YOUN KI AND YONGWOO JEUNG

Ideas, Interests, and the Transition to a Floating Exchange System

Abstract: Milton Friedman's idea of flexible exchange rates was heresy for Americans until the mid-1960s. However, by the late 1970s the idea became embedded in academic thought, policymaking, and business practices. This article analyzes how floating currencies, once eschewed, became embraced as legitimate in the US through the late 1960s and early 1970s. It demonstrates how business leaders' economic interests and laissez-faire economists' framework for causes of and solutions to business hardships contributed to society's acceptance of currency flexibility. Increasing societal support of flexible currencies strengthened the power of float-advocates within the US government, facilitating the transition of the international monetary system from fixed exchange rates to floating. This study highlights how material interests and policy discourses contributed to America's new policy orientation. It also addresses the origins of the neoliberal international financial order by documenting how American elites reconstituted the state-market balance in global finance while navigating monetary crises.

Keywords: American foreign economic policy, Bretton Woods, floating exchange rates, business and politics, neoliberalism, Milton Friedman

Recalling Friedman's "flexible exchange rates" idea, Frederick Deming, Treasury Undersecretary for Monetary Affairs in the Johnson administration, noted: "There was absolutely no acceptance of flexibility of exchange rates on the part of any responsible officials I knew. And there was not really much

The authors thank Nicolas Thompson, Craig Parsons, and three anonymous reviewers from this journal for their critical comments and constructive suggestions.

JOURNAL OF POLICY HISTORY, Vol. 32, No. 2, 2020.
© Donald Critchlow and Cambridge University Press 2020
doi:10.1017/S0898030620000020

https://doi.org/10.1017/S0898030620000020 Published online by Cambridge University Press

acceptance in the academic community. There was almost a total lack of support for them in the banking community. Now you had a few mavericks. But I can't recall any serious discussion on this; we didn't look at it all that seriously."[1] By the mid-1970s, however, currency floating was avowed as a proper modus operandi in international finance by the amendment of the International Monetary Fund's (IMF) Articles of Agreement. Moreover, the idea became "so embedded in academic thought, in government policy, and in banking practice, that those still longing for fixed rates on more than a regional or highly selective basis were relegated to the fringes of debate" in the United States by the late 1970s, wrote Paul Volcker, treasury undersecretary for monetary affairs in the Nixon administration.[2]

The early 1970s dissolution of the postwar Bretton Woods monetary system is one of the most important events in twentieth-century international economic history. It facilitated two critical changes in modern capitalism: the expansion of financial markets and the retrenchment of welfare states. Since the 1970s, the volume of purely monetary transactions exploded. Foreign-exchange trading amounted to more than eleven times the total value of world trade by 1979; five years later, it increased to almost twenty times the total value of world trade.[3] Also, the liberalization of global financial flows generated concerns about the stability of regulatory institutions and policies in the face of intensified competition.[4]

Given its historical importance, the transformation of the international monetary regime has been widely documented across disciplines.[5] However, many studies have focused on "hardware" changes: the collapse of the fixed exchange system and transition to floating. "Software" changes are less known: whether members of society perceived the new system as desirable and appropriate. Formal changes and informal or normative changes do not necessarily go hand in hand. The latter influences participating actors' practices and behaviors, critically shaping the characteristics of the new regime. For example, even after the end of the Bretton Woods system, the Europeans and Japanese did not believe that market-determined exchange rates would magically help achieve national welfare and security goals. Instead, they thought that governments should control the production and regulation of world money. European and Japanese governments energetically intervened in currency markets and imposed capital controls, targeting certain levels of exchange rates. Indeed, their level of intervention in currency markets since March 1973, when generalized floating began, was even greater than the par value period prior to 1971.[6] Conversely, the US government refrained from intervening in currency markets, confining itself to smoothing day-to-day

https://doi.org/10.1017/S0898030620000020 Published online by Cambridge University Press

fluctuations in exchange rates. It also abolished capital controls in 1974, seeing short-term capital flows as important vehicles to correct underlying economic imbalances.[7] America's embrace of a floating exchange system, and financial liberalization more generally, accelerated the globalization of financial markets by putting pressure on other countries to follow suit, often through bilateral treaties. Moreover, other countries soon realized that their regulations, without US cooperation, were becoming ineffective. Subsequently, the world moved from 1970s' managed floating to clean floating on a global scale, while European and Japanese governments removed capital controls throughout the 1980s and 1990s.[8]

Recent historical studies by Gavin and Sargent enriched the understanding of the international monetary transformation by analyzing how America's strategic objectives and its leaders' political aspirations affected the transition, as opposed to earlier focus on structural aspects such as globalizing capital, fundamental flaws of the Bretton Woods system (e.g., the Triffin dilemma), and international economic power shifts.[9] This article complements aforementioned studies by adding another layer to the story: a wider societal and intellectual context that created the conditions for the shift. As some analysts indicated, neoliberals' penetration into Washington, notably the appointment of George Shultz as Treasury Secretary in 1972, was crucial to America's new policy direction favorable toward floating.[10] However, a narrow emphasis on personnel change in Washington misses broader changes in the American society. This article expands the scope of research, examining how American academic and business leaders came to accept the idea of floating currencies over the 1960s and early 1970s.[11] It highlights how international financial turbulence under the Bretton Woods system threatened corporate and banking leaders' economic interests and how academic floaters (who supported flexible exchange rates) developed a new framework through which business leaders identified problems, assessed experience, and diagnosed solutions. This shift in elite society, plus personnel turnover in Washington, affected the evolution of the international monetary system. Increasing societal support of currency flexibility strengthened the political capital of floaters over fixers (who supported fixed exchange rates) within the US government, effectively foreclosing multilateral efforts to mend the existing monetary system by the summer of 1973. As such, we emphasize how both interests and ideas contributed to the policy shift.[12]

This study also provides a new perspective on the role of US business in the emergence of a new international financial order, from embedded liberalism to neoliberalism.[13] Existing studies have emphasized how

https://doi.org/10.1017/S0898030620000020 Published online by Cambridge University Press

transnational finance precipitated the monetary shift, yet have treated it as an amorphous market force.[14] In contrast, we attempt to identify the agency, showing that American multinational corporations and banks were the main actors behind cross-border capital flows and that their policy preferences and political activities facilitated the international monetary transition. Also, the transition did not represent a simple technical reconfiguration from fixed to floating exchange rates. Instead, it accompanied an important reassessment of the state-market balance in the global economy. American political and business leaders rejected the Bretton Woods fixed-exchange regime because they believed that it invited government controls and delayed prompt adjustments, which in turn hindered international trade and investment. They concluded that a monetary system that allowed government discretion was bad for international business and the economy. This conclusion differs starkly from that of the majority of Americans who went through the turmoil of the 1930s. In the 1940s, they believed that governments should intervene in markets to preserve currency parities and control disruptive capital flows; otherwise, the international economy would collapse.

Our study complements the contemporary scholarship on American neoliberal revolution that stresses the central role US business played in the process. Kim Phillips-Fein and Benjamin Waterhouse show how the perceived and real threats to business prerogatives during the 1930s and 1940s (Phillips-Fein) and the late 1960s and 1970s (Waterhouse) generated business's crisis of confidence in the system, inciting business mobilization to save America's free enterprise system. My research similarly pays attention to business's engagement in the transition of the postwar economic order, with a special focus on the financial pillars of the system. I further trace the evolving relationship between business leaders and neoliberal economists as well as the ideological shift regarding international finance over the several decades, which is comparable to Phillips-Fein's approach, which emphasizes the origin of modern conservative politics and ideology that predates the 1960s.[15] In addition, this study speaks to Judith Stein's work, which explores the complex intersections of de-industrialization and financialization of the American economy and Ronald Reagan's rise to power. She carefully documents the various ways American businesses were involved in the process, including industrial policy debates, legislative fights over labor-law reforms, and the presidential campaign. In a similar vein, we document how key political and economic actors' struggles to manage economic crises contributed to financial liberalization, not smoothly but in a jerky and disorderly manner. Yet, we highlight how business leaders and academics strengthened the position of revisionists

https://doi.org/10.1017/S0898030620000020 Published online by Cambridge University Press

(e.g., Shultz) over that of traditionalists (e.g., Burns) within the administration, rather than engaging in party politics.

BRETTON WOODS: 1940S–1950S

Toward the end of World War II, the United States led multilateral efforts to establish an international monetary regime to restore foreign trade and investment. In July 1944, delegates from forty-four nations gathered in Bretton Woods, New Hampshire, to announce a new system to regulate the international economy. This "Bretton Woods" system pegged all currencies to the dollar at fixed exchange rates, and the dollar was convertible into gold at a rate of $35 per ounce. This fixed exchange rates system was widely supported by both academics and government officials because they believed that fluctuating exchange rates were an obstacle to successful restoration of international trade and investment.[16] Also, the new system allowed all currencies, except for the dollar, to appreciate or depreciate in consultation with the IMF to rectify international payments imbalances.[17] This adjustment mechanism would avoid the flaws of the gold standard, under which countries with deficits were pressured to deflate their economy, thereby dampening the demand for imports while improving export competitiveness. Delegates at the Bretton Woods conference vividly remembered how such adjustment using austerity had caused enormous economic dislocation and pain between the wars.

