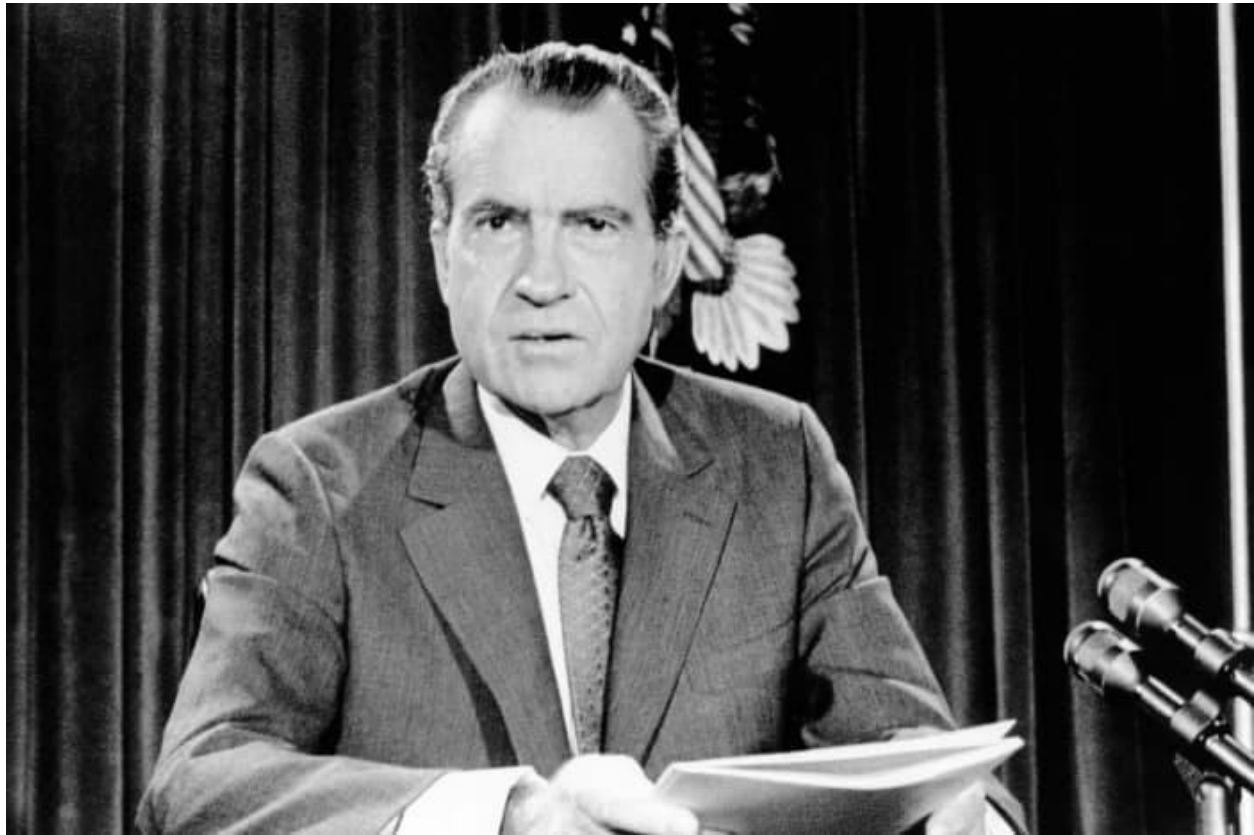


The Move Into Gold by Other Nations Has Happened Before. It's Bad News for the U.S. Dollar.

By [Randall W. Forsyth](#)

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President Richard Nixon in 1971 announced wage and price controls for 90 days as part of an economic policy to control inflation, combat unemployment, and stabilize the dollar overseas. (Everett/Shutterstock)

Key Points

About This Summary

- Central banks increased gold holdings to 27% of reserves in 2025, up seven percentage points, while U.S. Treasuries fell three percentage points to 22%.
- Geopolitical risks, U.S. policies, and concerns over the U.S. budget deficit (nearly 6% of GDP) are driving central banks to gold.

- The 2025 shift from U.S. assets to gold mirrors 1971, when central banks dumped dollars before Nixon ended gold convertibility.

Two different eras, two similar occurrences.

Fifty-five years ago, increasingly restive global central banks wanted to dump U.S. dollars for gold in a vote of no confidence in America's policies. Their concerns proved right after President Richard Nixon [ended the dollar's convertibility into gold](#) at the fixed price of \$35 an ounce on Aug. 15.

Fast-forward to 2025. Global central banks sharply increased their holdings of gold amid increasing wariness about U.S. policies. By the end of last year, their bullion stakes exceeded their portfolios of U.S. Treasury securities, according to [a report released this past week](#) by the European Central Bank.

In both instances, decisions emanating from Washington that affected the dollar's international exchange rate also reflected pressures relating to U.S. politics. American politics and policies still reverberate in currency markets to this day. But the consequences are largely underappreciated.

In 1971, the decision to sever the dollar's last link from gold came amid huge domestic tumult, including the opposition to the seemingly endless Vietnam War, plus growing racial tensions. And with the presidential reelection campaign looming only a bit more than a year away, the nation's economy was beset with both stubborn inflation and sticky unemployment.

The recent flight from U.S. government securities to gold also, in no small part, appears to be a reaction to Washington policies that had geopolitical reverberations around the globe. In addition to growing concerns about the U.S. budget deficit—running at nearly 6% of gross domestic product, a level associated with recessions or war—allies of the U.S. were hit with tariffs and a seeming breakdown in relations with Europe and other NATO members.

