The Weekend That

TIE *Founder and Editor David Smick interviews Jeffrey Garten, author of the new book* Three Days at Camp David: How a Secret Meeting in 1971 Transformed the Global Economy, *which argues that there are many parallels between August 1971 and August 2021. The currency move was only part of the story.*

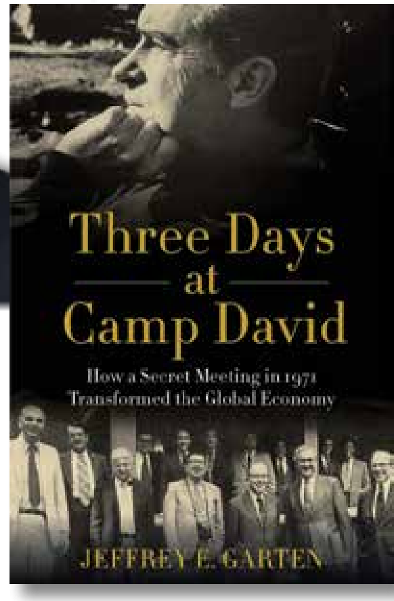
The fiftieth anniversary of the August 15, 1971, Camp David decision to delink the dollar from gold.

Smick: The book is a terrific, suspenseful read. It is part a sophisticated yet understandable explanation of what went on at a crucial moment in U.S. economic history. But it also reads like a Hollywood script. The characters come alive, from a Trump-like John Connally as Treasury secretary breaking all the china, to a serious, astute, quiet, and universally trusted hero figure—Paul Volcker, then-Treasury under secretary for international monetary affairs—tearing his hair out (what hair he had left) trying to keep the train from derailing. Financial scholars aren't supposed to be able to write this way. What got into you? How do you do it?

Garten: Thanks for the compliment! Maybe the starting point is that neither I nor anyone else would classify me as a financial scholar. Barry Eichengreen, Harold James, and a host of their peers have forgotten more about financial theory than I ever knew. I see myself as someone fortunate enough to have had a wealth of practical experience in the international financial and trading arena—in the Nixon, Ford, Carter, and Clinton Administrations; as an investment banker at Lehman in the 1980s and the Blackstone Group in the early 1990s with extensive involvement in everything from sovereign and corporate debt restructuring to running broader investment banking operations in Asia from a base in Tokyo; and as someone teaching Yale students about the global economy for many years.

In *Three Days at Camp David,* I deliberately set out *not* to write a theoretical book, or even a policy book, but to tell the story of an important historical event that anyone could understand. I

Jeffrey Garten



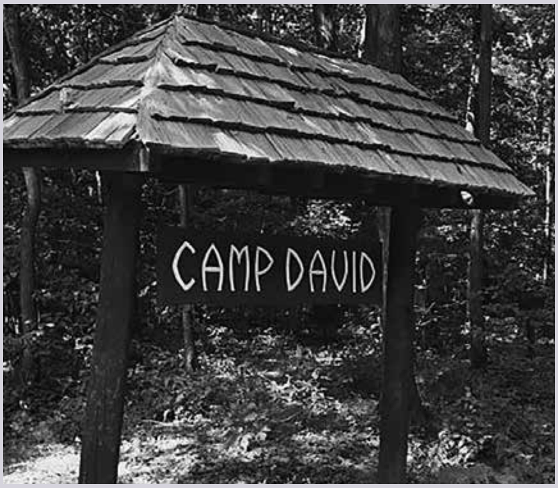
Changed *The* World

wanted to entertain as well as to inform, although I fell far short of what a better writer could have done, I'm sure. I thought the best way to try was to focus on the people and on the blow-by-blow account of the actual decision, and make it like a television program as best I could.

The story of why and how Nixon severed the link between the dollar and gold was just one part of a larger story. That story was the end of the era that began with the Marshall Plan and terminated with Vietnam.

You ask me how I did it. My first step was to interview everyone who was at Camp David who is still alive, as well as people who knew them. So I spoke at length to Paul Volcker, George Shultz, and a host of staff members who had accompanied them to Camp David, and who had done a lot of the preparatory work. Fred Bergsten, Robert Hormats, and John Petty were in and around the events I write about, and were also exceptionally helpful. I didn't rely on memories of fifty years ago for facts, but rather for atmosphere. I was influenced in my thinking by George Shultz, when he said that people tend to remember the good things they did, not the things they are not so proud of. The other thing I did was to study diaries and notes from speechwriter William Safire, White House Chief of Staff H.R. Haldeman, and Fed Chair Arthur Burns, all of whom were at Camp David, and I studied the Nixon tapes and read other authors' analyses of them, too.

