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**Governing Global Liquidity: The Rise and Fall of  
Multilateral Monetary Reform, 1967–1997**

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### **On the Changing Meaning of International Money: Some Concluding Remarks**

## **The Functions of International Money: An Introduction**

International monetary systems are often described as neutral architectures: technical arrangements designed to facilitate exchange, preserve stability, and minimise risk. In this narrative, money appears as a passive instrument, economic theory as a repertoire of objective tools, and institutions as arenas of rational coordination (Laidler 1999; Blyth 2002). This account is not simply incomplete. It obscures a more fundamental problem. International money has never been a settled object. Its function—what it is for, whom it serves, and what it is expected to accomplish—has been historically unstable, contested, and repeatedly redefined (Machlup 1964; Triffin 1978–1979).

Every monetary order encodes choices about distribution, discipline, and authority (Myrdal 1969; Cohen 1977). At the international level, however, these choices are rarely articulated explicitly. They are displaced into technical language, institutional procedures, and apparently neutral rules. The result is not neutrality, but ambiguity. International money is expected to stabilise markets, discipline states, provide liquidity, and remain politically neutral—often simultaneously. These expectations are mutually incompatible, and their coexistence has shaped the history of international monetary reform more deeply than any single policy decision or geopolitical constraint (Boughton, Isard, and Mussa 1996; McCauley and Schenk 2014). Rather than locating the difficulty of international monetary reform solely in institutional design or power asymmetries, this dissertation advances a different starting point. The central problem lies in the absence of a stable and explicit conception of what international money is supposed to do. Economics, domestic politics, and multilateral governance are inseparable in this process. Economic ideas define the legitimate functions of money;

domestic political constraints delimit what governments can credibly support; and international institutions translate these limits into operational practices that often conceal their normative foundations (Blyth 2002; Magliulo 2025). Isolating any one of these dimensions risks obscuring how reform repeatedly faltered even when technically coherent solutions were available.

The history of Special Drawing Rights (SDRs) offers a privileged vantage point from which to examine this problem. Conceived in the late 1960s as a response to the structural fragilities of the Bretton Woods system, SDRs emerged at a moment when the function of international money was unusually open to debate. Economists questioned the sustainability of a reserve system based on national currencies; policymakers explored collective mechanisms of liquidity creation; and developing countries challenged the asymmetries embedded in a dollar-centred order (Triffin 1968; Prebisch 1968; UNCTAD 1969). For a brief period, international monetary reform was not only conceivable but articulated through competing visions of what international liquidity ought to achieve.

That moment of openness did not disappear abruptly; it contracted. As debates over SDRs moved from semi-academic arenas into the core of institutional decision-making, the terms of discussion shifted. Proposals to link reserve creation to development finance, to substitute national reserve currencies with a multilateral asset, or to treat liquidity as a collective responsibility did not fail because they were analytically incoherent. They failed because the functions they implicitly assigned to international money—redistribution, insurance, fiscal support—became politically and intellectually untenable (Dosman 2008; McCauley and Schenk 2014). Reform became possible only insofar as the function of international money remained ambiguous.

This contraction was accompanied by a broader transformation in the arenas in which international monetary questions were debated. As systemic reform receded from the academic and semi-academic spaces that had characterised the early SDR discussions—such as the Bellagio Group—the authority to speak about the international monetary system shifted increasingly toward institutional officials and political decision-makers (Funabashi 1988; James 2012). What had once been articulated through theoretical controversy and analytical disagreement was progressively absorbed into bureaucratic language, internal memoranda, and negotiated positions within international organisations. The debate did not disappear; it changed its form.

These shifts have direct implications for both the substance and the sources of this study. The prominence of institutional archives—particularly those of the IMF, UNCTAD, and the U.S. Congress—reflects not only a methodological choice, but a historical reality. By the late 1970s, and increasingly during the 1980s and 1990s, the space in which the international monetary system could be discussed as a system had narrowed, along with the range of actors authorised to speak within that space (Polak 1991). The retreat of academic economics from the centre of reform debates coincided with the rise of institutional and political vocabularies that privileged feasibility, exposure, and credibility over theoretical coherence or systemic design. Intellectual pluralism did not disappear; it lost institutional traction.

The central concern of this dissertation is therefore not why particular reform proposals—such as the SDR–aid link or the Substitution Account—failed to materialise, but how the boundaries of legitimate monetary debate were progressively redrawn. Failure is understood here not as a counterfactual macroeconomic outcome, but as a political and conceptual process: the moment when a specific monetary function becomes unspeakable, when the

language capable of sustaining it is displaced, and when institutions retreat into ambiguity as a mode of governance (Myrdal 1969; Blyth 2002).

Reconstructing this process requires an approach that combines intellectual history, institutional analysis, and archival political economy. These dimensions are not treated as separate levels of inquiry, but as interdependent sites in which monetary meaning is produced and contested. Economic concepts such as “neutrality”, “stability”, or “global public good” are analysed, in the literature on the history and methodology of economic thought, as performative claims that structure institutional action (Cohen 1977; Poettinger & Tuset 2016). Bureaucratic vocabularies are examined as mechanisms that translate political limits into technical necessity, while domestic policy debates are read as arenas in which competing conceptions of monetary function acquire or lose authority.

The dissertation is structured chronologically, reflecting successive moments in which different conceptions of international money became temporarily dominant. Chapter One examines the debates surrounding the SDR–aid link in the late 1960s and early 1970s, when international liquidity was explicitly framed as a redistributive instrument and as a potential vehicle for development finance. Chapter Two analyses the rise and collapse of the Substitution Account in the late 1970s, a moment in which international money was reimagined less as a tool of redistribution than as a mechanism of risk management and systemic stabilisation. Chapter Three traces the narrowing of the reform agenda from the early 1980s onwards, as concerns with credibility, discipline, and market confidence displaced earlier ambitions for collective liquidity governance.

Building on this perspective, this research treats international monetary reform as a historically situated process of meaning-making, in which

monetary functions are not given *ex ante* but are continuously negotiated, displaced, and redefined. The tripartite framework is motivated not by a concern for analytical completeness, but by the need for conceptual coherence. Treating ideas, institutions, and political constraints as separate explanatory domains would reproduce the very fragmentation that has long characterised debates on international monetary reform. Analysing these dimensions together makes it possible to trace how specific conceptions of international money became thinkable, actionable, or unsustainable at different moments in time.

Therefore, this research argues that the repeated failure of international monetary reform cannot be explained by technical constraints alone, but reflects a deeper and persistent uncertainty over what international money is for—and over who is entitled to define its function.

## Chapter 1

### **From Bretton Woods to the SDR Link: U.S. Policy, International Reform, and the Global Development Debate (1967–1974)**

#### **1. Introduction**

This chapter revisits a moment when ideas about international money travelled unusually fast across the boundaries separating theory, domestic policy, and multilateral diplomacy. Between 1967 and 1974, the creation and early career of Special Drawing Rights (SDRs)—conceived as a supplementary international reserve asset—became the focal point of an ambitious, and ultimately frustrated, attempt to fuse monetary reform with global redistribution. The controversy surrounding the so-called “aid link,” namely the proposal to tie reserve creation to development finance, is treated here not as a technical curiosity but as a prism through which to observe the interplay of economic ideas, U.S. policymaking, and multilateral negotiation during the unravelling of the Bretton Woods system. The central question is not simply why the link failed, but how and why the emerging post-Bretton Woods order crystallised around a narrow, “neutral” conception of reserves detached from development obligations (De Vries 1976; James 1996; Boughton 2001).

By the late 1960s, the Bretton Woods architecture was showing visible strains. The persistent U.S. balance-of-payments deficit and the growing outflow of dollars had eroded confidence in the dollar’s gold convertibility, generating

widespread fears of a looming “liquidity shortage.” Contemporary observers repeatedly warned of this problem: Robert Triffin had already diagnosed it in his 1960 testimony before the Joint Economic Committee of the U.S. Congress, the Group of Ten’s 1964 *Bellagio Report* underscored the inadequacy of global reserves, and the IMF’s *Annual Reports* from 1965 to 1968 regularly highlighted concerns about the insufficiency of international liquidity. These debates framed the sense of systemic fragility that defined the final decade of the Bretton Woods era (Cesarano 2009). Economists and policymakers disagreed on whether the system’s stability required deliberate reserve creation (Connell 2013). Out of this debate emerged the SDR, intended to supplement gold and the dollar without overturning the established hierarchy of currencies. Yet, even before the first allocation in 1970, the new instrument had become a site of conceptual struggle. For some, it represented a cautious but meaningful step toward managed multilateralism; for others, it risked politicising what should remain a purely technical domain of central banking (Connell 2013).

The chapter draws upon and contributes to three overlapping literatures: the history of economic thought of global monetary reform, the political economy of U.S. monetary and financial diplomacy and the study of developing countries’ agency in global governance. It argues that the aid-link controversy brought these dimensions into direct conversation. Far from being an arcane institutional question, the debate over the link illuminated competing visions of what money is and what it ought to do in a world of structural inequality. Keynesian internationalists regarded the SDR as the embryonic form of a true world money—a fiduciary reserve asset that could and should be issued regularly to support global stability and sustained growth (Marcuzzo 2008). This view was articulated not only in later academic interpretations, but in

contemporary primary sources: the 1965 *Ossola Report* (Group of Ten) explicitly described the need for a “collectively managed reserve asset”; several members of the UN Committee of Experts on International Monetary Reform called for regular reserve creation through an international authority; and early IMF discussions leading to the 1968 First Amendment regularly emphasised the “Keynesian rationale” of supplementing reserves through deliberate issuance rather than through the deficits of a single country (IMF Annual Report 1966–68; Triffin 1960). These positions form the primary documentary basis for interpreting SDRs as an incipient form of international money (Maes & Pasotti 2021). Monetarist and neoliberal<sup>1</sup> economists, increasingly dominant in Washington after 1968, argued instead that reserves should remain “neutral”—mere technical instruments insulated from distributive or developmental claims (Burns 1966; Friedman 1967; Plehwe et al. 2020). Latin American structuralists and UNCTAD economists challenged both assumptions, insisting that liquidity and development were inseparable: the capacity to generate reserves was itself a determinant of the distribution of real resources (Triffin 1960; Prebisch 1950; Helleiner 2014). Rather than

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<sup>1</sup> The term 'neoliberal' refers to a specific group of economists who were not only active participants in the discussions of the Bellagio Group but were also members of the Mont Pelerin Society. This dual affiliation was crucial in shaping the intellectual foundation of the post-Bretton Woods international monetary system. Members of this cohort played a key role in influencing both the academic discourse and the political framework of global economic governance through their involvement in think tanks and internal debates by promoting the creation of “a transnational elite network of advocates for flexible exchange rates that can be characterised as an epistemic community” (Plehwe et al., 2020: 212). Matthias Schmelzer explains that even though initially what we call neoliberal economists were divided into two distinct schools of thought, between advocates of a return to gold and proponents of currency fluctuations, it was precisely thanks to the outreach and communication work carried out by the MPS that this discrepancy was smoothed out around the theories of Milton Friedman. Not surprisingly “when Milton Friedman published his article calling for flexible exchange rates in 1953, fewer than 5 per cent of the economists worldwide shared his opinion; by the end of the 1960s, approximately 90 percent of economists did, and they were joined by powerful figures within government and the banking community” (213)

treating these schools as closed canons, we read them as distinct languages of order—each with its metaphors of “neutrality,” “global public good,” and “moral hazard”—that travelled from theoretical texts into policy memoranda and institutional negotiations (Blaug 1990; De Vroey 2016; Fourcade 2009). Within the United States, these intellectual tensions intersected with a fragmented policy landscape. The Treasury, the Federal Reserve, and Congress did not speak with one voice. Treasury officials prioritised the SDR’s credibility as a reserve asset and resisted any measure that might undermine its status among central banks. The Federal Reserve, though sympathetic to multilateral cooperation, shared the concern that an aid-oriented SDR would be seen as inflationary and politically divisive. Congress, by contrast, provided a space where more experimental ideas could be aired. The hearings of the Joint Economic Committee (JEC) in 1969 and its 1972 report reveal that legislators and expert witnesses entertained proposals to link a fixed share of new SDR allocations to development institutions such as the IDA (Joint Economic Committee 1969-1972). These exchanges are significant not because they led to immediate policy shifts, but because they expose how technical and moral vocabularies competed for legitimacy within U.S. monetary discourse. The Executive branch’s rejection of the link was not a purely pragmatic decision; it reflected the ascendance of a language of monetary neutrality that framed distributional concerns as extraneous to the realm of reserve management (Wilkie 2011; Basosi 2006; Plehwe, Slobodian and Mirowski 2020).

The international dimension of the debate unfolded primarily within the IMF Executive Board, UNCTAD, and the Committee of Twenty. These forums became arenas where the grammar of monetary governance was itself contested. Actors from the Global South sought to redefine the terms of

debate, arguing that global liquidity was a public good whose distribution could not be detached from questions of justice and development. The UNCTAD Secretariat, particularly at the 1972 Santiago Conference, pressed for a rule-based link that would allocate a proportion of SDRs directly for development purposes (UNCTAD 1972). Within the IMF, Directors representing developing constituencies—such as Nazih Deif of Egypt, Antoine W. Yameogo of Upper Volta, J. Nicol-Cole of Sierra Leone, and Byanti Kharmawan of Indonesia—articulated these claims in the procedural idiom of the Fund, repeatedly emphasising that for their members the line between balance-of-payments support and development financing was conceptually thin (Deif 1973; Yameogo 1973; Nicol-Cole 1973; Kharmawan 1973). Because each Director spoke on behalf of a constituency, their interventions often condensed the positions of multiple governments. These voices, recovered from Executive Board minutes, allow us to observe the intellectual work performed by developing countries within the decision-making core of the institution.

Placing these planes of analysis in dialogue makes it possible to trace a continuous thread connecting ideas, domestic politics, and international negotiation. The trajectory of the aid-link debate was shaped not only by economic doctrine but by institutional logic—how Treasury officials interpreted congressional signals, how IMF staff internalised U.S. preferences, and how UNCTAD framed its demands in terms acceptable to an organisation dominated by creditor interests. The United States, as the Fund's largest shareholder, could enable or foreclose bargains, and shifts in Washington's intellectual climate reverberated through multilateral fora. The post-1971 reorientation toward flexible exchange rates, the monetarist turn in policy thought, and the rapid expansion of private international finance

progressively narrowed the space in which a development-oriented reserve asset could be imagined.

The analysis undertaken here does not attempt to evaluate whether a link would have worked in practical terms. Its aim is rather to reconstruct how institutional languages and epistemic hierarchies defined the boundaries of the possible. Concepts such as “reserve neutrality” or “moral hazard” gained authority by presenting themselves as objective constraints, even as they encoded specific distributive choices. The IMF’s culture of proceduralism—its emphasis on consensus, confidentiality, and professional expertise—acted as a filter translating developmental ambitions into administratively acceptable language (IMF 1973; IMF 1974). This approach aligns with recent historiography that treats international organisations not merely as arenas of state bargaining but as sites of knowledge production, where technical vocabularies naturalise worldviews (Barnett and Finnemore 2004; Chorev 2012). In the case of the SDR, the institutional grammar of the Fund privileged stability and credibility over innovation and redistribution, producing what can be described as a historically contingent closure of possibilities.

Another feature of this research is the attention given to Least Developed Countries (LDCs). This focus is not an attempt at representational symmetry, but a methodological necessity dictated by the nature of the available sources and by the IMF’s constituency principle. Reading these alongside UNCTAD records and U.S. Congressional material makes it possible to reconstruct how Southern perspectives were translated into the procedural idiom of the Fund and, frequently, neutralised or absorbed. This exercise contributes to a wider historiographical shift that re-centres developing countries as intellectual actors rather than as passive recipients of rules devised elsewhere. The aid-

link debate was not simply a negotiation over resources but a clash of moral and epistemic orders—a contest over whether global money could be an instrument of justice as well as stability. The eventual disappearance of the link from the reform agenda should thus be read not as a technical necessity but as the triumph of a particular vision of monetary governance in which distributive claims were defined as external to expertise (Bird 2010).

The period from 1967 to 1974 forms a coherent analytical interval. It begins with the political bargain that created SDRs as a supplement to the dollar and ends with the Committee of Twenty's Outline of Reform, where the link was formally set aside. Between these dates lie the major conjunctures that reshaped the monetary order: the 1971 suspension of dollar convertibility, the move toward floating exchange rates, and the oil crisis of 1973. Each event transformed the language through which reform could be conceived. The demise of the link, therefore, was overdetermined not only by external shocks but by the success of a discourse that redescribed reserve management as a neutral, technical matter beyond the reach of distributive politics (Haberler 1974; Bird 2010).

