Gold, Dollar, International Trade and Monetary Integration in Us Foreign Policy: from the Interwar Years Through the Height of Bretton Woods

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Abstract. This contribution aims at charting the topicality of gold in the shaping of US foreign financial and commercial relations from the Great Slump (Great Depression 1929–1939) through to the US balance of payments in the second half of the 1950s up to the eve of the international gold crisis of 1968. Through an analysis of the US foreign economic policy, the paper dissects this interrelation between US foreign trade and gold policy. Unlike the interwar years, the post-war decades from the 1950s to the 1960s were marked by a negative correlation between transnational gold movements, the US balance of payments deficit, the teetering of the US currency in international exchange markets, and international trade and monetary integration.
Keywords: gold policy; international trade; international monetary integration; US foreign economic policy; gold flows.

Золото, доллар, международная торговля и валютная интеграция во внешней политике США: от послевоенных лет через Бреттон-Вудское соглашение

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Аннотация. Статья ставит своей целью характеристику роли золота в формировании американских внешних финансовых и торговых отношений, начиная с Большой Депрессии, через платежный баланс США во второй половине 1950-х гг., вплоть до международного кризиса золота в 1968 г. Посредством анализа внешнеэкономической политики США статья раскрывает взаимосвязь между внешней торговлей США и политикой в области золота. В отличие от предвоенных лет, послевоенные десятилетия с начала 1950-х до конца 1960-х гг. были отмечены отрицательной корреляционной связью между транснациональным движением золота, дефицитом платежного баланса США, колебаниями американской валюты на международных валютных рынках и международной торговлей и валютной интеграцией.
Ключевые слова: доллар; международная торговля; международная валютная интеграция; внешняя политика США; движение золота.

INTRODUCTION

This contribution aims at charting the topicality of gold in the shaping of US foreign financial and commercial relations from the Great Slump through to the US balance of payments in the second half of the 1950s through to the eve of the gold crisis of 1968 and the general wobbling of the fixed but adjustable international monetary system established at the 1944 Bretton Woods conference and based on the US dollar's convertibility into gold.

After a first section on the gold policies from the Roosevelt administration to the Second World War years, this contribution explores the increase of transnational gold movements in the post-WWII international economy and its linkage to the recasting of international trade. The third section examines the relevance of measures designed to resurrect the US balance of payments and the dollar through measures focused on the current account position such as the reshaping of US foreign military assistance programs during the early 1960s, and measures designed to recast the capital account later on.

Through the perspective of the US foreign monetary and financial policy, the aim is at exploring the linkage between the role of gold not only in stabilizing or weakening the international monetary system, but also as the backbone to prop up the competitive edge of US manufacturing in foreign trade. The focal point is to explore the interconnectedness that linked the gold flows between the US and its partners western industrial economies and gold producers, the stability of the dollar in foreign exchange markets and the changing competitive edge of US manufacturing in US foreign economic policy during those decades. This contribution suggests that under the Bretton Woods system the US established a linkage between Washington's foreign monetary and trade policies. Against this backdrop, the US commitment to strengthen its balance of payments' stability and the dollar's strength in foreign exchange markets was always based on American measures and policies to stabilize gold reserves and transnational gold flows. In other words, throughout the period the interrelation between the dollar's convertibility into gold and international confidence in the US currency was a prerequisite to establish and to implement a sound and growing international trade and payments system. A balanced ratio between gold and dollars on reserve in Washington was considered a vital means of sustaining the competitive edge of US manufacturing in foreign markets. In so far as the scale and scope of US foreign trade balance and international payments position was the linchpin for an expanding international trade and payments system, keeping under control gold on reserves and transnational flows in gold was an irreplaceable prerequisite to an ever-increasingly integrated international economy. Through an analysis of gold policy and the foreign economic policies of the US administrations and Washington's monetary authorities during the time frame considered, the paper suggests that the US economic and monetary policymakers were fully aware of this close interconnection since Washington's foreign monetary might and balance of payments equilibrium came under the strains. Likewise, and particularly since the dollar began teetering in foreign markets and the US balance of payments run into deficit, Washington embarked upon a policy based on linking commercial bonds to its foreign financial and monetary policies. Through an analysis of the US foreign economic policy, the paper dissects this interrelation between US foreign trade and gold policy. After a first section on the gold policies from the Roosevelt administration to the second world war years, this contribution explores the increase of transnational gold movements in the post-WWII international economy and its linkage to the recasting of international trade. The third section examines the relevance of measures designed to resurrect the US balance of payments and the dollar through measures focused on the current account position such as the reshaping of US foreign military assistance programs during the early 1960s. Since the Kennedy years two long-standing issues and the policies devised in Washington to cope with them were clearly at stake. In first instance, it is worth pointing attention to the sticky effects of capital outflows from the US and declining foreign investments in the country. This two-fold process that triggered an increase in the share of dollar denominated assets in world capital supply and had substantial repercussions on the dollar's rate and US competitive position in world markets. Since this time the US paid attention to growing capital outflows and their effects on the foreign run on US gold reserves, a long-standing issue to Washington all over the 1960s. However, by and large during the first half of the decade the US monetary authorities focused attention on the current account position of Washington's balance of payments. The US worked on resurrecting the trade balance through a number

