1968 March

Memoranda on the Gold Pool, 1968. In early 1968, the Gold Pool came under increasing speculative pressure. By March, only an emergency airlift of gold from Fort Knox to the London Gold Market enabled the Gold Pool to meet its obligations. These documents reveal the concern that leading US officials had for the sustainability of the dollar at its official price of $35/oz in the late 1960s. The first memo indicates the progress on legislation removing the gold-backing requirements placed on the Treasury [see next document]. The first hints of a change in the dollar price of gold can be seen in the second memo to US President Lyndon Johnson from his National Security Advisor, Walt Rostow. Taken together, these two memos indicate the high priority that the United States placed on maintaining the dollar's international convertibility even as they arranged to disband the Gold Pool.

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Memorandum From the President's Special Assistant (Rostow) to President Johnson

Washington,
March 9, 1968,
4:45 p.m.

SUBJECT: The Gold Issue

Walter Heller [Editors note: President of the Council of Economic Advisors, 1961-1964, economic advisor to President Johnson] gave me a rundown on last night's meeting of the Dillon Committee. [...] They met informally in New York to go over the options on gold and the balance of payments and will report to Sec. Fowler [Editor's note: Secretary of the Treasury, 1965-1968].

Their conclusions were:

1. The tax bill is a must. They agree on a strong public statement which they will release next week after going over it with Fowler.

2. They are unanimously opposed to an increase in the price of gold as a way of dealing with the present crisis.

3. Most would prefer to keep the present gold pool arrangement going but they do not believe it will be possible to negotiate with the Europeans the arrangements necessary (specifically, the gold certificate proposal) to turn the market around and restore calm.

4. They, therefore, believe we will have to close the gold pool operation and let the market price go. They believe it is essential we do this in cooperation with our gold pool partners and preferably at their request.

5. They were somewhat fuzzy on particular plans for getting non-gold pool members to cooperate and suggest we perhaps can use the IMF for this purpose. They believe we will have to act within 30 days and must have a clear idea of where we want to go and how we plan to get there.

Comment: As you can see, these views are not very different from our own. After the meeting of the Central Bankers in Basel this weekend, we will have a better idea of what the Europeans are willing to do, what the prospects are of keeping the gold market open and quiet, and what would be the most orderly way of bringing about change. Deming [Editor's note: Frederick Deming, President of the Federal Reserve Bank of Minneapolis, 1957-1965] returns tonight, and Bill Martin [Editor's Note: Chairman of the Federal Reserve Board, 1951-1970] on Monday.

Fowler is working to get the gold cover bill on the floor of the Senate on Tuesday. Passage of the bill should help quiet things down.

Walt

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Memorandum From the President's Special Assistant (Rostow) to President Johnson

Washington,

March 12, 1968,

6:25 p.m.

Mr. President:

Here, as we understand it, is what Bill Martin found out and will report to you.

1. With respect to a change in the price of gold, the British and Dutch are inclined to flirt with this option. The Germans are wobbly. The Italians, Belgians and Swiss are strongly against.

2. He achieved agreement on the statement and the willingness to back the gold pool with $500 million, with another $500 million contingent. (At the rate the market in London is going, this will only last a matter of days.)

3. The Europeans realize that we all may face soon some quite unpleasant choices; but they are not clear about what these choices are and what will be required of them if we are to hold the system together. They are prepared to close down the London gold market and let the free market price of gold float. What they have not thought through are the terms of the intimate collaboration which will be required to make that kind of system work--especially how to deal with the consequences of a two-price gold system.

4. In the light of this situation, Treasury, State, Federal Reserve, Council of Economic Advisers, and White House staff people have been driving all day […] to get in shape an operational scenario [….] The essential object of the scenario would be to get certain minimum essential commitments from the other members of the gold pool before the closing of the gold pool was announced. On this basis we could proceed in reasonable order to a monetary conference.

5. We do not yet know Joe Fowler's or Bill Martin's personal views of this particular scenario. But we will be presenting it to them either late this evening or tomorrow morning.

6. It emerged from the Basel meeting that the U.S. tax bill and the austerity of the British budget of March 19 are absolutely critical factors. Joe Fowler and Bill Martin have been working Mills [Editor’s note: probably Wilbur Mills, Chairman of the House Ways and Means Committee, 1957-1974] over hard on this point. They are also talking to the Republican Policy Committee this afternoon.

My own feeling is that the moment of truth is close upon us; and we shall have to convert some such scenario into action within the next few days.

Walt
[Editor’s Note: Walt W. Rostow, National Security Advisor, 1966-1969]

Memorandum From the President's Special Assistant (Rostow) to President Johnson

Washington,
March 14, 1968.

SUBJECT: Gold

Your senior advisers are agreed:

(1) We can't go on as is, hoping that something will turn up.

(2) We need a meeting of the gold pool countries this weekend in Washington.

(3) We want to negotiate the following package:

--Interim rules on gold.
--Measures to keep order in the financial markets.
--Acceleration of the SDR's.

(4) With the right kind of interim package, we could maintain our gold commitment to official holders.

(5) If we can't get this package, we would have to suspend gold convertibility for official dollar holders, at least temporarily, and call for an immediate emergency conference.

(6) This probably would mean a period of chaos in world financial markets, but it may be the only way to push the others into a sensible long-run arrangement which avoids a rise in the official price of gold. We are unanimously agreed that a rise in the price of gold is the worst outcome.

The decision you must make now is whether the London gold market should be closed at once

(a) Arguments for closing:

--Avoid losing perhaps $1 billion in gold tomorrow (we lost $372 million today).
--Such a gold loss would further shake the confidence of central banks and trigger their coming to us for gold.

--Makes it easier to arrange an emergency meeting of the gold pool countries this weekend.
--Evidence of U.S. decisiveness.

(b) Arguments against closing:

--Involves U.S. taking the lead in throwing in the towel.
--Closing the market will strengthen the hand of those who believe the official price of gold will be increased.
--May reduce the U.S. bargaining position with the Europeans.
--Gives us another fling at the Gold Certificate proposal.

Walt

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***Source*:** *United States State Department. 1998. Foreign Relations of the United States 1964-1968*, Vol VIII, (Washington: Government Printing Office), documents 187, 188, 189.