'US leaders seem resigned to dollar devaluation', from Le Monde (17 August 1971)

Caption: On 17 August 1971, the French daily newspaper Le Monde analyses the repercussions of the unilateral decision taken two days earlier by the US President, Richard Nixon, to suspend the convertibility of the dollar into gold.

Source: Le Monde. dir. de publ. Fauvet, Jacques. 17.08.1971, n° 8 270. Paris: Le Monde. "Les dirigeants américains paraissent résignés à la dévaluation du dollar", auteur:Amalric, Jacques , p. 1.

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http://www.cvce.eu/obj/us_leaders_seem_resigned_to_dollar_devaluation_from_le_monde_17_august_1971-en-c04a8d49-3535-4dbe-bea8-dbbcd10a84a0.html

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Gold standard abandoned — wages and prices frozen

US leaders seem resigned to dollar devaluation

President Nixon's decision to suspend the gold backing of the US dollar, announced on Sunday evening in a televised address following the Camp David talks, took all the major capitals by surprise. It strikes a decisive blow at the system of the Gold Exchange Standard, which has been in a sorry state since the demise in 1968 of the international pool of gold reserves.

— Monday saw the start of talks at the United States Embassy in London between representatives of the monetary authorities *of several leading countries, including the United States, whose delegation is headed by Mr Paul Volcker, Under-Secretary for Monetary Affairs in the Treasury Department, as well as France, West Germany and Italy (Belgium and the Netherlands were not invited). Mr Nixon hinted at plans to convene a conference with a view to reforming the monetary system, but no date has yet been put forward for such negotiations. The Monetary Committee of the Six, for its part, is to meet on Tuesday.*

— All of the main gold and currency markets were closed yesterday *as the financial world awaited details of the intentions of national governments. In Tokyo, where the currency market was already open when the news broke of President Nixon's decisions, share prices plummeted by 8 %, and the dollar fell to its lowest rate, forcing the Bank of Japan to purchase 700 million dollars. In London, the value of shares in gold mines rose sharply.*

— The effect of the 10 % US levy on imports *is currently being assessed in the various capitals. France, which sells only 5.8 % of her exports to the United States, is unlikely to be the main loser. The Japanese authorities, on the other hand, are inclined to interpret this protectionist measure as an attempt to make them agree to revalue the yen, which they have, to date, refused to do. In Britain, as in Germany, there is a tendency to see this 10 % rate as prefiguring the amount by which the dollar might be devalued, and the American leaders seem to have admitted as much. However, Mr Volcker denied this on arrival in London, referring only to a 'floating dollar'.*

— In Paris, a meeting of the inner cabinet has been called *for next Wednesday. It will be chaired by President Pompidou, who will interrupt his holiday in Brégançon for that purpose; the President of the Republic has received a letter from Mr Nixon informing him of the American decisions. The French banks, taking their cue from numerous foreign institutions, have begun to limit the amount of currency they will exchange for private individuals; by Monday lunchtime, a ceiling of no more than 100 US dollars per person had been imposed. On the French Riviera, as in Zurich, unofficial foreign-exchange counters are being set up and are paying about 10 % below the market rate for dollars.*

— In the United States, the three-month wage and price freeze *has been fairly well received by most economists, although it has been sharply criticised by leading Democrats, such as Senator George McGovern, who described the President's programme as 'economic folly'. The Administration is counting on tax incentives to boost investment and on income-tax cuts to stimulate production and combat unemployment.*

A protectionist and anti-inflationary mechanism

From our correspondent Jacques Almaric

Washington — After three days of intensive consultations with his chief economic and monetary advisers, President Nixon returned on Sunday from his retreat at Camp David, Maryland, to announce solemnly to his fellow Americans that he had resolved to launch a 'new economic policy for the United States'. This new policy has three components: the fight against unemployment, the fight against inflation and defence of the dollar. The gist of the President's televised address from the White House was that two factors had made this change of course inevitable, one being the disengagement of the United States from Vietnam, the other being the activities of international speculators.

Although he devoted only a short passage to the defence of the dollar in his address, saying that it must remain a pillar of global monetary stability, letting the dollar float has manifestly been the costliest decision for Mr Nixon. It was a temporary measure, said the President, and was necessitated by the speculators' attacks. What does Mr Nixon mean by 'temporary'? The incumbent of the White House was not explicit on that point, but he did undertake to promote the reforms required for the creation of the new international monetary system that was so desperately needed. Mr Nixon provided no details of what the new monetary system might be; shortly after his address, some of his close collaborators were equally vague, merely affirming that the reform process would first have to be discussed in the course of bilateral talks. The first of these talks should be held in London, where Mr Paul Volcker, Under-Secretary for Monetary Affairs in the Treasury Department, will very soon be arriving. But it is likely that discussions will already have been taking place in the context of the International Monetary Fund, which was due to meet this Monday morning to study the implications of the American decisions and their compatibility with the Bretton Woods Agreements.

