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JOHN F. KENNEDY

THE GREAT CRISES, VOLUME ONE

JULY 30–AUGUST 1962

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Monday, August 20, 1962

Since losing the mid-July vote in the Senate on his administration's number one domestic priority, Medicare, President Kennedy vowed to elect a Kennedy majority in Congress. Democrats already occupied nearly two-thirds of both houses. However, Southern Democrats, whose ranks included the powerful legislators Byrd of Virginia, McClellan of Arkansas, and Eastland of Alabama (called "living profiles in courage" by Senate Minority Leader Everett Dirksen), had consistently voted with the Republicans against the President's domestic agenda.[1]

Since the last time he taped a meeting on August 16, Kennedy was out of town campaigning for a new majority. He went west, where it was believed there was a chance to pick up the 20 seats that he needed to turn the House around for his programs. In Pierre, South Dakota, on Friday, he had had his picture taken with a group of young Kennedy western candidates, including George McGovern, formerly in charge of the administration's Food For Peace project. Later that day, in Pueblo, Colorado, Kennedy received an engraved frying pan, symbol of one of a handful of western conservation projects—in this case the Frying Pan Colorado–Arkansas project—that Kennedy had recently signed into law. By the end of August 17, Kennedy was in Yosemite National Park in California. Kennedy would spend the weekend in California, campaigning Saturday and relaxing Sunday with his sister, Patricia Kennedy Lawford, and her husband, actor Peter Lawford.

Having been flown home overnight, the President entered the White House at 8:07 A.M. and was at his desk an hour later. Senator Richard Russell of Georgia, chairman of the Senate Armed Services Committee and yet another dogged opponent of Kennedy's domestic agenda, was his first appointment. The Secretary of State followed. Rusk had some Berlin news, as usual not good, to discuss with the President.[2] In the days since East German border guards shot and left to die a young man who had

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1. Besides Medicare, the legislative casualties included bills on urban affairs and literacy tests. In addition, bills on educational assistance, farm controls, and civil defense were considered in trouble. "Come November," *New Republic*, 16 July 1962; "Congress: The Case for Subtlety," *Time*, 27 July 1962; "JFK Riddle: What to Do with 'Won't-Do' Congress," *Newsweek*, 30 July 1962.
2. "Berliners Stone Soviet Troop Bus," *New York Times*, 20 August 1962. Transcript, Conversation Cash and Day, 19 August 1962, *FRUS*, 15: 272–73.

been trying to flee East Berlin, groups of West Berliners had shown their outrage by stoning the busloads of Soviet troops who, by Allied agreement, drove everyday into the British sector of West Berlin to replenish the permanent watch at the Soviet World War II monument. There was pressure on the Western allies to prevent future tragedies at the Wall. The young would-be refugee, Peter Fechter, had bled to death in full view of West Berliners after being shot. Consultations had just started in Berlin to see whether an ambulance corps, for example, could be set up for the express purpose of rendering aid in East Berlin to people like Fechter.

In addition to the deteriorating situation in Berlin, Kennedy faced another delicate national security problem. Over the objections of the British, in mid-July Kennedy had authorized another high-altitude nuclear test—the so-called URRACA test. The British, joined by some U.S. scientists, were concerned that these tests introduced artificial radiation into the upper atmosphere with possibly harmful effects to astronauts orbiting nearby and to the communications capabilities of satellites.[3] During Kennedy's western swing, some evidence had developed that the most recent high-altitude test—STARFISH—had added electrons to the Van Allen radiation belt, which stretched 400 miles wide and 4,000 miles long, around the middle of the Earth.[4] The *New York Times* had a front-page story this day carrying James Van Allen's concerns about changes to the belt he had first observed in 1958.[5]

Kennedy did not tape the Russell or Rusk meetings. He did tape the next meeting, however, which dealt with the CIA, Cuba, and counterinsurgency.

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3. Glenn T. Seaborg, with Benjamin S. Loeb, *Kennedy, Khrushchev and the Test Ban* (Berkeley: University of California Press, 1981), pp. 152–57.
4. Ibid. The STARFISH test, which involved an explosion at 400 kilometers above the Earth's surface, occurred 9 July 1962.
5. "Van Allen Warns of Threat in Rays," *New York Times*, 20 August 1962.

11:48 A.M.–12:06 P.M.

[I]n terms of plausible denial, it's a lot more effective than . . . things we generate ourselves.

Meeting on Intelligence Matters[6]

In 1961 the Kennedy administration had set in motion a secret CIA program, Operation Mongoose, to undermine and eventually overthrow Castro's rule in Cuba. But by the summer of 1962 its efforts had gathered intelligence and little else. For the last month the Special Group (Augmented) had debated what more the United States could or should do. Kennedy's military representative, General Maxwell Taylor, was the formal chair of this group; Robert Kennedy sometimes acted as its de facto chairman. Taylor had just prepared papers summarizing the outcome of this policy review. The group would only support a "somewhat more aggressive" phase II that authorized sabatoge and other harassment. In that report General Taylor wrote frankly to Kennedy that, "While we believe that this new course of action will create added difficulties for the regime and will increase the visibility of its failiures, there is no reason to hope that it will cause the overthrow of the regime from within." Director of the CIA John McCone had been very unhappy with this outcome, arguing for more aggressive U.S. action. McCone had pressed his case by citing the new evidence that large-scale Soviet arms shipments had begun flowing into Cuba. In the conversation that follows, Taylor is discussing the outcome of the Mongoose policy review and its relatively modest recommendations with the President. After this meeting Taylor forwarded the guidelines for Mongoose phase II to his colleagues with a note that President Kennedy had read and approved them "today, 20 August 1962."[7]

Also on the agenda was discussion of two documents related to the

6. Including President Kennedy, McGeorge Bundy, and Maxwell Taylor (Pierre Salinger enters at one point and then leaves). Tape 13, John F. Kennedy Library, President's Office Files, Presidential Recordings Collection.

7. Taylor to President Kennedy, 17 August 1962, *FRUS*, 10: 944; see Graham Allison and Philip Zelikow, *Essence of Decision: Explaining the Cuban Missile Crisis* (2d ed.; New York: Longman, 1999), pp. 330–32.

Kennedy administration's strategy to defeat Communist movements overseas. The first, a highly classified paper drafted by the CIA describing all of its covert activities, had been given to the President by John McCone on August 15. As part of Kennedy's effort to coordinate all U.S. counterinsurgency efforts, the President had requested a statement from each of the national security agencies as to what they had done in that area since January 1, 1961. In handing over this report, McCone had explained to the President that the scope of the paper went beyond the original requirement and listed "all the dirty tricks."[8] The second was a general mission statement to govern the national effort in counterinsurgency warfare. Instigated by Maxwell Taylor, the incoming Chairman of the Joint Chiefs of Staff, while he was still at the White House as the President's military representative, the drafting of this document had taken over eight months, involving the Departments of State and Defense and the CIA. The end product, a paper entitled "U.S. Overseas Internal Defense Policy" (OIDP), set out the terms by which each national security agency would contribute to a national counterinsurgency strategy. In January 1962, the President had established the Special Group (Counter Insurgency) to select the countries where these instruments would be applied and to supervise the entire process. In the months since its establishment, the Special Group (CI) met to discuss 11 different global hot spots, including Colombia, South Vietnam, and Thailand. The paper was designed to be the group's mission statement.[9]

In this meeting with Maxwell Taylor and McGeorge Bundy, the President would have to respond to the Special Group (CI) mission statement, which he had only just received for his approval. The CIA paper was just for his information. His guidance was also required on some lingering questions regarding the leadership of the Special Group (CI). Apparently it was felt that Robert Kennedy had assumed too much formal responsibility for the work of the group.

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8. See "Meeting with John McCone," 15 August 1962.

9. Established by National Security Action Memorandum (NSAM) No. 124 on 18 January 1962, the Special Group (CI) consisted of the Chairman of the Joint Chiefs of Staff, the Deputy Secretary of Defense, the Deputy Under Secretary of State, the Director of Central Intelligence, the heads of the Agency for International Development and the U.S. Information Agency, a staff member of the National Security Council, and Robert Kennedy, the attorney general. On the tortuous history of the drafting of the OIDP, see Charles Maechling, Jr., "Camelot, Robert Kennedy, and Counter-Insurgency—A Memoir," *Virginia Quarterly Review* (Summer 1999), pp. 438–58. Maechling served as the assistant to the chairman of the Special Group (CI).

Cuba, however, came first on the agenda. President Kennedy turned on the tape recorder; Maxwell Taylor was outlining a recent operational failure on the island.

Maxwell Taylor: One of those guys was caught. [*Door closes.*] So he is having real trouble, real difficulty in introducing [*unclear*] a meeting with them.

President Kennedy: Did he lose the whole team?

Taylor: [*Unclear*] one, one, one equals three [*unclear*].

President Kennedy: Captured?

Taylor: Two men have been picked up; one [*unclear*] really not heard from [*unclear*].

President Kennedy: What did he tell you? Are they killed . . . these two men?

Taylor: We don't know.

President Kennedy: Yeah. The other team, is in there?

Taylor: Ah, yes sir, the others are, there about three that are out there—at the present time.

President Kennedy: Are they sending anything?

Taylor: We are getting something out of them and that's the problem.

Actually most of the information is coming from other sources, coming from contacts we have in—

President Kennedy: Other embassies and so—

Taylor: —other embassies, travelers and that kind of thing. But [*unclear*].

Unidentified: [*Unclear.*]

Taylor: [*Unclear.*] We find, however, that we get so much information from refugees, we barely sort it out and [*unclear*] we have improved our knowledge of what's inside; but I don't think any of us feels we really have our hands on the kind of [*unclear*] intelligence we'd like to have . . . for the contingencies we are really unprepared.

President Kennedy: Right.

Taylor: We do think we ought to bear down harder on the economic front, sir. They're really hurting there, that anything that's short of committing ourselves overtly we should be doing and that's where, that would be where the major effort should go [*unclear*].

Also, as Mac has suggested to you, we ought to see how much we can get out of Cuban groups that are working for themselves, with our indirect support, without our actually directing and controlling—

McGeorge Bundy: The agency has been very reluctant to enlist [*unclear*] the three or four friends of—Charles Bartlett's group [and] some others—to give help to people who are really operating on their own, and who we figure, we ought to try and help them.[10] Because in terms of plausible denial, it's a lot more effective than—

President Kennedy: Yeah.

Bundy: —things we generate ourselves.

Taylor: Well, if this is in agreement with you, we'll go ahead—

President Kennedy: Yeah.

Taylor: —for two or three months and then see where we stand.[11]

President Kennedy: Yeah.

Bundy: Well, nobody says this is producing things that raise the noise level, let alone have [*unclear*] a going concern.

Taylor: You wanted to discuss these and look these over—

President Kennedy: Well, I've read one of them. I haven't read the second one.

I think we just try to keep that [*referring to the CIA report on covert action*]. But I want to be sure there weren't a lot of them lying around.[12]

Taylor: No, sir. [*Bundy is speaking indistinctly at the same time.*] There's only one. That's why I [*unclear*] to McCone . . . unless you want me to keep it.[13] This is just . . . really extraordinary . . . this probably illustrates—

President Kennedy: Well, I think it is good for us to have; but I don't [*unclear*] being kept.

Bundy: My theory about this stuff is that I would make that docu-

10. Charles Bartlett was a nationally syndicated columnist for the *Chattanooga Times*. A friend of John Kennedy's since 1946, Bartlett introduced the future president to the future first lady, Jacqueline Bouvier. Bartlett was accustomed to being used as a back channel for the White House (Timothy Naftali Interview with Charles Bartlett, 5 December 1994). See Aleksandr Fursenko and Timothy Naftali, *"One Hell of a Gamble": Krushchev, Castro, and Kennedy, 1958–1964* (New York: Norton, 1997) pp. 251–52, 350, for information from Soviet Military Intelligence (GRU) records about Bartlett's use in contacting the Soviet government by the Kennedys.