Although the thesis is historical in focus, the questions it raises resonate today. The unprecedented SDR allocation of August 2021 reopened issues that the early 1970s had already posed with striking clarity: whether the creation of global liquidity can carry developmental obligations, how to recycle SDRs without eroding credibility, and whether multilateralism can reconcile stability with redistribution (Masini 2021; Plant 2023; Paduano 2023). The persistence of these dilemmas underscores the relevance of recovering their intellectual genealogy. By tracing how the post-Bretton Woods order came to privilege a narrow reserve function over an explicit developmental one, the

thesis offers historical depth to contemporary debates about the global financial architecture and the place of the Global South within it.

The core primary materials comprise IMF Executive Board minutes and staff memoranda from 1972 to 1974, UNCTAD proceedings (especially those from Santiago, 1972), and U.S. Congressional hearings and reports. These are read alongside official histories and secondary scholarship in international political economy and the history of ideas (De Vries 1976; De Vries 1985; James 1996; Boughton 2001; Helleiner 2014). Where the record is silent or fragmentary, the analysis refrains from speculation and confines itself to documented interventions, especially those that reveal how arguments were framed and reformulated within the institutions concerned.

In essence, this is a study in the history of economic thought in motion. It follows ideas as they travel from academic theory to bureaucratic language and diplomatic negotiation; it examines how domestic political configurations redefine what counts as “technical”; and it observes how multilateral institutions mediate, translate, or neutralise competing conceptions of international money. By the late 1970s, SDRs had been confined to a narrow reserve role and developmental ambitions diverted into separate institutional tracks. The purpose of this chapter is to explain how that narrowing occurred—conceptually, politically, and institutionally—and what it reveals about the evolving relationship between expertise, power, and justice in the governance of the world economy.

## **1.2. From Bretton Woods to the SDR Debate**

The creation of SDRs at the end of the 1960s was the outcome of two decades of growing strain within the Bretton Woods monetary order and of an evolving intellectual reflection on the nature of international money.

Conceived in 1944 amid the ruins of global war, the Bretton Woods system reflected the determination to combine domestic policy autonomy with international stability—a synthesis that John Ruggie (1982) later described as “embedded liberalism”. This formula rested on the belief that governments could pursue full employment and welfare-state objectives at home while relying on a stable international monetary framework abroad.

Yet, as scholars such as Helleiner (2014), James (1996), and Boughton (2001) have shown, following Triffin (1960), the system contained a structural tension from the outset. Its stability depended on the widespread use of the U.S. dollar as the principal reserve and settlement asset, which effectively positioned the United States at the core of the postwar hierarchy. What was formally a multilateral regime thus operated through a deeply asymmetric monetary structure in which U.S. balance-of-payments deficits simultaneously supplied global liquidity and generated concerns about the long-term sustainability of the arrangement.

By the early 1960s, these internal contradictions had become increasingly evident. The “dollar shortage” that had characterised the immediate postwar years gradually transformed into a “dollar glut,” a shift that reflected both the success of U.S.-financed reconstruction and the growing internationalisation of American capital (Triffin 1960). But this very success threatened the system’s coherence: the accumulation of dollars abroad undermined confidence in the U.S. commitment and ability to maintain the gold convertibility of its currency at the parity established in 1944. In this context, the instability that Keynes had warned of when he proposed a genuinely international reserve asset (Keynes 1942) during the Bretton Woods negotiations appeared increasingly prophetic. His insight—that a national currency used as a global reserve would inevitably generate deflationary or

inflationary pressures depending on the domestic needs of its issuer—resonated anew among policymakers and economists confronting the emerging liquidity and confidence problems of the 1960s.

The intellectual foundations of the postwar order rested on the confrontation between Keynes's International Clearing Union and White's Stabilization Fund plans. Keynes imagined a self-adjusting mechanism based on a supranational unit—the bancor—that would create liquidity elastically and penalise both surplus and deficit countries (Keynes 1942; Skidelsky 2000). His proposal reflected a broader critique of the interwar gold standard and of the destabilising asymmetries it had generated: only a genuinely international means of payment, he argued, could ensure that adjustment burdens were distributed evenly across countries rather than concentrated on deficit nations. White's proposal, by contrast, was anchored in the political reality of U.S. predominance and aimed to preserve national sovereignty over reserves while anchoring currencies to the dollar and gold. While Keynes sought to redesign the international monetary system from the ground up, White envisaged a more conservative architecture in which national authorities retained control over their external positions, and the United States—thanks to its economic and financial weight—would naturally assume a central role. The final Bretton Woods compromise favoured White: the dollar became the central reserve asset, and the IMF was designed not as a global central bank but as a cooperative pool of national resources (Steil 2013). As contemporary observers and later historians have noted, the asymmetry of this arrangement was clear from the outset (Gardner 1980: 153; Eichengreen 2008, 95).

In the 1950s, the system appeared stable. Europe's reconstruction, Marshall Plan aid, and widespread capital controls mitigated imbalances, while the United States' unmatched productive capacity provided the liquidity needed

for an expanding world economy (Steil 2013). This stability, however, masked the system’s underlying fragility. As convertibility resumed and the U.S. balance of payments turned negative, the contradictions built into the dollar-centred regime surfaced with increasing clarity. Robert Triffin’s *Gold and the Dollar Crisis* (1960) gave theoretical form to this dilemma: the very provision of liquidity through U.S. deficits eroded confidence in the dollar’s convertibility, creating a dynamic that could not be sustained indefinitely (Maes & Pasotti 2021). His formulation—soon described as the “Triffin dilemma”—became a central theme in policy debates from Washington to Basel, encapsulating the tension between the needs of a growing international economy and the constraints imposed by a national currency functioning as the main reserve asset.

Figures such as William Fellner and Fritz Machlup joined Triffin<sup>2</sup> in arguing that the world required a collective mechanism for reserve creation—an argument that would culminate, although not without contestation, in the eventual design of the SDR (Connell 2013, 47–52). Their analysis drew attention to the fact that liquidity provision was not merely a technical matter but part of a broader debate about the appropriate locus of authority in the international monetary system. Should the creation of reserves remain an

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<sup>2</sup> Fellner, Machlup, and Triffin were also among the founding figures of what became known as the Bellagio Group, the transnational forum that gathered leading economists and senior monetary officials from Europe and the United States to examine the growing tensions of the international monetary system outside the constraints of formal intergovernmental negotiations. As Carol Connell has shown in her edited volumes on their correspondence and the group’s deliberations, Bellagio functioned as a crucial intellectual arena in which issues of adjustment, liquidity, and confidence could be debated with a degree of conceptual freedom that official venues did not allow. It was in this setting that the argument for treating international liquidity as a collectively managed responsibility—rather than as a contingent result of U.S. balance-of-payments deficits—was articulated with particular clarity (Connell 2013).

incidental by-product of U.S. deficits, or should it be brought under the deliberate control of an international institution?

By the early 1960s, monetary authorities faced a double challenge: a shortage of reliable reserves and the risk of over-reliance on the dollar. The London Gold Pool, established in 1961 by the United States and eight European central banks, sought to defend the official gold price of \$35 per ounce through coordinated interventions. Its eventual collapse in March 1968, following massive speculative pressure, revealed the limits of official cooperation (James 1996, 217). The failure of this last major attempt to shore up the gold-exchange standard exposed the depth of systemic vulnerabilities and underscored the urgency of reform.

The crisis accelerated a series of transnational intellectual exchanges, particularly within the Bellagio Group, where economists debated options for reforming the international monetary system. Their discussions, later published as *Approaches to Greater Flexibility of Exchange Rates* (Machlup 1964), explored whether liquidity creation should remain tied to national currencies or be entrusted to an international institution. The debates ranged from proposals for limited modifications of the gold-exchange standard to more ambitious plans for a synthetic reserve asset, highlighting a spectrum of intellectual responses to the system's growing disequilibria. The consensus that emerged was fragile but significant: international liquidity was a global public good that required deliberate management (Helleiner 2014, 212–215). This insight would shape the political negotiations that led to the introduction of Special Drawing Rights at the end of the decade.

Meanwhile, within the Group of Ten (G10)—the informal forum of advanced economies created under the aegis of the IMF—the idea of a new reserve asset began to take shape. European governments, particularly France under

President de Gaulle, were openly critical of what they perceived as American monetary imperialism (Eichengreen 2011). De Gaulle's finance advisor Jacques Rueff denounced the "deficit without tears" made possible by dollar hegemony (Rueff 1963), arguing that a system in which the United States could supply liquidity simply by running external deficits was inherently unstable and politically unacceptable. Although often caricatured as a purely ideological posture, the French position reflected a deeper structural concern shared across much of continental Europe: the asymmetry of a reserve system resting on a national currency whose issuer faced no external constraint (Eichengreen 2011).

By contrast, the United States—represented first by Treasury Undersecretary Robert Roosa and later by Henry Fowler—defended the dollar standard as the only feasible foundation for global stability. From the American viewpoint, the postwar expansion of trade and payments had been made possible precisely because the U.S. had provided liquidity through its deficits, and any attempt to move toward a supranational reserve asset risked undermining confidence in the system. Britain, weakened by recurrent sterling crises and increasingly dependent on American financial support, aligned itself reluctantly with Washington (Eichengreen 2008; Basosi 2006). The triangular dynamic among the United States, France, and Britain shaped much of the G10 debate, revealing a broader mismatch between the geopolitical structure of the postwar order and its monetary underpinnings.

Negotiations on reform intensified between 1965 and 1967 as persistent balance-of-payments imbalances, pressures on the London Gold Pool, and mounting doubts about U.S. gold reserves underscored the fragility of the system (Schlitzer 2000). The Rio Agreement of September 1967 marked a turning point, laying the groundwork for the creation of Special Drawing

Rights—a fiduciary asset allocated by the IMF to its members according to their quotas. The First Amendment to the IMF Articles of Agreement (1969) formally established the SDR as a new reserve instrument “to supplement existing reserve assets”. Its design reflected a cautious and deliberately conservative compromise: SDRs would be created collectively, but only with broad international consent; their allocation would follow the existing quota structure, thereby ensuring that advanced economies—particularly those in the G10—retained decisive influence over global liquidity provision (IMF 1969, Article XXIV). It is important to underscore, however, that the project of the SDR embodied both an intrinsically innovative dimension and a markedly conservative one. As Fred Hirsch argued in his 1973 article, the economic and political conditions of the 1960s were such that the hard-won consensus emerging from long and intense negotiations was only sufficient to support a single monetary and institutional reform—the introduction of the SDRs—but only on the condition that the innovation would impose no specific costs on participating countries and no serious constraints on their freedom of action. These limitations effectively relegated the new instrument, placed in the hands of the International Monetary Fund, to an “add-one role,” whose fundamental characteristic, Hirsch noted, “is its incrementalism” (Hirsch 1973, 4).

In fact, while the innovation was hailed as a milestone in multilateral cooperation, it was in practice limited. The initial allocation of \$9.3 billion over three years (1970–72) represented less than 10% of total world reserves (De Vries 1976, 55–57). Moreover, the SDR was defined in terms of gold and the dollar, which meant that it functioned more as an accounting supplement than as an autonomous currency (Wilkie 2011, 32). As Triffin lamented, the absurdity of using national currencies as international reserves persisted

(Triffin 1971). For many observers, the modest scale and constrained design of the SDR were symptoms of deeper ideological and political limits that had shaped the reform process from the outset.

Those constraints were not merely technical but intellectual. In the late 1960s, Keynesian internationalism still dominated official thinking, but a new monetarist orthodoxy was gaining ground. Economists like Milton Friedman and Gottfried Haberler argued that any mechanism for creating liquidity beyond existing gold or dollar holdings would inevitably be inflationary (Friedman 1968). Within the IMF, staff economists such as Polak<sup>3</sup> and Fleming sought a middle path, presenting SDRs as a neutral and non-political instrument that could facilitate orderly adjustment without involving discretionary redistribution (Polak 1991). Yet this very neutrality was itself an ideological construction. In this context, the conservative features of the SDR were not accidental: they reflected the prevailing intellectual climate as much as the geopolitical balance of the late 1960s.

The geopolitical context amplified these intellectual shifts. The escalating costs of the Vietnam War and the Great Society programmes deepened U.S. inflation and trade deficits, while European surplus countries grew increasingly reluctant to hold dollars (Salvatore 2001). What had long been tolerated as the price of American leadership now appeared increasingly unsustainable. As confidence in U.S. macroeconomic discipline eroded, so

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<sup>3</sup> Jacques J. Polak (1914–2010) was one of the most influential IMF economists of the post-war era. He joined the Fund in 1947, became Director of the Research Department in 1958, and served as the Fund's Economic Counsellor until 1979. Polak is best known for developing the "monetary approach to the balance of payments," which strongly shaped IMF surveillance and conditionality. For a biographical reconstruction of his career and intellectual contributions, see James Boughton, *Jacques J. Polak: An Intellectual Biography*, IMF Working Paper 06/97 (Washington, DC: International Monetary Fund, 2006).

too did the willingness of key European central banks to continue absorbing growing volumes of dollar liabilities. The gold–dollar parity, once the cornerstone of stability, became untenable under the combined pressure of domestic inflation, external imbalances, and the mounting political tensions between the United States and its major trading partners (Matusow 1998).

In this environment, the introduction of the SDR was overshadowed by a systemic crisis. The instrument had been conceived as a means of reinforcing the gold–dollar system, not replacing it. Yet within barely a year of the first allocation, the foundations of that system collapsed. When President Nixon suspended dollar convertibility in August 1971—the “Nixon Shock”—the very premise of the SDR evaporated: a reserve asset designed to stabilise fixed exchange rates suddenly found itself operating in a world where the anchor of those parities had been removed (Tooze 2018; Matusow 1998). The paradox was striking. A new form of international money had been launched at the precise moment when the institutional architecture it was meant to support was disintegrating. The SDR thus emerged not as the cornerstone of a reformed monetary order, but as the vestige of a reform project overtaken by geopolitical realities and the unravelling of Bretton Woods itself (Bordo 2020).

Nevertheless, the SDR retained symbolic power. For the United States, it was a diplomatic gesture demonstrating commitment to multilateralism without ceding monetary sovereignty (Matusow 1998). For European partners, it offered a modest hedge against U.S. dominance (De Vries 1985). And for developing countries, it appeared as a potential lever to demand a fairer distribution of global liquidity. This last dimension—initially peripheral to the Rio and 1969 negotiations—would soon become central as UNCTAD and the G77 began to articulate the notion that liquidity and development were

inseparable (UNCTAD 1968; Prebisch 1969). The SDR thus became a site of contestation not only among monetary doctrines but among competing moral economies of world order.

Historians such as Basosi (2006, 101–104), Helleiner (2014, 227–230), and James (1996, 241–244) have emphasised that the creation of the SDR marked a turning point: it institutionalised the principle that international liquidity could be collectively managed, while simultaneously codifying the limits of that ambition. The instrument’s design entrenched the influence of creditor nations and insulated the process of reserve creation from redistributive claims, reflecting the conservative compromise that had enabled the reform. Yet, paradoxically, this very insulation opened the door to new political pressures from the Global South. As archival evidence from IMF Executive Board discussions shows, delegates from developing countries began to question why the new instrument should serve exclusively the adjustment needs of advanced economies (De Vries 1985). Their insistence on linking future SDR allocations to development financing—the so-called “aid link”—transformed the SDR from a narrowly technical device into a contested arena of North–South negotiation, setting the stage for the next major controversy in international monetary history.

### **1.3 Emerging countries and the controversy over SDRs**

The agreement to establish SDRs in 1967, ratified in Rio de Janeiro, arose as a negotiated compromise between divergent views within the Bellagio Group (Connell 2013) and the Group of Ten<sup>4</sup> (De Vries 1976). These discussions

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<sup>4</sup> The "Group of Ten" (G10) comprises eleven advanced economies that joined the IMF's General Arrangements to Borrow (GAB) in 1962 to provide additional financial resources. Despite having eleven members, the name reflects the original ten industrialized countries.

centered on creating a new reserve asset that could address ongoing challenges in global monetary stability.

In this context, SDRs represented a middle ground: a new reserve asset designed not to replace but to complement the dollar. They offered an alternative mechanism for managing global liquidity and mitigating the destabilising effects of excessive reliance on the US currency. The Fund was empowered to allocate SDRs to member countries alongside existing reserve assets, including dollars, gold, and other reserve positions within the Fund. This effectively breaks the taboo of international liquidity creation by the Fund by guaranteeing member states international liquid resources with full currency convertibility (Zaidner et al. 2018, 299).

Although the new currency was a major step toward overcoming an international monetary system in deep systemic crisis, “with U.S. external dollar liabilities now exceeding gold reserves, and with serious tensions on the gold market” (Maes 2021, 141), Triffin’s (and even earlier Keynesian) suggestion of introducing an international fiduciary currency managed by supranational monetary institutions, open to the participation of all peoples and all States, regardless of their relative wealth or poverty (Montani 1989, 205), was eventually not implemented.

