London starts the gold rush, 1959-60

How dollar-gold link was severed, part II

This article is the second in a special series documenting how starting in the late 1950s the British oligarchy and their American "Eastern Establishment" allies conspired to terminate the U.S. dollar's convertibility into gold. In Part I, I reported that, as early as December 1960, the London *Economist* floated a trial balloon for gold demonetization in the form of a mock-serious excerpt from the "memoirs of Dr. Per Jacobsson." This week I examine how the British wielded their strategic

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leverage over world gold markets to detonate the first major dollar-gold crisis in the postwar period.

October 20, 1960—panic gripped the London gold market. For the first time since the founding of th e Bretton Woods system in 1948, the price of gold on the free market had breached $40 an ounce—$5 above the official price at which the U.S. Treasury had pledged to redeem dollars for gold.

Although most economic historians describe this onset of speculation against the dollar as an outgrowth of the deteriorating U.S. balance of payments position, the October 1960 crisis was the result of a *political decision* at the highest levels of the Anglo-American elite. True, the U.S. payments deficit was becoming a problem (U.S. merchandise exports had failed to keep pace with our capital exports as a result of the late-1950s recession in Europe), but this was only a necessary precondition for the crisis. The Anglo-American elite was committed, as the early 1960 U-2 incident showed, to wrecking détente and destroying the potential for U.S.-Soviet economic and technological cooperation which had revived under the Eisenhower administration.

Coupled with the renewed Cold War policy was a campaign to strengthen the role of the International Monetary Fund as an arbiter of global credit policy. In October 1959 Robert Triffin, agent of the Belgian monarchy, testified at hearings held by the Joint Economic Committee of the U.S. Congress. The world monetary system, he said, was on the brink of a catastrophic liquidity crisis which could only be averted if national governments stopped using U.S. dollars and gold as international reserves and instead maintained balances at the International Monetary Fund.

Triffin's proposal was based on the fallacious argument that the U.S. could not supply the rest of the world's massive capital needs without undermining its own currency. In reality, if the U.S. had chosen to gear up its productive industry for an export drive—both to speed Europe and Japan's development and to industrialize the Third Word—our balance of payments deficit would never have existed.

Triffin's plan was a modified version of British economist Keynes' proposal for an international central bank which had been shot down at Bretton Woods because of political opposition in the U.S. Shortly after his JEC testimony, Triffin's plan won effective endorsement from the British Radcliffe Committee on the Working of the Monetary System (they objected merely to Triffin's too rapid phase-out of sterling's reserve currency role). The British Chancellor of the Exchequer also lobbied for a strengthened IMF at the September 1960 IMF annual meeting. Eisenhower's Treasury Secretary Robert E. Anderson, however, lent a deaf ear.

The London gold market

To understand how the British were able to pull off the 1959-60 gold panic it is necessary to backtrack to 1954 when the London gold market was reopened for the first time since Hitler's invasion of Poland. Former Federal Reserve official Charles Coombs writes in his book *The Arena of International Finance* that the 1954 reopening was frowned on by U.S. officials at the time, since it opened up the potential for large-scale speculation against national currencies by private citizens. At that time, only the U.S. dollar was convertible into gold and even the U.S. Treasury only entertained demands for gold from other central banks.

Despite American objections, the London bullion houses, led by N.M. Rothschild's, went ahead with their plans, and within one year the London market dominated a full 85 percent of the world gold trade, including most central bank transactions. Comments Coombs: "... Restoration of the London gold market was, in a sense, the crowning glory of London's recapture of its historic role as the primary raw material market of the world."

Later, the existence of the London market would permit the Bank of England to cash in dollars for gold at the Treasury window in New York at $35 an ounce and then sell the gold for higher prices in London—yielding an arbitrage profit which could be excused on the grounds that the BOE was "intervening" on behalf of the U.S. Treasury! This is exactly what happened in 1958-60. According to Coombs, during these three years, the Bank of England claimed $1.8 billion in gold at the Treasury window—more than the purchases of Belgium, the Netherlands, and France combined.

However, it was not until October 1960 that private speculators got into the act in a big way. During the weekend of October 15, the London bullion houses and their Swiss counterparts put out the word to their top clients that Kennedy was going to win the American elections with "a good majority." Kennedy, they said, was certain to devalue the dollar as soon as he got into office. Swiss money flooded the London market, and by October 20, the free market price had reached $40. (Kennedy failed to squelch these rumors until October 31, when he announced his support for maintaining convertibility at $35 an ounce.)

Meanwhile, as the result of what Coombs politely calls "a misunderstanding" with the U.S. Treasury, the Bank of England sat on its hands. The Bank of England justified its inactivity on the grounds that the Treasury had been "embarrassed" by previous BOE gold purchases. The word in Paris financial circles, however, was that the BOE had deliberately staged the October breakout, especially since British newspapers had reported that the volume of trading on October 20, the most critical day, had been a mere $20 million—easily containable by the BOE.

Camelot

With the installation of John F. Kennedy as President, the U.S. Treasury emerged as a major bastion of British influence on U.S. policy-making. Although Kennedy's anglophile Treasury Secretary C. Douglas Dillon and his Undersecretary Henry Fowler found Triffin's suggested "reforms" a bit too radical for the American public to swallow, they pursued the same policy objectives as he in a more piecemeal, "evolutionary" fashion. In fact, in February 1961, in a special message to Congress on the balance of payments, Kennedy instructed Dillon to carry out a special study on ways in which the IMF might be "strengthened" and new international reserves (other than the dollar, sterling, and gold) be created.

Later, in 1961, at the IMF annual meeting, the entire world expected the U.S. Treasury to take the British to task for their handling of the gold panic and to demand the closure of the London market. Instead, the Kennedy administration made a deal with the British. A London Gold Pool was formed, to coordinate intervention by all the major central banks acting as a group. The Bank of England, however, would act as the Gold Pool's agent in all buying and selling operations and, as a result of its exclusive knowledge of trading conditions, could and did manipulate subsequent panics.

Next installment: DeGaulle's gold policy.

—Alice Roth