From Dick Nixon *to* Joe Biden

Fifty years of global economic triumph and disappointment.

By Robert B. Zoellick

Library bookshelves bend under the weight of tomes about Richard Nixon's foreign policy. Jeffrey Garten's splendid new book *Three Days at Camp David* narrates the rarely researched companion story of Nixon's major international economic initiative. In doing so, Garten encourages historians to consider the intriguing parallels between Nixon's security and economic transformations.

Nixon was a war president from day one. His fate was to direct a retreat, a most dangerous maneuver. This withdrawal was more than tactical; Nixon believed that his strategic challenge was to reorder the international politics of power because of the relative decline of U.S. economic might.

The president aimed to regain advantage through agile world leadership. In foreign policy, Nixon aspired to redraw the map of power as a new multipolarity. In doing so, the president wanted to avoid a slide back to American isolationism. Nixon's plan for a new international economy seemed less deliberate. Nevertheless, Garten's tale shows that Nixon attempted to rebalance global economic responsibilities and avoid the protectionism of the past.

Nixon's new foreign policy sought better relations with Moscow in order to prevent nuclear war and restrain Soviet expansionism. His entente

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with China treated Beijing as an instrumentality, not as a partner, in a triangular relationship that would deter catastrophic war among big powers. Nixon signaled to allies that they would have to earn Washington's support; Europe and Japan could no longer take America's market and dollar for granted. Nixon hoped these maneuvers would lead the American public to view him as a man of peace and prosperity.

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Nixon's inaugural address called for a shift from years of confrontation to an era of negotiation. Scholars have recognized how Nixon translated that summons into foreign policy, but most have overlooked the implications for the president's international economic platform.

Nixon's strategies reflected his reading of history. The president believed that nations which lost the ability to pursue great ideas ceased to be great. Nixon's audacity would give history a nudge. The president also believed that democratic leaders needed bold moves to electrify the public and sustain support. Garten's account reveals these precepts of Nixon's thinking in economics, just as daring moves typified Nixon's security strategies.

In foreign policy, then-U.S. National Security Adviser Henry Kissinger's trademark preferences for maneuver, ambiguity, and nuance complemented Nixon's approach. Kissinger viewed himself as a strategic negotiator who continually pursued stability, not perfection, amidst perpetual change. The president had no such counterpart on his economic team. U.S. Treasury Secretary John Connally was a blunt disrupter and dealmaker. However, Office of Management and Budget Director George Shultz recognized the need for adaptive equilibria, which he believed could be achieved through freer markets.

Ironically, Nixon's and Kissinger's foreign policy strategy overlooked an American capacity that Shultz appreciated: The U.S. aptitude for innovation, especially through technology and in the private sector. Even as Nixon was trying to refashion world politics and economics to suit his expectations of America's decline, the United States landed a man on the moon (1969), began a transformation of the Bretton Woods monetary and exchange rate order (1971), opened a door to a new relationship with China (1971–1972), and began technological revolutions, especially in information.

Ronald Reagan, whose view of America's potential differed markedly from Nixon's, would launch the next stage of transfiguration in global systems based on the American capacity for revival.

ADAPTING THE INTERNATIONAL ECONOMY

Garten's book also prompts readers to consider why—and how—U.S. leaders forced the adaptation of the international economic regime that Washington had created after World War II. Nixon's bold stroke in August 1971 was the first, but not the only, American venture over the past seventy-five years to reshape the rules, expectations, norms, and even the institutional architecture of the international economic order. As the leaders of the global market economy, U.S. officials have struggled continually to pursue the right mix of national—but also systemic—interests.

Garten's account reveals the interconnections among exchange rates, monetary and fiscal policies, capital

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Robert Rubin,
U.S. Treasury Secretary, 1995–1999

Alan Greenspan,
U.S. Federal Reserve Chairman, 1987–2006

Lawrence Summers,
U.S. Treasury Secretary, 1999–2001

The Firefighters

The team of Robert Rubin, Alan Greenspan, and Larry Summers orchestrated case-by-case problem-solving—working within the existing international economic system—without redesigning the institutional order. But their firefighting led to adaptations, especially for the International Monetary Fund and World Bank. Economic historians might conclude that the methods of the 1990s more closely approximated those of Nixon in 1971 than those of Baker in the late 1980s; the Clinton team prioritized packages to deal with immediate problems over Baker's model of combining actions with systemic redesigns.

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flows, trade, and domestic plans and politics. These elements reappear in later cases—up to today.

The experience of 1971 offered lessons for astute successors. Shultz's preference for flexible exchange rates eventually became the new policy norm; the adaptability of markets enabled the international system to adjust to both shocks and longer-term shifts, although often with pains. The U.S. private sector demonstrated an impressive resilience, especially through technological innovation. Nixon's experience also shows that protectionism does not work, but is politically popular. His wage and price controls neither worked nor won political favor.