11. The "two or three months" are the time frame for trying out phase II of Operation Mongoose.

12. At the 15 August meeting with John McCone, the President mentioned that he wanted to take a longer look at this CIA paper. Initially, McGeorge Bundy had assumed that the CIA would retain custody and that McCone would bring it to the White House whenever the President wished to refer to it. But Kennedy had asked to take it with him on Air Force One to read during his long flight to Pierre, South Dakota, on 17 August. As of Monday 20 August he still had the paper. As of August 2000, however, neither this paper nor evidence of its withdrawal for national security reasons could be found at the John F. Kennedy Library.

13. John McCone was the director of the CIA.

ment a good takeoff point for really getting a sense of the history of what we're into on Special Group stuff.[14]

I've talked with Helms and he can vouch in detail, as General Taylor has done.[15] And we can go on in quiet. But this is a handbook of all our [*unclear*].

President Kennedy: How do we want to keep this, though?

Bundy: Well, we keep it in a special safe.

President Kennedy: Here?

Bundy: Here, I—

President Kennedy: OK.

Taylor: Do you think we ought to keep it over here? [*Door closes.*]

Bundy: [*Unclear.*].

Taylor: Yeah. All right. And this other, of course, is simply filled with [*unclear*]. [*He chuckles.*]

President Kennedy: Well, now the only thing that I was concerned about this one—this is the description of a mission?

Taylor: That's right.

President Kennedy: Now I [*unclear*] anyway—[*Taylor is muttering in the background.*]

Bundy: Says who?

President Kennedy: Well, says some of these [*unclear*]—[*coughs*].

Taylor: [*Unclear*] to negotiate between State and CIA, in other words, [*unclear*] looked at here, deciding on how to arrange cover for their agents and, in general, how to arrange them in battle.

President Kennedy: Well, now the only thing is . . . this is an extraordinary document.

Bundy: [*Unclear.*] The fact is that it's been classified [*unclear*] last week.

President Kennedy: [*Unclear.*]

The President's press secretary, Pierre Salinger, enters the Oval Office.

President Kennedy: Oh, do you want something Pierre?

Salinger: I want to find out [*unclear*].

President Kennedy: Yeah. Well go ahead.

Salinger: [*Unclear.*]

President Kennedy: OK. Right

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14. The Special Group (Augmented) of the National Security Council, also referred to as the 5412 Committee, was the interagency body that oversaw U.S. covert operations. This is a reference to the fact that this CIA paper included a list of covert actions by the agency since 1 January 1961.

15. Richard Helms was the deputy director for plans at the CIA from February 1962. In other words, he was the CIA's chief of operations.

Salinger leaves and the President begins to read aloud.

President Kennedy: "Failing the above, and when necessary in the interest of U.S. national security seek to replace local leadership with indigenous leaders who are more amenable and sympathetic to the need for eliminating the breeding areas for dissension and are willing and able to resist and prevent [a] Communist takeover of the entire country . . . seeking to insure that modernization of the local society evolves in directions which will afford a congenial world environment for fruitful international cooperation and our . . . for our way of life."[16] That's a lot of crap.

Taylor: Well, that sounds like a pretty abstract—

President Kennedy: [*scornfully*] For our way of life.

Bundy: That, that I must say is holdover language, Mr. President. They used to do that in the other administration. [*He chuckles.*]

President Kennedy: [*reading*] "These actions are significant and in some [*unclear*] might be used as supplements to overt [*unclear*]. Because of national . . . the covert [*unclear*] unique approach available. In other countries a desire . . . perhaps mandatory expansion of private investment from the U.S. ought to be assisted by covert actions in support . . . " Now, I hope that they're not trying to take [*unclear*] expand the [*unclear*].

Bundy: You have to look at it in every case.

Taylor: Every time, now that's true.

Bundy: [*Unclear.*] I think that charter is a little [*unclear*].

Taylor: But approving it, Mr. President, doesn't move a wheel. Nothing happens until they come up with a specific proposal, that they prove that [*unclear*].

President Kennedy: But look at this, though. [*reading*] "By promoting the adoption of economic institutions and practices by the target country modeled along free-world lines of planning activity and the acceptance of free-world capital investment for economic development." Now that's a holdover language, isn't it? We're not really fighting for the private enterprise system. [*continuing to read*] "By identifying certain carefully timed, tangible commercial . . . [*mumbles*] . . . political figures support them." [*Unclear.*]

I just thought it was—[*flipping through the pages*]—I thought this was a rather amateurish paper.

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16. From context, this second document appears to be a draft of the Special Group (Counter Insurgency)'s paper, "U.S. Overseas Internal Defense Policy," produced in August 1962 and later issued as National Security Action Memorandum No. 182. Although the document remains classified, it is described in NSAM 182, issued by McGeorge Bundy as approved by the President on 24 August 1962 (see M&M, National Security Files, Box 319, John F. Kennedy Library).

Taylor: [*Unclear*] put it away [*unclear*].

President Kennedy: Yeah. And they can't do these things then [*unclear*]—

Bundy: [*Unclear*] response [*unclear*].

President Kennedy: Yeah.

Taylor: This is not important that this is a top secret document.

President Kennedy: [*yawning*] Yeah, but at least it shows what they're thinking about.

Taylor: The next question, Mr. President, is the chairmanship of the counterinsurgency committee, which we have been wrestling with downtown.[17] I thought I had a tentative plan to try this out on Bobby.[18] Trying it out in September before we do that. However, Mac has an angle here that's come up, which I was—

Bundy: Well, I—Dean Rusk told me over the weekend that he thought it would be wrong for any cabinet officer to chair this meeting. This fellow, David Marshall, he was, he would probably do it.[19] His representative is the Deputy Under Secretary who's going to be able to argue and state the case [*unclear*] who is the chairman now. Neither Max nor I think this is sound, but the Secretary thinks so.

President Kennedy: But, I mean, God, they got . . . [U. A.] Johnson's got enough to do with—

Bundy: Johnson shouldn't be chairman. The Secretary never proposed that. He feels, I think he shares a little of John McCone's feeling, which John expressed at the meeting the other day, [*unclear*] an embarrassment for Bobby if it became known the Attorney General was running dirty tricks in favor of the counterinsurgency committee, which is essentially an overseas enterprise.

President Kennedy: Go ahead.

Bundy: I thought that it was the best way of looking at it until Viro broke in [*unclear*] that it wasn't going to be a [*unclear*].[20]

President Kennedy: What's Viro going to do?

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17. The counterinsurgency committee is the Special Group (CI), a committee of the National Security Council formed in January 1962. In April 1963, W. Averell Harriman, the under secretary of state for political affairs, would be named chairman. Until that time, U. Alexis Johnson, the deputy under secretary of state for political affairs, remained chairman (see Maechling, "Camelot, Robert Kennedy and Counter-Insurgency—A Memoir"). Johnson later told Maechling that Harriman was chosen because "he could handle Robert Kennedy." Johnson, who was a traditional foreign service officer, was happy to rid himself of this job (Naftali Interview with Charles Maechling, Jr., 21 August 2000).

18. Attorney General Robert F. Kennedy.

19. David Marshall is unidentified.

20. We were not able to identify Viro.

Bundy: Viro is in a—if he works, would hypothetically take on the chairmanship with the Senator [Alexander] Wiley and that [*unclear*].[21]

Taylor: You see, I think we can get an agreement. In fact, [*unclear*] on Viro.

Bundy: He's got Philippines experience.

President Kennedy: [*to Maxwell Taylor?*] You be the chairman then.

Taylor: Have you, have you anything [*unclear*].

Unidentified: [*chuckling*] That would be good and [*unclear*].

President Kennedy: When would you have him?

Bundy: He's on a trip in charge of one of these Latin American survey team enterprises that started—[*tape cuts out briefly*] September and starting on—

For the next 6 minutes and 24 seconds, the tape is running, but there is silence.

Kennedy went for his customary prelunch swim and was back to the Oval Office in the late afternoon. He spent a few minutes with California state senator Eugeen McAlteer and his son, then went into the Cabinet Room for the next installment in the administration's review of foreign monetary policy. The President needed to settle the bitter dispute between the Treasury Department and the State-CEA alliance over what, if anything, to do about the gold situation.

4:00–5:30 P.M.

[W]e're not persuaded that it is at all vital to the United States that we do return to a situation in which the dollar would be the principal reserve currency.

Meeting on the Gold and Dollar Crisis[22]

Many top government officials were ready to consider dramatic departures from traditional monetary policy to solve the problem of declining U.S. gold reserves. Gold guarantees, gold standstill agreements, and raising the

21. Alexander Wiley was a Republican from Wisconsin and the ranking minority member on the Senate Foreign Relations Committee.

22. Including President Kennedy, George Ball, C. Douglas Dillon, Kermit Gordon, Walter Heller, Carl Kaysen, John Leddy, William McChesney Martin, Robert Roosa, Theodore

dollar price of gold were all debated. The State Department even prepared a draft memo for the use of the President should he want to end the U.S. policy of redeeming gold on demand.[23] Carl Kaysen sent the President an essay written by J. M. Keynes proposing an international payments system that dispensed with gold altogether, telling the President that "the great attention paid to gold is another myth. . . . As you said of the Alliance for Progress, those who oppose reform may get revolution."[24]

Under Secretary of State George Ball and CEA member James Tobin were the most articulate advocates of a negotiated monetary arrangement with the Europeans. Ball's original memo had argued that the strength of the dollar should not trace to the "daily whims of private and official 'confidence' but to a structure of long-run reciprocal assurances by governments."[25] Ball claimed that whatever the central bankers thought of the U.S. payments deficit, Europe's political leaders would understand the explicit link between a solution to this problem and continued U.S. military protection. "Central bankers may regard our expenditures to defend the Free World as a form of sin, but the political leaders of our Western allies do not."[26] Tobin had responded enthusiastically to Ball's plan and produced his own monetary proposal that would establish a uniform ratio of gold to foreign exchange to which all countries would have to adhere.[27]

The President's interest in Ball and Tobin's plan had led to the small, interdepartmental group from State, the CEA, and Treasury that produced the interim monetary arrangement discussed on August 10. But as became

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Sorensen, and James Tobin. Tape 14, John F. Kennedy Library, President's Office Files, Presidential Recordings Collection.

23. Memorandum, Coppock to Johnson, 1 August 1962, Declassified Document Collection 1993 (microfilm, University of Virginia Library).

24. Memorandum, Kaysen to the President, 6 July 1962, *FRUS*, 9: 138. Kaysen's mention of "another myth" was an allusion to the President's 11 June 1962 address at Yale University in which he assailed the myths that governed political economics [see *Public Papers of the Presidents, John F. Kennedy, 1962* (Washington, DC: U.S. Government Printing Office, 1963), pp. 470–75].

25. Ball to the President, Memorandum, "A Fresh Approach to the Gold Problem," 24 July 1962, Papers of George W. Ball, Box 15b, "Memorandum to the President on the Gold Problem," Seeley G. Mudd Manuscript Library, Princeton University.