of foreign trade policies, first and foremost foreign military assistance. It was only since the mid-1960s that the US administration and monetary authorities concentrated on the capital account position as the cornerstone to resurrect the balance of payments, to prop up the dollar in foreign markets, and to stem the run on US gold reserves. Secondly, the relevance of Washington's trade surplus, and the US efforts to devise measures to improve it further as a means of pursuing the stabilization of US balance of payments and the return of dollar-denominated financial assets to the United States. This attention to foreign trade, that dates back to the Roosevelt administration, sheds light on a US foreign monetary and gold policies based on combining restored balance of payments equilibrium with expanding international trade integration. By expanding exports and reducing imports as a means of reducing the dollar glut in the international economy, over the first half of the 1960s Washington strove to contrast the international run on US gold stocks that fundamentally contributed to weakening the US currency and its convertibility into gold well before its suspension by the Nixon administration. Since as early as this time, the US authorities devised a set of policies aimed at reducing overseas expenditures and increasing export to dollar-holding countries and other commercial partners which held other hard currencies financial assets or were rich in gold reserves. The combined reduction of federal foreign aid, the involvement of western allies in funding multilateral development assistance policies, and the promotion of export credit measures under the aegis of the Export-Import Bank of the United States, took place against this foreign financial and trade policy backdrop. This contribution focuses only on the From the mid-1960s through the turn-of-the-decade deterioration of Bretton Woods the US turned to focus attention only on the reshaping of foreign military assistance and early repayments of outstanding debts owed to the US as a means of reducing the dollar glut and the run on US gold stocks. the capital account position and capital outflows. In light of continued US balance of payments deficit and strained US gold reserves, from the mid-1960s to the end of the decade the Johnson administration shifted its attention to the capital account position. Certainly, the accumulation of dollar denominated private assets held by overseas branches of American banks and corporations as a result of their foreign investments and capital flight, as well as the accumulation of dollars by gold producers and dollar-holding western countries is crucial to understand such turning in the US foreign financial and monetary policy. The expansion in the share of dollar assets in total world supply that featured the decade was certainly the financial component that lies at the interconnection between the decline of dollar's convertibility into gold, the weakening of the dollar, and the plummeting competitive position of US goods and services in world trade. Over the decade of the 1960s this interrelation entailed a reduction in the scale and scope of world trade integration and flows of goods, which since the postwar decade up to that decade had exceeded transnational capital supply for fixed capital formation[1]. Therefore, does the paper argue, it can be established a linkage between the instability in US gold reserves, expansion in transnational gold transactions and flows, and reduced international exchange in goods and services based on a decline in the US manufacturing competitive position in world markets.

1. FROM THE INTERWAR YEARS TO WWII: US GOLD POLICY AND INTERNATIONAL MARKET INTEGRATION

Until after Roosevelt came to the White House, for over a decade after the end of WWI the US administrations had reacted to transnational gold flows by means of raising the discount rate to preserve their reserve positions[2]. Such approach, which had stiff contractionary effects on the business cycle, helps to better understand that until the early 1930s the US authorities established and favored a negative correlation between transnational gold flows, and trade and payments integration. In order to curb gold flows and to protect exchange rates they reduced money supply and triggered a reduced volumes of exchanges in goods and flows in capital[3].

In the wake of this long-standing approach, as widely-accepted in the economic as in the historical literature, amid the unprecedented economic downturn that from 1928 through the beginning of the new decade ravaged both the American bank-

[1] United Nations, *Yearbook*; UNCTAD, *Handbook of International Trade and Development*; OECD, *International Direct Investment*; United Nations, *Transnational Corporations*.

[2] Charles W. Calomiris and David C. Wheelock, (1998), "Was the Great Depression a Watershed for American Monetary Policy?", in Bordo, Goldin and White, *The Defining Moment*, p. 29.

[3] The literature on the Federal Reserve System's monetary strictness is too vast to summarize here. See for reference.

ing system and US manufacturing, the US Federal Reserve System bore responsibility for not serving as the lender of last resort to recast the supply side and to foster fixed capital formation. In that framework, the newly appointed Roosevelt administration undertook a monetary policy that for the first time since the outset of the postwar international monetary regime brought gold to center stage. Through a series of repeated gold purchases on foreign markets, particularly on the Paris and London markets in 1933, and a nominal revaluation of gold at $35 an ounce, the new administration marked a breakthrough in the history of its gold policy. Through the passing of the Gold Reserve Act the new administration created a fund, the so called Exchange Stabilization Fund, specifically aimed at dealing in gold and financing foreign exchange operations[4]. While the revaluation of gold was intended to stabilize the dollar's exchange rate, the proceeds on sales of gold after revaluation accrued to the ESF. Such proceeds were worth financing foreign exchange operations, investment-related import requirements and export credit operations carried over in connection with New Deal domestic investments. In so doing, not only did the Roosevelt administration stimulate domestic investments and foreign exchange operations without remarkable inflationary strains. It also set conditions to use gold as a means of payments and as such as an instrument to stabilize the dollar and the US international payments position as a prerequisite to bolster international trade integration. Such gold purchases conducted during 1933 were first intended to run counter to the Bank of England commitment to depress the value of gold in international markets. In recalling them, President Roosevelt himself established a linkage between the effects of such purchases, the effects of gold revaluation on the dollar's exchange rate, which led to bring down its rate against the pound, and the positive impact that such exchange rate measures attained through Washington's gold policies had on the US international trade and payment positions. After a long lasting trade surplus, did the president claim before the press, due to his administration's gold purchases policy the US had reduced its trade surplus in many manufacturing sectors as cotton, wheat, copper, and many more, thus reducing the overhang of trade surplus on the domestic economy and propping up domestic prices[5]. Therefore, we see how early in the century Washington associated the value of gold and gold reserves with the US international payments position and expansion of Washington's foreign trade.