Bretton Woods departed from the old regime in other ways. It legitimized government regulation of capital flows to prevent them from destabilizing currencies and disrupting government policies. Also, the IMF was created to monitor national economic policies and provide balance-of-payments financing to troubled countries. Overall, the system permitted government discretion and intergovernmental cooperation to achieve domestic policy goals and rebuild the international economy. US Treasury Secretary Henry Morgenthau sharply criticized New York bankers, who opposed Bretton Woods' interventionist features, at a news conference in 1945: "It has been proven as far as I am concerned that people in the international business cannot run successfully foreign exchange markets. It is up to the governments to do it."[18]

While the world was heralding a new monetary system based on fixed exchange rates, a small group of float-advocates emerged in the 1950s. The central figure was Milton Friedman.[19] In 1950, Friedman was serving as Special Representative to the Organization for European Economic Cooperation, devising a solution to the German balance of payments problem. His conclusion, later published as a book entitled "The Case for Flexible Exchange Rates"

https://doi.org/10.1017/S0898030620000020 Published online by Cambridge University Press

in 1953, claimed that the system of "flexible exchange rates freely determined in open markets" was more effective than capital controls, austerity measures, and exchange rate changes by the government.[20]

During the early postwar years, Friedman was an outcast even in free-market circles on the issue of international monetary system. More orthodox ideologues like Ludwig von Mises supported the gold standard, which could discipline governments to keep currencies at parity. The imposition of such harsh discipline, Friedman quipped, was impossible in an age when governments promised full employment and welfare programs. He lamented that a system of flexible rates had been condemned alike by "traditionalists, whose ideal was a gold standard" and the "reformers, who distrusted the price system in all its manifestations." The Bretton Woods system was the result of a "curious coalition" of the two groups.[21] By the mid-1950s, Friedman was joined in his crusade for floating by prominent economists such as Edward Bernstein, Gottfried Haberler, Friedrich Lutz, Fritz Machlup, and James Meade.[22]

BALANCE OF PAYMENTS PROBLEMS: 1960S

International monetary conditions substantially changed following the 1944 Bretton Woods Conference. Most striking was that the dollar shortage of the immediate postwar years turned into a dollar glut. After World War II, the international economy heavily relied on dollar outflows for liquidity. However, by the late 1950s America's persistent external deficits generated grave concerns. The U.S. government undertook a variety of measures to address the balance of payments problem throughout the 1960s.

Under John F. Kennedy, the Council of Economic Advisers (CEA) and the State Department suggested reform of the international monetary system. One idea was to persuade other countries to share the US burden in providing liquidity; some even proposed dollar devaluation as a last resort.[23] However, tampering with the existing monetary system was not acceptable to top Treasury officials. Treasury Secretary Douglas Dillon and Treasury Undersecretary for Monetary Affairs Robert Roosa, along with other informed Americans, strongly believed that the US-sponsored postwar economic regime made great contributions to the free world by supporting restoration of international trade. At the center of the regime was gold-dollar convertibility. They feared that any change, such as going off gold or dollar devaluation, would undermine international monetary stability, repeating the protectionism between the wars and the nadir of the Great Depression. Also, some American political and finance leaders cherished the prestige of being

https://doi.org/10.1017/S0898030620000020 Published online by Cambridge University Press

the world's banker.[24] Although Kenney was personally sympathetic to reform, he followed Dillon and Roosa to prevent a gold panic in financial markets. Instead, the Kennedy administration focused on reducing dollar outflows by seeking concessions from European allies to offset US military burdens abroad.

By the mid-1960s, economists and policymakers widely accepted economist Robert Triffin's idea that a reserve currency standard is inherently unstable. The Johnson administration's Treasury Secretary Henry Fowler and Francis Bator, Special Assistant to the President on foreign economic policy, announced plans to create a new international reserve asset alongside the dollar to provide liquidity. They strongly refused other reform ideas, particularly dollar devaluation and exchange-rate flexibility. Like their predecessors, Fowler and other officials equated any deviation from the par-value system with the collapse of the international monetary system and international trade. Further, the postwar monetary system was the symbol of international cooperation. Devaluation of the dollar or floating exchange rates was tantamount to abandoning of multilateralism and returning to the isolationism of the interwar period.[25] Johnson's economic team did not believe in floating exchange rates for ideological reasons. Fowler, a long-time Democrat with experience in war mobilization agencies, commented: "You don't leave economic growth, employment, unemployment and price stability and balance of payments equilibria just purely to market forces and get the best economic and social results."[26] Johnson did not want to sacrifice domestic and international commitments for international financial stability, although his extensive social programs and the Vietnam War fueled soaring US deficits in the late 1960s. Instead of fundamental monetary reforms or spending cuts, the Johnson administration resorted to expedient measures—capital controls, primarily. It expanded and strengthened capital controls on dollar outflows previously imposed under Kennedy. In 1965, the Johnson administration installed new voluntary control programs, asking commercial banks and corporations to limit dollar export. It turned voluntary controls on foreign direct investment (FDI) to mandatory in 1968.[27]

Apart from Washington, international monetary system reform became a high-profile topic in American academia by the mid-1960s. Float-advocate Machlup led an academic study group, the Bellagio Group, which brought together renowned monetary economists and officials to examine monetary reform. Robert Triffin recalled that Machlup's influence over economists turned the tide toward flexible rates.[28] Also, Friedman was rising to prominence among academic economists and policymakers in the late 1960s.[29]

https://doi.org/10.1017/S0898030620000020 Published online by Cambridge University Press

By 1967–68, the majority of academic economists supported greater currency flexibility while not accepting floating in full.[30]

The floaters' influence, nevertheless, remained limited outside academia until the late 1960s. Nixon's election brought a wave of market-oriented economists into the administration who were sympathetic to ideas about currency flexibility such as free float, wider band, and crawling peg. Haberler headed Nixon's campaign task force on international monetary affairs; other float enthusiasts like Paul McCracken and Hendrik Houthakker joined the CEA. However, their discussion of flexible exchange rates was effectively silenced or ignored by high-ranking government officials. Given Nixon's and Treasury Secretary David M. Kennedy's lack of interest in international monetary matters, Paul Volcker, Treasury Undersecretary for Monetary Affairs, assumed that responsibility. He had taken a conventional career route, beginning with the New York Federal Reserve, serving as deputy to Roosa at the Treasury, and working for Chase Manhattan Bank between government posts. In other words, he was a Bretton Woods veteran inclined to preserve the existing monetary order and allergic to fundamental reforms involving flexible exchange rates. Diplomatic concerns also induced him and other officials to support the par-value system. They knew that America's allies abhorred exchange-rate flexibility. In February 1969, Volcker traveled to Paris to discuss international monetary situations with European leaders. When he shared ideas on ways to introduce more flexibility into the monetary system, a European representative said: "If all this talk about flexible exchange rates brings down the system, the blood will be on your American hand."[31] With that, American officials were careful to not stir doubts about US commitment to the existing system.

Academic floaters' efforts seemed futile among the business community as well. Until the late 1960s, flexible exchange rates were anathema to many bankers and business owners, primarily because fluctuating exchange rates would bring uncertainty to foreign transactions. Like many government officials, they associated flexible rates with the collapse of trade and investment. To change the mood, profloat economists held public conferences and published books, which were occasionally reviewed in the *Wall Street Journal*'s "Reading for Business" section.[32] They also took advantage of their connections to the prominent business organization, Committee for Economic Development (CED). With business and industrial celebrities across sectors on its roster, the CED had long been a policy partner with the Department of Commerce in shaping major economic policies since its inception in 1942.[33] In the mid-1960s, two hard-core floaters, Haberler and Machlup, led CED's

https://doi.org/10.1017/S0898030620000020 Published online by Cambridge University Press

research on international financial systems. But their influence was limited. CED's policy reports, published in 1966 and 1968, rejected "any of the various proposals for introducing greater flexibility into the exchange rate structure."[34] The CED was not alone. In June 1969, the American Bankers Association (ABA), the largest financial trade organization in the United States, hosted its annual International Monetary Conference, which drew financial leaders, economists, and governmental officials from all over the world, with a roster that read like a "Who's Who" of international banking. At the conference, the idea of exchange-rate flexibility did not elicit significant support from the participants.[35] Instead of international monetary reform, leading bankers claimed that austerity was the solution to the US balance-of-payments problem. They thought that allowing greater exchange-rate flexibility would only divert government attention from adopting the fundamental solution.[36]

However, business leaders started to see the international monetary issue from a different angle when capital controls on FDI were tightened in 1968. While US businesses were cooperative with the Johnson administration's initiatives to reduce dollar outflows by limiting FDI on a voluntary basis starting in 1965, they became infuriated as voluntary controls became mandatory in 1968.[37] Major business organizations such as the CED, the ABA, the US Chamber of Commerce, and the National Association of Manufacturers (NAM) flooded congressional hearings in 1969, strongly demanding the removal of controls.[38] Some business leaders began to question the efficacy of the existing international monetary system. They no longer believed that capital controls would be temporary; nor did they believe in a patchwork of ad hoc measures to the balance-of-payments problem. Instead, they began adopting a ready-made policy framework prepared by academic floaters to diagnose the situation.[39]

One notable event facilitating the business leaders' transition was a June 1969 conference. An international group of thirty-eight bankers, business representatives, and prestigious economists gathered in Bürgenstock, Switzerland, to explore options to increase flexibility in the monetary system. It was a well-prepared venue for floaters to spread their policy ideas and build consensus among businesspeople. In preparation, Machlup commissioned a poll of business leaders, gauging their perception of international monetary affairs. One question asked whether the respondent experienced any difficulties in international business operations that could be ascribed primarily to the fixed exchange-rate system; others questions asked whether the respondent preferred a system allowing greater exchange-rate flexibility. "No" was the overwhelming

https://doi.org/10.1017/S0898030620000020 Published online by Cambridge University Press

response to all these questions. However, the floaters found a gleam of hope. Analyzing survey participants' comments, the pollsters concluded that business-people, only beginning to think about these issues, were far more susceptible to persuasion than academics, central bankers, or finance ministers.[40] Indeed, most conference participants changed their opinions by the end of the meeting, favoring more flexibility in the monetary system.[41] David Grove, chief economist at IBM, supported greater exchange-rate flexibility on the premise that a more flexible regime would provide a better adjustment process, thereby obviating the need for capital controls. John Watts, a top executive at Brown Brothers Harriman and Co., stressed that "more and more businessmen consider the devaluations and fluctuations experienced from 1967 through 1969, bad as they were, to be less of a threat to profits than the trade and investment controls that were erected during the same period."[42] Conference organizers held follow-up meetings in the early 1970s.

