

Author Talks: Jeffrey E. Garten on the meeting that transformed the global economy

In August 1971, a secret meeting at Camp David transformed the global monetary system—and here's what it means today and for the future.



In this edition of *Author Talks*, Susan Lund, a McKinsey partner and a leader of the McKinsey Global Institute, chats with Jeffrey E. Garten about his new book *Three Days at Camp David: How a Secret Meeting in 1971 Transformed the Global Economy* (HarperCollins, 2021). The former dean of the Yale School of Management and under-secretary of commerce in the Clinton administration chronicles the August 1971 meeting at Camp David, where President Nixon unilaterally ended the last vestiges of the gold standard, breaking the link between gold and the dollar. Based on extensive historical research and interviews with several of the meeting's participants, Garten analyzes the momentous event and its impact on the American economy and world markets, and explores its ramifications now and for the future. An edited version of their conversation follows.

This is a fascinating historical account, but also deeply relevant today. What is this book about?

This is the story of a secret meeting at Camp David in the middle of August 1971. It was actually 50 years ago this August, when President Nixon and his top advisors went into a meeting to make a momentous decision. And that decision was to sever the link between the dollar and gold.

At that moment—actually, since 1944—\$35 could buy one ounce of gold. That link created a level of stability around the world that fueled the recovery of Japan and Germany from the war, and that created enormous prosperity in the US for over two decades.

There are several reasons why [the US] had to sever that link. One was that the currencies of Japan and Germany, two countries that were becoming very strong, were much too cheap. They were really undervalued, which meant the dollar was overvalued. The only way the US could devalue the dollar was to get rid of its link to gold.

Second, with an overvalued dollar, a trade deficit suddenly began to appear—the first in the 20th century. So there was an enormous concern

about American competitiveness. The other side of that was the growth of protectionism, a really major outburst of protectionism in Congress. To deal with these two problems, the US had to delink from gold.

But there was a third issue that was even bigger: the world economy had grown so fast and had become so big, and the need for dollars was so great, that the US printed many more dollars than it could back by gold. By 1971, the pledge that an ounce of gold was worth \$35 became void. They couldn't actually make it happen.

So, for all these reasons, they decided to cut the link. And they did it in secret. They announced it at the end of the weekend. And it created enormous turbulence in the global economy and enormous strain among the political allies. I tell this story through the characters. At the end, I come to grips with the implications that this decision has had for the global economy ever since.

What prompted you to write this book?

I've written several books on very broad themes, and I have always been attracted to the possibility of taking a single event and using it to illustrate some very major topics—but also to focus intensely on the event itself. This is the first time I did that, and I found it very gratifying.

[It was gratifying] because you can go very, very deep into something that has bounds, but at the same time, you really try to think through the implications of doing this sort of case study. That's why I was familiar with the [August 1971] decision—because I had been in the government not long after it had been taken.

I also knew a lot of people who were actually at Camp David, and fortunately, I had the chance to interview them. They were all quite elderly, and none of them have survived since the time that I met with them, but I was able to capture their memories in the book.

A world-changing decision

How does this help us understand the global economy right now?

When the dollar was delinked from gold, the world really changed in terms of the way it saw money. Before that, money was kind of a stable concept. If you held any currency, you could change it into dollars. And if you held dollars, you could change it into gold.

But once the link between the dollar and gold disappeared, the value of currencies became an assessment of the credibility of a country's policies and the integrity of its financial institutions, such as its central banks and treasuries.

So we unleashed an era of floating exchange rates, which had two major effects. First, it created a world economy that was much more unstable in that the values of currencies went up and down in substantial amounts. We entered an era that became a kind of financial casino because as currencies moved up and down, there was a chance to make money by speculating on currencies. That led to a whole industry of financial engineering. So, all of the things we see today—derivatives and derivatives of derivatives, the fear of global banking crises—all of that really derives from the disconnect between currencies and something that is very tangible.

On the other hand, we made globalization much more possible because we reduced the odds of protectionism, since currencies took the hit rather than economies. We allowed for a much larger and faster flow of capital, and a much greater volume of trade. I would argue that on balance, this really helped the world.

Who's your favorite historical figure in this account and why?

I wrote this book through several characters. What fascinated me the most was the tension between [them]. The secretary of the treasury at the time, John Connally, who was a strident nationalist and whose motto was, "Let's screw the foreigners before they screw us," really didn't care at all about what the impact would be on other countries. He was just

focused on the US. On the other hand, there were two characters who opposed him. One was Paul Volcker, whose name is obviously very familiar. He was just a young fellow at the time. He argued very strenuously for a world that was much more cooperative, and that [view] was backed up by Henry Kissinger—also a new foreign-policy advisor to Nixon—who argued that the importance of our alliances were every bit as important as the nature of the economic ties. There was this tension between retrenchment and engagement, which of course has been a tension that we have seen ever since, and we see a lot of it today.

History repeats itself

What could we learn from this episode for the future about how economic policy is made?

I go into the making of economic policy in considerable detail. What I show is that Nixon had around him some of the best minds that we have ever had in government. There was Paul Volcker. There was a fellow named Arthur Burns who was head of the Federal Reserve. There was George Shultz. Nobody knew who he was—he was at the beginning of his career—but he became one of the greatest statesmen of the 20th century. And there was Pete Peterson, who was a businessman, but really a very far-reaching thinker.

The government had done some very in-depth studies of the global monetary system and what kind of impact changes could have. But in the event they got [the impact of the decision] wrong, it's not that they didn't make the right decision. It's that they really couldn't anticipate all the rockiness that would take place.

They thought there would be exchange rates, and they'd move up and down a little bit. But they never thought we would live in a world of floating exchange ratings. The lesson I take is, no matter how smart a group of people is around the table, and no matter how much studying they do, when you're dealing with the global economy, you're really dealing with an enormous number of uncertainties.

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There’s nothing you can do about that other than be very vigilant, very resilient, and very, very observant of the trends, and try to get ahead of them. But the notion that somehow you can anticipate what is going to happen, that will never be the case.

What surprised you most about writing this book? Either in the research, in the writing, or in the response?

What surprised me the most were all the parallels that exist between August 1971 and August 2021. At that time, there was a growing trade deficit and a real fear about how the United States was going to compete in the world. There was a feeling that other countries, what they called the Economic Community at the time, which is the EU today—that they and Japan were not doing enough to hold up the world economy.

At that time, there was a fear that Japan in particular had an economic system that was very different from ours, which was going to cause enormous problems. There was a feeling that the US had to focus more on building its society at home and that the Vietnam War had gone on too long and really had become not only a tragedy, but an enormous distraction.

When I look at the situation today, I see the trade deficit. I see the constant pounding on our allies to do more. I see the focus on rebuilding the economy at home. And in 1971, there was also the beginning of an inflationary period, and that made people nervous about holding the dollar. That was a threat to the dollar. The rise of the German currency, the Deutschmark, was also a kind of threat to the dollar. When I look at today, I say, “You know, the dollar has remained very strong. It’s still at the center of the global financial system.”

But substitute China for Japan, look at the inflation, and look at some of the possibilities for cryptocurrencies, particularly central bank digital currencies. And you have to ask the question: Is the dollar going to come under enormous pressure again?

I didn’t start out thinking there were parallels between these two periods. I just wanted to capture one period for all that it was worth. But when I was done, I said, “I think that a lot of things have either come full circle, or maybe they never changed.”

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