Nixon's mistakes, combined with energy price shocks, contributed to the stagflation of the 1970s. American industries and unions that ignored competition and the need to adapt confronted costly realities. The Carter Administration of the late 1970s struggled to find answers as problems multiplied.

The next major transformation of the international economic regime took place during Reagan's second term. During the early 1980s, the dollar soared in value as Reagan's economic boom and Federal Reserve Chairman Paul Volcker's monetary policies dramatically altered expectations about growth, interest rates, and inflation. The U.S. current account deficit surged, and trade protectionism raged.

In 1985, U.S. Treasury Secretary James Baker and his deputy, Richard Darman, steered toward a new international economic system. The Plaza and Louvre announcements in 1985 and 1987 adjusted exchange rates and then sought flexibility within ranges. But Baker and Darman viewed exchange rates as elements within a larger strategy. The finance ministers of the G-7 economies—in concert with central bankers—sought to coordinate policies for growth, low inflation, and open markets without economically and politically unsustainable imbalances. The Economic Summits were supposed to crown the process through conferences of leaders who had the political mandates to make fundamental economic decisions. The International Monetary Fund assumed a new role as honest auditor—and eventually, proponent—of whether the sum of national economic policies added up to growth and stability.

Baker, as chair of the President's Economic Policy Council, orchestrated a complementary U.S. trade policy. The shift from an overvalued dollar was supposed to ease the trade deficit and counter Congressional protectionism. The Reagan Administration added an offensive trade agenda—to fight protectionism by lowering international barriers to trade; it pushed for the launch of the GATT Uruguay Round in 1986. To win congressional support for new trade negotiating authority ("fast-track," later Trade Promotion Authority), the executive introduced a competitiveness plan that eventually took the form of the Omnibus Trade and Competitiveness Act of 1988. Congress gave the administration license to negotiate without adding many new barriers, but at the price of requiring a new rulebook of "process protectionism."

Even as the United States began building a G-7 system, one could see the first glimpses of the era that would succeed the G-7 world.

The Baker-Darman strategy faced issues similar to those on Nixon's agenda in 1971, but in a different economic context. By the 1980s, floating exchange rates and much larger capital flows dominated the picture. Like Nixon, the Reagan team acted boldly, pressing their international economic partners to adjust. Unlike Nixon, they negotiated a coordinated international effort before announcing their surprise. Baker and Darman supported their project with a new regime for consultations among finance ministers and central bankers, plus an added role for the International Monetary Fund. In addition, the U.S. strategists of the late 1980s offered a contribution from the start—especially to keep markets open and even to negotiate reductions in trade barriers.

The Reagan and George H.W. Bush Administrations also began to face another historic shift in the international economic system: the rising influence of developing economies. Even as the United States began building a G-7 system, one could see the first glimpses of the era that would succeed the G-7 world.

During the 1980s, the debt crises of developing economies prompted Washington to encourage the International Monetary Fund and World Bank to assume new roles—as crisis managers that negotiated debt restructurings backed by macroeconomic reforms, rolled over financings, and eventually encouraged structural reforms. By the end of the 1980s, the debt deals included partial forgiveness.

The Reagan and Bush Administrations translated their initiatives into striking results. The successful revitalization of the G-7 economies contributed to Soviet President Mikhail Gorbachev's recognition that the Soviet Union could not keep up, leading within a few years to the end of the Cold War in Europe and even the collapse of the USSR. The Bush Administration completed NAFTA, which the Clinton Administration guided through Congress. In its final months, the Bush team resolved the complex agricultural issues of the Uruguay Round, paving the way for Clinton to complete the accord that created the World Trade Organization.

After moving to the U.S. State Department in 1989, Baker helped invent the new Asia-Pacific Economic Cooperation group. He recognized that the rapid rise of East Asian economies, combined with a shift to a post-Cold War agenda, called for a new trans-Pacific economic arrangement that would keep the United States closely linked to the world's most dynamic region.

President Bush even extended his internationalism to the environment, negotiating the 1992 United Nations Framework Convention on Climate Change, the only climate treaty ever ratified by the Senate and the basis for all subsequent negotiations (including this year's Conference of the Parties in Glasgow). But the brief economic recession of 1991 led to Bush's defeat, and the second era of international economic transformation waned.

The Clinton Administration faced an international economy in transition to a new and vastly different epoch. The end of the Cold War opened the door to a

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James Baker,
U.S. Treasury Secretary, 1985–1988

Richard Darman,
Deputy U.S. Treasury Secretary, 1985–1987

The Policy Coordinators

In 1985, Treasury Secretary James Baker and his deputy, Richard Darman, viewed exchange rates as elements within a larger strategy. The finance ministers of the G-7 economies—in concert with central bankers—sought to coordinate policies for growth, low inflation, and open markets without economically and politically unsustainable imbalances.

