History and Historical Theory / 3

SHAPING AND RESHAPING THE GLOBAL MONETARY ORDER

DURING THE INTERWAR PERIOD AND BEYOND

Local Actors in-between the International Institutions

Edited by
CATHERINE P. BRÉGIANNI *and* ROSER CUSSÓ

Alfeios
Athens
2023

SHAPING AND RESHAPING THE GLOBAL MONETARY ORDER DURING THE INTERWAR PERIOD AND BEYOND

H.F.R.I.
Hellenic Foundation for Research & Innovation

The research work is supported by the Hellenic Foundation for Research and Innovation (H.F.R.I.) under the "First Call for H.F.R.I. Research Projects to support Faculty members and Researchers and the procurement of high-costvresearch equipment grant" (Project Number: 1310).

History and Historical Theory /3
Series Editor: Catherine P. Brégianni

A´ edition: Athens, April 2023

Shaping and Reshaping the Global Monetary Order
during the Interwar Period and beyond
Local Actors in-between the International Institutions

Editors: Catherine P. Brégianni and Roser Cussó

Alfeios Editions
Char. Trikoupi 22,
106 79, Athens
(+30)2103623092
e-mail: info@alfeiosbooks.com
www.alfeiosbooks.com

Research Project *Transnational Monetary & Economic Alternatives*
in the Interwar Politics
The 30s Greek Crisis in European Context,
Academy of Athens Research Committee
Hellenic Foundation for Research and Foundation

ISBN: 978-960-6679-72-5

Digital volume with Open access.
URL: https://transmonea.academyofathens.gr/index.php/en/publications/monograph-and-collective-volumes

https://transmonea.academyofathens.gr/index.php/en/

Transnational Monetary & Economic Alternatives in the Interwar Politics
The 30s Greek Crisis in European Context

ΑΚΑΔΗΜΙΑ ΑΘΗΝΩΝ

H.F.R.I.
Hellenic Foundation for Research & Innovation

SHAPING AND RESHAPING THE GLOBAL MONETARY ORDER DURING THE INTERWAR PERIOD AND BEYOND

Local Actors in-between the International Institutions

Edited by Catherine P. Brégianni and Roser Cussó

Introduction by C. Brégianni

ALFEIOS
ATHENS 2023

Table of Contents

Tables

Figures

10

SIMONE SELVA
Assistant professor
University of Naples L'Orientale, Italy

BOLSTERING THE US DOLLAR AND STABILISING WORLD TRADE AND PAYMENTS

THE LIMITED ROLE OF BRETTON WOODS INTERNATIONAL ECONOMIC INSTITUTIONS FROM THE 1960S TO THE 1970S

Introduction

The history of the international financial system from the second half of the 1960s through to the landmark decision by the newly appointed chairman of the Federal Reserve System Paul A. Volcker in late 1979 to staggeringly alter the cost of money in order to fight the inflationary strains of the 1970s by means of an unprecedented monetary stringency, was marked by a string of peculiarities. In first instance, the incapability of U.S. governments over the course of the 1960s and at the dawn of the 1970s to stem the outflow of dollars from regulated U.S. capital markets to unregulated and highly liquid short-term international money markets, better known as Eurocurrency markets, triggered a divergence in interest rates between the international credit markets and the dollar denominated long-term private assets, as well as the Eurocurrency markets. By and large such divergence turned into a growing differentials in interest rates between the American and European capital markets. The European markets, and more specifically the money markets, steadily grew more lucrative and attractive to international investors. In second instance, insofar as the flows of dollars from the United States to Western Europe drove such capital markets developments, this particular dynamic bolstered a long-term outflow of dollars from the United States to the international capital markets. In turn, this process accelerated the sharp decline of the dollar and worsened the U.S. balance of payments deficit. Those two trends marked the U.S. international payments position all through the 1960s. From the postwar U.S. commitment to provide economic and balance of payments assistance to both Western European partners and the less developed countries, to U.S. overseas military expenditures from the early 1950s through the following decade, to the increase in the foreign direct investments and portfolio investments of U.S. banks and corporations since the early 1960s thereafter, transnational private capital movements under the form of capital flight from the United States to the European non-resident markets had begun. This massive flow of capital staggeringly increased long before the growth of largely unregulated Eurocurrency markets. In this respect, the outflow of capital from the United States dates back to the 1950s and took many ways. Such early developments lies at the origins of the development of dollar-denominated short-term private assets that accumulated on non-resident European markets, widely known as Eurodollars, by definition dollar deposits on either European banks or European branches of American banks that were not converted into local currencies.[1] Thirdly, and crucial to the research trajectory and argument of this contribution, one of the consequences of all these developments was the unfettered growth in the dollar component of world money supply, and a consequent decline of the dollar in international exchange markets. As an alternative to it, the growth of dollar holdings in international markets and by western central banks was used to repeatedly carry out a destabilizing run on the U.S. gold stocks, as the French attitude during the 1960s and the international gold crisis of 1968 unmistakably tracks. This run led to a world increase in the gold stocks of dollar holding countries around the world.[2] As per the Bretton Woods fixed exchange rates system, either a decline in the U.S. gold stocks or a growth in the dollar component of world money supply jeopardized the dollar convertibility into gold and put pressure on the dollar stability and value in foreign exchange markets both during the 1960s and from the time the Nixon administration suspended the inter-convertibility between dollar and gold through to the second energy crisis. Such monetary and capital markets developments had stunning effects on the stability of not only the dollar and the U.S. international payments position, but also, at large, on the stability of the international trade and payments system

[1] On the origins of the Eurodollar markets during the 1950s, *cf.* C. Schenk, "The Origins of the Eurodollar Market in London: 1955-1963", *Explorations in Economic History*, 35/2 (1998), pp. 221-238. Gary Burn, *The Reemergence of Global Finance,* Basingstoke, Palgrave, 2006.

[2] On the rise of gold stocks from the March 1968 gold crisis through the end of that year, *cf. Presidential Measures on Balance of Payments Controls*, prepared by G. Haberler and T. Willett, Washington DC, American Enterprise Institute, 1968. For an account from the viewpoint of international economic relations, S. Selva, "Gold, Dollar, International Trade and Monetary Integration in U.S. Foreign Policy: From the Interwar Years through the Height of Bretton Woods", *Review of Business and Economic Studies*, 5/2 (2017), pp. 23-35.

based on it. The growing imbalance in the international payments position of the non oil Least Developed Countries (LDCs) that continued throughout the time frame covered in this chapter and peaked up since the first oil shock of the 1970s helps chart such upheavals on the system of world trade and payments.

These three developments forced American foreign economic policymakers to consider the consequences of it on the international economy and prompted them to devise ways of recasting the dollar's strength as the prerequisite to a smoothly functioning international trade and payments system based on the U.S. currency as both the reserve currency and the means of international payments and exchange markets operations. During the second half of the 1960s, the debate on the reform of the international monetary system and the creation of the Fund's currency, the Special Drawing Rights (SDRs),[3] were thought to cope with the monetary and financial consequences affecting the dollar. They were also meant to address the international payments of wobbling fixed exchange rates and soaring posted prices of commodities in international markets. Amid the two oil shocks of the 1970s, the accumulation of oil revenues by the largest oil producing countries fuelled the transnational flows in capital underway since the previous decade. During both periods the U.S. elites discussed the issue of how to reduce the growing dollar share in world monetary aggregate. This was decided in order to best strike the balance between unfettered transnational flows in capital and teetering aggregate demand and growth rates that would otherwise lead to a deflationary spiral and to a shrinking international confidence in the U.S. currency. In either case, Washington paid attention both to the advanced industrial economies, and the non oil producing LDCs. The American elites established a sequential connection between the increase in the size of dollar-denominated assets in international markets and in currency holdings at foreign central banks. They also saw the connection between the depreciation of the dollar in exchange markets, and the ensuing inflationary strains that stemmed from the uptick in the price of oil, commodities, instrumental and consumer goods traded in U.S. dollars. This was a cost-push inflation that since the deterioration of cheap oil prices and deteriorating fixed exchange rates in the late 1960s hit the competitive position of European and other western manufacturing and caused the plummeting of the purchasing power of the non oil LDCs in foreign markets. The latter ones were suffering from both the uptick in oil prices and the declining competitiveness of West European consumer

[3] For a detailed study of the SDR, *cf.* Christopher Wilkie, *Special Drawing Rights. The First International Money*, Oxford - New York, Oxford University Press, 2012.

goods in world trade markets. This chain of developments accelerated since the first oil shock but were well underway since the second half of the 1960s. In order to address this and to restore equilibrium in international trade and payments, the U.S. federal and monetary authorities worked on drawing on such growing dollar-denominated private assets to recast the international payments position of both the U.S. and other advanced industrial economies, as well as the non oil LDCs. In the late 1960s a way in the pursuit of such target was to prevent dollar liquidity in international markets from further financing the development policies of the International Bank for Reconstruction and Development (IBRD) and other institutions. In this respect, bolstering the stability of the dollar meant preventing from further expansion dollar denominated international borrowings and lending, as well as investment-related or balance of payments development finance programs.

In the second case, during the 1970s, the issue was to curb the expansion in dollar denominated assets held by the oil producers' central banks and by private investors and to make any possible effort to dry it up as much as feasible. During that decade, the U.S. monetary and federal authorities worked on getting both the IBRD and the International Monetary Fund (IMF) involved in serving as intermediaries between the OPEC surplus countries and some surplus advanced industrial economies, and the borrowing LDCs and least developed industrial economies. In either case, during both the 1960s and the 1970s the Washington elites planned the involvement of the Bretton Woods international economic institutions and the Bank for International Settlements to carry out such redirecting of the growing transnational capital markets in the aim of forestalling the growth of dollars in world capital markets and central banks holdings.

In contrast to this American strategy, over the course of the two decades the involvement of the Bretton Woods economic institutions in the implementation of this strategy paved the way for a larger and more important role of the largest American and European commercial and investment banks in carrying over such reshaping of transnational capital flows and world money supply. Though significantly and explicitly revamped in the late 1970s through extended partnership with western commercial and investment banks in reflowing the OPEC oil revenues, the role of the World Bank Group institutions and the IMF was rather more limited than that planned in Washington, owing to both the ill-functioning of the reflowing mechanism, and the reaction of some leading funding institutions; first and foremost the OPEC oil supplying countries, as well as a much-pressing need to face up to the skyrocketing external debt and balance of payments adjustment problems of most LDCs. A string of issues that in the late 1970s led to the establishment of a long-standing involvement of private commercial banks with additional resources for development finance assistance from the IMF.

The chapter focuses mostly on the attempt to reduce the dollar component of world money supply through such institutionalization of balance of payment deficit financing assistance programs to the non oil LDCs over the course of the two decades. This is attempted in order to chart and explain such limited contribution of the institutions of Bretton Woods in striking the balance between transnational capital flows, the dollar stability in international payments, and its trajectory over time. The case study of the assistance programs to the non oil LDCs, by and large Latin American countries, is remarkable and worth charting for two reasons. In first instance, the assistance programs to the advanced industrial economies that suffered the most from the declining purchasing power of their manufacturing systems in foreign markets and from oil price-induced balance of payments deficit were largely successful and depended mostly, though not exclusively, on the IMF draw on its member quotas and reserve tranche position and only to a limited extent on additional borrowing. Both during the 1960s and amid the stunning balance of payment crises that hit leading industrial nations like the UK and Italy in the following decade, the Washington institutions borrowed from either wealthy non-member nations or private capital markets. The IMF oil facility, a financial assistance facility funded through additional contributions from the IMF richest members and private investors, was the only exception to this dependence of the institutions of Bretton Woods on oil producers or private capital markets to finance the external equilibrium of the advanced industrial nations. In striking contrast to it, in second instance, private capital markets contributed to fuel development finance set in motion by the Bretton Woods institutions to resurrect the international payments position and foreign trade balance of the non oil LDCs.

This was much the case of a deep-seated commitment by the U.S. authorities to get the U.S. commercial and investment banks involved in financing the IBRD president McNamara's giant war on poverty development assistance. This is analyzed in the first section along with the role of the IMF in shaping a sound reform of the international monetary system. The case study of this path-breaking new borrowing policy of the IBRD helps tracing the dependence of the Bretton Woods institutions as to the source of funding external to its member countries and institutional subscribers. This was done to help offset the impact of the ongoing uptick in the cost of money and commodity prices on the external equilibrium of the LDCs and their purchasing power in foreign markets. Therefore, this contribution asserts that the role of the Bretton Woods institutions in containing or reducing dollar assets in world markets was substantially implemented in connection to their development programs toward the LDCs. In fact, the balance of payments deficit financing programs of the two institutions towards the industrial nations as instruments to reduce dollar denominated assets in world markets were rather limited. For this reason, this chapter bases its reconstruction of the U.S. policies on a closer analysis of the programs aimed at bolstering the LDCs. These policies were meant to prop up the dollar and to stabilize international payments through international economic institutions.