Toward the end of the 1960s, business groups and leaders showed greater interest in the idea of currency flexibility.[43] At 1969 congressional hearings on foreign direct investment controls, Russell Baker, chairman of the US Chamber's special advisory panel on balance of payments, called for "thorough studies" to evaluate available options including the "various flexible exchange rate proposals."[44] The chamber's special advisory panel on balance of payments included the nation's largest corporations, such as P&G, Pfizer, Caterpillar, GE, Sears, and Texaco, which had grave interests in international investment. In May 1969, one of the most conservative financial leaders, Gaylord A. Freeman Jr., Chairman of First National Bank of Chicago, argued for greater flexibility at the meeting of the Texas Bankers Association. Soon, Chase Bank and Bank of America joined the pack. The leading banks complained that fixed exchange rates invited capital controls that restricted international trade investment. They also emphasized that international transactions could be hedged through forward exchange markets.[45]

DISINTEGRATION OF THE BRETTON WOODS: 1971–1973

The Nixon administration's initial complacency with international monetary situations changed between 1969 and 1970. With ballooning US deficits and ever-growing speculative financial flows, American officials saw no easy fix to the payments imbalance. An interagency group on international monetary policy, led by Volcker, suggested three measures: (1) devalue the dollar against gold; (2) suspend gold-dollar convertibility; and (3) realign exchange rates. The officials at first chose the third option, pursuing multilateral negotiations

https://doi.org/10.1017/S0898030620000020 Published online by Cambridge University Press

on currency realignment. However, Europeans and the Japanese were reluctant to revalue their currencies, which would undermine their trade competitiveness. By late 1970, Volcker sensed that the United States would eventually have to close the gold window to avoid a run-on-gold.[46] Treasury's thought experiments developed into an official action plan when John Connally became Treasury Secretary in February 1971. Connally, an experienced politician unusually savvy with power games rather than an economic expert, appealed to Nixon's ambition in maintaining American primacy in the world. He elaborated how American military obligations abroad, unfair trade barriers of its trading partners, and the overvalued dollar under Bretton Woods all were responsible for American economic decline as well as an international payments imbalance.[47] He convinced Nixon that suspension of gold-dollar convertibility and subsequent currency adjustment would reinvigorate US industry and US economic power. On August 15, 1971, the Nixon administration closed the gold window. Nixon, Connally, and other economic strategists did not intend to bring down Bretton Woods. Quite the opposite. They perceived such drastic action as shock therapy to compel European countries and Japan to adjust currency parities and stabilize Bretton Woods.[48]

Connally's brinkmanship, however, was put to an end. Arthur Burns and Henry Kissinger were determined to protect the Atlantic alliance. Fed Chair Burns, a highly influential Washington figure in economic policy, with a respectable career in academia and government, opposed America's unilateral decision in August to sever the gold-dollar link. As a Bretton Woods veteran, he feared that such action would bring down the entire monetary system. Moreover, as a devoted member of the international central banking community, he believed that international financial stability could be achieved primarily by central bankers' concerted efforts through such measures as cooperative capital controls and swap arrangements.[49] National Security Adviser Kissinger was preoccupied with US grand strategies vis-à-vis the main antagonist Soviet Union and major allies in Europe and East Asia, paying little attention to economic issues before the fall of 1971. However, he got involved when he sensed that Connally's tactics were weakening cohesion among US allies. Kissinger and Burns successfully persuaded Nixon that the United States should make compromises to end the monetary crisis. In the fall of 1971, Kissinger arranged a series of summits between Nixon and European leaders to strike a deal on exchange-rate changes.[50] At the end of December, the United States, Europe, and Japan announced the Smithsonian Agreement, which instituted new parities between the dollar, gold, and other currencies. Encouraged by the cooperative mood, the IMF called for

https://doi.org/10.1017/S0898030620000020 Published online by Cambridge University Press

organization of a forum in the spring of 1972 to negotiate the reform of the international monetary system, which produced the ad-hoc Committee of Twenty (C-20) within the IMF.

In May 1972, George Shultz replaced Connally as Treasury Secretary. His rise to the post of "economic czar" both reflected increasing Friedmanites' penetration into the government and signified substantial changes in American international monetary policy.[51] He was a professional economist and experienced public official, having served as labor secretary and director of the budget. He was significantly influenced by Friedman when they taught together at the University of Chicago.[52] Upon his appointment, Shultz orchestrated the development of comprehensive US policy on reform of the international monetary system. While existing studies describe the process as close collaboration between Volcker and Shultz,[53] Shultz's leadership made critical changes in the US position. Before Shultz's arrival at Treasury, Volcker's monetary reform group, despite diverse views within, found common ground as to basic principles of reform. It promoted a modified par-value system with timely adjustments in par values and "symmetry" in the adjustment process. That is, surplus countries as well as deficit countries should take measures to bring balance to international payments, whereas the existing system put disproportionate burden of adjustment on deficit countries.[54] To achieve symmetry in adjustment, the Volcker Group suggested the use of "presumptive criteria": If a country's reserve assets moved above or below preset bands, an international committee would use such a reserve indicator as a guide *in making judgement* (emphasis added) to ask the country to adjust.[55]

Conversely, a new US plan under Shultz, called "Plan X," emphasized *automaticity* of the indicator system. Here, deviation from preset asset levels would require the country to take corrective actions, such as parity changes or income policies, without multilateral negotiations.[56] In other words, countries can choose what actions to take to adjust (e.g., parity changes, income policies), but cannot choose whether they would adjust or not. While Volcker's plan aimed to achieve what American officials considered essential to American national interests (i.e., symmetry) through political process, Shultz's plan tried to attain the same goals by relying on market conditions. When the United States unveiled its new reform proposal in September 1972, other countries strongly refused such automaticity because it limited their political discretion, claiming that indicators should prompt consultations at most.[57] Soon after the release of its monetary reform proposal, the US government officially announced its new policy direction, which emphasized that the international monetary system should be "market-oriented" to best

https://doi.org/10.1017/S0898030620000020 Published online by Cambridge University Press

foster expansion of world trade and investment. It further elaborated that the payments imbalance should be adjusted in such a way as to minimize interference with market transactions.[58]

Shultz's influence in the government, however, was limited. Whenever his actions seemed to undermine the Atlantic alliance, other policymakers attempted to check them. In the summer of 1972, US Treasury officials ignored the desperate attempts by European central banks to intervene in financial markets to stabilize the dollar against speculative attacks because they believed that market forces would guide the dollar to the right level.[59] However, they had to back down when Burns and Kissinger strongly urged US intervention.[60] Floaters and others clashed again in January 1973. Facing another dollar crisis, Shultz held multiple high-level meetings with Burns, Volcker, Herbert Stein (CEA chair), Peter Flanigan (Council on International Economic Policy), William Rogers (Secretary of State), and Bill Casey (Undersecretary of State for Economic Affairs). By then, three economic experts of the senior policy group supported floating (Shultz, Stein, and Flanigan), while Burns strongly opposed it.[61] Shultz and Burns brought the issue to the ultimate arbiter, Nixon. Nixon sided with Burns because he thought that American disengagement would be considered abandonment of American leadership. He called the option of floating too much of a "to hell with the rest of the world."[62] Volcker bridged the gap between the floaters and Burns by suggesting multilateral negotiations to realign exchange rates. With Nixon's approval, Volcker was sent to negotiate specific terms with West Europe and Japan. The countries reached an agreement swiftly, announcing the devaluation of US dollars on February 12.

Paralleling the floaters' growing infiltration into the government, the idea of floating currencies was gaining popularity in the business community in the early 1970s. Although fixed exchange rates had been an "article of faith" among bankers, American bankers began to alter their views as influential financiers publicly endorsed exchange-rate flexibility.[63] For instance, in October 1971, David Rockefeller, chairman of New York's Chase Manhattan Bank, insisted that the world move "away from both gold and the dollar standard" toward a system of greater exchange flexibility.[64] In 1971–72, First National City Bank, the leader in international banking, called for "an orderly system of floating exchange rates" because it believed that fixed exchange rates were incompatible with free capital movement and national policy autonomy.[65]

One important reason behind the bankers' changed attitude, along with their hatred of controls, was the prospect of profits. Under Bretton Woods, banks perceived the foreign-exchange business as a service center rather than a profit center. However, as foreign-exchange markets grew rapidly in the 1960s,

https://doi.org/10.1017/S0898030620000020 Published online by Cambridge University Press

some banks found business opportunities in them. In particular, between August and December 1971, while currencies were floating, banks made large foreign-exchange profits, discovering potential profitability in the floating system. Indeed, top management at Chemical Bank, First National Bank of Chicago, Bankers Trust, and Wells Fargo Bank started pressuring exchange traders to produce profits in the early 1970s.[66] Salomon Brothers' data on major US banks' foreign-exchange profits between 1969 and 1976 also show a massive upswing in profits in the early 1970s.[67] The opening of two new exchanges to handle foreign currency futures, first in New York in April 1970 (the International Commercial Exchange, an affiliate of New York Produce Exchange) and then in Chicago in May 1972 (the International Monetary Market, a unit of Chicago Mercantile Exchange), also facilitated the expansion of foreign-exchange markets.[68]

Furthermore, leading banks honed financial techniques to deal with currency fluctuations, which subsequently comforted American companies' anxiety about greater exchange flexibility. In fact, some banks showed confidence in such financial skills as early as the late 1960s. For example, John H. Watts, banking executive of Brown Brothers Harriman and Co., reassured that multinational corporations (MNCs) and international investors could rely on means of insulation against currency risk, although small firms with little financial strength would face difficulties.[69] Indeed, a 1971 *New York Times* article reported how internationally oriented companies were learning to cope with—and exploit—increasing currency fluctuations with the help of large banks such as Morgan Guaranty Trust Company, First National City Bank, and Brown Brothers Harriman.[70] Between January 1972 and March 1973, during the period of moderate flexibility between two dollar devaluations, MNC treasurers were pleasantly surprised that flexible currencies did not undermine their operations.[71]

Another critical factor that drove US businesses to embrace greater exchange-rate flexibility was the demand of stronger capital controls by the "fixers," who supported fixed exchange rates. After Nixon closed the gold window in August 1971, the issue of speculative capital flows was widely examined in the United States and abroad. Major news outlets extensively discussed whether US-based multinational firms and banks were responsible for the currency crises in the late 1960s and early 1970s.[72] Also, IMF's 1972 report on the causes of "disequilibrating capital movements" concluded that multinational firms and banks were culpable. For example, MNCs' practice of "leads and lags," the deviations from the usual timing of commercial payments and receipts, generated a substantial amount of destabilizing short-term flows. To handle short-term capital flows, the report suggested "comprehensive"

https://doi.org/10.1017/S0898030620000020 Published online by Cambridge University Press

capital restrictions.[73] Along with the IMF, Europeans and Japanese claimed that stronger regulations on international capital movement were essential to the reconstruction and preservation of fixed exchange systems.[74]

