# 10

# The 1967 Devaluation and the Fall of the Gold Pool

The 1967 devaluation triggered the collapse of the Gold Pool, setting the stage for the demise of Bretton Woods.[1] Policymakers at the time feared that a sterling devaluation would have consequences for the stability of the international monetary system. What they did not expect was the strength of the run on gold that followed. The devaluation, more than anything else, was the main cause of the run on gold starting at the end of November 1967. Less than four months later, the Gold Pool was disbanded. Subsequently, US policies were more isolationist. It was the first breach in the Bretton Woods system. It would eventually end some 150 years of (sometimes interrupted) gold-backed systems. If the gold standard started with Britain in 1821, it ended in Britain with the 1967 devaluation. US inflation and external imbalances played an important role in the end of the Bretton Woods system, but the 1967 devaluation was the spark that triggered it.

Economist Harry Johnson argued in 1968 that if the sterling devaluation had occurred in 1964–65 or even in 1966, it might not have triggered a run on gold.[2] In 1967, however, inflation in the United States was growing rapidly, and therefore the 1967 devaluation did trigger a run on gold. In Johnson's view, 'The immediate source of the gold rush was the belief that, like the pound, the dollar was overvalued and would have to be devalued.'[3]

What is the link between sterling devaluation and the disbanding of the Gold Pool? Econometric analysis will help us better understand the relationship between the two events. I also show the minor role France played,

[1] This part draws heavily on joint work with Bordo and Monnet: Bordo, Monnet and Naef, 'The Gold Pool (1961–1968) and the Fall of the Bretton Woods System'.
[2] Johnson, 'The Sterling Crisis of 1967', 10. [3] Ibid., 15.

contrary to the claims made in earlier literature.[4] Daily Gold Pool intervention figures and Fed gold window operation data help make the case here. These data are withheld in the archives of the New York Fed. But documents from the BIS allowed the reconstruction of operations at the Fed gold window, offering a new story. Finally, relying on the press at the time, I give an overview of the timing of the run on gold.

## A BRITISH TRIGGER TO AN INTERNATIONAL CRISIS

Existing literature mentions the link between the run on gold and the 1967 devaluation. Gavin cites a study by the Federal Reserve in the summer of 1966. The study anticipated that a sterling devaluation of 15 per cent would produce 'serious market uncertainties about the viability of other exchange rates, including those of the dollar'.[5] This fear was shared by policymakers such as Secretary of the US Treasury Henry Fowler. He stated a few weeks before the devaluation that 'if sterling falls, there will be great monetary unrest. The dollar will be affected strongly'.[6]

In its 1968 annual report, the Federal Reserve noted that the 'devaluation of the pound sterling on November 18th, 1967 was a major shock to the world's financial system'.[7] Later, the report argued that a week after the devaluation, 'the private demand for gold surged to record levels in the London and other foreign markets'. This was because 'confidence in exchange parities was badly shaken'. In 1968, the economist Harry Johnson noted a similar link between devaluation and gold price collapse. He wrote that 'purchase of gold for private use was rising rapidly in the period up to immediately before the speculation associated with the devaluation of sterling'.[8] Bordo and colleagues remarked that the dollar started to weaken after the sterling devaluation.[9] Bordo notes mounting pressure on the dollar 'via the London gold market'.[10] Schenk observes that Gold Pool losses in the wake of the devaluation put the syndicate under

4 Allan H. Meltzer, 'U.S. Policy in the Bretton Woods Era – Review – St. Louis Fed', *Federal Reserve Bank of St. Louis Review*, 73 (May/June) (1991), 54–83; Eichengreen, *Global Imbalances and the Lessons of Bretton Woods*.

5 Gavin, *Gold, Dollars, and Power*, 168. 6 Ibid., 171.

7 Federal Reserve Bank of New York, Annual Report 1968, 28 February 1969.

8 Harry G. Johnson, 'The Gold Rush of 1968 in Retrospect and Prospect', *American Economic Review* 59, 2 (1969), 346.

9 Bordo, White and Simard, 'France and the Breakdown of the Bretton Woods International Monetary System', 16.

10 Bordo, 'Bretton Woods', 70.

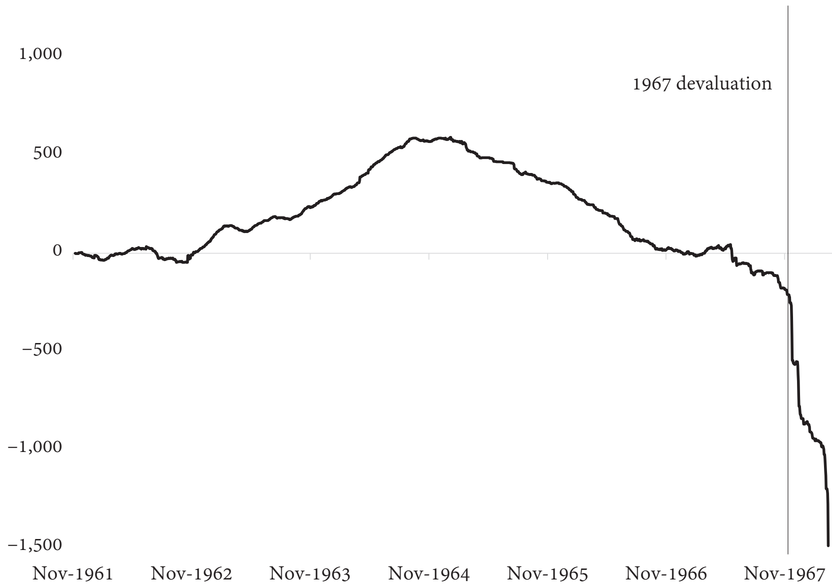


Figure 10.1. Cumulative Gold Pool interventions in million dollars from the creation of the Pool (6 November 1961) to its fall (14 March 1968)
*Source*: Dealers' reports (C8).

