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The Dollar Crisis and the Move toward Global Economic Governance?: The White House and the International Monetary Fund, 1960-1976

After a day last May at the archives of the International Monetary Fund in Washington, I went for a ruminating run on Pennsylvania Avenue. While passing by the Treasury Department, White House and IMF, I asked myself the following: could time be running out on the US dollar as the world's reserve currency? With Washington coping with a colossal national debt of nearly $18 trillion, the US dollar is running on close to empty. Some eminent minds are increasingly giving consideration to a new global economic paradigm, where the dollar will no longer be the world's principle reserve asset held with confidence by national governments and central banks. In August of this year, Jared Bernstein, who previously served as the chief economist for Vice-President Joe Biden, argued in a *New York Times* Op-Ed piece that the US, and its elephantine trade deficits, "can no longer afford" to have the dollar serve as the pivot of the global economy.[1] Rather than a simply a consequence of the 2008 financial meltdown, the origins of the dollar crisis can be traced back to 1960, when the longstanding US international balance of payments deficit fomented a drain on US gold reserves. On August 15, 1971, President Nixon removed the US dollar from the gold-exchange standard of $35 per ounce, thus ending the system of fixed exchange rates in place since the Bretton Woods Conference (1944). This paper argues that the long unraveling of the Bretton Woods system led the US and IMF to build a *latent* system of global economic governance based on a global reserve currency, the IMF's Special Drawing Right, alongside an undefined vision for the IMF to evolve into a global central bank.

This paper escapes the banal binaries – liberal versus conservative or free world versus communist world – that usually define how US historians approach Cold War political economic questions. The key fault line in this narrative is the debate between the forces of globalism and

[1] Jared Bernstein, "Dethrone 'King Dollar,'" *New York Times*, August 27, 2014, http://mobile.nytimes.com/2014/08/28/opinion/dethrone-king-dollar.html.

nationalism over the best organizing principle for the global economy. Stretching from 1960 to 1976, the United States attempted to first strengthen the dollar, before moving to create the SDR to first supplement, and then rival, the dollar. During the start of the US dollar crisis in 1960, the incoming White House, led by President Kennedy, pursued a resolute commitment to the dollar in the face of the nation's serious balance of payments deficit.

The balance of payments record measures a nation's economic transactions - whether by individual citizens such as tourists, corporations, or governmental agencies- with the rest of the world over a quarterly and yearly basis. After a brief dollar shortage following World War II, the US dollar quickly flooded the world as the globe's primary source of liquidity; with the exception of 1957, the US experienced a balance of payments deficit every year from 1950 to 1960. Two of the greatest sources and symbols of America's Empire- one private and one public- were primarily responsible for the outflow of US dollars.

Due to the Marshall Plan, launched in 1948, the US, led by Wall Street, was crucial in the rebuilding of Western Europe after World War II. Due primarily to Wall Street banks and US corporations, US investment into Western Europe, according to the President's 1963 Economic Report to the Congress, was just under $1 billion annually from 1952 to 1955. After seventeen Western European nations agreed to convert their currencies according to the Bretton Woods system of fixed exchange rates near the end of 1958, Wall Street investment in Europe increased roughly to $2.5 billion annually from 1958 to 1961.[2] Wall Street's investment in Western Europe was matched by Washington's continued military presence and defense of the Continent against the Soviet Union and the spectre of communism. The Pentagon's unprecedented power comes with a prodigious price tag. In order to support America's one million soldiers stationed abroad,

[2] "Economic Report of the President," January 21, 1963, American Presidency Project (APP), Public Papers of the United States (PPUS), http://www.presidency.ucsb.edu/economic_reports/1963.pdf, p. 92.

the US was spending nearly $3 billion annually by 1963, supporting mainly US soldiers and their families located in Western Europe.[3]

During the first eight years of the 1950s, as US private and public dollars flooded into Western Europe, these European nations were willing to hold onto their dollar reserves. By the end of 1958, seventeen Western European nations agreed to convert their currencies within the Bretton Woods fixed exchange rate system. With this agreement in place, Europe increasingly began to trade in its excess US dollars for US gold, valued at $35 per ounce. Between 1958 and 1960, the US lost just over $5 billion in its gold reserves. During the last two months of 1960 the US lost $635 million in gold reserves. [4] Over a longer period, from 1949 to 1962, the US saw its percentage of the world's gold stock decrease from 71 percent to 40 percent; Western Europe's share increased from 15 to 44 percent over the same period.[5] America's balance of payments deficit and concomitant gold losses in the late 1950s were first identified as a problem by Yale economist Robert Triffin in his 1960 book, *Gold and the Dollar Crisis: The Future of Convertibility*. As long as a national currency, the US dollar, remained the world's reserve currency and main source of liquidity the US would continue to run trade deficits. Trifflin thought that this struggle between national and global priorities might eventually endanger both the dollar's status as the world's reserve currency and the Bretton Woods system itself.

