

*TO WHAT EXTENT DID THE
ABANDONMENT OF THE GOLD
STANDARD EXCHANGE ON
SEPTEMBER 23, 1971 BY NIXON
CONTRIBUTE TO THE GENERAL
CRISIS OF THE 70'S?*

History Internal assessment 2025

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Section A – Identification and evaluation of two sources

This investigation will address the question of President Nixon's decision of abandonment of the gold standards exchanges in 1971 august and its contribution into the 70's general crisis. This moment was one of the most crucial ones in the economic and politic history of the 20th century. This decision put an end to the international monetary system of Bretton Woods, but also contributed to shape the economic and geopolitics landscape of the later decades. To understand completely the impact of that event and its role into the general crisis of the 70's, it is essential to analyze two primary key sources: President Nixon's speech announcing this decision, and the response of the French president at that time: Georges Pompidou during his press conference on September 23, 1971. These sources offer both contrasting perspectives on the motivation, implications and consequences of that historical decision, permitting, by that way, to explore the transatlantic tensions.

President Nixon's speech "Address to the Nation Outlining a New Economics Policy: The Challenge of Peace"¹, is crucial to understand the motivations and justifications for the decision to abandon the gold standard. Nixon presented this measure as a necessity for the protection of U.S. dollar and U.S. economy against "International speculators"². He underlined the emergency of the situation, maintaining his position on the U.S. dollar as a pillar of the monetary stability in the world³.

¹ Nixon, 1971, The Challenge of Peace. [Book]. - <https://www.presidency.ucsb.edu/documents/address-the-nation-outlining-new-economicpolicy-the-challenge-peace> : The American Presidency Project , 1971.

² *Ibid.*

³ *Ibid.*

A value of the origin of this primary source resides in its official nature as a state document, its contemporary meaning and above all as a president's speech. It offers a direct look at the US administration preoccupations and its perception of economic challenges. However, its limits are obvious. As a political speech, it presents a partial vision of the situation, accentuating advantages for the United States by minimizing potential negative consequences for other countries; but it is in the continuity of the so-called Monroe's Doctrine. This speech also reveals the tension between national and international considerations. Nixon insists on the necessity of a "strong American economy" to maintain "a world strong America"⁴, illustrating the interconnexion between internal and external policies. So, this source is precious to understand how Nixon decision has been presented and justified at international and American public.

Pompidou's press conference on September 23, 1971⁵ offers a European crucial perspective on Nixon's decision. Pompidou qualified this decision of "sudden" and underlined its consequences which can be potentially destabilizing for world economy⁶. He expressed European worries concerning the devaluation of the dollar and its effects on the international market.

A value of the origin of this precious source is that it highlights transatlantic tensions resulting from the US decision. Pompidou criticizes the lack of pre-consultation saying that "United States took a fragile unilateral decision without consulting their allies"⁷. It reveals the

⁴ Nixon, 1971, *The Challenge of Peace*. [Book]. - <https://www.presidency.ucsb.edu/documents/address-the-nation-outlining-new-economicpolicy-the-challenge-peace> : The American Presidency Project , 1971.

⁵ Pompidou, 1971, *Conférence de presse du 23 septembre 1971 // Discours et messages*, Tome III, juillet 1970 - avril 1974. - Paris : Albin Michel, 1971.

⁶ *ibid.*

⁷ *Ibid.*

weakness of international relationship and the questioning back of the American leadership in the international monetary system. However, this source has limits, as Nixon's speech. As the official French response, it reflects principally French preoccupations, which aren't representative of all Europe. Moreover, Pompidou's diplomatically tone can attenuate more severe critics. Nevertheless, this source is crucial to understand international repercussions of Nixon decision. It illustrates how the abandonment of the gold standard exchanges contributed to reconfigure economic and political relationship between the United States and Europe, thus, setting bases of new dynamics in world economy.

Section B – Investigation

On August 15, 1971, American president Richard Nixon announced a decision that would turn the world economic order: the abandonment of gold standard exchange. This act, which put an end to the 1944 Bretton Wood system of Keynes and White, played a crucial role in the general crisis of the 70's. To understand its impact, it is essential to adopt an historical perspective, examining not only economic factors, but also political and social contexts at that time. By using primary sources such as Nixon's speech⁸ and French president Pompidou's response⁹, as well as historical analysis as the one of Schulman¹⁰ and Stein¹¹, we will explore reasons of this decision, and its consequences on the short and the long term, and its place in the economic history of the twentieth century.

