to save the alliance.

KEYWORDS

the United States, France, the monetary relations, U.S.-French relationship, the Bretton Woods system, the Cold War