This was the challenge bequeathed to John Fitzgerald Kennedy when he assumed the presidency on January 20, 1961. Viewing delegation of responsibility as a dereliction of duty, JFK wasted little time addressing the US's balance of payments crisis. In his State of the Union

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[3] "Economic Report of the President," January 21, 1963, American Presidency Project (APP), Public Papers of the United States (PPUS), http://www.presidency.ucsb.edu/economic_reports/1963.pdf , p. 93.

[4] "Economic Report of the President," January 18, 1961, PPUS, APP, Dwight Eisenhower XXXIV, President of the U.S.: 1953-1961, http://www.presidency.uscb.edu/economic_reports/1961.pdf, p. 108; "Special Message to the Congress on Urgent National Needs," May 25, APP, PPUS, John F. Kennedy, XXXV President of the U.S.: 1961-1963: www.presidency.ubsc.edu/ws/index/pid=8151&st=&st1=.

[5] "Economic Report of the President," January 21, 1963, American Presidency Project (APP), Public Papers of the United States (PPUS), http://www.presidency.ucsb.edu/economic_reports/1963.pdf , p. 91.

address on January 30, 1961, JFK lucidly informed Congress that the recent gold drain from the US was cause for "concern," but not "panic." Recognizing that the US balance of payments deficit and gold outflow problem needed to rectified, JFK pledged that the US would not raise the price of gold from $35 per ounce nor do anything to distort the value and confidence of the dollar.[6] A week later, JFK wrote to Congress outlining his plan to strengthen the dollar, led by the cutting of defense expenditures.[7]

JFK's plan to bring the US balance of payments deficit into equilibrium by the end of his first term was left unfinished. Rather than a lack of vision or energy, President Kennedy's assassination is a crucial reason why the US failed to rectify its systemic balance of payments problem. Before his death, JFK had formulated a working plan that over the long haul held the potential to find a panacea to the dollar crisis; this plan was not continued by his successor.

When the President fully commits himself to an issue he is usually able to achieve his objectives. First expressed in his State of the Union address, JFK's commitment to the dollar continued throughout his entire administration. Whether in his press conferences or speeches, communications with the bureaucracy, or personal letters to economic luminaries like David Rockefeller and John Galbraith, JFK always emphasized his commitment to maintaining a strong dollar, ending the balance of payments deficit, and unwillingness to raise the price of gold above $35 per ounce.[8] Through JFK's strong leadership and the pruning of the Pentagon's overseas

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[6] "Annual Message to the Congress on the State of the Union," January 30, 1961, JFK, XXXV President of the US: 1961-1963: www.presidency.ucsb.edu/ws/index/php?pid=8045&st=&st

[7] "Special Message to the Congress on Gold and the Balance of Payments Deficit," February 6, 1961, JFK, XXXV President of the US: 1961-1963, http://www.presidency.ubsc.edu/ws/index.php?pid=8178&st=&s1=

[8] National Security Action Memorandum No. 81, "Subject: US Gold Position," August 28, 1961, Foreign Relations of the US, 1961-1963, Volume IX, Foreign Economic Policy (Washington: GPO, 1998), http://history.state.gov/historicaldocuments/frus1961-63v09/d47; "Remarks to Members of the Brookings Institution's Public Policy Conference for Business Executives," June 7, 1962,APP, PPUS, John F. Kennedy, XXXV President of the US: 1961-1963: www.presidency.ucsb.edu/ws/index.php?pid=8700%st=&st=; "Letter to David Rockefeller on the Balance of Payments Question," July 6, 1962, APP, PPUS, John F. Kennedy, XXXV President of the US: 1961-1963, http://www.presidency.ubsb.edu/ws/index.php?pid=8759&st=&st1=; "The President's News Conference,"

expenditures, the US made some progress in putting its economic house in order. In a speech before Congress on July 18, 1963, JFK declared that the yearly balance of payments deficit had decreased from $3.9 billion in 1960 to $2.2 billion by 1962. JFK also expressed his desire to reduce government spending by $1 billion from 1962 levels by the end of 1964.[9] Although JFK was assassinated on November 22, 1963, the US still operated on the Kennedy era budget in 1964, under President Lyndon Johnson.