stress, even while the syndicate released a joint statement on 26 November in support of the $35 an ounce price.[11] Eichengreen also writes that, after the Middle East crisis of early 1967, the devaluation 'further undermined confidence in the remaining reserve currency, the dollar'.[12] There is broad agreement in the literature that after the devaluation, pressure on the gold market increased.

The US authorities anticipated that the sterling devaluation would be a shock to the gold–dollar market. But they did not prepare enough to absorb this shock fully. Or maybe they overestimated their ability to handle the situation. That the 1967 devaluation would cause instability in the international monetary system was clear to contemporaries. What was not clear was how this contagion would take place.

Figure 10.1 shows the impact of the sterling devaluation on Gold Pool operations. It was a rapid and violent shock. After the devaluation, the Gold Pool lost in excess of $1,238 million over just a few months, according to the dealers' reports.

[11] Schenk, *The Decline of Sterling*, 182. [12] Eichengreen, *Global Imbalances*, 57.

The increase in Gold Pool interventions after the sterling devaluation is associated with a decrease of an unprecedented scale in US reserves. I use a Bai–Perron autoregressive test on monthly US monetary gold reserves. The test reveals a break in December 1967, the month following the sterling devaluation.[13] The results are robust whether the sample covers the whole Bretton Woods period (1944–71) or only the 1960s.[14]

## THE FRENCH OR STERLING?

After seeing the importance of sterling, what role did France play? The consensus is that France played a substantial part in the fall of the Gold Pool. France's role was minor at best compared with the impact of the 1967 devaluation. If de Gaulle's 1965 speech had an impact on the Gold Pool, by 1967 France had little influence on the international monetary system. A commonly held belief in the literature is that France was instrumental in the fall of the Gold Pool. This might not be true at all. New data on the activity of central banks at the Federal Reserve gold window show that France only played a role until 1966. In 1967 when the Gold Pool started to lose significant amounts of gold, France was out of the picture. The French gave the Gold Pool bad press on occasions, but never threatened the institution. The French stayed in the Pool until the end, and their influence was minor. They even voluntarily avoided any action that would have directly endangered the syndicate.

The literature mentions the role of France in the fall of the Gold Pool. But there is no clear indication of how the country affected the gold syndicate. Coombs mentions the 'Gaullist attack on the dollar and sterling' as one of the causes of the fall of the Gold Pool.[15] Eichengreen mentions the attack by the French president as one of many contributing factors to a deteriorating situation after 1964.[16] Meltzer argues that '1967 is the peak for France's accumulation of gold'.[17] This claim is contradicted by new data to which Meltzer did not have access. The French themselves were

[13] Using a sample from 1960–70. The break is robust in many different settings (trimming: 10–25%, significance: 1%, maximum breaks: 1–5).

[14] The break is also found in the 1947–70 specification (trimming 10%, maximum breaks: 2–5, and 5% significance).

[15] Coombs, *The Arena of International Finance*, 155.

[16] Eichengreen, *Globalizing Capital*, 52.

[17] Meltzer, 'U.S. Policy in the Bretton Woods Era, 63.

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eager to claim that what they did was powerful enough to shape the destiny of the international monetary system.[18]

Let us first see how the gold window worked. Only central banks had access to the Federal Reserve gold window, not private customers. It gave central bankers direct access to US gold stocks at $35 an ounce. The window prevented central banks from buying gold directly in private gold markets such as the London gold market. By keeping central banks out of the market, gold window operations left the gold price unaffected. The facility directly depleted US gold stocks. The United States was guaranteeing the price of gold in the Bretton Woods system. If US gold stocks ran low, there was a risk of a run on US gold. This is just as depositors would precipitate a run on a bank if they believed it did not have enough capital. This explains why, when de Gaulle announced in 1965 that France would convert its dollar holdings at the Fed gold window instead of holding them as reserves, it put pressure on the United States. What was never established in the literature, because the data were kept secret, is when the French converted dollars into gold at the gold window. Also unknown was the magnitude of their purchases. We knew about their words, but not their actions.

Here I present new data on the Fed gold window from two indirect sources of institutions which both collected the information from the New York Fed. The Fed is still unable to share these data more than half a century after the events.[19] This highlights their sensitive nature. The first and main source of the quarterly numbers is a report on gold consumption and production from the BIS.[20] This report was first written in 1962 and new data were added yearly. The second source is the minutes that the Banque de France kept of the gold experts' meetings in Basel. Recall that the Gold Pool was managed by a group of experts from participating central banks during monthly meetings in Basel. During these meetings, the state of US gold reserves was occasionally discussed. The Banque de France kept detailed minutes of these meetings. Sometimes gold window operations were reported. The data for the last quarter of 1966 are missing from both these sources.

[18] Monnet, 'French Monetary Policy and the Bretton Woods System'.

