

Volume III

After the Gold Standard, 1931-1999

1971 August 15

“Address to the Nation Outlining a New Economic Policy: ‘The Challenge of Peace.’ August 15, 1971”. United States President Richard Nixon’s address to the nation announcing the “temporary” suspension of the dollar’s convertibility into gold. While the dollar had struggled throughout most of the 1960s within the parity established at Bretton Woods, this crisis marked the breakdown in the system. While attempts were made to preserve the system, the closing of the gold window signified the end of the Bretton Woods system. The excerpts below indicate that this decision was part of a broader economic plan that, in addition to its monetary measures, included wage and price controls, tax breaks, and reductions in government expenditures.

Good evening:

I have addressed the Nation a number of times over the past 2 years on the problems of ending a war. Because of the progress we have made toward achieving that goal, this Sunday evening is an appropriate time for us to turn our attention to the challenges of peace.

America today has the best opportunity in this century to achieve two of its greatest ideals: to bring about a full generation of peace, and to create a new prosperity without war.

This not only requires bold leadership ready to take bold action—it calls forth the greatness in a great people.

Prosperity without war requires action on three fronts: We must create more and better jobs; we must stop the rise in the cost of living; we must protect the dollar from the attacks of international money speculators.

We are going to take that action—not timidly, not half-heartedly, and not in piecemeal fashion. We are going to move forward to the new prosperity without war as befits a great people—all together, and along a broad front.

The time has come for a new economic policy for the United States. Its targets are unemployment, inflation, and international speculation. And this is how we are going to attack those targets.

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First, on the subject of jobs. We all know why we have an unemployment problem. Two million workers have been released from the Armed Forces and defense plants because of our success in winding down the war in Vietnam. Putting those people back to work is one of the challenges of peace, and we have begun to make progress. Our unemployment rate today is below the average of the 4 peacetime years of the 1960's.

[...]

I will propose to provide the strongest short term incentive in our history to invest in new machinery and equipment that will create new jobs for Americans: a 10 percent Job Development Credit for 1 year, effective as of today, with a 5 percent credit after August 15, 1972. This tax credit for investment in new equipment will not only generate new jobs; it will raise productivity; it will make our goods more competitive in the years ahead.

Second, I will propose to repeal the 7 percent excise tax on automobiles, effective today. This will mean a reduction in price of about \$200 per car. I shall insist that the American auto industry pass this tax reduction on to the nearly 8 million customers who are buying automobiles this year. Lower prices will mean that more people will be able to afford new cars, and every additional 100,000 cars sold means 25,000 new jobs.

Third, I propose to speed up the personal income tax exemptions scheduled for January 1, 1973, to January 1, 1972— so that taxpayers can deduct an extra \$50 for each exemption 1 year earlier than planned. This increase in consumer spending power will provide a strong boost to the economy in general and to employment in particular.

[...]

To offset the loss of revenue from these tax cuts which directly stimulate new jobs, I have ordered today a \$4.7 billion cut in Federal spending.

Tax cuts to stimulate employment must be matched by spending cuts to restrain inflation. To check the rise in the cost of Government, I have ordered a postponement of pay raises and a 5 percent cut in Government personnel.

I have ordered a 10 percent cut in foreign economic aid.

In addition, since the Congress has already delayed action on two of the great initiatives of this Administration, I will ask Congress to amend my proposals to postpone the implementation of revenue sharing for 3 months and welfare reform for 1 year.

In this way, I am reordering our budget priorities so as to concentrate more on achieving our goal of full employment.

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The second indispensable element of the new prosperity is to stop the rise in the cost of living.

[...]

The time has come for decisive action— action that will break the vicious circle of spiraling prices and costs.

I am today ordering a freeze on all prices and wages throughout the United States for a period of 90 days. In addition, I call upon corporations to extend the wage-price freeze to all dividends.

I have today appointed a Cost of Living Council within the Government. I have directed this Council to work with leaders of labor and business to set up the proper mechanism for achieving continued price and wage stability after the 90-day freeze is over.