During WWII gold came even more to center stage in US policy toward the belligerent countries in the framework of the debate on restitution policies. In discussing various forms of reparations on Germany and other belligerent countries, the Department of State reckoned the difficulty of imposing on Germany cash reparations in so far as this form of repayments depended on the country's readiness to import from abroad. In trying to by pass this deadlock, US diplomats suggested to make reparation revolve around metallic reparations: unlike other products and material, gold was considered an ideal means of replacing other property losses by a country. Besides, and more importantly from the view point of this contribution, the stock of monetary gold found by the Allied authorities in Germany should be prorated in proportion to gold losses among the Allied countries whose gold stocks had been looted[6]. From Fall 1944 to the end of the conflict this concept was extensively debated in Washington. This debate suggests a widely-shared and increasingly influential concept of gold as both a means of payments and a reserve unit in either the United States or the other western economies that were transiting from hostilities to the adherence to the Bretton Woods monetary system. Since war time the Department of State made the argument that in no case a country that had suffered from gold losses should be entitled to receive gold in excess of its losses. From Fall 1944 to the Paris Restitution agreements of 1946[7] the Unites

[4] *Introducing the Exchange Stabilization Fund 1934–1961*, in Bordo, Owen and Humpage, *Strained Relations*, pp. 58–59.

[5] 88th Press Conference at the Executive Offices of the White House, January 15, 1934, in Franklin Delano Roosevelt Library and Museum, Hyde Park, NY (henceforth FDRL), Papers as President, President's Personal File 1933–1945, Press Conferences 1933–1945. On Roosevelt's concern about gold outflows and the effects of downward domestic prices and a reduced volume of foreign trade exchanges on the American economy see also the US President, Radio Address of the President, 7 May 1933, in FDRL, Papers as President, President's Personal File 1933–1945, Speeches of President Franklin Delano Roosevelt.

[6] Department of State, Report on Reparations, Restitution and Property Rights in Germany, July 31, 1944, in FDRL, Morghentau diaries, Diary Book 777, September 29–30, 1944.

[7] The US Embassy in Bruxelles to the Department of State, 'TGC-Return of Gold Bars', 18 April 1988, in National Archives and Records Administration, College Park, MD (henceforth NARA), Records of the Central Intelligence Agency (henceforth RG263), Second Release of Subject Files Under the Nazi War Crimes and Japanese Imperial Governments Disclosure Acts, Tripartite Gold Commission. See also Teitelbaum and Sanbar, *Holocaust Gold.*

States showed their palpable aim at establishing a linkage between international restitution policies and the pressing postwar need to make gold not only a means of payments but also a reserve assets to recast international trade and monetary integration in a foreseeable future. The US policy on the Allied restitution Commission cast light on this US international monetary policy goal. Based on the US proposal to the Commission in late 1945, a gold pot policy would be adopted. According to it, a gold pool of countries would be established in order to collect and distribute all monetary gold found in Germany by the allied or transferred by the Germans to occupied countries. The reparation principle that underpinned the restitution policy proposed by the US and agreed upon by the French and the British revolved around monetary gold instead of gold[8]. Therefore, the incumbent Truman administration envisioned restitution policy as the groundwork for the postwar international monetary system based on gold as both means of payments and a reserve units for international payments according to the inter-convertibility between gold and dollar.

II. THE USA, TRANSNATIONAL GOLD MOVEMENTS AND INTERNATIONAL MARKET INTEGRATION IN THE POSTWAR ERA

The interrelation between transnational gold flows, the stabilization of the US currency in foreign exchange markets, the US international payments position and the stabilization of international trade and payments at large, that lies at the origins of the Roosevelt administration's foreign monetary policy just charted, developed further quite shortly after the end of WWII. At the same time, however, it began a long-lasting run on gold in international markets that set the historical antecedents to developments chronicled throughout the 1960s. It first took place as an increase in international exchanges in gold both within and outside of the fixed exchange rates system and its member countries. Thereafter, international gold movements paved way for a deliberate run on US gold stocks. These developments soon jeopardized the American project of making gold a bulwark for international monetary and trade integration. The first stage stretched out from the post WWII reconstruction of the international monetary system through to the 1950s.The latter one was typical of the Bretton Woods system during the 1960s more closely explored in the last section. The dreadful byproduct of this process was an excess in gold reserves at western central banks and a corresponding excess in dollar liquidity in international exchange markets[9]. This tendency laid the groundwork for both a seamless instability of the dollar's convertibility into gold and for the unfettered weakening of the US currency in international markets. Such two-fold developments fundamentally contributed to undermine the international trade and payments system laid down at the Bretton Woods conference. In turn, it sheds light on the sequential linkage between transnational gold movements, the crisis of the dollar and the US international payments position, and the process of international financial and market integration. Such linkage accounts for a fundamental shift in the ratio of transnational capital supply to transnational flows in commodities and consumer goods. Based on available statistical estimates, prior to the 1960s in monetary values the flows in commodities outpaced capital flows, whereas later on, in the framework of declining US gold reserves and reduced international confidence in the American currency, international financial transactions led demand and flows in consumer goods[10]. This shift helps chart the impact of increased international gold movements, declining stability of the US dollar in exchange markets and the US balance of payments deficit, on international trade integration. In other words, this sequence of events in international monetary relations destabilized and jeopardized the making of a highly-integrated and stable international trade and payments system. The two-step process that caused an increase in transnational gold movements deserve to be analyses separately. This paragraph briefly charts the increase in transnational gold transactions, whereas the next one focuses on the run on US gold stocks during the 1960s in