26. Ibid., p. 14.

27. James Tobin, "A Gold Agreement Proposal," 24 July 1962, Acheson Papers, State Department and White Advisory, Report to the President on the Balance of Payments, 2-25-63, Harry S. Truman Library. Among other things, Tobin's plan would require countries with gold in excess of this ratio to sell some of their gold for foreign exchange. Instead of only the dollar and sterling, the currencies of all participating countries would be equally acceptable as reserve currencies. Each country would provide a gold guarantee for its currency against devaluation. Over time, the nongold component of reserves would increase, and the currencies of the participating countries would increasingly share the burden borne increasingly by the dollar.

clear in the course of that meeting, the Treasury Department's top two officials, Douglas Dillon and Robert Roosa, were adamantly opposed to the interim agreement.[28] Since that meeting, the Treasury position had hardened even further. Dillon believed that the actions proposed would close the gold window for redeeming official dollar balances, an abandonment of traditional gold policy similar in scope to the U.S. devaluation of 1933.[29] Moreover, using the word *standstill* would evoke memories of the German standstill agreement of 1931, an event associated with the world economic collapse. Roosa felt the United States had handled recent problems and was well prepared to meet any attack on the dollar. He warned that any public discussion of gold guarantees would seem to reinforce all those who questioned Wasington's commitment to a strong dollar and could thus damage or destroy the world payments system. Treasury found an ally in Federal Reserve Board chairman William Martin, who said the plan for a standstill monetary agreement would "hit world financial markets as a declaration of U.S. insolvency and a submission to receivers to salvage."[30]

The contentious August 10 meeting had failed to resolve the impasse, and in the following week both sides angled to strengthen their positions. Kaysen was infuriated when Dillon testified before the Joint Economic Committee on August 17 and called gold guarantees a "dangerous experiment" and "a poor idea . . . not to be seriously considered." Dillon also ruled out changing the value of the dollar. McGeorge Bundy was worried that Dillon's public statements would preclude the changes in international monetary policy that the administration was considering.[31] At the same time, Dillon's warnings had been echoed by Fed Chairman Martin in a private meeting with the President.[32]

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28. See "Meeting on the Gold and Dollar Crisis," 10 August 1962.
29. "Appraisal of Problems in the Proposal for an 'Interim Monetary Arrangement,'" 16 August 1962, (no author given but included with a cover letter to Ball from W. N. Turpin, Dillon's special assistant), ibid. Dillon also contended that after the two-year period, no central bank in the world would ever hold U.S. dollars in their reserves. This would choke world liquidity and abruptly end the privileges of seignorage enjoyed by the United States (the financial advantages that came from having the dollar used as the world's reserve currency). Furthermore, the plan assumed that the Europeans would agree to such a scheme, an idea Dillon found preposterous.
30. William McChesney Martin, Jr., "Commentary on 'An Interim International Monetary Arrangement' Presented by Chairman Martin," University Press of America, microfilm, President's Office Files, Treasury, 25, p. 1.
31. Bundy to Kaysen, 21 August 1962, NSF, Departments and Agencies, Treasury, 6/62–4/63, 289, John F. Kennedy Library. Bundy asked Kaysen, "Is Doug Dillon pinning us to his position by such public statements?"
32. See "Meeting with William McChesney Martin," 16 August 1962.

President Kennedy gathered his economic advisers for the second time in ten days in search of a consensus on how to solve the country's gold problem.

William McChesney Martin: We would have to do it by increasing the discount rate by 1½ percent. We'd have to charge, you see, beyond that. . . . We charge a nominal amount up to that point. It's a very complicated procedure but it's, again, within our authority at the present time.

President Kennedy: Does the . . . probably, it serves no purpose, does it? What is it, just sort of an anachronism or what? That would be [*unclear*].

Martin: Well, it was just an arbitrary figure that was arrived at starting in 1913 and then revised from 40, 35, to the 25 in 1945 with some measurement by which you related the amount of credit that could be created to the amount of gold that you had.[33]

President Kennedy: But the amount of credit that can be created, is that related to the 12 billion or is it. . . . ?

Martin: It's not related, is it?

Unidentified: Yes.

President Kennedy: It's not related, is it?

Martin: It is not related any more.

President Kennedy: Yeah. That's what . . . sort of . . . therefore—

Martin: Well, I hope that we can get it removed at the appropriate time, because I don't think it serves any [*unclear*].

C. Douglas Dillon: We're the only country in the world that has such a—

Martin: Belgium and Switzerland are the only two countries of any importance that have any statutory requirement at all for gold.

President Kennedy: Gold really should be used for international payments.

Martin: International payments under present conditions and that's all.

Dillon: The only reason they haven't pursued this in Congress is that there is this division in the banking fraternity with people who know something about foreign markets, like [the] New York banks, generally in favor of removing it, and the people from the Middle West, violently opposed because they think it means we're going to have printing press money. And

33. The numbers refer to the Fed's ratio of gold to money supply which was changed several times.

so [we] didn't want to pick up that argument and also we didn't find it necessary [because] the Federal Reserve has this power just to waive that.

President Kennedy: Envisioned for how long?

Unidentified: [*Unclear*] 60.

Dillon: What? Forever.

James Tobin: Well, do you—

Unidentified: [*Unclear.*]

Martin: Maybe we'd have to do it for 30 days then we'd have to renew it after 15.[34]

Dillon: The international renewals of it wouldn't [*unclear*].

Martin: Heretofore, when it's been done, it hasn't even been made public, but this was for individual reserve banks.

George Ball: Bill, do you think you can do it? [*Unclear*] . . . I thought your counsel said you couldn't.

Martin: What does this require? Well, there's no question.

Ball: But [*unclear*] can keep waiving it?

Martin: That's right. [*Unclear.*]

Ball: Because when we originally discussed this I understood that the Federal Reserve counsel had expressed doubt as to whether the power to give temporary waivers meant a power to make those, in effect, permanent by renewing them [*unclear*].

Martin: Well, if we did it ad infinitum, I think there'd be a question, George. But I think for a reasonable period of time, up to six months—

Ball: Well, then . . . six months we're good.

Martin: Well, I would be . . . in my mind, in six months, yes.

Robert Roosa: One other way you've expressed it, Bill, was long enough for the efficiency, so called, to be permanent . . . be clearly permanent and thereby give a basis for conventional action.

Martin: That's right. That's right.

President Kennedy: How are we doing on the dollar in the last week or two weeks with the developments?

Dillon: Well, we've had—well, gold has been fine. Now we've had a . . . we're continuing to run during August, a quite substantial overall payments deficit, [*unclear*] all the short-term capital flows. Those have been 90 percent or more to Canada, which is just the undoing of their position and therefore, it will not affect our gold drain because it's just Canada building back their usual balances which they had lost before. But as far as

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34. The Federal Reserve would have to waive the gold–domestic currency ratio.

the rest of the world, the dollar has been reasonably strong. In Europe, the situation has been fairly good.

We probably will . . . the French ordinarily wouldn't operate on the basis where they take 32 million dollars in gold a month. The time they usually take it would be next week. We haven't heard from them. I guess we have to assume they'll do it. That would be the only transaction that will have taken place. The only other transaction is, it didn't affect us . . . but it's the Israelis' . . . bought about 18 million dollars of gold on the London market with a [*unclear*] note.

President Kennedy: But . . . what are their holdings, the Israelis'? Are they in dollars?

Dillon: Very small change.

Roosa: Their dollars are very high. They have 94 percent in dollars. So they feel they have to have a little bit more gold—it's one of those fetishes.

President Kennedy: What about the, the French, you say are taking out 30 million a month? It's because, what, their dollar balances [*unclear*]?

Roosa: But, it won't go on much longer if they follow the pattern they have outlined. They want to just increase their overall balances another roughly 2[00] to 300 million of which about two-thirds would be gold and then they'll follow their present balance for about four or five months [*unclear*].

President Kennedy: Well, the question really is, what is it . . . who has the proposal . . . ? You want to make any comments, George, as to where we are?

Ball: Well, Mr. President, I think some of us had hoped after the meeting last time that we had narrowed the area of disagreement. Really, basically, to the question of negotiability based on the fact that Roosa had responded to Paul Samuelson's question as to whether they would like this agreement if it were given to them without the problem of negotiability in the affirmative. And with that in mind, it occurred to me that . . . with some of the rest of us, that it might be useful if some exploratory work could be done before the bank and fund meeting in Europe to see the extent to which the French were prepared to take some initiative,[35] or even possibly to explore with the British in view of the repeated concern that Paul has expressed on this.

I have talked this morning with Doug Dillon and later with Bob Roosa. [*Unclear.*] And I think as a result of that, we more or less agreed

35. World Bank and International Monetary Fund meeting.

among ourselves that the area of disagreement is rather larger than we had thought.

But I would suppose that it really comes to rest on two questions: One is the degree of risk that, to which we are exposed under the present arrangements. And on this, I think that the Treasury feels that the risk is not considerable in view of the tacit understandings that they have. So far as we are concerned I think we feel that it's substantial.

The kind of situation that we are concerned about, looking at it from the point of view of the State Department is, for example, a situation where we should become more heavily involved in Southeast Asia. Or say on the west coast of South America if there should be some . . . a takeover which had Communist implications, or if the Congo thing should become more complicated and our involvement greater.

Under any one of those circumstances there is a fair chance that our European friends would walk away from us to, in effect, say that this is something which really we shouldn't get into, and they don't want to have any part of it. And where it would be a real temptation to exploit our own balance of payments difficulties, and our own problem with the gold flight for political purposes, or at least not to be sympathetic to what we were trying to do and therefore not rally around it with . . . I don't know. . . .

But the second area of difference which is, which is not unrelated to this, although I guess it's quite different in general philosophical direction, concerns this that. . . . I believe that the Treasury—and I won't speak for them—but I'm just . . . in analyzing our own discussions, I think the Treasury feels that if we were to arrive at an agreement along the lines that have been outlined, that after the conclusion of that, it will be difficult if not impossible to return to a situation in which the dollar was the principal reserve currency and bore the responsibility of a reserve currency.

Our own view is that we are not persuaded that it would be impossible, on the one hand. But on the other, we're not persuaded that it is at all vital to the United States that we do return to a situation in which the dollar would be the principal reserve currency. We can see many disadvantages as well as advantages. But we would hope that this period of an interim agreement, could be utilized to develop some longer-range solution to the whole payments problem which would meet the future requirements for liquidity. And at the same time, provide an element of stability which is not provided under the situation where the dollar bears such an extraordinary burden as a reserve currency.

President Kennedy: Can I . . . Let me just stop you. What is the advantage to the United States of our being a reserve currency? I see the advantage to the Western world to have a reserve currency and therefore it's an advantage to us as a part of the Western world, but what is the national, narrow advantage?

Dillon: Well if we are, if we can afford it, to the extent we can afford it, we make more money off of it because we finance a lot of the world's business that we wouldn't otherwise have financed because it's in dollars [*unclear*]. It's the same thing with the British when sterling was the basis of world finance; they made money out of international finance in London for many years. I think that's to our national advantage.

Roosa: Yes, and then there is the related one that this makes it possible for us to, year in and year out—and apart from situations that get completely out of whack such as we've had—year in and year out to finance any deficit we may run very readily, because you have the world accustomed to holding dollars. When you run behind for a year you don't have to negotiate a credit, they just hold dollars. And assuming that you are not adding to the total supply of dollars too fast, it means that you are able to live on the basis of a ready financing of your own trade requirements. The ups and downs in it are—

Kaysen: You wouldn't describe this as an advantage right now, would you, Bob?

Roosa: No, that's why our planning [*unclear*]—

Kaysen: We've tried. . . . We're trying desperately to avoid this [*unclear*].

Roosa: It's that this is a situation similar to that of any commercial bank. If it controls the rate at which it creates credit, it can go on creating credit and perform a general service as well and make a profit. But if it abuses it and goes too far as we did by overdoing the balance of payments deficit, then you have to have a period of pulling back.

Unidentified: [*Unclear*] growth in Europe.

President Kennedy: [*Unclear.*]

Ball: Well, these are two of the, basically the two points of difference, Mr. President. And I talked to Doug this morning about the possibility that it might be useful to do some exploration in the sense of the meeting of the bank and fund along two lines.