Nixon's decision to withdraw the dollar's gold backing came against a complex historical context distinguished by financial, political, and geopolitical obstacles. First and foremost, America is grappling with increasing financial stress. As Schulman points out in "The Seventies"¹², the American financial system has experienced continuous stagflation, which combined excessive inflation with poor growth. This predicament was compounded by the expenses of the Vietnam War, which weighed heavily on the government budget¹³. In

⁸ Nixon, 1971, The Challenge of Peace. [Book]. -

<https://www.presidency.ucsb.edu/documents/address-the-nation-outlining-new-economic-policy-the-challenge-peace> : The American Presidency Project , 1971.

⁹ Pompidou, 1971, Conférence de presse du 23 septembre 1971 // Discours et messages, Tome III, juillet 1970 - avril 1974. - Paris : Albin Michel, 1971.

¹⁰ Schulman, 2001, The Seventies: The Great Shift in American Culture, Society, and Politics. [Book]. - [s.l.] : Da Capo Press, 2001.

¹¹ Stein, 2010, Pivotal Decade: How the United States Traded Factories for Finance in the Seventies [Livre]. - New Haven : Yale University Press, 2010.

¹² Schulman, 2001, The Seventies: The Great Shift in American Culture, Society, and Politics. [Book]. - [s.l.] : Da Capo Press, 2001.

¹³ Stein, 2010, Pivotal Decade: How the United States Traded Factories for Finance in the Seventies [Livre]. - New Haven : Yale University Press, 2010.

addition, the Bretton Woods system, which was established in 1944, was exhibiting signs of fragility. Eichengreen notes in "Globalizing Capital"¹⁴ that the dollar's convertibility to gold at a fixed rate is becoming increasingly difficult to maintain in the face of growing American current account deficits. American gold reserves have suddenly declined, endangering the system's legitimacy. The domestic political climate also had an essential impact. Nixon, facing an impending presidential election in 1972, began attempting to revitalize the US financial sector. As Brinkley and Nichter demonstrate in "The Nixon Tapes: 1971-1972"¹⁵, Nixon and his advisors frequently discussed the need to take drastic actions to strengthen the banking system before the elections. Tensions with European allies were rising on a global scale. In "The Battle of Bretton Woods"¹⁶, Steil discusses how European countries, particularly France, had become an increasingly important part of America's "exorbitant privilege" inside the international financial system. These comments put pressure on the Nixon administration to act. Finally, Nixon's speech reveals the language used to justify this decision. He presents this measure as necessary to protect the dollar against "International speculators" and to ensure American competitiveness in economic terms. His presentation reflects Nixon's wish to center economic policy on national interest of Americans. Thus, Nixon decision was the result of a confluence of historical factors such as internal economic pressures, structural weakness of Bretton Wood system, domestic political considerations and international growing up tensions. This decision marked a turning point in post-war monetary system and the beginning of a new era of international economic relations.

¹⁴ Eichengreen, 1996, *Globalizing Capital: A History of the International Monetary System*. [Book]. - [s.l.] : Princeton University Press, 1996.

¹⁵ Nichter, 2014, *The Nixon Tapes: 1971–1972* [Book]. - [s.l.] : Mariner Books, 2014.

¹⁶ Steil, 2013, *The Battle of Bretton Woods: John Maynard Keynes, Harry Dexter White, and the Making of a New World Order*. [Book]. - [s.l.] : Princeton University Press, 2013.

Nixon's decision to abandon the gold standard exchange had deep repercussions on the short term, significantly contributing by that way to the general crisis of the 70's; it also provoked a diplomatic and economic shock wave. As underlined by Eichengreen in his book "Globalizing capital", exchanges rates became volatile, creating new challenges for the international market. This instability sharply affected occidental economies, exacerbating the inflationary tensions already present. The impact on the inflation is particularly marking. Samuelson, in "The Great Inflation and Its Aftermath", explains how the end of the gold standard exchange allowed a more important monetary expansion, feeding the inflationary spiral which is a characteristic of the 70's. This galloping inflation has eroded consumers purchasing power and complicated macroeconomic management for governments.

Nixon's choices also had a role in exacerbating the 1973 oil crisis. According to Schulman in "The Seventies," the depreciation of the dollar, which coincided with the collapse of the gold standard, led to OPEC's decision to significantly increase oil prices, consequently increasing the financial crisis in Western nations. In terms of worldwide relations, Pompidou's press conference of September 23, 1971, illustrates the transatlantic tensions that came after. Pompidou defined the selection as "brutal", highlighting the shortage of earlier session with European allies¹⁷. These tensions marked the beginning of a rebalancing period of international economics relationships, contributing to the general instability of the decade. In the longer term, this event accelerated the transformation of economic structures. Stein, in "Pivotal Decade"¹⁸, argues that the end of the Bretton Woods system contributed to the

¹⁷ Pompidou, 1971, Conférence de presse du 23 septembre 1971 // Discours et messages, Tome III, juillet 1970 - avril 1974. - Paris : Albin Michel, 1971.