As Robert Solomon noted in 1970, many started to suggest that the goal of an international monetary system, and therefore the creation of a currency such as SDRs, should be to stimulate economic expansion and ensure fair and equal distribution throughout the world to stabilise high levels of growth in each country (Solomon 1970, 25), as Triffin (1960) had always argued.

Among the proponents of a more equitable view of international economic dynamics were the emerging economies, which became increasingly concerned about their economic growth prospects in the mid-1960s. In 1965,

the IMF's report on the condition of developing countries highlighted the troubling presence of two key risk factors and barriers to development: the structural weakness of the financial system and the difficulty in managing the heavy burden of short-term foreign debt (IMF Annual Report 1965). The IMF's report highlights two key obstacles to development in most LDCs: inadequate tax rates and the mismanagement of foreign debt. Tax systems are often overly complex, making general rate increases ineffective and prone to economic distortions and administrative challenges. Additionally, these systems fail to capture revenue from the most dynamic sectors of the economy. Regarding foreign debt, the report notes that the shortage of long-term capital forces governments to rely on short- or medium-term loans, creating a mismatch between debt maturities and investment productivity (IMF 1965, 21). Even when these align, issues arise with international transfers and short-term development, and foreign debt policies often neglect the country's repayment capacity. Given this context, the creation of SDRs, along with the debates surrounding the reform of the International Monetary System during that period, provided a prime opportunity for LDCs to assert their interests and address their needs within a globally uneven economic landscape.

De Vries writes in this respect: "While the above discussions and studies were going on within the Group of Ten, the developing countries were becoming disturbed by the prospect that new reserve assets might be created by and for the industrial nations alone" (De Vries 1976, 82).

During that period, the percentage of the aggregate gross national product of industrial countries devoted to the net flow of long-term aid and capital to developing countries fell to less than 2/3 of 1 per cent (De Vries 1976, 82). Progress toward loosening the conditions for providing these resources was

also limited. It was of great concern to countries because it could jeopardise their economic growth by preventing the flow of liquidity and financial resources (De Vries 1976, 82). In this sense, the possibility of seeing the creation of a new reserve asset managed by the IMF gave LDCs the hope of increased liquidity inflows so that they could overcome the dependence on international aid, interlinked with the unilateral decisions of industrialised countries.

As historian Harold James argued (1996), by the late 1960s SDRs had emerged as the ultimate and most contentious measure designed to address the weaknesses in the U.S. payment position, rather than marking the beginning of a new approach to managing the international order (Solomon 1996, 174). This is why the proposal from developing countries to transform the SDRs into a tool for development finance appeared to be a final, strong attempt to rescue them from a peripheral role in the international monetary system.

Starting in 1965, emerging countries embarked on an independent and systematic investigation into the possibility of implementing liquidity reforms within the global monetary system (De Vries 1976). This initiative was notably facilitated by the involvement of key institutions, such as the United Nations Conference on Trade and Development (UNCTAD), which played a pivotal role in organising expert consultations (De Vries 1976). As previously mentioned, the central concerns of LDCs — a set of issues extensively outlined in the report produced by the panel of experts and discussed at the UNCTAD Committee on Invisibles and Financing Related to Trade in Geneva in December 1965, as well as in subsequent discussions in New York between January 27 and February 4, 1966 — were focused on several critical objectives. These included: the formal institutionalisation of a

robust link between international liquidity and development financing, to address the acute financial needs of developing economies; the comprehensive reform of the management of the international monetary system in a manner that was truly global and equitable, as opposed to the prevailing system dominated by the interests of a few advanced economies; and, perhaps most importantly, the assertion of the LDCs' claims and perspectives in key international forums where the future of the global monetary order was being debated (UN 1966). The LDCs' proposals thus reflected a broader desire to reshape the international financial architecture, ensuring that it not only served the interests of developed countries but also provided tangible benefits for the developing world, especially in terms of facilitating their economic growth and development. Through these efforts, the emerging economies sought to carve out a more substantial and influential role within the global financial order, one that would better reflect their development needs and aspirations.

Such initiatives by emerging countries, supported by UNCTAD, culminated in a significant United Nations resolution in 1966. The General Assembly acknowledged the report *International Monetary Issues and the Developing Countries*, prepared by the Group of Experts on International Monetary Issues of UNCTAD, and the comments made on the subject. It recognised the need for reforming the international monetary system to better align with the economic growth needs of both developed and developing countries (UN 1966). The resolution also emphasised the importance of ensuring full representation of both in discussions and decision-making processes, particularly in matters related to international liquidity and the operational functioning of such agreements.

Despite these efforts, it is essential to note that the negotiations regarding the future structure of international liquidity were primarily led by the G-10, with significant involvement from the Managing Director of the IMF, Mr Schweitzer, and the IMF's Executive Directors. While some consultation took place with UNCTAD, “the Managing Director also had consultations with the Secretary-General of UNCTAD”, and “an Executive Board seminar was held with members of the secretariat of that organization to provide developing countries an opportunity to express their concerns about reserve creation” (De Vries 1976, 104). However, the key decisions on international liquidity remained largely in the hands of the advanced economies, highlighting the persistent power dynamics within the global monetary system.

The issue of linking international liquidity to development financing also gained the attention of the executive directors, where it was discussed alongside proposals for the operation of the new reserve asset. Both De Vries (1976) and the *Report of the Subcommittee on International Exchange and Payments* of the Joint Economic Committee of the United States (1967) document the relatively hostile stance of the executive directors towards these proposals. Several factors likely contributed to this resistance, with one key influence being the generalist approach adopted for the distribution of SDRs. This method, which made no special provisions for emerging economies, effectively bypassed the critical issue of linking SDRs to international aid. On August 26, 1967, in London, the Finance Ministers and central bank governors of the Group of Ten agreed to create a new reserve currency, which the IMF's executive directors later approved in September (Joint Economic Committee 1967). As a result, SDRs were introduced with a universalistic

framework (allocations based on quotas<sup>5</sup>), which excluded the needs of those countries that would have benefited most from additional international liquidity. Furthermore, with the institutionalisation of SDRs in 1967 and their entry into force in 1969, the proposal to link SDRs to development financing was effectively sidelined (De Vries 1976).

On one side, there was a growing demand for a fairer distribution of global trade profits and a stronger voice for LDCs in international affairs; on the other, increasing mistrust of the IMF by Western countries revealed a deepening divide between these opposing forces. This mistrust was closely linked to the rising influence of the G-7 and the Bank for International Settlements (BIS), which became key forums “within which to discuss monetary and economic issues” (Ventresca 2024, 11). As Western nations sought alternative platforms to the IMF, these developments were bound to clash with the demands of the Global South throughout the 1970s and beyond, as the interests of both sides continued to diverge.

#### **1.4. Intellectual Paradigms and the 1970s Debate on Monetary Reform**

When addressing the delicate issue of restructuring the international monetary system, it is certainly worth recalling the statement by James Boughton (2017), who encapsulated the complexity and fragility of the international financial system:

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<sup>5</sup> The IMF quota system determines each member country’s financial commitment to the Fund, its voting power, and its share in allocations of SDRs. Quotas are calculated based on a weighted formula that reflects a country’s relative position in the global economy. They are central to the governance, lending capacity, and resource allocation of the IMF.

It has become fashionable, and it is useful, to think of the international financial system as a form of architecture. That analogy can take many specific forms, but one helpful comparison is with the Gothic cathedrals of Europe, which stand among the greatest architectural triumphs in world history. The cathedrals, constructed without such modern contrivances as reinforced concrete, have stood for centuries and still evoke awe. A key element of every cathedral is the ogive arch, which is little more than a set of stones, piled in a curve and held firmly in place by a keystone at the apex of the arch. Remove the keystone, and the whole structure collapses (Boughton 2017, 129).

These debates also intersected with a broader strand of developmentalist thought emerging in the 1960s and 1970s. Scholars such as Gunnar Myrdal (1968), Albert Hirschman (1971), and Hollis Chenery (1974) emphasised the structural constraints that hindered developing economies and the importance of international mechanisms for resource transfer. Although none of these authors explicitly addressed the SDR Link, their analyses of global inequalities and the role of external finance contributed to a theoretical environment receptive to the idea of connecting international liquidity creation with development objectives.

What united these scholars—despite their different analytical orientations—was a shared critique of the assumption, pervasive in both neoclassical theory and the postwar Keynesian consensus (Marcuzzo 2008), that convergence between developed and developing economies would occur spontaneously once domestic macroeconomic balances were restored. Myrdal’s theory of “cumulative causation” (1968) challenged this view by portraying underdevelopment as a self-reinforcing condition, shaped by economic, institutional, and social asymmetries. Hirschman (1971), with his focus on structural “imbalances” and linkages, argued that development required the

strategic mobilisation of scarce resources and the overcoming of interdependent constraints—an argument that implicitly highlighted the potential role of external finance. Chenery (1974), through the formulation of the dual-gap model, demonstrated empirically how foreign exchange shortages could systematically impede growth, thus underscoring the need for mechanisms able to relax these structural external constraints.

Taken together, these contributions strengthened the intellectual case for proposals such as the SDR link by reframing international liquidity not as a neutral technical issue but as a factor directly connected to the development prospects of the Global South. In other words, developmentalist analyses helped shift attention from a narrow focus on reserve adequacy in industrial countries to a broader understanding of how the international monetary system could be redesigned to address persistent global asymmetries. Their work thus provides a valuable conceptual background for understanding the intellectual climate in which the Link proposal was advanced.

By 1973, the world was no longer operating under a system of stable, though adjustable, exchange rates; the idea of a unified currency area had never been the goal of Bretton Woods.

The collapse of the dollar–exchange standard dramatically altered the institutional environment within which such developmentalist demands were articulated. The changing geopolitical framework under Nixon’s presidency was accompanied by a profound intellectual turn in US (and, consequently, in the IMF) policymaking. Many neoliberal economists, such as William Fellner, Milton Friedman, and Gottfried Haberler, through their academic and think tank networks, were able to place their interpretations, arguments, and strategies within the Nixon administration and to portray flexible exchange

rates as an attractive resort for US policymakers in times of balance of payments crisis (Plehwe et al. 2020, 198).

Thus, the decisions taken in the aftermath of the dollar-exchange standard leaned towards allowing exchange rates to float freely and promoting the establishment of private capital markets on an international scale. Both these factors, as pointed out very effectively by Graham Bird (2010), certainly did not favour the reputation of the SDRs or their implementation in the global monetary system; in fact, “the whole question of SDR allocations appeared to become redundant in a world with high degrees of capital mobility and exchange-rate flexibility” (Bird 2010, 67).

The debate over the appropriate design of the post-Bretton Woods monetary system could not, however, be considered ended with the choice of flexible exchange rates. In 1972, the Committee on Reform of the International Monetary System and Related Issues (Committee of Twenty) was established to advise on exchange rates and other aspects of a reformed international monetary system, such as SDRs and their international role. The assignment of the Committee of Twenty was a challenging one, as it aimed to undertake a comprehensive reconstruction of the international monetary system, addressing complex and technical monetary issues. Additionally, it was crucial to consider the interconnections between monetary topics and the broader economic arrangements among nations, including those related to international trade, capital flows, investment, and development assistance (De Vries 1985, 163).

During these years, countries in the Global South faced significant challenges both domestically, related to industrialisation and market opening, and internationally, due to inflationary pressures stemming from distributive conflicts with other nations. These issues, theoretically, are seen as a crisis of

traditional economic theory (Hirschman 1981; Sen 1983; Bardhan 1983). Practically, this situation led to a stronger assertion of the role and needs of developing countries vis-à-vis Western nations, as seen in international debates, such as those surrounding the reform of the monetary system (Marzano 2008, 423–425).

These debates emerged in a pivotal year, which began with the reappointment of the Managing Director of the IMF. In 1973, Mr. Witteveen from the Netherlands was elected to that position, and he quickly demonstrated a pragmatic approach to his role, markedly different from the more idealistic perspective of his predecessor, Schweitzer (Boughton 2001). One of the new Managing Director's primary focuses was inflation, a factor that would significantly shape the ongoing discussions regarding the link between inflation and the role of SDRs (De Vries 1985). Inflation was, however, a global concern at the time, as most economies were grappling with the inflationary effects of the oil crisis and the breakdown of the Bretton Woods system.

It should also be underlined, as Boughton asserts (2017), that another element that characterised the years of the debate on the reform of the monetary system was the lack of confidence in the ability of governments or central banks to stabilise national economies through countercyclical policies. The postwar Keynesian consensus, which viewed governments as primarily responsible for employment and growth, was lost. Paradoxically, the global economy found itself with neither robust growth nor financial stability; while price stability was achieved, it was accompanied by financial crises (Boughton 2017, 131).

So, the intellectual shift was towards the dogmas of monetarism, which, in addition to the previously mentioned focus on inflation, firmly emphasised

the issue of “moral hazard”. As Williamson (2009, 5) notes, “behind opposition to the SDR is the concern that SDRs are the liabilities of all members of the Fund, some of which are not highly creditworthy”. This is part of the view that liquidity should be managed by reliable entities with balanced balances of payments, to avoid jeopardising the stability of the international exchange system.

Returning to the issue of Keynesianism, it is important to address this topic from a different perspective. In economic literature, the Keynesian paradigm is considered to have come to an end in the 1970s, when European countries faced the phenomenon of stagflation, concerns over inflation, and the growth prospects driven by the opening of financial markets and the liberalisation of payments (Sachs 1981; Krugman 1994). However, this scenario does not necessarily apply to emerging economies, which, during this period, were confronted with significantly different economic, financial, social, and political conditions (Stiglitz 2002; Rodrik 1997).

An example that can certainly be cited is that of Nasser’s Egypt and his minister, Nazih Deif, who actively participated in the IMF’s Executive Board between 1972 and 1974, particularly on the issue of institutionalising the link between SDRs and development finance (Deif 1973). Deif served as Egypt’s Minister of Finance and played an active role in shaping the country’s economic policies during the presidency of Nasser. Moreover, he was a student of Lloyd Metzler during his doctoral research at the University of Chicago (Deif 1952). Despite Chicago’s monetarist leanings, Metzler was aligned with Keynesian theories and emphasised that the impact of money on interest rates depends on how money is created, which became a key point in the debate on monetary policy. Metzler’s focus was on the wealth effect in the

savings function, which influenced his stance on the role of monetary policy (Metzler 1973).

### **1.5. IMF Executive Board and the Voices of the Global South**

At the IMF, representatives of developing economies increasingly advocated for a broader and more strategic use of SDRs, not merely as a technical instrument of global liquidity but also as a potential vehicle for development financing. Their position emerged from the economic legacy of colonialism, which had left many postcolonial states dependent on a narrow range of primary commodity exports and sharply exposed to price volatility on world markets. Limited export diversification, weak fiscal bases, and restricted access to long-term capital meant that shortages of foreign exchange were not abstract macroeconomic difficulties but constraints that directly shaped investment, employment, and state capacity (Gourley and Honohan 1972: 41–43).

During the early 1970s IMF Executive Board discussions, representatives from developing countries repeatedly argued that the international distribution of liquidity could not be dissociated from these structural imbalances. In their view, a more equitable allocation of SDRs would help stabilise growth trajectories and reduce reliance on pro-cyclical adjustment mechanisms. Gourley and Honohan (1972, 42) emphasise that several Southern Directors described the existing reserve system as perpetuating asymmetries between industrial and developing nations and presented SDRs as a unique opportunity to address such disparities.

Industrialised countries, however, resisted these proposals. Advanced-economy Directors warned that larger allocations risked generating excessive global liquidity, fuelling inflation, and undermining confidence in the SDR

mechanism—concerns echoed in official IMF documentation, which cautioned that “the creation of reserve assets must remain consistent with the overall stability of the system” (IMF Annual Report 1970, 23). As Basosi (2006, 118–121) notes, industrial countries framed SDRs as a narrowly defined monetary tool whose legitimacy depended on discipline, predictability, and the avoidance of discretionary redistribution. The debate thus revealed a profound divergence: for developing nations, SDRs constituted a potential instrument of developmental redress; for advanced economies, they were a technical variable within a framework of monetary control.

IMF archival material confirms this clash of perspectives. Executive Board minutes from 1969 to 1973 show a systematic pattern: whenever representatives from the Global South attempted to broaden the remit of SDRs toward development financing, they were met with resistance couched in the language of monetary orthodoxy and price stability (De Vries 1976, 55–57). Staff papers prepared for the Board consistently presented liquidity as an apolitical and neutral concept, determined by aggregate demand for reserves and by the systemic need for stability. Structural or distributive considerations were deliberately excluded from the analytical framework. Helleiner (2014, 227–230) highlights how this institutional stance reflected the broader ideological constraints of the period, which privileged “sound money” norms over developmental claims.