[19] The Fed was very helpful but, for legal reasons, was unable to share anything that relates to gold transactions with foreign central banks unless they received explicit consent from the given institution. They confirmed that even through a request invoking the Freedom of Information Act (FOIA), the data would be redacted.

[20] Report on gold consumption and production, 30 November 1962, addendum 8 February 1969, BISA 7.18 (12) DEA 20.

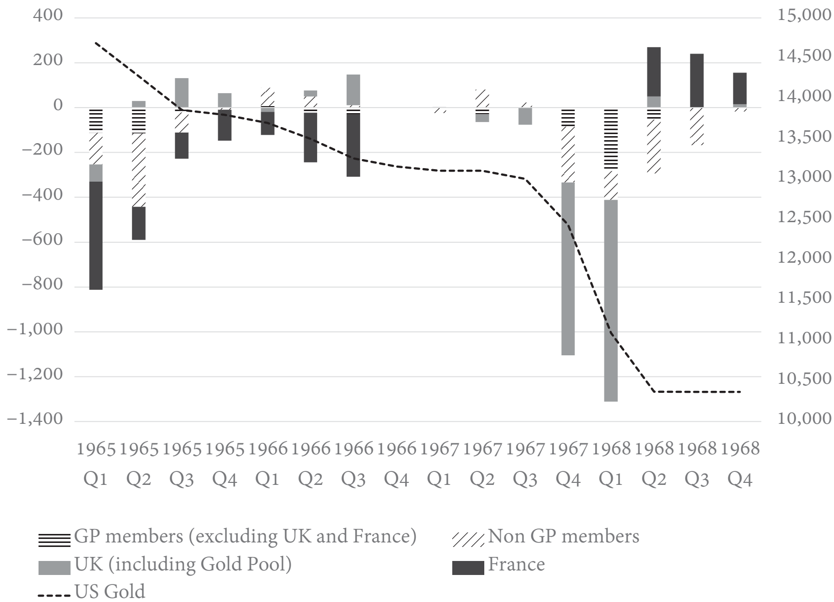


Figure 10.2. US gold window customer operations
*Sources*: gold consumption and production, Archives of the BIS, BISA 7.18 (12) DEA 20. Q3 1966 comes from the 'Minutes of the gold experts meeting', 5 November 1966, Archives of the Banque de France, 467200501-74. During the Gold Pool, sales and purchases by the United Kingdom are those of the Gold Pool.
*Note*: Positive values represent US purchases of gold against dollars, negative values represent US sales of gold against dollars. Data for Q4 in 1966 are missing.

Figure 10.2 presents the Fed gold window data. Positive numbers indicate a foreign central bank selling gold to the Fed and receiving US dollars in exchange. This is expected, other things held constant, to have a positive effect on the confidence in the United States. It increases US gold reserves. Negative numbers indicate a foreign central bank buying gold from the United States. This diminishes US gold reserves. For the case of the United Kingdom, most of the values come from Gold Pool operations that were managed by the Bank of England on behalf of the syndicate.

The data show two features. First, France played no major role in the fall of the Gold Pool in 1967 and second, most of the drain on US gold reserves during the period comes from the United Kingdom. The United Kingdom is visible because it managed the Gold Pool.

France was accumulating gold from the Federal Reserve only until the end of 1966. After that, the French stopped buying gold from the Fed. From the second quarter of 1968, they even started replenishing US gold

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reserves by exchanging French gold for US dollars. This challenges findings in the literature about France playing a significant role in the fall of the Gold Pool. It also revises claims by Meltzer about French operations at the gold window in 1967.[21] It is likely that the French stopped converting dollars at the gold window simply because they had no more dollars to convert. Monnet argues that France stopped converting dollars into gold in 1966 because this policy had failed. The French wanted more power in international negotiations on the international monetary system. Their influence was limited. They had realised this when the French proposal to create an international reserve asset linked to gold was rejected in 1966.[22] After the demise of the Gold Pool, France became a net contributor of gold. The country needed dollars to defend the French franc in the spring of 1968. This was due in part to the events of May 1968. Meltzer suggests that the Paris riots forced France to sell $1.4 billion of gold between March and December 1968, part of which went to the United States.[23] The US gold reserve came under stress between 1967 and 1968. At that point, France played a minor role for US gold reserves.

The second feature that appears in the data is a drain on US gold in the last quarter of 1967 and the first quarter of 1968. Figure 10.2 reveals that in Q4 1967 and Q1 1968, the principal purchaser at the US gold window was the Bank of England. The Bank was acting on behalf of the Gold Pool. There was no central bank run on the US gold window as might have been expected. If central banks feared the dollar was going to be devalued, they could have converted their dollars into gold. There was little pressure on the Fed gold window before the devaluation of sterling; the United States was leaning on other governments not to use the gold window. There was also a mutual understanding that such operations would be detrimental to the international monetary system. Note that Q1 1968 shows more demand from Italy. Italy was a Gold Pool member. Since figures are quarterly, it is impossible to be certain which part of the demand occurred between 15 March and 31 March, when the Gold Pool was no longer operating. And which part was an actual run on gold. In any case, the

21 Meltzer did not have access to these data and there was therefore reason to believe that the French pursued their offensive on the international monetary system through gold purchases at the gold window. Meltzer, 'U.S. Policy in the Bretton Woods Era', 63.