Facing efforts to tighten international provisions on capital controls, major business associations hurriedly organized task forces to scrutinize reform of the international monetary regime. In 1972 the CED and the NAM, respectively, formed high-level task forces on monetary reform to formulate their own suggestions to monetary issues.[75] The US Chamber's internal and public documents also show intriguing changes in attitude toward capital controls and the international monetary regime. Its Banking and Monetary Policy Committee updated its position on international monetary policy yearly during the late 1960s and early 1970s. As early as February 1971, the Chamber officially embraced the idea of currency flexibility, switching its policy position from emphasizing "stability" in international monetary relations to "*reasonable* stability and *flexibility* (emphasis added)."[76] Upon suspension of gold-dollar convertibility in August 1971, it praised such measures, which would ensure "the greatest flexibility in international monetary matters."[77] In early 1972, it urged the government to establish a "viable, long-term, flexible exchange system" at congressional hearings, indicating that the Smithsonian Agreement, although a step in the right direction, was "far from sufficient."[78] When the Nixon administration finally revealed its monetary reform proposal in late 1972, the Chamber welcomed this policy direction toward currency flexibility. It stated that an international monetary framework should aim at fostering "the largest possible expansion of world trade" and that currency flexibility was "necessary" to avoid controls over international transactions.[79]

By late 1972, the *New York Times* reported that Washington, with increasing support from the business community, was leaning toward "substantially increased" flexibility in exchange rates, which would allow the "greater role for market forces" in the determination of currency values.[80] In early 1973, Fed chair Burns, a staunch advocate of fixed exchange rates, reluctantly admitted that a "dramatic change" in attitudes about the exchange-rate system had occurred among business leaders, commercial bankers, and central bankers. While they were distrustful of floating a few years ago, now they "widely accepted," rather than merely tolerating, floating rates.[81]

TRANSITION TO GENERALIZED FLOATING: 1973–1974

The second devaluation of February 1973 lasted only about two weeks. The devaluation, only thirteen months after the Smithsonian Agreement, unsettled

https://doi.org/10.1017/S0898030620000020 Published online by Cambridge University Press

the psychology, creating doubts about the government's will to defend the new parities. Moreover, a series of actions by the government, including relaxation of domestic price controls and the announcement to remove capital controls, fueled doubts. Gold soared to $90 an ounce in late February, more than twice the new official price of $42, igniting massive speculation against the dollar. European governments, after their failed attempts to absorb enormous amounts of dollars, closed their exchange markets in early March.[82] European Economic Community (EEC) leaders and European central bankers gathered over March 3–4 to discuss their response, including possibly a joint float. That is, the EEC countries would peg their currencies together while collectively floating them against the dollar.

Back in the United States, Nixon called high-level meetings on March 3. He met that morning with senior economic officials, including Shultz, Stein, Burns, Volcker, and Roy Ash (director of the Office of Management and Budget). All senior economic officials supported floating except Burns, who called for massive intervention in foreign exchange markets.[83] This time, moderate Volcker leaned toward floating because he thought that speculators "were ready to shoot at any fixed target presented by the authorities."[84] Nixon himself acknowledged the difficulty of defending existing exchange rates at that moment, but could not ignore political consequences of floating. In early 1973, Nixon and Kissinger were paying greater attention than ever to Europe. Except for the United States and the Soviet Union, Europe's economic and potential military power was larger than any region in the world. More important, the new Europe of Nine, with three new members added to the EEC on January 1973, was now moving toward political as well as economic unification. Nixon and Kissinger feared that growing European power and unity would mark the end of American supremacy in the West.[85] Burns knew exactly what Nixon was concerned about. He warned Nixon that Europeans were moving to construct their own monetary system, bypassing the United States. Torn between the two options, floating and massive intervention, Nixon deferred to Kissinger. In an anxious tone he asked the economists to talk with Kissinger: "You can't think of this, basically, as an economist. The whole European relationship is in a state of, I think, very profound change at this point. And to the extent we can, we should use our economic and monetary stroke to try to affect that change in a way that will be—will serve our interests."[86]

After talking to the economists, Kissinger reported back. To Nixon's surprise, Kissinger said that floating was not against American interest; rather, it was "really somewhat in our interest."[87] By then, Shultz and Stein learned how to play the game. They persuaded Kissinger that a European joint float

https://doi.org/10.1017/S0898030620000020 Published online by Cambridge University Press

would most likely fail, forcing them to adopt an individual float. Since Europeans detested individual floating, they would come to the waiting arms of the United States, asking for its leadership. Accordingly, the United States would be in a stronger bargaining position for monetary reform.[88] In addition, Shultz reassured Nixon and Kissinger that domestic situations were favorable to floating. He emphasized that economists and some business and financial leaders considered recent economic developments as progress toward currency flexibility. He further elaborated how Congress became increasingly agitated by American interventions in currency markets, criticizing the draining of taxpayers' money.[89] Nixon and Kissinger concluded that the United States should look cooperative by getting involved in multilateral meetings, while waiting for the European joint float to fail. The United States met with Europeans over March 8–9 to discuss the monetary crisis but did not commit to intervention as planned in the high-level meetings.

On March 12, six members of the EEC managed to adopt a joint float. Kissinger was furious and anxious. He hoped and anticipated that the Europeans would fail to agree on the joint float; the floaters and news media had told him that such agreement was "unlikely."[90] Fearing that a successful joint float would be a steppingstone for a new European monetary system, Kissinger instinctively realized that the United States should "create conditions in which the Common float is as hard to work as possible."[91] When Kissinger desperately inquired how to create such conditions, William Simon, Deputy Secretary of the Treasury and a float-advocate, answered: "I interpret that as less intervention, which is a good idea."[92] Kissinger concurred with the policy of nonintervention. On March 16, the Group of Ten and the EEC announced a joint communique, which officially allowed their currencies to float.[93]

Despite the onset of generalized floating, no public officials or informed citizens considered it the beginning of a new era. Instead, they shared the assumption that floating would be only temporary. Most government leaders opposed floating as a permanent system. Also, ongoing reform discussions at the international level aimed to restore a system of stable but adjustable *par values*.[94] As late as June 1973, Volcker expected, in his testimony before Congress, that the United States would adopt a par-value framework as a matter of principle.[95] Indeed, momentum was building in the summer of 1973 for resurrection of a par-value system, launched by enormous turbulence in the financial markets. Speculation against the dollar, which had subsided since March, resumed in mid-May, accelerating in June and July. The value of the dollar dropped by 10 percent compared to mid-February parity. A sudden drop in the value of the dollar and wider fluctuations in exchange rates inflicted

https://doi.org/10.1017/S0898030620000020 Published online by Cambridge University Press

great pain on European business owners and bankers, who subsequently pressured their governments to take action. Concerned with a growing protectionist mood at home, European leaders urged the US government to support the dollar.[96] Moreover, National Security Council (NSC) staffs repeatedly urged Shultz and Kissinger throughout July to stabilize the dollar in cooperation with Europeans. Charles Cooper and Robert Hormats emphasized that America's engagement was vital to reinstate American leadership and stall European regionalism.[97] Governors of the Fed also criticized that the "uncontrolled float" of the dollar contributed to financial instability.[98] The Treasury could no longer uphold its noninterventionist approach. Shultz allowed Burns to intervene in foreign exchange markets to bolster the dollar in mid-July. It seemed the government was going back to Bretton Woods–era practices.

Furthermore, going through the summer's financial disarray, European leaders showed strong determination to revive the reform talks.[99] In July's C-20 meetings and C-20 deputies meetings, French officials admitted for the first time that the traditional system of convertibility was "not perfectly symmetrical," making significant concessions regarding reserve indicators to the US position—one of the most controversial issues in the previous meetings.[100] Given how the French had been the US's main monetary antagonist, from De Gaulle's criticism of the dollar's reserve currency status to President Pompidou's and Finance Minister d'Estaing's strong rejection of American reform plans, optimism that agreement might be reached on the monetary reform was suddenly renewed. According to De Vries, an IMF economist and historian, there was a "widespread search for compromise" at the meeting.[101] Volcker was greatly pleased by France's conciliatory stance. In return, he expressed his will to compromise on indicators: "automaticity is not it, and pure discretion without guidelines is not it. The exact set of rules remains to be worked out."[102] West German finance minister Helmut Schmidt, elated by the negotiations, expected that agreement on main principles could be reached at the IMF annual meeting in late September, amendment to IMF articles by the spring of 1974, and governmental ratification by the end of 1974.[103] Jeremy Morse, Chairman of Deputies of C-20, appreciably stepped up his efforts in putting together various compromise suggestions made at the July meetings in August, planning to provide a draft of Outline of Reform for the C-20 meeting on September 5–7, just ahead of the IMF annual meeting.

Shultz also assessed the Washington meeting positively, but did not want to compromise. For the floaters in the administration, the current generalized floating was working reasonably well. Also, the recent dollar crisis did not call for intervention, much less monetary reform centering on par values. The

https://doi.org/10.1017/S0898030620000020 Published online by Cambridge University Press

crisis originated from fundamental problems such as US deficits and inflation, amplified by contemporary disturbances like Watergate. That is, a fixed exchange-rate system would not fix the problems; the market would.[104] But how could Shultz legitimately refuse to cooperate with Europeans who were increasingly conciliatory regarding monetary reform? Besides, the NSC was eager to get Treasury to work with Europeans. Nixon paid little attention to international monetary issues, primarily because of Watergate, but wanted to avoid confrontations with Europeans.[105] Shultz found his allies outside the administration.