First, along the line of the readiness of the Europeans toward some kind of a joint declaration, but also along the line to see what the French, for example, were doing with this initiative, which Giscard d'Estaing talked with us about when he was here. Because the impression that he gave at that time was that he intended to pursue this on his own with the other members of the Six.[36] And then ultimately to talk to the British about it. Now he went from here almost directly to London, so he didn't have time to talk with the Six because we . . . Whether he has done so in the meantime or to what extent that he will be prepared to meet us someday, which seemed to us to be useful to find out in advance of the meeting. But I think this is where it rests.

I think that the differences are, probably, pretty close to what I have described, differences over negotiability, differences over the question of the appraisal of the risk which the present situation poses and differences as to whether or not it would be possible to return to a reserve currency, and if not, how serious it would be if we couldn't. And this has led to the dollar as a reserve currency as the [*unclear*] come down.

Dillon: I would agree with George. I think that's a good statement but I think our . . . we view our present [*unclear*] a little different from the State Department. We don't think . . . Well, George used the word *tacit understandings*. . . . As far as the [International] Monetary Fund is concerned, it's a formal agreement that has been ratified by governments, through their parliaments, and it does contain, explicitly, a provision saying that you can't walk away from it, by anyone, except for their own internal balance of payments reasons. In other words, if they have balance of payments difficulties they have an out. If they don't have balance of payments difficulties there is no other out. And this was put in specifically to stop any such political use of this thing as George was worried about. We think it's . . . technically does.

And it's effectively the interest of these countries not to see the difficulties happening with the dollar around the world as shown by Giscard d'Estaing's idea. And that putting this only . . . and putting up all this money. So we don't think there is any doubt that the Monetary Fund troubles and Bern thing would be all right. So that's the present thing.

I think on the longer-range thing, our basic view is that something like this would, in effect, destroy the dollar as a world reserve currency. Would . . . we're in a very difficult position, an inflationary position, because the dollar's the [*unclear*] that doesn't include primarily the U.S. private citizens. And we run a very grave risk that we could almost certainly be coming to a period of chaos in international monetary thinking before—when a long-run idea has been worked out—and by so doing creating the most difficult situation to work out a long-term result.

36. The Six is the Common Market.

We don't think that the present situation that we are talking about is one that will necessarily be viable for more than ten years . . . maybe even five, six years only. But we do think we have to work hard to develop a long-range system . . . that we'd be prepared to sit down and do that as rapidly as possible. We've started with the British . . . getting our joint evaluation of the problem on that which we hope to have completed by the time of the Monetary Fund meeting. We've exchanged papers in two directions and we should be at a working level, [to] subject to a higher level of scrutiny [an] agreement about then and what the problem is. Which we think would be the necessary precondition for starting on any wider talks. And we should certainly have wider talks along with our own thing.

There is a real, there are advantages to the dollar being a reserve currency. There are always . . . but it's a valid thing that we should discuss as to whether that is what we want to aim at or whether we want [*unclear*] the creation of something else. Our own feeling is that there isn't anything else readily available to substitute for it until such time as the Common Market has gone a little further, which I think they will in a couple of years, and has established some sort of currency or monetary arrangement of their own, whereby there is a single unit of currency, a Common Market currency, that could be used equivalently to the dollar in international trade rather than having half a dozen different currencies they have, which are still a source of confusion. It would never [*unclear*] us to . . . to trade in dollars for sterling, now we don't do it. Deutsche marks or francs or anything else just revisits . . . that we have to do it some for the sake of simplicity.

President Kennedy: Let's take a look at this proposal of the Treasury's and see what other . . . Do you have a copy of this?

Martin: I have seen it, Mr. President, but I don't [*unclear*].

President Kennedy: [*Unclear*] . . . You want to start going through that, Doug?

Dillon: Yes, well the first thing is the various ways, which we mentioned, that we could strengthen the immediate things that we already have before us. These Federal Reserve swap contracts are ready, except one of 50 million dollars.[37] But we think that they could be substantially

37. Swap contracts, or reciprocal currency arrangements, were instituted early in 1962 by the U.S. Federal Reserve. They were bilateral agreements between central banks under which the Federal Reserve acquired convertible foreign currencies in exchange for the current equivalent in U.S. dollars. Both parties would then agree to reverse the transaction on a specific date,

increased. The Treasury, I think, the Federal Reserve on that point if they deem that it's necessary and [*unclear*]—

Ball: How long a term would you . . . could you extend those to?

Dillon: Twelve [*unclear*].

Roosa: The longest we have now outstanding, that the Fed has, is six months. The longest that has been proposed by anybody else is two to three years. The Fed itself wanted to advance cautiously with this. And Bill I understand hasn't gone beyond the six months yet, not feeling a need. Is that right?

Martin: Yes. I might point out on this, George, that I helped on 12 [*unclear*] . . . 11 with myself in this picture and that we have been moving without any clear lines, but we naturally want to keep them as short as possible and the extension is only made when we think that we've got a clean [*unclear*] appealing case for it.

President Kennedy: What is the goal? What are the reasons that you want to keep them short?

Martin: Well, it keeps us in control. We don't . . . we don't want lights to [be] put out, you see. We've had our problems with the Congress on this. We don't like to put out a swap arrangement that they say, well, you're just really getting into this for good.[38]

Ball: This is essentially a gold value guarantee.

Martin: Yes—

Dillon: Of course one thing we . . . one thing we—

Martin: It is, yes, a temporary expedient.

Dillon: One thing we think of these . . . one reason we keep them short term is that . . . Take the one that we have with the Netherlands: it is both our view and shared by the Netherlands Central Bank and the Netherlands foreign finance minister that this is a temporary thing. Due largely to the Philips financing which they did over a year and that by doing this they feel that we will be picking up dollars from the Netherlands in the long run . . . in the next . . . and not be losing dollars in the six months or so and that this thing will work itself out.

Now we've done that with the German one [*unclear*] some of the German banks where we actually have a . . . [The] Federal Reserve bank is picking up spot Netherlands guilders, so . . . because this is beginning

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thereby offering protection against the depreciation of one of the two currencies. The first of these was announced on 1 March 1962 in which the Federal Reserve provided $50 million for the Bank of France.

38. See *Federal Reserve Bulletin*, March 1963, for an overview of existing swap arrangements, then totaling $1.1 billion with ten central banks.

to look this way. So, we're getting there. . . . Now the different . . . I'd say the Italian one is the most permanent one because there they have a big balance of payments surplus and that probably just has to be continued in Italy for some time.

But Switzerland is in the same situation. Switzerland has a balance of payments deficit. And last spring, before this stock market scare occurred, it started to run our way, we were beginning to gain gold and funds from Switzerland. The Swiss authorities would like us to. And I think that's . . . they think that's apt to arise again and we do, too. And so, that's a very reversible thing because Switzerland was running bigger and bigger deficits in their regular balance of payments, and only governed by what capital that's going in there. You stop the flood of capital [from Switzerland], or slow it down, you immediately go into deficit. This begins to unwind [*unclear*].

Kermit Gordon: If we execute a swap contract, is there any understanding that the other government will not convert the gold as regular dollar holdings?

Roosa: No. As regular dollars?

Gordon: As regular dollars?

Roosa: No. No, sir.

Gordon: So that the country would be perfectly free to execute a swap contract for some dollars, but use other dollars to buy gold?

Dillon: But did not offset . . . I mean, not . . . the theory isn't that they would get these dollars and then dump then their dollar reserves and buy gold in some [*unclear*].

Ball: What you are, in effect, saying to a country is that to the extent you make a swap contract, you have given them a gold value guarantee for that amount. . . .

Dillon: And they have given you a gold value guarantee.[39] [*Lots of voices. Someone can be heard saying,* "The reason . . . the reason . . . "]

Gordon: [*Unclear*]—a guarantee.

Unidentified: At least you change—

Unidentified: Yeah.

Dillon: It's a reciprocal guarantee.

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39. By protecting their central bank against dollar devaluation for the length of the swap contract or by "mopping up" dollars in excess of amounts normally held by that bank. In the first case, dollars would be deposited at the foreign central bank and then repurchased at a later specified date. In the second, foreign currency holdings of the U.S. Federal Reserve would be exchanged for dollars held abroad.

Unidentified: Yes . . . a reciprocal—

Gordon: This implies no understanding on their part as to what they will do with their regular dollars.[40] They're perfectly free to—

Roosa: Well, all of these things come out of the context, Kermit, that we don't make a swap with anybody if we don't already know what their practice is with respect to the holding of dollars. We know that the British have held 200 million, they are now going to hold 300 million and any swap they have would be above that. You don't have—

Gordon: I would agree, Bob. That's why it would make no sense to make a swap or a borrowing arrangement unless there is an implicit standstill on the regular holding—

Roosa: But the difference is we don't sign them up to an agreement.

Gordon: No.

Roosa: If you try to sign them up to an agreement, then they have to look all around it and they squeeze the total down.

Gordon: Yes, but—

Roosa: But if you just do it in this rather archaic, gentlemanly manner, you get a lot more out of it.

Dillon: With the Swiss, you see, it was implicit that they would not then do a lot of other conversions and they didn't.

Tobin: There are three points on this. One is some concern on the European countries' side that they would like to have a multilateral discussion of these swap arrangements, then—

Roosa: Yeah, but I think we're obscuring [*unclear*]. [*Unclear exchange.*]

Tobin: [*Unclear*] how they are being used in the whole system rather than one country at a time. Secondly, they have viewed them so far, at least I think so, and you have, as something like the Basel arrangements that would be funded into an IMF operation.[41] If we were in difficulties that required us to use it, that these would be the first line of defense, so that we would fund them into IMF drawings, so you can't really add them together as defenses against . . . against a run on the dollar.

The third point I'd make is that the fact that they are done bilaterally, and as Kermit says, you'd have the thing . . . an implicit standstill, with

40. *Regular dollars* refers to dollar balances considered to be normal and held in foreign central banks.

41. The Basel arrangements were effected in March 1961 at the monthly meeting of the Bank for International Settlements in response to revaluations of the German and Dutch currencies and amidst corresponding fears of a devaluation of the British pound. These arrangements involved central bank cooperation and the extension of IMF credits to the United Kingdom.

each country, whether you make a new agreement . . . That really does have the effect that you pointed out in your paper of immobilizing certain dollars, whereas the general multilateral agreement would not because there all we're interested in is immobilizing or "standstillizing" the total and we don't care how they move about among the various countries and the dollars are still good from each country's, individual country's point of view. In case they have a balance of payments deficit, they can pass them on to—

Roosa: Well, see they're perfectly good in this situation, too. As a matter of fact, I want to raise a question, if from day to day or week to week, a country that had a swap used its dollars and ran them down to zero, it's just at this moment it happens to bring Doug's illustration up to date. But we only described where the Dutch [situation] has already turned, and that the 200 million dollar balance that they held is not [*unclear*] that they started, is now run down to 115, and the whole thing is going to unwind itself just as we expected that it would.

But what is coming out of it is that they are perfectly free to use these dollars if their balance of payments requires it. But they don't turn them into gold because they understand that this would in effect make . . . using the proceeds of the swap to get gold. You don't have to spell that out for them, but they could use the dollars if their own balance of payments position leads to that. And then at the end they'll pay the swap off with it. And when they reach that point, they will convert the outright swap into a standby.

Kaysen: The nature of these informal bilateral standstills is exactly the same as the multilateral standstill in that the dollars can be used to settle international payments, but will not be used to draw gold.

Roosa: It accomplishes that purpose without us having to be set up in such a way that each politically agrees to what all the others do. But we know. And that—

Dillon: It is not a formalized agreement which has all the things which we feel and the Fed feels is wrong. The formalized agreement is the point when it says, "The dollar is no good anymore."