By contrast, representatives of the Global South framed liquidity as a social and developmental issue, inseparable from industrialisation, employment, and debt sustainability. They argued that the distribution of reserves could not be divorced from the distribution of vulnerability—a position that aligned with the structuralist reinterpretation of the SDR emerging within UNCTAD

and other developing-country forums (James 1996). The confrontation between these epistemological frameworks—monetary functionalism on one side, developmental structuralism on the other—shaped the internal politics of the IMF in the early 1970s and exposed the limitations of an institution that claimed universality while continuing to reflect the priorities of its most powerful members (De Vries 1985).

Within this contested terrain, several figures emerged as articulate spokespersons for developing countries. Among them were Nazih Deif of Egypt, whose interventions have already been discussed in the previous section. Yameogo<sup>6</sup>, the representative of Upper Volta (now Burkina Faso); Kharmawan of Indonesia, who had played an active role during the Fifth General Review of Quotas; and Nicol-Cole of Sierra Leone. Despite the heterogeneity of their national contexts—ranging from Egypt’s semi-industrialised economy to Upper Volta’s agrarian base—they shared a common objective: to make the global reserve system more responsive to the developmental constraints facing poorer countries.

The macroeconomic situation of their respective economies helps explain the urgency of their arguments. All four countries experienced inflationary pressures in the early 1970s (World Bank 2019), though the intensity varied considerably. Egypt saw moderate inflation—around 5 per cent annually in

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<sup>6</sup> Mr. Yameogo was already a highly active figure within the Executive Board concerning African interests. He was elected as an Executive Director in 1968 by the African members of the IMF and played a key role in a resolution prepared by a joint working group between the World Bank and the IMF, focusing on the relationship between SDRs and emerging countries, as well as on commodity prices. For a more detailed exploration of this period, readers are referred to the second paragraph, and for a broader analysis, to the *International Monetary Fund* (1996). “Chapter 15: Financing Buffer Stocks”, in *The International Monetary Fund 1966-1971*. USA: International Monetary Fund.

1973<sup>7</sup>—reflecting a combination of controlled prices and partial state planning. Indonesia, by contrast, faced chronically high inflation throughout the late 1960s and early 1970s, with annual rates commonly exceeding 20–30 per cent after the stabilisation efforts of the Sukarno period (Hanke and Krus 2013). For Sierra Leone and Upper Volta, data are more fragmentary, but contemporary analyses suggest moderate but persistent price pressures, tempered by limited financial integration and by the use of administrative controls in domestic markets (Amin 1971).

These contrasts reflected broader structural differences in economic diversification, trade openness, and fiscal capacity. While inflation in many developing economies during this period was largely cost-push—driven by rising import prices and, after 1973, by the global oil shock—its domestic transmission mechanisms were highly heterogeneous. Countries with stronger state controls and more insulated financial systems could cushion external shocks; others, such as Indonesia, whose monetary and fiscal regimes were more exposed to external fluctuations, experienced inflationary surges linked to both fiscal imbalances and dependence on import-intensive development strategies (Hanke & Krus 2013).

The issue of inflation became a central fault line in the global debate on monetary reform. As Bini, Garavini, and Romero (2016) note, the early 1970s witnessed a growing convergence between the Western preoccupation with inflation and the IMF’s evolving mandate, increasingly framed around the need to safeguard anti-inflationary credibility. This emerging orthodoxy, however, clashed directly with the realities of developing economies, where

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<sup>7</sup> MACROTRENDS 2024, Egypt inflation rate 1960–2024, <https://www.macrotrends.net/global-metrics/countries/EGY/egypt-arab-rep/inflation-rate-cpi>.

rising prices often reflected structural rigidities—such as supply constraints, external dependence, and deteriorating terms of trade—rather than fiscal indiscipline or excessive monetary expansion. As Ventresca (2024, 10) argues, the early 1970s marked the moment when the anti-inflationary priorities of advanced economies began to collide with the broader, and in many respects revolutionary, demands of emerging countries for a redefinition of the international economic order.

These demands were far from rhetorical. They stemmed from the material legacies of colonialism: weak industrial bases, highly concentrated export structures, and chronic exposure to imported inflation. Many developing economies were caught in a persistent bind: they relied on volatile export revenues to finance essential imports and service external debt, while lacking access to long-term capital on affordable terms. Inflation in this context was often a symptom of structural vulnerability rather than macroeconomic mismanagement.

Against this backdrop, the creation of SDRs appeared to many policymakers in the Global South as a rare opportunity to introduce an automatic, predictable, and more equitable mechanism of international financial support (Bird 1996). Unlike bilateral aid or conditional lending, SDR allocations did not impose policy constraints or political dependence. For this reason, developing countries interpreted the new reserve asset as a potential lever to mitigate external shocks, smooth balance-of-payments pressures, and reduce reliance on discretionary or unequal forms of international assistance (De Vries 1985).

A 1971 United Nations report on the economic situation of Upper Volta vividly illustrated the structural obstacles faced by many low-income economies. The document stressed that “the poor nature of the infrastructure

makes it difficult to have industries which are really competitive” and noted that “the tiny industries of Upper Volta are all working far below full capacity (sometimes only up to 20% of their capacity)” (UN 1971). This diagnosis reflected a broader pattern across the Sahel and other primary-exporting economies: weak industrial bases, limited domestic markets, and pervasive infrastructural bottlenecks that constrained productivity and inhibited structural transformation.

Similar themes emerged within the IMF itself. In his 1973 intervention before the Executive Board, Mr. A. Yameogo of Upper Volta articulated one of the clearest and most forceful defences of the SDR–development link advanced from within the institution. He argued that the balance-of-payments problems of developing countries could not be separated from the underlying conditions of underdevelopment. “Debt service payments,” he observed, “result in an unmanageable burden on their balance of payments, with detrimental consequences for the level of economic growth, employment, and income” (Yameogo 1973, 1–2). For Yameogo, the chronic foreign-exchange shortages faced by poorer economies were not transient cyclical phenomena, but structural constraints embedded in the international division of labour.

On this basis, he called for the creation of a dedicated facility within the IMF to channel part of future SDR allocations toward development financing. Crucially, his proposal did not challenge the monetary character of the SDR; rather, it sought to broaden its functional scope while keeping the mechanism firmly within the Fund’s reserve-asset framework. Yameogo thus attempted to reconcile monetary orthodoxy with distributive justice: to employ the instruments of international liquidity not only to stabilise the global economy but also to promote the long-term structural transformation of peripheral economies.

Mr. Kharmawan of Indonesia advanced a complementary but more cautious argument. While acknowledging the potential benefits of SDR allocations, he warned against treating them as a substitute for genuine structural reform and fiscal consolidation. His interventions reflected Indonesia's delicate position at the time: an economy emerging from hyperinflation in the mid-1960s, struggling to stabilise prices while pursuing industrialisation and foreign investment. In his remarks to the Executive Board (Kharmawan 1973), he stressed the need to ensure that new liquidity creation was accompanied by discipline in domestic monetary management. Yet, crucially, he also challenged the quota-based distribution of SDRs, arguing that it perpetuated inequality by allocating the largest shares to countries least in need of external liquidity. His critique thus combined prudence with a call for justice: he did not oppose monetary discipline but demanded that its benefits be extended to those excluded from its architecture.

From Sierra Leone, Mr. Nicol-Cole articulated perhaps the most succinct statement of the developmentalist position. "There is no meaningful distinction," he declared, "between balance of payments difficulties and development problems" (Nicol-Cole 1973, 1). This assertion encapsulated the epistemological divide within the Fund. For advanced economies, monetary stability and economic growth were separable domains, governed by different instruments; for developing countries, they were inseparable aspects of the same structural condition. Nicol-Cole's intervention was grounded in the realities of Sierra Leone's economy, which in the early 1970s was characterised by fiscal deficits, volatile commodity revenues, and mounting debt. His call for a direct link between SDRs and development reflected the conviction that without sustained external support, structural adjustment would merely reproduce dependence rather than alleviate it.

Nazih Deif of Egypt, drawing on his Keynesian intellectual background and his country's growing macroeconomic pressures, took the argument to a systemic level. In his 1973 intervention (Deif 1973), he endorsed Yameogo's proposal for a Fund-based development facility but situated it within a broader critique of the international monetary order. He argued that the prevailing mechanisms of adjustment placed disproportionate burdens on deficit countries, while surplus nations escaped responsibility for rebalancing. For Deif, the introduction of SDRs had created a precedent for collective money creation; it was therefore both logical and moral to extend that principle to address development needs. His position was consistent with Egypt's macroeconomic trajectory: after years of moderate inflation and relative stability, the oil shock of 1973 pushed consumer prices upward and exposed the country's vulnerability to external price fluctuations. By the late 1970s, inflation had become chronic, averaging above 20 per cent annually. In retrospect, Deif's advocacy for a development-oriented SDR facility appears prescient: he recognised that without systemic reform, the pressures of global adjustment would exacerbate the debt and inflationary crises that soon engulfed much of the developing world.

The diversity of these interventions reveals that the Global South was not a monolithic actor but rather a coalition of states navigating different stages of industrialisation, degrees of financial openness, and domestic policy priorities. Indonesia's emphasis on self-reliance and price stability contrasted with Egypt's and Upper Volta's appeals for institutionalised transfers, while Sierra Leone underscored the indivisibility of monetary and developmental policy. Yet despite these differences, their positions converged on a fundamental principle: that the legitimacy of the international monetary system depended on its capacity to address the developmental constraints of

all its members. This insistence on the moral and distributive dimensions of monetary governance stood in sharp contrast to the technocratic language of liquidity management that dominated discussions among advanced economies.

Archival traces of the debates within the Fund reveal that the leadership, though attentive to these arguments, was constrained by the institution's mandate and by the preferences of its major shareholders. As De Vries (1986) shows, Managing Director Johannes Witteveen recognised the political and ethical appeal of proposals linking future SDR allocations to development goals, but considered such reforms difficult to implement within the prevailing consensus. The Executive Board, dominated by industrialised nations, tended to view the link proposal as incompatible with the reserve-asset character of the SDR and with the credibility of the Fund as a monetary institution. Staff memoranda produced in 1973 and 1974 likewise emphasised the importance of maintaining a clear distinction between the creation of international reserves and the financing of development (IMF 1973; IMF 1974). This separation reflected not only policy caution but also the broader intellectual shift analysed in the previous section—from the cooperative ethos of Keynesian internationalism to a monetarist emphasis on discipline, scarcity, and the depoliticisation of liquidity.

Nevertheless, the interventions of Deif, Yameogo, Kharmawan, and Nicol-Cole illustrate how developing countries sought to reclaim agency within the constraints of an unequal system. Their discourse blended technical expertise with moral argumentation, demonstrating that questions of liquidity and reserve allocation could not be divorced from the historical structures of dependence. The language of the “link” they employed—between SDRs and development, between liquidity and justice—was both pragmatic and

visionary. It aimed not at overturning the Bretton Woods framework but at democratising it from within. In this respect, their proposals continued an intellectual trajectory that stretched from Triffin's critique of reserve asymmetries to Prebisch's call for a fairer international economic order: the belief that international money could be treated as a common good, governed collectively for the benefit of all.

Placing these debates within their empirical and institutional contexts allows us to better appreciate their significance. The discussions at the IMF in the early 1970s were not merely procedural exchanges about reserve assets; they constituted arenas in which competing visions of the world economy confronted one another (De Vries 1985). On one side stood the guardians of monetary orthodoxy, concerned with credibility and stability; on the other, the advocates of structural transformation, who argued that the new reserve asset should contribute to development needs. IMF documents confirm the presence of this divide. In 1971, the Executive Board expressly considered studies examining "the possible link between the SDR scheme and the financing of development" (IMF 1973a, 12), while a separate staff paper acknowledged that several members believed that future SDR allocations should support development objectives (IMF 1973b, 83–84). Yet the dominant view among industrialised countries was that such proposals risked undermining the reserve-asset character of the SDR and the credibility of the Fund's monetary role.

The tragedy of the period lies in the fact that these two visions never converged. The caution of the former prevailed, and the proposals advanced by the latter were marginalised within the Fund's agenda. Yet the record of these voices—meticulous, analytically grounded, and rooted in the economic constraints of their countries—remains a testament to the persistent effort of

the Global South to inscribe equity within the architecture of international finance.

### **1.6. SDRs and development: proposals at the US Congress**

The United States, as the IMF's largest shareholder with effective veto power, was inescapably central to the fate of the SDR–development link. Yet USA policy on this issue was far from monolithic. It emerged from a complex interplay between the Treasury and the Executive branch, on the one hand, and Congress, on the other. Whereas the Treasury under President Nixon increasingly embraced a doctrine of “monetary neutrality”, limiting SDRs to their reserve-asset function and resisting proposals that might blur the line between liquidity creation and development assistance (Matusow 1998), Congress proved to be a far more plural and contested arena (Wilkie 2011).

The Joint Economic Committee (JEC), which had already played a prominent role in monitoring international monetary reform during the 1960s<sup>8</sup>, became the principal institutional channel through which alternative visions were articulated. As Wilkie (2011) shows, the JEC drew upon a wide network of economists—ranging from Keynesian internationalists to advocates of global redistribution—who regarded the SDR as a potentially transformative instrument. Hearings held between 1969 and 1973 echoed concerns similar to

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<sup>8</sup> Throughout the 1960s, the Joint Economic Committee (JEC) held several hearings addressing the functioning of the international monetary system, U.S. balance-of-payments problems, and proposals for reform. These sessions featured testimonies from academic economists, government officials, and Federal Reserve representatives, making the JEC an important forum in which Congressional members engaged with debates on the future of the Bretton Woods order. See U.S. Congress, Joint Economic Committee, *The United States Balance of Payments, Hearings*, 88th Congress, 2nd Session (Washington, D.C.: U.S. Government Printing Office, 1964); and *Guidelines for International Monetary Reform, Hearings before the Joint Economic Committee*, 89th Congress, 1st Session (Washington, D.C.: GPO, 1965).

those raised at UNCTAD and within the IMF by developing-country representatives: the asymmetry of the reserve system, the inadequacy of global liquidity, and the historical responsibility of industrial powers to support development (Joint Economic Committee 1969). Within this context, Congress occasionally advanced proposals that went beyond the Executive's cautious pragmatism. Members of both parties questioned whether the United States, as the issuer of the dominant reserve currency, could indefinitely sustain a system in which global liquidity depended on its balance-of-payments deficits (Wilkie 2011). Some legislators viewed the SDR as a means to distribute more equitably the burdens and benefits of international monetary adjustment; others saw development-oriented allocations as a diplomatic instrument for strengthening U.S. influence across the Global South during a period of intensified geopolitical competition. Although these initiatives rarely translated into binding legislation, they broadened the intellectual and political space in which the link proposal could be debated, demonstrating that the American position on SDRs was neither uniform nor static.

These debates were accompanied by critical reflections in the economic literature. As Fred Hirsch observed, the SDR almost seemed to represent a continuation and reaffirmation of the monetary expedients set up to sustain the convertibility of the dollar with gold, rather than “to paper over the payments disequilibrium between the United States and other countries” (Hirsch 1973, 4). SDRs failed to affect the prevalence of the American dollar in terms of official exchange reserves: they stayed on the fringes of the international monetary scene even after Bretton Woods ended in 1971.

In other words, as José Antonio Ocampo observed in *Resetting the International (Non) System* (2017), the emergence of what he termed a “non-

system” (the one established after the end of the dollar standard) was characterised by intrinsic asymmetry and imbalance. This situation arose because, de facto, the international monetary system remained predominantly reliant on the dollar as the principal source of global reserves. Ocampo’s analysis underscores how this structural arrangement disproportionately disadvantaged emerging economies, impeding their ability to participate fully and equitably in global economic governance. These countries, excluded from the mechanisms for creating international liquidity, saw no alleviation in their need for monetary reserves.

In this context, the link between Special Drawing Rights and development finance appeared to be the most direct and concrete means of getting the international monetary system on the road to a new economic order (James 1996, 315). Therefore, despite the predominant influence of neoliberal theories and their support for U.S. hegemony in international economic governance, the debate over the link remained alive within the Executive Board throughout the early 1970s.

During discussions on the development link with SDRs, many industrialised nations feared that reallocating substantial liquidity from the IMF to emerging economies would trigger global inflation. For instance, Mr. Pöhl, Germany’s Deputy Director with a strong market-oriented stance, argued that an increase in SDR circulation would erode confidence in the currency and heighten inflation risks (De Vries 1985, 469). Interestingly, the United States did not initially oppose the link, unlike in the 1960s, allowing for research that produced five hypotheses in 1972 on how the link could function for development finance.