[8] *US and Allied Efforts to Recover and Restore Gold and Other Assets Stolen or Hidden by Germany During World War II. Preliminary Study*, Coordinated by Stuart E. Eizenstat (Under Secretary of Commerce for International Trade, Special Envoy of the Department of State on Property Restitution in Central and Eastern Europe), May 1997, pp. 56–57.

[9] US Department of Treasury, 'US Short Term Liabilities to Foreigners', January 1968, in Declassified Documents and Reference System (henceforth DDRS); The Chase Manhattan Corporation, *Euro-dollar Financing. A Guide for Multinational Companies*.

[10] See footnote 1.

the framework of American policies to restore US external balance on either the current or the capital account position.

We have seen the relevance of gold in wartime restitution policies and gold settlement policies. In setting up the post war international financial and trade system, the US government established a clear linkage between the reorganization of stable gold reserves and the primary policy target of tearing down trade barriers and instituting a highly integrated international economic system. The establishment of the IBRD and the IMF clearly helps track this interconnection: in either case the US and other member countries of the two international economic institutions were called on contributing a portion of their balances in gold. Since its inception, the Bretton Woods system envisaged using gold to prevent the economies that adhered to it from retrenching into trade restrictions and exchange controls in case of balance of payments disequilibria and other external imbalances. To put it another way, gold was a vital assets to promote stable exchange in goods and capital. Moreover, stable gold reserves were considered a prerequisite to attain a country's full participation to the international trade system. In this respect, the case of the 1945 financial agreements reached by the UK and the US is a noteworthy. Tellingly, the December agreements signed by the two countries created a line of credit to London specifically aimed not only at preventing the UK from reducing its purchases of US products and consumer goods, but also at helping the country maintain its gold and dollar reserves, the one being the basis to create liquidity for investments or for international trade financing, the other one considered vital to finance foreign exchange market operations[11]. However, since wartime, the United Kingdom had begun selling gold to a number of developing countries, particularly India, in order to finance its military expenses in local currencies. In 1943, at the invitation of the UK, Washington joined London in this practice to finance its military operations in India. Thereafter, the US government expanded this program and start selling gold to a number of countries, from Egypt to Iran, in order to finance its overseas military expenditures. In short, Washington considered gold an irreplaceable form of reserve to back international exchanges in capital and goods but its postwar role in international relations led the United States to draw on its reserves and to jeopardize the balance between gold and dollars since the outset of the international monetary system based on their inter-convertibility. This use of gold in support of US foreign policy was the epicenter of a much more systematic use of gold in international economic relations that over the postwar era increased international gold flows. Along the way a number of events and practices in postwar international payments added to this use of gold to finance Washington's foreign policy. They contributed to such expansion in gold transactions and to jeopardize the balance between gold and dollars, and between the quantity of gold held on reserves and that used for international transactions.

As a matter of fact, certainly the crucial issue that altered a balance between gold and dollars, set the context in which over time the dollar got weaken in exchange markets, the US international payments position deteriorated, the competitive position of US manufacturing tottered, and jeopardized international trade and payments, was America's overseas military and financial commitment associated with the financing of the Marshall Plan and the Atlantic Alliance under the Bretton Woods fixed exchange rate system. The US effort to reduce the dollar gap in Western Europe and to promote intra-European trade through Marshall Plan aid and coordinated rearmament programs reduced European dependence on US manufacturing, increased the dollar component of Western European central banks reserves, and account for the substantial increase in the gold component of European reserves from the late 1940s to the new decade. From 1950 to 1957 the OEEC countries increased their reserves by $6.5 billion: this increase consisted in equal part by increases in gold and foreign exchanges, particularly dollar reserves[12]. The attainment of intra-European market integration and the process that led to full currency convertibility increased European dollar holdings and the correspondent European purchases of gold from the US and some major gold producers. Therefore, apparently at this stage there was a positive correlation between transnational gold movements and international monetary and trade integration. In fact, the recasting of Intra-European trade and the attainment of full currency convertibility was coupled with increased transnational gold transactions. However, a set of multiple dynamics added to

[11] Us Department of the Treasury, *Annual Report of the Secretary of the Treasury on the State of the Finances for the Fiscal Year Ended June 30*, 1945, pp. 9–10.

[12] Walter, *World Power and World Money*, pp. 163–64.

this development and set conditions that stretched the recently established gold-dollar standard to the limits in the following decade.

