CENTRAL INTELLIGENCE AGENCY
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INTELLIGENCE MEMORANDUM

French Actions in the Recent Gold Crisis

Summary

French government attitudes, and the actions of some French officials, were important factors contributing to the massive speculation against the dollar and the pound during the recent gold crisis. In the weeks immediately following the devaluation of the pound on 18 November 1967, the French fanned the speculative flames by leaking unsettling financial news to the press and may have encouraged some countries to convert their dollars into gold.* By mid-December, however, the French government had become concerned about the deepening crisis and subsequently has generally refrained from unsettling actions.

Under De Gaulle the French government has consistently opposed the dominant role of the dollar in international finance, has pressed for elimination of the US balance-of-payments deficit, and has called for an increase in the official price of gold and the use of gold as the only international reserve. Over recent years, the French have converted

* *Throughout the November-March crisis, the USSR, Communist China, and other Communist countries played a small role in Western gold markets. Reported Communist purchases of gold were about $47 million for Communist China and $143 million for the USSR and Eastern Europe. However, the absence of these purchases would not have significantly diminished the intensity of the rush against the monetary gold reserves of the gold pool members.*

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nearly all their official reserves from dollars into gold, reduced their cooperation with the other financial powers by withdrawing from the London gold pool, and delayed agreement on and adoption of US proposals for increasing world reserves through creation of new international assets under the International Monetary Fund.

The recent agreement among gold pool members to stop buying and selling gold in the private market will not prevent the French from continuing to promote the role of gold or from attacking the dollar if they choose to do so. If they feel that US measures are inadequate, the French will almost certainly try to block reforms of the international monetary system through the issuance of special drawing rights by the International Monetary Fund. The effectiveness of French policy, however, will be limited by the small size of France's dollar holdings, and the disappearance of the French balance-of-payments surplus. France's Common Market partners seem inclined to cooperate with the United States in international financial matters if the United States takes strong action to reduce its balance-of-payments deficit. Future French moves, moreover, probably will be inhibited by the desire to avoid international monetary disorganization.

The French View

1. Under De Gaulle the French government has fundamentally disagreed with the United States and most of the other major financial powers on the nature, the cause, and the appropriate cures for the difficulties which have beset the international financial system. France's approach to international finance is an extremely conservative one. France is opposed to arrangements (the so-called gold exchange standard) whereby the dollar and the pound serve together with gold as major media of international settlement and as international reserves. It opposes the domination of the world's financial markets by New York and London.

2. Most important, France considers the persistence of a US balance-of-payments deficit a means by which the United States forces European countries to hold dollars that are indirectly financing the invasion of US firms in Europe and US foreign policies distasteful to De Gaulle, such as the Vietnam War. France has consistently pressed for an increase in the official price of gold in order to achieve a sufficient increase in the purchasing power of world gold reserves to permit the supplanting of the dollar as a reserve currency. However, the French government has not desired the devaluation of the dollar in relation to the franc, because it believes that the French balance of payments could not stand the shock. A dollar devaluation would almost certainly be followed promptly by a franc devaluation of equal or greater size.

Early French Actions

3. The De Gaulle government has expounded its monetary views whenever a proper forum was available and began taking actions to back them up several years ago. French monetary and fiscal policies have been designed to create surpluses in the French balance of payments most of the time and in this way to build up French monetary reserves. As these reserves grew rapidly during the early and mid-1960's, they were converted increasingly from dollars into gold. This involved the purchase of $2.9 billion in gold direct from the US Treasury. Direct purchases from the United States ended in late 1966, when the French balance-of-payments surplus almost disappeared

and French dollar holdings had declined to about one-half billion dollars.

4. Although after 1966 France no longer had large amounts of surplus dollars it could convert into gold, it continued to promote the world role of gold. Since 1961, France had been a member of an informal group known as the gold pool (together with the United States, the United Kingdom, West Germany, Italy, the Netherlands, Belgium, and Switzerland), the function of which was to stabilize the free market price of gold at $35 an ounce and to distribute the burden of any losses according to agreed on proportions. The French share was 9.3 percent. The arrangement worked well through 1965, with the pool members gaining as much gold as they lost. In 1966, however, sales to private hoarders and industrial users began to out-pace purchases from new production and diminishing Soviet gold sales. The members of the pool began to lose increasing amounts of gold to the free market. In June 1967, France decided to withdraw from the pool in order to avoid continued easing of the strain on the US gold reserve and in the hope that its action would enhance the chances of an increase in the price of gold. By agreement among the pool members, French withdrawal was kept from public knowledge.