As Park (1973, 9) notes, four of the five hypotheses were based on a 1969 proposal from the Subcommittee on International Exchange and Payments of

the U.S. Congress. The proposal aimed to reduce the political discretion and fiscal burden of industrialized countries in development aid by establishing a “treasury stock” within the IMF. This stock would consist of 25% of SDR allocations, dedicated to development aid through the International Development Association (IDA). This direct or “organic” link framed the relationship between SDRs and development finance as a global responsibility managed by a supranational institution. A particularly notable moment occurred during the hearings of the JEC’s Subcommittee on International Exchange and Payments in May 1969, when the newly created SDR system was subjected to unusually open scrutiny (Joint Economic Committee 1969).

The session brought before Congress several of the most authoritative critics of the dollar-centred order, including Robert Triffin—whose *Gold and the Dollar Crisis* (1960) had crystallised the systemic contradictions of the reserve system—and Tibor Scitovsky, a prominent voice on issues of international adjustment (Scitovsky 1966). Their testimony exposed U.S. lawmakers to arguments that resonated with concerns expressed simultaneously by developing countries in other fora. By bringing these perspectives into the Congressional arena, the hearings demonstrated that the debate on the SDR-development link had penetrated the core of American political deliberation, confronting the United States with principled critiques of its own monetary primacy (Joint Economic Committee 1969).

Prebisch used his testimony to insert the perspective of the Global South into the USA debate with unusual clarity and force. He stressed that while monetary reform and development finance were conceptually distinct domains, “this does not mean that they cannot be combined. What we are trying to do, therefore, is take advantage of the reform to add more resources

to developing countries” (Subcommittee 1969, 29). For Prebisch, the creation of SDRs represented a historic opportunity to transform seigniorage from an exclusive privilege of reserve-currency countries into a multilateral resource governed by transparent and collectively agreed rules, rather than by the discretionary policies of a single state. By framing the link not as an act of redistribution but as an institutional rationalisation of global liquidity creation, he sought to demonstrate that monetary innovation and developmental objectives were not antithetical but potentially complementary.

Anticipating the orthodox anxiety that an aid-link would prove inflationary, Prebisch inverted the prevailing burden of proof. “If there is any risk of bias,” he insisted, “this risk would be in favour of an insufficient rather than an excessive creation of resources” (Subcommittee 1969, 29). In his view, the real danger lay not in monetary laxity but in the structural under-provision of global development finance—a chronic feature of a world economy whose reserve creation depended on the balance-of-payments deficits of a single country. To the extent that the SDR offered a way out of this impasse, failing to explore its developmental potential appeared not prudent but myopic.

The significance of these interventions was amplified by their location. The fact that such an argument was articulated within the U.S. Congress, rather than at UNCTAD or within the IMF, underscored how far the debate had moved beyond the confines of the Executive and beyond the technical vocabulary of the Fund. Prebisch’s presence in Washington symbolised the entry of structuralist critiques into the political heart of the reserve-currency country itself. It marked a rare moment when the asymmetries of the international monetary system—usually voiced in Geneva or in the G-77

caucus—were brought squarely before legislators of the very country whose dominance anchored the system.

In his testimony, Prebisch also addressed directly the methodological objection that monetary reform should never be subordinated to development needs. He conceded that “the amount of new monetary resources to be created should be based strictly on monetary considerations and not on the needs of developing countries for external financial resources.” But he immediately neutralised the implication by pointing out that the governance structure of the IMF prevented any risk of inflationary excess. Given the stringent voting requirements in the proposed amendments to the Articles of Agreement, “any decision would require the support of the major industrial countries and therefore there is no danger whatsoever that the creation of resources would be based on the financial needs of the developing countries” (Subcommittee 1969, 30). In short, the institutional design of the Fund was already a built-in safeguard against excessive or politically motivated liquidity creation.

Prebisch proceeded to situate his stance within the broader trajectory of international monetary reform. He recalled that “a group of experts appointed by UNCTAD recommended an ‘organic’ link between the creation of new monetary resources and the transfer of part of these resources to developing countries.” (Subcommittee 1969, 30). This proposal, however, had been temporarily set aside by the UNCTAD secretariat at a moment when systemic monetary reform faced strong political obstacles. Yet, he argued, the resolution of the fundamental elements of the reform now made it “timely to return to a discussion of the ‘link’,” and he explicitly welcomed the Subcommittee’s initiative in reopening the issue (Subcommittee 1969, 30).

By combining analytical precision with moral force, Prebisch recast the link not as a radical departure from sound monetary governance but as a logical

extension of it. He affirmed that the true threat to global stability stemmed not from potential excess liquidity but from the persistence of structural asymmetries that denied developing countries both voice and access within the existing system (Subcommittee 1969, 30). His testimony thus provided one of the clearest articulations of the developmental case for the SDR—a case that resonated across the Global South and found, for a brief moment, an institutional echo in the chambers of the U.S. Congress.

Triffin's testimony reinforced the critique from a different but complementary angle. He denounced the quota-based allocation of SDRs as “morally repugnant, economically wasteful, and politically unviable” (Subcommittee 1969, 45). For Triffin, the injustice of the existing system was inseparable from its instability: a world in which reserve creation was tied to the balance-of-payments deficits of a single country was structurally incapable of meeting either the liquidity needs of the global economy or the developmental demands of the periphery (Subcommittee 1969, 45). As he argued before the Subcommittee, any meaningful reform of SDRs required linking them to a broader restructuring of the international monetary system. A share of newly created reserves should be channelled through the International Development Association and the World Bank, thereby institutionalising redistribution at the multilateral level and providing a counter-cyclical source of development finance that was less vulnerable to the political economy of bilateral aid.

In his testimony, Triffin advocated long-term reforms that prioritised the financial needs of emerging economies and highlighted how governmental decisions often deviated from the rational and ethical principles emphasised in economic theory. He urged the Subcommittee and U.S. Congress to resume negotiations and endorse reforms, emphasising the need to align policy decisions with sound economic and moral principles. His argument

influenced the Subcommittee's later work: the 1972 report, after reviewing the 1969 testimonies, endorsed linking reserve asset creation with development financing as a way to align reserve mechanisms with broader development goals.

As is noted in the report, what encourages the creation of the SDR-aid link is the fact that

This 'link' is the means for integrating the developing world into the mainstream of trade and commerce and for the long-term opening up of vital new markets for industrial goods. [...] Better income distribution within societies leads to stronger societies and more sustained economic growth, as the United States and Western European examples make clear. Similarly, better income distribution among societies through the means of future SDR creation through the mechanism of the 'link' will lead to a stronger world trading and monetary system, accelerated world economic growth, and reduced tensions among nations. (Subcommittee 1969, 42)

Triffin's language—unusually moralistic for a Congressional hearing—reflected the intellectual moment. The crisis of U.S. monetary legitimacy, the growing strains on the dollar, and the international questioning of American stewardship created a rare opening for proposals that would otherwise have been dismissed as unrealistic. As Wilkie (2011) notes, the late 1960s marked a brief period during which Congress, rather than the Treasury, served as the principal US venue for ambitious monetary thinking. The Subcommittee hearings thus revealed a paradox: at the very moment when the United States remained the linchpin of the dollar-centred system, it was also the stage on which some of the most principled critiques of that system were articulated, not only by scholars like Triffin and Scitovsky but also by figures such as

Prebisch, who spoke for a world systematically excluded from the core institutions of monetary governance.

By contrast, Tibor Scitovsky, while sympathetic to development needs, adopted a more cautious and calibrated stance toward the link proposal. He distinguished between an “unconditional link,” which would imply unencumbered transfers of SDR-derived resources to developing countries, and a “tied link,” in which the use of such resources would be restricted—for example, channelled through a facility with procurement rules or confined to imports of specified goods (Subcommittee 1969, 32). Scitovsky warned that an unconditional link risked being perceived by creditor countries as inflationary and as diluting the reserve character of SDRs, thereby undermining confidence in the system and provoking resistance to future allocations. These concerns led him to favour a more structured alternative, one that would embed the link within an institutional architecture designed to preserve monetary discipline.

His preferred variant combined partial linkage with robust safeguards: close IMF–World Bank cooperation on project appraisal; a governance design ensuring that SDRs retained their credibility as reserve assets; and procedures that would channel part of the new liquidity toward long-term development uses without compromising the technical integrity of the SDR mechanism (Scitovsky 1966; Alacevich 2014, 140). In essence, Scitovsky sought a hybrid formula—one that acknowledged the developmental rationale of the link while addressing the orthodox preoccupation with stability and confidence.

The 1969 hearing did not result in immediate legislation, nor did it shift the official U.S. position. Its significance lay elsewhere: it legitimised the very idea of a link within the American policy debate. For the first time, members of Congress were confronted with a structured set of arguments for

institutionalising a connection between liquidity creation and development finance—arguments articulated with precision and grounded in the wider literature on international monetary reform. Chairman Henry Reuss closed the session by noting that “the link is just the opposite of this alleged inflationary evil, namely it is a nice little guarantor of full employment to have these extra crumbs of demand floating around” (Subcommittee 1969, 62). His remark captured the novelty of the moment: the link was no longer an external demand voiced by UNCTAD or developing countries alone, but an idea that had entered the deliberative sphere of the reserve-currency country itself.

This openness was formalised three years later, in the JEC’s 1972 report. Drawing on the 1969 record, the Committee recommended that 25 per cent of all future SDR allocations be placed in a “treasury stock” within the IMF and channelled through the IDA—a “direct link” designed to bypass the uncertainties of annual appropriations and the discretion of bilateral aid. Its rationale was explicit: “Better income distribution among societies through the mechanism of the ‘link’ will lead to a stronger world trading and monetary system, accelerated world economic growth, and reduced tensions among nations” (Subcommittee 1972, 11). In other words, the report framed the link not as charity but as systemic insurance: by stabilising demand and smoothing external constraints in the periphery, the entire trading and payments system would become more resilient.

Several operational details received close attention. First, the 25 per cent share would be sequestered at issuance, before national authorities recorded the remaining SDRs on their reserve accounts (Subcommittee 1972, 4). This design choice aimed to reduce the perception that the link “politicised” reserves ex post and to preserve the integrity of the SDR as a monetary asset.

Second, channeling the resources through IDA would harness the World Bank's project expertise and conditionality appropriate to development uses—an implicit response to the Treasury's longstanding argument that the IMF lacked both instruments and staff for administering long-term development finance (Subcommittee 1972, 7). Third, the report contemplated a cyclical adjustment mechanism: the proportion dedicated to the link could be higher when global deflationary risks were salient and lower during inflationary episodes, thereby embedding macroeconomic prudence into the architecture of the mechanism. Fourth, accountability would be ensured through dual reporting to the IMF Executive Board and the World Bank's Board of Executive Directors, aligning the proposal with Congress's recurrent demands for multilateral transparency and oversight (Subcommittee 1972). In the congressional arena—where budgetary politics often blocked sustained appropriations—the appeal of such a rules-based, multilateral channel was evident. By institutionalising a predictable flow of developmental resources, financed through reserve creation rather than fiscal expenditures, the JEC envisioned a mechanism capable of overcoming the volatility of annual budgets while aligning U.S. international commitments with global systemic stability.

Yet when the IMF Executive Board took up the issue in 1972–73, the U.S. position articulated by its Executive Director, Dale, diverged sharply from the JEC's enthusiasm. Dale cautioned that it was a “serious misreading” to infer any American endorsement of a direct link, adding that the authorities had not yet taken a final position and doubted that such a scheme would generate genuinely additional resources for developing countries rather than merely displacing existing aid flows (Dale 1973, 2). He made the point even more forcefully in the Board discussions, noting:

I should add that, while there is considerable sympathy with the general objective of providing an appropriate volume of economic assistance to the developing countries, I do find a strong skepticism about the aid link concept as a vehicle, which includes a tendency to regard a link as a questionable form of financial and political sleight-of-hand (Dale 1973, 2).

Two strands ran through Executive-branch scepticism. The first was conceptual: the Treasury argued that reserve creation should remain “neutral,” responding strictly to global demand for reserves rather than to distributive objectives; otherwise, the reserve-asset nature of SDRs would be compromised and their acceptability among central banks diminished (IMF 1973). The second was institutional: Treasury officials insisted that the IMF’s Articles and staff expertise were tailored to balance-of-payments support and surveillance, not to the appraisal of long-term development projects. In their view, asking the Fund to combine liquidity creation with development finance risked overburdening the institution and blurring the boundary between monetary governance and development assistance (IMF 1973).

Behind both strands lay a broader political-economy judgment: that a link would create a constituency for larger and more frequent allocations and thus weaken fiscal discipline both at home and abroad. In this sense, the Treasury’s doctrine of neutrality fused monetarist concerns about inflation with a governance preference for retaining discretion in Washington rather than embedding it in multilateral rules (Wilkie 2011).

The domestic legal landscape simultaneously enabled and constrained Congressional activism. The *Special Drawing Rights Act* of 1968<sup>9</sup> illustrates this ambivalence by allowing the Treasury to approve SDR allocations under two conditions: they must not exceed the U.S. IMF quota over five years, and the Treasury must provide detailed Congressional notification, including a ninety-day advance notice. This approach balances allocation facilitation with strict oversight (U.S. Congress 1968). These provisions reflected Congressional ambivalence: legislators wished to retain oversight over reserve creation while also protecting the dollar from perceived inflationary risks. In practice, the notification requirement gave the Treasury valuable time to shape opinion and to mobilise committee chairs against designs considered likely to politicise SDRs.

The result was a choreography in which Congress could incubate ideas that the Executive would later block in international fora, invoking either domestic legal constraints or concerns about international credibility (U.S. Congress 1972; IMF 1973). This pattern resurfaced in 1976, when the review of the *Bretton Woods Agreements Act* rekindled development-oriented proposals as well as equally vigorous opposition. During the July 27 House debate, several representatives dismissed SDRs as “paper gold” or “a joke” as a reserve asset (U.S. Congress 1976). Senate hearings the same year featured denunciations such as Ron Paul’s charge that additional allocations

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<sup>9</sup> The *Special Drawing Rights Act of 1968* (Public Law 90-349) was enacted to authorise U.S. participation in the IMF’s SDR Department, following the First Amendment to the IMF Articles of Agreement. The Act granted the President the power to instruct the U.S. Executive Director at the IMF to vote in favour of SDR allocations, but required that allocations exceeding the U.S. quota receive prior Congressional approval. It also mandated a 90-day notification to Congress before any vote on SDR allocations, ensuring legislative oversight over the use of SDRs as reserve assets. See *U.S. Congress, Public Law 90-349, June 19, 1968*.

amounted to “a vote for inflation,” and that using IMF gold proceeds for developing countries constituted foreign aid outside Congressional control (U.S. Congress Senate Hearings 1976). The rhetoric of inflation and sovereignty—opposition to “aid by monetary means” and defence of Congressional prerogatives—thus became the lingua franca of resistance to the link.

If congressional imagination broadened the menu of possibilities, the Executive branch’s counter-narrative hardened through 1973–74. Treasury memoranda distilled three objections that would soon dominate G-10 positions in the Committee of Twenty. First, any automatic siphoning of allocations would undermine the acceptability of SDRs as unconditional reserve assets: “reserves must be usable without encumbrance if they are to command confidence” (Committee of Twenty 1974, 12–13). Second, a link was judged likely to become procyclical in an inflationary environment, reinforcing an expansionary bias; even if allocations remained modest, the symbolism of converting a reserve asset into an aid instrument was seen as dangerous, since it would complicate future efforts to impose restraint (Committee of Twenty 1974). Third, Treasury officials argued that the IMF’s mandate and professional culture required insulating reserve management from distributive politics; development finance, in their view, properly belonged to the World Bank (U.S. Treasury 1973).

To reconcile these positions with mounting congressional pressure, Executive officials floated several substitutes. These included expanding U.S. contributions to IDA through traditional appropriations (U.S. Congress 1974); increasing recourse to conditional lending within the Fund—especially through the Compensatory Financing Facility; and, later, deploying profits from the sale of IMF gold to capitalise a Trust Fund targeted at low-

income members<sup>10</sup>. Each of these alternatives conceded the need for additional resources without relinquishing the doctrine of reserve neutrality. In this sense, the U.S. position sought consistently to keep redistribution outside the monetary keystone, preserving the conceptual boundary between liquidity creation and development finance.

These tensions, domestic in origin, migrated intact into the Committee of Twenty. U.S. delegates could cite congressional divisions to justify caution in the international arena<sup>11</sup>, while invoking the emerging G-10 consensus on “reserve neutrality” to temper congressional ambitions at home. This feedback loop proved politically expedient: international caution legitimised domestic restraint, and domestic legalism justified international obstruction. As Wilkie (2011, 128–132) notes, Treasury officials repeatedly used the notification requirements of the 1968 SDR Act to argue in the C–20 that the

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<sup>10</sup> The *IMF Trust Fund* was created in 1976 using profits from the first phase of the IMF gold auctions mandated by the Second Amendment of the Articles. Its purpose was to provide concessional balance-of-payments support to low-income countries through long-term, low-interest loans. Although sometimes portrayed as an alternative to the SDR–development link, the Trust Fund preserved the separation between reserve creation and development finance: resources derived from gold sales rather than from SDR allocations, and its operations were administered outside the SDR Department. See *IMF, Annual Report 1977*, 43–48; and Boughton, *Silent Revolution* (2001), 557–560.