The U.S. policies failed to channel through the IMF and its sister institution the bulk of recycling the OPEC revenues to developing nations. The idea was to defray the foreign debt and the balance of payment deficit of the non-oil producing LDCs which had been hardest hit by the oil crisis and the soaring rates of dollar denominated loans. Since the early 1970s, this failure is confirmed by recurring dependence on private external funding throughout the decade. Therefore, it is one of the arguments of this chapter, that this continued dependence on external lenders, either oil producing states or private capital markets, by the Bretton Woods institutions in order to finance development assistance to the LDCs, was ongoing throughout the 1960s and the 1970s. The second section tracks such dependence on the oil producers; it also pinpoints the limited capability of the Bretton Woods institutions to attract their financial assets in the so-called scheme of recycling the oil revenues during the 1970s decade. Specifically charged by Washington with reflowing the oil revenues of the oil producers into the least developed countries, the IMF encountered the recalcitrance of the OPEC countries to lock their funds into reportedly Washington dominated institutions, as well as with growingly worrisome scarce debt service capacity of the LDCs. Such ill-functioning institutionalization of the oil revenues recycling mechanism evolved quite early during the 1970s, into direct initiatives by the oil producing countries to provide balance of payments deficit financing assistance to the LDCs. Through the establishment of the OPEC Special Fund, a financial entity set up within OPEC in 1976, the Vienna-based organization institutionalized the attitude of the Middle East oil producers, carried out in the past by means of bilateral aid programs, to directly finance the non oil LDCs. Along with the deep involvement of leading commercial banks in such a process, direct financial assistance from OPEC to the LDCs helps chart the limited and well-below expectation role of Bretton Woods institutions in implementing the defense of the U.S. currency in international markets all along the two decades arrayed in this chapter. Besides, the contribution explores the shaping of shared balance of payments and external debt financial assistance programs from the second half of the 1970s to the path-breaking new scenario that erupted at the start of the new decade as a result of the international financial consequences of the landmark decision by the U.S. Federal Reserve System to tighten the cost of money. This monetary turn was intended to curb the unrelenting inflation that plagued the advanced industrial economies all along the decade of the 1970s. At that time, borrowing by the IMF from oil producers and continued involvements of commercial banks were combined to face up to the path-breaking and challenging new international debt and financial environment.

After an almost decade-long recalcitrance by most leading commercial banks to bear the risk of financing or guaranteeing international lending to the non-oil LDCs, the U.S. monetary authorities favored cooperation between the largest commercial banks involved in redirecting into the international markets the financial wealth of the oil producers since earlier in the decade, and the institutions of Bretton Woods. The second section also suggests that even though the role of IMF was revamped, private commercial and investment banks continued to be prominent and played a pivotal role. The IMF shaped a partnership with those banks when the debt crisis broke out and a new international financial environment emerged in the 1970s decade. This occurred due to improved surveillance by central banks of international capital flows, and the removal of national control and legal constraints on it in most western financial systems: both of these conditions made the oil producers and international investors feel more comfortable with placing their dollar assets with private commercial and investment banks. Moreover, the persistent pivotal role of private capital markets in reflowing the investable surpluses of the largest oil producers stemmed from the decisive tendency of oil rich nations to move their investments from dollar area public and private assets such as U.S. Treasury certificates and the U.S. equity market, as well as the U.S. real estate market, to various Eurocurrency markets, western public debt assets, and current account deficit all denominated in non-resident Eurodollar and European currencies. Mostly traded by individual commercial or investment banks, or private banking syndicated loans, they were to finance not only the public debt of and fixed capital formation, as well as the foreign trade of the LDCs, but also bond and securities issued by international corporations operating in Europe and Japanese corporations.[4]

---

[4] National Archives and Records Administration, Archives II, College Park (MD), Record Group

I. Averting Dollar Expansion in Trade and Payments: Financing Development Assistance and Fighting the Decline of the Dollar in the 1960s

Funding the IMF Balance of Payments Assistance and IBRD Development Policies, and U.S. Objective of Stabilising the Dollar in the 1960s. An Ill-functioning Strategy

A large majority of accounts on the role of the international economic institutions, first and foremost the World Bank Group and the IMF, but also the Bank for International Settlements (BIS), in stabilizing the postwar international economy and its system of exchanges in goods and capital, was based on two widely-shared assumptions. First, the two international economic institutions would have carried out their activities based on a clear cut division of commitments, since at least the early 1960s, between the IBRD and the IMF in respectively providing assistance to the LDCs and the industrial nations.[5] Secondly, they made the argument that the largest share in their source of funding was based on their member countries' permanent quota and reserve tranche position. Most works underestimate the financial dependence of the two sister institutions on external funding and additional resources: this is mostly the case of studies on the IMF.[6]

Considering the implications of the two-fold oil price hike and the decline of the dollar in international exchange markets with the ensuing growth in the rates of dollar loans in capital markets and the impact of rising dollar denominated loans and oil posted prices on the international payments

40, General Records of the Department of Commerce (henceforth RG40), Office of the Assistant Secretary for International Affairs (henceforth OASIA), Office of Regional and Resource Policy, Briefing Books 1975-1982, b. 1, fold. Visit by D. Regan, J. M. Newman "OPEC Placements", May 5, 1981.

[5] Concerning the IMF relations with the Western European countries *cf.* Chris Rogers, *The IMF and European Economies*, London, Palgrave, 2012. Regarding the IBRD *cf.* among other studies E. Helleiner, "*The Development Mandate of International Institutions: Where Did it Come from?*", *Studies in Comparative International Development*, 44 (2009), pp. 189-211. M. Gavin, D. Rodrik, "*The World Bank in Historical Perspective*", *American Economic Review*, 85/2 (1995), pp. 329-334. Sarah Babb, *Behind the Development Banks. Washington Politics, World Poverty, and the Wealth of Nations*, Chicago, The University of Chicago Press, 2009.

[6] NARA, Record Group 56, General Records of the Department of the Treasury (henceforth RG56), Office of the Assistant Secretary for International Affairs (henceforth OASIA), Office of the Deputy to the Assistant Secretary for International Affairs, Records Relating to International Financial Institutions 1962-1981, b, 6, fold. 9-I Reform International Monetary 1978-1980, C. Dallara (Department of the Treasury) to Deputy Assistant Secretary Ledding, inter-Office Memorandum "Issues Related to IMF Borrowing in the Private Markets", August 29, 1980.

position of the industrial countries, this scholarship mostly focused on the efforts by the IMF in offsetting payments imbalances of advanced industrial economies during the 1970s. At the time, the Fund provided balance of payments assistance to the industrial nations that depended the most on foreign oil supply and suffered from capital outflows as a result of growing interest rates gap, particularly from the end of fixed exchange rates through to the end of easy money at year-end 1979.[7]

This thesis was based on a concept of conditionality in the IMF financial assistance programs based on a trade-off between the implementation of orderly domestic fiscal and economic policies by the beneficiary member countries in return for balance of payments assistance required to make the international payments position of the IMF members attractive to foreign private capital. This argument mostly revolved around the case study of the series of financial assistance programs additional to the normal appropriations of the institution, based on drawing by member countries on their quota. In particular, that was the case of the additional programs set off from the 1974 IMF oil facility through to the end of the decade aimed at coping with the impact of international inflation and decreased competitiveness among its members affected the most by the international meltdown of the decade.[8] By and large, such perspective underestimated the IMF involvement in financing the non oil LDCs external debt and current account deficit; besides, this thesis never took into account the issue of its financing and its impact on the implementation of such programs.[9] As a matter of fact the IMF borrowing was deeply intertwined with the international debate about the international reinvestments of the OPEC dollar denominated oil revenues, the bulk of which

[7] The most cited case studies are about the UK and Italy. *Cf.* B. Stallings, "The IMF in Europe: Inflation Fighting in Britain, Italy and Portugal", in Richard Medley (ed.), *The Politics of Inflation: A Comparative Analysis*, New York - Oxford - Sidney - Paris, Pergamon Press, 1982, pp. 77-101. On the British case *cf.* Duncan Needham, *UK Monetary Policy from Devaluation to Thatcher 1967-1982*, Palgrave, London, 2014. Margaret G. De Vries, *Balance of Payments Adjustment 1945 to 1986: The IMF Experience*, Washington DC, IMF, 1987, pp. 133 *et seqq*.

[8] Jeffrey Chwieroth, *Capital Ideas: The IMF and the Rise of Financial Liberalization*, Princeton, Princeton University Press, 2010. Susan Park, Antje Vetterlein (eds.), *Owing Development: Creating Policy Norms in the IMF and the World Bank*, New York, Cambridge University Press, 2010. B. Simmons, Z. Elkins, "The Globalization of Liberalization: Policy Diffusion in the International Political Economy", *American Political Science Review*, 98/ 1 (2004), pp. 171-189. C. W. Dietrich, "Oil Power and Economic Theologies: The United States and the Third World in the Wake of the Energy Crisis", *Diplomatic History*, 40/3 (2016), pp. 500-529.

[9] For a rather different perspective stressing the role of the IMF financing schemes on the non-oil LDCs external deficit, *cf.* T. Cutler, "Petrodollars to the Third World: A Critique of the IMF Oil Facility", *World Affairs*, 139/3 (1976-1977), pp. 189-205.

was channeled to the non oil LDCs. The debate about the creation of the IMF oil facility took place within the broader framework of borrowing by the IMF from the OPEC oil producers to finance its worldwide balance of payments deficit financing programs: in contrast to mainstream literature on the oil facility so far appeared, it is worth stressing that since the beginning it was thought as a financing scheme based on borrowing on OPEC to finance the oil crisis' impact on the balance of payments of both industrial nations and non oil LDCs.[10] Similarly, the literature on the development policies of the IBRD failed to stress the involvement of the World Bank in financing investment-related international borrowing by some of the least developed industrial nations: a case in point among others is the Italian economy where the Bank was involved in fuelling the development of capital-intensive manufacturing sectors until the early 1960s.[11] Furthermore, the literature that focused on the development assistance programs provided by the IBRD since the end of its involvement in the advanced industrial economies of western Europe in the early 1960s, has tackled the launching of multiple-year development assistance programs to the non oil LDCs, a subject that has led the history of the IBRD under the presidency of former U.S. Secretary of Defence Robert McNamara to center stage in historical research.[12]

With a few rare exceptions, this historiography never explored the financing of McNamara's war on poverty, the financial burdens of which were beyond the scope of the Bank member countries. The case of McNamara's international financial relations was an important chapter in the history of the Bretton Woods institutions as to borrowing policies purported to finance the stabilization of the international trade and payments system at a critical time in its postwar history from the mid-1960s through the late 1970s. At the time, the deterioration of a stable international payments system and the teetering of the dollar led the two sister institutions of Bretton Woods to draw upon a variety of private capital markets from a number of currency

[10] S. Selva, *Before the Neoliberal Turn. The Rise of Energy Finance and the Limits to US Foreign Economic Policy*, London, Palgrave, 2017, chapter 4.

[11] S. Selva, "Technological Advance, Transatlantic Trade, External Equilibrium: American Financial Assistance to the Italian Nuclear Power Programmes from the 1960s through to the First Oil Crisis", in Knud Andresen, Stefan Muller (eds.), *Contesting Deregulation. Debates, Practices and Developments in the West Since the 1970s*, New York - Oxford, Berghahn Books, 2017, pp. 169-185.

[12] Patrick A. Sharma, *Robert McNamara's Other Way. The World Bank and International Development*, Philadelphia, The University of Pennsylvania Press, 2017. Devesh Kapur, John Lewis, Richard Webb, *The World Bank: Its First Half Century,* Vol. 1, Washington DC, Brookings Institution Press, 1997. Katherine Marshall, *The World Bank: From Reconstruction to Development to Equity*, London - New York, Routledge, 2008.

areas complementary, if not alternative to the United States and the dollar, in order to reduce the dollar component in world financial markets. This pattern entailed a shift in the borrowing policies of IBRD from institutional borrowing from the central banks of its members and the United States to private investors through the intermediation of the largest American and European commercial and investment banks. First and foremost, IBRD borrowed from the U.S. and German banking that traded assets denominated in currencies other than the U.S. dollar. In so doing, the two sister institutions of Bretton Woods shifted the financing of a set of balance of payments deficit programs from the quotas of member countries to private capital markets. These financial assistance programs aimed at offsetting the repercussions of a weakened dollar affecting the purchasing power of oil-crisis stricken advanced and less advanced economies. The two institutions also worked on either averting the expansion of dollar denominated international transactions by borrowing in capital markets other than that of the United States, or on reducing the dollar component in world capital markets. This was a growing dollar component that stemmed from the increased financial wealth of the OPEC countries as a result of dollar oil payments. The former was certainly the case of the IBRD borrowing from western central banks and capital markets other than the United States during the late 1960s, whereas the latter one was the case of the IMF and BIS involvement in the reflowing of the OPEC oil revenues amid the two oil shock of the 1970s. The chapter cast light on the limits of such involvement and the scarce effects it had on redressing the international payments system and in rebounding the role of the U.S. currency due to a set of multiple causes larger than the rather narrowed sphere of impact of the borrowing policies of the two institutions. The overlapping of multiple causes undermining the dollar's strength and the ill-functioning of such techniques to dry up the dollar share in world money supply prevented the IBRD from halting the ongoing weakening of the dollar leadership in the international financial and monetary system.

One ought to point to the U.S. policies designed to forestall and revert the inconvenient outflows of private capital flows from the United States since the early 1960s through the end of the decade in order to defend the dollar and the international payments system.

Then it would be possible to comprehend that the Bretton Woods institutions implemented a set of financial assistance programs designed to offer assistance both to the advanced industrial nations and to the LDCs. It follows as well as that such programs became even more dependent on private capital markets and external borrowers. In the mid-course of financing, their lending policies jeopardized the effort of drying up the dollar component of world money and capital markets and of stabilizing international transactions and payments. This occurred mostly either by means of relying on the dollar as the sole unit of account and international reserves and the increase in quota for the IMF members, or by heavy borrowing by the IBRD from its member central banks and private capital markets. This was not quite the desired effect that the U.S. monetary and federal authorities had hoped to achieve through their policies; namely halting the expansion of dollars in world capital markets. The two Bretton Woods institutions relied heavily on foreign loans and this dependence contributed to ravaging the U.S. currency as early as the 1960s. This underlying objective underpinned the borrowing policies of the two institutions and it also prompted the debate regarding the reform of the international monetary system as early as the second half of that decade.

