NIXON AND OBAMA
CRISIS YEARS IN COMPARISON – LESSONS FROM THE 1970S

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The complex challenges of war and an ailing economy preoccupied both Nixon and Obama to a great extent. It defined their presidencies. This brief article analyzes the Nixon/Kissinger approach to dealing with the maintenance of American "credibility" and overcoming U.S. "decline" in an increasingly multilateral world. This is then compared with the policies of the Obama administration. Toward the end five lessons are pointed out which the Obama White House could usefully learn from the 1970s. After all, just as today, the 1970s were characterized by severe financial disruptions, deep political divisions and controversial military engagements.

Nixon and Obama: the war presidents

Both Nixon and Obama were elected president as a reaction to highly unpopular wars the country was involved in. During the election campaign of 1968 Nixon indicated that he had a "secret plan" for quickly terminating the Vietnam War. More than forty years later, in 2008/09, the wars in Iraq and Afghanistan embarked upon by Obama's predecessor George W. Bush had become so unpopular that Obama's severe criticism of Bush's foreign policy raised the expectation among most of those who voted for Obama that the wars would be quickly ended, if Obama were elected.

As we now know, Richard Nixon and his National Security Advisor Henry Kissinger believed that they had no choice but to escalate the Vietnam war in order to end it. That way they hoped to put pressure on the North Vietnamese to participate in constructive cease fire negotiations. Kissinger's and Nixon's famed foreign policy expertise, powers of analysis and imaginative thinking deserted them when it came to Vietnam.

Even when French President De Gaulle, whom Nixon and Kissinger greatly admired, proposed a re-consideration of America's Vietnam policy during Nixon's first presidential trip to Europe in early 1969, they remained unimpressed. Drawing on France's crushing defeat and retreat from the region in 1954 and subsequently on De Gaulle's own withdrawal from Algeria in 1967, the eminent French President advocated a fast U.S. withdrawal from Vietnam. He dismissed Kissinger's emphasis of the importance of American credibility for staying in Southeast Asia as a rather peculiar line of thought. De Gaulle believed instead that a settlement of the war could be achieved as American "power and wealth was so great that it could do this with dignity." He explained that "it would be better to let go than to try and stay." Neither Nixon nor Kissinger were persuaded by this wise line of thinking, however.

It is naturally much more difficult to pass judgment on Obama's policy with regard to the still continuing wars in Iraq and Afghanistan. Still, Obama appears to have learnt lessons from the Vietnam war. He has done his best to wind down the war in Iraq and it seems to have become clear that very few American troops and military advisers will remain in Iraq much beyond 2011. The position in Afghanistan is more complex and no real end of war is in sight in Afghanistan at present. The White House intends to withdraw all American troops by 2015 at the latest, and perhaps earlier. While security and indeed civilian conditions in the country have improved somewhat during the last 18 months, military experts are agreed, however, that a withdrawal of all U.S. and other foreign troops from Afghanistan would lead to a quick reversal of these successes and perhaps to the collapse of the government in Kabul.

Still, the question ought to be asked whether or not the war embarked upon in the aftermath of 9/11 has not actually been won already, at least to a significant degree. After all, Al Quaida seems to have disintegrated to a large extent during the last few years and Osama bin Laden was killed in early May 2011. It was the objective of the politicians who embarked on the Afghanistan war to protect America and the world from the threat of Al Quaida terrorism and from further terrorist attacks. The global threat the US and much of the rest of the world faced in the aftermath of 9/11 has been significantly diminished though not extinguished. The latter, however, will perhaps never be possible.

With hindsight it is clear that the Vietnam war never could be won. It was an unwinnable nationalist conflict. It certainly was not a war against the spread of communism where American credibility was at stake, as was frequently believed at the time. Based on the lessons of Vietnam, a negotiated solution with the local forces – essentially the Taliban - appear to be the best option, despite all the reservations and justified uneasiness we have about dealing with the unsavory Taliban.

Nixon and Obama: Dealing with Economic Decline

Both Nixon and Obama's presidencies were also plagued by serious financial and monetary turmoil and an increasingly difficult economic climate, including rising unemployment figures and growing deficits. Readers will be familiar with the financial upheavals and economic predicaments of the "Great Recession" of the present. The equally unsettling and deep economic and financial crisis of the early 1970s have largely been forgotten, however. The US was not only faced with increasing economic competition from Japan and Western Europe, but fighting the long Vietnam war also proved to be rather expensive. Washington's declining trade surplus made it increasingly difficult to finance military spending abroad. In the second half of the 1960s the US overall trade surplus declined from $9 billion in 1964 to $3.4 billion in 1969. America's first substantial trade deficit occurred two years later, in 1971. It was the country's first trade deficit for almost one hundred years.

Moreover, the stable and predictable Bretton Woods international monetary system of fixed exchange rates began to unravel from the mid-1960s onwards. In the second half of the 1960s the US developed a serious inflation problem and an annual balance of payments deficit to the tune of $3 billion. The main monetary problem was that by 1971 this growing balance of payments deficit had led to a formidable accumulation of unwanted dollars by several European central banks. This not only unbalanced the Bretton Woods system, but also caused a lot of resentment in Europe, not least in France and West Germany. Much to the annoyance of the Europeans, until August 1971 the Nixon administration largely pursued a policy of "benign neglect" toward these problems.