5. While attacking the dollar by buying gold and ceasing cooperation through the gold pool, France also used its influence to prevent adoption of US proposals for reforms of the international monetary system which could supplement and eventually supplant both dollars and gold. After lengthy negotiations, in the summer of 1967 France joined in the agreement on creation of additional reserve assets -- the so-called "special drawing rights" (SDR's) to be issued through the International Monetary Fund. But implementation of the agreement was left indefinite, presumably contingent on a reduction of the US balance-of-payments deficit. Moreover, at French insistence, the Common Market countries received a veto power over the timing and manner of implementing the agreement. Although France has not been alone in insisting on a reduction in the US balance-of-payments deficit as a condition for implementing the agreement, it is clear that the French position has been the most negative and that French obstruction of negotiations has created lengthy delays. These delays in turn have contributed to the severity of the recent gold crisis.

French Actions Subsequent to Devaluation of Sterling

6. As a result of the June 1967 war in the Middle East which closed the Suez Canal and temporarily shut off some of the United Kingdom's sources of petroleum, plus a badly deteriorating balance of payments and serious economic difficulties at home, the British were brought inevitably to the point of devaluation.

7. The devaluation of the pound on 18 November 1967 created serious uncertainties in the world's gold and foreign exchange markets. It was followed by a serious acceleration in private hoarding of gold and parallel losses of reserves of gold pool members. French government attitudes and the actions of French officials in the weeks immediately following the devaluation of the pound contributed greatly to the uncertainty and helped to precipitate the ultimate gold crisis. It is unlikely that the French intended to create the crisis, however, and after mid-December they tried to disassociate themselves from it and to avoid unsettling actions.

The *Le Monde* Incidents

8. Late in November 1967, the Parisian press -- mainly the newspaper *Le Monde*, under the byline of the respected financial writer Paul Fabra -- began to publish accurate and unsettling news about international financial developments. The most stunning item was news that France had withdrawn from the gold pool months before, with the United States shouldering France's 9.3 percent share of pool losses as well as its own share of 50 percent. There were other items as well: that $1 billion of the $1.4 billion pledged through the International Monetary Fund to support sterling after devaluation had already been "mortgaged" and actually was not available to dispatch outstanding British obligations; gold pool sales volumes; figures on British and US drawings against the swap arrangements exchanged among the major central banks; a whole series of reports on negotiations for additional loans to the United Kingdom; and exaggerated figures on increases in the members' contributions to the gold pool.

9. All of this information had been closely held. In fact, some of it was discussed only orally among the gold pool members at their periodic meetings in Basel, at which French representatives were present. It appeared that the closed society of central bankers had a large leak, [redacted]

1.5(c)(d)
3.4(b)(1)(6)

10. All this news rapidly became public -- not only the leaks themselves, but also the alleged source. The story was current that a small coterie of overzealous Gaullists was attempting to push the world monetary machinery over the edge to increase the price of gold -- which, in Gaullist eyes, could be the only possible result of an attack on the dollar.

Other Developments

11. Other events roiled the waters as well. It was learned in mid-December that Algeria was using $150 million (in dollars), bought with its franc reserves in Paris, to buy gold directly from the United States. [redacted]

1.5(c)(d)
3.4(b)(1)(6)

12. Most of these reports are probably factually correct. They indicate a continuation of the general French policy of putting pressure on the dollar. But they do not substantiate the existence of a French plot to bring down the dollar in the wake of the devaluation of sterling. Some of the reports probably represent isolated ploys

on the part of overzealous people [redacted] 1.5(c)(d) 3.4(b)(1)(6)
The weight of evidence, on the contrary, indicates that by mid-December the French government had become apprehensive about the developing crisis. Presumably it feared that the crisis would lead to unsettled conditions and severe monetary disturbances, which it wanted to avoid, even if the eventual result was an increase in the price of gold. Some reports even suggest that firm instructions were issued from high levels within the French government to cease any actions that might add to the speculative fever.