22 Monnet, 'Une Coopération à La Française'.

23 According to gold window data, $600 million of these sales went to the United States, implying that another $800 million must have gone to private markets. Allan H. Meltzer, *A History of the Federal Reserve, Volume 2, Book 1, 1951–1969* (Chicago, IL: University of Chicago Press, 2010), 542.

amount converted by Italy in March 1968 is relatively trivial compared to the losses of the Gold Pool after the sterling devaluation.

During the last quarter of 1967, the largest gold demand other than the Gold Pool came from Algeria. Algeria is labelled as a non-Gold Pool member in Figure 10.2. Past literature claimed that this was an indirect operation on the part of the French. For example, according to Robert Solomon, the Bank of Algeria purchased $150 million in gold from the United States, 'presumably at French instigation'.[24] New archival evidence seems to challenge this assertion. According to the unpublished transcripts of the General Council of the Banque de France, French authorities were not involved. The minutes explain what happened. The Bank of Algeria held French francs with French commercial banks. These francs were convertible to any currency of choice. The Bank of Algeria heard of international instability in the wake of the sterling devaluation and decided to convert these French francs into dollars in order to buy gold.[25] The Banque de France noted that the Algerian institution could also have bought gold directly in the Paris market, but gold at the Fed window was cheaper.[26] In these secret minutes, the governor of the Banque de France told the General Council that it was 'surprising and annoying that people could suspect the Bank of France of wanting to behave in an ill-intentioned manner'.[27] Given France's past behaviour at the US gold window, the rumours were hardly surprising. However, the evidence from the transcripts of the General Council shows that France had nothing to do with the attack on the US gold reserve.

Another opportunity France had to undermine the Gold Pool occurred in the summer of 1967. At this point, France decided not to contribute more to the Pool. There was an increase to the resources of Gold Pool from $370 to $420 million. The Banque de France told other central banks that it would no longer participate in the allocation of the losses. Soon the Pool's deficit was going to surpass the maximum amount fixed in May 1967 at

[24] Robert Solomon, *The International Monetary System, 1945–1976: An Insider's View* (New York: Harper & Row, 1977), 115 (quoted in Eichengreen, *Global Imbalances*, 57).

[25] 'Procès-verbaux du Conseil Général [General Council minutes]', 50, 14 December 1967, Paris, Archive of the Bank of France, 783–4.

[26] Ibid.

[27] The original French reads: 'il est surprenant et un peu pénible que l'on ait pu, à propos de cette opération, suspecter le comportement et les intentions de la Banque de France', 'Procès-verbaux du Conseil Général [General Council minutes]', 50, 14 December 1967, Paris, Archive of the Bank of France, 783–4.

$370 million.[28] France, however, kept its initial contribution in the syndicate. This meant that it would only lose up to the share it had invested until September 1966. As France had only a 9 per cent share in the Pool, its participation before this limit increase was only $33.3 million. This sum would cover less than one day's Gold Pool activity at the height of the crisis. At this point, France was not instrumental to the success of the Pool. However, the news that it was leaving the Gold Pool could have had harmful consequences. France did not make public that it was leaving the gold syndicate.

Why did a country that publicly attacked the international monetary system in February 1965 decide not to do so in the summer of 1967? A confidential note from the international directorate of the Banque de France on 8 June 1967 helps explain.[29] It sets out the reasons why France stopped participating in the Pool without formally leaving it. At that time, the syndicate's losses were not seen as a major concern. Losses were moderate in comparison to the previous surpluses. According to this note, the main reason for leaving the syndicate was that it would 'no longer support without limit a monetary system that works in a way that we consider unsatisfactory'.[30] Yet the note recommended not leaving the Pool formally and publicly. France should instead suspend participation if the limit of resources was increased again. Leaving the Gold Pool 'would not have been a surprise' to other participants 'given the usual reserved attitude' of France in relation to the Pool.[31] But it would have been too strong an attack against political cooperation with its Western allies. Immediately following this recommendation, the Banque de France suspended its participation in the Pool. It was announced to other members at the thirty-first meeting of the gold experts held on 11 June.

Although it had not formally left the Pool by the end of November 1967, it became clear to other members that France would never contribute to it again. The Gold Pool was suffering from large losses following the sterling devaluation. In November 1967, three days after the devaluation, the French leaked to the press that they had left the Gold Pool. This move is analysed in further detail in the next section, discussing the run on gold. But despite this leak, they maintained their initial share in the scheme.

[28] 'Historique sommaire du Gold Pool. Confidentiel [Gold Pool chronology], document completed between June 1962 and October 1967, Paris, Archives of the Bank of France, 1489200803/60.

[29] 'Convient-il pour la France de quitter le Pool de l'Or ? [Should France leave the Gold Pool?]', internal memorandum by M. Théron, 8 June 1967, Paris, Archives of the Bank of France, 146720050173.

[30] Ibid. [31] Ibid.