¹⁸ Stein, 2010, Pivotal Decade: How the United States Traded Factories for Finance in the Seventies [Livre]. - New Haven : Yale University Press, 2010.

emergence of a new era of financialization of the economy, characteristic of the 1970s and beyond. In sum, Nixon's choice turned into an important catalyst for the disaster of the 1970s, contributing to inflation, economic instability, diplomatic tensions, and structural adjustments within the international economy. As Ferguson summarizes in "The Shock of the Global"¹⁹, this event marked the beginning of an era of free international financial fluxes but also more volatile, defining the tumultuous economic landscape of the 70's.

Nixon's decision to abandon the dollar's gold backing must be understood in the broader context of the 1970s crisis, examining how it interacted with other factors to shape that tumultuous decade. First, it is crucial to compare the economic situation before and after Nixon's decision. As Eichengreen points out in "Globalizing Capital"²⁰, the Bretton Woods system had already shown signs of weakness in the 1960s. However, the end of this system accelerated inflationary trends and monetary instability. Schulman, in "The Seventies"²¹, notes that stagflation - a combination of high inflation and low growth - has become emblematic of the post-1971 economy. Nixon's decision also interfered complexly with other factors in the crisis. For example, Stein in "The Critical Decade"²² explains how the new monetary flexibility amplified the impact of the 1973 oil crisis. The devaluation of the dollar encouraged oil producing countries to increase prices, making the economic shock grow. The perception of this decision by different historical actors is also indicative. Indeed, Nixon's speech on August 15, 1971, presents the measure as mandatory to protect the American

¹⁹ Niall Ferguson, 2010

²⁰ Eichengreen, 1996, *Globalizing Capital: A History of the International Monetary System*. [Book]. - [s.l.] : Princeton University Press, 1996.

²¹ Schulman, 2001, *The Seventies: The Great Shift in American Culture, Society, and Politics*. [Book]. - [s.l.] : Da Capo Press, 2001.

²² Stein, 2010, *Pivotal Decade: How the United States Traded Factories for Finance in the Seventies* [Livre]. - New Haven : Yale University Press, 2010.

economy, reflecting a nationalist perspective. On the other hand, Pompidou's reaction during his press conference of the September 23, 1971, illustrates European concerns for the stability of the international monetary system. Economists, at that time, were divided. Galbraith, in "Age of uncertainty"²³, saw that decision as the beginning of an increased stability era. Others, like Milton Friedman, saw an opportunity for a more flexible monetary policy. On the long term, this decision contributed to the redefinition of the role of the United States in the international economy. Steil, in "The Battle of Bretton Woods" argues that the end of the Bretton Woods system marked the beginning of the decline for US post-war economy. In sum, Nixon's decision, although crucial, was only one factor among others in the 70's crisis. Its impact was amplified by his interaction with other economic, politic and social trend at that time. This larger historical perspective allows us to understand how an event can catalyze profound and lasting transformations in the global economy.

To sum, Nixon's decision was an important catalyst of the crisis of the 70's, contributing by that way to inflation, monetary instability, diplomatically tensions and world economic structural transformation. As Fergusson sum it in "The Shock of the Global", this event is considered as the beginning of a new era of freer world financial flux but also more volatiles, defining thus the economic landscape of the 70's.

²³ Galbraith, 1977, The Age of Uncertainty. [Book]. - [s.l.] : Houghton Mifflin, 1977.

Section C – Reflection

For the historian, the choice of sources is crucial and central in his work, because it determines the quality and relevance of his analysis and so, of his work. When selecting sources, the historian must first assess their credibility. Primary documents, such as letters or reports, are direct testimonies, but they are not free from bias, because those who wrote them may have influenced the facts according to their interests. Other kind of primary sources are books, but they can be affiliated to different political opinions, or any kind of opinions, so it's important for an historian to cross his sources to have a larger point of view on specific event, with sources such as newspaper, or different testimonies like on this subject where I had to pick sources from different point of view; Nixon's and Pompidou's speech are good examples because they are both opposed one to each other.

Secondary sources, on the other hand, offer interpretations already made, but are also influenced by the context and ideas of their author. But finally, they belong to a period situated like ten years after the event in question, so they have a larger point of view, more than a primary source which represents the event when it reaches his "boiling point".

In this case particularly, the result of the researches could be different in function of the sources which were picked up: the response of Canada to the US wouldn't be the same as Japanese or French responses, because they all have different point of view on the event.

Also, for this specific event more than another, it is difficult to have every piece of the puzzle that represent this event, because there might be some geopolitical reasons to the

abandonment of gold standards exchange that aren't specified in documents which are available on this subject. The theme of neutrality must be respected because sources which are pick up are sometimes politically oriented.

Finally, sources must be examined in their context. Each era produces different interpretations of the past according to its own concerns. The historian must be aware of contemporary influences while working to reduce his own prejudices.

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