13. The real importance of all these developments, however, lies in the attitude of the public at large, the public that actually bought the gold, sold the sterling and dollars, and feared imminent collapse of the world monetary system. This public was convinced of official French complicity. Moreover, the notion was daily gaining ground that the oft-repeated Gaullist thesis was correct: that the dollar could not hold out, that the US gold stock could be profitably assaulted, and that the dollar devaluation that soon would yield great profits to gold holders was indeed imminent.

14. Throughout the crisis, the position of the French central bank, the *Banque de France*, whose governor, M. Brunet, has been a particular friend of the United States, seemed ambivalent. Its strong inclination toward close cooperation with foreign monetary authorities is inconsistent with some of the actions attributed to it during the crisis. Senior officials of the Bank were apprehensive about French government policies, although it was also clear that the Bank was at all times under the control of the Finance Minister in matters of policy.

15. The announcement, on 1 January 1968, of President Johnson's new balance-of-payments program stemmed the tide of deepening crisis for only eight working days, after which the pressure on the London gold pool resumed, slowly at first, then with gathering intensity. From this point onward, however, reports of French involvement diminished significantly. Moreover, on an official level, the French continued to act with perfect

correctness. France even had an opportunity, as a result of substantial inflows of dollars during November and December, to buy some gold directly from the United States, which it declined to do, preferring to label the dollars as "hot" money that might all too soon leave France again. There were a few statements reiterating the old Gaullist monetary line and calling for an increase in the price of gold -- some of these coming from De Gaulle's adviser on gold policy, Jacques Rueff. No solid evidence exists that the French government engaged in covert activity to intensify the last, most crucial phase of the gold/dollar crisis.

What Will France Do Now?

16. It is not likely that the agreement of the gold pool members to cease buying and selling gold in the free market will induce the French government to abandon its long-held view that the price of gold should be increased, that the United States should put its balance of payments in order, or that the world should be put on something approaching a full gold standard for international settlements. The French will continue to press for adoption of international monetary policies and institutions consistent with its view. The French have a number of ways to bring pressure on the pound sterling and on the dollar in the future. These include:

a. Opposing the plan for setting up Special Drawing Rights (SDR's) which will be taken up by the finance ministers of the ten largest Western financial powers at a meeting on 29 March to be held in Sweden. The SDR's would ease the balance-of-payments problem of the United States and the United Kingdom, since they would give these two countries, as well as all other members of the International Monetary Fund, the right to draw on additional amounts of key foreign currencies for extended periods of time.

b. Insisting on settlement of any balance-of-payments surplus with the United States or the United Kingdom in gold and encouraging other nations to do the same. Linked to this position would be France's insistence on the right not to accept another nation's SDR's, if the International Monetary Fund ratifies such a plan. At the extreme, France could sell monetary gold obtained from the United States at $35 an ounce to private individuals, but this practice would create considerable risk of detection if carried out on any scale.

c. Encouraging other nations with whom France has financial or diplomatic influence to minimize their holdings of dollars and pounds.

d. Taking advantage of France's strong reserve position and Common Market leadership to replace London in part with Paris as a center for selling South Africa's gold production. Substantial advantages, however, still accrue to London and to Zurich. A parallel effort would be to make Paris more of a financial center for Western Europe at the expense of London.

e. Spreading damaging rumors with respect to the pound and the dollar.

17. There are, however, some major inhibitions and barriers to French action. France wishes to avoid dismantling the international monetary machinery because this machinery plays an important role in promoting international trade, and in particular France does not want the dollar devalued in relation to the franc. France may, therefore, cooperate to a degree with the United States and other financial

powers to limit speculation in gold and dollars. French leverage is limited by the fact that French dollar reserves are now small and the French balance of payments is unlikely to be in surplus for the next year or two. And France cannot count on having an effective veto power over adoption of the SDR scheme. If the United States takes sufficiently strong monetary and fiscal action to improve its balance of payments, the other Common Market countries may support the SDR scheme in spite of probable French opposition.