<sup>11</sup> The domestic constraints shaping U.S. positions in the Committee of Twenty stemmed largely from the legal architecture created by the *Special Drawing Rights Act* of 1968 (Public Law 90-349). The Act authorised U.S. participation in the SDR Department but imposed procedural conditions that significantly limited the Executive’s freedom of action: any allocation exceeding the U.S. quota required separate legislation, and the Administration was obliged to notify Congress at least 90 days before voting on an allocation proposal. As Wilkie (2011, 124–130) notes, Treasury officials frequently invoked these provisions in international negotiations to argue that the United States could not support a development link without explicit Congressional approval—thus transforming domestic procedural rules into a diplomatic resource. De Vries (1986, 338–341) similarly observes that U.S. negotiators used the notification requirement to slow or block proposals perceived as “politicising” SDR allocations. These statutory constraints became a durable feature of the U.S. negotiating posture, enabling the Executive branch to present domestic law as both a shield against Congressional activism and a justification for resisting international proposals to expand the scope of SDRs.

United States could not support a link without “clear and prior legislative authority,” even when no such explicit prohibition existed. The irony was evident: some of the most sophisticated institutional blueprints for a development link had originated not in UNCTAD or the IMF Secretariat, but in the U.S. legislature itself.

The JEC’s 1972 proposal anticipated several design elements later debated in international fora, including sequestration of a portion of allocations at source, multilateral administration through IDA, and procedural safeguards to protect the reserve character of SDRs (Joint Economic Committee 1972, 11). Yet none of these innovations translated into sustained U.S. advocacy in the C-20. Treasury’s insistence on the “neutrality” of reserve creation—reaffirmed in its 1973 statement to the Committee (Committee of Twenty 1974)—combined with the ideological shift toward market-oriented policy to ensure that congressional creativity remained confined to paper. By the second half of the decade, the political window for a redistributive use of SDRs had narrowed dramatically. The collapse of the par value system in 1971–73, the rise of anti-inflation orthodoxy, and the rapid expansion of private international capital markets consolidated the dollar’s supremacy within an international order that increasingly treated liquidity as a technocratic variable and development as a separate, discretionary sphere (Helleiner 2014; James 1996; Boughton 2001).

Taken together, the congressional record from 1968 to 1972 reveals a complex domestic theatre in which the development link was simultaneously elaborated and neutralised. Hearings provided a rare venue where critics of the dollar-based system—Triffin, Prebisch, Scitovsky—could articulate principled and operational arguments for harnessing SDRs to development finance (U.S. Congress, JEC Hearings 1969). Committee reports transformed

these arguments into rule-based institutional designs, while floor debates exposed the political limits of monetary redistribution in a climate dominated by inflation anxieties and by congressional concerns over fiscal prerogatives (U.S. Congress 1976). Finally, statutory provisions such as the 90-day notification rule and caps on U.S. voting authority in allocation decisions granted the Executive powerful procedural instruments to contain legislative enthusiasm (Special Drawing Rights Act 1968).

The result was neither apathy nor consensus, but a structured dualism: on one side, a Congress capable of imagining a more solidaristic and rules-based use of international money; on the other, an Executive apparatus determined to preserve the allegedly apolitical reserve identity of SDRs and the discretionary authority of the United States within the Fund. In this dualism lay the United States' decisive—if fundamentally ambivalent—role in the history of the link. Far from being a simple case of Northern resistance to Southern demands, the fate of the link was shaped by the interaction of domestic institutions, ideological realignments, and the changing international monetary landscape. By the late 1970s, this configuration entrenched a system in which multilateral liquidity creation would remain analytically separated from development finance—an outcome that would shape debates well into the twenty-first century.

### **1.7 UNCTAD and the New International Economic Order**

From its creation in 1964, the United Nations Conference on Trade and Development (UNCTAD) offered developing countries a forum fundamentally different from the Bretton Woods institutions. Whereas the IMF Executive Board operated within a narrow procedural framework and a technical vocabulary centred on quotas, conditionality, and confidence,

UNCTAD provided a political space in which the collective voice of the Global South could be articulated with far greater autonomy. Under the leadership of Raúl Prebisch—its first Secretary-General—UNCTAD quickly became the institutional vehicle through which developing countries challenged the distributive asymmetries embedded in the international economic order (Prebisch 1964; Dosman 2008).

In this arena, the proposal to link SDRs to development finance acquired a resonance that far exceeded the confines of monetary technicalities. UNCTAD reframed the link as a matter of equity in the creation and distribution of international money, arguing that global liquidity could not remain the prerogative of reserve-currency countries or a derivative of their balance-of-payments positions (UNCTAD 1969). This reframing aligned with the broader critique of the international system advanced by the Group of 77 (G77), which saw structural reforms to trade, commodities, and finance as interconnected components of a single agenda: the construction of a fairer global economy.

By the early 1970s, as debates intensified around the New International Economic Order (NIEO), the SDR-development link became emblematic of the South's wider demand for the redistribution of global economic power. The NIEO Declaration of 1974<sup>12</sup> called explicitly for “the creation of

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<sup>12</sup> The New International Economic Order (NIEO) emerged from a combination of pressures that crystallised in the early 1970s: the consolidation of the G77 after UNCTAD II, the growing assertiveness of postcolonial states, and the commodity shocks and currency instability that followed the breakdown of Bretton Woods. Its formal articulation came at the Sixth Special Session of the UN General Assembly in May 1974, where Resolution 3201 (S-6), the *Declaration on the Establishment of a New International Economic Order*, and Resolution 3202 (S-6), the *Programme of Action*, were adopted with overwhelming support. These documents demanded a restructuring of global trade, finance, and resource governance on principles of sovereignty, equity, and redistribution, explicitly calling for “the creation of

additional international liquidity through internationally controlled mechanisms” and for a fairer allocation of such liquidity to support development (UN General Assembly 1974). In this perspective, the SDR was no longer merely an instrument for stabilising international reserves; it represented a lever for structural transformation.

Far from being a marginal proposal, the link was integrated into UNCTAD’s systemic critique: it symbolised the possibility that the rules governing money—long treated as neutral or technical—could be redesigned according to principles of justice and shared development. This move marked one of the most significant intellectual contributions of UNCTAD to the reform of the postwar international order.

The origins of the link proposal at UNCTAD can be traced to the late 1960s. At UNCTAD II in New Delhi (1968), Raúl Prebisch—then Secretary-General—and his colleagues in the Secretariat argued that the distribution of international liquidity could not be treated as neutral. Drawing on Prebisch’s earlier analysis of the centre–periphery relationship and the structural disadvantages faced by primary exporters (Prebisch 1950; Prebisch 1964), the Secretariat insisted that if new reserves were to be created, a share should be channelled into long-term development finance (UNCTAD 1968). This move transposed what the IMF had framed as a purely technical innovation into a political demand: liquidity creation must be explicitly tied to redistribution. It also redefined the meaning of “reform.” For the Bretton Woods institutions, reform meant improving the technical efficiency of the monetary system; for UNCTAD, it meant correcting the moral asymmetry of a world economy in

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additional international liquidity through internationally controlled mechanisms” to support development. See UN General Assembly, *Declaration on the Establishment of a New International Economic Order*, A/RES/S-6/3201 (1974); and Amuzegar, *Managing the Oil Wealth* (1982), 14–21.

which the mechanisms of adjustment and liquidity creation perpetuated hierarchy (Dosman 2008, 314–318).

By the early 1970s, the G77 had translated this demand into a coherent programmatic stance. In 1970, the UN General Assembly urged that international monetary reform take account of the “special needs of developing countries” (UN 1970). UNCTAD reports began to describe SDRs as a potential global public good whose legitimacy depended on serving the developmental priorities of the majority. Under Manuel Pérez-Guerrero—Secretary-General from 1969 and a key architect of the South’s coalition-building strategy—the Secretariat pressed the case with increasing urgency. As one internal paper argued, “the creation of international reserves is not a neutral act: it distributes real resources, and therefore it must contribute to development” (UNCTAD 1972).

The link proposal thus married technical feasibility to a normative claim: international money should be governed by principles of fairness, not merely stability. In this way, UNCTAD repositioned the debate on SDRs within the broader intellectual and political agenda that would culminate in the New International Economic Order, transforming a narrow monetary discussion into a demand for structural change in the global economy.

This line of argument culminated at UNCTAD III (Santiago, 1972). There, the link became a central plank of the developing countries’ platform. Delegates from Africa, Asia, and Latin America argued that SDRs offered a unique opportunity to embed redistribution into the monetary system itself. The Final Act called for “an equitable system of international liquidity creation” and recommended that a share of SDR allocations be channelled through development institutions such as the International Development Association (UNCTAD 1972, 421–52). The language was striking: the link

appeared not as a concession to the South but as a logical requirement of global justice and of the legitimacy of multilateralism. Draft versions prepared by the Secretariat even referred to the “collective right of developing countries to benefit from the creation of world money,” signalling a conceptual shift from the conditional-aid logic of the 1950s to the entitlement-based reasoning that would later underpin the New International Economic Order.

For many participants, Santiago symbolised the convergence of monetary reform with broader claims for structural change. The aid link was no longer a marginal adjustment; it formed part of a package that included better terms of trade, commodity-price stabilisation, sovereignty over natural resources, and access to technology. The conference debates conveyed a strong sense of historical rectification. Delegates repeatedly emphasised that countries which had long benefited from gold reserves and from the privileges of the dollar-based system now bore a responsibility to ensure that the gains from international liquidity creation were shared more broadly (UNCTAD 1972). Rather than treating SDRs as a narrow technical mechanism, many representatives framed them as a test of multilateral fairness: if money could be created *ex nihilo* for the stability of the international system, then the distributive principles governing its creation should reflect the needs of most of the world’s population. Santiago thus became a powerful illustration of how a technical issue—SDR allocation—had evolved into a vehicle for articulating a comprehensive project of international economic justice.

Crucially, UNCTAD’s forum allowed the link to be articulated in ethical as well as instrumental terms. Whereas the IMF continued to frame reserve creation within the technical grammar of quotas and safeguards, UNCTAD legitimised arguments rooted in historical responsibility and distributive

fairness. This broader framing proved decisive: from 1972 onward, the link became part of a wider intellectual shift that sought to redefine international liquidity as a collective resource rather than a by-product of national deficits (UNCTAD 1973). Building on earlier structuralist analyses, the Secretariat increasingly presented liquidity as an element of “collective self-reliance,” insisting that monetary stability could not be achieved while most developing countries remained locked in structural balance-of-payments vulnerabilities and commodity dependence (Prebisch 1974).

The conjuncture of 1973–74 fused these agendas. The breakdown of the par value system destabilised the monetary architecture, while the oil shock radically altered global income distribution. For non-oil developing countries, ballooning import bills and widening external deficits made predictable access to international liquidity essential. In this context, UNCTAD reframed the link as part of a collective insurance mechanism: a rule-based way to distribute the burden of adjustment more evenly across the international system. Pérez-Guerrero’s Secretariat stressed that the governance of international money required a redistributive dimension if it was to retain legitimacy. A 1973 report stated bluntly that “the creation of reserves cannot be considered a neutral process: it transfers resources, and its benefits must be shared equitably” (UNCTAD 1973, 12).

Delegates from Latin America and Africa carried this argument to the plenary, warning that quota-based allocations divorced from developmental needs would leave the South permanently exposed to external shocks. Within this debate, SDRs became a litmus test for the capacity of multilateralism to address global inequality—an issue no longer confined to monetary reform but embedded in the emerging programme of the New International Economic Order.

The uneven effects of the oil crisis exposed with new clarity the structural asymmetry of the world economy: liquidity accumulated in the hands of oil exporters and in the private banking systems of advanced economies, while the poorest nations were forced to borrow at commercial rates under worsening terms of trade (Krasner 1978; Helleiner 2014). In this environment, the SDR link appeared not as an ideological demand but as a pragmatic, rule-based mechanism for recycling global surpluses toward development.

UNCTAD documents from 1974 explicitly connected these pressures to the case for a link: if new reserves were created, a portion should cushion the non-oil least-developed countries from the shock (UNCTAD 1974). The Secretariat framed this proposal as a matter of macroeconomic risk-sharing—a multilateral device capable of aligning the reserve function of SDRs with the developmental function of global liquidity. It was also a response to the moral asymmetry revealed by the emerging petrodollar system: whereas surplus recycling through private financial markets served commercial banks and major financial centres, SDR-based recycling could, in principle, serve development rather than speculation. The contrast between private and public recycling became one of the core arguments articulated at UNCTAD IV and in the lead-up to the Sixth Special Session of the UN General Assembly.

The intellectual and political convergence between the link and the NIEO became explicit at the Sixth Special Session (April–May 1974). The *Declaration and Programme of Action on the Establishment of a New International Economic Order* (UN 1974) addressed sovereignty over natural resources, commodity stabilisation, and the governance of multinational corporations—but it also echoed UNCTAD III almost verbatim in calling for an equitable system of international liquidity creation. By this time, the link

had been woven deeply into the fabric of the NIEO agenda: it stood for the principle that the rules of global finance should serve the developmental majority, not merely the stability concerns of reserve-currency states (Murphy 1984; Toye and Toye 2004).

In the Assembly debates that followed, several developing-country representatives insisted that the link should not be treated as a temporary compensatory measure but as a permanent principle of global monetary governance. Their interventions framed international liquidity as a collective resource whose legitimacy depended on fairness in both creation and distribution (Cecchini 1973). Thus, the call for the NIEO was not only a demand for redistribution but also for participation: a claim to a greater voice in shaping the very architecture of international money.

Unsurprisingly, the reaction of industrialised countries was sceptical to hostile. U.S. and European representatives reiterated that reserve creation must remain neutral and that linking SDRs to development would politicise the Fund, undermine confidence, and deter future allocations. Their statements in the Trade and Development Board sessions of 1974–75 reveal a consistent pattern: appeals to “confidence,” “credibility,” and “market discipline” functioned as a rhetorical firewall against redistributive innovation (UNCTAD 1974; Dell 1981). Yet the vehemence of this opposition underscored how far the debate had moved. What had begun as a technical proposal inside the Secretariat had, by 1974, become a rallying cry in the General Assembly and a litmus test of North–South relations (Toye and Toye 2004, 172–176). Yet the vehemence of this opposition underscored how far the debate had moved.

The subsequent Nairobi Conference (UNCTAD 1976) confirmed this polarisation. While the G77 reaffirmed the link as a central demand,

industrialised nations sought instead to shift the agenda toward debt management, domestic adjustment, and technical cooperation—areas that preserved the existing asymmetries of the system (Helleiner 2014, 233–236). Pérez-Guerrero’s successor, Gamani Corea, maintained the normative force of the original argument but acknowledged the tightening political constraints. He described the link as “an indispensable moral principle whose practical realisation remains deferred” (UNCTAD 1976). Despite this impasse, the Nairobi Final Act preserved the concept of an “equitable international monetary order” and reiterated the call for enhanced coordination between the IMF, the World Bank, and UNCTAD on development financing.

In retrospect, UNCTAD’s role was decisive not because it could implement the link, but because it forged the language through which developing countries articulated their demands and shifted the burden of justification. By reframing international liquidity as a question of equity, UNCTAD prevented the link from being dismissed as a technical curiosity. It tied the proposal to the broader NIEO project, transforming what might have remained a debate over reserve allocation into a struggle over the normative foundations of the global system (Krasner 1985; Murphy 1984). The SDR link thus became a symbol of the wider South–North divide: a test of whether the institutions of global monetary governance could accommodate claims of distributive justice rather than merely preserve confidence in existing hierarchies.

The resonance of this debate would echo through later initiatives—such as the Common Fund for Commodities and the persistent calls for “additionality” in development finance—but its intellectual foundations were laid in the halls of UNCTAD. As several scholars have noted (Dell 1981; Toye and Toye 2004), the struggles over the Link helped consolidate a broader

Southern critique of the international economic order, one that would later feed directly into the negotiations of the Integrated Programme for Commodities and the eventual establishment of the Common Fund (South Commission 1990; Helleiner 2014). By crystallising the moral logic of the link, UNCTAD helped articulate what became one of the defining contentions of the 1970s: that monetary legitimacy requires more than stability and credibility; it requires a demonstrable alignment with developmental justice. This interpretation is consistent with Corea's own reflections on UNCTAD's normative mission (Corea 1980) and with subsequent analyses of the New International Economic Order debates (Murphy 1984; Gosovic 1972). In this sense, the link was never simply a proposal about reserve allocation. It was a normative claim about the purpose of international money—a claim that would shape a generation of South–North negotiations, even as political conditions increasingly constrained its practical realisation.