Roosa: Now Jim's other point is that whether a swap is in the end unwound through the IMF, it all depends on whether, what kind of a situation has given rise to it. But if it is in one of these emergency situations, that is likely. And to the extent that happens it would be fair to say that this is a kind of double counting. The only other side of that is that . . . the one other part of the Basel agreement, which this provides for is that when funds are running to a country we remain flexible enough to absorb everything that goes to them. And if more goes to them then you can fund out through the IMF or any other way, this is the way in which you can handle it. And we could just as well, without even having to go to the IMF, work our way out of it by turning a short credit into a long credit, so that there isn't anything airtight about it.

Martin: The reason the Federal [Reserve] wants to keep it short, Mr. President, is because it's directed against speculating for a rise not as a permanent operation. If it doesn't unwind within a period of time, it worries us, you see, because we want to keep this as a resource against speculating movements. We don't want it to become a permanent—

Dillon: Or a temporary movement such as this Dutch one.

Roosa: Yes.

Dillon: It's not necessarily speculating, but it was just a temporary outflow because of this Philips financing [*unclear*].

President Kennedy: Well, the proposal here is to make it, as I understand it, is to raise it to a billion dollars. Is that the Treasury's?

Dillon: Well, as to the . . . particularly to confirm our understandings with other countries that we could have expansions when they're needed.

Ball: These are a series of bilateral deals with each individual country. This is one of the big elements of difference, I think, in our conceptual approach to it. Because it retains the bilateral character and, consequently, means that you don't get any fundamental agreement among the complement . . . major creditors here, one with the other.

Roosa: Well, we don't want to get into a situation where we're dealing with the creditors tough—we're not that poor. But we . . . this, after all, is something that has been completely introduced into the whole world of international finance within less than a year and we're in process . . . at another stage, which we ought to be able to reach soon, is one in which each country participating here is given a fair amount of information about all the other contracts. They have a right as a creditor to know what our other important obligations are, but not to put them in a situation where they get together as a club and freeze conditions on us. They could be informed and to some extent they have been. We probably ought to do more.

Unidentified: What would be the [*unclear*]?

Gordon: Mr. President, Secretary Dillon a moment ago I think put his finger on the key point of difference among us, the observation, that the execution of the multilateral agreement will be taken to mean that the dollar is no good any more. Now obviously this is the main point of difference in our appraisal of the multilateral agreement.

It seems to me this points the . . . raises very sharply the question, "Would the Europeans sign . . . have any interest in a multilateral agreement if they agreed that this would be interpreted to mean the dollar is no good any more?" If they interpreted it that way this would mean that they would then look forward to a massive flow of dollars out of private holdings into official holdings that would cause them very great embarrassment. So, I think we could assume that if the Europeans were receptive to the idea, they didn't share this appraisal whereas if they did share the appraisal they wouldn't be receptive. And that's why it would seem to me that the logical step is a sounding out. If, in fact, the Europeans share this view there is no chance at all of evoking any interest on their part in a multilateral agreement.

Ball: On the other hand, though, the one thing I think that Giscard d'Estaing did say when he was here,[42] quite clearly, was that he would like to see this removed from the area of unilateral action to then be put in a multilateral context, whether he agreed to a common—

Dillon: He wasn't talking about this—

Roosa: He was talking there about, really about, competitive relations in the taking of gold, I think.

Ball: Well, that's right, and how the dollars would be used.

Roosa: And . . . that's something that all of this moves toward, too.

Theodore Sorensen: Now if . . . to the extent that we use swaps and foreign exchange operations to take back their dollar holdings, are we not saying at least to that extent we do not want them holding the dollars in reserve?

Roosa: Well, it comes up, really, the other way Ted; since this has been developed and they're in a position now to think about it, they come to us and say, "Now, we've got more dollars than we need at the moment." We might want to fight to keep a string on them because it may turn out our own position will turn around and we want to use them. But there isn't any need of our having them in our reserves at the moment. How can we work out some way in which these will be temporarily parked in some other way?

This just happened with the Swiss two weeks ago today. They had an extra 50 million dollars and we worked out three different versions of what's in this memo. Took care of their 50 million dollars and now they are happy. It would have been . . . it . . . Fifteen months ago, there would-

42. President Kennedy met with Giscard d'Estaing at the White House on 20 July 1962 from 10:00 to 10:51 A.M. George Ball met with him later that evening at 6:00 P.M. For a record of Ball's conversation with d'Estaing, see *FRUS*, 8: 731–35.

n't have been anything to it, it would have been a 50 million dollar gold purchase. Nobody would have thought anything about it. Now they try to work out something within this framework.

Kaysen: Looks to me like he's getting a guarantee [*unclear*] will cover it. And this—

Roosa: They'll do it. In this case, I won't go into all the details, there were three different things done, but there was no guarantee because from their point of view they ended up not even holding the dollars. We did a forward contract for the most part, two different kinds which kept the dollars in the hands of private Swiss banks and outside [*unclear*].

Kaysen: That means giving the guarantee to the private Swiss banks.

Roosa: Well, no, all of them had a hedge transaction in the market for the use of dollars, which is a currency guarantee in the same way that hedging in any market is a guarantee. But it isn't . . .

Kaysen: An exchange rate guarantee.

Roosa: That's something that you do with fringe amounts in the payments transaction, which the world has always done and is fully used to. And you can do as among any sets of currencies except that this is the first time the U.S. has taken advantage of it.

Kaysen: But Bob, there is a real difference in principle or philosophy between a situation in which the hedging transactions you're talking about are carried on by private international banks. They have been by operators in the exchange markets for a long time, ever since we've had sophisticated exchange markets.

But there is a difference. I mean, don't hide your light under a bush. There is a difference when the U.S. Treasury or the Fed gets into this market. And I think the, a part of the issue is the question of whether this kind of transaction is a better way to deal with the problem than the kind of situation in which you lay out on the table what you're doing and everybody looks explicitly at what you're doing because every hedge transaction or every swap does involve offering two motives to either a central bank, or a private bank, or for holding dollars instead of asking for gold.

One motive is an opportunity to earn some interest instead of holding gold. The other motive is to take away the risk from that opportunity by the hedge transaction or something which takes away for the period of that transaction, the devaluation risk. And it's the combination of the opportunity to earn some interest and the removal for that portion of its holdings to the risk of devaluation that induces the bankers to do it.

I think the argument we've been having . . . there's different weights to be assigned to the sort of incentive effects of trying to do this, so to speak, a piece at a time than trying to do it on a rather larger and more-agreed scale. But the substance of what you are trying to do in each transaction is really the same. You are trying to take advantage of the fact that if you can take away by one means or another the exchange risk, it's then advantageous from the other fellow's point of view, to hold balances on which he can earn interest rather than holding gold. And there are different methods in which we can try to remove that risk. And I think the big discussion has really been, "What's the impact of using these different methods on people's expectations about the future?"

I don't think there is any disagreement about the fact that in order to make use of this you have to offer some kind of implicit or explicit guarantee, if you want to use that word, some kind of arrangement which says to the holder of dollar balances rather than gold, "Look, you are not running this risk for this period."

Roosa: Oddly enough, Carl, the way in which we have been able to work it out, very often the guarantee, if we want to call it that, has been given by the other central bank to its own people.

Kaysen: Yeah.

Roosa: And we are in an environment where the Bank of Italy says, "All right, we'll take now the first 500 million of forward contracts as they build up. But from there on this is getting too hard for us to handle technically, for one thing, and yes, if you people will come in and share with us 50-50, we'll go on."

This is a case where the absolute position that you described has not been reached. It's a case of sharing in a technical operation rather than a position in which we provide the guarantee; the others always get it. In the case of our big German operation, the Germans put up 600 million dollars forward in equivalent marks before we ever put up a nickel. And then we began to share because the time came we could get some money out of the debt repayment to help them. This is an entirely different atmosphere—from where you put it all in an adversary relationship, which is what the multilateral alignment, vis-à-vis the United States, would do.

Sorensen: And I get just the opposite reaction. Now I've read your paper, your new paper, and it seemed to me that, Robert, that the only new substantive point made against the plan was that somehow it diminished the concept of the dollar as an international reserve currency. It would mean, for the layman . . . I thought maybe that was a good, valid point.

Roosa: Sure.

Sorensen: But now I read your plan for action and I find almost everything you start out recommending—increasing swaps, increasing foreign exchange operations, increasing borrowings—has exactly the same effect except you do it unilaterally and you do it informally.

Roosa: Yes, but that's—there's another very crucial word in here—*as needed.* And you do it on the basis of the development of need, which, for the most part in the circumstances that we've now reached, will be need expressed to us by the other country indicating that here, here are circumstances that have arisen in which we want to take the initiative in working something out and we have this range of possibilities for providing a way of doing it.

Kaysen: And the alternative assumption, Bob, is that if you are in a position . . . if you have 10 billion dollars which you are able to flourish this reduces the likelihood that you will need it, in this instance.

Roosa: Yes, well, yeah, this, this . . .

Dillon: Depends what you happen to need it for. If it scares American private business as I think it would, 10 billion dollars is just not . . . and—

Kaysen: If it has that effect—

Dillon: The other basic thing that I see in this is that we have achieved a mechanism here which is working and which can, indeed, be expanded and continue to work. The one thing that we have not been able to do so far, and not . . . it is perfectly clear, is to make it visible enough. We haven't . . . not enough people understand the ramifications of this whole thing. They are beginning to understand it.

I just had an interesting telephone call today. Jack McCloy called up and said that he had really looked into this and just had a . . . finally understood what we are doing . . . and felt it was really tremendously effective, and he hadn't understood this before and just wanted to say so.[43]

Roosa: Is that right? I thought . . .

Dillon: [*Unclear*] he hoped we'd keep on, and so that was a very useful thing. But the basic thing here is that we do intend to get this group together and that's one of the—

President Kennedy: Why don't we go through this thing then? Let's see, where we get on the [*unclear*] paper. Now A, is, involves the Federal Reserve. As I understand it, the Treasury feels that we should try to increase the swaps to a billion dollars with the current understanding that where the substantial expansion, et cetera . . . What is the situation with regard to that? That's the judgment of the Federal Reserve, then, at least.

43. John McCloy, who advised and befriended nine presidents (from Franklin Roosevelt to Ronald Reagan), was the third World Bank president and a friend of Secretary Dillon. See "Meeting on the Gold and Dollar Crisis," 10 August 1962, in which Dillon addresses an earlier conversation he had with McCloy on the balance of payments problem.

Roosa: Yes it is—

Dillon: As needed.

Roosa: And as needed. And—

President Kennedy: OK. You would increase it from 500 million dollars to a billion. Would that . . . Is that part of the . . . ?

Roosa: Approximately so, but there is this at bottom, Mr. President, that after a swap is first started, the Fed very often goes over to a standby basis rather than keeping it outright just because the technique is established.

And it may well be possible to go much beyond this figure in terms of standby arrangements which are, for all the purposes we're talking about here, just as good. And there, the Fed has hardly begun to scratch the surface in terms of negotiating possibilities.

And it is my own judgment that the place to start is with the U.K., the other reserve currency, and if that should break, whenever it happens, and this has to be worked on over the next few weeks. . . . Well, I am sure that they could easily double this figure, but we didn't want to put in too big a figure and fall short.

President Kennedy: Do you have a comment?

Martin: No, I have no comment on that. I agree with that completely. I just mention that we have to move slowly on it and have to do it as needed.

President Kennedy: Right.

Martin: Not to put it out and say [*unclear*]—

President Kennedy: I guess here it says to do it and it would be, if needed, beyond a billion, go to a billion.

Roosa: Yes, this is what would be undertaken. Now the question is whether we can get very far beyond that without cracking the British for a much larger figure and that's a detail, an important one that isn't actually put in here but one which we are working on.