As a matter of fact, the postwar international monetary system proved to be extremely fragile and gold movements across nations increased for a number of reasons that transcended US foreign defense and assistance policy. It is worth charting them briefly before exploring the dynamics of US gold and balance of payments policies during the crucial decade of the 1960s. In first instance, prior to the attainment of full currency convertibility, many key currencies run into the risk of devaluation, which indeed occurred for all major European currencies over the period from 1948 to 1949. Before such wide-spread devaluations, in these currency areas a number of fundamentally hedge-induced hoardings did occur as a preventive move. This was mostly the case of France in 1948: the country, which at the time was to transfer gold reserves valued at 415 million sterling to Great Britain in settlements of commercial balances[13], in 1948 was expecting a devaluation of the French franc. Such expectation caused a surge in the international demand for gold and French gold hoarding[14], a move reiterated by France in light of a further risk of currency devaluation a few years later, in 1953[15].

Secondly, over the postwar years gold movements increased as part of the intra-European trade liberalization schemes and the payments settlements mechanism associated with it. Since as early as 1949 the OEEC payments plan to finance European trade integration had caused a drain on British gold and dollars[16]. Thereafter, the European Payments Union (EPU), the clearing house established in 1950 to settle payments and financial transactions in connection with the process of continent-wide trade liberalization, entailed that EPU member creditors could be partly rewarded by debtors in gold. This mechanism was so much so harmful to the stability of gold in world markets and to the gold-dollar standard that in 1953 a proposal brought before the Ministerial Council of the OEEC by the creditor countries, essentially Germany and Holland, to receive a larger proportion of gold to credit granted, was cast aside by the Council[17].

In third instance, gold was widely and recurrently used to back international trade in other commodities and food. This was much the case of Eastern European and Soviet gold purchases over the post-WWII era. At the beginning of the 1950s Soviet gold production, which was estimated at 2 billion ounces per year, was used to finance the import requirements of food, raw material and essential investment goods of its satellites Eastern countries[18]. In so doing, Soviet gold policy and the Eastern bloc foreign trade policies were fundamentally interlocked one's another. In turn, the Soviet Satellites themselves resorted to their gold production to stimulated their international trade transactions. For instance, at year-end 1947 the Rumanian government transferred twenty-one thousand kilos of gold it held to the Swiss National Bank to guarantee the payment for food supplies from the Argentine Government[19].

A fourth dynamic that enhanced transnational gold transactions and helps chart the linkage between gold movement and international trade integration was a premium price steadily above the official gold price. On the eve of the 1950s this led both central banks such as the Banque de France and some private banks such as Mexican commercial banks to purchase gold in the US at the official price of $35 an ounce to resell it onto the legitimate open market or to black market dealers at the premium rate of $42 or $45[20].

III. FROM GOLD MOVEMENTS TO THE RUN ON US GOLD STOCKS: US GOLD POLICIES AND THE CRISIS OF BRETTON WOODS INTERNATIONAL TRADE AND PAYMENTS INTEGRATION IN THE 1960S

This jumble of overlapping trends that increased gold movements and began -as early as the 1950s-

[13] CIA Economic Intelligence Group, "French Concerns Regarding Soviet Gold Policy", 29 July 1947, in CIA E-Reading room, https://www.cia.gov/library/readingroom/home.

[14] Eugene Dickhuth. British Resume Export Permits for Gold Sheets as Demand Rises, *New York Herald Tribune*, February 1, 1948.

[15] Lombard. Depression in Gold Markets, *The Financial Times*, 15 May 1953.

[16] Sydney Gruson. Drain on Gold Continues, *The New York Times*, 28 June 1949.

[17] EPU Debtors' Gold Liabilities. UK Opposes Move for Bigger Payments, *The Financial Times*, 31 October 1953.

[18] CIA, Economic Intelligence Information Report. "Soviet Gold Production and International Gold Markets", 20 April 1951, in CIA E-Reading room, https://www.cia.gov/library/readingroom/home.

[19] CIA Intelligence Report. "Shipment of Gold to Switzerland", 23 December 1947, in CIA E-reading room, https://www.cia.gov/library/readingroom/home.

[20] CIA Economic Information Report. "Soviet Gold Production and International Gold Markets", 20 April 1951, in CIA E-reading room, https://www.cia.gov/library/readingroom/home.