At a time when no US bombs were being dropped on Vietnam, weeks before LBJ's election victory in November 1964, Secretary of the Treasury Douglas Dillon informed President Johnson that the US was halfway to JFK's goal of cutting government spending by $1 billion.[10] JFK's plan to save the dollar was showing signs of success before the Vietnam War commenced. From the fiscal years 1963 to 1965, US dollar outflows were reduced by 23%, or $635 million; US gold losses in 1964 were the lowest totals since 1957.[11] All of these gains, however, came at a time of relative peace during the Cold War.

Assuredly, government spending always increases during times of war. Once the US went to war in Vietnam in March 1965, any chance of the US eliminating its chronic balance of payments deficit was also lost. In August 1967, Francis Bator, Deputy Assistant for National Security Affairs, informed the President that only a "gutting" of America's foreign policy- a

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July 23, 1962, APP, PPUS, John F. Kennedy, XXXV President of the US: 1961-1963, http://www.presidency.ucsb.edu/ws/index.php?pid=8784&st=&s=.

[9] "Special Message to the Congress on Balance of Payments," July 18, 1963, APP, PPUS, John F. Kennedy, XXXV President of the US: 1961-1963, http://www.presidency.ucsb.edu/ws/index.php?pid=9349&st=st1=

[10] Letter from the Chairman of the Cabinet Committee on Balance of Payments (Dillon) to President Johnson, October 30, 1964, FRUS, 1964-1968, http://history.state.gov/historicaldocuments/frust1964-1968v08/d17.

[11] Memorandum from the Director of the Bureau of the Budget (Schultze) to Johnson, "Subject: 'Gold Budget,'" June 8, 1965, http://history.state.gov.historicaldocuments/frus1964-1968v08/d62; Memorandum from the Chairman of Economic Advisers (Ackley) to President Johnson, "Subject: The Balance of Payments," December 10, 1964, Ibid, http://history.state.gov/historicaldocuments/frus1964-68v08/21.

vague reference to Vietnam- could the balance of payments deficit be brought into equilibrium.[12] America's security and solvency are indivisible issues. The time for a wise White House to try to cut the Pentagon's dollar expenditures abroad is when the US is not at war. Alongside instigating an inflationary crisis by the end of his presidency, Johnson's decision to go to war in Vietnam effectively ended JFK's plan to find a solution to the dollar crisis.

The Johnson administration also eventually intensified efforts aimed at reforming the international monetary system that first began to surface during the Kennedy years. While JFK was committed to preserving the strength of the dollar, some within his administration began envisioning a world beyond the dollar. Successful institutions always have future expectations; they always develop contingencies in the recognition that history is a narrative characterized by change within continuity. If the US was able to find a panacea to its balance of payments deficit, would this also result in a global liquidity shortage? In April 1962, Richard Gardner, Deputy Assistant Secretary of State for International Organization Affairs, met with John Leddy, Assistant Secretary of the Treasury for International Affairs. Gardner soon after generated a memorandum arguing that the "free world" may face a liquidity shortage if the US and Britain kept experiencing burgeoning balance of payments deficits. If this occurred, the IMF may need to cultivate some "institutional innovation" to relieve pressure form the dollar and the pound as the world's two primary reserve currencies.[13]

This idea for institutional changes within the global economic system reached the highest levels of the Treasury Department by September 1962. Secretary of the Treasury Douglas Dillon,

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[12] Memorandum from the President's Deputy Assistant Security Assistant for National Security Affairs (Bator) to President Johnson, August 10, 1967, FRUS, 1964-1968, http://history.state.gov/historicaldocuments/frus1964-68v08/d138.