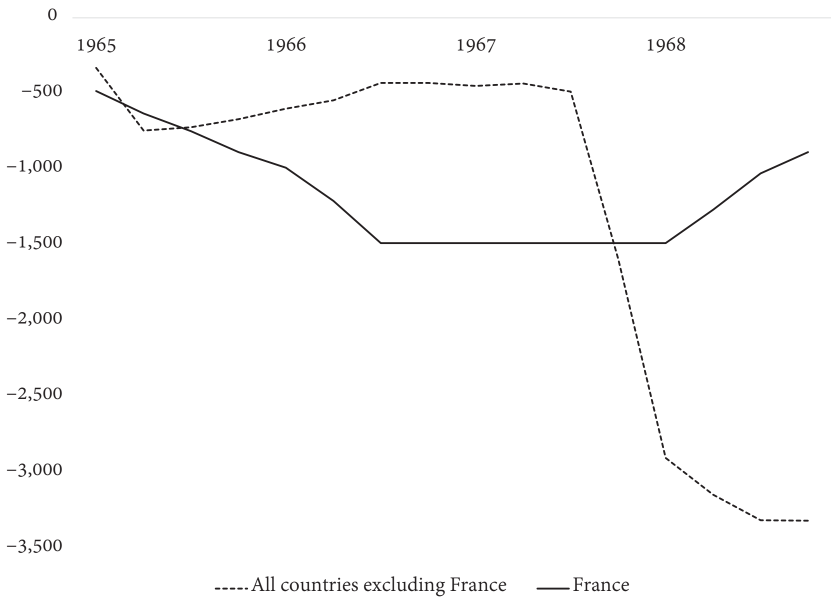


Figure 10.3. Cumulative gold purchases at the Fed gold window for France vs all other countries
*Source*: Data as in Figure 10.2 with categories merged.

Contrary to the accepted view, France's part in the fall of the Gold Pool was not instrumental. The most convincing argument comes from the gold window. For 1967 and 1968, when the Gold Pool fell apart, France *contributed* $600 million to US gold reserves. The Gold Pool over the same period drained $1,714 million from US reserves. Figure 10.3 summarises the main point. The data is reorganised from Figure 10.2. In late 1967, when the Gold Pool came under attack, France no longer purchased gold from the Fed. It even started contributing gold, thereby supporting the system. This does not mean that France would not have wanted the international monetary system to collapse. France wanted to replace it with an alternative, ideally with the French playing a more significant role. But France did not take the lead in the fall of the gold syndicate, as shown by new data. The syndicate collapsed because of market pressure.

## THE RUN-UP TO THE DEVALUATION

After looking at the role of France and sterling separately, the impact of different factors on the fall of the Gold Pool are analysed jointly. This

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analysis is run with monthly data to include a broader set of macroeconomic variables. The goal is to explain the behaviour of the Gold Pool. The explained variable is the monthly operations by the Bank of England for the Gold Pool on the gold market. Negative values represent gold sales to defend the price of gold. Positive values represent gold purchases to replenish the Pool's reserves. Three competing explanatory variables are tested: US domestic macroeconomic factors; French gold conversion of dollars into gold; and the sterling exchange rate.

US macroeconomic factors likely to affect the credibility of the dollar are proxied by the US inflation rate, the growth rate of US gold reserves and the change in the US government deficit. The government deficit is available at a quarterly frequency only. The series is interpolated with a quadratic trend.[32] At a monthly frequency, the change in US gold reserves is the best proxy for the state of the US balance of payments. Both US series come from the St Louis Federal Reserve database (FRED).[33] The pressure of the French central bank on US gold stocks is proxied by the growth rate of French gold reserves. The sterling exchange rate turmoil is proxied by the three-month dollar–sterling forward exchange rate from Accominotti et al.[34]

Since Gold Pool interventions directly and contemporaneously affected the growth rate of French and US reserves, these explanatory variables are used with a lag in the estimations. To isolate the effects of the sterling devaluation of November 1967, estimations are run on two samples. One sample (November 1961–October 1967) does not include the devaluation; the other (November 1961–March 1968) does. The raw data of Gold Pool interventions are used in the estimations since they are not seasonal. The series is stationary and it does not have a unit root. The results are reported in Table 10.1.

French operations seem to have had no impact on Gold Pool interventions as the coefficients are not significant. France did not operate in the London gold market as agreed under the Gold Pool rules. However, France could hoard or sell gold in Paris or Zurich. It could also make its mark on the system with its operation at the Fed gold window. These operations are the ones that previous literature thought were having an impact on the stability of the system. This means that when the French were hoarding or

32 The US government deficit is the 'net operating surplus', seasonally adjusted, available from FRED (series FGOSNTQ027S). It is divided by GDP and interpolated using a quadratic interpolation to obtain a monthly series.

33 Reference FGOSNTQ027S for the government deficit and M1476CUSM144NNBR for the US gold stocks.

34 Accominotti et al., 'Currency Regimes and the Carry Trade'.

Table 10.1. *Determinants of Gold Pool interventions (monthly data)*

| Dependent variable: Gold Pool interventions | | | |
|---|---|---|---|
| | (1) *November 1961–October 1967* | (2) *November 1961–March 1968* | (3) *November 1961–March 1968* |
| Growth rate of French gold (–1) | –0.11 | –1.86 | 2.90 |
| | (0.57) | (3.56) | (4.21) |
| Growth rate of US monetary gold (–1) | 4.58** | –44.86*** | 23.24** |
| | (2.29) | (12.00) | (10.84) |
| US inflation rate (–1) | –19.21*** | –40.05 | |
| | (6.42) | (39.27) | |
| Sterling forward rate (–1) | 355.01*** | 833.93*** | |
| | (129.60) | (111.19) | |
| US Federal deficit (–1) | –13.74** | –70.72** | |
| | (5.36) | (32.77) | |
| Constant | –968.44*** | –2250.18*** | |
| | (361.35) | (309.38) | |
| Adjusted R-square | 0.30 | 0.51 | 0.01 |
| No. of observations | 72 | 77 | 77 |

*Source*: See text. *** signifies statistical significance at the 1% level of significance; ** signifies statistical significance at the 5% level of significance; * signifies statistical significance at the 10% level of significance.

selling gold, the London gold market did not come under pressure. This does not mean that French operations did not matter during some periods. But they cannot be viewed as a major factor explaining the regular operations of the Gold Pool to stabilise the London price of gold. This is even true when not accounting for sterling, as in Table 10.1, regression (3).