The 10 % rate

Mr Nixon did not refer directly in his address to a revision of gold prices. Nevertheless, American leaders are resigned to a devaluation of the dollar. Treasury Secretary John Connally acknowledged this at a press conference in the White House. Refusing to specify a date for the proposed conference on the reform of the monetary system, he also declined to say whether the supplementary levy of 10 % imposed from Sunday on goods imported into the United States might be regarded as a conceivable rate of devaluation.

Of all the decisions announced by Mr Nixon, this surtax will surely prove the most immediately unpopular outside the United States. Although the President did not spell this out, the levy applies only to about half the volume of imports; it does not actually affect those imports that are subject to quotas, such as mineral oils, meat, sugar and dairy products, or to imports on which no customs duties are levied, such as fish, coffee and raw materials.

Warning to the Japanese

One important point was not clarified on Sunday evening: who is to bear the brunt of this surtax? Is it the American consumer or the importer? It seems, in fact, that it falls to importers to pay the levy, because Mr Nixon also announced a three-month freeze on wages and prices. If this is indeed the intention, it cannot fail to discourage a huge number of importers.

Like many other of the measures announced by Mr Nixon, this surtax is 'temporary'. It was necessitated, said the President, by certain 'unfair' exchange rates. He added that the import levy would be discontinued as soon as the unfair treatment stopped. And so the Japanese were duly warned, though without being mentioned by name. A revaluation of the yen is undoubtedly one essential condition, but it may not suffice for the removal of this new trade barrier.

The general opinion is that importers of foreign cars will suffer most from the string of measures announced by the President; not only will foreign cars henceforth be subject to the surtax, but automobiles made in the USA are to be exempted from the special tax on cars; this tax amounted to 7 %, which represents an average price reduction of 200 dollars per car.

It is no coincidence that Mr Nixon chose to hit the automotive industry especially hard, for Japanese competition in particular has been very keen for some years now, and the manufacturers in Detroit, who announced a price rise of about 5 % a few weeks ago, are totally failing to fend it off.

The domestic agenda

Adopting a protectionist tone, Mr Nixon then gave his compatriots a recipe for avoiding the impact of the veiled devaluation of the dollar. If you want to buy a foreign automobile, he said, or to travel abroad, market conditions could cause your dollar to lose a little of its purchasing power. But if you are part of the vast majority who buy products made in America, your dollar will be worth exactly as much tomorrow as it is worth today.

As for the foreign countries that were thinking of lodging complaints about the treatment that their products would now receive, they were reminded that the United States had spent 143 billion dollars in aid since the Second World War to put them back on their feet and to protect their freedom. Today, largely thanks to US assistance, they had regained their vitality and had become tough competitors. There was no longer any need, the President added, for the United States to take on this competition with one hand tied behind its back.

This rhetoric and the concealment of the real reasons for the difficulties faced by the dollar and the US economy meant that Mr Nixon's address essentially amounted to an intervention in domestic politics; although he pilloried international speculators, he did not explain their aversion to the dollar, and while he accused most of the industrialised nations of ingratitude, he did not discuss in any detail the problem of uncompetitive American products.

It is probable that domestic policy considerations were far more instrumental in the President's decision to let the dollar float than the need for international monetary equilibrium. The 1972 elections are approaching, and the Democrats have made no secret of their desire to turn the current economic problems to their own advantage. Mr Nixon has tried to pull the rug from under their feet, not only by enacting a number of neo-protectionist measures but also through his commitment to the struggle against unemployment and inflation.

Tax incentives to boost investment

To combat unemployment, Mr Nixon has announced the following measures in addition to the aforementioned 7 % tax on cars:

— tax exemption for industrial enterprises installing new machinery and equipment: this exemption will amount to 10 % of the value of new machinery installed during the coming year; it will then be 5 % in subsequent years, provided that the surtax on imported goods is still in force; the exemptions will not apply to machinery and equipment purchased abroad;

— bringing forward by one year an increase in the personal allowance: at present, the first 650 dollars earned by an individual are free of income tax; this allowance will be raised to 700 dollars on 1 January next year rather than on 1 January 1973 as previously scheduled.

These measures, all of which — apart from the import surtax — require the approval of Congress, will be paid for, said Mr Nixon, by a 4.7 % reduction in federal spending. This reduction will be made by means of several measures: the planned pay rise for federal civil servants will be shelved, and their number will be reduced by 5 %, foreign economic aid is to be cut by 10 %, the programme for the redistribution of federal revenue to the states and the local authorities will be suspended for another three months, and the entry into force of the social security reforms is to be deferred for one year. At all events, Congress is blocking these last two programmes.

Wage and price freeze

The centrepiece of Mr Nixon's anti-inflationary programme is the three-month freeze on wages and prices. It must have been hard for him to enact this measure, which he had rejected exactly seven weeks before, on the day after another working weekend at Camp David.

The President, assailed by most of his Democratic adversaries and even by a good many Republican Congressmen, has finally settled for a half measure by decreeing that the wage and price freeze will apply only for a 90-day period.

During that time, a council on the cost of living will be responsible for developing a mechanism to maintain voluntary wage and price control without a ‘bureaucracy’. This refusal by Mr Nixon to resort to strict wage and price controls is liable to undermine quite seriously the last part of his programme, the part that could have offered some comfort to the trading partners of the United States.

Jacques Amalric