[13] Memorandum from the Deputy Assistant Secretary of State for International Organization Affairs (Gardner) to the Assistant Secretary of State for International Organization Affairs (Cleveland), "Subject: Luncheon Conversation with John Leddy," Washington, April 16, 1962, http://history.state.gov/historicaldocuments/frus1961-63v09/d197.

however, was cautious about elevating this idea to the White House. The Presidents' words can move markets, especially when televised; Dillon wanted to make sure JFK chose his words wisely. In preparation for JFK's September 20, 1962, IMF speech, Dillon "strongly" advised the President on September 18 that JFK not make any reference to possible "new initiatives in the monetary field…" If the President endorsed US involvement in exploratory studies focused on reforming the global monetary system confidence in the dollar would dissipate. JFK agreed with Dillon's advice. During his IMF speech, JFK reemphasized that US goal to preserve the dollar as the world's reserve currency, and pledged to keep the dollar tied to the gold-exchange standard.[14]

JFK's refusal to include the possibility of US involvement in studies aimed at reforming the world monetary system in his September 20, 1962, IMF speech represented the apogee of his support for the US dollar. JFK thought that if the US pursued a sober, disciplined, patient, and farsighted policy Washington could bring its balance of payments deficit into equilibrium. If this was done, the US dollar could remain the world's reserve currency. At the base of JFK's strategy was his worldview that the nation-state still constituted the insuperable and central actor, agent, and authority of the international system. During the Johnson administration, US policymakers took a much more cosmopolitan, multilateral, and global approach to the dollar crisis. Increasingly, Washington began to view monetary issues as exceeding the capabilities, and ignoring the political borders, of all nation-states- even the US itself.

In an increasingly converging and interdependent world, the Johnson administration thought that global questions would increasingly require global solutions. The new economic system of the future would still be comprised of nation-states, but managed by multilateral

[14] Memorandum from Treasury Secretary Dillon to Kennedy "SUBJECT: Your Speech to the IMF Board," September 18, 1962, http://history.state.gov/historicaldocuments/frus1961-63v09/d161; "392- Remarks to the Board of Governors of the World Bank and the IMF," September 20, 1962, APP, PPUS, John Kennedy, XXXV President of the U.S.: 1961-1963, http://www.presidency.ucsb.edu/ws/index.php?pid=8883&st=&s1=.

economic institutions and instruments. Working with the International Monetary Fund, the Johnson administration created the "first international money"[15] in history, while formulating an inchoate vision for an empowered IMF.

Events in London pushed Washington to begin thinking about creating a new reserve asset. After the dollar, the British pound sterling constituted the second most important reserve currency in the world following World War II. Linked into Europe's currency convertibility plan since 1958, but still outside the European Economic Community, Britain's pound was hurt by London's decline in export trade by the early 1960s, as the rest of Europe increased its own exports. Analogous to the US, the UK also faced a burgeoning balance of payments deficit, led by its continued military and political presence in Singapore and Malaysia. In November 1967, Britain, led by Prime Minister Harold Wilson, devalued the pound from $2.80 to $2.40.[16] The British devaluation of the pound, while startling to the US and world markets, still had been anticipated by Washington for some time.

Beginning in late 1964, the US started examining ways to alleviate the challenges facing both the dollar and the pound. In preparation for Prime Minister Wilson's December 7-8, 1964, visit to the White House, Washington began considering pursuing a significant reform of the global monetary system. Fresh off his election victory in November, weeks later President Johnson received a thorough report composed by economist Carl Kaysen focused on foreign economic policy. Pointing out that the US world position had declined on a relative basis since the end of World War II, the report tacitly hinted that in the future the US may need to create a "new" international reserve asset beyond existing national currencies. A few weeks later, a

[15] Christopher Wilkie, *Special Drawing Rights: The First International Money* (Oxford: Oxford University Press, 2012).
[16] "Statement by the President on the Devaluation of the British Pound," November 18, 1967, APP, PPUS, Lyndon B. Johnson, 1963-1969: http://presidency.ucsb.edu/ws/index.php?pid=28557&st=stl=

Treasury and State Department briefing paper mused that over the long-run the US and IMF may need "more international liquidity" to meet the world's growing trade and payments issues.[17] Although US and IMF thinking on the idea of global reserve asset would evolve and intensify over time, initially, the collective thinking on the issue was quite cautious and limited. Rather than replacing and rivaling the dollar, US policymakers thought that this new reserve asset would supplement a doleful dollar facing a burgeoning balance of payments deficit, while reducing the world's dependence on gold as a reserve asset.