The intellectual foundations of the SDR–development link as it emerged within UNCTAD between 1967 and 1974, were shaped overwhelmingly by the structuralist tradition associated with Raúl Prebisch and the Latin American school. As Secretary-General of UNCTAD from 1964 to 1969, Prebisch brought to the organisation a comprehensive analytical framework centred on the centre–periphery structure of the world economy, the deterioration of the terms of trade, and the systemic asymmetries embedded in the postwar monetary order (Prebisch 1950; Prebisch 1964; Dosman 2008). These ideas underpinned the Secretariat's early proposals during the preparatory work for UNCTAD II (New Delhi, 1968), where the creation and distribution of international liquidity were explicitly recast as questions of equity rather than technical neutrality (UNCTAD 1968).

Within this framework, the SDR–development link appeared as a logical extension of Prebisch’s critique. If international reserves were to be created *ex nihilo*, their distribution—Prebisch argued—could not simply reproduce existing global hierarchies but should channel new liquidity toward long-term development finance. This reasoning resonated with the work of structuralist economists connected to UNCTAD and ECLAC, including Hans Singer—whose analysis of commodity dependence sharpened the critique of the international trading system (Singer 1950)—Ignacy Sachs, who theorised development as a multidimensional process embedded in global constraints (Sachs 1971), and Dragoslav Avramović, whose work on external constraints and debt sustainability reinforced the case for reallocating global liquidity toward the periphery (Avramović 1964).

When Manuel Pérez-Guerrero succeeded Prebisch in 1969, he transformed these analytical premises into a more assertive institutional programme. Although less of a theorist than Prebisch, Pérez-Guerrero elevated UNCTAD’s political profile within the UN system and placed the SDR–development link at the centre of the G77 agenda (Pérez-Guerrero 1972). UNCTAD reports increasingly described international liquidity as a “collective resource” whose legitimacy depended on developmental fairness rather than on the portfolio strategies of reserve-issuing countries (UNCTAD 1972; UNCTAD 1973).

By the time of UNCTAD III (Santiago, 1972), this intellectual configuration had matured into a coherent Southern doctrine. Drafts prepared by the Secretariat—drawing on structuralist analyses and on emerging discussions about global reform—referred to the “collective right” of developing countries to benefit from the creation of world money. These positions emerged independently of, and prior to, later Northern proposals such as

James Tobin's ideas on international monetary reform—which, during the late 1960s and early 1970s, remained focused on exchange-rate stabilisation and financial transaction taxes rather than redistribution (Tobin 1969)—confirming that the UNCTAD approach belonged to a specific intellectual lineage rooted in structuralist political economy rather than in the emerging New Economics of the North.

In this sense, the SDR–development link was never a peripheral technical suggestion: it represented an attempt to embed a redistributive logic within the governance of international money. As scholars of the history of thought have noted, this was the closest the postwar South ever came to articulating a fully developed alternative to the Bretton Woods notion of liquidity neutrality (Helleiner 2014; Toye and Toye 2004). Between 1967 and 1974, UNCTAD provided the conceptual and institutional environment in which these ideas could be formulated, debated, and linked to the broader intellectual project that culminated in the NIEO.

### **1.8. Committee on Reform of the International Monetary System**

The Committee on Reform of the International Monetary System and Related Matters — universally known as the Committee of Twenty (C-20) — was established in 1972 by the IMF Board of Governors at a moment of profound systemic uncertainty following the collapse of the Bretton Woods par value system. Its composition reflected the political geometry of the Fund: twenty members appointed by the countries or constituencies entitled to elect an Executive Director, thereby bringing together not only the major industrial economies but also influential representatives of the developing world (De Vries 1985, 163).

Expectations were correspondingly high. The creation of the C-20 marked the first attempt to orchestrate a reconstruction of the monetary order with explicit participation from the Global South, breaking with the more exclusive, G-10-dominated reform processes of the 1960s. As Harold James observes, the Committee “expanded representation beyond the Atlantic economies and gave developing countries a formal place in discussions of systemic reform” (James 1996, 284).

Institutionally, the Committee embodied the IMF’s characteristic dualism between ministerial authority and technocratic preparation. Although ministers and central bank governors sat on the C-20, most of the substantive drafting fell to their Deputies, who met far more frequently. As De Vries records, “the Deputies, not the Ministers, carried the burden of reconciling conflicting national positions and drafting options that might command consensus” (De Vries 1985, 170). The Deputies commissioned staff papers, circulated “options notes,” and attempted to translate divergent preferences into formulations acceptable to all parties.

This procedural choreography mattered. Ideas—particularly those advanced by developing countries—had to survive multiple rounds of filtration: first through IMF staff analyses, then through Deputies’ revisions, and finally through ministerial negotiation. Boughton notes that even proposals that enjoyed broad initial support were “progressively narrowed as they passed upward through the multilayered structure of the Committee” (Boughton 2001, 736). At each stage, political demands were reframed in the vocabulary of feasibility, confidence, and safeguards. The result, as one Deputy later reflected, was that “only issues amenable to technical compromise tended to survive” (De Vries 1985, 175).

Consequently, the formal agenda of the C-20 often reflected not the full spectrum of proposals advanced by its members, but the subset that had endured this iterative technocratic distillation. For developing countries, the challenge was to ensure that their priorities—particularly the SDR link—were not diluted beyond recognition in the transition from political claim to draft text.

The Committee’s mandate was extraordinarily ambitious. It was tasked with examining every core feature of the system—exchange-rate arrangements, adjustment mechanisms, reserve assets, the role of gold, and the institutional responsibilities of the Fund—while also considering the concerns of developing countries. As IMF historian De Vries notes, the C-20 represented “the most ambitious attempt ever to work out a many-faceted reconstruction of the international monetary system” (De Vries 1985, 163).

The breadth of this remit is evident in the internal “work programmes” prepared for the Deputies between late 1972 and mid-1973. These documents divided the reform agenda into a series of interrelated topics and subgroups, each assigned to examine specific dimensions of the system such as adjustment, convertibility, reserves, and the future exchange-rate regime (De Vries 1985, 170–174). Boughton similarly emphasises the extensive scope of these preparatory exercises, noting that the Deputies were expected to produce coordinated papers covering “virtually every aspect of the monetary system” (Boughton 2001, 736–739).

One cluster of studies focused on proposals for “objective indicators” intended to guide balance-of-payments adjustment. These discussions reflected a widespread recognition among Deputies that the Bretton Woods system had placed a disproportionate burden on deficit countries, and that any

new system required more symmetrical adjustment pressures (De Vries 1985, 171).

Another dossier examined the possibility of a reformed par-value system. Deputies debated the degree of exchange-rate flexibility that could be permitted while still preserving the discipline of par values, as well as the extent of IMF surveillance that such a system would require (Boughton 2001, 738). As Harold James notes, these debates revealed the growing difficulty of reconciling national policy autonomy with collective rules (James 1996, 286–288).

A third set of papers addressed the reform of reserve assets—the long-run role of the dollar, the treatment of gold, and the future of the Special Drawing Right. De Vries provides extensive detail on these discussions, including debates about SDR interest rates, the designation mechanism, and the reconstitution requirement (De Vries 1985, 175–178). Across these exchanges, Deputies repeatedly emphasised that the SDR could only serve as a primary reserve asset if its use became comparable in convenience and reliability to that of national currencies. Boughton similarly notes that reform of the SDR was viewed as essential for any system seeking to reduce dependence on the dollar (Boughton 2001, 739).

The most politically sensitive dossier concerned the distributive implications of reserve creation. Developing members repeatedly pressed for recognition that the creation of international liquidity had unavoidable distributional effects and therefore could not be treated as neutral. This position mirrored arguments advanced at UNCTAD and within the G77—that the legitimacy of global monetary governance required aligning liquidity provision with developmental needs. As one Deputies' paper acknowledged, “the question of distribution arises inevitably in any discussion of reserve creation” (De

Vries 1985, 173). UNCTAD had already framed this in explicitly normative terms: “the creation of reserves is not a neutral act; it distributes real resources and therefore must contribute to development” (UNCTAD 1972).

This last item thus touched the central nerve of the reform: could international money remain “neutral” if its creation had distributive consequences, or did legitimacy require that the meaning of neutrality itself be redefined? The C-20 became the arena in which this question—technical on the surface, ideological at its core—was debated most explicitly.

The oil shock of late 1973 fundamentally recast the C-20’s agenda: what had begun as an ambitious blueprint for systemic reform devolved into emergency management of petrodollar imbalances. The quadrupling of oil prices following the OPEC decisions of October 1973 dramatically reshaped global balance-of-payments positions, generating unprecedented surpluses for oil-exporting countries and acute deficits for energy-importing economies (Bordo and Eichengreen 1993, 3–7; Yergin 1991, 599–604). When the C-20 convened in Rome in January 1974, ministers and Deputies confronted what De Vries later described as a “vast and sudden redistribution of world purchasing power which no international mechanism had been designed to absorb” (De Vries 1985, 238). The overriding concern shifted to how these surpluses could be recycled without triggering contractionary spirals or destabilising exchange-rate movements—an issue that dominated both the Deputies’ technical discussions and the ministerial deliberations through 1974 (De Vries 1985, 239–242; James 1996, 290–292).

This shift is visible in the staff memoranda circulated between late 1973 and mid-1974. Papers which, only a year earlier, had explored ambitious schemes—strengthening the SDR as the principal reserve asset, codifying more symmetrical adjustment obligations, revising the role of gold—now

foregrounded short-term financing mechanisms, expanded access limits, and coordination with private banks and regional lenders (Boughton 2001, 744–747). As De Vries emphasises, by early 1974 “the hope for a comprehensive, once-and-for-all reconstruction of the system had evaporated,” replaced by what she calls an “incrementalist philosophy of coping” (De Vries 1985, 242). This recalibration significantly weakened the momentum behind redistributive proposals such as the SDR-aid link. What developing countries framed as structural innovations, advanced economies increasingly treated as secondary or inappropriate in the unstable inflationary environment of the mid-1970s (James 1996).

Archival records confirm the hardening stance of the United States. Secretary of the Treasury George Shultz, who had been instrumental in pushing the Nixon administration<sup>13</sup> toward market-oriented monetary policies, warned that the link posed a “moral hazard problem” by decoupling liquidity creation from monetary discipline (IMF 1973a). Paul Volcker—then Under Secretary of the Treasury for Monetary Affairs, and later Chairman of the Federal Reserve (1979–1987)—reiterated in closed-door discussions that “SDRs are not charity—they are part of the monetary base and must be treated as such” (U.S. National Archives 1972). These remarks reveal how U.S. officials sought to frame the SDR as a strictly technical reserve instrument, resisting any redistributive reinterpretation that could dilute its credibility.

Volcker later recalled that any attempt to introduce distributive criteria into the creation of reserves seemed to him—and to most G-10 officials— “a

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<sup>13</sup> On the broader geopolitical logic of the Nixon administration’s monetary strategy, see Basosi (2006), who shows how decisions over the dollar’s role were intertwined with U.S. efforts to preserve international influence through selective cooperation with Europe and the Global South.

contradiction in terms,” since the entire credibility of the SDR rested on its reserve-asset character (Volcker and Gyohten 1992, 55–56).

The U.S. vocabulary—discipline, confidence, neutrality—permeated its interventions in the Deputies’ meetings and shaped coalition-building with like-minded European countries. For officials in Washington, the oil shock confirmed rather than undermined the monetarist lesson: that the stability of the system required rules insulating reserve creation from political objectives. In the C-20, this intellectual stance translated into firm opposition to any SDR mechanism that could be interpreted as redistributive. As James (1996, 289–291) and Pauly (1997, 131–133) show, the result was a growing divide: while developing-country representatives pressed the argument that the shock strengthened the case for an equitable reserve system, industrialised countries doubled down on the principle that monetary legitimacy depended on non-discretionary criteria and resistance to politicisation.

Positions within the C-20 diverged sharply. Developing country representatives pressed for a “direct link” whereby developing members would receive a higher share of SDR allocations relative to their IMF quotas (De Vries 1985, 179). Their memoranda emphasised that, without such a rule, the adjustment burden would remain inherently asymmetric: deficit economies would be compelled to compress domestic demand, while surplus holders could in effect determine the global supply of liquidity. As Boughton notes, several developing delegates argued that “a reserve system grounded in quota shares could not claim legitimacy in a world where developmental needs were structurally unequal” (Boughton 2001, 742).

Among industrial members, positions ranged from sceptical to hostile. A few—including Australia, the Netherlands, and Japan—proved willing to explore only an “indirect link”: allocations would remain quota-based, but a

portion of members' SDR holdings or related resources might be channelled to development institutions on a voluntary or separately managed basis. This distinction was crucial<sup>14</sup>: the indirect variants preserved the reserve identity of SDRs, whereas the direct link implied institutionalised redistribution. For both Washington and Bonn, resisting the link was not a tactical stance but an expression of a broader monetary philosophy: reserves should embody neutrality, scarcity, and discipline, insulated from distributive claims. As Pauly (1997, 131–133) argues, G-10 officials saw any redistributive reinterpretation of reserves as a threat to credibility and as a precedent that could weaken future restraint.

For Global South delegates, however, the link was not a technical addendum but the litmus test of whether post-Bretton Woods reform would recognise their developmental priorities. They viewed the conversion of a share of collectively created reserves into predictable development finance as the only way to align the system's legitimacy with its global membership. As one internal summary recorded, "for developing members, the link represented the minimum condition for accepting a reformed system" (De Vries 1985, 181). In their perspective, a reserve system that generated liquidity

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<sup>14</sup> The distinction between the direct and indirect link is most clearly analysed by Park, whose study remains one of the most authoritative examinations of how the SDR-development link was debated inside and outside the IMF. Park defines the direct link as a rule-based mechanism under which a predetermined share of all new SDR allocations would be automatically channelled to development finance—either through the IDA, a dedicated development window, or a Fund-administered facility—thus embedding redistribution into the very process of reserve creation. By contrast, the indirect link would preserve the quota-based allocation of SDRs but encourage or mandate secondary transfers (such as donor contributions, reflows, or voluntary pooling) outside the core reserve mechanism, thereby maintaining the "reserve purity" of SDRs while still expanding resources for development. Park emphasises that this conceptual boundary shaped the entire diplomacy of the C-20: developing countries saw the direct link as essential for systemic legitimacy, whereas most industrial countries treated only the indirect variant as compatible with the monetary discipline of the post-Bretton Woods order (Park 1976, 49–60).

collectively but distributed it according to historical quotas could not claim universal legitimacy.

The failure to reach consensus became evident by the end of 1973. Drafts produced by the Deputies reveal progressively bracketed formulations around the link, repeated references to issues being left “pending further study,” and serial postponements of discussion—procedural devices that allowed disagreement to be managed without explicit rejection (De Vries 1985, 182–183). The oil crisis accelerated this drift: it diverted attention to short-term financing and strengthened the bargaining power of creditor countries, making donor states even less inclined to entertain redistributive innovations. As the Italian IMF Representative Palamenghi-Crispi (1974, 48) observed at the time, the link was not defeated in open debate but allowed to “disappear into procedural vagueness”—a telling illustration of how advanced economies managed dissent by attrition rather than confrontation.

Meanwhile, other components of the reform process proceeded with far less resistance. Draft texts retained proposals palatable to creditor countries: enhanced surveillance of exchange-rate practices, refinement of adjustment guidelines, and guarded language on the “evolution of the SDR toward the principal reserve asset” at some undefined future date. These formulations projected a sense of forward movement while carefully avoiding operational commitments. As James (1996, 263–265) notes, the result was a reform agenda that preserved the appearance of consensus but hollowed out its transformative potential: the architecture of international money would be adjusted, but not reimaged.

The *Outline of Reform*, released in June 1974, made no reference to the aid link, concentrating instead on adjustment rules, exchange-rate cooperation, the role of gold, and measures to enhance the usability of SDRs (James 1996,

185–87). Its omissions were as revealing as its contents. The document reaffirmed, in principle, that the SDR should evolve into the “principal reserve asset” of the system, but offered no timetable, no indicative amounts, and no operational steps to achieve this. Adjustment indicators were mentioned, but only in non-binding language; surveillance was strengthened rhetorically, yet with limited institutional innovation. On distributive questions, the text committed only to further discussion.

Advanced economies had already “won their case against the link” by this stage (De Vries 1985, 255). This outcome reflected not simply tactical opposition but a deeper convergence among G-10 members around the principle that SDRs should remain a neutral reserve asset. Contemporary analyses confirm the prevalence of this view. Boughton observes that the dominant position among industrial countries was that “development finance should not be blended with reserve creation,” both to protect the credibility of SDRs and to preserve the institutional division of labour between the IMF and the World Bank (Boughton 2001, 962–65). De Vries similarly reports that within the C-20, “almost all industrial members” resisted any design that would alter the distribution of SDRs relative to quotas or channel them automatically to development institutions (De Vries 1985, 173).