Smick: You said that on August 15, 1971, President Richard Nixon didn't just announce a change in monetary policy. It was a change in how Americans saw the world. Please explain. You also quote Hugh Sidey of *Time* who wrote, "The men around Nixon [in August 1971] were to be the tacticians in a campaign already conceived in its broader outlines." Describe those broader outlines.



MOSHE MILNER, GPO

A Net Plus Outcome

Camp David created a world economy characterized by two powerful trends. On the one hand, the global market became more unstable, more prone to crises, and more characterized by hyper-complexity. On the other hand, it was a world in which globalization could proceed at warp speed, with trade, investment, and the spread of technology and ideas growing at a tremendous pace.

Both trends are with us today. They are the legacy of the decisions made at Camp David on August 13–15, 1971. On balance, I think Camp David was thus a net plus.

—J. Garten

Garten: Sidey had two concepts in mind, I believe. First, as I try to show in the book, the story of why and how Nixon severed the link between the dollar and gold was just one part of a larger story.

That story was the end of the era that began with the Marshall Plan and terminated with Vietnam. Nixon and then-National Security Adviser Henry Kissinger were trying to lessen the global burdens on the United States, and give Washington room to focus more of its energies and resources on the massive economic and social problems at home, still boiling over from the late 1960s. In 1969, the president announced the Nixon Doctrine, which essentially said that aside from defense treaties, the United States would not automatically come to the defense of its friends. It might supply money and weapons, but not American troops.

This doesn't sound very dramatic today, but it was a very big change of policy at the time. At Camp David during the August 13–15 weekend, Nixon essentially announced the economic component of the Nixon Doctrine. It said that maintaining the dollar-gold standard—the commitment of the United States to exchange $35 for each ounce of gold—had created too much of an economic burden for the United States. The yen and the West German mark would have to be revalued; the Japanese and Europeans would have to open their markets wider and deeper to U.S. products, matching the level of concessions that Washington had accorded them in the past two decades; and the allies would have to increase their defense spending.

There are many parallels between August 1971 and August 2021.

A second thing that Sidey had in mind was this: The United States was running out of gold. In 1955, it had about 160 percent more gold than dollars outstanding in governments and central banks. In 1971, the figure was just 25 percent. In effect, the emperor had no clothes and the United States had no choice but to abandon gold. Nixon, Connally, and Volcker knew that. The issue was getting the entire administration and Congress aboard, and the issue was also how to get the allies to cooperate and not precipitate a global financial crisis as a result of the changes in the global monetary system.

Smick: You suggest that the sword suddenly hanging over the head of the policy group was a decision by the British to ask for "cover" for $3 billion of its dollar reserves. Panic set in because no one on the American side knew what was meant by the word "cover." (Kind of like the mysterious and unexplainable "letters of transit" in the movie *Casablanca*?) A sense of urgency set in and, as you put it, the group felt it had no choice but to "dive off the diving board." Did the British ever get around to explaining what they meant by "cover"?

Garten: This is an entire story unto itself. It shows how nervous the administration was that several governments would try to exchange their currencies for gold at the same time and cause the equivalent of a run on the bank. It is also a story of how even talented and experienced public servants, pressed for time and confronting many issues at the same time, can fail to see the precise picture.

My sense is that Connally was so paranoid about a run on gold that he was all too happy at Camp David to use the momentary confusion about what was meant by "cover." He was even eager to assume the most extreme definition of what the Brits might have had in mind so as to paint the most dire picture at the opening of the Camp David meeting, even if it wasn't accurate.

The question is, why didn't Volcker have a better understanding of the British demand? Did he really not know, or was he playing games, too? I think the issue of what "cover" meant was clarified during the next day or so, but by then it had already had a dramatic impact, and the decision to abandon gold had already been made.

Smick: I was struck by the differences—both in temperament and ideology—of the advisors that Nixon brought to the table. A shrewd operator, Nixon built a powerful consensus by fitting together the various pieces of the puzzle.

Two thoughts came to mind. First, why would someone so gifted at reading the minds and personalities of his various policy operatives not have seen the risks of Watergate? Second, I also thought of the silliness of Hollywood's treatment of Washington policymaking (think the television series *West Wing*) when compared to the nuanced picture you paint of the policymaking process, in this case on the global front. To what extent was Nixon's choice of the actors in his August 1971 drama, and knowing their likely interplay, the reason for its success?

