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**The International Monetary Policy of the
German Central Bank 1958-1970**

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Introduction

With the dissolution of the European Payments Union (EPU) in December 1958 the International Monetary System agreed in 1944 on the conference of Bretton Woods was finally put into full operation. Since in addition Germany had also abolished restrictions on international capital movements in summer 1958¹, the Germany monetary authority, the Deutsche Bundesbank, had now to operate within a highly automatic system based on convertibility, fixed though in case of need, adjustable exchange rates and liberalised trade and capital movements. In the following I would like to analyse the behaviour and the policy of the Bundesbank within this International Monetary System. This is an important subject since soon after 1958 it became clear that this system was far from working smoothly and without frictions. On the contrary it soon displayed severe problems. As a result negotiations proved to be necessary and discussions on this monetary system were held. It was discussed how to deal with this system, how to reform, develop and evolve it. Within these discussions and negotiations the Bundesbank played an important role. First it was the monetary authority of a major industrial country and at the same time of a major creditor country. Second, the Bundesbank was a highly autonomous and independent monetary authority which had taken up the cause of price stability and this aim was bound to conflict with the laid down rules of international co-operation embodied in this system. Third, the Federal Republic of Germany (FRG) was a rather exposed country within the Cold War theatre and this required some understanding with the United States of America (USA), the hegemon struggling more and more with balance of payments difficulties.

The article proceeds as follows. First I would like to describe what the Bank's attitude towards the Bretton-Woods system and its basics - convertibility, fixed, though adjustable exchange rates - was. Did it see its final and long-awaited erection in 1958 still as an achievement? Was it convinced of it? Or did the fact that this system limited its policy options resulted in serious misgivings on the side of the Bundesbank? How did it react and which policy did it pursue when these limitations could not be negated any more from 1960 onwards?

¹ For the precise regulations see Kühne, Rudolf: Die Regelungen für den Außenwirtschaftsverkehr unter der Geltung der besatzungsrechtlichen Devisenbewirtschaftsgesetze. Mai 1945 bis August 1961. [Frankfurt a.M. (Bundesbank) 1984], p. 640ff.

In a second part I will analyse how the Bundesbank behaved when it was confronted with the problems of the system. Although the Bundesbank - as I will show - stuck by and large to the basics of the Bretton Woods System notwithstanding the limitation of its room of manoeuvre, it had to react to the problems of this system and to take part in the reform discussions. Above all it had to deal with three problems which in the course of time became more and more obvious. First it had to take a position as regards the reserve currencies and the Dollar. It had to decide whether or not to contribute to the 'defence' of the dollar and whether or not it would accept the role the dollar played within this system. Second and very closely interrelated to the first, the Bundesbank had to decide which role gold should play within the system and for itself. It had to decide whether and to which extent its monetary reserves were invested in gold or in foreign exchange viz. dollars. Third, the Bundesbank as the monetary authority of a major industrial and creditor country participated in the discussions on the question of international liquidity and reform of the system.

Usually it is said that the end of the Bretton Woods system occurred in August 1971, when Richard Nixon, President of the United States, closed the gold window, since with this decision one major cornerstone of the Bretton Woods System - convertibility of the dollar into gold - fell on the wayside. Although without any doubt the 15th of August 1971 is a major date as regards the International Monetary System it should be seen that the Bretton Woods System did not collapse in one day. Already before some major corrections had been decided, important reform steps had been taken and an attitude towards the more and more cracking system had been developed. Therefore the fact that in my paper due to archival restrictions I can only deal with the period up to 1970 is not problematic.

The Bundesbank and the convertible International Monetary System with fixed exchange rates

When in December 1958 EPU was dissolved and thus convertibility of European currencies somehow established², this was widely understood as a great achievement. Above all the Bundesbank regarded the final and long-awaited erection of this International Monetary System as a success. The fact that during the second half of the 1950s the by then already existing semi-convertible system had exposed its problems and difficulties

² It should be noted that also after 1958 the European countries sheltered under the transitional regime of Article XIV of the IMF charter which had permitted the earlier discrimination and which would allow the re-imposition of similar measures. Only in February 1961 the EEC countries together with the UK, Sweden, Eire and Peru accepted the obligations of Article VIII of the IMF charter. Thus only at this point their currencies were truly convertible.

had not lead to a questioning of this system. Its problems remained largely unconsidered since during the EPU rule - for example on occasion of the 1956/57 speculation wave - the Bundesbank had been able to counteract the inflowing liquidity for example with open market operations.³ From 1959 onwards, however, the Bundesbank was not any more in the position to negate that this system had a serious flaw: it limited its policy options. While certain policies - like for example a restrictive policy when surpluses prevailed - were counteracted by the system so that in the end they proved self-defeating, other options - like for example revaluations - were forced about. How did the Bundesbank see the system now and which policy did it employ?

In 1959 the Bundesbank found itself in a very difficult situation. While the booming German economy suggested a raising of the already high interest rate, the surpluses demanded within this system or a low interest rate or a revaluation. Since at this point the Bundesbank rejected a revaluation which would introduce instability and pose problems for the German export industries, the Bundesbank initially choose to disregard the constraints of the International Monetary System and opted for a restrictive policy.⁴ In autumn 1959 the discount rate was raised a quarter point from 2,75 per cent to 3 per cent in September and to 4 per cent in October. In June 1960 it was even raised for another point to 5 per cent. While interest rates in the US were kept at a historically low level, interest rate differentials grew and this led to an ever greater money inflow. As a result the restrictive monetary policy proved indeed to be self-defeating and for the Bundesbank its limited policy options came very clearly to the open.

In November 1960 the Bundesbank yielded. On 10th November 1960 it lowered the discount rate from 5 per cent to 4 per cent. In the Central Bank Council as well as in the Bundesbank's monthly report it was stated explicitly that such a step was contrary to the internal necessities yet conform with the German strong external position.⁵

³ See Dickhaus, Monika: Die Bundesbank im westeuropäischen Wiederaufbau. München 1996, p. 202ff.

⁴ Several reasons account for this decision. Without a doubt the internal development was a major cause, however, Berger suggests as additional underlying reasons also the Bundesbank's concern with public relations and the financial policy of the German government, see Berger, Helge: Konjunkturpolitik im Wirtschaftswunder. Tübingen 1997, p. 234f.

⁵ See Historisches Archiv der Deutschen Bundesbank (henceforth: BBK) B 330/171-1: 82nd session of the Central Bank Council, 10.11.1960 and Bundesbank, Monatsbericht November 1960, p. 3ff. See also Emminger, Otmar: The D-Mark in the conflict between internal and external equilibrium 1948-1975. Princeton Essays in International Finance No. 122. Princeton 1977, p. 15, who suggests that with this capitulation the Bundesbank "forced" the government into revaluation. This, however, it is an ex-post-interpretation of a revaluation supporter. Documents show that the Bundesbank and above all Blessing objected revaluation until spring 1961. "Forcing" the government to revalue was not the Bundesbank's intention.

