



Francis J. Gavin, “The Gold Battles within the Cold War: American Monetary Policy and the Defense of Europe, 1960-63,” *Diplomatic History*, Vol. 26, No. 1 (Winter 2002): 61-94.

Commentary by **Juhana Aunesluoma**, Lecturer of Contemporary History, University of Helsinki, jauneslu@mappi.helsinki.fi

Published by H-Diplo on 24 February 2002

No Smoke, No Battle

What is the relationship of international finance and monetary policy with the stability of the international system? Are certain types of international financial systems more prone to lead to or aggravate international political disputes, to lead into the collapse of alliances, or even result in war? How do geostrategic or geopolitical conflicts influence the workings of the international financial system? These are all important questions with contemporary relevance. Francis Gavin’s study on US-European relations in the area of monetary policy, alliance politics and cold war strategy touches closely upon these issues. Even if it does not provide an exhaustive answer to all these questions, it shows how useful it can be to look at the linkages between different areas of diplomatic interaction.

Gavin’s argument can be summarised as follows. Kennedy’s administration faced two serious problems (or crises as the author calls them) in its policy towards Europe; one political, the other monetary. The linkages between these problems led to what he calls ‘gold battles’, the choice of the terminology implying a rather fundamental conflict in the area of international monetary policy.

The first problem arose from the disagreement between the French and the West German governments on the one hand and Kennedy’s administration on the other, on the latter’s cold war strategy that sought to combine deterrence (strength) with reassurance (room for negotiations) toward the Soviet Union. The second problem was the US balance of payments position, which had turned in favour of the European allies who held substantial amounts of dollars, which according to the Bretton Woods system were transferable into gold at the famous rate of \$35 an ounce. The possible gold drain resulting from this imbalance was a serious risk for the stability of the US economy. Quoting Kennedy, the author points out how the president “often told his advisers that ‘the two things which scared him the most were nuclear weapons and the payments deficit’.”

Both of these problems, disagreements over NATO strategy - in particular its nuclear strategy, Berlin policy and the US military presence in Germany - and the inherent problems contained in the Bretton Woods system of international finance are well known and covered in existing literature. The main thrust of Gavin’s argument is to show how these problems were linked, and how the one cannot be understood without considering the other. They were, in the author’s words, “two sides of the same coin” and inexorably connected in the minds of the policy-makers, and hence must be considered within the same analytical framework.

The main conclusion is that monetary issues were used as tools for each side in the complex negotiation process that defined both the limits of US hegemony in the Western alliance but also showed where the European allies should toe the line and follow the American lead. Another conclusion that can be drawn from the article is that economic considerations were at the root of the disagreements in the first place, namely the problem of the cost of maintaining six US divisions in Germany and the effect that had on the US payments position. The dispute could then be seen in fairly simple terms: who should bear the financial burden of the defence of the West?

These two conclusions are not mutually exclusive, but point toward two different lines of interest and ways to explain the relevance of economic matters in international politics. On the one hand, economics, that is the material base of political power and military capability, can be seen as fundamental to any foreign policy. International disputes threatening that base are classic cases of international political or military conflicts. On the other hand, economic pressure can be used as a foreign policy tool to coerce other nations into submission or to accept otherwise unpleasant compromises in issues not related to economics. International monetary or trade policy may also become a battlefield where it masks other, more deeply seated conflicts, such as was the case between France and Germany in the 1920s, a case the author refers to as well.

Gavin's argument is based on extensive research in US archives, and he is able to draw a rather full picture of the Kennedy administration's priorities and decision-making processes in its European policy. His primary research is substantially thinner on the European side, although it draws from recent scholarship about France, Germany and European developments in the early 1960s. The following critique does not mean to downplay the apparent strengths of the article and the valuable contribution it makes to our understanding of the complexity of the Euro-Atlantic alliance structure and alliance politics at the time. Neither does it suggest that there is anything fundamentally wrong in the approach he advocates in the study of international history. Two issues will be considered: the relationship of the author's argument with existing views, and the interpretation of the monetary issues' fundamentally conflict-ridden nature and their significance in Western alliance politics in 1960-63.

As a justification for his approach, the author claims that the "standard historical view", expressed in previous literature, has missed the linkage he has himself unearthed. According to Gavin, the existing view of the Bretton Woods system is that it functioned smoothly in the late 1950s and early 1960s. This may have helped other historians to neglect that aspect in their explanations of Kennedy's policies in other areas, leading into an incomplete understanding of what was wrong with the NATO alliance in the early 1960s.