The crisis facing the British pound accelerated the US move to create a new global reserve asset by mid-summer 1965. Pointing out that a devaluation of the British pound by London could provoke "chaos," Assistant Secretary of State George Ball informed Secretary of the Treasury Henry Fowler that he had wanted to reform the global monetary system since he had entered the government in 1961.[18] The President was already ahead of Ball. A month before Ball's memo to Fowler, Secretary Fowler received an even more important memo. On June 16, 1965, LBJ informed Fowler that the "time" was now "right" to reform the global monetary system by moving toward a "new system for creating reserves." Led by Fred Deming, Under Secretary of the Treasury for Monetary Affairs, the President wanted an inter-agency group within the government to study the creation of a new global reserve asset with the National Security Council, Federal Reserve Board, Council of Economic Advisers, IMF, and Group of Ten Nation. The G10, comprised of the US, Canada, Britain, West Germany, France, Belgium, Italy, the Netherlands, Holland, Sweden and Japan, had been formed to participate in the IMF's

[17] Letter from the Chairman of the Task Force on Foreign Economic Policy (Kaysen) to President Johnson, November 25, 1964, *FRUS 1964-1968*, http://history.state.gov/historicaldocuments/frus1964-1968v08/d18; Briefing Paper Prepared by the Department of State and the Department of the Treasury, "Visit of Prime Minister Harold Wilson," December 7-8, 1964, http://history.gov/historicaldocuments/frus1964-1968v08/d19.
[18] Memorandum From the Under Secretary of State (Ball) to Secretary of the Treasury Fowler, "Subject: Some Thoughts on the British Crisis," July 28, 1965, http://history.state.gov/historicaldocuments/frus1964-1968v08/d65.

General Agreements to Borrow accord in 1962. Although the President wanted the Deming Group and US to approach this issue with discretion, LBJ would follow up on his private memo to Fowler in a public form months later.[19]

Kennedy's view that the nation-state, and national currencies, should remain the centerpieces of the global economic system was no longer the dominant perspective within Washington by the Johnson White House. Nationalism would no longer be enough if the US hoped to restructure the global economic system. While President Kennedy had refused to consider promulgating new initiatives in the monetary field at his 1962 speech before the IMF, his successor did so three years later. Taking a transnational worldview, Johnson's October 1, 1965, speech at the IMF's annual meeting was a crucial moment in the creation of the SDR; a moment that looked more to the future than the present. Pointing out that there was no "immediate crisis," Johnson thought that going forward national currencies and gold "alone" would by insufficient reserves within the global economy. In the future, "new and imaginative" reforms needed to take place, especially focused on the creation of new reserves.[20]

Following LBJ's speech at the IMF in October 1965, the US, IMF, and G10 spent the next two years negotiating the creation of a new global reserve asset. Meeting in The Hague in January 1967 and in Munich three months, these parties discussed what type of asset would be created and where it would be housed. The key initial stumbling block in these negotiations was France and its President Charles De Gaulle. Paris wanted to create a reserve asset outside the IMF, inside the G10, in order to preserve French autonomy and sovereignty on monetary issues. In March 1965, France advocated for the return to the pre-World War I classical gold standard in

[19] Memorandum from Johnson to Fowler," Subject: Forward Planning in International Finance," June 16, 1965, *Ibid*, http://history.state.gov/historicaldocuments/frus1964-68v08/d64

[20] "Remarks at the Annual Meeting of the World Bank and IMF," October 1, 1965, APP, PPUS, Lyndon Johnson, XXXVI, President of the US, 1963-1969, http://www.presidency.ucsb.edu/index/php?pid=27287&st=&st1=

replacement of the current US dollar dominated system. De Gaulle considered the US plan to allow the IMF to administer a new reserve asset as Washington's way to supplement its sagging dollar, without addressing its balance of payments deficits.[21]

In the first book focused on the SDR in over thirty years, former Canadian Ambassador Christopher Wilkie asserts that the French eventually joined the US plan to place the new reserve asset within the IMF out of fear of becoming isolated within the G10. At the IMF's annual meeting in Rio de Janeiro in September 1967, the IMF and the US created the broad outline for the Special Drawing Right (SDR), as asset to be administered by the IMF, and intended to initially supplement the dollar. During a time when the Bretton Woods system of fixed exchange rates was still in place, one SDR was originally equal to one US dollar or 0.89 grams of gold. Since its inception, the SDR has only been used in the accounting books of national governments and central banks to settle payments questions among monetary authorities; the SDR has never been used by corporations, banks, or citizens in everyday commercial transactions. In 1969, the SDR agreement was ratified by enough of the IMF's members, leading to the IMF to allocate $9 billion SDRs to its members over the next three years, based on each nation's quota subscriptions in the Fund.[22]