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dramatic enlargement of world markets. The European Community became a more integrated—and enlarged—European Union with a single currency. Developing and transition economies became much more important factors, with opportunities as well as perils. The Bush and Clinton budget packages disciplined U.S. deficits and ushered in a decade of strong domestic growth with modest inflation.

Inevitably, the rapid expansions led to dislocations, triggering a new round of financial crises in Latin America, East Asia, and Russia. The team of Robert Rubin, Alan Greenspan, and Larry Summers orchestrated case-by-case problem-solving—working within the existing international economic system—without redesigning the institutional order. But their firefighting led to adaptations, especially for the International Monetary Fund and World Bank. Collapsing exchange rates in developing economies prompted experiments to manage flexibilities through a variety of interventions and modified floats. China even won praise for managing a fixed rate. Economic historians might conclude that the methods of the 1990s more closely approximated those of Nixon in 1971 than those of Baker in the late 1980s; the Clinton team prioritized packages to deal with immediate problems over Baker's model of combining actions with systemic redesigns.

The Clinton Administration encountered, however, a new type of systemic question: an anti-globalization movement catalyzed by civil society activists. The causes were diverse. The shocks of financial crises in developing countries raised anxieties about global capital flows and the costs of capitalism. NAFTA, the completion of the Uruguay Round and the creation of the World Trade Organization, and China's rise—including negotiations to accede to the WTO—stimulated complaints about the costs of adjustment and "unfair" competition. Environmental groups feared destruction of habitats and species, pollution, and rules that failed to value natural wealth. Traditional protectionists gladly embraced their new allies in protests.

When I became U.S. Trade Representative in 2001, the global trading system was buffeted by both anti-globalizers and developing economies that objected to the balance of rights and responsibilities in the WTO. These objections had stymied efforts in the late 1990s to launch a new negotiating round in the WTO. Then the shock of 9/11 raised the prospect of withdrawal behind borders. New security measures added frictions to cross-border movements of goods, people, and money.

George W. Bush's administration sought to counter these currents and events with a trade strategy of competitive liberalization. This plan, similar to the U.S. moves in the 1980s, combined national and systemic interests; deal-making would contribute to systemic change. Congress granted new authority to negotiate free trade agreements with individual partners, regional trade areas, and a global accord. In 2001, the administration led the launch of the Doha Round in the WTO while completing China's and Taiwan's accession to the WTO, and in 2004 the United States got the WTO negotiations back on track after a breakdown. The administration advanced a new cohort of free trade agreements—eventually with seventeen new partners—to encourage countries that wanted to liberalize, develop new rules for cutting-edge topics, support reformers in developing markets, deepen economic ties with friendly countries, and keep up momentum for liberalization with Congress. The administration envisaged that successful experience with free trade agreements (with their higher standards) would provide a foundation for regional

George W. Bush's administration sought a trade strategy of competitive liberalization.

Bush 43 and China

During the George W. Bush Administration, the exchange rate question emerged in a different guise: China's fixed exchange rate, which the United States had welcomed during the Asian financial crisis of the late 1990s, became undervalued. U.S. Treasury Secretary Hank Paulson started the process of China's adjustment, which continued through the Obama years.

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Hank Paulson,
U.S. Treasury Secretary, 2006–2009

The global financial crisis of 2008 forced Washington to recognize the transformation from a G-7 to a G-20 world economy.

accords. The original twelve members of the Trans-Pacific Partnership, for example, included six countries with which the United States had completed free trade agreements, and the terms of the TPP drew from the U.S. design—making the U.S. withdrawal under President Donald Trump especially ironic and self-defeating. The U.S. free trade agreements with twelve countries in the hemisphere could someday offer the foundation for free trade in the Americas.

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The 2000s also reminded Americans that the international economic system includes movements of people as well as of goods, services, capital, and ideas. Immigration—legal and illegal—will be an important economic and political factor in future international regimes.

The global financial crisis of 2008 forced Washington to recognize the transformation from a G-7 to a G-20 world economy. Developed countries, especially the United States, triggered the great recession, and the travails of the European Union and the euro extended the downturn. Developing economies, with some help from the World Bank, adjusted relatively well. China's huge stimulus—and its demand for commodities—offered considerable support.

President Bush convened the first G-20 summit as he was leaving office in 2008, and UK Prime Minister Gordon Brown organized a multi-faceted G-20 response in 2009. In addition to macroeconomic support and assistance from multilateral institutions, the G-20 focused principally on reforms in financial supervision and banking systems. The efforts on trade sought to resist protectionism and maintain trade finance, but could not reenergize the engine of liberalization. The sluggish U.S. recovery led to a pause, and then under Trump, a sharp American retreat on trade.