The lowering of the discount rate has often been understood as a capitulation.⁶ While this is without a doubt true, it should be noted that this capitulation was somehow limited. Although the Bundesbank retreated for the time being from its restrictive policy and acknowledged that its options were limited, this did not imply that the Bank was now willing to pay attention to the external German situation in the first place. This became obvious when for example from 1963 onwards a similar situation developed. To be sure, in a first moment the Bundesbank refrained from raising interest rates but put its stress on fostering capital export and on increasing the cost for capital import. However, in summer 1964 a restrictive policy was inaugurated and in January 1965 the discount rate was raised.⁷ Similar was the situation in 1969 when the discount rate was raised in several steps up to 6 per cent notwithstanding that surpluses existed. This shows that the Bundesbank, though acknowledging the fact that the International Monetary System limited its options and also accounting for that, was far from accepting to 'capitulate' without any resistance.

The fact that this international monetary system limited severely the policy options of the Bundesbank provided a formidable incentive to question this system. Alas, notwithstanding this, in the 1960s the Bundesbank was bound to see this system favourable: In autumn and winter 1960/61 the Germans and the Bundesbank tried to force the pace as regards the transition to Article VIII.⁸ At about the same time it stated that it is necessary to learn to cope with this system.⁹

Sticking to this system required some modification of attitude and policy. Indeed, this also happened, at least partially. Since also after the capitulation of November 1960 the surpluses and inflows continued in March 1961 Germany finally resorted to revaluation. Shadowed by the Dutch Guilder the Deutschmark was revalued by 5 percent, a measure which had been intensively debated within the Bundesbank and which was initially strongly opposed. The Bundesbank's president Karl Blessing had

⁶ Both the testimony Emminger and the economic historian Berger name this event a capitulation, see Berger, *Konjunkturpolitik*, p. 71 and Emminger, *Otmar: D-Mark, Dollar, Währungskrisen*. Stuttgart 1984, p. 121.

⁷ On 19th March 1964 the minimum reserve requirements for foreign deposits were raised to the maximum, see *Geschäftsbericht 1963*, p. 18ff. and *Geschäftsbericht 1964*, p. 14ff.

⁸ Cf. Griffiths, Richard T.: "Two Souls, One Thought"? The EEC, the USA and the Management of the International Monetary System, in: Brinkley, Douglas / Griffiths, Richard T., ed.: *John F. Kennedy and Europe*. Baton Rouge 1999, p. 193.

⁹ BBK B 330/282: Martin to Blessing, 30.1.1961. While this exchange of letters should also be read as an invitation to the US to follow its duties, it nevertheless shows the Bundesbank's belief in the system.

even threatened to resign.¹⁰ In the end he remained in office and with this revaluation the speculation in favour of the Deutschmark was halted.

In his memoirs Emminger attached to this first revaluation of the Deutschmark a great importance. He points out that with this measure a policy change occurred insofar as now revaluation was introduced as a possible means to confront the dilemma of the Bundesbank. The introduction of this policy measure helped to smooth the Bundesbank's dilemma and to enlarge its room of manoeuvre.¹¹ This however is only in parts correct. While it is true that from now on the Central Bank Council on occasions defended "our right to change the parity" as a legitimate policy measure¹², also after March 1961 revaluations were seen with suspicion. Furthermore, it proved to be very hard to bring a revaluation about: whatever the stance of the Bundesbank was, the ultimate decision on the parity was still with the mostly reluctant government. So in spring 1964, when Germany still had huge surpluses and another discussion on the exchange rate surfaced, a revaluation was not seriously considered. In 1968/69, it took more than a year, considerable struggle, huge money inflows, a worsening of the relationship with the other countries, the closing of the exchange markets and the suspension of the intervention obligation to achieve finally a modest revaluation of 9,3 per cent in October 1969.¹³

To say that revaluations occurred only twice and after considerable struggle does not imply that inside the Bundesbank a change of attitude had not taken place. And in this respect it was often pointed out that in 1968 the Bundesbank favoured a revaluation while the German government refused this measure.¹⁴ Indeed, documents show that this is true: on occasion of the international monetary conference in Bonn on 20th to 22nd November 1968 the Bundesbank tried to convince the government of a revaluation.¹⁵ However, it should be pointed out that also in this occasion the Bundesbank was far from "quick". In summer 1968 - notwithstanding that already at this

¹⁰ Cf. BBK B 330/167: 75th Session of the Central Bank Council, 21.7.1960.

¹¹ Emminger, Otmar: Deutsche Geld- und Währungspolitik im Spannungsfeld zwischen innerem und äußerem Gleichgewicht (1948-1975), in: Deutsche Bundesbank, ed.: Währung und Wirtschaft in Deutschland 1876 -1975, Frankfurt/Main 1976, p. 486.

¹² For example when a closer European monetary co-operation was discussed in 1964, see BBK B 330/435: Stenograph of the 177th session of the Central Bank Council, 15.10.1964, statement by Emminger.

¹³ The exchange rate was now 1 \$ = 3,66 DM

¹⁴ See the account by Emminger, D-Mark, Dollar, Währungskrisen, p. 140ff. and Blessing, Interview, in: Brawand, Leo: Wohin steuert die deutsche Wirtschaft? München 1971, p. 50f.

¹⁵ See BBK B 330/477: 277th session of the Central Bank Council, 21.11.1968. To be sure: in public the Bundesbank was not able to reveal its own conviction, see "Neue Erklärung Blessings" in: Frankfurter Allgemeine Zeitung, 23.11.1968.

point huge German surpluses and a considerable capital flight from France to Germany existed - the Bundesbank had opposed fiercely a revaluation.¹⁶ Furthermore it should be pointed out that only in spring 1969 the Bundesbank raised the interest rates in several steps from 3 to 6 per cent thus augmenting the pressure on the government to revalue.¹⁷

But also the difficulties of the second revaluation in October 1969 did not really break the spell on the international monetary system based on fixed exchange rates which could be changed in case of necessity. Notwithstanding that this system limited the Bundesbank's options and notwithstanding that it had contributed to considerable problems, in May 1971 - when the decision to let the Deutschmark float was put on the agenda - floating was still very controversial inside the Bundesbank. The majority of the Central Bank Council (11:7) advised against any floating. A floating – as the president of the Bundesbank Karl Klasen maintained – would be against the international monetary system, which was still seen as so positive that it should be maintained.¹⁸