The creation of the SDR in September 1967 seemed to accelerate the IMF's own functional evolution. With a new economic instrument at its disposal, could the IMF use the SDR to drive the Fund toward greater authority and surveillance over the global economy? As expressed in Charles Kindleberger's *The World in Depression* (1973) and Jeffry Frieden's *Global Capitalism* (2006), many serious studies have recognized the seemingly insoluble challenge posed by a global monetary system constrained by the organizing power of the nation

[21] Christopher Wilkie, *Special Drawing Rights*, pp. 9-36.
[22] I*bid*., p. 22-36.

state. Could a solution to this challenge be the creation of a global central bank? Before the Rio conference in September 1967, the groundwork for the SDR agreement was constructed in London a month earlier by the G10. The London Conference looked deep into the future. On August 27, 1967, on its front page, the *New York Times* announced that the SDR plan, according to "some American officials," was poised to elevate the IMF into "a world central bank" with the power to regulate the global money supply in the same manner as the Federal Reserve System had regulated the US domestic money supply since the Federal Reserve Act of December 23, 1913. Presumably, an empowered IMF acting as the global Fed would be given the authority to also set interest rates for all its nation state members and serve as the global lender of last resort during times of crises and confusion. The *New York Times* story indicated that this process would take place on an incremental basis over "decades," but did not indicate how this would actually transpire.[23]

The London Conference was not the first or last time the US would briefly think about elevating and empowering the IMF. As early as October 1959, Robert Triffin informed the Joint Economic Committee of Congress that he supported the idea to create a global central bank, able to hold the deposits and reserves of the world's central banks, regulate the global monetary system, and make loans and investments.[24] In September 1970, William McChensey Martin also declared his support for the IMF's evolution into a world central bank, but only after he had stepped down as Federal Reserve Chairman a few months earlier.[25]

The only real serious thought given by US and IMF officials concerning the evolution of the IMF into a world central bank took place during the Johnson years. In December 1963, a

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[23] Edward Cowan, "World Monetary Reform Approved by 10 Nations," *NYT*, August 27, 1967, p.1.
[24] Oscar Altmar, "The Management of International Liquidity," March 6, 1964, IMF, Research and Statistics Department, Lyndon Baines Johnson Presidential Library, President, 1963-1969, Confidential File, Oversize Attachments, 4/28/66, Treasury, Long-Range International Payments Committee (LRIPC), Box 154.
[25] "Martin Foresees New Central Bank on a Global Basis," New York Times, September 15, 1970, p. 63.

paper generated for the Treasury's Long-Range International Payments Committee recognized that if the IMF evolved into a world central bank then the global economy would be emancipated from the currencies, politics, and policies of the world's two primary reserve nations- the US and UK. The overriding issue, however, was political rather than economic. Outside of outright economic collapse, why would any nation, especially the US, completely forsake its own economic sovereignty and autonomy to the IMF? If the IMF could "overrule" the decisions being made by individual nation-states, might this provoke some nations to leave the IMF?[26] Without some sort of global tax or means of obtaining resources outside of national subscriptions, how could the IMF ensure that it continued to receive the resources necessary to operate as, and evolve into, an international central bank?

These political issues concerning sovereignty and compliance are always present when scholars examine how all nation states approach membership in international organizations. What is interesting about the discussion surrounding the IMF's evolution into a world central that took place during the Johnson years is that this narrative extended beyond the ideological confines of the Cold War. If the IMF truly desired to become a world central bank then the Fund's jurisdiction would have to be over all the world's nations- including the world's most populous nation. In March 1964, the IMF generated a paper that considered the future membership of the Soviet Union and the Eastern European communist bloc in a new and expanded IMF. More importantly, the paper even considered granting IMF membership to "mainland China," even though China would not join the UN until 1971.[27]

[26] Mr. Furth to Members of the Long-Range International Payments Committee (LRIPC), "Reform of the Reserve Currency System," December 30, 1963, Lyndon Baines Johnson Presidential Library, President, 1963-1969, Confidential File, Oversize Attachments, 4/28/66, Treasury, Long-Range International Payments Committee (LRIPC) [1 of 2], Box 154.