President Kennedy: Now let's . . . B—Treasury forward exchange operation to be enlarged as funds flow to countries with dollars, can practically be moved [*unclear*] over this way.[44] Possible total at least two billion. What does that require, to do that?

Dillon: How much have we got now?

Roosa: Well, it's now down to about 750 per day. And this can be done without any further legislation or other action on our part at all. It only means that there must be a flow of additional dollars to some country

44. President Kennedy was reading from an unidentified Treasury memorandum.

where it is technically possible to execute the forward contracts. And the only one where that . . . it doesn't work is France. With France we've got other arrangements. There just isn't an active forward market. They've never really encouraged the development of those facilities. But in every other European country of any consequence we can do it, technically.

Dillon: [*Unclear.*]

Roosa: Yes.

President Kennedy: Well . . . we go, in other words, from 750 million to 2 billion, possibly?

Dillon: Yes, as funds, as the need arises, in other words, as funds flow to the countries, where this is necessary.

Unidentified: These are in [*unclear*]?

Roosa: Yes.

Dillon: That's probably where it will continue to be, at least.

Sorensen: These are also very short-term arrangements.

Roosa: Yes, but they are, in general, renewable. The usual practice in these is you simply roll them over until they are reversed. They can go on for years if they have to.

President Kennedy: What about C?

Dillon: Well, the French have . . . The French have told us they'll do this thing. And the proviso is provided they continue to have a surplus. If they don't have a surplus, then that problem's over . . . so it's [*unclear*]. . . . If they have a surplus, they said they will repay their debt over the next few years.

President Kennedy: French surplus, how much of it is tourist expenditures and defense expenditures in those? How much of their surplus . . . What is their surplus a year in dollars? Do we know?

Dillon: Five billion.

President Kennedy: And, how much in defense?

Dillon: About 300 million is . . . it's 300, about 300 million.

President Kennedy: What about tourists?

Dillon: Out of that there's probably, a million . . . a billion.

President Kennedy: Well, I don't. Yeah, well, OK . . . that's the biggest because we lose . . . I just saw the figures. . . . We have a billion dollars a year we lose in tourists over what we take in. So that would certainly be 250 million [*unclear*] we lose.

Dillon: The rest of it is [*unclear*] surplus. They have a very substantial—

President Kennedy: With us?

Dillon: No—with the world. [*Unclear*] surplus. Not with us now we've got a small surplus of relative . . .

President Kennedy: Where do they get the dollars, in addition to, [*unclear*]?

Sorensen: Income [*unclear*].

Unidentified: That's right.

Unidentified: You always just get the—

Gordon: This debt prepayment point was already taken into account in the estimate of the probable magnitude of the deficit in the background figures for the multilateral agreement. So that they're not properly added in. They were taking it as a deduction on the deficit.

Tobin: That's true . . . that's true.

Dillon: You were saying . . . this really is put in because the [*unclear*] forward exchange operations are not practicable in France, and the debt prepayments really . . . takes care of the situation of currency in France.

President Kennedy: D—The Treasury borrowings in foreign currencies could reach as much as a billion providing European financial assistance and technical [*unclear*].[45]

Roosa: Well, Mr. President, there our biggest concern is what the attitude in the United States would be toward this. This is quite a feasible thing, but it carries with it a little bit of what would be enormous in the case of the proposed multilateral interim arrangement. The feeling in the United States [is] that this gives an impression that the United States is somehow sinking and having to [*unclear*]—

President Kennedy: Well, is this the Export-Import Bank? What happened to that Export-Import Bank?

Roosa: That's going forward. That's different. It's the sale of European assets that we already have. And we're just going through now with two pilot operations. We run into, as we knew we would, or we're learning from them, legal obstacles of all sorts. And we are now about to start one in Belgium and one in Austria, which will be little pilot tests. And as we complete those then we'll go forward with larger amounts.

Tobin: Mr. President, could I ask Bob if this refers to selling U.S. securities denominated in foreign currencies—?

Roosa: Yes.

Tobin: . . . on private markets? Or to simply to those governments and central banks?

Roosa: Well, that isn't defined here because this is part of what we

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45. These bonds, denominated in foreign currencies, came to be known as Roosa bonds and were designed to reinforce the swap arrangements by offering an additional hedge against dollar devaluation and a way to "mop up" excess dollar holdings in foreign central banks.

have to test. We have to test . . . Americans will . . . for example, Senator Byrd, our friend, is opposed to this whole thing.[46] I went up earlier and tried to talk with him about it and it may be that we just have so much opposition here that we can only borrow in dollars and not in foreign currencies ever. If we borrow only in dollars we might get this much but it's not going to be as useful as if we could borrow foreign currencies, because of the market mechanics. If we go into the actual market, it would be—

Tobin: You know, to be concerned with market mechanics . . . you could find yourself selling securities to foreign governments.

Roosa: That's right, provided the governments have the surpluses to buy them it's all right but—

Tobin: But you could [*unclear*].

Roosa: But even France now claims, that . . . well, this isn't open but they're now telling us that they can't even buy very many of these Ex-Im Bank regular notes because at the moment they don't have the internal franc surplus to match the counterpart. And so, we will have to cross the bridge some time. Now the Dutch have been telling you and me for 12 months, "Why don't you borrow in Europe?" Now the Dutch are telling our Ex-Im Bank people who are over there, "Well, nothing can be done unless you would borrow in our own market, and in guilders, and in units of 50 million guilders. That's 10 million dollars. Because our market won't handle anything bigger and our government has no counterpart to handle this operation. This is what you find when you go into it. They talk big but they don't act quite as big . . . not some of these states.

Tobin: The other point I would make is that this is another way of giving an exchange guarantee, and it still seems to be if we are going to hand out exchange guarantees, we should hand them out to official holders of dollars as this is an alternative to official holding of dollars and not to private holders.

Roosa: That's been our policy.

Tobin: If you had . . . If you start selling to these securities on the private European financial markets they can be bought by private people of all nationalities, including U.S.

Roosa: Yeah, well . . .

Tobin: It ought to be confined to official holders, it would be a lot more effective.

46. Harry F. Byrd, Democratic senator from Virginia and chairman of the Senate Finance Committee, was a well-known advocate of balanced budgets.

Roosa: The only way to do this, if you're selling a foreign currency, is to sell at a . . . at any . . . I'm not sure we should, unless we go along very carefully, but . . . Obviously first if you can do it with the governments, you do it that way. That's the only way we have done it so far. But if you go beyond that then I would say it could only be done at rates of interest that are clearly lower than our own. Now, if you say all right, that that's . . . still that's what America gives to guarantee. Well, if he's willing to go abroad at a rate of interest lower than our own, he'll find something else, any kind of other paper . . . any kind . . . so that won't have . . . We're just competing in a world market.

Tobin: Well, I find it paradoxical . . . is that you objected so strenuously to guarantees, which we have proposed to be confined exclusively to official holders and your proposal hands them out to private holders, both under B and under D.

Roosa: Well, the difference is that they are only handed out in those countries where there is an actual surplus currently there to be dealt with and where dealing with a surplus in this way allows you to handle it, in the amount that is visible and available and actually apply surgery to the specific problem instead of just a scalpel [*unclear*] operations.

Tobin: That wasn't proposed in there, either. Just the general price level.

Roosa: Well, I have a feeling that that's the effect it would have if it's across the board and all [*unclear*] fixed positions.

President Kennedy: Well, I don't see how . . . I think the . . . the declaration of intent. Well, that's enough of that.

Ball: What is the framework of multilateral understanding? [*Some whispering is heard in the background.*]

Sorensen: You really have to read the declaration on the top of page 3 that gives—

President Kennedy: Let's leave that a second and go on to the . . . [*reading*] "U.S."—I want to talk to you about that declaration—"U.S. access to the IMF" [*unclear*] fund. [*Unclear*] changes the [*unclear*] for informal confirmation of our present understanding, special resources would indeed be available under present circumstances. [*Unclear*] probably, over the weekend, if necessary to activate the resources should they be needed. Up to 4 billion dollars would presumably be available to the United States from the IMF—2.55 capital currency [*unclear*]."

Dillon: That speaks for itself. That's what we think it means now but there are a number of new [*unclear*] ministers, and this would be the first time that that's actually in effect assuming that our Congress gets it done by then.

Gordon: Under the terms of the agreement the other participating countries could deny us access to the resources only on grounds of balance of payments difficulties.

Dillon: Their own.

Gordon: Need this be present or might it be prospective? Might it be their own estimate of developing trends in their own balance of payments?

Dillon: This [*unclear*] balance would have to be immediately prospective right there in the next six months—

Gordon: And they will be the judge . . . You're the judge, I mean [*unclear*] judged whether they have prospective balance of payments difficulties?

Tobin: That is the second hurdle. There is a first hurdle which is the weighted vote—a certain majority required that we . . . our application meets the criteria—

Roosa: Yeah.

Tobin: —of the agreement. That doesn't require any judgment about our own balance of payments to refuse.

John Leddy: Well, that's [*unclear*]. Our suggestion in order to keep it from being a unanimous arrangement . . . We now have two choices here: one is to make it completely automatic where you assume a weighted voting system. Otherwise some people have a definite veto.

Tobin: All I wanted to do is correct the idea that it is completely automatic, subject only to escape by a plea of balance of payments difficulties on the part of one of the lending countries. It would require—

Leddy: There's no underlying understanding on this, Jim. We pledged with you because it comes up so often right through negotiation. There is no doubt about the understanding in the minds of these governments that it is intended to be used for us in the case of need when we should ask for it. I think this is the same thing that . . . well, if there's a doubt about it here then we want to get it cleared up with this thing so that there will not be any further question on it. I think the weighted voting was put in not at their . . . not on their request at all. They've been quite happy to have no voting procedure rather than the one requested by the United States.

Kaysen: So you're saying, John, that the only uncertainty of part one is the uncertainty whether every present finance minister has the same understanding as to what was negotiated last year, the people who were in the negotiation last year and wanted to refresh their memories, essentially . . . what they may have approved.

Dillon: Yes, so we don't really think there is any uncertainty—

Kaysen: Yes.

Dillon: —but we understand—

Kaysen: Yes.

Dillon: —that some of you may and so, therefore, we're ready to reconfirm this, and also there are some new people and it's a good time to talk about it. It's a year after it was first brought up and it's actually—

Leddy: The same question was raised in the Congress, when it was in the Congress first in order to [*unclear*] . . .

President Kennedy: Did you? And the next is the declaration of the Ten. The French would be asked pursuant to the recent indication of readiness to initiate help for multilateral action. We call a meeting of the ten members of the Special Resources Group in Washington during the course of the IMF meeting. Such a meeting could minimize the danger of competitive behavior by central banks exercising claims upon U.S. gold.

We reached an agreement on a public declaration along the following [*unclear*] line. Ten leading industrial countries which participate in arrangements to make additional resources available through the national [*unclear*], et cetera. First of all, the financial officials of these countries took advantage of this opportunity to appraise the development of the past year relations that we are undertaking.

Unidentified: Yes.

President Kennedy: Third, the coming into existence of the special resources arrangement alongside the growth and cooperative arrangements between the United States and a number of the other leading industrial countries during the past 18 months to assure the stability of the existing system of exchange rates and the maintenance of the existing price of gold.

The ten countries also agree on future arrangements for cooperation in order to utilize effectively and decisively all presently available facilities for the maintenance of adequate financial resources in support of international monetary stability in a worldwide economic [*unclear*].

That's the framework for multilateral understanding? What does this mean when you say, alongside the growth, assure the stability of the existing system of exchange rates. Is that the sort of commitment by all the countries that they will not devalue?

Roosa: That's a little different. You see, it doesn't say—and they'll quibble over this—if you ever get to looking at it, and change it some more. What it doesn't say is that all exchange rates will remain unchanged, but the system will be generally stable because there can be circumstances in which one or another, such as Canada recently, will make this change.