To cut a long story short. Nixon and his Treasury Secretary, the outspoken John Connally, decided on taking decisive and radical action in the course of a secret weekend meeting of Nixon's economic advisers at Camp David in mid-August 1971. In his subsequent TV address from the Oval Office on August 15 the President proclaimed a temporary surcharge tax on imports into the U.S. and a comprehensive package of wage and price controls. For electoral reasons, Nixon had swallowed his great dislike of such a 'socialist' policy. He also announced that he was shutting the gold window by severing the link between gold and the dollar. He thus abandoned the pledge of the 1944 Bretton Woods conference, to convert dollars into gold at the rate of 35 dollars per ounce, whenever a foreign government asked for it. "We can't cover our liabilities, we're broke, anyone can topple us," Nixon had put it bluntly during the Camp David meeting.

The "Nixon shocks" paved the way for a major devaluation of the U.S. currency; the first one in its modern history. This was eventually agreed in transatlantic negotiations toward the end of 1971. The beginning of the end of the Bretton Woods era took a factor of stability out of the system and introduced an inclination to rely on "easy money" and readily available credit.

In fact the White House had in mind that a devaluation of the dollar would lead to an increase of U.S. exports at the expense of European and Japanese exports. That way the annual American payments deficit of $9 billion was meant to be turned into an annual surplus of $4 billion. The U.S. thus pursued a so-called "adjustment goal" of $13 billion within one to two years, largely on trade.

The American voters were impressed by Nixon's firm and decisive way to bring the US economy out of recession and protect it against the onslaught by those unreasonable foreigners from Europe and Japan. Yet, the Nixon shocks were, in fact, an unambiguous admission of the weak position of the dollar and the U.S. economy. Nixon's *New Economic Policy,* at it was called, symbolized the beginning of the end of America's global economic hegemony.

The Nixon administrations' economic and monetary course of action did not work, however. In March 1973 a entirely new monetary phase was inaugurated by means of an agreement about the free floating of all international currencies. This led to an improvement of the situation as it calmed the markets a little. However, the strong stability of the old Bretton Woods system would never return.

Nixon's economic policy had only been successful insofar as initially it had led to a short-term booming of the U.S. economy in the election year of 1972 – important as that was. In the long run, Nixon's economic policy only prolonged the serious economic problems of the early 1970s which only became worse with the first oil crisis of October 1973 and the second one of the late 1970s. High rates of unemployment and inflation and serious U.S. trade and balance of payments deficits continued long into the 1980s.

Nixon and Obama: Five Lessons

There appear to be five lessons which we can draw from the above to help us in our current economic predicament.

1. One of the main reasons the U.S. landed in economic and monetary trouble during the Johnson and Nixon years were the cost of the Vietnam War. The lesson clearly seems to be that U.S. military spending in Afghanistan, Iraq and elsewhere and the cost of the sprawling Pentagon bureaucracy needs to be seriously curtailed to bring expenditure under control.

2. One other reason for U.S. economic difficulties in the 1970s was the international uncompetitiveness of American industries and businesses. And this was not only due to the overvaluation of the dollar, though this did play an important role. While in the 1960s and 1970s the U.S. was resting on its industrial and economic laurels earned in the 1940s and 1950s, Japan and the leading European countries were pressing ahead with new production and management techniques and identifying new product niches they could fill. The US, at the same time exported much of its economic expertise abroad and set up factories abroad which benefitted the U.S. economy only marginally. The creation of expertise in the U.S. itself suffered greatly. There are clearly lessons to be drawn from this for the situation today.

3. Any U.S. President has only limited means to create jobs; however he can influence the conditions which lead to the creation of jobs. And Nixon managed quite successfully to manipulate the American people's confidence in the U.S. economy by creating a more optimistic economic climate at home. In early 1971 he fired his economic team, which had served him for the first two years without, however, having turned round the economy. After the congressional elections of November 1970, which the Republicans lost, and in view of the looming election of November 1972, Nixon was prepared to adopt very radical measures. Nixon panicked one could say. Although not having any economic expertise, the Treasury post went to John Connally in early 1971. It was not Connally's economic and monetary expertise which Nixon was impressed by but Connally's strong and forceful personality. Connally talked up America's economic performance and he talked rather straight and aggressively to America's competitors.

It might not be a bad idea for Obama to change his economic team too. A radically new economic team would imbue the country's economy with new confidence and optimism. After all, what appears to be required when the economy is languishing is strong leadership or at least the perception of strong leadership. This is what Nixon tried to give the nation with his dramatic pronouncements on August 15, 1971 and with the help of John Connally.

4. Nixon's temporary incomes policy had the advantage that it benefitted the consumer with stable prices. It thus curtailed the profiteering of the businessman and this was very much the impression created and the U.S. consumer appreciated it. Nixon gave the impression of caring about the man and woman in the street. A similar perception would also be helpful to Obama and his re-election prospects. It would go a long way to create new confidence in the economy and the administration. The Obama administration would be wise, for instance, to find ways of not just making the taxpayer but also the banks and the bankers pay for the huge damage created by the near meltdown of American's financial system in 2008. "Too big too fail," is a rather unfortunate phrase. It conveyed the impression that Obama's sympathy were largely with the bankers rather than with the ordinary American voter. Nixon's temporary incomes policy and surcharge on foreign imports conveyed a very different message, rightly or wrongly. No anti-Wall Street movement occurred during Nixon's reign.

5. Nixon's unilateral monetary policy and the multilateral monetary negotiations in 1971 and in particular in 1972 and 1973, however, were a disaster. Obama's much more multilateral approach in the context of the global financial crisis that is rocking both sides of the Atlantic is much sounder and promising.

There is one other more hopeful lesson to be drawn: in the end all crises end. This was the case in the 1970s and this will definitely be the case again sometime in the hopefully not too distant future.

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