U.S. Policies to Stem the Decline of the Dollar and to Stabilize International Payments in the early 1960s

The debate and search for arresting the expansion in the dollar share of world money supply began since as early as the beginning of the 1960s. Since those years the mounting international run on the U.S. gold stocks, coupled with dollar outflows, resulted in a substantially shrinking U.S. current account position; also with the beginning of declining international confidence in the U.S. currency that continued over the decade and coincided with a declining competitive edge of U.S. manufacturing in foreign markets.[13] In addition to a variety of foreign economic policy measures that ranged from increasing export and curtailing foreign military and civilian expenditures, or pressing capital surplus West European partners to improve trade liberalization and disband residual restrictive business practices toward the dollar area, the Kennedy administration focused on the monetary way to prop up the dollar and the U.S. balance of payment through the IMF. As a matter of fact, the Kennedy administration placed importance on the monetary aspects that jeopardized the stability of the U.S. balance of payments and the dollar. In this framework, since the first half of 1961 the U.S. government offered its full support toward increasing the financial resources of major currencies other than the dollar and British Pound available to the IMF. In making a case for raising the IMF quota of some western European members of the Fund, Washington aimed at setting the conditions to meet the requests for

[13] For details on this interconnection *cf.* S. Selva, *Before the Neoliberal Turn*, *op. cit.*, chapter 1.

drawing by the United States.[14] Clearly, such policy was thought to lessen pressure that balance of payments deficit financing measures exerted on the two leading currencies of the international economic system. Washington could successfully conclude new arrangements to finance its drawing on the Fund in currencies other than the dollar and the British Pound in early 1962.[15] Meaningfully, at the time the U.S. Executive Director of the Fund urged the use by other countries of convertible currencies other than the dollar or the British Pound to avoid an increase in foreign dollar holdings caused by excessive drawings from the Fund.[16] Therefore, the share of dollar assets in world total supply, which would have been the subject of U.S. debates and policies resulting from the skyrocketing increase in dollar denominated assets amid the two oil crises of the 1970s, was already on the top of Washington's foreign financial agenda at this early stage.

Along this line of action, the U.S. government opted for resorting to the right that each IMF member country retained of converting a percentage of its quota into convertible foreign currencies. Clearly, this variety of measures were aimed at reducing the volume of financial transactions and exchanges in goods and commodities traded in U.S. dollar or British Pound. Irrespective of these initiatives, certainly one of the most important measures adopted by the United States was a firm call on the capital surplus western European countries to commit to early repayments of outstanding loans and debts. This American pressure put on the European partners drove the U.S. effort to increase Washington's holdings of convertible foreign currencies. This policy contributed in restoring balance of payments equilibrium in 1962.[17]

[14] Letter from Secretary of the Treasury Dillon to the Belgian Finance Minister (Dequae), August 21, 1961; Department of State, Current Economic Developments, "Move to Expand IMF Resources Wins Baking at Vienna Meetings", September 26, 1961. Both in Office of the Historian, *Foreign Relations of the United States* (henceforth FRUS), *1961-1963,* Volume IX, *Foreign Economic Policy*, eds. Evans Gerakas, David S. Patterson, William F. Sanford, Carolyn Yee. Washington DC, GPO, 1995, Document 197, https://history.state.gov/historicaldocuments/frus1961-63v09.

[15] John Fitzgerald Kennedy Presidential Library and Museum, Boston, Mass. (henceforth JFKPL), President's Office File, Treasury, Memorandum from Secretary of the Treasury Dillon to President Kennedy, "Fourth Quarterly Report on Balance of Payments", March 12, 1962.

[16] Report from Secretary of the Treasury Dillon to President Kennedy "Report to the President on Balance of Payments", March 20, 1961, in Office of the Historian, *FRUS, op. cit.,* document 3, https://history.state.gov/historicaldocuments/frus1961-63v09.

[17] Federal Open Market Committee (FOMC) Meeting Minutes, August 21, 1962, in FOMC, https://fraser.stlouisfed.org. For a general appraisal about the positive impact of debt-prepayments on the U.S. balance of payments, *cf.* Department of the Treasury, 1963, p. 79. Aaron Major, *Architects of Austerity: International Finance and the Politics of Growth*, Stanford, Stanford University Press, 2014, p. 37.

Besides, as Secretary of the Treasury Dillon pointed out, as far as the accumulation of balance of payments surpluses by western European allies increased dollar reserves in these countries, it created a potential gold demand on the United States.[18] In Washington it was a widely-accepted view that whenever the Japanese or the Europeans purchased gold from the United States, the gold reserves held by foreign central banks increased. As a result of such increase in gold reserves those foreign central banks reduced the dollar portion of their monetary reserves with negative impact on the value of the U.S. dollar in exchange markets. Therefore, from 1962 to 1963 the U.S. monetary authorities worked on concluding arrangements for early repayments with these European countries to avert a potential run on U.S. gold stocks with its deteriorating effects on the convertibility between gold and dollar. These repayments were useful both to finance Washington's holding of foreign currencies required to finance foreign exchange transactions and foreign trade, and to reduce foreign run on U.S. gold reserves in order to preserve the stability of the U.S. currency in foreign exchange markets. From 1962 to 1963, the aggregated special foreign transactions of the federal government roughly increased by five-fold: they included early repayments from European trading partners, advances on military sales and the Treasury sales of medium-term, and non-marketable securities.[19]

Therefore, this set of measures implemented as early as the first half of the decade to protect the dollar and to counteract the plunging of the U.S. balance of payments by a variety of means specifically designed to reduce the amount of dollars in world liquidity suggests that the U.S. authorities resorted to foreign financial and monetary measures to restore a balanced international payments system attached to a stable U.S. currency since the first half of the 1960s. In so doing, they charged the IMF with contributing to such commitment. This line of action to restore the dollar's strength and stability in world payments anticipated somewhat the borrowing policies of the two institutions of Bretton Woods from the second half of the 1960s to the meltdown of the following decade. This happened however before the combined teetering of the fixed exchange rates system since the

[18] Department of the Treasury, *Annual Report of the Secretary of the Treasury on the State of the Finances for the Fiscal Year Ended June 30, 1961*, Washington DC, GPO, 1962, p. 82.

[19] Elmer B. Staats Acting Director, Executive Office of the President (Bureau of the Budget), Memorandum for the President “International transactions of the Federal Government, fiscal years 1962 to 1965”, August 26, 1963, p. 1, in CIA e-reading room, https://www.cia.gov/library/readingroom.

British Pound devaluation of 1967 and the upward pressure on oil prices in world markets that followed the Suez crisis. The U.S. elites and the economic institutions that complemented the government of Washington in fuelling international financial and economic assistance programs aimed at stabilizing the international system did not establish a clear linkage between the capital outflows from the United States, the impact on the balance of payments and international interest rates, the growing pressure on the dollar value in international exchange markets, and the impact of such financial developments on the competitive edge of the American and other western manufacturing system in world trade. During the 1960s this misapprehension about the competitive and commercial effects of monetary and capital markets developments prevented the elites of Washington from fully perceiving the weakening position of the least developed and developing economies that imported both oil from oil producers and low-capital intensive consumer goods from the industrial nations, in the international trade system.

In contrast to the 1960s, this issue was at stake in the U.S. foreign financial policies of the 1970s designed to shape the international investments of the OPEC oil producers. During the latter decade the oil revenues recycling policies devised in Washington as a way of fuelling the purchasing power of the non oil LDCs through multilateral financial arrangements set up under the aegis of the IBRD and the IMF, were clearly aimed at easing pressure of developmental assistance to the non oil LDCs on the U.S. balance of payments. Furthermore, they were thought to reduce the net outflow of dollars from the United States for balance of payments deficit financing purposes that were to hit the dollar value in foreign markets. As such, during the 1960s the issue of U.S. balance of payments deficit was neither coherently linked to the defence of dollar nor placed within the context of a much-needed stabilization of international payments. To put it another way, the outflows of dollars were interpreted in Washington as a matter of U.S. balance of payments deficit, domestic capital supply, and American purchasing power in foreign markets. It was only during the second half of the decade that the U.S. authorities and the institutions of Bretton Woods established such clear-cut linkage and took measures designed to diminish or contain the growing amount of dollar assets held at foreign central banks or in the international financial markets, be it either the booming international money markets, the credit or bond markets, in order to counteract such decline in competitiveness and to support the purchasing power and current account position of non-oil LDCs, accustomed to import from advanced industrial economies. Against this backdrop, at the time the crucial target of the U.S. administrations and the international economic institutions born out of the Bretton Woods conference was to prevent international investors from further saturating international capital markets with dollar assets.[20] Similarly, the evolving policy of borrowing diversification by the Bretton Woods institutions clearly points to the timeline of the 1960s. In particular, the IBRD was specifically designed to increase borrowing from central banks and currency areas other than the U.S. dollar area. If one charts such path in the IBRD financing policies it is easy to detect that its change intersected with the evolution of the debate within the monetary and federal authorities of Washington about the course, nature and consequences of the unfinished U.S. balance of payments deficit, the foreign run on U.S. gold stocks and capital flight from the United States, just mentioned, as well as the impact of such course of events on the inter-convertibility between dollar and gold. At the same time, such turn in the high-ranking discourse brought to center-stage the issue of the implications of the weakness of the dollar for the non-oil LDCs. In a matter of few years this issue would be the center piece of American policies to make the IMF and its partner American and European commercial banks lock and reflow to those resource-scarce developing countries the dollar assets of the oil producing countries in order to support the purchasing power of non-oil producing economies in world trade markets. To summarize it, a different understanding between the early 1960s and the period from the late 1960s through the following decade about the effects of capital outflows from the United States on both the dollar position in international exchange markets and the stability of world payments, had a couple of remarkable implications. It changed both the borrowing policies of the two sister institutions of Bretton Woods, particularly the IBRD, and their attention to the consequences on international trade and exchanges of competitively declining manufacturing of advanced industrial societies.

Therefore, one should consider first the case of the World Bank borrowing strategies against the backdrop of the broader debate at the highest U.S. federal level about the nature and dynamic of the external imbalance of the country to better understand how the Bank developed its borrowing policies within that broader framework. As just remarked, the issue of capital outflows from the U.S. markets as a cornerstone in the balance of payments problems of the country was a striking issue as early as the first half of the 1960s. At the time the incumbent Johnson administration

[20] Library of Congress, Manuscript Division, Washington DC (henceforth LOC), Elliot L. Richardson papers, part 1, b. 292, fold. OECD, Statement by Undersecretary Elliot L. Richardson at the OECD Ministerial Meeting, Paris, February 13, 1969.

increased U.S. attention to the capital account position compared to the Kennedy administration. As mentioned, Kennedy focused attention onto capital outflows and the potential role of the IMF in stemming them with a constant focus on cutting foreign military and civilian expenditures and expanding exports as a means of targeting the current account position.[21] Since 1964 a number of legislative measures aimed at reversing the outflow of capital were passed in the Congress. The ratification of the so called Interest Equalization Tax, enacted in 1963, was aimed at deterring capital outflows through a tax on acquisition by Americans from foreigners of foreign debt and equity securities, both new and outstanding, maturing in 3 years or more.[22] Such policy was consistently carried over under the new Johnson administration. As early as he took office, the new President made use of an amendment to the Tax Equalization Act to apply it to bank loans of 1 year or more. At the same time he called the U.S. Congress to extend it for 2 years beyond the end of 1965, and to broaden its coverage to non-bank credit of 1 to 3-year maturity.[23] As U.S. Secretary of the Treasury Dillon himself pointed out, such measures to resurrect the balance of payments on capital account, combined with military export and a reduction in overseas public expenditures, all contributed in the decrease of the U.S. deficit.[24] Afterwards, the Johnson administration pushed forward this balance of payments deficit financing policy revolving around the capital account position. In early 1965 the president of the United States presented the comprehensive program to reduce deficit in the balance of payments based on two linchpins: the Foreign Direct Investment Program (FDIP), and the Voluntary Foreign Credit Restraint Program (VFCR). The first was designed to reduce foreign direct investments by U.S. corporations; the second sought to decrease the volume of foreign loans made by U.S. commercial banks. Consistently with this stream of measures, Washington also expanded the Interest Equalization Tax first implemented under the Kennedy presidency.[25]

[21] For further insights on the Kennedy administration policies to recast the current account position, S. Selva, *Before the Neoliberal Turn, op. cit.*, chapter 2.

[22] Department of the Treasury, *Annual Report of the Secretary of the Treasury on the State of the Finances for the Fiscal Year Ended June 30, 1963.* Washington DC, GPO, 1964, pp. 52, 335-346.

[23] L.B. Johnson to the Congress of the United States, February 10, 1965, in CIA e-reading room, http://www.foia.cia.gov/search.

[24] Department of the Treasury, *Annual Report of the Secretary of the Treasury on the State of the Finances for the Fiscal Year Ended June 30, 1964*, Washington DC, GPO, 1965, p. 47.