[27] Oscar Altmar, "The Management of International Liquidity," March 6, 1964, IMF, Research and Statistics Department, The Lyndon Baines Johnson Presidential Library, President, 1963-1969, Confidential File, Oversize Attachments, 4/28/66, Treasury, Long-Range International Payments Committee (LRIPC), Box 154.

Even though China would not became a member of the IMF until May 19, 1980, the IMF's interest with the People's Republic of China commenced fourteen years earlier. On January 21, 1966, Frank Southard of the Treasury Department informed the IMF's D.S. Savkar that he had learned that Fund's Asian Department was pursuing more "systematic" studies of "Mainland China." Although Southard was unopposed to the IMF pursuing a more thorough collection of Chinese information, he thought that this exercise might lead to some "other problems" associated with the fact that Taiwan, not China, was a member of the IMF in 1966. [28]

Cold War ideology, politics, and history ensured that Savkar had to proceed with caution and care on China. As long as Taiwan was considered, no matter how injurious, as the "rightful representative of China" the IMF could not establish official relations with "Red China." Four days after Southard's reply to him, Savkar generated a memorandum showcasing the IMF's dilemma with dealing with China. While for political reasons he was unwilling to advance and endorse the idea of the IMF including a new focus on developments and events inside China in is annual reports, Savkar did lament that the UN did the same in their own annual reports. China was slowly reengaging with some of its traditional commercial partners- none more so than Japan. Due to the rebirth and rise of the Chinese-Japanese trade relationship, Savkar though that the IMF needed to cultivate indirect sources of information in nations trading with China even if it could still not directly talk sources inside China.[29]

We know that it was not until President Richard Nixon's visit to Beijing in February 1972, which helped catalyze a rapprochement between the US and China, would China begin to

[28] Frank Southard to Mr. Savkar, Subject: "Studies on Mainland China," January 21, 1966, IMF Archives, Asian Development Immediate Office, Non-Member Countries, China, 1971-1980, Non-Member Countries (Mainland China (1971-1972), Box 19.

[29] D.S. Savkar, (Acting Managing Director), "Studies on Mainland China," January 25, 1966, IMF Archives, Asian Development Immediate Office, Non-Member Countries, China, 1971-1980, Non-Member Countries (Mainland China (1971-1972), Box 19.

reintegrate itself into the global economic community. On July 15, 1971, President Nixon announced to the world on television that he would visit China in the coming months, after his National Security Advisor, Henry Kissinger, had just returned from a secret visit from Beijing. This was the first of the two shocks that the Nixon White House would unveil to the world in the summer of 1971. One month later, on August 15, Nixon announced that the US was ending its commitment to link the dollar to the gold-exchange standard of $35 per ounce. With an increase in US gold outflows occurring in the summer of 1971, and fearful about a run on the dollar, Nixon made this decision without even the involvement of Kissinger. The era of the fixed exchange rate system was over; a floating exchange system, no longer tied to the gold, effectively marked the end of the Bretton Woods system.

Nixon's decision to sever the US dollar's link to gold affected how the US approached the SDR in two different ways. Since the SDR had been created during the Bretton Woods exchange rate system era, the IMF's reserve asset lost some of its momentum, at least in the short-run. Although over $9 million in SDRs were doled out by the IMF to its members from 1969 to 1972, this practice did not continue again until 1979 to 1982, when over $11 billion in SDRs was again administered by the IMF to its members. With the US now unconcerned about its balance of payments deficit- because dollars could now not be exchanged for gold- the dollar did not need supplemental support from the SDR. Wilkie asserts that after 1972 the SDR became less of a supplement reserve for the dollar, and more of the administrative unit of account for the IMF itself. In March 1972, the IMF began denominating its own accounts in SDRs; in July 1974 a sixteen currency basket replaced the SDR's dollar and gold denomination. This basket of sixteen currencies was reduced to five currencies- the dollar, Japanese yen, French franc, German mark, and British pound- in January 1981. With the creation of the Euro in 1999, the world's first regional currency replaced both the franc and mark in the SDR basket. Today the SDR basket is comprised of the dollar (44%), Euro (34%), British pound (11%), and Japanese yen (11%).[30]

Although the momentum behind the SDR slowed in the short-term following Nixon's decision to unfetter the dollar from the gold-exchange standard in August 1971, this does not mean that the US and IMF stopped thinking about the SDR during the 1970s. During this time, more and more officials began thinking of expanding the SDR's role incrementally over time. Viewing all national currencies as a burden to the achievement of a more holistic and functional system of supranational economic management, the SDR was increasingly seen not as a supplement for the dollar in the future, but rather a substitute for it.