I thought the best way to try was to focus on the people and on the blow-by-blow account of the actual decision, and make it like a television program.

Garten: I really have nothing original or smart to say about Watergate. But in terms of Nixon's economic advisers, I do have some thoughts. First, we should remember that Nixon—a former congressman, senator, and

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The team that closed the gold window (l–r): Federal Reserve Board Chairman **Arthur Burns,** *U.S. Secretary of the Treasury* **John Connally,** *President* **Richard Nixon,** *Office of Management and Budget Director* **George Shultz,** *and Council of Economic Advisers Chairman* **Paul McCracken.**

Continued from page 11

vice president—had a lot of political experience, a lot of thoughtful policy inclinations, and a lot of impressive professional relationships.

When Nixon became president, the Democrats had been in power for eight years. Even many moderates were convinced that the Great Society programs had grown too big too fast, and that it was time for a change. Therefore, Nixon had his pick of people who had served in the Eisenhower Administration—such as Arthur Burns, George Shultz, and Paul McCracken, the latter two at junior levels—plus a crop of younger people who had arisen since then, such as Paul Volcker and Peter Peterson.

I think he picked a cabinet and advisors based less on ideology than on sheer quality. You ask whether the interplay was a reason for success? I think so, because he was exposed to all sides of the issues. He at least knew what the alternatives could be, what the weak spots of his approach were. Also, in this case the success was due as well to Henry Kissinger, who helped manage the foreign relations fallout. In the book, I devote a lot of time to him, too.

Smick: Today's global economic and financial systems seem a hundred times more complicated than those that existed in 1971. Yet the story you tell is one of uncertainty. The various figures in the group were forced to feel their way in the dark, uncertain of the exact direction they would eventually take: fixed or floating? Dirty floating? In all their preparation, no one gave much thought to the potential for hyperinflation to overwhelm the system.

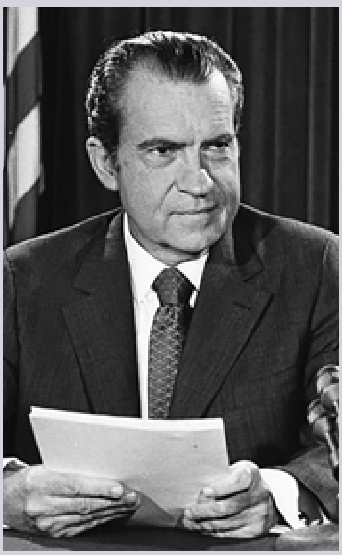
Is this a situation not dissimilar to what could be unfolding today? By 1972, with the agreement in place, U.S. fiscal and monetary policies were high octane. To what extent does the picture you paint show the need for policymakers today to be both humble and nimble? The global system is just too unpredictable.

Washington pulled off something quite dramatic: it saved the global economy by changing it.

Garten: That's a great question. There are many parallels between August 1971 and August 2021. The acceleration of inflation is certainly one of them. So is the growth of fiscal and trade deficits. In 1971, the fires of protectionism were growing; today, the proponents of free trade are in retreat, and the growth of national industrial policies may portend trade barriers of a kind we haven't seen to date. In 1971, the dollar was being challenged by the West German mark. Today you could make the case that the European Union and China are looking for ways to circumvent dollar supremacy, especially when it comes to sanctions, or that the Chinese RMB will challenge the dollar, or that central bank digital currencies and crypto currencies will.

But as you point out, perhaps the biggest similarity is the difficulty of navigating the future when it comes to the global economy, no matter how skillful and experienced the policy officials are, no matter how deeply the issues have been studied. There are just too many variables, and there is no way that we can predict human behavior. That's all the more reason to try to build in early warning systems, cushions and buffers, contingency planning, and coordinating mechanisms. It's why the Fed should not be overly restricted in its fire-fighting capabilities.

Going back to Nixon's team, it was a great advantage to have had Paul Volcker, who wanted fixed rates, and also George Shultz, then director of the Office of Management and Budget, who wanted currencies to float, because they brought to Washington



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Ben Cartwright, Call Your Office!

Nixon and his team announced the end of the dollar-gold link on Sunday night, August 15, 1971, when the president broke into the primetime show *Bonanza* on television. The allies had been notified an hour or two before. It was at the height of the Cold War, and the links between the United States and its allies were much tighter than they are today.

After the announcement, it took four months of acrimonious negotiations to get everyone to agree to what the United States wanted.