[25] Peter Dombrowski, *Policy Responses to the Globalization of American Banking*, Pittsburgh, The University of Pittsburgh Press, 2006, chapter 3. A cutting-edge new perspective on this

Certainly, all of these measures help track such policy shift by the Johnson administration and its increased attention to the international monetary and payments consequences of continued dollar outflows. Therefore, prior to the second half of the decade, the Johnson administration altered the approach to the problem of balancing the U.S. international payments position and the drain in the dollar value. However, the implications of international payments imbalance and of the dollar's teetering in foreign markets on international exchanges of capital and goods were not fully understood in Washington. For instance, shortly after Johnson's coming to the White House, the U.S. monetary authorities failed to catch the linkage between capital outflows from the United States, the weakening of the U.S. dollar in foreign exchange markets, and its effects on the position of the industrial countries manufacturing system in foreign markets. In discussing the twin stunning increase in capital outflows and dollar sales to foreign countries, Alfred Hayes and other prominent members of the U.S. Foreign Open Market Committee made the argument that the U.S. external imbalance was a matter of capital flight. However, they did not associate such plummeting capital account position and its impact on the value of the U.S. currency with its effects on the American export and on international exchanges in goods and services. For instance, on the occasion of a FOMC meeting Mitchell, a committee member, maintained that "the [U.S.] balance of payments problem was one of capital flows, and not of the competitiveness of U.S. goods in world markets".[26] For his part, that same year the U.S. Secretary of the Treasury Douglass Dillon underestimated the linkage between the dollar tottering in foreign exchange markets and the U.S. balance of payments deficit. In reappraising the deficit, he insisted on the issue of the U.S. current account position but missed the very linkage between the U.S. balance of payments deficit, the weakening of the dollar and its likely negative impact on U.S. export. By focusing attention on the U.S. temporary commercial surplus, he failed to detect such linkage, stressing that "our own price stability is beginning to pay off in strengthening our world-wide competitive position". Reasoning on this line, he suggested to the White House to target a variety of issues in order to bolster the U.S.

string of regulatory measures in light of the 2008 financial crisis is provided in D. J. Elliorr, G. Feldberg, A. Lehnert, "The History of Cyclical Macroprudential Policy in the United States", May 2013, *Federal Reserve Board Washington DC, Finance and Economics Discussion Series, Divisions of Research and Statistics and Monetary Affairs*, 2013/29, https://www.federalreserve.gov/pubs/feds/2013/201329/201329pap.pdf

[26] Federal Open Market Committee Meeting Minutes, December 1, 1964, in FOMC, https://fraser.stlouisfed.org.

current account. These issues ranged from increased overseas promotion of U.S. export to exploration of opportunities to develop iron curtain markets; also to policies aimed at reducing capital outflows, such as a tax policy that favored foreign purchases of U.S. securities or renewal of the Interest Equalization Tax. In spelling out this number of measures he never pointed to them as multiple means of resurrecting the dollar and propping up the competitive position of U.S. and other western manufacturers operating in the dollar trade area.[27]

Then, cheap oil prices in world commodity markets became unavailable and the devaluation of the British sterling in 1967 caused wobbling of the fixed exchange rates. Prior to the above circumstances though, the two sister institutions charted by the Bretton Woods conference had not drastically diversified the borrowing and investment policies toward countries and currency areas other than the dollar and the U.S. capital markets. Neither had they influenced the international lending policies designed by the U.S. governments. As a matter of fact, since the early 1960s the United States strove to get the European partners involved in providing concessionary assistance to the Least Developed countries in order to prompt them to undertake liberal trade policies and to increase commercial bonds with the western world as a way to deter Soviet trading influence, particularly in Latin America.[28] Within that framework, the Department of State placed outmost importance on the role of institutional arrangements such as the Development assistance Group and, since 1962, the Development Assistance Committee (DAC) established within the Organization for European Cooperation and Development (OECD). As other multilateral or supra-national organizations as the EEC, the IBRD was represented on the DAC but did not play at that time a prominent role. In the early 1960s the United States worked on shaping a DAC common aid pledge basically aimed to produce improved economic and social conditions in the LDCs. However, at that time the United States did not bring to center stage the issue of how to best combine development finance with stable international monetary and financial relations and a strengthened dollar position in international

[27] Douglass Dillon to the President, December 9, 1964, in Lyndon B. Johnson Presidential Library and Museum, Austin (henceforth LBJPL), Papers of L. B. Johnson, Presidential Papers, CF, b. 49.

[28] NARA, RG56, OASIA, Office of the Deputy Assistant Secretary for International Monetary Affairs, Briefing Books 1971-1980, b. 1, fold. Atlantic Declaration Under Secretary Volcker May 1973, subfolder 2 (Sum 2/14/73 Flanigan Memo re Econ. Objectives Paper), Peter M. Flanigan, Memorandum for Jack Bennett John Hennessey, "US-European Relations Economic Objectives", February 14, 1973.

markets as a prerequisite to the implementation of development lending programs. Basically, at the time the long-term objective was mostly to strengthen and to improve economic relations and commercial bonds with those countries.[29] Therefore, prior to the last few years of the decade the role of the Fund and the Bank was rather limited and scant. In fact, the two Bretton Woods institutions gained a prominent role by the time the debate on the reform of the international monetary system and the creation of the IMF' currency, the so-called Special Drawing Rights took place. This drew growing attention within the United States and among western elites about a much-pressing need to establish and introduce in the international monetary system a reserve currency complementary to the U.S. currency as a means of payments. This currency would cover foreign exchange operations in order to curb the growing share of dollars in world markets in defence of the American currency. As mentioned, prior to these developments the Fund and the Bank played a limited role. For instance, during the 1964 capital account crisis that shook the external position of the United Kingdom, the IMF provided the London government with a stand-by arrangement. This financial package was just one out of many credit lines implemented as per the terms of a $ 3 billion multilateral assistance program offered to London by the U.S. Federal Reserve and European central banks to stem speculative attacks on British sterling.[30]

In these circumstances, Gardner Ackley, then Chairman of the Council of Economic Advisers, stressed the limited independence of the IMF in extending credit to London, explaining that it had to resort to the European central banks to finance its credit line to the United Kingdom. He warned the White House that British reserves losses were likely to trigger a run on U.S. reserves.[31] A few years later, amid the British balance of payments crisis of 1967, the U.S. government downplayed the potential role of the IMF in providing London with financial support. In the Fall of 1967, prior to the devaluation of British sterling, the situation of the UK appeared to be on the verge of an external collapse as a result, among other structural factors, of sluggish economic growth in most West European countries that prevented London from propping up its balance of payments by means of sustained export. Against such backdrop, two financial assistance plans were drafted.

[29] *Cf.* for instance JFKPL, Papers of John F. Kennedy, Presidential Papers, NSF, Country File: Italy, b. 120, Dean Rusk to the Amembassy in Rome, Amembassy in Paris, April 26, 1962.

[30] Catherine Schenk, *The Decline of Sterling: Managing the Retreat of an International Currency 1945-1992*, Cambridge, Cambridge University Press, 2010, pp. 158-159.

[31] LBJPL, Papers of L.B. Johnson, Presidential Papers, Confidential Files, b. 43, Gardner Ackley, Memorandum for the President "The Crisis of the Pound and US Policy", November 22, 1964.

On the one side, the European central banks, convened in Basle, suggested that the IMF be charged with providing London with a $3 billion standby arrangement. In contrast to this solution, which charged the Fund with playing a crucial and predominant role in offsetting the crisis of the sterling, Washington gained a true perspective of the role of the Fund. According to U.S. Secretary of the Treasury Henry Fowler, the IMF, surplus Western European governments as Germany and Italy, and some private commercial banks, should cooperate in establishing a comprehensive financial package to avert the devaluation of British sterling.[32] Based on this position, it is straightforward that still in 1967 the United States underestimated the role of the two sister institutions of Bretton Woods in the task of keeping under control the international system of trade and payments from the arrays of monetary and commodity factors that were to destabilize it compared to the long post war era of smooth functioning. Likewise, in light of the UK balance of payments crisis of 1967, Washington proposed to its western partners a financial assistance package in which the IMF was supposed to provide a contribution to London's external equilibrium much less than the amount proposed by the governors of central banks. Central bankers proposed an IMF credit for $ 3 billion credit line, whereas the U.S. Secretary of the Treasury had suggested a contribution from the IMF worth up to $ 1.4 billion as part of a multilateral assistance package involving both $ 1 billion guaranteed sterling partially covered by Germany and Italy, and some private banks credit.[33]

It was only in the context of the debate about the reform of the international monetary system and the effect of the 1968 gold crisis on the international confidence in the U.S. currency that the authorities of Washington began charging the IMF with bearing more responsibility and assuming a more vital role in stabilizing the dollar and the international payments system that revolved around it. At that time the U.S. Department of the Treasury argued that the 1967 devaluation of British sterling caused losses in global reserves. These losses accelerated international monetary arrangements to create a new reserve unit. Against this backdrop, in 1968 the creation within the IMF of the Special Drawing Rights (SDRs), conceived as a new international reserve unit to supplement dollar-

[32] LBJPL, Papers of L.B. Johnson, Presidential Papers, National Security File, Gold Crisis, b. 54, Henry Fowler, Memorandum for the President “Sterling Crisis”, November 12, 1967.

[33] Henry Fowler, Memorandum for the President “Sterling Crisis”, November 12, 1967, in Declassified Documents and Reference System, http://www.gale.com/us-declassified-documents-online/ (henceforth DDRS).

denominated international liquidity,[34] was thought to reduce dependence of the international system on gold for market purposes. Furthermore, the SDRs were supposed to ease off the pressure that international run on the U.S. gold reserves put on the dollar.[35] By supporting the creation of the SDRs Washington placed much more attention on the potential role of the IMF in contributing to revert the depreciation of the U.S. currency in foreign markets and to recast international monetary and trade stability.[36] On the other hand, along this line since the appointment of former U.S. Secretary of Defence Robert McNamara to the presidency of the IBRD, the Washington-based development institution shifted its borrowing and lending policy so as to contain the share of dollar-denominated assets in world capital markets. As anticipated, if one keeps an eye on the ways the IBRD changed the financing of its loan operations and lending to the LDCs prior to the end of the decade and the term of McNamara's appointment, the linkage between the limited role of the Bretton Woods institutions in contributing to dry up the quantity of dollars in world money supply and the underestimation by the United States of this issue is all the more striking. The United States perceived this issue as an inextricable problem to avert the decline of international confidence in the dollar and its centrifugal effects on the international exchanges in goods and capital, specifically for the non-oil LDCs.

Since it was established, the IBRD could count only on 20 percent of its member countries' capital subscription in order to finance its lending operations. To put it another way, 80 percent of its members' capital subscription was uncalled and served as a security guarantee to back its borrowing. The IBRD had not such uncalled 80 percent capital subscription on hand, but it was expected to be paid in by member countries anytime the bank had to meet its obligations. In addition to the principle of profitability on which the IBRD lending operations were relying, such security guarantee represented by the unpaid capital, coupled with the two basic principles underlying the bank loans, “the soundness of the particular project the bank

[34] Howard Wachtel, *The Money Mandarins. The Making of a Supranational Economic Order*, London, Pluto Press, 1990, p. 78. Harold James, *International Monetary Cooperation since Bretton Woods*, New York - Washington DC, Oxford University Press - IMF, 1996, p. 172. Graham Bird, *IMF and the Future. Issues and Options facing the Fund*, London - New York, Routledge, 2003, p. 267 *et seqq.* C. Wilkie, *Special Drawing Rights (SDRs)*, *op. cit.*, p. 34 *et seqq.*

[35] Department of Treasury, Talking Paper on the Basic Pledge, in Position Paper for Gold Pool Negotiations, “Reserve Policies During the Interim Period Prior to Activation of Special Drawing Rights”, March 26-27, 1968, in DDRS.

[36] E. Fried (Department of the Treasury), “Resolving the Gold Issue”, 1968, in DDRS.

was asked to finance", and the effect of the loan on the internal economy of the borrowing country, made the IBRD borrowings a kind of highly reliable and quite secure investment asset to any external private investor. Therefore, owing to such 80 percent uncalled capital subscription, since the beginning the IBRD called for funding on external lending institutions to place its bonds and securities: it did so with both the central banks of member countries and private investors.[37] However, over the course of the 1950s and early 1960s the Washington institution increased its borrowing from private investors and from currency areas other than the U.S. dollar, albeit slowly and to a limited extent. During the presidency of Eugene Black, former senior Vice President of Chase National Bank, the Bank certainly established and expanded the market for the IBRD securities in the world's investment centres. He himself strove to develop the IBRD financial bonds with the European investment centres and the European currency areas. For instance, at the start of the 1950s the IBRD and the Swiss government entered into a relationship under which the Bank was granted tax reductions in connection with the issue of IBRD bonds in the Swiss private capital market.[38] By coupling such expansion of borrowing by the Bank from the international financial centres with the sales of returns on its loans, under the presidency of Black, the IBRD could raise funds in the private markets for an equivalent sum of $ 2 billion roughly. More than half of its borrowing, according to the internal correspondence operations of the Bank, were raised outside of the United States.[39] Under Eugene Black's presidency the IBRD embarked upon a number of attempts to diversify the currency composition of borrowing while struggling to issue a growing number of bonds and securities into private markets.

Despite such attempts, in the early 1960s the IBRD was still substantially relying on the U.S. capital markets and borrowed largely from U.S. investors. For instance, at the beginning of that decade the IBRD neglected to offer bonds to west European national capital markets: this was much the case

---

[37] World Bank Group Archive (henceforth WBGA), Records of Office of External Affairs, Mendels, M. Morton M-Articles and Speeches (1948-1965), "The Role of the International Bank for Reconstruction and Development", Address by Morton M. Mendels (Secretary, IBRD) to the 52nd Annual Convention, Maryland Bankers' Association, Atlanta City, May 28, 1948.

[38] WBGA, Records of the Office of the President, Records of President Robert S. McNamara, Contacts-Member Countries Files, Contacts with member countries: Switzerland-Correspondence 01, R. McNamara, Memorandum for the Record "Switzerland", May 15, 1968.

[39] WBGA, Records of the Office of the President, Records of President Eugene R. Black, President Eugene R. Black Papers-Congratulations Correspondence-Volume 6-1953, 1958, IBRD Press Release n. 541, June 27, 1958, Background Statement.

of the Italian currency area, where in 1962 the Bank of Italy failed at arranging the sales of IBRD bonds with the Italian financial community.[40] On the other hand, significantly, in 1964 U.S. private investors snapped up the largest portion of $ 200 million offering of bonds issued by the IBRD that year.[41] In the late 1950s the U.S. balance of payments plunged while attempts were being made to restore equilibrium through implementation of balance of payments deficit financing policies. These policies revolved around the current account position under the Kennedy administration. In this context the IBRD financial relationships with the international capital markets were neither overtly aimed at contributing to prevent the expansion of dollar denominated assets in world capital markets, nor did they contribute to any U.S. foreign monetary policy aimed at dealing with the capital account deficit in order to resurrect the U.S. balance of payments and to restore international confidence in the American currency.