The sterling forward rate has a strong and significant effect on Gold Pool operations. The effect is much stronger after the devaluation but is also important before (compare regressions 1 and 2 in Table 10.1). This is in line with earlier findings here. Before the devaluation, the sterling forward rate had an impact on the gold price.

US factors also played a significant role. This is in line with traditional explanations for the fall of the Bretton Woods system.[35] When inflation, government deficit or US gold losses increased, the Gold Pool deficit increased as the Gold Pool was forced to sell more gold. This effect of the US deficits was five times stronger when the period November

[35] Bordo and Eichengreen, 'Bretton Woods and the Great Inflation'.

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1967–March 1968 is included in the sample. Alongside the sterling devaluation, US domestic policy played a role. This is especially true for the failed stabilisation plan of January 1968. This plan was also key for explaining the US decision to close the Gold Pool in early 1968.[36]

Gold Pool interventions were significantly determined by both US domestic economic conditions and the pressure on sterling, provided by its forward exchange rate. This was the case before the sterling devaluation. The effects became stronger after the devaluation.[37] The devaluation was a trigger. It led to unprecedented interventions. But the main factors influencing Gold Pool interventions were in place long before that.

## THE RUN ON GOLD

What were the different pressures on the gold market? Here I build a clearer timeline of the events putting the gold market under pressure after the devaluation. New data on Gold Pool intervention allow a clearer picture of the crisis to emerge. The timing of Gold Pool losses perfectly matches the 1967 devaluation. The run on gold started after the devaluation. According to the dealers' reports at the Bank of England, gold sales increased the week after the devaluation. They were $15 million on Tuesday, $59 million on Wednesday, $93 million on Thursday and $127 million on Friday. The Friday sales represent more than thirty-eight times the average sale of $3.31 million for the period before the crisis (November 1961 to November 1967). This is thirty-five standard deviations from the average for the period. The sales immediately after the weekend of the sterling devaluation stand out as exceptional. This is represented by what Figure 10.4 shows.

The week after the devaluation, the press reported that the French had left the Gold Pool.[38] De Gaulle saw the devaluation as an opportunity to attack the dollar at its weakest point. His attacks increased pressure on the

[36] On the stabilisation plan of January 1968, see Robert Solomon, *The International Monetary System, 1945–1981* (New York: Harper & Row, 1982), 117; Gavin, *Gold, Dollars, and Power*, 177–80.

[37] Between 1965 and March 1968, the cumulative deficit of the Gold Pool was $3,692 million (half of this was covered by the United States); during the same period, the US monetary gold stock diminished by roughly a quarter from $15,258 to $11,009 million. US Gold Pool losses account for 44 per cent of US gold stock diminution ($1,846 out of a $4,162 million drop). US monetary gold data are from FRED. Gold Pool losses are from BISA_7.18 (14) LAR27 Summary of Gold Pool operations, 28 June 1968. Eichengreen, *Global Imbalances*, 54, offers similar figures.

[38] Ibid., 57.

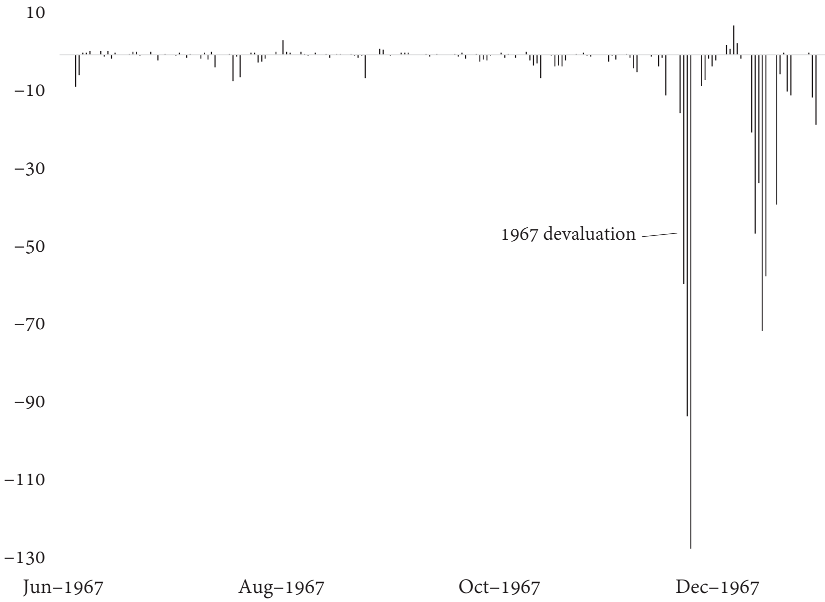


Figure 10.4. Daily Bank of England intervention in the gold market
*Source*: Bank of England dealers' reports (C8).

gold price. Yet de Gaulle was not the only one talking the gold price down. He was also greatly helped by statements by the US Treasury Secretary. He announced that the US dollar was 'in the front-line' on 22 November.[39] The 1967 devaluation triggered a run on gold. The run was then exacerbated by French attacks and US officials trying to deny the imminent devaluation of the dollar.

