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Biden, Nixon and the Economic Burdens of a Superpower

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Half a century before the Afghanistan pullout, the U.S. withdrew from another foreign entanglement: President Richard Nixon severed the link between the dollar and gold.

It would understate the awfulness of the Afghanistan disaster to draw too tight a comparison between it and the end of the gold standard.

In one important way, however, history is repeating itself. The U.S. is once again shaking off an obligation of a superpower. In that sense, President Biden is following in Nixon's footsteps.

In 1971 the U.S. was the undisputed leader of the free world. In addition to countering the Soviet Union and China militarily, America anchored the global financial system through a system of fixed exchange rates. To guarantee that the dollar was worth what it claimed in terms of other currencies, the U.S. Treasury promised foreign governments and central banks to exchange their dollars for gold, upon request, at a rate of $35 an ounce.

But the U.S. commitment was under pressure. The Vietnam War was dragging on, and the military process of Vietnamization — the project of handing over responsibility to the South Vietnamese Army — was going poorly.

Partly because of the war, inflation had accelerated, and the U.S. was running uncustomary trade deficits. True, the deficit in goods and services trade in 1971 was just $1 billion, a blip compared to one of $677 billion last year, but dollars were also flowing abroad through investment and aid. Players in the financial markets had begun to notice that the U.S. didn't have enough gold in its vaults to honor all its obligations if foreign governments or central banks abruptly tired of the dollars they were accumulating.

Nixon complained that Japan and West Germany, which the U.S. vanquished in World War II and then helped rebuild, weren't sufficiently opening their domestic markets to American goods and should shrink their trade surpluses by making their currencies more expensive in dollar terms. West Germany and Switzerland pulled out of the fixed-rate system.

What happened next is described by Jeffrey Garten, a dean emeritus of Yale University's School of Management, in a new book, "Three Days at Camp David: How a Secret Meeting Transformed the Global Economy." He writes, "At 9 p.m. on Sunday, Aug. 15, 1971, after two days of intense discussion at Camp David, and with just a few hours' prior notification to other governments, Nixon unilaterally severed America's longstanding commitment to the dollar-gold link at $35 an ounce."

Nixon billed it as temporary, but it became permanent. The Bank of England, the Bank of Japan and their peers "were left with hundreds of millions of dollar reserves that, after a quarter century, had suddenly lost their gold backing and were therefore of uncertain value," Garten writes.

Nixon also froze wages and prices for 90 days — the first time that had been done in peacetime — and imposed a 10 percent surcharge on imports. Garten describes the episode as "a watershed in modern American history," in which "Washington was not just asking its allies to enter a new age of burden sharing; it was forcing them to accept it."

An editorial the next day in this newspaper said, “We unhesitatingly applaud the boldness with which the president has moved on all economic fronts.” Later assessments were mixed. Many economists said that while the severing of the gold link was inevitable, the wage and price controls and import surcharge were clumsy and ineffective.

I asked Garten this week what he was doing that momentous weekend in 1971. He said he was serving as a captain in the U.S. Army on the Thailand-Burma border, training Thai soldiers to aid the Army of the Republic of Vietnam. So he saw up close the failure of nation-building that has now been repeated in Afghanistan.

To Garten, the Nixon shock of 1971 and the U.S. withdrawal from Afghanistan both signaled a turning inward and a refocusing. Nixon wanted to deal with social ills at home while reorienting foreign policy to the threat of the Soviet Union and, to a lesser extent, China. Biden, likewise, has an ambitious $3.5 trillion budget blueprint at home and is clearing the foreign policy decks to focus on China and, to a lesser extent, Russia.

Benn Steil, an economist and the author of a book about the formation of the international monetary system that Nixon tore down, also sees similarities between Biden’s actions and those of two Republican predecessors, Nixon and Donald Trump.

Then and now, Steil said, U.S. presidents withdrew from important commitments unilaterally. He said, “Biden is putting all this emphasis on repairing U.S. alliances, but here is a material case where our NATO allies have grave concern over what we’re doing and how we’re doing it and feel they have not been properly consulted at all.” (For what it’s worth, other NATO leaders haven’t said anything like that in public.)

People can disagree about how similar Biden’s economic and foreign policies are to those of Nixon or Trump. But it’s hard to deny that there’s something in the air now that was also in the air in 1971. It’s not strictly financial, nor is it strictly diplomatic. The two realms overlap and influence each other. As Garten told me, “The end of an era is never just political and military. There’s a big economic component.”

Wednesday Blurb

Watch what people do, not what they say. Consumers reported a “stunning loss of confidence” in the first half of August, most likely because of the resurgence of the Covid-19 pandemic, according to Richard Curtin, the director of the University of Michigan’s Index of Consumer Sentiment, which was released Aug. 13. The index fell below its low of spring 2020. “So far,” though, Jefferies’ chief economist, Aneta Markowska, and its money market economist, Thomas Simons, wrote to clients on Aug. 16, “real-world impacts have been relatively small and localized. Restaurant bookings have rolled over, dragged down by outbreak states, notably Florida and Texas. Transit usage and flight activity also ticked down last week. However, there’s no visible impact on the labor market.”

Quote of the Day

> If translated into English, most of the ways economists talk among themselves would sound plausible enough to poets, journalists, businesspeople and other thoughtful though noneconomical folk. Like serious talk everywhere — among clothing designers and baseball fans, say — the talk is hard to follow when you have not made a habit of listening to it for a while.

— Deirdre McCloskey, “The Rhetoric of Economics,” second edition (1998)

If you know others who would want to read more of this kind of everyday economics, they can sign up here. And write to me at coy-newsletter@nytimes.com to suggest topics or just to let me know what you think.

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