Financing the Bretton Woods Institutions in the Private Capital Markets and Closer U.S. Attention to Currency Stability

Against this backdrop, since the two linchpins in the smooth function of the international trade and payments system, namely fixed exchange rates and fairly stable cheap oil prices in international markets began crumbling, the course of the debate on the reform of the international monetary system and the borrowing policies of the IBRD best highlights the U.S. increased preoccupation with the need to tailor international development assistance to the defense of the dollar in foreign exchange markets. Within this framework, since 1967 onward the borrowing policies of the IBRD changed inordinately: a marked effort to shift its borrowing from the dollar to other currency areas was registered. In turn, such change took place through increased heavy placement of the Bank bonds and securities with private commercial and investment banks, which implemented this policy of investment diversifications through their investment portfolios. This diversification of the IBRD investment portfolio eased off pressure on the U.S. currency from bearing the cost of financing development finance, so far conducted through either borrowing from dollar-denominated holdings

[40] WBGA, Records of the President Eugene Black.

[41] NARA, Record Group 82, General Records of the Federal Reserve System, (henceforth RG82), Division of International Finance and Predecessors, International Subject Files 1907-1974, b. 327, The Staff of the Board of Governors of the Federal Reserve System, Current Economic and Financial Conditions. Prepared for the Federal Open Market Committee, January 27, 1965, pp. 3-8.

from the central banks of members of IBRD, or through a U.S. government development assistance policy based on a U.S. foreign economic assistance that strained the American balance of payments.

As a matter of fact, from the late 1960s through to the 1970s, although the DAC still played a role,[42] on the one side the IMF and the multilateral development banks engaged in a continuous commitment to help restoring equilibrium in the balance of payments of deficit countries; on the other, the IBRD led the way in shaping development assistance programs.[43] Such institutional shift was accompanied by a different direction in the borrowing policies of the Bank: from public financial contributions from Western governments and institutions to increased bond sales to the Western capital markets. Since the appointment of former Secretary of Defense Robert McNamara to the presidency of the IBRD, at the end of the decade the Washington-based Bretton Woods institution repeatedly resorted to the German, British, and United States capital markets to finance its development assistance programs.

A few months after the appointment of McNamara to the head of the IBRD, some of the World Bank's high-ranking officials met representatives from the largest U.S. banks to discuss their participation in financing the new president's ambitious plans to expand the Bank's lending operation to finance development policies across the globe. If one dismisses some arguments by these bankers about the very low lending rate that the World Bank offered to the American banking system, the very issue that emerged from these conversations was the currency denomination of the bonds and securities the Bank offered on the market. Representatives of Bank of America and officials of Brown Brothers Harriman for instance, called attention to the implications of U.S. balance of payments deficit on the bankability of bonds issued by the IBRD and denominated in U.S. dollars.[44]

[42] WBGA, Records of the Office of the President, Records of President Robert S. McNamara, Contacts with Member Countries: United Kingdom, General Correspondence 02, D.H. Rickett, Memorandum for the Record "The United Kingdom", October 4, 1971.

[43] NARA, RG56, National Advisory Council on International Monetary and Financial Policies (henceforth NAC), NAC Alternates Minutes and Agenda, NAC Principal Minutes and Agenda, NAC Steering Committee Minutes, NAC Semi Annual Debt Review 1971-1975, b. 1, fold. NAC Alternates-Minutes, Meeting N. 75-1 through Meeting N. 75-8, January 16, 1975-December 3, 1975. National Advisory Council Alternates Meeting Minutes, Meeting 75-1, January 16, 1975, Review of IBRD/IDA Program and Financial Policies. WBGA, Records of General Vice Presidents and Managing Directors, Records of Sir Denis Rickett, Oil and Energy, Memos and Reports 1973 through 1974, Volume 3, Sir Denis Rickett (IBRD Vice President), "The Provision of Additional Resources to Developing Countries and the Respective Role of the Fund and the Bank", undated.

[44] LOC, Manuscript Division, Robert McNamara Papers, Part 1, b. 21, fold. 1 (Bennett, William

One year later, while leading U.S. financial institutions such as Morgan Stanley stressed "the need for the Bank to renew and broaden its contacts in the investment community in the United States; and for McNamara to become better known to that community",[45] the IBRD had issued a substantial portfolio of bonds to currency markets other than the dollar. In particular, from late summer 1968 to late summer 1969 the Bank pursued a diversification policy by offering both public and private bond issues in the German markets and in the Swiss capital market.[46]

Later on McNamara turned to draw on the oil producing countries of OPEC to finance its bonds: such a policy was favored by the United Kingdom and other Western European partners but irritated the U.S. governments.[47] As of 1968 the IBRD had borrowed in the London market on three occasions,[48] while by fiscal year-end 1969 over half of the Bank's gross borrowing had been raised in the German and U.S. private capital markets.[49] Within the framework of this contribution, the case of German private capital markets is particularly noteworthy. Over the course of the decade some world-class German banks purchased an increasing volume of bonds issued by the IBRD;

Memoranda of McNamara Trips 1968-1971), W.L. Bennett to Mr. Clark, Memorandum "Summary of New York Visits. October-November 1968".

[45] LOC, Manuscript Division, Robert McNamara Papers, Part 1, b. 21, fold. 1 (Bennett, William Memoranda of McNamara Trips 1968-1971), William Bennett to Mr. Clark, Memorandum "Visit to New York City-March 1969".

[46] WBGA, Records of the Office of the Presidents, Records of President Robert S. McNamara 1968, Correspondence with Member Countries: Germany. Correspondence 01, fold. Contacts Germany 1968, Memorandum of Conversation McNamara-Aldewereld-Guth-Klasens, June 6, 1968. Memorandum of Conversation Dr. Henkel-Mr. Aldewereld, June 7, 1968. Memo of Conversation Lipfort-Schneider-Schmidt-Anders-Aldewereld, June 10, 1968.

[47] WBGA, Records of the Office of the President, Records of President Robert S. McNamara, Contacts with Member Countries: United Kingdom, General Correspondence 03, John Morrian to Robert McNamara, Office Memorandum, "R. McNamara interview with Douglas Ramsey, Economic Development and Raw material correspondent of the Economist", July 28, 1975. *Ibid.*, "Meeting with Chancellor of the Exchequer, October 1, 1974 (present: McNamara, Denis W. Healey, Derek Mitchell, Richardson, Wass, Rawlinson, France, Cargill)", October 2, 1974.

[48] WBGA, Records of the Office of the President, Records of President Robert S. McNamara, Contacts with Member Countries: United Kingdom, General Correspondence 02, W.M. Van Saagevelt to Mr. D. Love, "Memorandum on the Bank Group's Relationship with the United Kingdom", August 11, 1967.

[49] *Cf.* respectively WBGA, Records of the Office of the President, Records of President Robert S. McNamara, Contacts with Member Countries: United Kingdom, General Correspondence 01 (1968-1969), Summary Memo of conversation D.S. Rickett-R. McNamara-The Governor of the Bank of England), "Annual Meeting 1968-United Kingdom", October 9, 1968. And *ibid.*, D.S. Rickett (IBRD Vice President), "Annual Meeting 1969. Meetings with Governors of Part I Countries. United Kingdom", September 24, 1969.

Giro Zentrale (GZ) and Deutsche Bank, for instance, bought a significant portions of World Bank-issued bonds and securities and pledged to make public and private placements in the German markets.[50] The involvements of German banks in financing the IBRD development programs was a means of easing the burden of the IBRD development assistance programs on the U.S. balance of payments, as well as of supporting the value of the dollar in foreign exchange markets.

Notwithstanding this policy of diversification, a string of international monetary and financial developments weakened further the dollar and jeopardized the international system of trade and payments. On the one side the devaluation of British sterling left the U.S. currency as the sole leading currency for international payments for oil and most commodities. This sustained the expansion in the dollar component of world trade and financial transactions and dollar holdings at foreign central banks. On the other, consistently with a decade-long French international monetary policy aimed at promoting the use of gold as the only international reserve, and at instigating other Western countries to convert large amount of their dollar holdings into gold, in 1968 Paris contributed to the weakening of the gold parity of the U.S. dollar by questioning agreements on, and adoption of, U.S. proposals for increasing world reserves through the creation of a new international reserve asset to be established under the auspices of the International Monetary Fund.[51]

As a result of this tangle of developments, over the course of calendar year 1968 the U.S. monetary gold stock in millions of dollars declined by roughly over 12 percent compared to its 1967 average (see table 1).

[50] WBGA, Records of the Office of the President, Records of President Robert S. McNamara, Contacts with member countries: Germany-Correspondence 01, fold. Contacts Germany (1968), Memorandum of conversation McNamara-Aldewereld-Lipfart (GiroZentrale), June 6, 1968. Memorandum of conversation McNamara-Aldewereld-Guth-Kalusens (Deutsche Bank), June 6, 1968. On the role of Deutsche Bank in underwriting bonds for the IBRD *cf.* A.Nützenadel, "Between State and Market, 1914-1989", in Werner Plumpe, Alexander Nützenadel, Catherine Schenk, *Deutsche Bank. The Global Hausbank 1870-2020*, London, Bloomsbury, 2020, p. 422.

[51] CIA Directorate of Intelligence, Intelligence Memorandum "French Actions in the Recent Gold Crisis", March 20, 1968, in DDRS.

Table 1. U.S. Gold Stocks in millions of Dollars[52]

Year-month	US Gold stocks in millions of dollars
1967	11,982
1968-January	11,984
1968-February	11,883
1968-March	10,484
1968-April	10,484
1968-May	10,384
1968-June	10,367
1968-July	10,367
1968-August	10,367
1968-September	10,367
1968-October	10,367
1968-November	10,367
1968-December	10,367

This trend contributed to push forward the depreciation of the dollar. Therefore, the combined seemingly intractable international gold issue, the effects of the closure of the Suez Crisis, and the inefficacy of the U.S. balance of payments deficit financing policies in recasting the current account position, all account for the gloomy external balance of the United States and the pressure put on the dollar as early as 1968.

By drawing attention to the hypotheses that circulated in Washington when the world-scale gold crisis hit the U.S. gold stock, it is easy to find further confirmation that American foreign exchange and financial policies were unsuccessful in stabilizing the international payments position of the United States.

Based on data available on exchange rates of major currencies against the U.S. dollar from the early 1960s through the crisis pertaining to the convertibility of the dollar into gold around 1968, it is easy to identify a correlation between the impending gold crisis and the depreciation of the U.S. dollar. This was particularly the case, with the exception of the British pound against the American currency, in the three-month forward exchange rates of major currencies against the dollar from 1967 to 1969.[53] Naturally,

[52] Source of table 1: Federal Reserve System, *Annual Report of the Board of Governors of the Federal Reserve System*, Washington DC, GPO, 1968, Table 16, pp. 384-385.

[53] For an overview if this trend *cf.* Board of Governors of the Federal Reserve System, Federal

any time American dollar holders sold their dollar holdings, this process also contributed to the outflow of dollars from the United States. Therefore, the closer to the end of the decade, the more the inefficacies of the U.S. balance of payments policies on the current and capital account overlapped with the deterioration of the fixed exchange rate in putting pressure on the dollar and its full and stable convertibility into gold.

Within this framework, neither the introduction of a new unit for reserve assets and international payments as the SDRs, nor the new borrowing policies inaugurated by the IBRD under the presidency of Robert McNamara altered this development fundamentally. The inefficacy of the new measures implemented by the two Bretton Woods institutions to reduce the dollar component in world trade and payments is best charted by the plummeting of the dollar in foreign exchange markets and by the staggering downswing in the U.S. balance of payments deficit from 1969 to 1972. From 1969 to the very beginning of 1972, driven by the exodus of U.S. private capitals fleeing the country,[54] the outflow of liquid private capital doubled, while non-liquid short-term private capital outflows grew eightfold, with the balance on the current account and long-term capital –the so-called basic balance– registering by 1972 a deficit somewhat greater than the deficit of $9.3 billion recorded in 1971.[55]

Reserve Bulletin, 54/12 (1968), Table A-90 (Foreign Exchange Rates). For the time period from 1967 to 1968 *cf.* Board of Governors of the Federal Reserve System, Division of International Finance Europe and British Commonwealth Section, Selected Interest and Exchange Rates for Major Countries and the US. Weekly series of chart, 431 (December 3, 1969), Washington DC, GPO, 1970, Table 2A and 2B. pp. 5-6.

[54] US Department of Commerce, Historical Statistics of the United States Colonial Times to the Present, Part 2. Washington DC, GPO, 1975, Chapter U, International Transactions and Foreign Commerce, Series U 1-25, p. 866.

[55] Federal Reserve System, *Annual Report of the Board of Governors of the Federal Reserve System for the Year 1972*, Washington DC, GPO, 1973, pp. 59-60. Council of Economic Advisers, Economic Indicators, Prepared for the Joint Economic Committee by the Council of Economic Advisers, Washington DC, GPO, 1971, p. 25.

II. Bringing the Bretton Woods Institutions to Center Stage in the Fight to Reverse the International Payments Imbalances in the 1970s. A Short-Lived Route

Export Oriented Policy, the Middle East, and Support for the Dollar in Exchange Markets

Within such macroeconomic and financial framework, the more the dollar declined in exchange markets and the U.S. balance of payments deficit plummeted, the more Washington strove to devise a comprehensive set of foreign economic policy measures designed to reverse this trend. The start of the new decade was marked by a variety of foreign policy initiatives all designed to achieve this goal. Although the bulk of U.S. commitment to defend the dollar by containing the size of dollar denominated assets in world money supply revolved around a set of consistent foreign financial and monetary measures, it also included and shaped other fields such as foreign trade and investment policy. According to the Department of State, the investments of U.S. oil corporations in the Middle East oil producing countries brought an ongoing contribution toward reducing the U.S. balance of payments deficit on capital account. According to a 1967 study of the Department of State, about 65 percent of the oil produced in the Arab countries was the result of American investments there. These investments returned an annual profit of about $1.5 billion to the American oil industry and made a net contribution of over $1 billion per annum to the U.S. balance of payments, that according to U.S. diplomatic officers deserved to be fully adopted within the framework of a broader U.S. balance of payments deficit financing strategy.[56] As regards the U.S. foreign trade side of this strategy, as early as 1970 the Department of Commerce brought before the White House a comprehensive foreign direct investment program tailored to regulate the foreign investment and borrowing of American corporations and companies doing business either in dollar currency areas economies or with the U.S. capital markets.