While high-ranking government officials were debating the direction of US international monetary policy, various societal actors were closely observing the effects of floating exchange rates. By mid-1973, a general consensus developed in the United States that the previous fear of severe disruption in foreign trade was largely exaggerated. Official data showed marked improvement in the US trade balance, from a deficit of $6.8 billion in 1972 to a deficit at an annual rate of $1.3 billion from March through May 1973. Even Burns had to admit that such improvement would gather momentum in 1974 and 1975, turning the trade balance into a “sizable” surplus for the first time since the late 1960s.[106] American bankers reported that their customers did not experience any slowdown in trade.[107] In late June, the Joint Economic Committee invited four business leaders to its hearings titled “How Well Are Fluctuating Exchange Rates Working?” They expressed concerns for increasing transaction costs due to fluctuating currencies; but they preferred the current floating situation to the previous system, which had incurred artificial trade and investment barriers, including quotas and surcharges.[108]

Positive experiences under generalized floating since early 1973, coupled with negative memories of the 1960s monetary turmoil, affected the opinions of American political and business elites about exchange-rate flexibility. They favored floating for the time being and felt no need to rush into a new monetary arrangement. Some even argued for floating as a permanent system. The atmosphere of the 1973 ABA annual International Monetary Conference, held on June 8, 1973, was substantially different from that of the 1969 Conference. The majority of American bankers viewed floating as “perfectly workable” for the transitional period.[109] Charles E. Walker, former Undersecretary of Treasury and ABA executive vice president from 1961 to 1969, testified before Congress in July that “the currency floats which we have stumbled into have not been hurting.” Although he used to prefer a fixed exchange system to floating, since 1973 he found that forward markets were functioning very well, reducing uncertainty in international transactions.[110] The US Congress,

https://doi.org/10.1017/S0898030620000020 Published online by Cambridge University Press

which paid little attention to international monetary situations until early 1973, finally drafted a report following multiple hearings on the matter in the summer of 1973. The Subcommittee on International Economics of the Joint Economic Committee announced on August 20 that it unanimously found that floating was "the best available alternative and clearly superior to fixed parities" in current circumstances.[111]

Until mid-1973, major business associations refrained from making public statements about international monetary matters, mainly because they could not draw any unified position from their members. That changed. In late July, the CED finally published its study, "Strengthening the World Monetary System," which claimed that the majority of American businesses now favored flexibility in exchange rates.[112] The CED proposed two systems: (a) a floating system involving periodic interventions or (b) exchange parities subject to frequent and small adjustments. The leading business organization, notably, for the first time mentioned floating as a viable option for the international monetary system. Its changed position also carried symbolic significance because it was the only major business group that strongly endorsed the establishment of the Bretton Woods system in the mid-1940s and actively mobilized business support around it.[113]

Finally, Shultz reached out to the business community and former high-ranking officials to strengthen his position against the fixers inside and outside the country. He created a new Advisory Committee on Reform for the International Monetary System, which was officially launched on August 22. The advisory committee consisted of three former treasury secretaries, Henry Fowler, Douglas Dillon, John Connally, and eleven influential business leaders, including David Rockefeller (Chase Manhattan Bank) and Reginald Jones (General Electric).[114] Shultz promptly held a joint meeting between the Advisory Committee and government officials on August 29, which included all key decisionmakers on monetary matters: Shultz, Volcker, Stein, Simon, Flanigan, Casey, and Danne (Fed governor). At the meeting, Volcker first described the major issues regarding international monetary reform, and then reviewed three major reform ideas: the US position, the French position, and the compromise put forward by Morse (Chairman of Deputies of C-20) following the July negotiations. The Morse commentary, which included the draft Outline of Reform, suggested a mixed system, integrating the proposal advanced by the United States with that of other countries, particularly France. Most members of the Advisory Committee strongly supported the US proposal, especially regarding the use of objective indicator in the determination of need for adjustment.[115] Buoyed by the Advisory

https://doi.org/10.1017/S0898030620000020 Published online by Cambridge University Press

Committee's responses, Shultz and other floaters in the administration concluded that there was no need to compromise and settle for restoration of a par-value system. US officials subsequently sent Morse a letter listing a number of amendments to the draft Outline, pressuring him to revise the draft Outline as close to the US position as possible on a variety of issues from adjustment process to capital controls to convertibility.[116]

On September 5–7, the delegates from the C-20 countries gathered in Paris for final negotiations before the high-profile C-20 meeting in two weeks in Nairobi. Given the success of the Washington meeting in late July, hopes were high. Delegates were expected to resolve major differences and write technical language for an accord. However, the summer's optimism was dashed.[117] Morse presented delegates with the "models" to begin negotiations with, which, he claimed, incorporated suggestions from diverse countries. However, Europeans and Japanese found that the models were too biased in favor of the US position and refused to accept them. Indeed, one member of the Morse's executive team later admitted that the models did lean toward the US position. Conversely, the US deputies supported them. Furthermore, US officials did not hide their positive attitude toward floating any more. Such attitude came as a "shock" to the other deputies who were thinking about the possibility of agreeing on a system based on stable but adjustable fixed rates.[118] After the meeting, Morse described that it was "quite tough going" at the meeting, conceding little progress.[119] Regarding the deadlock, European delegates criticized the "hardening" of the US position. Although they made additional concessions on convertibility, Americans did not accept it. American officials declined to comment on the substantive matters to journalists.[120] The failure of the meeting dampened prospects for agreement anytime soon. Regarding the tough US position, news media reasoned that high administrative officials now had supporters, who were pleased with how the ad hoc system of floating exchange rates had worked "surprisingly well." It not only helped improving US trade competitiveness but also staved off currency crises that could have ravaged world trade and investment.[121]

Returning home, the Treasury department convened another meeting with nongovernmental experts to consolidate its monetary reform positions before the important C-20 meeting in late September. On September 18, prominent economists and practitioners such as Gottfried Haberler, Hendrik Houthakker, Henry Wallich, Richard Cooper, William Fellner, and Alan Greenspan gathered for a Treasury Department consultant's meeting. Volcker opened the meeting with a review of the current status of the negotiations and prospects for the Nairobi IMF meeting. He gave special attention to the issue

https://doi.org/10.1017/S0898030620000020 Published online by Cambridge University Press

of adjustment mechanism, elaborating on how Europeans still wanted adjustment decisions based on discretionary action and opposed automatic invocation of pressures, which the United States favored. The consultants strongly supported Treasury's position on the importance of presumptive indicators. They also believed that the present exchange-rate arrangements were "working well," although there was no agreement on the desirability of floating as a permanent system. Most important, the participants unanimously concluded that the United States should continue to "hold out" for a lasting agreement and not rush into an agreement for its own sake.[122]

The high-profile C-20 meeting in late September in Nairobi, as widely expected, produced no progress on reform.[123] During the Nairobi meeting, Shultz reassured Nixon that the Treasury Department's plans for monetary reform were closely consulted with the Advisory Committee on Reform for the International Monetary System, various groups of bankers and corporate leaders, and the academic community. Shultz emphasized that these groups expressed "almost universal support" for US proposals and negotiating strategy and that they "urged us to stick to our guns on this matter."[124] C-20 participants tacitly agreed to put negotiations aside for a time, which was formally approved at the following C-20 meeting in Rome in January 1974. After the failure at Nairobi, a "pervasive feeling of futility" of reform efforts arose among the negotiators.[125] Moreover, the oil shock and inflationary pressures of late 1973 and early 1974 amplified the pessimistic mood. Volcker recalled that his disappointment with failure in creating a new Bretton Woods was "not widely shared" within the US government and that the floaters around him felt "no urge to keep the negotiations alive."[126] Indeed, America's neoliberal aspiration only accelerated. In mid-1974, Shultz and Volcker were replaced by vociferous floaters William Simon and Jack Bennett. The new leaders at Treasury pursued a floating system outright.[127] Acknowledging the adamant American position, France finally gave up a system of "stable rates" at the Rambouillet summit in 1975. The concession led to the Second Amendment to the Articles of Agreement, which legalized floating.[128]

CODA

Since the fall of the Bretton Woods system, Europe and the United States took different paths regarding external monetary policies. When France failed to reinstate a fixed exchange system globally, it redirected its efforts to stabilizing exchange rates within Europe. Germany considered the creation of a regional monetary system as a big step toward a federal Europe. Under the leadership of

https://doi.org/10.1017/S0898030620000020 Published online by Cambridge University Press

France and Germany, the European Council endorsed the creation of the European Monetary System (EMS) in July 1978, through which European countries tried to reduce currency fluctuations in the 1980s. Meanwhile, the United States further gravitated toward floating. It refrained from intervening in currency markets except particular occasions in the 1970s, entrusting the exchange rates to the market. The American commitment to floating did not reflect the actual performance of floating. The new system of floating did not bring an era of financial turmoil as its critics feared; however, exchange rates proved to be more volatile than forecasted by the advocates of floating.[129] Instead, such commitment to floating can be ascribed to a variety of factors, including the rise of the free-market ideology favoring floating in academia, the policy circle, and business community, the rejection of Bretton Woods–era style interventions that interrupted international business (i.e., capital controls), and unstable macroeconomic conditions that made its currency parities difficult to maintain (i.e., oil shocks, the commodity-price boom, the recession of 1975, the divergence among national inflation rates).[130]

This article demonstrates the rise of a new policy orientation—flexible exchange rates—in the United States spanning the late 1960s and early 1970s. The rise to power of the floaters was important, as existing studies have indicated. This study offers additional evidence to the existing claim, such as Shultz's contribution to Plan X and floaters' persuasion of Nixon and Kissinger during the crisis of March 1973. More important, while scholars have often ignored broader societal changes with which key policymakers actively interacted, this article highlights the circumstances that led American business leaders to embrace floating currencies (e.g., the tightening of capital controls in 1968, the advance of financial techniques to handle currency fluctuation, and the prospect of profits from foreign exchange trading). Also, this study reveals the active role of academic floaters in providing US business with a new framework to diagnose causes of and solutions to capital controls. After their encounter with the academic floaters, American business leaders began to ascribe capital controls and other disturbances to the existing international monetary regime. We further trace the change in policy preference among the business leaders in favor of floating, showing that their policy recommendations and political activities facilitated the emergence of a new monetary order. The support from the converted business leaders of exchange-rate flexibility proved substantial in empowering the floaters in the administration against those who were reluctant to any drastic reform to the parity system. With the support from business leaders, Treasury Secretary Shultz and the floaters in the Nixon administration could keep their

https://doi.org/10.1017/S0898030620000020 Published online by Cambridge University Press

preferred policy option in the summer of 1973 before attending the IMF's C-20 meeting. Previous studies have overlooked this important period, attributing the dissipation of negotiation efforts to environmental factors such as the first Oil Shock in late 1973. However, as this study demonstrates, multilateral negotiation lost its momentum before the oil crisis.