As a result one can thus record that the Bundesbank stuck to a monetary system with fixed though adjustable exchange rates notwithstanding that this equalled a severe limitation of its policy options. It is true that the Bundesbank saw the problems of the system and did not refuse a reform. Yet, the automaticity of the system was not rejected and basically the evolution of its attitudes was confined to the recognition that exchange rates should be adjusted in case of fundamental disequilibrium and resulting speculative money inflows. Eventually this new conviction resulted only in two minor revaluations. These were brought about rather too late than too early and rather too small than too big. Notwithstanding that a floating would enlarge the Bundesbank's room of manoeuvre, its capacity to maintain price stability and its powers this was not pondered by the bank. Its aim seems to have been to maintain via the fixity of exchange

¹⁶ Akten zur Auswärtigen Politik Deutschlands (henceforth : AAPD) 1968: Dok. 185, Gespräch des Bundeskanzlers Kiesinger mit dem Staatssekretär im amerikanischen Außenministerium Eugene Rostow, 11.6.1968, p. 185f. See also the account by Emminger, D-Mark, Dollar, Währungskrisen, p. 140 who ascribes "quickness" to the Bundesbank and at the same time dates the beginning of the crisis wrongly in autumn 1968. Insofar Richard T. Griffiths is right when he sees "the Bundesbank's stubborn refusal to revalue" at work, in: Griffiths, Richard T.: The European Integration Experience, in: Middlemas, Keith: Orchestrating Europe. London 1995, p. 64.

¹⁷ On 18th April 1969 the discount rate was raised to 4 per cent, on 20th June to 5 per cent and on 11th September to 6 per cent. These measures were bound to aggravate the situation and could thus force a changing of the parity. However, it should be noted that these measures had problematic side-effects. First they put also considerable strain on both other countries and the International Monetary System. Second, they augmented the influx of hot money thus undermining the restrictive endeavours.

¹⁸ See the account by Emminger, D-Mark, Dollar, Währungskrisen, pp. 176ff.

rates a disciplinary framework. While it accepted that its hands were tied it was optimistic that in case of need it could finally convince its partners – be it the German government, be it other European monetary authorities – of the necessity or to revalue or to follow a conservative monetary policy. As Emminger advised to his colleagues in 1964: "We should be confident that a surplus country will be able in case of need good reasons which justify its restrictive policy."¹⁹

The Bundesbank, the reserve currencies, the confidence problem and the question of international liquidity

The limitation of the policy options was one flaw of the Bretton Woods system, but not the only one. Already in 1959 Robert Triffin had pointed to a fundamental dilemma of this International Monetary System which later was called the Triffin-Dilemma. Criticising Williams' key currency approach which was the basis of this system as well as the supervising International Monetary Fund (IMF) itself as an institution which was unable to regulate effectively the development of world liquidity Triffin warned that given this institutional and intellectual setting the following was likely to happen: a general shortage of liquidity would surface; this was likely to be forestalled by the creation of liquidity through the provision of dollar assets; in the longer run such a reserve creation would create a confidence problem since the existence of large dollar holdings would undermine the belief in convertibility. In the end this could easily result in a financial crisis.²⁰

Initially Triffin's warnings were not always well received and often seen as alarmist.²¹ During the course of the 1960s, however, Triffin's analysis and warnings became "ever more compelling."²² During these years it proved necessary to discuss and negotiate within the International Monetary System several aspects of Triffin's warnings. In the following I would like to show how the Bundesbank reacted to Triffins' warnings, or more precise: I would like to show how it behaved when confronted with several aspects of the Triffin dilemma. What was its thinking about the reserve currencies,

¹⁹ BBK B330/431: 166th session of the Central Bank Council, 29.4.1964

²⁰ Cf. Triffin, Robert: The return to convertibility. 1926-1931 and 1958-?, in: Banca Nazionale del Lavoro Quarterly 8 (1959), pp. 3ff.

²¹ See for example the review of Günther Schleiminger, formerly the German member of the Management Board of the European Payments Union, in: Weltwirtschaftliches Archiv 1960, p. 54*-56*.

²² James, Harold: International Monetary Co-operation since Bretton Woods. Washington 1996, p. 155.

especially the dollar? How did it experience the confidence problem in the 1960s and how did it react? What was the bank's position as regards the provision viz. creation of international liquidity? Even if these three questions are closely connected I would like – for the sake of clarity – to separate the issues.

The Bundesbank and the Dollar

In the Bretton Woods System the Pound Sterling and the US Dollar were the accepted reserve currencies. In the past this fact had at times been problematic since the Pound Sterling had experienced several phases of weakness in the 1950s. Yet, since the Dollar displayed an unquestionable strength until 1958, the system itself seemed to perform well. The years 1958/59, however, brought a change and consequently these years are usually seen as a "watershed". Now it was also the Dollar which gave reason for preoccupation: the dollar gap of the 1940s and 1950s turned – as among others Emminger put it - into a dollar glut.²³

Indeed, the USA experienced in 1959 a sharp deterioration in its balance of payments. The current account surplus of 3.556 million Dollar in 1957 turned into a small deficit of 5 million Dollar in 1958 and a deficit of 2.138 million Dollar in 1959. Although the current account improved afterwards and remained positive during the 1960s still serious problems for the US balance of payments remained. Government expenditures abroad and private capital flows exceeded the current account surplus continuously.

The deterioration of the US balance of payment and current account in 1959 was somehow new and demanding for the Europeans – all the more since it was coupled for the first time with a massive lack of confidence towards the dollar.²⁴ How did the Bundesbank react to this "new" situation? How did it see the dollar and the reserve currencies?

Inside the Bundesbank the development of the Dollar was closely watched. When it came in October 1960 to a gold rush which succeeded to push the gold price in the London Gold Market from 35,20 \$/ounce to 40 \$/ounce this issue was discussed intensively, yet major preoccupations did not win the hand. With the argument that the "narrow" London Gold market "pretended to be more than it actually was" and that it was continuously calming down Johannes Tüngeler, member of the Managing Board of the Bundesbank, could convince that no action whatsoever was necessary.

²³ See Emminger, *Deutsche Geld- und Währungspolitik*, p. 502f.

²⁴ While the lack of confidence was without any doubt a very new experience, the development from dollar gap to dollar glut did not occur that sudden. The dollar position of the EPU countries had improved continuously and consistently in the course of the 1950s. Already in 1954 Germany was sitting on its dollar reserves "like a dragon", see Dickhaus, *Bundesbank*, p. 185ff.