Specifically, the program advised that U.S. corporations operating in capital surplus countries should be forced to borrow from assets denominated in currencies other than the U.S. dollar. The American corporations were supposed to borrow from the national capital markets of those countries

[56] NARA, Records of the Department of State (henceforth RG59), Bureau of European Affairs, Office of OECD, European Community and Atlantic Political Economic Affairs, Records Relating to Economic Matters 1953-1975, b. 13, fold. FSE-OECD-Petroleum 1967-1969, Department of State, "Western Interests in Arab Oil", November 1, 1967.

in which they operated.[57] This was suggested in order to prevent the U.S. companies operating in Europe from favoring either the outflow of dollar assets from the United States or the nurturing and development of the Eurodollar markets. As a matter of fact, by borrowing Eurodollars, the foreign branches of U.S. corporations encouraged overseas dollar holders not to repatriate their U.S. currency holdings.

This investment path would clearly be at variance with any commitment to support the value of the dollar in international markets. On the other hand, as long as the financial wealth of the OPEC and non-OPEC oil producing countries increased as a result of the uptick in the posted price of crude oil from the turn of the decade, the Department of Commerce developed its export program in support for the export of U.S. manufacturing to the oil producing economies. According to Washington such export policy should serve as a means of arresting the decline of the U.S. currency by reducing foreign dollar holding and the transnational flows of dollar denominated private capital assets. Within this framework, prior to the quadrupling of oil prices, U.S. export earnings to the Middle Eastern oil producers had begun soaring. The two largest Middle Eastern importers of U.S. consumer goods and services, Iran and Saudi Arabia, are a noteworthy case in point. Just before the first oil crisis, compared to 1972, Iran had increased its import of U.S. products by roughly 50 percent in 1973, whereas from the first oil shock to the end of the decade the U.S. sales to Near East Arab oil producing countries and to Iran in 1973 totalled approximately $ 2 billion, up about 50 percent from the 1972 figures.[58] This new U.S. export promoting tactic to oil-rich dollar holding countries was quite consistent with the late 1960s Department of State design of using overseas activities of U.S. corporations as an instrument to prop up the U.S. balance of payments on both the current and capital account. The creation of bilateral economic and trade commissions, established as early as 1974 between the U.S. government and its major Middle Eastern trade partners, would be linked to this longer U.S. objective to improve the American current account position in support for the dollar. Compared to the 1960s, at this later time the very objective underlying such export-oriented current account policy, mixed up with

---

[57] NARA, RG40, Office of the Secretary, Executive Secretariat's Subject File 1953-1974, b. 181, fold. Foreign Direct Investments Comm., The Director of the Office for Foreign Direct investments to the Under Secretary of Commerce, “Report on 1970 Program Interagency Meeting”, September 22, 1969.

[58] NARA, RG40, Office of the Secretary, Executive Secretariat's Subject File 1953-1974, b. 309, fold. Commerce Action Group on the Near East (BIC), p. 50, “The Near East Markets: a Report to US Business. Prepared by BIC Near East Study Group”, May 17, 1974.

favoring overseas borrowing from non-dollar foreign capital markets, was to forestall and revert the decline of the U.S. currency in foreign markets. Such course of action was conducted not only to improve the U.S. international payments position. It was also designed to avert the consequences on the competitive edge of U.S. and western manufacturing trading in U.S. dollar from suffering from the depreciation of the dollar and from the consequences of such depreciation on the purchasing power of western-consumer goods importing LDCs.[59]

This foreign trade policy was quite consistent with the ongoing policy by the IBRD to issue its bond and securities into the non-dollar national capital markets from the late 1960s through the beginning of the new decade elaborated in the previous section. By the beginning of 1974, when the oil-induced balance of payments imbalance began afflicting the non-oil LDCs, in the pursuit of its development assistant programs to halt these effects on international payments, the World Bank had already borrowed $388 million in Kuwaiti dinars, $129 million in Libyan dinars, $25 million in Lebanese pounds. Furthermore, the Washington-based institution was negotiating a bond issue denominated in Venezuelan bolivares in the amount of about $25 million. Although most American authorities instructed that the Bank ought to convert these bonds into SDRs to protect borrowers from exchange rate risks, this policy of currency diversification clearly demonstrates the World Bank policy to reduce the dollar component in its public placements.[60] After the first oil crisis, some leading oil producing countries supported this American effort to dry up the dollar component in international liquidity by pouring their ever-expanding dollar-denominated oil revenues into the debt of the IBRD: in 1974 the OPEC countries increased their holding of bonds issued by the IBRD from 5 to 10 percent over the preceding seven years.[61] Therefore, the borrowing policy of the World Bank in the private and public markets traces its involvement in the Nixon administration policy to halt the depreciation of the dollar in exchange markets through measures aimed at reducing the dollar share in both liquid and non-liquid international financial assets.

[59] S.Selva, *Before the Neoliberal Turn*, *op. cit.*, chapter 4.

[60] LOC, Manuscript Division, Robert McNamara Papers, Part 1, b. 27, fold. 5, IBRD, "Possible Means of Channeling OPEC funds through the World Bank", February 15, 1974. On the use of SDRs to denominate the Bank's interest-yielding bonds see LOC, Manuscript Division, R. McNamara Papers, Part 1, b. 27, fold. 5 (Energy Crisis), I.P.M Cargill to Mr. M. Shoalb, "Aid Memoire for Mr. Shoalb", July 19, 1974.

[61] NARA, RG56, OASIA, Subject Files of the Office of International Monetary Affairs 1968-1978, b. 6, fold. Oil (2), Background paper "United Nations General Assembly Special Session", April 1974, "Proposal for Use of Surplus Oil Revenues of Petroleum Exporting Countries".

This set of policies aimed at propping up the U.S. international payments position and the dollar. However, a constant and uncontrolled depreciation of the dollar in foreign exchange markets had persisted from 1974 to 1979. There was only one notable exception shortly after the 1975 recession that impacted the advanced industrial economies. The U.S. government and the Federal Reserve System as a result, made a resolution to involve the largest U.S. commercial and investment banks in reflowing the ever-growing dollar denominated assets that had since early in 1974 saturated the international capital markets.

Table 2. Exchange Rate Movements 1970-1978, percentage change[62]

Value in terms of dollar	May 29, 1970, to June 2, 1978	March 20, 1973, to June 2, 1978	Year-end 1974	Year-end 1975	Year-end 1976	Year-end 1977	September 1977 to June 2, 1978
Swiss franc	+130.1	+72.3	+27.7	-3.1	+6.9	+22.0	+24.4
German mark	+74.7	+35.7	+12.2	-8.1	+11.0	+12.0	+12.4
Dutch guilder	+62.8	+29.4	+12.7	-6.8	+9.4	+8.2	+10.2
Japanese yen	+63.5	+20.2	-7.0	-1.4	+4.2	+22.2	+20.9
French franc	+20.4	-1.4	+5.9	-0.9	-9.7	+5.7	+6.9
Canadian dollar	-4.1	-10.9	+0.5	-2.5	+0.7	-7.6	-4.1
Pound sterling	-24.3	-26.2	+1.1	-13.8	-15.9	+11.9	-4.1
Italian lira	-27.0	-34.4	-6.4	-5.0	-21.9	+0.5	+2.5

Short-term Capital Markets, the Stabilization of World Trade and Payments, and the Dollar: the Role of the IMF and the IBRD in the 1970s

If one points to the interconnection between OPEC oil revenues and the dollar value in foreign exchange markets, a negative correlation can be established between the growth in the OPEC dollar assets and the strength of the dollar. With the exception of the 1975 recession, which triggered a short fall in world demand for crude oil, reduced the expansion in OPEC oil revenues and eased international pressure on the U.S. currency in exchange markets, the U.S. currency plummeted among other reasons, because of the ever-increasing

[62] Rate sources: London mid-day rates, in NARA, RG56, Office of the General Counsel. Assistant General Counsel, Records Related to OPEC Financial Affairs 1974-1979, b. 1 fold. F, Part 1 of 4, 1978-1979.

share of dollar assets in world money supply that resulted from the uptick in prices of crude oil in world trade markets.[63] Against this macroeconomic dynamic, prior to the landmark decision of the U.S. monetary authorities to initiate a path-breaking monetary tightening in 1979, it is worth noting the U.S. strategies to reconfigure the dollar and the limited extent to which the international economic institutions of Bretton Woods were involved in it, as well as the limited impact that they had on the planned redress of the U.S. currency.

As briefly charted, over the course of the 1960s the unfettered outflows of capital from the U.S. markets and the growth of unregulated non-resident Eurocurrency markets had induced the U.S. authorities to implement a number of banking measures designed to reverse such tendency. In that context, such outflow was linked to the decline of the dollar since the twin deterioration of fixed exchange rates, stable oil and commodity prices in world markets. However, it was also caused by the increased dollar denominated international transactions due to the decision by the oil producers not to accept oil payments in British Sterling since London's decision to devalue the Sterling in 1967. Over the course of the decade the U.S. authorities viewed the development of short-term capital markets in non-resident European national markets, a large component of which was in dollar, the so called Eurodollar markets, as a threat to the stability of U.S. international payments position and world trade. It was only when the suspension of dollar convertibility into gold and the skyrocketing increase in the amount of dollar denominated investible surpluses of the oil producers that U.S. authorities changed their approach to it. At the time they endeavored to alter the investment patterns of the oil producers from short-term inflation sensitive Eurocurrency markets to longer international credit markets much more suitable to restore the oil crisis-wrecked supply side of the production chain across the advanced industrial economies.[64]

It was in this context that the U.S. monetary authorities worked on devising a reflowing mechanism aimed at making short-term capital markets an instrument of stabilizing trade and payments, rather than a multiplier for the depreciation of the U.S. currency. Against this backdrop, Washington charged the largest U.S. commercial banks that traded in the Euro-currency markets, and the IMF, with implementing such strategy to tailor short-term highly liquid and inflation sensitive capital markets to the much pressing

[63] S. Selva, *Before the Neoliberal Turn*, *op. cit.*, chapter 5.

[64] Documentation in NARA, RG56, Office of the General Counsel. Assistant General Counsel, Records Related to OPEC Financial Affairs 1974-1979, boxes 1-3.

need to reduce the ever-expanding dollar share in world money supply. This strategy was also designed to finance the recasting of purchasing power in foreign markets of oil shock-hit developing countries through a set of lending policies. As a matter of fact, since 1974 the Fed and the U.S. Treasury turned to favoring and shaping the international investments of the oil producers in short-term capital markets. This was in order to offset the worsening purchasing power of the non-oil LDCs and the restructuring of demand side conditions in advanced industrial economies that resulted from the declining dollar value and peaking oil prices.[65] A commitment to reflow the OPEC dollar denominated investible surpluses from the Eurocurrency markets to the non-oil LDCs through the intermediary role of the IMF and the IBRD served the three-fold purpose of reducing the dollar component in world capital markets that had peaked since the first oil shock; it also eased off pressure of balance of payments assistance to the LDCs on the U.S. foreign aid policy and the U.S. dollar. Furthermore, it helped strike the balance between capital supply and aggregate demand within the advanced industrial economies by which over supply on demand side conditions was likely to trigger a deflationary spiral and a downward sloping trend in the cost of money at least before the 1975 recession. Since the spring of 1974, the U.S. monetary authority shaped a recycling mechanism that revolved around the pivotal role of both the IBRD and the IMF, as well as the largest U.S. commercial and investment banks.

Basically, since the very beginning of 1974 the OPEC countries began accumulating a large amount of oil revenues: they placed a substantial share of them into the bank accounts they held at the largest New York-based commercial banks. The American banks accepted dollar-denominated Arab deposits and poured that money into the Eurocurrency markets and other short-term international money markets.

Giant American banks such as Citibank or Chase Manhattan Bank had long been involved in the national credit markets of important OPEC member

[65] NARA, RG56, OASIA, Office of the Deputy to the Assistant Secretary for International Affairs, Records Relating to International Financial Institutions 1962-1981, b. 8, fold. IM-13-8, International Monetary Country Risk 1978-1980, 1 of 3, p. 3, "American Banks during the 1970s and Beyond", Remarks by Henry Wallich (Member, Board of Governors of the Federal Reserve System) at the Roundtable on Credit Systems in the 1970s Sponsored by the Ente per gli Studi Monetary Bancari e Finanziari Luigi Einaudi, September 3-7, 1980. *Cf*. also NARA, RG56, OASIA, Office of the Deputy to the Assistant Secretary for International Affairs, Records Relating to International Financial Institutions 1962-1981, b. 8, fold. IM-ID International Monetary: International Capital Flow 1979, Statement by the Honorable Anthony Solomon Under Secretary of the Treasury for Monetary Affairs before Subcommittees of the House Banking, Finance and Urban Affairs Committee, July 12, 1979, pp. 4 and 6.

states mostly either to underwrite import credit requirements or to finance national industrial or economic ventures as it was the case of Iran since as early as 1959. Since the end of 1973, the OPEC governments received payments in New York dollar deposits held at the five largest U.S. commercial banks residing in Wall Street. These funds were invested into the circa 30 banks they trusted in the Eurodollar market, primarily in extremely short maturities: call money, seven-day money, one-month money or three-month certificates, available to oil importing countries that suffered from liquidity problems. For instance, in early January 1974 Chase Manhattan Bank received and reflowed through deposits of Arab countries a number of accounts of Arab agency banks it held.[66] The reflowing of these funds from these Wall Street-based foreign agency bank accounts to the banks in the Eurodollar markets was the way in which the oil revenues surpluses were poured into the Euro-money market. These Euro deposits were backed by New York dollar deposits "so that the original underlying dollar deposits never leave New York or the U.S. domestic money supply, even though their ownership changes from that of a U.S. oil company to that of an Arab government or Eurodollar bank".[67] Thereafter, these deposits were used to a great extent to lend short and to a rather limited amount to finance some long-term capital markets, mostly the Euro-bond market.[68] Therefore, the very mechanism on which the process of reflowing oil money was based essentially contrasted with the American policy to draw on the capital surplus of OPEC countries to finance productive investments and to sustain aggregate demand. This because it technically poured petrodollars into liquid investments.In this context, the U.S. monetary authorities intervened to make the oil producers shift their investments from short-term Eurocurrency assets to longer-investment. A rough analysis confirms this change of investment patterns that the largest American banks effected on their OPEC deposits.

