

France bears some share of the blame for the embarrassment of the British authorities in November. In the year leading up to devaluation the world could witness the unprecedented event of a major country calling openly for devaluation of the pound. This was part of a package deal necessary if France was to withdraw her veto of British membership in the Common Market.¹ The position of Sterling might have been shaky enough in any event. The British had never made the major readjustment that was required to set sterling on a sound footing throughout the 1960's, and (at least this is my view) still conducted her monetary policy as though she had a flexible exchange system.² But the French attack was, nonetheless, outrageous.

The cleaning up process was (not unexpectedly) disorderly. In the aftermath the U.S. lost hundred of millions of gold. The last quarter's gold losses were so alarming that President Johnson felt compelled to preempt the bad announcement effect by introducing "strong measures to put the balance of payments in order," including special taxes on travel and further prohibitions on foreign investment.

The depressing aftermath is well known. A well organized union of interests of France, South Africa, the gold lobby and (so it was rumored) Russia, colluded to establish a bullish market for gold, both by stimulating private speculation and by an arrangement through which South Africa (and perhaps Russia) would withhold gold from the market. At the same time discussion in the U.S. Senate about changing the U.S. commitment to gold created alarm abroad. The gold pool (which France had abandoned in June 1967) faced mounting losses. A run started and the gold drain reached crisis proportions by the third week in March, until in a communique issued on March 18, the authorities announced that they would no longer supply the private market. Gold was to circulate among central banks at \$35 an ounce, but central banks were not to buy or sell in the private market.

Thus ended the Gold Exchange Standard, the system in force since 1934. The warning that Triffin had sounded back in 1959 had found its mark.

II. THE STRUGGLE TO SAVE THE SYSTEM

It is worth pausing a moment to reflect on this episode. Triffin had posed in 1959 the dilemma of the gold exchange standard: If the U.S. cured its balance of payments the world would run short of liquidity, but if it did not cure its balance of payments the gold exchange standard would break down. The seeds of destruction are contained within the system itself.

We have seen how Triffin's prediction was vindicated. It is really quite remarkable. For ten years the U.S. Treasury and the IMF first denied the Triffin dilemma; then wrestled with it, and finally sought a way out of it. But the remorseless logic of the system did not pay any attention.

Think of it. There, on the one hand, is the evolutionary logic of the system intent on its inexorable suicide. Against it is arrayed the most capable forces in the financial chancelleries of the world, fighting against the tide.

It does not matter much when we date the opening shot in the struggle. Eight years ago is as good as any. October 1960 was the month of the gold bubble, the pre-election month in which communications broke down between the Bank of England and the Federal Reserve System and the price of gold shot up in London to \$40 an ounce. At that time the matter was settled when President-elect Kennedy gave his pledge that the dollar would not be devalued, a pledge that announced the opening of the Great Struggle.

The first real battle was waged a few months later. Speculative capital movements had aggravated bad policies in Britain and Germany; and in March 1961, the Germans raised the price of the mark by 5 per cent. This took place while the governor of the Dutch Central Bank was in South Africa, and it created considerable confusion and delay until the Dutch followed the Bundesbank by raising the price of the florin. But the significant fact was that the up-valuation of two of the strongest currencies on the Continent brought speculative capital to Germany and Holland; it aggravated the speculative capital flow because the market thought up-valuation, if it was to take place at all, was inadequate. There was little point to such a small rate change; it only served to excite the market

¹ The other provisions were that Britain withdraw from east of Suez positions; that she abandon her Commonwealth connection; and that she give up her special relationship to the United States. As far as I am aware, Britain was to be allowed to keep her language.

² See my *International Economics*, Macmillan 1968, Ch. 19.