While the Central Bank Council agreed that the bank should not contribute to discrediting the Dollar, it nevertheless envisaged further gold purchases.²⁵ Yet, within the EEC Monetary Committee this issue was taken up. Already in 1960 it was discussed here and in early 1961 a note which reflected considerable concern with the state of the American balance of payments was handed to the US Treasury Secretary.²⁶ Emminger, who was member of the EEC Monetary Committee, consented to this note, yet he was not really worried about the Dollar. During the discussions he suggested that the problems around Sterling were probably worse than those surrounding the dollar.²⁷

When in summer 1961 - after the revaluation of the Deutschmark and guilder - the situation became calmer also the worries about the dollar declined. An intervention in support of the Dollar was seen as unnecessary. In July 1961 it was pointed out in the Central Bank Council that the US balance of payments developed favourably.²⁸ In October 1962 Blessing even felt the need to think about the deflationary effects resulting from a possible US balance of payments surplus.²⁹ To be sure: notwithstanding that considerable optimism still existed inside the Bundesbank the spell on the Dollar was broken. From that point onwards preoccupation as regards the development of the US balance of payments occurred. Thus, this issue was discussed time and again, be it inside the Bundesbank, be it in international fora like for example the Working Party 3 of OECD.³⁰ Furthermore, the US monetary policy was observed intensively, at times even criticised. On these occasions the members of the Bundesbank were usually quite outspoken. Indeed one gets the impression that this was the major issue behind it. While interest rates were kept in this period at a historically low level in the USA, the Bundesbank's hands were tied: if a reopening of the interest differential – experienced so violently in summer 1960 – was to be avoided, its discount instrument had to be discarded for

²⁵ See BBK B 330/170-2: 81st session of the Central Bank Council, 27.10.1961 and BBK B 330/171-1: 82nd session of the Central Bank Council, 10.11.1960. However, the developments in the gold market contributed to the Bundesbank's 'capitulation'.

²⁶ See Griffiths, *Two Souls*, p. 189ff.

²⁷ Ministerie van Financien, The Hague, Generale Thesaurie, Buitenlandse Betalingsverkeer 215, CEE, Projet de proces-verbal de la sixième réunion des ministres des finances de la C.E.E. tenue a la Haye les 13. et 14. Janvier 1961, II/507/61-F. I would like to thank Richard T. Griffiths for making this document available.

²⁸ BBK B 330/180: 98th session of the Central Bank Council, 29.6.1961 and B 330/180: 99th session of the Central Bank Council, 13.7.1961.

²⁹ BBK B 330/194: 127th session of the Central Bank Council, 11.10.1962.

³⁰ See Schoorl, Evert: *The Working Party Three and the Dollar*, DOC.IUE 284/92 (Col. 37), p. 13ff. These discussions started in October 1961.

the time being. Understandably such a position was not to the pleasure of the Bundesbank.

Thus, it happened again and again that the Bundesbank – together with other European central banks – insisted that "the US credit screw should be tightened."³¹ And it also happened that the Bundesbank felt some need to lecture the US³² or "congratulated" relieved, emphatically and smartly when credit restrictions were enacted in the US.³³

Whatever the discussion on the Dollar and the US monetary policy was, some immediate action was necessary. "Outer perimeter defences" (Roosa) for the dollar or the reserve currencies had to be build – in the parlance of Triffin: "fire extinguishers" were put to work.³⁴

The Bundesbank – by thennow definitively one of the bigger central-banks and a most powerful institution – participated in those without any bigger objections. To object would have been rather difficult. From 1959/60 onwards the US Government insisted that its balance of payments difficulties resulted from its heavy defence burdens and that other countries – notably Germany which had huge surpluses – contribute to the defence and economic development of the West too. Already the outgoing Eisenhower administration had put respective pressure on Germany in November 1960, and the new Kennedy administration spoke very clear words in February 1961 when the German foreign minister Heinrich von Brentano visited the US.³⁵

The Bundesbank's participation took several forms. For example it welcomed the idea of William McChesney Martin, President of the Federal Reserve Board, from March 1961 to set up a group of central bank experts in order to study short-term capital flows. This resulted in the so-called Basle Agreement of 1961 with which the major central banks agreed to hold each other currencies to a greater extent than previously and to lend

³¹ For example in autumn 1964, see BBK B 330/435: 177th session of the Central Bank Council, 15.10.1964.

³² For example in January 1965, see BBK B 330/427: 183rd session of the Central Bank Council, 21.1.1965. It is interesting to note that on this occasion the Bundesbank even felt as a kind of European deputy here. Emminger stated when a more restrictive German monetary policy was discussed: "When the US sees that in Europe inflation will not be made without resistance, they might bring their house in order."

³³ In summer 1968 Blessing wrote to Martin on such an occasion: "late but not too late.", in: BBK B 330/282: Telex by Blessing to Martin, 20.6.1968.

³⁴ See Roosa, Robert: *The Reform for the World Economy*. New York 1965 and Triffin, Robert: *Gold and the Dollar Crisis*. New Haven 1960.

³⁵ See Zimmermann, Hubert: *Franz Josef Strauß und der deutsch-amerikanische Währungskonflikt in den 1960er Jahren*, in: *Vierteljahrshefte für Zeitgeschichte* 47 (1999), p. 57-85, especially p. 75ff.

each other needed currencies.³⁶ Furthermore, the Bundesbank participated in the Gold pool, which was announced in November 1961 and should serve to stabilise the Gold price at 35 \$/ounce – a rate which still was believed to be realistic.³⁷ Thirdly, the Bundesbank bought so-called Roosa-Bonds, that is US-Treasury-bonds denominated not in dollar and thus not subject to a devaluation of the dollar.³⁸ Fourthly, the Bundesbank committed itself to the General Agreement to Borrow (GAB) in December 1961 which should serve to back up the reserve currencies in case of need. Trying to keep its commitment – ultimately 1.000 million Dollar - as low as possible it insisted here that this should not be a blank-cheque, that the creditors – and not the IMF alone - should have a decisive say.³⁹ On the whole one can conclude that the Bundesbank, initially a fervent supporter of the global IMF system, acknowledged in the course of time the problems which resulted from the weak position of the Dollar and the institution of reserve currencies. It participated in the discussions on the Dollar, criticised at times the US monetary policy heavily and contributed to the building of "defences". The reasons for its policy were manifold. They include its belief that the system as such was working and the assumption that only the speculation and the speculative waves needed to be addressed. Furthermore, optimism, inertia and difficulties to adapt played an important role. However, also politics should not be dismissed out of hand. They made the Bundesbank contribute so willingly to the defences of the system.