Our analysis emphasizes how both interests and ideas contributed to the international monetary policy shift in the United States. It also explores the rise of a new international financial order by tracing how the earlier belief that governments should intervene to stabilize international markets and promote foreign trade gave way to the rejection of government discretion in global finance.

Miami University
University of Oregon

NOTES

1. John S. Odell, *U.S. International Monetary Policy: Markets, Power, and Ideas as Sources of Change* (Princeton, 1982), 142.

2. Paul A. Volcker and Toyoo Gyohten, *Changing Fortunes: The World's Money and the Threat to American Leadership* (New York, 1992), 136.

3. Giovanni Arrighi, *The Long Twentieth Century: Money, Power, and the Origins of Our Times* (New York, 1994), 299. Greta R. Krippner, *Capitalizing on Crisis: The Political Origins of the Rise of Finance* (Cambridge, Mass., 2011); Peter Gowan, *The Global Gamble: Washington's Faustian Bid for World Dominance* (New York, 1999).

4. Dani Rodrik, *Has Globalization Gone Too Far?* (Washington, DC, 1997); Robert Boyer and Daniel Drache, *States Against Markets: The Limits of Globalization* (London, 2005).

5. Odell, *U.S. International Monetary Policy*; Joanne S. Gowa, *Closing the Gold Window: Domestic Politics and the End of Bretton Woods* (Ithaca, 1983); Eric Helleiner, *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s* (Ithaca, 1994). Michael D. Bordo and Barry J. Eichengreen, *A Retrospective on the Bretton Woods System* (Chicago, 1993); Francis J. Gavin, *Gold, Dollars, and Power: The Politics of International Monetary Relations, 1958–1971* (Chapel Hill, 2004); Barry J. Eichengreen, *Globalizing Capital: A History of the International Monetary System*, 2nd ed. (Princeton, 2008); Daniel J. Sargent, *A Superpower Transformed: The Remaking of American Foreign Relations in the 1970s* (New York, 2014).

6. Kenneth W. Dam, *The Rules of the Game: Reform and Evolution in the International Monetary System* (Chicago, 1982), 207.

7. For different practices of the countries regarding exchange and capital markets in the 1970s and 1980s, see Eichengreen, *Globalizing Capital*, 136–49. Ironically, American government's refusal of currency-market interventions exacerbated currency misalignment in the late 1970s and early 1980s, which subsequently put the Reagan administration under

https://doi.org/10.1017/S0898030620000020 Published online by Cambridge University Press

enormous pressure to take drastic actions to deal with the overvalued dollar in the mid-1980s. Specifically, a series of US economic policies of the late 1970s and early 1980s, such as the Fed's anti-inflation measures and the Treasury's tactics to finance public debt (e.g., tax incentives for foreign investors), significantly boosted the level of the dollar. However, American policymakers denied that America's fiscal and monetary policies were responsible for the appreciated dollar and exchange-rate instability, instead claiming that the dollar's strength reflected America's economic strength such as contained inflation and developed financial markets. In their view, government efforts to realign exchange rates by intervention in currency markets were not only unnecessary but also undesirable. The Reagan administration's resistance to domestic policy changes or foreign-exchange market intervention intensified dollar appreciation in 1983–85. In 1985, as congressional protectionism accelerated, Reagan finally backed down and signed the Plaza Accord to depreciate the dollar by intervening in currency markets. For America's fiscal and monetary policies and their impacts on the dollar in this period, see Krippner, *Capitalizing on Crisis*, 96–102.

8. J. B. Goodman and L. W. Pauly, "The Obsolescence of Capital Controls: Economic Management in an Age of Global Markets," *World Politics* 46, no. 1 (October 1993): 50–82, Neil Rollings, "Multinational Enterprise and Government Controls on Outward Foreign Direct Investment in the United States and the United Kingdom in the 1960s," *Enterprise and Society* 12, no. 2 (June 2011): 398–434. See also Rawi Abdelal, *Capital Rules: The Construction of Global Finance* (Cambridge, Mass., 2007).

9. Odell, *U.S. International Monetary Policy*; Gowa, *Closing the Gold Window*; Bordo and Eichengreen, *A Retrospective on the Bretton Woods System*; Gavin, *Gold, Dollars, and Power*; Sargent, *A Superpower Transformed.*

10. Odell, *U.S. International Monetary Policy*, chap. 5; Sargent, *A Superpower Transformed*, chap. 4.

11. Scholars have underestimated the role of academics and businesses in the formation of America's international monetary policy. See Odell, *U.S. International Monetary Policy*, 294; Sargent, *A Superpower Transformed*, 120–30.

12. Max Weber's switchmen metaphor can be useful here: "Not ideas, but material and ideal interests directly govern man's conduct. Yet very frequently the 'world images' that have been created by 'ideas' have, like switchmen, determined the tracks along which action has been pushed by the dynamic of interests." Recited from Odell, *U.S. International Monetary Policy*, 363.

13. For embedded liberalism, see John Gerard Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order," *International Organization* 36, no. 2 (1982): 379–415.

14. Odell, *U.S. International Monetary Policy*; Sargent, *A Superpower Transformed.*

15. Kim Phillips-Fein, *Invisible Hands: The Making of the Conservative Movement from the New Deal to Reagan* (New York, 2009); Benjamin C. Waterhouse, *Lobbying America: The Politics of Business from Nixon to NAFTA*, Politics and Society in Twentieth-Century America (Princeton, 2014).

16. Thomas Willett, *Floating Exchange Rates and International Monetary Reform* (Washington, DC, 1977), 4.

17. However, this method was not actually used often. See Gavin, *Gold, Dollars, and Power*, 26–27.

https://doi.org/10.1017/S0898030620000020 Published online by Cambridge University Press

18. "Changes Urged by ABA Threaten Bretton Woods Pact, Morgenthau Says," *Wall Street Journal*, 6 February 1945. U.S. Congress and the broader business community approved the Bretton Woods system, hoping to promote trade and investment opportunities. See Eichengreen, *Globalizing Capital*, 97.

19. Although advocates for floating existed well before the 1950s, Friedman is associated with the modern case for floating. See Carol M. Connell, *Reforming the World Monetary System: Fritz Machlup and the Bellagio Group* (London, 2015); Robert Leeson, *Ideology and the International Economy: The Decline and Fall of Bretton Woods* (New York, 2003).

20. Milton Friedman, *Essays in Positive Economics* (Chicago, 1953), 161.

21. Ibid., 167, 203.

22. Willett, *Floating Exchange Rates and International Monetary Reform*, 3–4, 15.

23. Gavin, *Gold, Dollars, and Power,* 98–99.

24. Dillon was a Wall Street stalwart and active Republican. Roosa worked at the New York Fed from 1946, then moved to the Treasury in 1961. For their views on the international monetary system, see Odell, *U.S. International Monetary Policy*, 97–106.

25. Odell, *U.S. International Monetary Policy,* 139–40.

26. U.S. House of Representatives, *International Implications of the New Economic Policy*, Hearings Before the Subcommittee on Foreign Economic Policy, of the Committee on Foreign Affairs, 92nd Cong., 1st sess., September 1971, 37.

27. For capital controls, see James P. Hawley, *Dollars and Borders: U.S. Government Attempts to Restrict Capital Flows, 1960–1980* (Armonk, NY, 1987); Helleiner, *States and the Reemergence of Global Finance.*

28. Carol M. Connell, "Fritz Machlup and the Bellagio Group," *Quarterly Journal of Austrian Economics* 16, no. 3 (2013): 256; Connell, *Reforming the World Monetary System.* Members of the Group included big names such as Robert Triffin, William Fellner, and Gottfried Haberler. Machlup was the cofounder of the Mont Pelerin Society.

29. "Influential Economist: Milton Friedman's Ideas Gain Wider Acceptance Among Policy-Makers," *Wall Street Journal*, 4 November 1969.

30. Willett, Floating Exchange Rates and International Monetary Reform, 18; Gottfried Haberler and AEI, *U.S. Balance-of-Payments Policies and International Monetary Reform* (Washington, DC, 1968). By 1971, there was a "widespread preference" among economists for floating. See "Next Monetary System," *New York Times*, 22 September 1971.

31. Volcker and Gyohten, *Changing Fortunes*, 65–68. Volcker also said at media conferences that a more flexible exchange rate "is being considered by the academics, and that is where it should stay." U.S. Congress, *1969 Economic Report of the President Part 2,* Hearings Before the Joint Economic Committee, 91st Cong., 1st sess., February 1969, 316. See also "Volcker Says Plans May Serve as Substitute for Necessary Change," *New York Times,* 26 September 1969.

32. For instance, in April 1966, the University of Chicago sponsored a conference on international economic affairs, inviting nearly one hundred leaders from business, labor, and universities. Many economists argued that flexible exchange rates, not the controls on trade or investment, were the solution to the balance-of-payments problem. Also, Friedman and Haberler, with the sponsorship of the American Enterprise Institute (AEI), organized a series of symposiums to discuss fixed vs. floating. See "Economists Report Guideposts Are

https://doi.org/10.1017/S0898030620000020 Published online by Cambridge University Press

Ineffective Against Inflation," *New York Times*, 29 April 1966; AEI, *International Payments Problems* (Washington, DC, 1966); Milton Friedman and Robert V. Roosa, *The Balance of Payments: Free versus Fixed Exchange Rates* (Washington, DC, 1967); AEI, *International Monetary Problems* (Washington, DC, 1972); Gottfried Haberler, *Two Essays on the Future of the International Monetary Order, with a Postscript on the Impact of the Energy Crisis* (Washington, DC, 1974); "Reading for Business: Reviews in Brief," *Wall Street Journal*, 19 October 1966; "The Bookshelf: Reading for Business," *Wall Street Journal*, 23 May 1968.