Before the devaluation, the press was already portraying the dollar as a potential target in the event of a sterling devaluation. On 17 November, two days before the devaluation, the *Wall Street Journal* wrote that 'speculation is rife about the future of the British pound. Will it be devalued and, if so, when?'[40] The journal argued: 'Devaluation would persuade many people that the U.S. dollar was under serious pressure, and in nervous world money marts [markets] the thought can father the fact.'[41] The *Wall Street Journal* thought that a sterling devaluation would probably trigger a run on the dollar. This could take the form of a run to the exit in a

[39] 'France Hits at Dollar through Gold', *Guardian*, 22 November 1967, 1.
[40] 'Devaluation Delusions', *Wall Street Journal*, 17 November 1967, 18. [41] Ibid.

self-fulfilling crisis.[42] All this was before any leak from France. This helps the counter-factual that without any French leak, pressure would have probably built anyway. Investors had already been warned that a sterling crisis could trigger a dollar crisis. It encouraged them to be the first to move from the dollar to gold before the crisis occurred.

Even so, the French leak certainly helped. The next working day after the devaluation (Monday, 21 November), the Bank closed the London gold market along with most other London markets. The fallout from the devaluation was not felt until Tuesday, 22 November. At this point, the Gold Pool losses were substantial but still sustainable. On Wednesday, 23 November, the run accelerated. Things got worse on every day of the post-devaluation week.

News about France having left the Gold Pool earlier in June 1967 leaked on Monday, 21 November, in Paris. Markets were still closed in London. The information was relayed in the international press the following day. It is unclear when international investors got wind of the news of the French exit from the Pool. They either heard it on the Monday ahead of the reopening of the market or on the day the market reopened, when the international press picked it up. On the Tuesday, as the market reopened, a British newspaper broke the news. The *Guardian* reported that the French Ministry of Finance reacted with a 'tight-lipped "no comment"'.[43] The details collected from a journalist working for *Le Monde* 'point[ed] to a deliberate leak, apparently aimed at undermining confidence in the ability of the United States to guarantee the price of gold at $35 an ounce'.[44] France played a role in the momentum of the run on gold as the *Washington Post* pointed out a day later: 'The run was partially blamed on France's belated disclosure earlier this week that she pulled out of the nine-nation gold pool, which seeks to stabilize international transactions, last May.'[45] As the *Washington Post* stated, although France had the power to spread gossip, the country did not have dollar reserves big enough to inflict any direct damage on the United States. The *Washington Post*'s assessment was that 'the de Gaulle government has insufficient dollar

[42] The rationality behind a self-fulfilling crisis was later theorised by economists, starting with Maurice Obstfeld, 'Rational and Self-Fulfilling Balance-of-Payments Crises', *American Economic Review* 76, 1 (1986), 72–81.

[43] 'Effort to Undermine Confidence in US', *Guardian*, 22 November 1967, 1. [44] Ibid.

[45] The *Washington Post* was misinformed. France left in June not May. 'Heavy European Gold Trade Follows Pound Devaluation: Threat Is Unclear', *Washington Post*, 23 November 1967, L8.

reserves to make substantial purchases of U.S. gold'.[46] As seen, France had no firepower. It had stopped converting dollars into gold at the end of 1966. De Gaulle's attack on the dollar was no more than talk.

Not without irony, US officials were still arguing (publicly, at least) that France did not orchestrate an attack on gold. The *Guardian* reported that US officials 'dismissed the idea that the dollar was under attack and that France was leading the charge. "It just isn't the case," a Treasury official said'.[47] The US official continued: 'I put every credence in an official French Government statement. The French statement speaks for itself.'

If France played a role, the US management of the crisis did not help. One particular comment generated anxiety in the market. It was echoed in most newspapers over several days. It was a comment by Treasury Secretary Fowler. Fowler mentioned that the dollar was 'in the front line'. The *New York Times* quoted a 'non-French investment banker' saying that 'Mr. Fowler's words have been widely circulated in Europe as a sign of Administration anxiety'.[48] The *Washington Post* reporter attending Fowler's press conference also noted the context of the comment. He observed that 'Fowler conceded in answer to a question at the crowded press conference that the dollar could come under attack'.[49] The press did not miss an opportunity to compare US President Lyndon B. Johnson with UK Prime Minister Harold Wilson. The *Washington Post* wrote: 'Perhaps the best reason to feel edgy about the dollar is that President Johnson seems to be making the same irrevocable promises that we will "never" devalue that Prime Minister Wilson was making about the pound until the moment he took the plunge.'[50] Dramatic statements by politicians in times of monetary turmoil often spur more speculation rather than helping stem it.

Later, when the dust had settled, another alleged French attack failed to make a mark on markets. *The Times*, a week and a half after the devaluation, titled an article 'France May Decide to Leave Gold Pool Altogether'.[51] According to this article, France was considering removing its original contribution to the Gold Pool. Remember that it only had stopped additional contributions. But *The Times* argued that France's

[46] Ibid., L8. [47] 'US Dollar "Not Under Attack"', *Guardian*, 24 November 1967, 1.
[48] Clyde H. Farnsworth, 'Swiss Act to Cool Gold Speculation', *New York Times*, 25 November 1967, 57.
[49] Hobart Rowen, 'Fowler Optimistic on Surtax Revival', *Washington Post*, 22 November 1967, A1.
[50] Hobart Rowen, 'U.S. Economic "Cool" Will Be Aid to Britain: Economic Impact', *Washington Post*, 26 November 1967, F1.
[51] 'France May Decide to Leave Gold Pool Altogether', *The Times*, 29 November 1967.