—*J. Garten*

The Fixer

"Kissinger, along with Nixon, was the chief intellectual architect for the overall shift in American foreign policy from a position of single-handed dominance over the free world to one in which political and economic power and responsibility would have to be shared. …

"It fell to Kissinger to manage the implementation of Nixon's foreign policy—including the strategy that served as an umbrella for future negotiations on international economic and financial policies in the aftermath of the Camp David weekend.…

"Kissinger's most important contribution was to bring the negotiations to a harmonious end and to avert a permanent rift among the allies. This was no small feat because in the aftermath of Nixon's abrupt, unilateral decisions over the Camp David weekend, America's allies would emerge shocked and angered."

—J. Garten, in Three Days At Camp David

NATIONAL ARCHIVES AND RECORDS ADMINISTRATION

Then-National Security Adviser **Henry Kissinger** *did not attend the Camp David meeting—he was in Paris in secret peace negotiations to end the Vietnam war.*

the range of possibilities, and they sensitized one another to how the future might unfold.

Smick: The book presents a fascinating portrait of hyper-nationalist John Connally, a kind of bull in the china shop figure when dealing with the Europeans and Japanese. Nixon counterbalanced the Connally bombast with the astute sophistication of Paul Volcker, George Shultz (who later succeeded Connally as Treasury secretary), and others. But Connally was the bullying "shock" to the global system that led to change. You suggest that in a sense, the bullying, hyper-nationalistic Donald Trump is the John Connally of our day, which gives President Joe Biden a tremendous opportunity now to forge a new international economic and financial statecraft. That's a very interesting thought. Please explain further. What vision on this front should Biden be pursuing?

Garten: Before I wrote the book, I would have said that the United States ran roughshod over its allies after Camp David, and that it should have pursued a more cooperative multilateral approach when it came to the dollar. After all, Nixon and his team announced the end of the dollar-gold link on Sunday night, August 15, 1971, when the president broke into the primetime show *Bonanza* on television. The allies had been notified an hour or two before. It was at the height of the Cold War, and the links between the United States and its allies were much tighter than they are today.

Trump set a very dangerous precedent in his rabid bullying of Powell.

After the announcement, it took four months of acrimonious negotiations to get everyone to agree to what the United States wanted—a series of negotiations in London, Paris, Rome, the Azores, and Washington that I discuss at length in the book. The December 1971 agreement, called the Smithsonian Agreement, didn't last, but it eventually led to a regime of floating rates that everyone could still agree on.

When I finished writing the book, however, I concluded that Washington pulled off something quite dramatic: it saved the global economy by changing it. It did so because it took advantage of a system that no longer worked and proposed the outlines of change. It is almost an unprecedented accomplishment to change the global system in the absence of a war that destroyed what came before. But this time, Washington did it.

This got me to thinking that Biden has a similar opportunity. In my view, at least, President Trump damn near destroyed the international system. With his extreme America-first approach, his rampant protectionism, his disdain for international organizations and international law, his totally transactional approach to foreign policy, and much more, he forced everyone to look into the abyss.

Biden arrived when there was a hunger for a new global order, not the precise order that Obama left, but something much more future-oriented, something that will have to focus much more on global issues such as public health, cybersecurity, and climate, even as the traditional challenges of dealing with great powers remain.

There is something else, too, that Biden could initiate—a focus on America's vulnerabilities to a wide variety of crises—from pandemics to droughts, to cyber attacks, to supply chain disruptions, to financial debacles. The novel thing here would be to recognize that global interdependencies are now our number-one national security threat. We need to develop broader warning systems, broader cushions, and broader capacity to recover quickly. It's a huge subject, and we are woefully unprepared psychologically and operationally. It falls to Biden to define a new order and get others to buy in. It's an enormous challenge, to be sure. But he has the chance, because Trump left such wreckage in his wake.

I know I haven't answered your question as to precisely what Biden should do, because I'm not that smart. But in demonstrating that the United States must work closely with its allies to accomplish anything abroad, and in slowly pushing America to lead the global effort on vaccines, in making climate such a big deal, and in acknowledging the enormous challenge that China poses, I think he's taken the right critical first steps in his first few months.

It was a great advantage to have had Paul Volcker, who wanted fixed rates, and also George Shultz, then director of the Office of Management and Budget, who wanted currencies to float, because they brought to Washington the range of possibilities, and they sensitized one another to how the future might unfold.

Smick: Your portrait of Fed Chair Arthur Burns is also fascinating. Burns had worked for Nixon. They were close. You wrote that Nixon said of Burns, "I want someone at the Fed I can control." But while Burns was serving as Fed chairman, there were tensions between the two before Burns finally relented.