Now when they change, while it's a problem of mutual concern, it isn't going to upset the whole world payments system. So what we are after here is that there will be general stability in these relations, whereas with respect to the price of gold this means that they are all saying that the present price of gold is the right price.

Ball: Bob, how does this declaration minimize the danger of competitive behavior by central banks in exercising claims upon U.S. gold?

Dillon: The last sentence. The main countries also agree about future arrangements for cooperation.

Ball: And they would agree on gold ratios?

Dillon: Well, no. That's covered in point 4, you know, which is the next thing on the—

Ball: Well, what sorts of arrangements under that heading would meet this statement of minimizing the danger of competitive behavior and exercising claims on it?

Roosa: Well, the most important thing is that the countries outside the ten would have been assured that all of these ten have now, in a sense, given public declaration that they believe the 35 dollar price is the right price. So that, first of all, that whole range of 75 other central banks and governments that can draw gold are now given the assurance that for the first time ten countries instead of just the United States have declared that 35 is a good price. That is how you assure it within. The continuous . . . I would think that what they would agree upon was that this group of ten, finance ministers and their designates, would meet from time to time and would be the forum in which such things as the existing composition of our overall arrangements would be made available to them, so they know what they are. Not that they have a veto on them, but that they are kept informed. And this vacuum of knowledge that some allege now [*unclear*] would disappear.

Just as we now have finally worked it out in the case of gold, there are no secrets in actual gold transactions among the . . . not quite the same group of countries because we have to have Switzerland in it. But in this one, we wouldn't be able to have Switzerland and we would have to work out some way of getting them in. They aren't in the IMF.[47] But if . . .

That's the reason why I'm . . . I've come here to say that a number of

47. In March 1963 the ten countries were joined by Switzerland with a contribution of the equivalent of $200 million. This was equal to the contributions, under the General Arrangements to Borrow, of the Netherlands and of Canada.

the leading industrial countries [*unclear*]. We haven't done any with Japan yet but we have with Switzerland, who isn't in the IMF. These are little details that can be taken care of. The important thing is that a group undertake from this point forward to keep under review these arrangements which have a bearing on the working system. Not that they have the veto, but they are discussed and aired.

Dillon: As a group?

Roosa: As a group, yeah.

Ball: It seems to me it implies a good deal of optimism to assume that a fuller exchange of information would be sufficient to minimize the danger of a competitive drawing of gold from the U.S. which is essentially, I think, what you said.

Dillon: Well, maybe *lessen* is a better word than *minimize.* They all know exactly what they mean by *minimize.* You wouldn't remove it but you would diminish it.

Roosa: Diminish it. Yeah.

Dillon: Diminish it. Right.

President Kennedy: The impact of this would be that sentence about the price of gold. Is that the important part?

Dillon: That's . . . and also, I think that final sentence where it says they'd all agree to work together and utilize all the presently available facilities to maintain adequate financial resources to support it . . . stability to instability.

Sorensen: Don't you think you can also get them to say that this is the kind of confidence we have in the future and we will conduct our own conventional policies, and that's good.

Roosa: Well, you might very well.

Sorensen: I think you at least ought to ask them for a little stronger statement than this.

Roosa: Well, this is borne out of our experience in starting strong and weaseling down and we find—

President Kennedy: Weasel first, then strong? [*Laughter.*]

Roosa: But I think our aim here was just to give you an illustration of the sort of thing that might come up.

President Kennedy: Well, I think the point that . . . I suppose if you ask them for more than . . . this thing down at the bottom . . . This should not be contingent about . . . give promise of neutralizing harmful competitive relations.

See, that's the key in what we've been talking about for a month now. I don't know whether . . . if we can't get this . . . whether the informal understandings or . . . try to develop at this bank, at this meeting led really, if we could, by the French, as to sort of the percentages these countries are willing to hold and just discuss it among themselves. Really not in which we wouldn't be particularly participants—can't we get—?

Dillon: That's what, this is—

President Kennedy: Our understanding is, let's say, well, we'll hold about 75 percent.

Dillon: Well, actually a little less than—

President Kennedy: Yeah, but maybe we have to . . . 75 or . . .

Dillon: They'd likely want to be around 70, 75.

President Kennedy: Well, of course the others, the Germans are holding 35, so I suppose it's pretty hard for d'Estaing to call in the Germans and say, "Let's all hold dollars."

Roosa: The Germans are a little—

Dillon: It will take about six months.

Roosa: — around 52 or 3 and they have customarily held 60 in the past.

President Kennedy: Let's see. . . . Well, what we would like, of course, is to . . . more or less a freezing of what we've got now. If we can get that. We'd like for the Belgians to hold more dollars.

Roosa: It's interesting to know why the Belgians don't hold that many—

President Kennedy: I guess that's the sterling experience?

Roosa: Yes, because they felt that they got burned and they'll never forget it, at the time of the devaluation—

President Kennedy: Of sterling.

Roosa: —of sterling. And so, they have never been long . . . of course the nickel in sterling and they're very . . . won't even let them be long in dollars.

They have come to this position just because they got burned once and then they gradually, very gradually come back to some confidence in the use of the dollar. But I think the worst thing we could do vis-à-vis the Belgians, is to try to get them to sign any agreement on the dotted line with respect to the arrangement. Or they would just fly right away from us again.

President Kennedy: Well that sentence, such procedure, proposal . . . which we say the French Bank should give promise of neutralizing the problem before we ever . . . Actually, we haven't any suggestions for them. Suppose, with respect to the bank [*unclear*]. Well, what is it you would like for me to suggest?

Dillon: Well, he's the one that has come to us first, you see.

President Kennedy: Yeah, but he's probably going to say, "Well, what is it that you think would be helpful?"

Do you have any thoughts about what we . . . ?

Dillon: Well, I think all you'd say is we thought that your original suggestion, if you could get some agreement to . . . put one, oh . . . more mutual, more even policy of converting excess dollars into gold. If you can do that, that means . . . That's the same thing you said last time. You say, "Look . . . " I don't think you hold back because he [Giscard d'Estaing] did go and talk to the British about this, you see. The British came back and were very upset and excited about it because they thought we put him up to it, that we were going off the gold standard. We told them that that wasn't the case and that this was purely a French initiative and exactly what he meant. They both understood this and said, "That's fine."

Roosa: And then the next weekend . . . let's move to The Hague.

President Kennedy: [*Unclear.*]

Roosa: The British, they still can't believe that we didn't put d'Estaing up to it and they are trying to figure out what it is that we are trying to put over and they are also saying if you want to put something over, why didn't you come to us? [*Laughter.*]

President Kennedy: Well, the only thing is, I think we ought to be . . . this statement and so on . . . these statements have sort of a . . . some effect, but I think we really ought to . . . such a proposal. I suppose we ought to have something in mind ourselves. And see, then, if we want to submit them to d'Estaing. And therefore we'd endorse them. Otherwise it would seem to me that—

Dillon: Well, what the proposal he cited is that there be . . . a specific proposal . . . is that there be some sort of agreement among the European countries to adopt, in general, a general position of France, Italy, and Germany that they would keep substantial sums of dollars and they even went so far as to [suggest that] they ought to be harmonized, and I don't think we want that because they, then, would say, "You would have to be harmonized at his level—"

President Kennedy: That's right.

Dillon: —and the agreements that you'd go up . . . that there'd be an agreement to keep a substantial thing but . . . He would, then, try and get the Dutch, the Belgians, and the British. The British being the big bunch. The important thing in this area, is to agree to some point . . . is to hold more dollars. Now, at least he told us when he was here, that the way he meant to do this was, to George, that he was going to talk with the Six . . . to try, and he felt that would be relatively easy because of the French-German-Italian agreement.[48] If you get the rest to come around, and that then he would talk to the British for the Six and he said . . . he used the words, "that maybe I have some bargaining leverage in view of all that the British are asking, trying to get into the Common Market there." If you use it in the context of this whole Common Market thing. So what we're really trying to inquire is, has he talked to the Six? Push him ahead to do it if he hasn't and . . . it is quite a specific thing that I've heard he wants to talk about—

Ball: Really, the question that we face is how much encouragement do we want to give him? And what indications or direction do we want to give? Because I don't think he's going to do this all on his own without knowing that this is something which we would welcome and deploy. I asked him specifically, if he undertook to describe the same thing that he described to Doug? "Do you mean going to real political agreements on these things?" And he said yes.

So, that if this [is]—an agreement—I mean, a real political agreement. He said, "I want to take the unilateral character out of this and put it on a multilateral basis." Now, I don't know what he's done, or whether he's done anything since then or not. I don't think there's anything to speak of—

Dillon: I doubt if he's done much because all the continental people . . . and he said this: "We don't know; they all go away in August and nobody is available to talk to us."[49] So, if not, we would presume that he would like to encourage them in September. And that's why we felt it would be useful for someone to go over and talk to him, both about the first item, as the chairman of this group, and also about this other thing.

President Kennedy: I'd like to see if we could get, Doug, what the direction would be to the person who went to talk to him . . . what our odds might be. . . . In other words how we could fill out that sentence of the proposal.

Roosa: There is one other thing to think about, Mr. President, which is all in the same setting, but the Germans have sometimes thought of this one, which is simply an agreement among them that whatever they have, or some rounded amount near that in gold would be all they would take for awhile. See, the Germans have three billion; the French now have about two billion.

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48. The membership of the European Economic Community, or Common Market, in 1962.
49. August is the traditional European vacation/holiday month.

President Kennedy: In gold?

Roosa: In gold, see . . . yeah, two-four. And the Italians have about two, the British have almost three. And, if we could get among them an agreement that would [*unclear*] enough gold for us for the time being. Well, then you don't have to quibble about ratios or anything else. It's a little easier and Blessing had this notion when we were in Rome and would like to talk about it.[50]

Ball: Giscard talked to me . . . about in terms of two years. Which is, again, what this is, really, is the kind of agreement that we tried to work out here, but perhaps not worked out as elaborately, I don't know. I think this is a question to determine, but the real problem is how much encouragement do we give the French to go down this road? Do we give them an indication clearly of what's necessary? Do we indicate that we would regard this with enthusiasm? Or do we suggest that we don't want to see anything that impairs dollar convertibility here by any exercise of an . . . by any agreement on their part not to, not to exchange their dollars into gold?

I mean that this raises all the questions, really that are raised by our proposal. So, the question is to the extent to which we encourage the French to try to go down this road or not.

Dillon: Well, we think there is a difference in the other proposal in that this would be something they would just unilaterally decide among themselves if they were satisfied with it. That's up to them. I don't think that has the same connotation [*unclear*] a big international agreement. That we'd have to—

Ball: Why, I'd say I had a very clear impression, Doug. Maybe yours was different: that he contemplated putting this in terms of an agreement. He said a political agreement—I asked him specifically.

Dillon: Well that—

Ball: —in which we would be a party.

Dillon: That's the thing . . . I don't think he made that . . . I don't think after he—

Ball: Well, he didn't make it explicit, so you—

President Kennedy: Well, what I think . . . what we ought to do is pursue this, because I think this is really the area where we may be able to make some progress if it's done in the most desirable way. Which is, would be, have a general consensus, in view of the progress we're now making you will now be reluctant to do . . . to inflate our economy by increasing our interest rates too much or putting in capital exchange controls, et

50. Karl Blessing was president of the Deutsche Bundesbank, the West German central bank.

cetera . . . that they would be willing to, more or less, go along with what they've got in the way of gold. This gets into the advantages and disadvantages of what for . . . of any section, the limitation on convertibility, so it would have to be done with some sensitivity but I still think it would be very helpful [if] out of this IMF meeting there came a general feeling that in view of our rate of progress in this area and in view of the programs which we had undertaken that they are all going to go easy on the taking [of] gold, and if they all felt that, then it seems to me it would have a very desirable effect. And it would ease this sort of . . . any competitive feeling that they all [*unclear; tape skips*] general acceptance of this point of view, there'd be some breaches of it, but at least. . . . But that's what we would like to have come out of it, in any case . . . at some point.