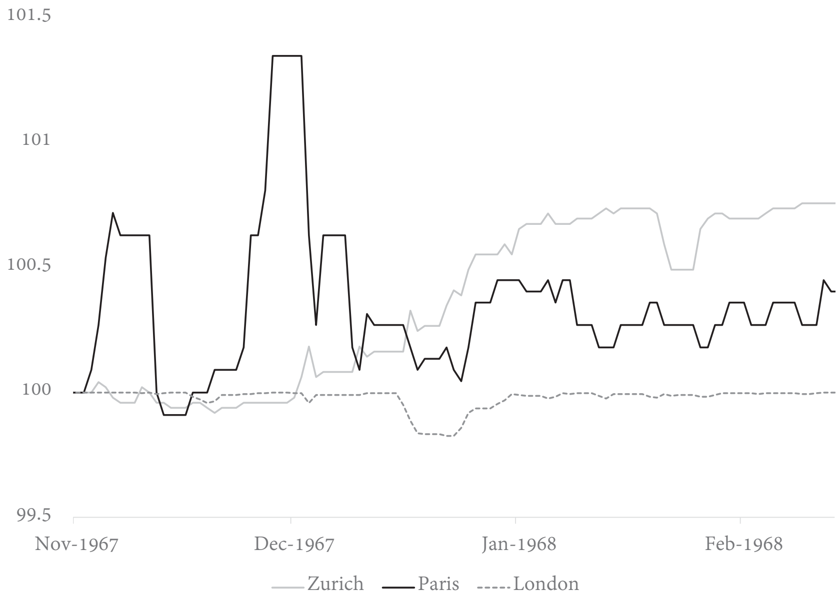


Figure 10.5. Gold prices in London, Paris and Zurich, indexed before the devaluation
*Source*: Paris: 'Cours pratiqués sur le marché libre de l'or', Paris, Archives of the Banque de France, 1377200101/21–25; Zurich: 'Goldkurse', Zurich, Archives of the Swiss National Bank, 9.6/9121; and London: Dealers' reports, London, Archive of the Bank of England, C8.

participation was 'negligible' (around 2.4 per cent at this point).[52] The newspaper attributed this 'new, if empty, threat' to France's 'exclusion from last Sunday's Frankfurt meeting of the other seven central banks'.[53] The meeting issued a 'statement of solidarity behind the dollar' which *The Times* thought would be enough to stop 'last week's gold rush'.[54]

By 29 November, the pressure on the London gold market had eased. Gold Pool operations were back to pre-crisis levels. But this lull in the run on gold would soon end. To understand the effect of the crisis on the London gold price, it is useful to compare it to two other gold markets: Paris and Zurich. Figure 10.5 sets out the three series. These daily series have been collected from the archives of three central banks. The prices are indexed before the devaluation (17 November = 100) to allow comparison.

[52] France's share in the Pool was $33.3 million (9 per cent of $370 million when France stopped contributing to additional tranches). $33.3 million represents 2.4 per cent out of the gold syndicate, which at this stage had reached $1,370 million.
[53] 'France May Decide to Leave Gold Pool Altogether', *The Times*, 29 November 1967.
[54] Ibid. This argument is also proposed by Schenk, *The Decline of Sterling*, 182.

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The London price at the end of 1967 was bounded at its upper limit (close to $35.20). It stays relatively stable thanks to Gold Pool operations. Was there contagion between the three markets after the devaluation? The London market was under tight control of the Gold Pool. But this is not true of the two other markets.

What emerges from Figure 10.5 is the progressive rise of the 'free' gold prices in Paris and Zurich. The selling pressure on the dollar in the London gold market had spilled over into the Paris market. The Banque de France was now forced to intervene. The *Guardian* reported that purchases by foreigners in Paris increased: 'American sources say that purchasers include United States citizens in France, who, for some days past, have been trading dollars for gold – illegally, according to their own law.'[55] The article also mentions 'English people who have no access to their own market'. The heavy foreign purchases probably explain in part the spike in the gold price in Paris shown in Figure 10.5.

France had opened the Paris market to foreigners in January 1967. The country hoped to increase the role of Paris as an international financial centre (Chapter 5). This is why France was defending the Paris gold price on the one hand while attacking the London gold price on the other. The *New York Times* understood this: 'The Bank of France was again meeting some of the demand from its reserves. It does this not because it is against a higher price for gold, but because it is anxious to keep gold prices in Paris in line with the far more important London market, with which it competes as an international gold trading center.'[56]

Similar reports emerged about the Zurich market being under pressure after the crisis. Swiss banks acted together under the guidance of the Swiss National Bank 'to try to cool off speculation by suspending credit purchases of gold for future delivery'.[57] Switzerland, in that regard, had a more cooperative attitude to the international system.

[55] Nesta Robert, 'Paris Gold Deals Multiply in Pressure on Dollar', *Guardian*, 24 November 1967, 15.
[56] Farnsworth, 'Swiss Act to Cool Gold Speculation', 57. [57] Ibid.

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