Please explain what happened behind the scenes. It is of course striking to see the comparisons between the struggle by central banks to remain independent in 1971 compared to their very similar struggles today. Nixon was suspicious of central bank independence. At one point, you say he proposed adding seats to the Federal Open Market Committee (similar to Biden's proposal to add seats to the Supreme Court) to force Burns to ease before the 1972 presidential election.

To what extent is Fed Chair Jerome Powell today in a similar position to Burns—if he pushes a policy not favored by the White House, he will experience a reign of terror most likely from relentless attacks from unnamed media sources, including partisan sources on Capitol Hill beyond the administration's control? Is it true that the more things change, the more they stay the same?

Garten: Another great question. Nixon, of course, wanted Burns to bend to his wishes and keep interest rates low. It was a complicated relationship between the two, because while Burns was running an independent Fed, he desperately wanted Nixon's approval.

When Burns balked at Nixon's pressure in 1971, someone on Nixon's staff planted a rumor in the press that the administration was planning to enlarge the Fed board and pack it with Nixon's candidates, thereby creating a situation in which Burns could be outvoted when it came to interest rate decisions. At the same time, rumors were planted that Burns was seeking a salary raise at a time when he was also advocating wage and price controls. After allowing Burns to twist in the wind for a few weeks, Nixon himself said at a press conference that these rumors were totally unfounded. But Burns felt the shot across his bow.

You ask whether Chairman Powell is in a similar situation. Of course, he was when Trump was president. In fact, Trump's unabashed public criticism of Powell was unprecedented, and despite Powell's impeccable performance under pressure, it's a wonder that markets didn't go totally berserk. Under the Biden Administration, there is no chance whatsoever that the president or Treasury secretary, Janet Yellen, would publicly criticize the Fed chairman.

But the very big danger is this: Come 2024, if Trump or someone like him is elected, all bets are off. Trump set a very dangerous precedent in his rabid bullying of Powell. And it's much too easy in that situation to envision a disaster for the U.S. and world economies. After all, the Fed is key to confidence in the dollar by virtue of its independence, competence, and *de facto* role as the world's central bank.

Smick: You make the case that the developments that came out of that crucial weekend are unfairly connected to a rise in inflation—that developments in the oil market and other things brought about a large amount of the hyper-inflationary pressure. Can you elaborate?

Garten: What I tried to say is that the delinking of the dollar from gold was not the sole or even major cause of hyperinflation in subsequent years. Floating rates *per se* do not create inflation, as the last few decades demonstrate. In the early 1970s, there were many other factors such as out-of-control wage settlements, soaring energy and food prices, and the failure of the Fed to raise interest rates.

I'm not saying that exchange rates played no role. For example, once the dollar was delinked from gold, its value sank *vis-á-vis* the deutschemark and yen. That was the intended outcome, ratified by the market. I think you can make this case, too: Since oil was priced in dollars, as the dollar sank after August 15, 1971, OPEC saw its revenue decline, and it therefore increased the dollar price of each barrel, adding to price increases.

We need a vibrant democracy at home to promote our values abroad, but what's happening now within America is terrifying to me. Depending on the elections of 2022 and 2024, our democracy could be eroded to the point of destruction.

But this is only a part of the story, because the United States had price controls for a few years after the Camp David meeting. I just think that making the collapse of the gold-dollar link the principle cause of hyperinflation is going much too far. Besides, in the end the United States had no choice. It didn't have enough gold to back outstanding dollars, and it had no feasible way of obtaining enough gold. So the commitment had become null and void anyway.

Smick: Take a guess. What would the participants at this historic weekend think of cryptocurrencies if they were around today? A part of a future global currency system? A Las Vegas gambling attraction?

Garten: Here is my guess. Connally would see a Chinese conspiracy and ask Volcker to come up with a counterstrategy. Kissinger would do the same. Volcker would have rolled his eyes and said that cryptocurrencies were not a currency, but he would have wanted to carefully investigate central bank digital currencies—and might do so faster than the U.S. Fed seems to be doing. Burns would have focused on the absence of a sound regulatory framework, but I can see him arguing all sides of the crypto issue. Shultz would have been more positive: If this is where markets are headed, he might have said, then let's see how we can go with the flow.

Smick: Toward the end of the book, you evaluate the decisions made at Camp David. One of your criticisms is that in response to a fear that the United States was losing its competitiveness, Nixon and his team relied too much on currency and trade policy. What did you mean?