To begin with the "standard view" of the Bretton Woods system, the author himself refers to the so called "Triffin thesis", that already in 1960 signalled that a continuing reliance upon dollar deficits to provide international liquidity eventually undermined the convertibility of the dollar into gold. For Triffin, as well as many others, the Bretton Woods gold-dollar system was inherently unstable as soon as the post-war transition period effectively ended (1958) and needed to be replaced by something else. This situation was no secret, and although textbooks of international financial history tend to concentrate on the late 1960s and early 1970s in explaining

the collapse of the system, the view of its earlier stability has been challenged, although these “technical matters” may not have reached as wide an audience in the community of diplomatic historians as they should have. Whether this inherent instability was something that could not be managed without resorting to battle tactics and rhetoric is another matter. A need for constant management and negotiation does not have to spill over into other policy areas, or lead into open crisis or battles.

The author’s view of the existing literature and comments about our lacunae of knowledge may be challenged too, as he is not the first to show the connections between monetary policy and cold war concerns in the Western alliance in the 1960s. His argumentation and the ways in which the research questions are posed follow closely the criticism of the so-called “hegemonic stability” thesis, which originated in the writings of Charles Kindleberger and others, and which has long been a popular concept in the study of international political economy. For example, as Andrew Wyatt-Walter has shown, the view that US hegemony should guarantee a stable world economy has been under fire for some time, as it is often inconsistent with the evidence. (Wyatt-Walter, “The United States and Western Europe: The Theory of Hegemonic Stability”, in Ngaire Woods [ed.] *Explaining International Relations since 1945* [Oxford University Press, 1996]). Our understanding of the “hegemonic” position of the US has been revised too. Gavin’s work fits well in this literature and is a welcome addition from the diplomatic historical perspective. But on a general level Wyatt-Walter has reached similar conclusions about the ways in which the Euro-Atlantic alliance and the US hegemonic position in it should be understood: a complex set of security and economic considerations where the hegemonic position of the US is all but clear cut.

The main criticism of the “gold battle” view, however, does not have as much to do with the logic of revisionist historiography, as it does with the fundamental view of the condition of the NATO alliance in 1960-63. How serious in fact was the monetary crisis in 1960-63? As many of the issues that were under dispute were settled amicably, for the time being at least, should we still revise our basic understanding of the alliance at the time? Most of us would probably agree that the alliance was wrought with tensions and new problems were introduced in rapid succession in 1960-63, but whether the alliance really experienced trouble on as wide a front as is suggested here should be discussed.

First, the “battle” metaphor may not be very opportune to being with, but the plural used in the title indicates that we must look at several directions at least. It seems that there were two fronts, one internal in the US and the other between Europeans and the US. The author manages to show that there definitely was a battle within the Kennedy administration about the best ways to solve the balance of payments issue, as well as its linkage with other policy areas--something Kennedy himself created by letting all flowers grow in Camelot and inviting men with conflicting views to advise him. But whether the other front in the battle really existed at the time is less clear.

We know in fact that from 1965 onward the dispute about the dollar-gold system was out in the open, led by Charles de Gaulle’s public criticism. Even so, the German position remained the crucial element, and a settlement was reached in 1967 when the Bundesbank gave a pledge not to convert its dollar balances into gold. A similar characteristic emerges from Gavin’s narrative: the Germans were not ready to push the issue too far, and despite unhappiness (which is a far cry

from a crisis) they eventually toed the line, supported US monetary policy and accepted US terms to solve the balance of payments problem its military presence in West Germany created. There certainly were US-German monetary policy negotiations directly linked to the finances of the US military presence in Europe, but whether the situation was so serious as to warrant a prioritisation of these issues above other concerns is another matter.

The second side of the “gold battle” with the Europeans concerns the French position. Gavin clearly has more to say here, and he has developed this side of the story previously in the issue of the *Journal of European Integration History* that was edited by Mark Trachtenberg in 2000 (JEIH, 2000, Vol. 6, No. 2). Again, however, the author presents inconclusive evidence regarding whether the French were making threats or not about what they would do with their reserves. “But was de Gaulle considering an attack on the dollar during the summer of 1962?”, the author asks. There is no answer, just indications that the option was in the cards, that is all.

If the French did make threats to the US in 1962-63, they were carefully veiled, but it must be said that the full story remains to be written on the French side. Hopefully someone will tackle it. The US certainly believed that the French were capable of making such threats, and rumours circulated in Washington about this. But again, there is simply too much shadow boxing here. To give monetary issues such a prominent place in the Euro-Atlantic disputes of the time, as the author suggests, requires more blood in the battle. A smoking gun would be useful, too, for the inquiry. The Bretton Woods system was unstable, and needed constant management, but that was to be expected. In the end, it may be that this conflict-ridden view of the dollar diplomacy of the early years of the 1960s may just be a backward projection of what actually happened in 1965 and after, and thus history read with the clock ticking backwards.

Copyright © 2002-2004 by H-Diplo, all rights reserved. H-Net permits the redistribution and reprinting of this work for nonprofit, educational purposes, with full and accurate attribution to the author, web location, date of publication, originating list, and H-Net: Humanities & Social Sciences Online. For other uses contact the H-Diplo Article Discussion Co-ordinator, George Fujii, gfujii@umail.ucsb.edu.