In February 1971, President Nixon informed Congress of the long-run US goal to make the SDR the principle reserve asset of the global economy, eclipsing the US dollar.[31] Eager to increase its own institutional authority, the IMF also supported this US objective. In perhaps the most vital section of his book, Wilkie showcases how scholars have disregarded and downplayed the IMF's Jamaica Conference of January 1976. Rather than just a meeting where the global community recognized the floating exchange rates system, Jamaica's legacy is much bigger and bolder than scholars have originally thought. The key initiative achieved at Jamaica was the IMF's decision to amend its articles of agreement – which was ratified two year later- to make the SDR the principle reserve asset of the global economy over the long-haul.[32]

Nearly forty years later, the IMF has failed to make the SDR the principle reserve asset of the global economy. Despite the US's national debt of nearly $18 trillion, the US dollar still

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[30] Wilkie, *Special Drawing Rights*, pp. xx-xxi, 111-140.
[31] Nixon, Richard. "Second Annual Report to the Congress on United States Foreign Policy," February 7, 1971, Public Papers of the United States, American Presidency Project, Richard Nixon, XXXVII President of the United States: 1969-1974, http://www.presidency.ucsb.edu/ws/index/php?pid=3324 .
[32] Wilkie, *Special Drawing Rights*, pp. 148-178.

remains the world's reserve currency, with all major commodities, led by oil, priced and traded in dollars. Since Jamaica, the SDR has laid dormant as the Fund's internal unit of account rather than acting as a reserve currency. Before the 2008 financial crisis, one could make the argument that the SDR's time had come and gone. While the US and IMF did construct a latent system of economic global governance from 1960 to 1976, based on the creation of the SDR, with an undefined vision to empower and elevate the IMF to world central bank, this new economic architecture never seriously challenged the US-centric system predicated upon the dollar and national currencies.

The financial meltdown of 2008, however, dealt a serious blow to the US dollar and American economic leadership. In March 2009, China's central bank announced Beijing's desire to see the SDR take a larger role in the global economy, thus deleveraging the dollar as the key reserve asset in the process.[33] China's call for a greater role for the SDR was not aimed so much to empower the IMF, but rather to empower Beijing in the future. I think that China advanced the idea for a greater role for the SDR because it eventually wants its own currency, the yuan, to join the SDR basket. Such move would allow China to make the yuan a global reserve currency, in the hopes of helping Shanghai eclipse New York as the world's financial by the start of the next decade. An expanded SDR basket could enable a more multipolar world to emerge based on a multitude of national currencies, rather than just the US dollar.

Although the SDR and IMF will continue to play a larger role in the global economy, I think that in the foreseeable future the world's economy will still be determined by the agency and authority of the nation-state. Short of the total collapse of the US economy on a scale worse than the Great Depression, I do not foresee the IMF evolving into a world central bank, capable

[33] Zhou Xiochuan. "Reform of the International Monetary System," The People's Bank of China, March 23, 2009, http://www.pbc.gov.cn/english/detail.asp?col=6500&id=178.

of administering a global central currency. What specific nation, however, will constitute the global economy's most important actor and agent going forward is not so clear. Interestingly, last June, at the London School of Economics, IMF Managing Director Christine Lagarde hinted that in the future the IMF may need to move its headquarters from Washington to Beijing when China replaces the US as the world's largest economy.[34] Lagarde's words have since inspired me to since start taking Mandarin lessons. No system of global economic governance will be constructed in the future without China's involvement, influence, and agreement.

[34] Sandrine Rastello, "Beijing-Based IMF? Lagarde Ponders China Gaining on US Economy," June 6, 2014, *Bloomberg*, http://www.bloomberg.com/news/2014-06-06/beijing-based-imf-lagarde-ponders-china-gaining-on-u-s-economy.html.