Garten: One of the things that was freaking out the Nixon team was the disappearance of the U.S. trade surplus. In fact, in 1970, the country faced its first trade deficit since the late nineteenth century. Men like Connally were much more obsessed by trade than by finance. That was true of Congress, too. They all saw trade as jobs, pure and simple. They saw exchange rates in simple terms—a cheaper dollar was good for exports and made imports more expensive. In other words, it was good for employment. So they thought the right policy was devaluation and forcing other countries to open their markets.

At Camp David, only one person argued that this wasn't enough and that the United States needed to invest in advanced technology and in job training to help workers deal with the revolution in automation. Only one person looked at that dimension of long-term advantage. That was Peter Peterson, then assistant to the president for international economic affairs, who happened to be the only person there who came from industry (and who would many years later co-found the Blackstone Group). But I think

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Peterson was right. After all, since 1971 we have never ceased having ever-larger trade deficits. At the same time, we never really invested in ourselves as much as we should have. How interesting is it that we are in the midst of this same debate today. It took China to get us there.

Smick: If a member of Congress not familiar with international economics asked you why what happened August 15, 1971, matters today, in three or four sentences what would you tell them?

Garten: I would put it this way: At the end of World War II, the United States emerged as the only nation in the free world that was standing, and it had overwhelming power and influence. This situation couldn't last, because Western Europe and Japan, with enormous U.S. help, recovered from the war.

Some twenty-five years after the war, the United States needed to free itself of many of the military and economic burdens. Politically and militarily it retrenched, starting with the ignoble exit from Vietnam. Economically it retrenched, too, and cutting the dollar loose from gold was the key policy. That changed the global economy as we knew it, and it ushered in a world of currencies whose worth was only in the eyes of the beholder.

That, in turn, created a world economy characterized by two powerful trends. On the one hand, the global market became more unstable, more prone to crises, and more characterized by hyper-complexity. On the other hand, it was a world in which globalization could proceed at warp speed, with trade, investment, and the spread of technology and ideas growing at a tremendous pace.

Both trends are with us today. They are the legacy of the decisions made at Camp David on August 13–15, 1971. On balance, I think Camp David was thus a net plus.

Smick: Near the end of your book, you write reflectively, "Nixon may have been revealing his doubts about America's destiny, or at least his anxiety that the United States was in a heated, economically competitive race for the first time in his life and that it was not entirely clear the country recognized it." You quote Nixon himself saying pessimistically, "[Our competitors] still have a sense of destiny and pride, a desire to give their best. ... [W]hen people get out of a race they lose their spirit; and it can never be recovered. You must have a goal greater than self...". Did you include this passage because of recent polling that shows that today's U.S. high school graduates are hyper-narcissistic with diminished expectations of the future and, in some cases, deep pessimism about democracy, capitalism, and the future in general?

Did Nixon ultimately get it right? Or do America's best days still lie ahead?

Garten: I hate this question, because I hate the answer. I am deeply pessimistic about the country, at least for the next decade.

But let me start with Nixon. In many ways, the outlook in 1971 was much better than it is today, even with the Soviet menace. There was much cause for optimism. Nixon and Kissinger were opening China. They were negotiating arms control agreements with Moscow. Even when it came to the events I write about in my book—the hammer blow that the Nixon Administration delivered to the world economy—Nixon's goal was to open the global economy, to expand international trade and investment, and to deal with the energy, food, and other global issues of the day in cooperation with America's allies. If you look at the people around Nixon, the only one who wasn't an internationalist was Connally. In addition, even though Nixon had to deal with a Democratic-led Congress, he achieved a massive consensus when it came to global monetary and trade policy because Congress was full of moderates on both sides, not to mention many respected statesmen.

Today, I don't see how the vicious internal political divisions are going to narrow. How is the disinformation going to stop? How are the public and Congress going to depend again on facts and decent analysis?

We need a vibrant democracy at home to promote our values abroad, but what's happening now within America is terrifying to me. There are so many issues, starting with the movement in states to restrict voting. There is failure to agree on the big issues such as dealing with rampant gun violence, or with the existential threat of climate change. But the even bigger thing I fear is that we will never have a major election that is not uncontested, perhaps violently so, no matter what the vote count is. Depending on the elections of 2022 and 2024, our democracy could be eroded to the point of destruction.

In the quote that you cited above, Nixon is saying we have to have a vision larger than self. Right now, I'm afraid, that's a pipe dream for us. ◆

I hate this question, because I hate the answer. I am deeply pessimistic about the country, at least for the next decade.