³⁶ BBK B 330/282: Martin to Blessing, 24.3.1961 and Blessing to Martin, 30.3.1961. See also Hirsch, Fred, *Money International*. London 1967, p. 243. The Bundesbank opened a swap-line of 50 million \$ for the Federal Reserve, which was later augmented to 150 million \$ (January 1963), to 400 million \$ (1966), to 750 million \$ (1967) and 1.000 million \$ (1969), see *Geschäftsbericht 1962*, p. 28 and *Geschäftsbericht 1968*, p. 44.

³⁷ Initially Switzerland, the UK and the six EEC countries committed 270 million \$ to this gold pool. Also this was augmented in the course of time. In January 1968 Tüngeler presented to the German government the following very secret numbers: alone in November and December 1967 the Gold Pool sold gold worth 850 and 800 million \$, see AAPD 1968, Dok. 33, p. 33: *Aufzeichnung von Harkort, Gespräch mit Tüngeler, 29.1.1968*. See also BBK B 330/8707: *Handakte Tüngeler - Goldpool*.

³⁸ The objections of some members of the Central Bank Council were swept aside by the fact that Roosa-Bonds equalled "gold-bonds", see BBK B 330/427-1: 157th session of the Central Bank Council, 9./10.1.1964 and BBK B 330/429: 162nd session of the Central Bank Council, 19.3.1964. In May 1968 the Bundesbank's holdings of Roosa-Bonds amounted to 1,4 billion \$, see AAPD, Dok. 158, *Aufzeichnung von Hardenberg, 13.5.1968*, p. 158.

³⁹ See Griffiths, *Two Souls*, p. 196f. Griffiths notes that France and Belgium were less willing to accept commitments, while to Blessing it was obvious that a simple statement of goodwill would not be regarded as sufficient. See also the account by Jacobson, Erin E.: *A life for sound money*. Per Jacobson. His biography. Oxford 1979, p. 358ff.

The Bundesbank and Gold

The Bundesbank's thinking on the Dollar was one issue. Closely connected with this was the confidence problem to which Triffin had pointed. Put it differently: before the background of a continuous decline of the US monetary gold stock and a continuous rise of external Dollar liabilities⁴⁰ not only waves of mistrust as regards the Dollar occurred but also gold received major consideration. In which way the European monetary authorities reacted and in which way they invested their monetary reserves was rather important. This would contribute to the pressure on the US or to a calming of the situation. The Bundesbank's attitude was most important here since the FRG had accumulated in the years 1948 to 1958 almost 20 billion DM foreign exchange and it fell to a very large extent into the competencies of the Bundesbank to decide in which way to invest these reserves, whether in Gold, Dollar and/or other currencies.⁴¹

As regards the investment of its reserves the Bundesbank had discussed this issue in the 1950s already. Shortly before the declaration of convertibility, in spring 1958, the Board of Managers had decided that the reserves were to be kept "about to a half in Gold".⁴² Since in 1958 only 46 to 47 per cent of its reserves was gold, the Bundesbank envisaged "slow and cautious purchases of Gold".⁴³ Also after the first rush on gold in autumn 1960s and while the relation of the US monetary gold stock to external dollar liabilities was constantly deteriorating the Bundesbank continued this policy.⁴⁴ In summer 1961 Tüngeler proudly presented the Central Bank Council that in the past it had been possible to buy additional gold.⁴⁵ Indeed from 1958 to 1963 the gold holdings of the Bundesbank rose from 11.085,1 million DM to 15.374,5 million DM, i.e. almost 40 per cent. For the time being this however was not at cost of the dollar. On the contrary: Dollar

⁴⁰ See the instructive graph in Bordo, Michael: The Bretton Woods International Monetary System, in: Bordo, Michael / Eichengreen, Barry, ed.: A retrospective on the Bretton Woods System. Chicago 1993, p. 39. The gold holdings declined from 20.582 million \$ (1958) to 10.892 million \$, see Economic Report of the President 1975, p. 356.

⁴¹ These competencies were however circumscribed by international agreements the FRG adhered to and the obligations spelled out here.

⁴² BBK B 330/2058: Board of Managers, Minutes, 4.3.1958.

⁴³ BBK B 330/2058: Board of Managers, Minutes, 3.12.1958.

⁴⁴ BBK B 330/170-2: 81st session of the Central Bank Council, 27.10.1960. While Wolf opposed gold purchases, the President of the Bundesbank maintained that purchases could be continued. Only in case of a "sharp worsening" of the situation should this be stopped.

⁴⁵ BBK B 330/179: 97th session of the Central Bank Council, 15.6.1961. Tüngeler assured, however, that these purchases had not been effected in New York.

assets rose in the same time from 7.409 million DM to 11.669 million DM, i.e. about almost 60 per cent.⁴⁶

During the following year however the situation changed profoundly. The gold holdings rose from 15.374,5 million DM (end 1963) to 16.991,5 million DM (end 1964), i.e. for 10 per cent, while the dollar assets declined from 11.669 million DM to 7.713 million DM, i.e. by 34 per cent.⁴⁷ Thus, it seems that now another policy line was pursued: gold holdings were now well over 50 per cent.

This change stood in close connection with several discussions in the Central Bank Council. In a first discussion, on 7th February 1963, the Central Bank Council accepted that now almost a percentage of 60 was reached. In a second discussion, on 9th/10th January 1964, there was even talk of reaching – "at the most" – 66,67 per cent. To be sure: on these occasions it was also assured and decided that no fundamental change in its policy should take place while the political circumstances should be taken into account.⁴⁸ That this line was taken was due to concrete political pressure. In December 1963 the German Chancellor Ludwig Erhard had apparently instructed Blessing that "for political reasons" a change in attitude as regards the investing of reserve was "not appropriate"⁴⁹.

On the whole one can thus say that the Bundesbank in this period did refrain from aggressively converting its dollars into gold. However a certain confidence loss and a certain slight policy change can be perceived also for the Bundesbank. While in former years – for example in reaction to Jacques Rueff's proposal - Emminger had pointed out that conversion into gold would equal a destruction of international liquidity now the discussion concentrated on the interest on the one hand and the danger of devaluation on the other.⁵⁰ However, these first slight signs of a policy change could not – somehow of necessity - win. Apart from the pressure from the German government the Bundesbank was forced by developments in the international scene to be very cautious. On the 4th February 1965 the French President Charles de Gaulle stated in an interview that France aims

⁴⁶ BBK B 330/437: Enclosure to the minutes of the 182nd session of the Central Bank Council, 7.1.1965 and Deutsche Bundesbank, ed.: Deutsches Geld- und Bankwesen in Zahlen 1876-1975, Frankfurt 1976, p. 348.

⁴⁷ BBK B 330/437: Enclosure to the minutes of the 182nd session of the Central Bank Council, 7.1.1965 and Deutsches Geld- und Bankwesen in Zahlen 1876-1975, Frankfurt 1976, p. 348.