[66] Federal Reserve Bank of New York Archive, New York City (henceforth FRBNYA), Presidential Papers, Papers of Paul A. Volcker (1975-1979), Annual Report-President's Office to Survey of 1978, b. 142572, fold. President's Office. Chase Manhattan Bank 1961-1977, H. Willey (Federal Reserve Bank of New York), Memorandum "The Chase Manhattan Bank", January 28, 1974.

[67] NARA, RG56, Office of the General Counsel. Assistant General Counsel, Records Related to OPEC Financial Affairs 1974-1979, b. 1, fold. E Part 1 of 2 1974-1979, Thomas Willett to Undersecretary Bennett and Assistant Secretary Cooper, Memorandum "Report on discussions with New York Bankers Concerning Prospective Problems in International Financial Markets", August 7, 1974, p. 5.

[68] NARA, RG56, OASIA, Chronological Files of the Office of Financial Resources and Energy Finance 1974-1977, b. 2, fold. TEFRP: Office of Financial Resources Policy Coordination-Permanent Chron. File, December 1975, "US Estimates of OPEC Investments", undated.

The foreign branches of the six largest American banks operating in the Eurocurrency markets began reflowing the expanding capital surplus of OPEC countries and continued through the 1975 recession. Since its inception, this process of reflowing the OPEC financial assets through Wall Street showed a string of palpable shortcomings. A few months later these concerns and hindrances led the U.S. government to change the way in which Washington made use of the recycling process of oil revenues to confront the U.S. capital account deficit through pressure on the OPEC countries to move to long-term investments. The six largest U.S. banks that poured the financial assets of OPEC countries in their foreign branches operating in the Eurocurrency market, and mostly in the Eurodollar portion of it, were Chase Manhattan Bank, Bank of America, Chemical Bank, Citibank, Manufacturers Hanover, and Morgan Guaranty.[69]

As of April 1974 the bulk of oil payments deposited in the Eurocurrency markets was mainly in dollar and British pound.[70] In the aggregate, during the first eight months of the year, Eurocurrency lending by U.S. banks including both lending by domestic offices and portfolio investments by foreign subsidiaries located in the Eurocurrency markets increased by roughly over 3 percent a month.[71] If one disaggregates this data by foreign subsidiaries specializing in short-term lending and U.S.-based domestic offices trading in long-term financial instruments, it is possible to deduce that the recycling of financial assets of OPEC nations in short-term Euro-money markets peaked during the first quarter of the year. Thereafter, U.S. domestic offices took the lead in shaping the international investments of the largest American banks in longer and less inflation-sensitive capital markets.[72] Therefore, the investment shift was paired with a shift from foreign branches to domestic

[69] FRBNYA, Central Files, Meetings of Secretary of Treasury with New York Financial Men 1958-1981.

[70] At year-end 1974 the share of OPEC's dollar denominated investments in the United States and that of sterling denominated investments excluding the Euro-banking market in the United States on total OPEC placements amounted to 19 and over 10 percent respectively, *cf.* NARA, RG56, OASIA, Chronological Files of the Office of Financial Resources and Energy Finance 1974-1977, b. 2, fold. TERFP: Office of Financial Resources Policy Coordination Permanent Chron. File, December 1975, Department of the Treasury, "US Estimates of OPEC Investments", undated (1975).

[71] Board of Governors of the Federal Reserve System, *Federal Reserve Bulletin*, 61/1 (1975), p. A72.

[72] NARA, RG56, Office of the General Counsel. Assistant General Counsel, Records Related to OPEC Financial Affairs 1974-1975, b. 2, fold. G Part 1 of 3 1974-1975, "Outlook for International Lending by Banks in 1975", March 24, 1975. *Cf.* also Treasury Bulletin, March, and April 1976.

offices of U.S. banks. It is worth placing the shift in the investment patterns of U.S. private financial actors in the context of this contribution on the initiatives of the international economic institutions to absorb the share of dollar assets in total world money supply with the aim of supporting the dollar in international markets. The shift from short-term investments into longer placements took the form of capital flows from the foreign branches of American banks that operated in the Eurodollar markets, to the domestic branches inclined to fuel fixed capital formation and productive investments. This move, promoted by the Federal Reserve Bank of New York, was consistent with American aim to strengthen international confidence in U.S. currency. As a matter of fact, long-term investments were predicated on a substantial absorption of capital supply. By contrast, short-term investments managed by overseas branches would imply a growing share of non investable inflation-sensitive liquidity that would add to the dollar component in world liquidity and jeopardize further the U.S. currency in international exchange markets.

Within this framework, Washington made a twin bet on the U.S. commercial and investment banks, on the largest brokerage houses, and on the IMF financial facilities, in order to favour such a process. Since the spring of 1974, even as the OPEC nations heavily pumped money into Eurodollar and other Eurocurrency deposits through the Wall Street banks, the creation of a number of multilateral recycling arrangements under the institutional umbrella of the IMF and IBRD was extensively discussed.

Over the course of the summer of 1974 such discussions on the international investments of OPEC and the contribution of private banking to the recycling process led Washington and its Western partners to devise a string of projects aimed at getting the commercial banks involved. For instance, following a first proposal, which appeared as early as March of that same year, in July the Shell Oil Company discussed with the BIS a plan to have the BIS serve as a sort of clearing house for oil payments that would prevent the oil surpluses from going into the hands of commercial banks and would reduce the volume of dollar-denominated oil payments, thus curbing the effects of oil trade on the international supply of dollars and its stability in exchange markets.[73]

Certainly, statistical reports about the deposits of oil producers with the largest private banks point to their full involvement in this undertaking and the issue of international flows and deposits denominated in U.S. dollar, a

[73] International Monetary Fund Archive, Washington DC (henceforth IMFA), Middle Eastern Department Fond (henceforth Medai), Medai Subject Files, b. 71, fold. 3 (June 1974-August 1974), G. Gunter to Witteveen “Proposed Recycling Scheme through BIS”, August 1, 1974. *Ibid.*, Shell Oil Company, “Aid Memoire”, March 13, 1974.

persistent problem for the American campaign to prop up the dollar through the institutions of Bretton Woods.

A 1975 report by the Fed to the Senate Subcommittee on Multinational Corporations brought forth that the six largest U.S. banks (Chase Manhattan Bank, FNCB, Hannover Trust Corporation, Morgan Guaranty, Bank of America, Chemical Bank) had $11.3 billion in deposits from Middle East and North African oil producers, equal to 4.5 percent of the banks' total assets, in addition to the roughly $2.57 billion in deposits from other members of OPEC, including Venezuela and Indonesia. The total deposits of the six largest banks from oil producers were roughly equal to their total deposit liabilities to the financial centres of non-oil producing countries, including Panama, the Bahamas, Singapore and Switzerland.[74]

Therefore, there was an early involvement of U.S. private banks in reflowing the dollar assets of oil producers as a way of both decreasing the volume of dollar assets in international liquidity to support the U.S. currency, and providing vital support to oil deficit developing countries. However, since the quadrupling of oil prices cast a grim shadow on the international payments position of the LDCs and the least advanced industrial nations, the IMF got involved in the process of balance of payments deficit financing and contributed to such dollar-adjusting techniques. In light of projected current account deficit for the LDCs, since the beginning of 1974 the managing director of the IMF Witteveen fine tuned the establishment of an oil facility to provide temporary and limited assistance for developed and less developed countries facing difficult financial prospects due to the oil price rise.[75] From the view point of this contribution, it is worth noting that since its creation the oil facility was to borrow a large portion of its funding from the oil producers. More importantly, borrowing would be denominated in SDRs to minimize the financial strains of the oil facility on the U.S. currency and in order to prevent it from plummeting further in exchange markets compared to the past decade or so.[76]

[74] "Fed Shows Scope of US Deposits from Oil Lands", *The Wall Street Journal*, March 12, 1976, p. 4.

[75] NARA, RG56, OASIA, Office of the Deputy Assistant Secretary for International Monetary Affairs, Briefing Books 1971-1980, b. 1, fold. Briefing Material G-10 Deputies' Meeting, November 20-21, 1974, A.K. Rawlinson (the British Embassy in Washington) to W. Simon (The US Secretary of the Treasury), note, September 17, 1974.

[76] A.D. Crockett, Memorandum for the Files "Financing the Oil Facility" March 22, 1974. J.Witteveen to G.Shultz (US Secretary of the Treasury), March 21, 1974, both in IMFA, Office of Managing Directors Series, Witteveen Files, Chronological Files, b. 1, fold.

Bypassing the Bretton Woods Institutions and U.S. Banks: OPEC Finance and Direct Lending to Developing Countries

Thus, since its establishment the oil facility and the institutional reflowing of the dollar assets of the OPEC oil producers through the IMF was specifically aimed at reducing the quantity of dollar assets in world financial markets. Although the IMF was involved in such clear-cut international monetary approach to resurrect the competitiveness of the U.S. economy and that of any other country that purchased commodities and consumer goods traded in U.S. dollars, the IMF was largely unsuccessful in contributing to such strategy. In fact, on the one side some OPEC producing countries showed their inclination to finance the two sister institutions of Bretton Woods as a way of strengthening their bilateral diplomatic and economic bonds with Washington. On the other, however, as a community OPEC resisted such institutionalization aimed at combining assistance to the non-oil LDCs with full support for the dollar through the Bretton Woods institutions. The former was the case of Iran's attitude to the creation of the IMF oil facility. On February 21, 1974, the Shah discussed with Robert McNamara, then still President of the IBRD, and Johannes Witteveen, Managing Director of the International Monetary Fund, three proposals for the recycling of OPEC oil revenues. On the one side he proposed to buy IBRD bonds and to finance the IMF oil facility whose creation Witteveen had recently brought before the international community and the public opinion. Such proposal for lending to the IBRD was immediately approved by the U.S. government and highlights Teheran's strategy to use oil revenues to strengthen its bilateral relations with Washington.[77] The latter was the case of the increasing attempt by the oil producers to directly lend to the non-oil LDCs. In fact, it is true that in the aggregate, at year-end 1975 the OPEC investments in IBRD bonds and in the IMF oil facility had increased by 10 percent compared with 6 percent in 1974.[78] However, the OPEC countries began resisting the placement of their dollar assets with any of the Washington-based Bretton Woods institutions and their inclination to lend to the LDCs directly began as early as 1974. Along this line of action, as soon as the fourfold oil price increase triggered

[77] NARA, RG56, National Advisory Council on International Monetary and Financial Policies, NAC Staff Committee Minutes 1974, b. 2, fold. Meeting n. 74-1 through 74-21, NAC, NAC Staff Committee Minuets, Meeting 74-14, March 19, 1974.

[78] NARA, RG56, OASIA, Chronological Files of the Office of Financial Resources and Energy Finance 1974-1977, b. 2, fold. TEFRP: Office of Financial Resources Policy Coordination. Permanent Chron. File December 1975, Office of Financial Resources and Energy Finance, "US Estimates of OPEC Investments", December 1975.

a rise in the investible resources of OPEC capital surplus countries, the government of Venezuela proposed that OPEC establish a special fund to help the LDCs meet higher petroleum costs. By the third quarter of 1974, Saudi Arabia, Iran and Kuwait bore the largest share of concessional aid to the non-oil LDCs; by that time Egypt and Syria received about 60 percent of total concessionary aid by the OPEC countries to non-oil exporting LDCs, followed by India and Pakistan.[79]

These early moves by the largest OPEC oil producers to connect the meteoric rise in their financial resources to the LDCs' imbalances caused by the oil crisis highlight their attitude towards directly extending loans across the globe and to bypass the Western world. Such an early move is quite important as it helps explain the way in which the OPEC countries reacted to the Western attempt to lock their fund in multilateral arrangements set up within the IBRD and the IMF and under U.S. leadership. According to IBRD estimates, during the first eight months of 1974 the OPEC countries had transferred a total of $ 16 billion to developing countries and international lending institutions, of which roughly over $ 7 billion had been appropriated directly to the LDCs.[80]

Therefore, the OPEC producers appeared determined early enough to bypass the process of institutionalization of reflowing their dollar assets through the Bretton Woods institutions. The U.S. strategies to absorb the outstanding dollar assets of oil producers in support for bolstering the U.S. currency met with the recalcitrance of U.S. commercial banks charged with reflowing dollar denominated oil revenues into the longer-term capital markets apt to fuel fixed capital formation: this was a further hindrance on the way to support the strength of the dollar in foreign exchange markets. To quote just a few, for instance in September 1974 Morgan's Vice President Rimmer de Vries made the argument that the rapid pace of expansion of foreign loans undertaken by the American banks in recent months (by some $12.5 billion over the first half of the year according to his calculations) were not to continue for two fundamental reasons. On the one side he declared that the normal prudent approach of the bank to risk management on the liability side of their balance sheets was increasingly inhibiting their acceptance of large short-term deposits from oil exporters, often accepted only at a discount. On the other hand, he pointed out that the bank deposit

[79] Department of the Treasury, OASIA, "OPEC Aid Commitments to Non-Oil Exporting LDCs", September 20, 1974, in DDRS.

