

GOLD

How the U.S. went off the gold standard

Last week, I reported that the Bank for International Settlements' decision to revalue members' gold holdings had left the United States and Britain virtually the only Western industrial nations still resisting a return to a world gold standard. The potential advantages of a gold standard are obvious—so obvious, in fact, that, apart from the British and New York financial communities, practically everyone would like to see the dollar rehitched to gold. The question is then raised, just how did the U.S. get off the gold standard, anyway?

This column has no great regard for John Connally, but the fact is that, as in so many of his decisions, "Big John" was not acting as his own man on Aug. 15, 1971, when the U.S. abandoned gold. In fact, Aug. 15 was the culmination of a campaign initiated by the Bank of England and allied London financial interests to wreck the dollar, a campaign that began as early as 1959-60 with the run on America's gold reserves. Britain's assault against the dollar was motivated, as it is now, by a desire to replace the Bretton Woods system with a full-fledged version of John Maynard Keynes's "world central bank." This supranational institution would issue its own "stateless" currency and regulate world credit flows in such a way as to suppress industrial growth and "disequilibrating" technological progress.

Regular readers of the London *Economist* have often remarked that the magazine has an uncanny ability to "predict" events before they happen. Few, however, would suspect that the *Economist* might accurately

portray events *ten years* in advance. An article in the Christmas 1960 issue of the *Economist* (dated Dec. 24, 1960) entitled "Where the Rainbow Ended" comes very close to meeting the above criteria.

Written in the *Economist's* characteristically cynical, tongue-in-cheek style, the 1960 article, which purports to be an excerpt from the memoirs of Dr. Per Jacobsson (the then-managing director of the IMF) anticipates: 1) the August 15, 1971 termination of U.S. dollar convertibility into gold, and 2) the IMF's current gold sales policy and campaign to reduce gold to the status of a mere "commodity."

"Where the Rainbow Ended" provides a fictional account of a run out of the dollar into gold which begins early in 1961 shortly after the Kennedy inauguration. The immediate cause of the crisis is a General Motors' bid to buy British Motor Corporation. The outflow of dollars to finance the deal causes such a drain on U.S. gold reserves that investors panic and begin pushing up the price of gold on the London market. Soon gold is being quoted at \$49 an ounce against an official price of \$35.

Stunned, international monetary officials and economists debate the issue for months but are unable to come up with any solutions. Finally, in early July, the son of a senior British Treasury official writes an "ingenious" college term paper on the subject and shows it to his father, who in turn passes it on to his assistant secretary. The assistant secretary mails a copy to his old teacher Professor J.K. Galbraith, who happens to be the chairman of the U.S. Federal Reserve Board (in the fictional account only, thank God).

What happens next in the narrative should give the reader a distinct feeling of *déjà vu*:

"Who will ever forget the Monday that followed? It came as a thun-

derbolt not only to the public at large but to the whole financial community, from Treasury officials to central bankers. It came in the form of a short statement by the Federal Reserve Bank of New York, acting as agent for the U.S. Treasury.

" 'In recent months doubts have been thrown on the continuance of the policy of the Federal Reserve in buying and selling gold at the parity of \$35 an ounce, on the ground that market forces are inexorably pressing towards a higher price. The Federal Reserve has no wish to hold back the forces of the market. Forthwith, therefore, its undertaking to buy and sell gold at \$35 an ounce, or at any other price, lapses.' "

"In three sentences, the Fed had demonetised gold. The financial markets were knocked dizzy. The event was too large for men to take in. As they began working it out, they fastened on another statement which on my [Per Jacobsson's—Ed.] own initiative I put out for the International Monetary Fund:

" '... As an interim arrangement, until December 31, 1961, the Fund is taking over the commitments of the Federal Reserve, with certain differences. It will buy gold, at \$35 less commission, only from central banks of its member countries, who will receive in return deposits with the Fund which can be used for all international payments; and it will be happy to sell gold at \$35 plus commission to anyone. It assumes no obligation to buy gold after December 31st.' ... "

"... From the new year on, gold would be just a commodity, and busy calls went round to try to establish just what, as a commodity, gold would be worth.... "

"This revolution in international finance of course transformed at one stroke the status of the International Monetary Fund. 'The Fund,' one commentator wrote, 'now stands to the central banks of its member countries as does the Federal Reserve Board to its member banks.' ... "

Next installment: "1959-60, London Starts the Gold Rush."

—Alice Roth