⁴⁸ BBK B 330/427-1: 157th session of the Central Bank Council, 9./10.1.1964. See also the discussions in the Central Bank Council on 7.2.1963 (BBK B 330/197) and on 5.12.1963 (BBK B 330/426-1).

⁴⁹ BBK B330/426 I: 155th session of the Central Bank Council, 5.12.1963.

⁵⁰ For Emminger see 99th session of the Central Bank Council, 13.7.1961, BBK B 330/180.

at the restoration of a proper gold-standard.⁵¹ Criticising the existing International Monetary System and its pro-American bias heavily de Gaulle officially blessed with this interview the recent French policy of massive conversion of dollar holdings into Gold. At the same time, all discussions on reform of the International Monetary System were heavily politicised. This French move was received in Germany with rather mixed feelings. On the one hand there was considerable sympathy, on the other hand however it was wondered whether the General was conscious of the consequences of such a policy.⁵² Also the Central Bank Council discussed the French gold policy - even before de Gaulle's interview. On 7th January 1965 it came to the conclusion that there was "no need whatsoever to change the gold policy of the Bundesbank."⁵³ After the interview it deplored that in this way the discussion on the International Monetary System and its reform had been moved into the "political arena" where it was now a part of the French anti-Americanism.⁵⁴ From such a policy it took its distance. In the beginning of March 1965 the Bundesbank confirmed also publicly that it had not the intention to follow the French policy: In its monthly report the Bundesbank had to confirm that its gold holdings had increased while its dollar holdings had declined. Yet it hurried to assure that this was a coincidence only. Furthermore, it assured that the bigger part of the additional gold did not come from the US.⁵⁵ The reaction of the Bundesbank and its public statement however was not seen as sufficient – all the more since also in 1965 its dollar holdings declined while its gold holdings increased.⁵⁶ Also the reversal of this trend

⁵¹ De Gaulle, Charles: *Discours et Messages, 1962-65*. Paris 1969, p.330-34. For de Gaulle's attack on the gold standard, see: Calleo, David P.: *De Gaulle and the Monetary System: The Golden Rule*, in: Paxton, Robert O. / Wahl, Nicholas W., eds.: *De Gaulle and the United States*, Oxford 1994, p.239-255; Institut De Gaulle, ed.: *De Gaulle et son Siècle, Vol.III: Moderniser la France*. Paris 1992; Bordo, Michael D. / Simard, Dominique / White, Eugene N.: *France and the Bretton Woods International Monetary System, 1960-68*, in: Reis, Jaime, ed.: *International Monetary Systems in Historical Perspective*. London 1995, p.153-80.

⁵² See for example *Die Welt*, 6.2.1965: *Scharfe Kritik an Vorschlägen de Gaulles*. See also *Frankfurter Allgemeine Zeitung*, 6.2.1965. Hermann J. Abs from the Deutsche Bank displayed some sympathy and thought that such a policy might force the Americans to think seriously about their policy, see *Frankfurter Rundschau* 6.2.1965. See also *De Telegraaf*, 6.2.1965. Similarly *Der Volkswirt* 3/1965, p. 82f. displayed sympathy.

⁵³ BBK B 330/437: 182nd session of the Central Bank Council, 7.1.1965. Unfortunately, only the result not the contents of the discussion came down to us.

⁵⁴ See BBK B 330/438: 185th session of the Central Bank Council, 18.2.1965.

⁵⁵ Deutsche Bundesbank, *Monatsbericht Februar 1965*, p. 24f.

⁵⁶ See Deutsche Bundesbank: *Deutsches Geld- und Bankwesen*, p. 348. A part of these changes might be explained by the German deficit of 5 billion DM in 1965. Already earlier Blessing had pointed to Erhard that a decline in the dollar

in 1966 and the assurance by Karl Carstens, secretary of state at the German Ministry for Foreign Affairs, that the Federal Republic and the reserve policy of the Bundesbank would always take account of the position of the dollar were apparently not sufficiently committing for the US.⁵⁷ On the contrary: the now growing dollar balances of the Bundesbank were bound to make the problem to the USA even more serious. Its gold reserve had declined from 22.857 million Dollar (1957) to 13.806 million Dollar (1965) and thus it was most vulnerable to conversion requests.⁵⁸ Before this background – and before the background of very strained off-set negotiations which by 1966 had led to a "low point of American-German relationship"⁵⁹ – in late 1966/early 1967 the US pressed the Federal Republic for a definite statement. While threatening to disengage and to withdraw troops from Germany it requested an assurance that the German dollar holdings would not be converted into gold. Furthermore it requested that Germany or the Bundesbank invested in US-Treasury bonds. The Bundesbank saw both requests with great scepticism. However, after a discussion in the Central Bank Council it accepted these requests almost unanimously.⁶⁰ The German central bankers pointed to the fact that the Bundesbank had never pursued a "hard line" as regards the gold question and that the International Monetary System demanded co-operation. However, being fully aware of the far-reaching consequences of this assurance they insisted at the same time that such an assurance would express the German obligation only rather vaguely. Indeed after lengthy negotiations the German central bankers succeeded with that insofar as in the draft of the so-called Blessing-letter the word "will" was replaced by "intends". Thus the decisive sentence read finally as follows:

You may be assured that also in the future the Bundesbank intends to continue this policy (refraining from dollar conversion into gold from

holding could be effected by paying for the deficits in dollar, Bundesarchiv (henceforth: BA) B 136/3322: Blessing to Erhard, 22.2.1965.

⁵⁷ See Deutsche Bundesbank: Deutsches Geld- und Bankwesen, p. 348. For Carstens see AAPD 1966, p. 1174: Carstens, Ausarbeitung, 24.9.1966. See also AAPD 1966, p. 1174: Hermes, Ausarbeitung, 14.12.1966.

⁵⁸ Economic Report of the President 1975, p. 356.

⁵⁹ Rosenbach, Harald: Der Preis der Freiheit. Die deutsch-amerikanischen Verhandlungen über den Devisenausgleich (1961-1967), in: Vierteljahrshefte für Zeitgeschichte 46 (1998), p. 710. For an analysis which includes also the monetary questions in this respect see Zimmermann, Franz Josef Strauß, p. 57-85; Zimmermann, Hubert: '... they've got to put something in the family pot!'. The Burden Sharing Problem in German-American Relations, 1960-1967, in: German History 14 (1996), p. 325-346.