The Covid-19 pandemic of 2020 added yet another factor to the international economy: the demands of biological security. Extraordinary fiscal and monetary responses cushioned the losses in developed economies, and some countries invested in the rapid development of vaccines. Nevertheless, the global system is likely to face "K-shaped" recoveries, with the least protected, economically and medically, struggling the most.

The pandemic has accelerated trends in technological development, especially through digital and data services; the inability to develop international rules and standards on these topics will add friction to the global economy.

The Biden Administration is already in the midst of a negotiation about the international tax policy implications of digital business models. International competition and antitrust policies are also in flux. China's economic power, barriers, and increasing reliance on state controls and enterprises has provoked counter moves; security tensions are triggering decouplings in technology sectors. And the U.S. administration's reluctance to lead in shaping new trade policies for the digital economy is causing systemic drift. On top of all these transitions, intensified international efforts to deal with climate change, especially the shift away from carbon-based energy sources, augur another major structural shift.

FIVE PRINCIPLES

Jeff Garten's *Three Days at Camp David* tells the inside story of dramatic decisions and introduces a larger account about how, over the course of fifty years, U.S. officials tried to adapt the international economic order. I draw five principles from the American experience of international economic leadership.

First, at times the United States has had to compel changes in the international economic system it helped

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create, guide, and protect. Leadership requires recognizing changed conditions that make the old order unsustainable. Ironically, the guardian of the system must then break norms and disrupt expectations.

In *The World in Depression, 1929–1939,* economist Charles Kindleberger traced the breakdown to the lack of enlightened leadership. In the 1920s and 1930s, Kindleberger explained, Britain had the experience of world leadership, but no longer the strength to respond to crisis, while the United States had the capacity, but not the experience and sense of responsibility.

In 1971, Nixon recognized the need for a big change; Baker engineered another major shift in the late 1980s. During the 1990s and 2000s, the United States tried other adaptations. But the United States cannot establish a revised system on its own; international economic regimes require mutuality. In the 2020s, we will see whether China will apply its economic power to support adaptation, advance an alternative model, or just be the source of systemic fragmentation.

Second, when the United States has moved boldly to compel change, it has also needed to negotiate a revised system. The Nixon team used the August 1971 shock as an opening round in a bargaining process. The rebuilding took a number of years in part because Nixon's advisors could not agree on the features of the new order. Baker had a more coherent design in mind from the start, so he was better able to consult, negotiate, incorporate other preferences, and build a new G-7 coalition. Transactional fixes alone will not promote systemic resilience. And a zero-sum logic of deal-making, as practiced by Trump, risks destroying the old order without substituting a new one.

Third, American-led adaptations of the international economy have been most successful when they recognize power shifts—whether driven by economics, technologies, or militaries. Nixon needed a new arrangement that reflected the post-war recoveries in Europe and Asia. Baker perceived new dynamics among the G-7 economies. The growth of developing economies required greater recognition of their problems—and potential to contribute. East Asia's export-led growth created a new force, which is now becoming a giant regional market. The collapse of the Soviet empire left a vacuum, and the rise of China has created a new pole of growth and the prospect of "globalization with Chinese characteristics."

The U.S. administration's reluctance to lead in shaping new trade policies for the digital economy is causing systemic drift.

Ronald Reagan would launch the next stage of transfiguration in global systems based on the American capacity for revival.

Fourth, the United States should prefer flexible international economic systems that can accommodate technological change, innovation, and growth. Nixon failed to recognize this American asset; he thought he was devising a new power balance that compensated for U.S. decline. Reagan and Shultz believed America's adaptive capacities would revitalize the domestic economy and spur global change.

Finally, U.S. strategists have to keep an eye on political support at home. Domestic economic conditions can both constrain and empower Washington's international reach. Garten's tales show the predominance of politics in Nixon's calculations. Ford, Carter, and George H.W. Bush struggled with recessions that ultimately undermined their strategies. Reagan and Clinton leveraged America's prosperity, although trade politics restrained their internationalism. George W. Bush and Obama coped with, in Bush's words, "isolationism, protectionism, and nativism" amidst long wars and then a crash and great recession. Trump declared political war on America's own international creation.

President Joe Biden knows that his fortunes depend primarily on the country's recovery from the pandemic and related economic turmoil. His early international moves are extending his domestic agenda transnationally on Covid-19, climate, and immigration. It is too early to say whether he will initiate a major adaptation of the international economy. If he does, Biden should consider the five principles one can draw from Jeff Garten's history. ◆