33. Karl Schriftgiesser, *Business Comes of Age: The Impact of the Committee for Economic Development, 1942–1960* (New York, 1960).

34. CED, *The Dollar and the World Monetary System* (New York, 1966), 62–64; Fritz Machlup, *Remaking the International Monetary System: The Rio Agreement and Beyond, CED Supplementary Paper No. 24* (Baltimore, 1968).

35. "Banker Warns of Money Crises," *New York Times*, 17 June 1969; "Monetary Parley Rejects Reforms," *New York Times*, 18 June 1969; "Europeans Warn U.S. May Need to Toughen Anti-Inflation Policies," *Wall Street Journal*, 18 June 1969.

36. Numerous representatives of various financial institutions and associations, including the ABA, National Association of Mutual Savings Banks, and the Life Insurance Association of America, requested austerity measures to reduce U.S. deficits in that period. ABA, *The Cost of World Leadership: An Analysis of the United States Balance-of-Payments Problem* (New York, 1968); U.S. Congress, *The 1970 Economic Report of the President.* Hearings Before the Joint Economic Committee, 91st Cong., 2nd sess., January, February 1970; U.S. Congress, *The 1970 Midyear Review of the State of the Economy.* Hearings Before the Joint Economic Committee, 91st Cong., 2nd sess., July 1970.

37. By the late 1960s, FDI was becoming an integral part of revenue for large U.S. corporations. The ratio of foreign to domestic manufacturing investment by U.S. corporations exceeded 0.2 by the mid-1960s and reached 0.3 by the early 1970s. Robert Brenner, *The Economics of Global Turbulence: The Advanced Capitalist Economies from Long Boom to Long Downturn, 1945–2005* (New York, 2006), 59. The ratio was higher for the largest companies; for instance, IBM derived 30 percent of its income from FDI in 1965, and 49 percent in 1974; Ford derived 12 percent from FDI in 1965, and 49 percent in 1974. Fred Bergsten, *American Multinationals and American Interests* (Washington, DC, 1978), 11.

38. U.S. Congress, *A Review of Balance of Payments Policies*, Hearings Before the Subcommittee on International Exchange and Payments, of the Joint Economic Committee, 91st Cong., 1st sess., January, 1969; U.S. House of Representatives, *Foreign Direct Investment Controls*, Hearings Before the Subcommittee on Foreign Economic Policy, of the Committee on Foreign Affairs, 91st Cong, 1st sess., March–May 1969.

39. Until then, the U.S. business community discussed capital controls within the framework of the Bretton Woods system, pleading that foreign direct investment contributed to, rather than undermined, the preservation of the existing monetary order by improving U.S. trade balance. For instance, see Fred Borch's (president of General Electric) letter to Commerce Secretary Sandy Trowbridge. Foreign Relations of the United States (FRUS), 1964–68, vol. 8, International Monetary and Trade Policy, no. 144.

40. Connell, *Reforming the World Monetary System*, 146–47.

41. "Wide Flexibility in Rates Favored," *New York Times*, 30 June 1969.

https://doi.org/10.1017/S0898030620000020 Published online by Cambridge University Press

42. Fred Bergsten and George Nikolaus Halm, *Approaches to Greater Flexibility of Exchange Rates: The Bürgenstock Papers* (Princeton, 1970), 151–76. In 1969, Arthur Watson, chairman of IBM, called for flexibility in exchange rates at congressional hearings. U.S. Congress, *A Foreign Economic Policy for the 1970's Part 1: Survey of the Issues*, Hearings Before the Subcommittee on Foreign Economic Policy, of the Joint Economic Committee, 91st Cong., 1st sess., December 1969, 5.

43. "Changing Money: Idea of 'Floating' Rates of Exchange Is Gaining, But Misgivings Persist," *Wall Street Journal*, 12 July 1968; "If the Franc Falls," *Wall Street Journal*, 12 March 1969.

44. U.S. House of Representatives, *Foreign Direct Investment Controls*, 194.

45. "Overhaul Is Urged in World's System of Money Markets," *New York Times*, 7 May 1969; "Fixed Exchange Rates Under Fire in Crisis," *New York Times*, May 1969; "Market Place: Big Banks Call for Flexibility," *New York Times*, 17 May 1969.

46. Volcker and Gyohten, *Changing Fortunes*, chap. 3; Matusow, *Nixon's Economy,* chap. 5; Gavin, *Gold, Dollars, and Power,* chap. 8; Sargent, *A Superpower Transformed,* chap. 4.

47. Sargent, *A Superpower Transformed,* 107–8; Matusow, *Nixon's Economy*, 135–56; Gavin, *Gold, Dollars, and Power,* 193.

48. Sargent, *A Superpower Transformed,* 115.

49. Helleiner, *States and the Reemergence of Global Finance*, 117–18; Odell, *U.S. International Monetary Policy*, 258–61; Michael J. Brenner, *The Politics of International Monetary Reform: The Exchange Crisis* (Cambridge, Mass., 1976), 54–55. Central bankers of the time refused Friedman's claim that floating exchange rates would smoothly adjust to the underlying conditions. Conversely, their experiences dealing with foreign exchange trading convinced them that floating exchange rates would be volatile and disrupt international trade. They believed that monetary authorities (i.e., central banks) should take responsibility of maintaining stable exchange rates.

50. Sargent, *A Superpower Transformed,* 116–18; Volcker and Gyohten, *Changing Fortunes,* 82–84.

51. Nixon continued to delegate responsibility for economic policies to the Treasury Secretary, who served as an "economic czar" above the cabinet level. See Odell, *U.S. International Monetary Policy,* 306.

52. His laissez-faire view was well known. Upon his appointment, the *Wall Street Journal* reported that he would "favor a high degree of flexibility in currency rates as well as vigorous attacks on barriers to free flows of capital and trade." "The Shultz Shift: New Boss at Treasury Likely to Stir Change But Not Right Away," *Wall Street Journal*, 17 May 1972.

53. Sargent, *A Superpower Transformed,* 119–20; Volcker and Gyohten, *Changing Fortunes,* 118–22.

54. Conservative Burns and moderate Volcker shared these principles. For Burns's views, see Margaret Garritsen de Vries, *The International Monetary Fund, 1972–1978* (Washington, DC, 1996), 134.

55. *FRUS* 1969–76, vol. 3, no. 228. IMF's internal study on reform also tried to address U.S. concerns, stressing prompter changes in par values, wider margins, and temporary floating. It also discussed the use of "objective indicators" to initiate adjustment process, something equivalent to Volcker's "presumptive criteria." John Williamson, *The Failure of World Monetary Reform, 1971–74* (New York, 1977), 60–67; De Vries, *The International Monetary Fund*, 125.

https://doi.org/10.1017/S0898030620000020 Published online by Cambridge University Press

56. *FRUS* 1969–76, vol. 3, no. 239.

57. Dam, *The Rules of the Game*, 227. Kenneth Dam, who worked with Shultz on reform during that period, even mentions that the indicator proposal had a "hidden agenda" to build the reformed system as a "transitional system toward a floating exchange rate system." Ibid., 224. Besides automatic indicators, the new U.S. proposal was stricter on the use of capital controls and foreign exchange intervention than before; it also allowed countries to float indefinitely under special surveillance.

58. *Economic Report of the President Transmitted to the Congress January 1973* (Washington, DC, 1973). accessible at http://www.presidency.ucsb.edu/economic_reports/1973.pdf.

59. "What Next?: Floating of the Pound Raises Uncertainties," *Wall Street Journal*, 26 June 1972.

60. *FRUS* 1969–76, vol. 3, no. 234–36.

61. Also, Burns and the majority of governors of the Federal Open Market Committee (FOMC) did not support the official U.S. proposal for the international monetary reform. See FOMC Memorandum of Discussion, 16 January 1973.

62. *FRUS* 1969–76, vol. 31, no. 3.

63. "National City Bank Urges Floating Currency Values," *New York Times*, 12 October 1971.

64. "David Rockefeller and Sarnoff Urge Shifts in Setup: Monetary Restructuring Is Urged to Solve Crisis," *New York Times*, 21 October 1971.

65. "National City Bank Urges Floating Currency Values," *New York Times*, 12 October 1971; "Citibank Hits Fixed Exchange Rates," *New York Times*, 5 July 1972.

66. Jonathan David Aronson, *Money and Power: Banks and the World Monetary System* (Beverly Hills, 1977), 143 n. 21.

67. Aronson, *Money and Power*, 114.

68. Milton Friedman advised the planning of this new Chicago market. "New Exchange to Handle Foreign Currency Futures," *Wall Street Journal*, 14 April 1970; "Chicago Mercantile Sets Futures Market in Foreign Currency," *Wall Street Journal*, 21 December 1971; "Currency Futures Due: Trading to Start Tuesday in Chicago," *New York Times*, 1972, "New Game in Town: Currency Speculation May Grow If Market in Chicago is Success," *Wall Street Journal*, 16 May 1972.

69. Bergsten and Halm, *Approaches to Greater Flexibility of Exchange Rates*, 167–76.

70. "Living with Devaluation: A Midwest Exporter Adapting to Crisis Devaluation," *New York Times*, 19 December 1971.

71. Aronson, *Money and Power*, 146.

72. "World of Finance: How Multinational Firm Protects Its Flanks in Monetary Dealings," *Wall Street Journal*, 20 August 1971; "Talk of the Globe: Many Critics Charge Multinational Firms Create Money Crises," *Wall Street Journal*, 19 April 1973; "Currency Crisis Can Be Easily Triggered by Multinational Firms, U.S. Study States," *Wall Street Journal*, 13 February 1973.

73. De Vries, *The International Monetary Fund*, 47.

74. Ibid., 50; Gianni Toniolo, *Central Bank Cooperation at the Bank for International Settlements, 1930–1973* (New York, 2005), 465–68; "E.E.C. to Suggest U.S. Dollar Action," *New York Times*, 9 March 1973.

https://doi.org/10.1017/S0898030620000020 Published online by Cambridge University Press

75. CED, *Report of Activities* (New York, 1972); NAM, International Monetary System, submitted by International Economic Affairs Committee, at the Board of Directors meeting, 16 September 1974. Hagley Museum and Library, Wilmington, DE (HML) Acc. 1411, Series IX, Box 160.