to put pressure on the gold-dollar parity, lies at the origins of the weakening of gold in world markets and set conditions for the following decade instability in the US international payments position on which world trade and currency integration revolved around. As a result of this postwar multiple gold movements across nations, by as early as 1953 the world free gold markets was depressed and the decline in the value of gold in it led to repeated speculation about an agreed Anglo-American raise in the official price of gold. Over the following decade such potential uptick was repeatedly entailed as a mighty solution to increasing pressure on the inter-convertibility between dollar and gold and the stability of international trade and payments[21]. Making matters worse, over the course of the 1950s such early pressures on the value of gold in world markets intersected with the crisis of the US international payments position and the ensuing two recessions that ravaged the US economy at the end of the decade. Since 1950 the US balance of payments run into deficit averaging $1.5 billion from 1950 to 1956. During the same period, from 1950 to 1957, the US Treasury lost $1.7 billion in gold reserves. This deterioration accelerated in 1958: that year Washington's gold reserves lost $3.4 billion[22] in the framework of a plummeting balance of payments deficit from 1958 to 1960[23]. These losses in US gold stock caused a decline in the US dollar equivalent price for bar gold on all major European gold markets that developed since as early as 1960. Such development hit the stability of the US dollar up to the eve of Nixon's decision to suspend the convertibility of the dollar into gold. During this year the dollar price of gold bars in London, Paris and Zurich, which was the benchmark to measure the value of the US dollar against gold, increased[24]. Interestingly, this major gold crisis did occur even as the country was muddling through the hardest recession and balance of payments crisis to date. The 1957 and 1959 US economic downturn were a mixture of declining competitive edge in foreign markets for US manufacturing, plummeting balance of payments equilibrium, and stiff domestic economic downturn. Unlike during the postwar era, such combined outflow of gold from the US and balance of payments deterioration cast aside any previous positive correlation between transnational gold movements and international trade and market integration. Tellingly, in the framework of this gold outflow and tottering balance of payments, the US manufacturing, and specifically the mature sectors that depended the most on foreign exchange policy, reduced profits and competitiveness and lost ground in foreign markets[25]. From 1957 to 1958 the corporate profits of US manufacturing dropped[26], whereas from 1958 to 1973 production workers of US manufacturing experienced a constant decline[27]. In light of either crises the US authorities adopted a tight monetary policy to recast the business cycle by preventing capital outflows and stimulating the reflow of capital from abroad.

On the eve of Kennedy's coming to the White House, it was a widely held view in Washington that the US balance of payments deficit and losses in US gold stocks should be led back to capital flight and to the capital account position. In their briefs for Democratic candidate to the White House John Kennedy prior to his meeting with president Eisenhower, Kennedy's advisers pointed attention to the contribution of American foreign investors to the rising US balance of payments deficit. They stressed that US investors be blamable for short-term capital outflows from the United States recorded over the last few years[28]. Mostly owed to the US overseas investors, including corporations and banking, such short-term capital outflows uttered in an increase in dollar denominated assets in world money supply that hit the value of the US currency

[21] Lombard, Depression in the Gold Markets, *The Financial Times*, 15 May 1953.

[22] Walter, *World Power and World Money*, p. 153.

[23] Data on the US balance of payments deficit are drawn from Federal Reserve Bank of St. Louis, *Monthly Review*, vol. 43, n. 3 (March 1961), p. 4.

[24] International Monetary Fund Archive, Washington DC (henceforth IMFA), Executive Board Documents, Departmental Memoranda, 1960-Departmental Memoranda, IMF Office of the Treasurer. "Monthly Reports of Gold Prices in Various World Markets (IM/60/16)", 12 May 1960.

[25] Department of Commerce, Bureau of the Census, 1975, Part 2, Chapter P: Manufactures, pp. 652 ff.

[26] Department of Commerce, Office of Business Economics, 1958, p. 203.

[27] NBER, seasonally adjusted US Index of Production Worker Man hour in Manufacturing 01/1932–10/1962, in NBER MACROHISTORY: VIII. Income and Employment, retrievable at http://www.nber.org/databases/macrohistory/contents/chapter08.html.

[28] John F. Kennedy Presidential Library and Museum, Boston, Mass. (henceforth JFKPL), Papers of John F. Kennedy. Presidential Papers, President's Office Files, Special Correspondence. Eisenhower March-December 1960, John Sharon and George Ball, "Briefing Memoranda for Meeting with President Eisenhower", December 6, 1960'.

in foreign exchange markets and the US balance of payments. By the end of 1962 the US balance of payments deficits run roughly at $2 billion[29]. The outflow of liquidity and dollar-denominated financial assets contributed to trigger the outflow of gold, which in turn further undermined the fixed dollar value of gold, the value of the dollar in foreign exchange markets and international monetary stability. The stability of the US currency was necessary for smoothly developing international trade and payments based on fixed but adjustable exchange rates. Three factors contributed the most to trigger such chain of unstoppable outflows that lays at the origins of the long-term deterioration in both the Bretton Woods fixed exchange rates, and the competitive position of US manufacturing firms during the 1960s[30]. In first instance, as soon as 1958 currency convertibility went fully into effect, most exchange controls were lifted. In the framework of Europe's postwar economic recovery, in late 1958 most European countries moved to let foreign holders of financial assets denominated in the legal tender freely convert them into dollars or other currencies. The aim was to stimulate trade in goods and merchandise in international markets[31]. This decision triggered a steady and meteoric expansion of dollar denominated financial assets held by foreign residents outside the United States. In less than 3 calendar years, from December 1958 to September 1961, the estimated gold reserves and dollar holdings of western European countries not including the UK increased from roughly a little over $17 million to a little over $23 million[32]. One year later, official and private short-term dollar assets held by foreign residents with banks in the United States were about $19.6 billion[33]. In second instance, US foreign military spending and the federal government's overseas expenditures became a cumbersome load on the US current account deficit: as the Department of State pinned it, US overseas military expenditures financed dollar holdings by foreigners. US diplomats stressed that these dollar holdings were increasingly spent to purchase gold in the US gold markets[34]. Other and more general developments that took place in international gold markets from the very late 1950s through the early 1960s added further strain to the teetering inter convertibility between the US currency and gold, in particular the USSR gold purchase policy in international markets to finance its current account deficit. Over the following years, this European purchases of gold in the US, along with such other gold movements, contributed further to the worsening value of the US dollar in international exchange markets[35]. However, massive European drain on US gold would also reduce the scale of international trade and market integration. Certainly, the Kennedy administration showed a palpable concern about the impact of an ever-expanding international gold market on international trade and payments as long as it was in office. The US administration placed attention on the impact of large gold buying on European purchases of US consumer goods, merchandises and services. To put it another way, gold buying would reduce international liquidity and lessen European imports from the US consumer goods producing market[36]. Therefore, the US authorities established a correlation between the increase in the value of gold and the decline in US export to the western European markets.