Now, how can we, sort of, get moving towards that? And obviously, d'Estaing is the . . . Blessing of the two would be the . . . others would be . . . we should start, I would think, with the French, Germans, and Italians. So it is completely their call.

Ball: Doug and I talked this morning about some kind of exploratory mission on a very low, I mean, on a level of low visibility. Perhaps John Leddy and perhaps Griff Johnson from our shop might go along, and they just would do this talking about this as one possibility. I think that this would be between the first of September and the time of the Bank and Fund meeting. The idea would be to get some feeling as to what the situation—

President Kennedy: We've got to move a little quicker than that, don't you think?

Ball: Nobody's home before the 1st of September in Europe; that's the trouble.

President Kennedy: Is d'Estaing away?

Ball: I'd be amazed if he were—

Kaysen: That's my concern—

Ball: You could . . . You know, [in August] you can shoot a bullet down there through the Rue de Rivoli where the French Treasury is and not hit anybody.

President Kennedy: Well, what I would like to see us do, Doug is to see what—let's consider the suggestion which George has made about who ought to go. And second, what they ought to say. Third, what we'd like ideally to come out of this meeting with this particular area of this IMF meeting.

Dillon: Then we finally come to this [*unclear*].

President Kennedy: [*Unclear*] instituted by which we are [*unclear*] international . . .

Dillon: I don't know how long that will take, but I think we really ought to . . . we can work on that ourselves; we can't really start talking, I don't think, now within a large group of countries until we know where we want to go. I mean, we, we think we all know after that . . . work a little, probably with the British to reach an agreement on the inside where we can . . . let's say we make some progress. Now whether that affects Macmillan . . .

President Kennedy: We have been talking about our desire, to try to settle this problem by the end of 1963, in order to bring our balance of payments . . . [*unclear*] but we've got to . . . I agree. That's just in view of the overhanging balance. . . . But obviously, the effect—

Dillon: [*Unclear.*]

President Kennedy: I don't know how we can get an . . . I don't know whether we've got a very good sort of an analysis of how we are going to achieve that goal by the end of '63.

Dillon: We know the number; I'm [*unclear*]—

President Kennedy: Yeah.

Dillon: Actually this wasn't only designed to do that—

President Kennedy: I see that's . . . I understand, I understand.

Dillon: —it was designed to get liquidity for other people.

Ball: In other words, whether you want this as the long term based on the dollar as the major reserve currency, or whether you wanted to move towards some kind of internationalization, of course, internationalization of reserves and so on, all these questions. . . . I think it would be very useful to . . .

President Kennedy: Well then you're going, Treasury is . . . ?

Dillon: We'll go right after this.

President Kennedy: Well, now, is somebody from the council . . . [*unclear*] someone? Now the only other, as I say, I'd like—

Ball: Are we [*unclear*] excluded? We'd like to participate in this study, if we could.

President Kennedy: Oh, of course.

Sorensen: The only problem, Mr. President, is you appoint a subcommittee for long-range planning, as you did for [*unclear*] meeting . . .

President Kennedy: Well, all right, well why don't we just see if you could have the Secretary of the Treasury agree about the same people, as the one, the previous one.

Dillon: I think it would be helpful if we could also have someone—

President Kennedy: Federal Reserve?

Dillon: —from the Federal Reserve group.

Martin: We'd be very glad to have someone work [*unclear*].

President Kennedy: All right, that's perhaps, this really ought to be run out of Treasury, I think. So, who would be in charge of the . . . ?

Dillon: Of these [*unclear*] will be . . . Well, John have you [*unclear*]?

President Kennedy: Well, why don't I ask Ted to zero in on this as part of his committee work.

Sorensen: Sure.

President Kennedy: But now, in the meanwhile, we're going to try to get this proposal that we might make to the French or set of instructions—

Dillon: I thought what we might . . . might be helpful, Mr. President, if we did do what you suggested, to try to sort of get down a set of instructions—

President Kennedy: Yeah.

Dillon: —to be given to—

President Kennedy: What we'd like to have. What would be the ideal position?

Dillon: Well, no, because that would show that—

President Kennedy: OK.

Dillon: [*Unclear.*]

President Kennedy: Now the other thing would be, I would like to see if we could get a paper on how we can conceive of our bringing this situation into balance at the end of '63, which is, I'm repeating that without having any background about what it is we're supposed to be doing. So, I've got to stop from saying it unless we . . . I'd like to see how it is that we could conceive of it being done.

Leddy: Mr. President, we've got a target and I'd hate to say that was a prediction.

President Kennedy: No.

Leddy: The reason we've got a target that's a little ambitious is to keep the shooting match from going public [*unclear*]—

President Kennedy: Well, can you . . . I'll tell you what, could you give it to me as an outline, can you give me a memorandum on it so that I can see what it is that we ought to be doing in Defense and AID and these other in order to . . . so that we can . . . to reach this target? We don't want to set that target with too much . . . I might want to change some of our phrasing on this thing so that we don't have to find ourselves . . . if we fail.

Leddy: I think where it's really on the high side, Mr. President, is our estimate as to what might be achieved on the export assistance. . . . This is quite high in terms of. . . .

Dillon: Well, our targets show a surplus of a billion and a half dollars and I don't think it any of us think it could reach that but it's—

President Kennedy: If I could just get that account . . . which areas, so we could see it.

Sorensen: Put that on—

President Kennedy: What everybody has to do in order to reach this.

Kaysen: Mr. President, it might be a useful thing, [*unclear*] machinery to have John and I do that through the Cabinet Committee with Doug, because all the departments concerned including Commerce and so on, are represented and that would be a way to get everybody involved in the question. I think that would be . . .

Dillon: [*Unclear.*]

President Kennedy: Yeah, I'd really . . . I'd like to see if working up the instructions for this, to the . . . It would seem to me that we could go to the Treasury-prepared draft. . . .

Dillon: Yeah, we're working with George Ball.

President Kennedy: You might have to get him [*unclear*] and make some [*unclear*].

Meeting ends; there is a shuffling of paper.

President Kennedy: [*Unclear.*] I wonder if I [*unclear*].

Sorensen: Mr. President, I want to talk to you about that. I just had a long discussion with Dave Bell this morning, and he said, "I'll talk about all this with the President tomorrow."

President Kennedy: Yeah, but I thought you might be [*unclear*].

Unidentified: Well, I'll give you the memorandum, [*unclear*] the memorandum.

President Kennedy: Why don't we just come right now and talk about that—

Unidentified: [*to Assistant Secretary of State C. Griffith Johnson*] Griff, do you know where that story comes from?

Unidentified: Yeah.

Sorensen: Mr. President, do you want to get into that, now? [*Unclear.*]

Unidentified: Here we go again.

Leddy: Yeah.

Unidentified: [*Unclear.*]

The meeting had not resolved the gold debate, but Kennedy now had a sense of how to proceed. He would seek a standstill agreement, albeit quietly to avoid roiling currency markets. In the days that followed, Kennedy overruled Dillon and agreed to have Assistant Secretary of State C. Griffith Johnson and Assistant Secretary of the Treasury John

Leddy sound out the Europeans on the possibility of an interim arrangement on gold and payments. The President stated that the purpose of any agreement would be to limit foreign purchases of U.S. gold and to strengthen the international monetary system. But the President insisted that it had to appear to be a voluntary European initiative. Any evidence of U.S. pressure could have shaken the confidence of financial markets and led to a run on U.S. gold.[51]

The Johnson-Leddy mission, which left in September, would fail to elicit the hoped-for initiative. Fearing that any leaks would disrupt gold and currency markets and aware that the administration didn't want to appear to be actively supporting any particular plan, the U.S. representatives neither pushed hard for a gold deal nor were completely straightforward with the French and the British about what they wanted. When Johnson and Leddy asked Valéry Giscard d'Estaing in September what British chancellor of the Exchequer Maudling's thoughts were on the subject, Giscard replied that "the two were in agreement that there should be high-level secret discussions of the subject."[52] Giscard did not tell Johnson and Leddy what the subject actually was. Was it the hoped-for initiative to limit gold takings? Giscard didn't say, and the U.S. representatives apparently thought it imprudent to ask. Several days later, British representatives asked the Americans what Giscard had said and, after being told, observed that "the whole affair was mysterious." The next day, *French officials* said the same thing! The U.S. team decided to drop the issue until after the IMF and World Bank meeting because they believed that "open pressure on the French might lead them to think that political questions could be successfully interjected."[53]

The President was scheduled to speak to the central bankers and finance ministers of the G-10 at the IMF and World Bank meeting in Washington on September 20, 1962. Kaysen urged the President to use the opportunity to convey to the Europeans how important the dollar

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51. Memo, President for the Secretary of the Treasury, the Under Secretary of State, and Chairman of the CEA, 24 August 1962, Departments and Agencies, "Treasury, 6/62–4/63" folder, p. 289, National Security Files, John F. Kennedy Library. Kennedy suggested that an acceptable arrangement would be for the Common Market countries and the United Kingdom each to set an absolute target for gold holdings, as opposed to a ratio, which could be controversial and might involve *increasing* the amount of gold held by certain countries. The President suggested that another solution would be to limit the amount of gold taken from the United States to a small percentage (say 30 percent) of the overall payments deficit.
52. Memo from Dillon and Ball to the President, 12 September 1962, with attachment, Memo for Dillon and Ball from Johnson and Leddy, 10 September 1962, *FRUS*, 9: 146.
53. *FRUS*, 9: 146–47.

and gold problem was to the administration and how willing the United States was to accept fundamental reform of the global payments system.[54] Not surprisingly, Dillon thought Kaysen's strategy was far too risky. "A statement by you that we are prepared to study new ideas and welcome new initiatives would in all probability be misinterpreted . . . as indicating a lack of confidence on your part in our ability to handle our balance of payments problem within the framework of the existing monetary system. This could have dangerous and immediate effects this fall."[55] Perhaps because the Johnson-Leddy mission had not produced a specific European plan, the President followed Dillon's advice and avoided a public discussion of proposals aimed at dramatically reforming the global payments system.[56] By the time of the Cuban missile crisis, when an unexpected Soviet challenge brought the Western alliance closer together, President Kennedy had taken no further steps toward a special agreement on gold.

Kennedy had a couple of other meetings scheduled on August 20. Before heading to the White House theater for a brief screening, Kennedy met with Secretary of Commerce Luther Hodges, George Ball, Jack Behrman, Larry O'Brien, and Theodore Sorensen to discuss Congress and foreign trade. This was not recorded. Before his predinner swim, the President again met with Sorensen, this time alone, for another unrecorded talk. Kennedy's official day ended at 7:25 P.M.

Tuesday, August 21, 1962

This was to be a better week for the President's legislative agenda. While the House remained in virtual recess, the Senate was moving ahead on some Kennedy initiatives. Senate Majority Leader Mike Mansfield had told reporters on Sunday that he believed a farm bill

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54. Memo, Kaysen to the President, 18 September 1962, *FRUS*, 9: 149.
55. Memo, Dillon to the President, 18 September 1962, *FRUS*, 9: 152.
56. Kennedy did suggest that less formal arrangements negotiated by Roosa "contain within themselves the possibility of wider and more general application," and the United States was receptive to suggestions for expanding and improving these arrangements. "Remarks to the Board of Governors of the World Bank and International Monetary Fund," 20 September 1962, *Public Papers of the Presidents, John F. Kennedy, 1962* (Washington, DC: U.S. Government Printing Office, 1963), pp. 691–94.