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THE GOLD CRISIS AND THE NEW GOLD STANDARD

By Edward M. Bernstein

I. FURTHER EVOLUTION OF THE GOLD STANDARD

Crisis and Progress

The international monetary system established at Bretton Woods in 1944 has been under almost constant pressure during the past twelve months. The difficulties had their immediate origin in the inability of the United Kingdom to restore its balance of payments without a change in the parity of sterling. The difficulties were intensified by the large and persistent deficit in the U.S. balance of payments. The devaluation of sterling on November 18, 1967, was followed by massive speculation in gold in the London gold market—the gold crisis. The seven countries in the gold pool undertook to contain this speculation by providing gold out of their reserves at the ceiling price of $35.20 an ounce. Repeated statements of the gold pool could not remove doubts of their willingness and ability to continue to supply gold from their reserves on the large scale and for the indefinite period that would have been necessary to quench the speculative demand. The gold speculation gathered momentum, and after having supplied about $3 billion to the London market from mid-November to mid-March, the central bank governors representing the gold pool decided to terminate their intervention in the London gold market and other gold markets. The London gold market was closed on March 15, 1968, not to be reopened until April 1. This, in brief, is the chronicle of the gold crisis which has at last come to an end.