In this framework, under the Kennedy administration the US search for balance of payments stability was mostly focused on the current account position and revolved around the reshaping of foreign trade. Since he briefed the US Congress about the pivotal importance of foreign trade to US foreign economic relations as early as February 1961, president Kennedy showed his inclination to focus attention on the current account position to restore balance of payments equilibrium. Accordingly, during the first half of the 1960s Washington prompted its western European partners to pre-repayments of outstanding debt and increase overseas military

[29] Department of Commerce, 1963, pp. 17–20.

[30] From the period 1957–60 to the period 1961–64 the value added in percentage of total manufacturing of the low capital intensive industry that depended the most on foreign exchange adjustments declined from 1957 to 1960 and came further down from 1960 to 1964, whereas the highest capital intensive American sectors that traditionally depended the least on foreign monetary arrangements increased. See Department of Commerce, Bureau of the Census, 1966, Part III, table 5, p. 84.

[31] Silberman, 1962, p. 3. For a detailed account of this turn see Department of the Treasury, 1960, pp. 52–53.

[32] US government, 1962, table B-80.

[33] Department of the Treasury, 1963, p. 80.

[34] JFKPL, Papers of John F. Kennedy, Presidential Papers, National Security Files (henceforth NSF), Country File: Italy General, 5/11/1962–5/20/1962, b. 120, George Ball, State-Defense-Treasury Message, May 11, 1962.

[35] Board of Governors of the Federal Reserve System, 1976, table 15.23, pp. 1032–33.

[36] Memorandum for the Record. "U.S. Balance of Payments Deficit and International Gold Flows", June 10, 1963. In CIA E-reading room https://www.cia.gov/library/readingroom.

sales while setting plans for staggeringly reducing foreign military expenditures. This in order to reduce dollar holding by foreign governments and the ensuing run on US gold stocks[37]. At the same time the new administration and the Federal Reserve System paid an unfinished attention to capital account transactions by taking a series of measures to counteract the jarring gold and dollar outflows. These measures included an increase in short-term interest rates, borrowing from the IMF quota or the US gold tranche, as well as a US commitment to force surplus western European allies to finance the US balance of trade[38].

All of these measures did not prevent either the outflow of capital from the US, or the ensuing run on US gold market. This incapability further undermined the US payments position and, through a teetering competitive edge of US manufacturing, the US foreign trade. Therefore, by the mid-1960s it turned out a negative correlation between transnational gold movements, the Bretton Woods international monetary regime and the scale of international trade integration.

From the mid to the end of the decade the US monetary authorities and the US government pushed forward such credit restraint not so much by opposing any reduction in the discount rate, as by a string of other monetary, banking and fiscal policies. In first instance, they repeatedly countered any decrease in reserve requirements of banks on foreign loans and banking operations. Secondly, they raised taxation on foreign portfolio investments of US banks. Furthermore, they pursued a continued, although unsuccessful, attempt to curb the flow of private capital from the United States to the European financial centers by raising interest rates on long-term financial assets. Finally, they urged US corporations to repatriate capitals[39]. The attempt to prevent the outflow of capital from the US proved to be largely unsuccessful to restore equilibrium in the US balance of payments on capital account as short-term financial assets were the bulk of capital outflows from Wall Street throughout the period. The meteoric expansion of dollar denominated short-term capital markets, in part due to long-lasting interest rate differential between London and New York, coupled with the outburst of US overseas military expenditures and foreign investments by US corporations, jeopardized the US struggle to reduce the outflows of gold and its sequential effects on the international confidence in the dollar, on the competitive position of US manufacturing in foreign markets and on the stability of international trade integration.

Such failure to revert the short-circuit between transnational gold movements, a tottering gold in exchange markets, a weakening international monetary system, and deteriorating international exchanges in goods and services was-not coincidentally- paired by the corresponding declining European confidence in the US gold reserves to foster intra-European payments.

Over the course of the 1960s the role of gold became always more important to the reserve policies of the western central banks. Most western European countries increased the gold share in their reserves. To put it another ways, metallic reserves at central banks increasingly contributed to back money supply and the liquidity available at commercial banks. The combined run on US gold stock with such tendency by the European central banks to increase their metallic reserves, in 1965 induced the Bundesbank to ask the Committee of Governors of the European Central Banks to plan settlements of intra-European payments based on intra-European gold flows. According to the German monetary authorities, in pushing forward the integration of their agricultural, manufacturing and capital markets currently under way, the six members of the European markets should neither set the intra-European payments nor offsetting their balance of payments deficit by drawing on US gold reserves, a move considered harmful to world trade. By contrast, the six members of the EEC should offset their balance of payments deficit through intra-European gold transfers[40]. In making

[37] FOMC Meeting Minutes, August 21, 1962, in FOMC. For a general appraisal about the positive impact of debt-prepayments on the US balance of payments. See also Department of the Treasury, 1963, p. 79.