Since the Cold War, other countries that maintained their holdings of dollars and U.S. securities in no small part for security reasons, reflecting an implicit quid pro quo for America's defense shield. That symbiotic relationship seems strained now, at best.

Two new books shed light about the events of over a half-century ago and the even longer history of money stretching back to ancient times.

Veteran Washington reporter (and, full disclosure, old friend) John A. Jenkins details the events that led up to and surrounded the Nixon's so-called New Economic Program

in *Summer '71: Five Months That Changed America*, due to be published by Kensington Books at the end of the month.

What's mostly forgotten from this period are the constraints placed on economic policymakers by the Bretton Woods system, in which currencies' exchange rates were relatively fixed versus the dollar, which in turn could be converted at the aforementioned fixed price of \$35 an ounce.

The budget deficits of the late 1960s from the Vietnam War and Great Society domestic spending programs strained that gold peg. Other nations, increasingly wary of these inflationary policies, opted to swap their dollars for gold. Jenkins noted that Lyndon Johnson was forced to seek an income surtax in 1968 because he was worried about possible negative reactions in gold and the dollar from the "guns and butter" U.S. policies.

Nixon, who blamed his defeat in the 1960 presidential election to John F. Kennedy on a sluggish economy, wanted to see unemployment come down from 6% to closer to 4%, and rein in inflation, which was running in the 5% range.

Democrats, who controlled both houses of Congress, passed the Economic Stabilization Act of 1970, which gave the Republican president the power to stabilize prices, rents, wages, interest rates, and dividends. Jenkins says the Dems thought Nixon, as a traditional Republican, would never use such sweeping powers, unprecedented in peacetime. If Nixon didn't act, Democrats then could blame him for the stagflationary malaise in the 1972 campaign.

But Nixon's new Treasury Secretary, John Connally, a Texas Democrat, urged dramatic action. In a portent of current events, he thought foreign trade could be used for domestic purposes. Nixon blamed the attacks on the dollar on international speculators, not the persistent current-account deficits and inflationary U.S. policies.

Another radical departure from precedent was the participation of Arthur Burns, the chair of the ostensibly independent Federal Reserve, in the crafting of Nixon's shock therapy program. As with many academics of the era, Burns didn't believe inflation was the result of too much money printing but the power of corporations and unions to raise prices and wages. With wage and price controls in place, the Burns Fed acceded to Nixon's pressure to slash short-term interest rates, igniting a stock rally but ultimately [the stagflation of the 1970s](#).

Critics saw these inflationary policies as leading to the inevitable demise of the dollar as the world's leading reserve currency. But Barry Eichengreen, an economics professor at the University of California, Berkeley, points to geopolitical and security factors that have preserved the dollar's status.

Since the Cold War, the U.S. had provided a “nuclear umbrella” to other nations, which reciprocated by holding a disproportionate share of their reserves in dollars and Treasury securities, he wrote in an email. Similarly, then-Treasury Secretary William Simon persuaded Saudi Arabia in 1974, after OPEC quadrupled crude oil prices, to recycle its vastly increased earnings into dollars.

In his new book, *Money Beyond Borders: Global Currencies From Croesus to Crypto* (Princeton University Press), Eichengreen argues that the fate of the U.S. dollar rests on its upholding the rule of law, maintaining the separation of powers, and honoring its commitments to its foreign partners. On the first two, I will leave it to readers to decide how well those conditions are being met by the Trump administration.

As for the latter, America’s allies have reason to be less confident about the U.S. sharing their common defense. As a consequence, they have less incentive to hold U.S. Treasury securities rather than gold, an asset with no national ties.

“It is not coincidental that Poland, which shares a border with Russia and attaches high value to its membership in NATO, has been one of the largest gold buyers,” Eichengreen says.

Geopolitical risks appear to be a major spur to central bank gold purchases, the ECB said in its report. Poland purchased around 100 metric tons of gold last year, followed by Kazakhstan, Brazil, China, and Turkey. The biggest buyer of gold last year was Tether, the stablecoin issuer, with over 100 tons. That points to this form of cryptocurrency as another possible alternative to greenbacks for international transactions.

Overall, gold made up 27% of central bank reserves at the end of 2025, up from 20% a year earlier, which also reflects the rise in the metal’s price. U.S. Treasuries’ share of central bank reserves slipped to 22% last year, from 25% in 2024, the ECB said.

Motives to diversify into gold go beyond the strength of the NATO alliance, Eichengreen adds. There also have been visible shifts into gold by countries that have been the target of U.S. financial sanctions in recent years. Since Russia’s invasion of Ukraine in 2022, the ECB said, China has purchased 350 tons, followed by Poland (320 tons), Turkey (220 tons), and India (130 tons).

That said, global investors continue to come to America, notably to buy U.S. equities. According to U.S. Treasury data released in April, foreign investors held \$33.7 trillion in long-term securities as of June 30, 2025, up from \$29.566 trillion a year earlier. U.S. stocks comprised the largest share of foreign investors’ U.S. holdings—\$19.86 trillion—as of June 2025, versus \$16.878 trillion a year earlier.

Nixon abrogated the U.S. promise to maintain the dollar's value in gold in 1971, the result of political pressures at the time, according to Jenkins. Now, the U.S. dollar's international role also would suffer were the U.S. to be decisively perceived to be turning its back on those alliances that already are on shaky ground, Eichengreen writes.

And that's beyond the purely economic and financial factors that are the usual focus of currency markets.

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