Let me emphasize two characteristics of this action: First, it is temporary. To put the strong, vigorous American economy into a permanent strait jacket would lock in unfairness; it would stifle the expansion of our free enterprise system. And second, while the wage-price freeze will be backed by Government sanctions, if necessary, it will not be accompanied by the establishment of a huge price control bureaucracy. I am relying on the voluntary cooperation of all Americans—each one of you: workers, employers, consumers—to make this freeze work.

Working together, we will break the back of inflation, and we will do it without the mandatory wage and price controls that crush economic and personal freedom.

The third indispensable element in building the new prosperity is closely related to creating new jobs and halting inflation. We must protect the position of the American dollar as a pillar of monetary stability around the world.

In the past 7 years, there has been an average of one international monetary crisis every year. Now who gains from these crises? Not the workingman; not the investor; not the real producers of wealth. The gainers are the International money speculators. Because they thrive on crises, they help to create them.

In recent weeks, the speculators have been waging an all-out war on the American dollar. The strength of a nation's currency is based on the strength of that nation's economy—and the America: economy is by far the strongest in the world. Accordingly, I have directed the Secretary of the Treasury to take the action necessary to defend the dollar against the speculators.

I have directed Secretary Connally to suspend temporarily the convertibility of the dollar into gold or other reserve assets, except in amounts and conditions determined to be in the interest of monetary stability and in the best interests of the United States.

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Now, what is this action—which is very technical—what does it mean for you?

Let me lay to rest the bugaboo of what is called devaluation.

If you want to buy a foreign car or take a trip abroad, market conditions may cause your dollar to buy slightly less. But if you are among the overwhelming majority of Americans who buy American-made products in America, your dollar will be worth just as much tomorrow as it is today.

The effect of this action, in other words, will be to stabilize the dollar. Now, this action will not win us any friends among the international money traders. But our primary concern is with the American workers, and with fair competition around the world.

To our friends abroad, including the many responsible members of the international banking community who are dedicated to stability and the flow of trade, I give this assurance: The United States has always been, and will continue to be, a forward-looking and trustworthy trading partner. In full cooperation with the International Monetary Fund and those who trade with us, we will press for the necessary reforms to set up an urgently needed new international monetary system. Stability and equal treatment is in everybody's best interest. I am determined that the American dollar must never again be a hostage in the hands of international speculators.

I am taking one further step to protect the dollar, to improve our balance of payments, and to increase jobs for Americans.

As a temporary measure, I am today imposing an additional tax of 10 percent on goods imported into the United States. This is a better solution for international trade than direct controls on the amount of imports.

This import tax is a temporary action. It isn't directed against any other country. It is an action to make certain that American products will not be at a disadvantage because of unfair exchange rates. When the unfair treatment is ended, the import tax will end as well.

As a result of these actions, the product of American labor will be more competitive, and the unfair edge that some of our foreign competition has will be removed. This is a major reason why our trade balance has eroded over the past 15 years.

At the end of World War II the economies of the major industrial nations of Europe and Asia were shattered. To help them get on their feet and to protect their freedom, the United States has provided over the past 25 years \$143 billion in foreign aid. That was the right thing for us to do.

Today, largely with our help, they have regained their vitality. They have become our strong competitors, and we welcome their success. But now that other nations are economically strong, the time has come for them to bear their fair

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share of the burden of defending freedom around the world. The time has come for exchange rates to be set straight and for the major nations to compete as equals. There is no longer any need for the United States to compete with one hand tied behind her back.

The range of actions I have taken and proposed tonight—on the job front, on the inflation front, on the monetary front—is the most comprehensive new economic policy to be undertaken in this Nation in four decades. [...]

Source: *Public Papers of the Presidents, Richard Nixon, Containing the Public Messages, Speeches, and Statements of the President, 1971*, (Washington: Government Printing Office, 1972), pp. 886-890.