76. U.S. Chamber, Report to the Board of Directors, by Banking and Monetary Policy Committee, 16 February 1971. HML Acc. 1960, Series I, Box 4; U.S. Chamber, Minutes of the Board of Directors, 25–26 February 1971, HML Acc. 1960, Series I, Box 3.

77. U.S. Chamber, Minutes of the Board of Directors, 18–19 November 1971, HML Acc. 1960, Series I, Box 3.

78. U.S. Congress. *The 1972 Economic Report of the President,* Hearings Before the Joint Economic Committee, 92nd Cong., 2nd sess., 1972, 931.

79. U.S. Chamber, Minutes of the Board of Directors, 16–17 November 1972, HML Acc. 1960, Series I, Box 3.

80. "Monetary Quarrel over Fixed and Floating Rates," *New York Times*, 3 September 1972.

81. FOMC, Memorandum of Discussion, 19–20 March 1973.

82. Germany bought up $3.7 billion, a new record in a single day. De Vries recalled: "This breakdown in exchange transactions was the most severe in more than three decades." De Vries, *The International Monetary Fund, 1972–78*, 76.

83. *FRUS* 1969–76, vol. 31, no. 16, 17. See also "Wants Job Done in 3 Months: International Money Reform Urgent Need: Burns," *Chicago Tribune*, 8 March 1973.

84. De Vries, *The International Monetary Fund, 1972–78*, 76.

85. Henry Kissinger, *Years of Upheaval* (Boston, 2011), chap. 5.

86. *FRUS* 1969–76, vol. 31, no. 17.

87. Ibid.

88. It is questionable whether Shultz and Stein's judgment of the monetary conditions was entirely unbiased. In fact, the economists of the Fed analyzed the situation quite differently. They concluded that it was simply uncertain whether or not a European joint float would succeed; they were also unsure what impact the success or failure of a joint float would have on the United States. See FOMC, Memorandum of Discussion, 7 March 1973.

89. *FRUS* 1969–76, vol. 31, no. 17. Overall, the members of Congress did not show any interest in international monetary issues until early 1973. The only exception was Rep. Henry Reuss (D–WI), who was open to various reform ideas, including currency flexibility.

90. "E.E.C. to Suggest U.S. Dollar Action," *New York Times*, 9 March 1973.

91. *FRUS* 1969–76, vol. 31, no. 35.

92. *FRUS* 1969–76, vol. 31, no. 33. Simon was the U.S. delegate to the Paris meeting on 16 March.

93. The Group of Ten comprised six of the member countries of the EEC (Belgium, France, Germany, Italy, the Netherlands, and the United Kingdom), as well as four other countries (Canada, Japan, Sweden, and the United States). The other three member countries of the EEC—Denmark, Ireland, and Luxembourg—also participated in this meeting.

94. Volcker and Gyohten, *Changing Fortunes,* 113; Odell, U.S. International Monetary Policy, 324–25; Williamson, *The Failure of World Monetary Reform, 1971–74*, 70.

95. U.S. Congress, *How Well Are Fluctuating Exchange Rates Working?*, Hearings Before the Joint Economic Committee, 93rd Cong., 1st sess., June and July 1973, 153.

https://doi.org/10.1017/S0898030620000020 Published online by Cambridge University Press

96. "Learning to Float: Monetary System Has Its Problems, But It Stays Very Much Alive Bakers Say It Is Workable, But Some Fear Lag in Bid for Long-Term 'Reforms' Is World on 'Wrong Course'? Learning to Float: Despite Woes, Monetary System Remains Alive," *Wall Street Journal*, 8 June 1973; "Experts Confident on World Business," *New York Times*, 11 June 1973; "Pompidou: Money Man," *New York Times*, 14 July 1973; *FRUS* 1969–76, vol. 31, nos. 44, 45.

97. *FRUS* 1969–76, vol. 31, nos. 46, 49.

98. FOMC, Memorandum of Discussion, 17 July 1973.

99. "Pompidou: Money Man," *New York Times*, 14 July 1973. "IMF Moves Toward New Money Rules," *Washington Post*, 1 August 1973.

100. De Vries, *The International Monetary Fund*, 224–25.

101. Ibid., 227. For similar comments by another IMF official and Volcker himself, see Williamson, *The Failure of World Monetary Reform, 1971–74*, 70; Volcker and Gyohten, *Changing Fortunes,* 122.

102. "IMF Moves Toward New Money Rules," *Washington Post*, 1 August 1973.

103. "Monetary Reform Soon: Schmidt," *Chicago Tribune*, 31 July 1973; "Witteveen to Be I.M.F. Chief; Ministers Agree on S.D.R. Use," *New York Times*, 1 August 1973.

104. "Learning to Float," *Wall Street Journal*; *FRUS* 1969–76, vol. 31, no. 46.

105. Kissinger, *Years of Upheaval*, 121–27, chap. 5. In the summer of 1973, Kissinger was patiently working to reconfigure the Atlantic alliance. However, Europeans were not very cooperative because they knew Nixon, preoccupied with Watergate, could not give enough attention to that matter.

106. U.S. Congress, *How Well Are Fluctuating Exchange Rates Working?,* 169–75.

107. "Learning to Float," *Wall Street Journal.*

108. U.S. Congress, *How Well Are Fluctuating Exchange Rates Working?*; "Congress Is Told of Trade Woes by Four Businessmen," *New York Times,* 21 June 1973.

109. "Learning to Float," *Wall Street Journal*, 8 June 1973.

110. U.S. House of Representatives, *International Monetary Reform,* Hearings Before the Subcommittee on International Finance, of the Committee on Banking and Currency, 93rd Cong., 1st sess., July 1973, 39–40.

111. "Floating Backed for Currencies: Congressional Group Calls System 'Best Available Alternative,'" *New York Times*, 20 August 1973.

112. CED, *Strengthening the World Monetary System* (New York, 1973), 37–39; "Greater Flexibility in Exchange Rates Called for by CED in Monetary Report," *Washington Post*, 26 July 1973. It also testified in front of Congress in early 1973, supporting "market-oriented adjustments through exchange rate changes." U.S. Congress, *The 1973 Economic Report of the President.* Hearings Before the Joint Economic Committee, 93rd Cong., 1st sess., 1973, 572. U.S. Chamber made similar comments at the same hearings. The NAM also published a similar report on the international monetary system in 1974. The International Monetary System, submitted by the International Economic Affairs Committee, at the Board of Directors meeting, 16 September 1974. HML Acc. 1411, Series IX, Box 160.

113. Schriftgiesser, *Business Comes of Age*; "Business Launches Bretton Woods Aid," *New York Times,* 1 June 1945.

114. "Shultz Names Monetary Reform Panel: Advisory Committee," *New York Times*, 23 August 1973. Other names included Robert Roosa (former treasury undersecretary and

https://doi.org/10.1017/S0898030620000020 Published online by Cambridge University Press

currently Brown Bros. Harriman & Co.), William Blackie (Caterpillar Tractor Company), A. W. Clausen (Bank of America), Gaylord Freeman (First National Bank of Chicago), Gabriel C. Hauge (Manufacturers Hanover Trust Company), Ellmore C. Patterson (Morgan Guaranty Trust Company), and Walter B. Wriston (First National City Bank). Among the former treasury secretaries, Fowler alone was by then actively voicing his opinions on international monetary matters. He still did not want floating as a permanent system but softened his position substantially, supporting greater flexibility in exchange rates. "Monetary Reform Is Urged," *New York Times*, 29 March 1972; "Organizing for a Muddled World," *Wall Street Journal*, 28 March 1973.

115. Advisory Committee, Minutes of Meeting of 29 August 1973. Nixon Library and Museum, Yorba Linda, CA (NLM), White House Central Files: Staff Member and Office Files, Herbert Stein (Stein Files), Box 99.

116. Memo from Richard Erb to Peter Flanigan, 7 September 1973. NLM, White House Central Files: Subject Files, International Organizations (IT Files), Box 8.

117. "U. S.–E. E.C. Disagreement Reported at Paris Parley," *New York Times*, 6 September 1973.

118. De Vries, *The International Monetary Fund*, 232–33, 239.

119. "Deadlock Is Seen on Money Reform," *New York Times*, 8 September 1973.

120. Ibid.

121. "Which Goes First, Trade Or Money?," *New York Times*, 16 September 1973; "I.M. F. Meeting," *New York Times*, 19 September 1973.

122. Treasury Department Consultant's meeting, Minutes of Meeting of 18 September 1973. NLM, Stein Files, Box 99.

123. "Monetary Notebook from Nairobi," *New York Times*, 30 September 1973.

124. *FRUS* 1969–76, vol. 31, no. 53.

125. Williamson, *The Failure of World Monetary Reform, 1971–74*, 71.

126. Volcker and Gyohten, *Changing Fortunes*, 123.

127. Ibid., 141.

128. Eichengreen, *Globalizing Capital*, 137–38.

129. Ibid., 138–39; Helleiner, *States and the Reemergence of Global Finance,* 123.

130. See Odell, *U.S. International Monetary Policy*, 327–29, 334; Eichengreen, *Globalizing Capital*, 154–56; Helleiner, *States and the Reemergence of Global Finance,* 132–54; Volcker and Gyohten, *Changing Fortunes*, 140–41, 146. As currency fluctuation seemed to get out of hand in the late 1970s, the United States resorted to concerted currency interventions with Germany in 1977 and 1978. It even briefly considered adopting capital controls to stem speculation against the dollar. However, the American government ultimately chose austerity, instead of currency interventions or capital controls, to address the dollar crisis. President Carter appointed Paul Volcker as Fed chair in 1979, who was known for his strong will to curb inflation. Volcker proved his reputation by adopting a series of monetary measures in October 1979, which subsequently stopped the free fall of the dollar and brought down inflation.

https://doi.org/10.1017/S0898030620000020 Published online by Cambridge University Press