⁶⁰ BBK B 330/460: 235th session of the Central Bank Council, 16.3.1967. 15 yes-votes, one no-vote and one abstention.

the US Treasury, M.D.) and to play its full part in contributing to international monetary co-operation.⁶¹

The assurance by the Bundesbank not to convert Dollars into gold was without any doubt far-reaching. With this confirmation the Gold-Dollar-Standard changed for Germany de-facto into a pure Dollar-Standard. Furthermore, with this confirmation the Bundesbank had given up to a large extent both their autonomy as regards investing the German reserves and a leverage on the US. Lastly, with this confirmation now a convergence with the French point of view on the International Monetary System was clearly impossible. As Zimmermann put it: "The American version was the clear winner in this contest for the German monetary soul."⁶²

The reason for the Bundesbank's gold policy is to be found basically in the realm of politics and due to the Cold War environment. In order to maintain American troops at their previous level and in order not to disturb American-German political relationships the Bundesbank had accepted to give this assurance. However, it was not only pressure and threats which had been decisive here. It should be noted also that an outright refusal was perceived as simply unthinkable within the Bundesbank since this would equal a uncooperative and non-supportive stance within the International Monetary System leading to its eventual breakdown.

Due to the Blessing letter the Bundesbank had largely solved for itself the problem of confidence. Now that its hands were tied there was no need and no room to discuss the reserve policy.⁶³ Taking in ever more dollar balances, and not being able to convert these dollars, in the following years the relationship gold-Dollar went down to 68 per cent dollars and 26 per cent gold in 1971.⁶⁴ The Bundesbank deplored this heavily. Because of its assurance it had to incur in 1971 considerable losses. Thus, in 1971, Blessing, now out of office, was rather critical as regards the Blessing-letter.⁶⁵

⁶¹ BBK B 330/282: Blessing to Martin, 30.3.1967.

⁶² See Zimmermann, Hubert: Dollars, Pounds and Transatlantic security. Conventional troops and monetary policy in Germany's relations to the United States and the United Kingdom, 1955-1967. Ph.D. European University Institute, Florence 1997.

⁶³ At times however the situation made some respective thoughts necessary. When in November 1969 the Bundesbank was in need of liquid dollars it pondered to sell gold. Emminger proposed not to sell to Japan since Japan would probably not offer the gold to the Bundesbank again afterwards, see 302nd session of the Central Bank Council, 20.11.1969, in: BBK B 330/5873.

⁶⁴ See Deutsche Bundesbank, Deutsches Geld- und Bankwesen, p. 348. In 1971 the Bundesbank held dollar balance worth 37.641 million DM, while gold amounted to 14.688 million DM. This 'good' relationship is also due to the fact that the DM was revalued in 1969, while the dollar was devalued in 1971.

⁶⁵ See Interview mit Blessing, in: Brawand, Leo: Wohin steuert die deutsche Wirtschaft? München 1971, p. 61.

The Bundesbank and the question of international liquidity

Right from the beginning it was clear to all concerned that the adequate provision of international liquidity was a crucial point for a functioning international monetary system. Furthermore, it was obvious that international liquidity needed to be revised from time to time. Accordingly, the IMF statutes ruled that every five years the IMF quotas should be analysed, discussed and eventually revised. In 1953 the first respective IMF report concluded that reserves were adequate; the second report of 1958 came to the conclusion that for the present liquidity was sufficient yet perhaps not for the future period of convertibility and growing international trade.⁶⁶ Although IMF quotas were revised in 1959 the topic international liquidity remained on the agenda throughout the 1960s. Yet it was not a discussion on liquidity only. While on the one hand it was deliberated whether liquidity should be augmented and for how much, on the other hand it was discussed which form the new liquidity should take, whether it should be coupled to gold, whether its use should be conditional, non-conditional or obligatory and who should be able to have a say or a veto power. This also meant that the discussion of international liquidity was closely intermingled with the discussion on the reform of the system and the position of the dollar within this system.

As regards the question of international liquidity and above all the creation of additional international liquidity in the 1950s the Bundesbank had staged as a sceptic. It had pointed to both the resulting inflationary pressures and the then too weak pressure on debtor countries. However, when the IMF arrived in 1958 to the conclusion that quotas should be revised, the Bundesbank's delegate to the IMF and the Bundesbank's Board of Managers did not object. Still, enthusiasm was clearly lacking.⁶⁷ When presenting the issue to the Central Bank Council Blessing begged to consent to an raising of IMF Quotas. For this consent he put forward mainly political reasons: "We all know the difficulties which exist here in the realm of politics; and we did not want to make bigger difficulties." Even if the Bundesbank – as Blessing put it – "refrained from pushing its way to the cash desk", it accepted in the end even a more than proportional rising of its quota.⁶⁸

When following the revision of the IMF quotas in 1959, in the beginning of the 1960s the problem of international liquidity was put again on the agenda, the Bundesbank took here every opportunity to state that

⁶⁶ The both reports are in Horsefield, Keith, ed.: *The International Monetary Fund, 1945-1965. Vol III: Documents.* Washington 1969, p. 311-348 and p. 349-420.

⁶⁷ BBK B 330/2058: Direktorium, Protokoll, 15.10.1958

⁶⁸ BBK B 330/145: 33rd Session of the Central Bank Council, 16.10.1958.

"presently" international liquidity was sufficient.⁶⁹ It is true that when the GAB was negotiated Emminger staged as somebody who saw that IMF reserves did require strengthening. However, this position was caused by the fact that he wanted the means to be in place when extreme situations arose not because he thought international liquidity insufficient. And indeed on several occasions the Bundesbank had insisted that the GAB should be designed as a safety net for the reserve currencies only – contingent on the approval by the creditor countries.⁷⁰

With its scepticism as regards additional international liquidity the Bundesbank was not alone. On the contrary: while initially not even the US were sure about such a necessity and in any case negated the need for reform, the other continental European countries took at times even a stricter position than the Bundesbank. The Dutch were likewise sceptical and above all the French were most reluctant.⁷¹ However, the reasons were somehow different. While France criticised the longer the more the IMF and its pro-American bias generally and openly the Bundesbank was more restrained and, not sharing the French anti-Americanism, put it differently. Although it opposed an augmenting of international liquidity and additional credit obligations it wanted to maintain and evolve the system - largely accepting the dominant role of the US within it. Let us have a look at some reform proposals.

When Jacques Rueff published in summer 1961 his ideas on reforming the international monetary regime and advocated a return to gold, Emminger stated that the diagnosis by Rueff contained considerable truth. Nonetheless he pointed out that these proposals should not be taken too seriously. They were insufficient and dangerous. The reason for that was not too much but too little international liquidity. While in his eyes the liquidity needed at present neither rising nor lowering Emminger warned that a return to gold would equal a destruction of international liquidity and thus result in deflation.⁷²

⁶⁹ See for example BBK B 330/194: 126th session of the Central Bank Council, 12.9.1962 and 127th session of the Central Bank Council, 11.10.1962.