[38] In this respect see the work conducted on the subject by the Long Range International Payments Committee: JFKPL, Papers of John F. Kennedy, Presidential Papers, NSF, folder "Principal Papers Prepared for the Cabinet Committee on Balance of Payments in connection with its Report to the President", April 6, 1963, "Financial Measures for the U. S. Balance of Payments Deficit 1963–64", March 15, 1963, document attached to Robert V. Roosa, Memorandum to the Secretary "Report on Methods of Financing the Balance of Payments Deficits during 1963 and 1964" pp. 4–6.

[39] Lyndon Baines Johnson Presidential Library, Austin, TX (henceforth LBJPL), Papers of Henry Fowler, b. 52, Henry Fowler, Memorandum for the President, October 12, 1965; Bordo and Humpage, 2016, p. 112; Gibson, 1971, pp. 651–652; D'Arista, 2013, pp. 8–9;

[40] Deutsche Bundesbank, None à l'attention du Comité des Gouverneurs des instituts d'émission des pays de la CEE, "La politique des réserves monétaires des instituts d'émission des pays de la CEE", 15 June 1965,

this argument, the German monetary authorities reckoned that the stunning US balance of payments deficit was the litmus to the a decline in confidence in the reserve currencies, both the US dollar and to a lesser extent British sterling, that had caused a widespread tendency to increase metallic reserves held at western central banks. Therefore, the Bundesbank correctly pointed to the linkage between a weakened dollar, the prolonged US balance of payments deficit, and the increased importance of gold to central banks reserve policies and to international trade and monetary integration at large. Therefore, by the time in 1967 the devaluation of British Pound brought into being a loss in global reserves that accelerated international monetary arrangements to create a new reserve unit, the system was already under strain and transnational gold movements undermined the smoothly functioning of the international trade and payments system laid down at Bretton Woods. In 1968, the creation within the IMF of the Special Drawing Rights (SDRs), conceived as a new international reserve unit to supplement dollar-denominated international liquidity[41], was thought to reduce dependence of the international system on gold for market purposes.

Therefore, on the eve of the British pound devaluation that further undermined the gold-dollar standard and international payments, the linkage between transnational gold movements and reduced international trade and monetary integration was self-evident. In this respect, it is worth recalling the combined decline in the strength of the dollar in foreign markets, the process of unfettered transnational capital flows underway, a downward competitive position of US manufacturing, the weakening in the US balance of payments, and the continued decline in US gold stock throughout the 1960s (see Table 1).

Table 1. **US Gold stocks**

Year-month	US Gold stocks in millions of dollars
1967	11.982
1968-January	11.984
1968-February	11.883
1968-March	10.484
1968-April	10.484
1968-May	10.384
1968-June	10.367
1968-July	10.367
1968-August	10.367
1968-September	10.367
1968-October	10.367
1968-November	10.367
1968-December	10.367

Source: Federal Reserve System, *Annual Report of the Board of Governors of the Federal Reserve System*, 1968, Table 16, pp. 384–385.

CONCLUSION

At an early stage, from the Roosevelt administration's foreign monetary policy through to WWII and up to the late 1940s, apparently the increase in transnational gold movements favored international trade integration and payments. Certainly, since as early as the interwar years it was straightforward that the balance between gold and dollar held on reserve was a prerequisite for a smoothly functioning international trade system. The Roosevelt administration foreign gold purchases to stabilize the value of gold was specifically aimed, as seen in section 1 of this contribution, at reducing the US trade surplus and increasing the competitive edge of US low-capital intensive manufacturing that depended the most on foreign exchange policy. Based on the US restitution policies pursued by Washington during WWII, the US reckoned gold as both a means of payments and a reserve unit of account. Therefore, gold reserves and movements were viewed as linchpins to increase international trade. In the postwar reconstruction scenario the increased transnational gold sales and purchases brought gold to center stage not only in US foreign monetary policy but to international trade relations at large. However, since the US balance of payments run into deficit in the early 1950s, the outflow of gold and dollars from the US highly destabilize the process of international trade and monetary integration.

By keeping an eye to the long postwar era up to the devaluation of British Pound that opened

p. 16. In European Central Bank Archives, Frankfurt. http://www.ecb.europa.eu/ecb/history/archive.

[41] Wachtel, 1990, p. 78; James, 1996, p. 172; Bird, 2003, pp. 267 ff.; Wilkie, 2012, pp. 34 ff.

up the crumbling of Bretton Woods, it is plausible to establish a linkage between the plummeting of the dollar in exchange markets, the increasing importance of gold to reserve policy and international financial relations, and the declining competitive position of US manufacturing and capital markets up to the end of dollar's convertibility into gold. In any case, the US failure to restore confidence in the dollar through action on either the capital or the current account component of the US balance of payments accounts for and is strictly intertwined with the growing importance of gold and international run on US gold stock that chronicled the 1960s. To summarize, the combined crisis of the dollar and the role of gold in shaping reserve policies and international payments had an effect on the stability of an international trade and capital system pegged to the dollar as the basis for reserves and means of international payments.

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