[80] IMFA, Medai, Medai Subject Files, b. 75, fold. 1, Ernest Sture to the Managing Director, "Financial Arrangements of Certain Oil-Exporting Countries in 1974", September 24, 1974.

to capital ratios was increasingly out of line, and banks were reluctant to expand their equity base at present price-earnings multiples.[81]

On his part, in the summer of that same year, Bank of America President Clausen went so far as to directly call on the IMF and other official institutions to find alternative channels for recycling oil money with the aim of using the surplus of the oil-producing countries to finance the deficit of oil-importing nations. Without calling into question the bank exposure of American banks committed to lending to the LDCs, he made the point that a larger involvement of the international institutions in the process would ease the pressure of the recycling process on the Euromarkets.[82] Against this backdrop, the American policy to stem the shift in the investment patterns of the oil-producing countries to long-term financial instruments in support for the capital supply side coincided with a wide-ranging awareness about such growing reluctance and the unsuitability of private capital markets, as well as a pressing need to set up some form of capital controls and surveillance.[83] In fact, American commercial bankers relentlessly repeated their unwillingness to bear the cost of recycling even as the Federal Reserve Bank of New York and the Comptroller of the Currency pressed them to adopt a much stricter lending policy and to scrutinize the creditworthiness of borrowers.[84]

Resorting once more to the Bretton Woods Institutions: the Carter Administration Response to OPEC Lending Policies

In addition to this reportedly recalcitrance by leading U.S. commercial banks to channel the OPEC international investments into LDCs gradually unable to repay their external debt and borrowing, the recycling mechanism revolving around the short-term Eurocurrency markets and international credit markets, and the active role of leading international commercial banks,

[81] NARA, RG56, OASIA, Office of the General Counsel. Assistant General Counsel, Records Related to OPEC Financial Affairs 1094-1979, b. 1, fold. G Part 2 of 3 1974-1975, D. Keyser to T. Willet, Memorandum "Recycling Petrodollars: Aspects of Financial Market Behavior", September 23, 1974. *Cf.* also *The Financial Times*, September 24, 1974.

[82] *Euromoney*, 1974, p. 4.

[83] NARA, RG56, OASIA, Office of the General Counsel. Assistant General Counsel, Records Related to OPEC Financial Affairs 1974-1979, b. 2, fold. F Part 4 of 4 1974-1978, Department of the Treasury, "Problems faced by banks", September 4, 1974.

[84] NARA, RG56, OASIA, Office of the General Counsel. Assistant General Counsel, Records related to OPEC Financial Affairs 1974-1979, b. 1, fold. G Part 2 of 3 1974-1975, D. Keyser to T. Willet, Memorandum "Recycling Petrodollars: Aspects of Financial Market Behavior", September 23, 1974.

was widely called into question within the U.S. political system. When the resurgence of OPEC investable surpluses began accumulating from 1974 to about 1977, private bank lending to finance the balance of payments deficits of either the LDCs or the industrial nations hit by the oil crisis and capital market developments became the subject of intense political debate in the United States. In the spring of 1975 the Subcommittee on Multinational Corporations of the Foreign Relations Committee, the so-called Church Subcommittee of U.S. Congress, began collecting data from the largest U.S. commercial banks on their foreign assets and liabilities. This collection of data, that called American banking to disclose data on their involvement in reflowing dollar assets of oil producers, was relentlessly opposed by all five largest U.S. banks throughout the year. It shed light on the widespread concern in Washington about the possibility of OPEC withdrawals from their investments and deposits with the U.S. banking system.[85]

As the debate on banking disclosure continued over the course of 1976 and 1977, the U.S. political system and the American public opinion debated the broader issue of such financial dependence on Middle Eastern depositors in terms of its implications on the stability and soundness of U.S. foreign branches and subsidiaries of U.S. banks, their capital structure, the structure of their liabilities and their profitability, as well as the impact on their non banking activities.[86] Widespread expectation for soaring posted prices of oil by OPEC in 1977 fuelled this concern in Washington: within the Department of the Treasury office charged with studying and managing the U.S. foreign financial relations, for instance, "the financing of 1977 deficits of oil importing

[85] FRBNYA, Rosemary Lazenby, Mr. Kubarich 's Files, b. 114512, A. Burns (Chairman, Board of Governors Federal Reserve System) to Honorable Frank Church (Chairman, the Subcommittee on Multinational Corporations of the Foreign Relations Committee), March 9, 1975; Request by Church Subcommittee Chronology', November 11, 1975; P.E. Coldwell (Board of Governors member) to Sen. B. Rosenthal (Chairman, Commerce, Consumer, and Monetary Affairs Subcommittee of the Committee on Government Operations), July 13, 1979. See also NARA, RG56, Office of the General Counsel. Assistant General Counsel, Records Related to OPEC Financial Affairs 1974-1979, b. 3, fold. N Part 1 of 2 1977-1978, C. Cooper-G.Parsky, Memorandum for Under Secretary Yeo "Church Subcommittee Request for Bank Data", undated [1975]. As for resistance to divulgate requested data by all major New York City banks (Manufacturers Hanover, Chase Manhattan Bank, Citibank, Morgan Guarantee) *cf.* the correspondence with bankers by the Board of Governors of the Federal Reserve System held in NARA, RG56, Office of the General Counsel. Assistant General Counsel, Records Related to OPEC Financial Affairs 1974-1979, b. 2.

[86] NARA, RG56, OASIA, Chronological Files of the Office of Financial Resources and Energy Finance 1974-1977, b. 2, fold. OASIA/OFREF Perm Chron Oct 1976, William Witherell (OASIA) to Assistant Secretary of the Treasury Parsky, "Study of International Banking Issues", October 6, 1976.

countries could present some real difficulties. The assurance of continued expansion of private bank lending to the less creditworthy LDCs and certain DCs will not be easy to achieve".[87]

Moreover, insofar as the recycling mechanism had been predicated upon smooth financial flows from the oil producers to the commercial and investment banks that served as intermediaries and brokers between investors and borrowers, such process met an obstacle in the so-called maturity imbalance issue. Maturity imbalance caused a variance between short term lending by OPEC countries and longer lending by banking intermediaries destined for LDCs.

In this context, there were discrepancies between the oil producing investors, the western commercial banks charged with reflowing their dollar denominated assets, and the international economic institutions of Bretton Woods committed to tailor the process of recycling to the larger U.S. objective of reducing dollar assets in world money supply. Under the Carter administration on the one side Washington shifted its strategy in support for the dollar from such foreign financial policy to monetary policy. On the other, it progressively revamped the role of the IMF and the IBRD to complement private banks in drying up the dollar component of world capital markets and in redirecting international investments and lending to the least developed and developing economies hit the most by the depreciation of the U.S. currency and international inflation.

As a matter of fact, during the Carter administration the almost interminable depreciation of the dollar reduced the value of non-liquid assets of the OPEC countries. Whether those OPEC assets were deposited in either equity or security markets, the practice of international investment of oil revenues, in which the U.S. commercial banks had been involved since 1974, was deemed unstable. On the other hand, however, on average during these years the U.S. economy enjoyed a growth substantially higher than any other industrial economy. This growth triggered and accounts for the increasing demand for bank credit typical of the Carter years. Such booming bank credit market increased interest rates differential with most surplus countries, thus attracting investors from those countries. This permitted Washington to use interest rates to counteract its current account deficit.[88] Nevertheless, as a

[87] NARA, RG56, OASIA, Chronological Files of the Office of Financial Resources and Energy Finance 1974-1977, b. 2, fold. OASIA/OFREF Perm Chron Oct 1976, Bil Witherell to Deputy Assistant Secretary Niehuss, "Petrodollar Recycling", September 30, 1976.

[88] NARA, RG56, OASIA, Office of the Deputy to the Assistant Secretary for International Affairs, Records Relating to International Financial Institutions 1962-1981, b. 2, fold. IM-5 Boards, Committees, Organizations, Panels, Working Groups 1977-1978, George H. Willis (US

result of ever expanding Eurodollar markets, oil transactions in U.S. dollar, and the recent attitude of deficit countries toward borrowing dollars from surplus OECD countries, such attraction of foreign capital through interest differential was clearly not sufficient to sustain the value of the dollar in foreign markets and to calm loud complains to Washington by the OPEC investors about the depreciation of their dollar investments.[89]

Moreover, at the end of the decade, in particular in connection to the implications on international payments of the second oil crisis, direct assistance from OPEC to balance of payments deficit countries was expanded and was to lay the seeds for sustained oil payments and other commodity transactions in U.S. dollars. As a matter of fact, the OPEC Special Fund founded in 1976 to lend money to the non-oil LDCs directly, expanded its budget and increased the volume of its appropriations to the non-oil LDCs. In June 1979 the OPEC ministers decided to increase the resources of the Special Fund by $ 800 million from $ 1.6 billion to $ 2.4 billion, whereas during that year the Special Fund approved a stunning number of balance of payments support programs and development project loans to the most seriously affected LDCs.[90] It was in the framework of these multiple factors that the United States made a case for revamping the role of the Bretton Woods institutions in promoting development assistance. In order to prevent -or at least contain- the oil producers from promoting direct assistance to the non-oil LDCs that was likely to increase the volume of dollar denominated international transactions, a path-breaking new policy was to make the IMF finance its balance of payments assistance programs to the developing and industrial countries most seriously affected by the two-fold depreciation of the dollar and the second oil price hikes. In this sense, the IMF was to resort to OPEC and its Special Fund. Since 1977 most leading members of OPEC had donated through the OPEC Special Fund their share of the profit of surplus value of the IMF gold sales to the OPEC Special Fund. The Special Fund transferred these profits to the IMF Trust Fund for the benefit of developing

Department of the Treasury) to Deputy Assistant Secretary Widman, "Some Rough Thoughts for Talking Points for WP-3", November 15, 1977.

[89] S. Selva, *Before the Neoliberal Turn*, *op. cit.*, chapter 5.

[90] Among other OPEC members that donated their profits to finance the development assistance activities of the IMF Trust Fund it is worth mentioning Iraq, Kuwait, Saudi Arabia: see Ibrahim F.I. Shihata to J. H. Witteveen (IMF Managing Director), December 16, 1977. The IMF Washington Dc to the OPEC Special Fund, cable, December 23, 1977. Briefing Papers of the Managing Director's Meeting with Dr. Ibrahim F.I. Shihata, Director General of the OPEC Special Fund, October 29, 1979. All documents are located in IMFA, Medai, Medai Subject Files, b. 75 (OPEC), fold 10 (OPEC Special fund 1976-1977).

countries.[91] The Carter administration made a commitment to reposition the IMF and the IBRD at the center of U.S. policies. The objective was to halt the depreciation of the dollar through reduction of the portion of dollar assets in world capital supply and central bank holdings. This objective would also be achieved with continued support for the purchasing power of the non-oil LDCs in foreign markets. The contributions of the two Washington- based international economic institutions paved the way for the new international financial powers that rose on the world financial stage during the decade.

III. Concluding Remarks

Therefore, the failure of the IMF and the IBRD in bolstering the value of the U.S. currency and in stabilizing international trade and payments stemmed not only from the initiative of the OPEC oil producing countries. At the end of the time period reviewed in this chapter they took advantage of their booming dollar-denominated investable surpluses to increase their influence over the least developed economies. Also, the ongoing role of the largest U.S. and western commercial banks is worth considering. Despite their long-standing recalcitrance to bank exposure toward developing countries that featured a poor-debt service capacity, at the turn of the decade these banks still played a substantial role in the recycling of dollar-denominated assets[92] that accrued to the OPEC nations. The combination of these two factors reduced the efficacy of the IMF and the IBRD programs and challenged the restructuring of the primacy of the dollar on the world system of financial transactions and exchange in goods and services.

To sum it up, prior to the second half of the 1960s the U.S. governments had largely neglected the potential role of the two sister institutions of

[91] IMFA, Medai, Medai Subject Files, b. 75 (OPEC), Briefing Papers of the Managing Director's Meeting with Dr. Ibrahim F.I. Shihata, Director General of the OPEC Special Fund, October 29, 1979.

[92] In 1979, the OPEC deposits at the eight largest New York banks amounted to over 11 percent of their total deposits in domestic and foreign offices: just over half of total OPEC deposits were liabilities of Citibank. More importantly, OPEC deposits at domestic offices of those eight largest banks amounted to over 21 percent of these banks' net Federal Funds position, while at foreign branches and subsidiaries of the banks these deposits were still over 54 percent of the banks' Eurocurrency placements with foreign banks. From December 1975 to December 1978 the deposits of Middle East oil producing countries in foreign branches of the six largest US banks peaked from $197.5 billion to $274 billion. *Cf.* FRBNYA, Central Files, b. 114512, fold. OPEC, P. Coldwell (Member, Board of Governors of the Federal Reserve System), Statement before the Commerce, Consumer, and Monetary Affairs Subcommittee, Committee on Government Operations, House of Representatives, Table 3, July 18, 1979.

Bretton Woods in propping up the strength of the U.S. currency by reducing or containing the share of dollar assets in world liquidity. Later on, in the time period when both of them were deeply involved in reaching that target in the second half of the 1960s through to late 1979, the United States modified the balance of payments deficit financing policies to center them on monetary policies. This was in the aim to stabilize the world trade and payments system under a revamped hegemony of the dollar. However, neither of the borrowing programs or multilateral financial arrangements established under the two institutions in order both to resurrect the dollar and to prevent the non oil LDCs from slipping away from the world trade and payments system, did work efficiently. This was due to the ascendancy on the world financial stage of both the oil producers and the largest western commercial banks which undertook the recycling of the oil revenues in world financial markets.