'The man who twice devalued the dollar' from Le Monde (25 April 1994)

Caption: On 25 April 1994, French daily newspaper Le Monde recalls the US motivation for deciding, on 15 August 1971, to suspend the convertibility of the dollar into gold.

Source: Le Monde. dir. de publ. Colombani, Jean-Marie ; RRéd. Chef Ferenczi, Thomas. 25.04.1994, n° 15 315. Paris: Le Monde. "L'homme qui dévalua deux fois le dollar", auteur:François Renard , p. 7.

The man who twice devalued the dollar

During the evening of Sunday 15 August 1971, President Nixon stunned the whole world by announcing the suspension of the dollar's convertibility into gold, the introduction of an additional 10 % surcharge on imports and a three-month freeze on US prices and wages. In a strongly-worded speech, President Nixon asserted his aim to provide protection from 'speculators [who] have been waging an all-out war on the American dollar' … 'a pillar of monetary stability around the world' … as well as 'to improve our balance of payments and to increase jobs for Americans.' He sought 'to provide the strongest short-term incentive in our history to invest in new machinery and equipment …' Lastly, President Nixon accused the countries that had been devastated by war, Japan and Germany in particular, of becoming powerful competitors since receiving 143 000 million dollars in US aid. He expected them to 'bear their fair share of the burden of defending freedom around the world.' He concluded by resolutely shaking his head and declaring: 'there is no longer any need for the United States to compete with one hand tied behind her back.'

In practical terms, his decisions put an end to the gold exchange standard, set up by the Genoa Conference in 1922, which required the participating countries to back their currency with gold and foreign exchange reserves. At the same time, the spirit of the 1944 Bretton Woods Agreements, which laid down currency parities in relation to gold and the dollar, was breached. The floating of the dollar in March 1973 and, more importantly, the 1976 Jamaica Agreements meant the total abandonment of the gold exchange standard and put an end to the Bretton Woods Agreements.

In fact, the steps taken by President Nixon came in response to four years of worldwide monetary crisis, brought about by the devaluation of sterling in 1967, followed by the termination of the gold pool in 1968 and exacerbated by heavy speculation in gold that depleted US reserves. These events took place in a climate of mistrust towards the dollar, which was, at the same time, being undermined at home. That mistrust was already evident in 1969 when the German mark was revalued upwards, pending the Bundesbank's decision taken in the spring of 1971 no longer to support the US currency. In the end, the dollar was devalued, first in December 1971 after a meeting between Presidents Pompidou and Nixon in the Azores, and a second time in February 1973. Then, on 21 March of that year, the decision was taken to allow the dollar to float freely, a situation that has remained unchanged to the present day.

Europe's mistrust was caused by a slump in the US economy which, in 1971, recorded its first trade deficit of the century because of an inability to compete with Japan in particular; increased unemployment brought about by strong competition between former enemies; and inflation generated by the careless allocation of bank loans. In that context, the introduction of an additional 10 % surcharge on imports was a blatantly protectionist measure and actually a thinly veiled form of devaluation, which was made official a few months later. The temporary freeze on prices and wages was an attempt to curb the inflation that the Vietnam War had exacerbated.

A tough stance

The decisions taken by President Nixon, with the support of the Treasury Secretary, John Connally, were particularly energetic and were welcomed by most Americans, especially industry and the trade unions who were worried by the decline in US competitiveness. They supported the *parity corrections* called for by the President, whose slogan about the United States competing 'with one hand tied behind her back' went down well.

The US President was probably boasting when he claimed to have introduced 'the most comprehensive new economic policy to be undertaken in this Nation in four decades', a reference to the New Deal devised by Franklin D. Roosevelt to overcome the 1929 crisis. But it was not until the Reagan presidency of the 1980s that the dollar, which had to be saved in 1978 by means of a rescue package put together by President Carter, staged a recovery. The trade deficit that became apparent in 1971 has continued to the present time, while inflation peaked in 1980 and then fell gradually. However, industrial competitiveness in the United States has been restored only recently. In the event, President Nixon's recipe, although harsh, nevertheless had an impact on industrial activity and on unemployment. It also helped him to win re-election to a second term, before the Watergate scandal brought him down.

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