⁷⁰ See Griffiths, *Two Souls*, p. 195f.

⁷¹ To make but one example: during the 1964 annual IMF meeting in Tokyo France had a much stricter position than Germany, see BBK B 330/435: 176th session of Central Bank Council, 1.10.1964. The statement by Ludger Westrick on occasion of a meeting between the German Chancellor Ludwig Erhard and the French diplomat Seydoux - "The French Finance Minister had supported Blessing in not consenting to an augmentation of liquidity. Usually Blessing felt isolated in these matters." – somehow distorts this, see AAPD 1965: Dok. 377, Gespräch Bundeskanzler Erhard und französischer Botschafter Seydoux, 1.10.1965, p. 1561ff.

⁷² BBK B 330/180: 99th session of the Central Bank Council, 13.7.1961. Rueff's ideas were published in several articles, see for example *Neue Zürcher Zeitung*, 27.-29.6.1961.

When Reginald Maudling, the British Chancellor, advanced in 1962 the Maudling Plan which aimed at increased international liquidity the Bundesbank agreed that the International Monetary System displayed some problems and that some "hardship" might result from the current Dollar and Sterling holdings. Furthermore, the Bank maintained that such a plan, coming from the UK, could not be disregarded. However, it stated also that firstly there was not really a need for augmenting international liquidity, and that secondly there was no hurry at all.⁷³

When in 1965 the French Finance Minister Valery Giscard d'Estaing tabled a plan for creating a CRU (Composite Reserve Unit) which would be closely linked to the Gold this was received within the Bundesbank with both scepticism and sympathy. The sympathy resulted from the fact that both Germany and France were suffering from too big dollar holdings. The scepticism was the consequence of the fact that the Bundesbank saw still some weak points and inconsistencies in this plan. In addition to that some bad feelings were disseminated within the Bundesbank since there was a continuous threat that the issue of international liquidity was mixed up by the French with politics. Furthermore, some concerns existed that this might be connected with French steps towards a European monetary union. Last not least, some warnings were voiced that France might put considerable pressure on the EEC countries and above all on Germany to follow the French ideas. As a result the Bundesbank adopted a wait-and-see-attitude for the time being. While it did not see any necessity to change its gold and reserve policy it thought it "at all costs" wise to do nothing positive or negative as regards the French CRU-plan. It wanted instead to wait for the report of the "Ursula-Group".⁷⁴

It would go too far to deal with all plans, proposals and reports tabled from 1965 onwards in the accelerating discussions. It should suffice to state the Bundesbank had in the past often maintained that there was no hurry at all since international liquidity was sufficient. It should however also be pointed out that the Bundesbank did not oppose a reform or evolution of the system or the creation of a new reserve asset. On the contrary: this, the longer, the more, it regarded as necessary and its deputy played a major role in all the respective discussions. Often the Bank took here a position which was both contrary to the US and contrary to the French. So it welcomed the veto power for the Special Drawing Rights which the

⁷³ BBK B 330/194: 127th session of the Central Bank Council, 11.10.1962.

⁷⁴ BBK B 330/438: Stenograph from the 185th session of the Central Bank Council, 18.2.1965. The "Ursula-Group" is of course the Ossola-Group which was a study group made up of the G 10 members. Erected in 1964 it should study the creation of a new reserve asset, see Rebecchini, Salvatore / Schioppa, Ciro: Il contributo di Ossola alle riforme del sistema monetario internazionale, in: Il Sistema Monetario Internazionale tra crisi e riforme. Bologna 1994, p. 61ff.. The report of the Ossola-Group was never really discussed in the Central Bank Council since it was overtaken by events, new proposals and new reports.

European Community agreed to demand from the US in April 1967 and which was finally pushed through - much to the dislike of the US.⁷⁵ But at the same time it was also negative about the "obstructive" French moves and attitudes which aimed at preserving the credit character of the new reserve asset, insisted to discuss the gold price and thus a devaluation of the Dollar.⁷⁶ The Bundesbank approved of the SDR plan stating how important it was that "with this plan it was proved that the important countries were willing to co-operate and act responsibly as far as the International Monetary System was concerned."⁷⁷ Also when France opposed the introduction of the SDRs in the following year the stance of the Bundesbank did not change.⁷⁸

Summary

When confronted with the flaws and the dilemma of the international monetary system and in the discussions on the reform of the international monetary system the Bundesbank displayed a somehow conservative attitude. Having experienced the severe constraints of this system it had decided in 1960 to follow a policy which took somehow the external monetary situation into account. This policy can be understood as a relativation as regards its aim price stability.⁷⁹ However this did not mean that the Bundesbank now adapted simply to the existing system and discarded its interest policy insofar as this instrument should react to the external development only. It did not refrain from raising interest rates when it seemed necessary for internal reasons, thus trying to use the International Monetary System as a disciplinary framework and trying to convince other countries of a stricter monetary policy. In addition to that it now learned slowly that a change in parity could be used as ultima ratio. Furthermore, it should be noted that at the same time the Bundesbank tried in the discussions on international monetary questions to reform the system in such a way that its power and leverage as a creditor would be maintained or even augmented. Here however it had a difficult policy to pursue. It had

⁷⁵ BBK B 330/465: 247th session of the Central Bank Council, 7.9.1967. See also AAPD 1967: Dok. 317, Aufzeichnung von Sahm, 7.9.1967.

⁷⁶ BBK N 2/K788: Emminger: Behandlung der Goldfrage in der Zehner-Gruppe, 5.12.1966 and BBK B 330/459: 233rd session of the Central Bank Council, 16.2.1967.

⁷⁷ BBK B 330/465: 247th session of the Central Bank Council, 7.9.1967.

⁷⁸ BBK B 330/472: 264th session of the Central Bank Council, 9.5.1968.

⁷⁹ This is the conclusion of Holtfrerich, Carl-Ludwig: Geldpolitik bei festen Wechselkursen (1848-1971), in: Deutsche Bundesbank, ed.: Fünfzig Jahre Deutsche Mark. Frankfurt 1998, p. 421.

not only to account for high politics, but also the questions were rather tricky. On the one hand it was apparent and also accepted within the Bundesbank that sufficient international liquidity must be procured if the existing International Monetary System was not to be put into danger and that some reform – and combined with this also additional liquidity - was necessary. On the other hand too much international liquidity would lessen its influence and enable global inflationary pressures. The issue became even more complicated since right from the beginning these questions were connected with politics and from the mid-1960s became highly politicised. Trying to conserve the system and trying to conserve somehow the American position within this system the Bundesbank was co-operative, yet not without trying to insist on its points. Even when it had accepted in 1967 with the Blessing-letter a pure Dollar standard it continued this policy.