The exclusion of the link in the Outline therefore crystallised a broader ideological shift. Where UNCTAD and the G-77 framed liquidity creation as a question of equity and justice, most industrial countries treated it as a question of stability and confidence. The C-20 thus codified the emerging separation between monetary governance and development finance, a separation that would shape the subsequent evolution of the post-Bretton Woods system.

This stance was symptomatic of a broader intellectual shift: the erosion of Keynesian internationalism, which had tolerated a fusion of monetary and developmental concerns, and the ascendancy of a monetarist and proto-neoliberal orthodoxy privileging price stability, market discipline, and depoliticised central banking (Plehwe et al. 2020). In the C-20 negotiations, this translated into a preference for instruments that could be presented as prudential rules—such as strengthened surveillance, indicative adjustment indicators, and safeguards for the reserve character of the SDR—rather than as distributive commitments.

Institutionally, the creation of the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries, universally known as the Development Committee, in September 1974 served as a compensatory gesture (World Bank 2013). Established at the Annual Meetings in Nairobi, its mandate was explicitly to “consider measures that might be taken to transfer real resources to developing countries,” yet it was structurally separated from the core monetary functions of the IMF. As De Vries notes, this institutional design effectively redirected pressures for redistribution away from the monetary reform agenda and into a consultative body with no authority over the SDR or the design of the reserve system (De Vries 1985, 678–80). For many developing-country delegates, it represented a symbolic concession that confirmed—rather than challenged—their marginalisation from decisions over international money.

Moreover, several Deputies also examined proposals for non-concessional lending schemes aimed at supporting countries facing acute balance-of-payments pressures after the oil shock. These proposals—which included temporary credit lines, market-rate borrowing facilities, and pooled

arrangements involving both the IMF and official lenders—were conceived as stop-gap mechanisms to recycle oil surpluses without altering the structural design of the reserve system. As De Vries documents, these discussions became increasingly prominent from early 1974, reflecting a shift toward short-term financial engineering rather than systemic reform (De Vries 1985, 245–248). James (1996, 292–294) similarly notes that Deputies devoted substantial attention to devising “non-concessional” instruments precisely because they aligned with the preference of major industrial members for solutions that preserved monetary discipline. Boughton adds that several elements of these debates anticipated the IMF’s Oil Facility, established later in 1974 as a market-based vehicle to recycle petrodollar surpluses (Boughton 2001, 739–741).

The demise of the link in 1974 was thus not the result of a single decision but the cumulative effect of shifting economic priorities after the oil shock, asymmetrical voting power within the Fund, and the ideological repositioning of advanced economies. Within the C-20, the language of confidence and neutrality displaced that of equity and universality; within the Outline of Reform, ambition devolved into process. The Committee had briefly raised the possibility of an integrated reform that would reconcile liquidity, stability, and development. Its outcome instead entrenched the SDR as a narrowly defined technical reserve asset, while channelling developmental aspirations into peripheral forums with limited influence. In this sense, the C-20 stands both as the institutional graveyard of the SDR-aid link and as a hinge moment in the intellectual history of monetary governance—when the fleeting openness of the early 1970s gave way to a more constrained and technocratic vision of global finance.

### **1.9 Some concluding remarks on the period 1968-1974**

The history of monetary reform proposals advanced by developing countries is deeply rooted in the structural inequalities embedded in the postwar order. Many emerging economies viewed the system as inherently asymmetrical: it restricted their access to reserves, imposed disproportionate adjustment pressures, and confined them to the margins of global decision-making. The creation of SDRs and the subsequent proposal to link their allocation to development finance independently of donor discretion reflected an effort to address these asymmetries by securing predictable access to resources and accelerating the industrialisation of the Global South. In this sense, the “link” was never a technical refinement but a moral and institutional project—an attempt to redefine monetary cooperation as a practice of shared responsibility rather than hierarchical privilege.

Yet such proposals encountered the limits of political acceptability within a framework dominated by advanced economies. Expanding the volume of SDRs, or altering their distribution, required a consensus among countries whose priorities were shaped above all by concerns about inflation, credibility, and fiscal restraint. This exposed a fundamental tension: for the North, stability rested on discipline and neutrality; for the South, it required fairness, voice, and redistribution. The debate over the link therefore, brought to the surface the ethical fault line running through the system. It revealed how the governance of international liquidity was built not only on technical doctrines but on implicit hierarchies—between those who enjoyed the privilege of creating reserves and those who depended on them.

By the mid-1970s, the shift toward monetarism and market liberalism consolidated these boundaries. Ideals of collective management and global solidarity were gradually displaced by a new vocabulary of credibility,

discipline, and efficiency. The institutional separation between the monetary functions of the Fund and the developmental mandates of the World Bank codified this shift: money was to remain technical and insulated from claims of justice, while development was relegated to a separate domain. The world entered a period in which liquidity expanded, but legitimacy contracted.

In retrospect, the debate over the link stands as one of the last moments when the governance of money was openly conceived in moral terms. For a brief period, figures across the South—and some in the North—believed that the architecture of international finance could be aligned with principles of equity. The defeat of the link did not erase the significance of this vision. Rather, it illuminated the limits of a system that sought to separate stability from solidarity. The moral imagination of the late 1960s and early 1970s, which dared to imagine a global distribution of monetary power, was replaced by a technocratic minimalism that equated virtue with restraint and excluded ethics from economics.

Revisiting the history of the link therefore forces a broader question: can a monetary order that creates liquidity without sharing it, that manages wealth without redistributing it, claim to be legitimate? The proposals of the Global South in the 1970s, though ultimately rejected, articulated a principle that remains unresolved—that stability without justice is an incomplete order.

After the demise of the link, the momentum for reform did not disappear but was redirected. The moral language of redistribution gave way to the technical grammar of balance-sheet engineering. The next major initiative—the Substitution Account—emerged not from the South but from within the Fund itself, aimed at reinforcing confidence by offering a mechanism for exchanging national reserves for claims denominated in SDRs. Where the link had sought to democratise liquidity, the Substitution Account sought to

consolidate credibility. Its emergence marked a shift from the politics of justice to the politics of prudence.

The rejection of the link, therefore, cannot be understood in isolation. It formed part of a broader reorientation in which international liquidity was deliberately insulated from developmental concerns. As debates within UNCTAD lost influence and the C-20's agenda narrowed, institutional design evolved to acknowledge calls for redistribution while displacing them into forums with no authority over reserves. What vanished was not only a specific proposal, but the conceptual space that had momentarily united monetary reform with developmental purpose.

Yet the tensions revealed in the 1970s never truly disappeared. The continued dependence of developing countries on dollar reserves, the vulnerability of global liquidity to domestic cycles in the reserve-issuing state, and the asymmetry between global needs and national capacities all mirror the dilemmas identified half a century ago. Recent political developments in the United States have only accentuated these contradictions, demonstrating once again how domestic contestation within the leading monetary power reverberates across the entire system.

Seen in this light, the history of the link is not a closed episode but a prism through which to understand the enduring contradictions of global finance. It shows how the governance of international liquidity remains suspended between cooperation and sovereignty, discipline and development, stability and equity. The unresolved tension between these principles continues to shape the international monetary order. The questions left unanswered in the 1970s—how to align liquidity with development, and stability with justice—still define the contours of global monetary governance today.

## Chapter 2

### **Revolutionising the International Monetary System? The Challenge of a Substitution Account**

#### **2.1 Introduction: From Redistribution to Substitution**

The architecture of the international monetary system has long rested on a foundational paradox that is simultaneously indispensable and inherently destabilising: the reliance on a national currency to perform global functions (Eichengreen 2011). This structural dependence, while providing the liquidity and transactional backbone required for cross-border economic activity, has generated persistent asymmetries and recurrent vulnerabilities that have troubled analysts from Robert Triffin (1960) to Susan Strange (1976). Since the mid-twentieth century, the U.S. dollar has embodied this contradiction. Its international hegemony allowed the United States to supply the world with ostensibly safe and liquid assets, yet it entrenched a systemic fragility whereby global confidence in the leading reserve currency became inextricably linked to the domestic political dynamics and policy orientation of a single sovereign state. The United States thus increasingly encountered the quintessential Triffinian paradox: the conviction that merely keeping its own house in order, while neglecting broader international responsibilities, could not suffice to ensure global monetary stability (Baffi 1977).

As the Bretton Woods system disintegrated and the second amendment of the IMF Articles sanctioned a pluralism of exchange-rate regimes under IMF

surveillance, the international monetary order entered a more fluid and unstable phase. Major industrial economies adopted various forms of floating, with intervention ranging from minimal to extensive, while many smaller economies retained pegged arrangements to maintain internal stability. Experience soon demonstrated that floating rates generated volatility far greater than anticipated, as exchange-rate adjustments interacted with trade flows, price and wage dynamics, and capital movements in complex, often countervailing ways (Witteveen 1982).

These distortions underscored the necessity of coordinating exchange-rate management with coherent domestic demand and income policies—coordination that had been clearer under Bretton Woods but became frequently neglected under market-driven floating. Parallel to these exchange-rate developments, the reserve structure evolved from the classical gold standard to a gold-exchange system centred first on sterling and then increasingly on the dollar, introducing asymmetric adjustment pressures and an inflationary bias as foreign central banks accumulated reserve-currency liabilities (Witteveen 1982).

The collapse of formal dollar convertibility in 1971 thus triggered the emergence of a *de facto* dollar standard, fuelled by the rapid expansion of offshore dollar markets, in which U.S. deficits were automatically financed by global reserve accumulation. By the late 1970s, this constitutive contradiction reached a critical inflexion point. The final breakdown of Bretton Woods parities removed a central institutional anchor, while the oil shocks of 1973–74 and 1979–80 exposed the depth of global financial and energy interdependence (Garavini 2019). Escalating inflation, a depreciating dollar, and the volatile recycling of petrodollars through private banks wove

an unstable web connecting surplus-rich exporters to heavily indebted importers (Birch & Mykhnenko 2010).

As external deficits widened and confidence eroded, the United States—once the unquestioned guarantor of monetary stability—found itself in the precarious dual role of chief debtor and fragile anchor of a system facing mounting strains. By the early 1980s, the world economy had entered a period of acute monetary uncertainty, marked by abundant liquidity but diminishing confidence in the very foundations of the international monetary order (Mehrling 2022). It was against this backdrop of systemic stress that the IMF's Substitution Account was conceived.

In a series of interventions during the mid-1970s, the IMF Managing Director Witteveen repeatedly underscored the need for stronger international management of global liquidity, a concern that he viewed as central to the fight against inflation and to the long-term stability of the international monetary system (De Vries 1985). As early as May 1975, he argued that the most significant unresolved issue left by the Committee of Twenty was how to control the expansion of international liquidity and to clarify the role that different reserve assets should play in settling balance-of-payments imbalances, reminding officials that the absence of such control had complicated the operation—and ultimately contributed to the collapse—of the Bretton Woods system (Witteveen 1977). Although the immediate aftermath of the oil shocks temporarily eased concerns over the longstanding “dollar overhang,” as the rapid accumulation of reserves by oil-exporting countries created the appearance of abundant and non-inflationary liquidity, Witteveen warned that this configuration was inherently transitory. Once reserve accumulation by oil producers slowed or reversed and inflation re-emerged as the central policy concern, the challenge of constructing an

effective mechanism for managing international liquidity would inevitably return to the forefront (De Vries 1985, 638). Speaking in Frankfurt on October 28, 1975, he warned that the August 1975 gold agreement<sup>15</sup> risked increasing global liquidity and thereby generating new inflationary pressures—an assessment that appears strikingly prescient considering the renewed fears in the early 1980s regarding the excessive creation of liquidity, particularly through private banks. He argued that the prevailing system, in which both private and official international means of payment expanded largely according to market demand, could easily become a source of inflation in the next global upswing and weaken national monetary authorities' ability to control prices (Witteveen 1977).

Witteveen's approach to international liquidity management evolved significantly between 1975 and 1978, moving from a proposal centred on a gold substitution account to a broader scheme aimed at substituting SDRs for reserve currencies—a shift driven by the growing recognition that the international monetary system could no longer depend indefinitely on an increasingly fragile dollar (Eichengreen 2011). To address mounting concerns about the uncontrolled growth of global liquidity, he advanced two priority measures: the establishment within the IMF of a gold substitution account, then under discussion during the drafting of the Second Amendment, and the tighter regulation of the Eurocurrency market (De Vries 1985, 636–40).

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<sup>15</sup> *The August 1975 gold agreement* refers to the understandings reached among major IMF members—particularly the United States and key European countries—on the gradual abolition of the official gold price, the liberalisation of gold transactions, and the eventual restitution of part of the IMF's gold stock. Although designed to stabilise the role of gold in the post-Bretton Woods order, the agreement raised fears that large-scale gold sales or revaluations could inject additional liquidity into the system. See: De Vries (1985), *The International Monetary Fund 1972–1978*, vol. II, pp. 301–309.

For Witteveen, effective control over international liquidity required anchoring the system more firmly in SDRs, reducing the monetary role of gold, and limiting dependence on national currencies as reserve assets—objectives already endorsed in principle in the Outline of Reform (De Vries 1985, 639). A gold substitution account would contribute to these aims by reducing members' gold holdings, thereby limiting potential liquidity creation from that source, and by increasing the share of SDRs in global reserves, whose issuance and management the Fund could oversee. Spreading SDR payments over several years would also prevent a sudden and disruptive expansion of liquidity. Yet by the late 1970s Witteveen judged that the system's vulnerabilities no longer stemmed primarily from gold, but from the proliferation of dollar-denominated reserves whose expansion was driven largely by private markets and contributed to systemic inflationary pressures (Strange 1976; Triffin 1960).

This diagnosis led him, in April 1978, to propose shifting attention toward an SDR Substitution Account capable of absorbing reserve currencies themselves, ensuring that new SDR allocations would not translate into a one-for-one increase in global reserves. Such an approach sought both to stabilise the monetary system and to make political agreement more attainable—especially as the dollar entered a period of acute fragility in 1978 (Garavini 2019; Mehrling 2022). It also reflected a broader awareness that the moment had come to consider moving the international monetary system onto a more explicit SDR foundation.

This realignment of focus, however, immediately exposed political and institutional tensions, most visibly in the cautious and sceptical reaction of the United States, which feared onerous obligations, legal constraints, and the symbolic implication of a reduced dollar role. Nevertheless, the debates of

1978 made clear that the axis of reform had shifted: the Substitution Account was no longer conceived merely as an administrative device, but as a tentative first step toward rethinking the reserve structure of the international monetary system.

This chapter argues that the rise and fall of the Substitution Account represents far more than a minor episode in the history of international financial reform. Its trajectory captures a pivotal intellectual and political transition in the governance of global money. The proposal emerged at the intersection of two competing “moral economies”—a term used here to denote the shared, often implicit, understandings of fairness, virtue, and responsibility that inform economic institutions (Rawls 1971). One was the waning Keynesian-Triffinian vision, which conceived international money as a public institution requiring cooperative management to safeguard stability and, for some, equity. The other was the ascendant monetarist paradigm, which redefined monetary virtue around national credibility, market discipline, and a suspicion of collective insurance arrangements.

The failure of the Substitution Account was therefore not primarily a matter of technical infeasibility. Its design, crafted largely in the IMF’s Research Department under Jacques Polak (1974), demonstrated that multilateral reserve management was entirely workable. Its collapse reflected a deeper ideological rupture (Micossi 1981): the unwillingness of key states—especially the United States and Germany—to mutualise the exchange-rate risk embedded in the dollar-based system. This resistance signalled the triumph of a moral economy of credibility over one of solidarity (Thompson 1971), and the closing of a brief window during which more ambitious multilateral reform had seemed conceivable.

Indeed, the episode marked a shift in the very language of international monetary reform. Whereas earlier debates—particularly those surrounding the SDR-development link championed by the Global South—were framed in terms of redistribution, justice, and moral responsibility, the Substitution Account reflected a move toward technical management and systemic stability (McCauley & Schenk 2014). As Eichengreen later observed, deliberations over the Account sought “to rebuild the architecture of monetary cooperation without reopening the question of equity” (Eichengreen 2019, 233). This epistemic shift—from a normative to a technical-financial discourse—is crucial to understanding the proposal’s political fate.

The analysis that follows examines the trajectory of the Substitution Account from its initial formulation under Witteveen to its reappraisal during the de Larosière era and the reactions of member states to the prospect of anchoring the international monetary system more firmly in SDRs. The available documentary record is uneven and fragmentary, limiting the possibility of a fully comprehensive reconstruction. Nonetheless, by drawing on accessible sources—official speeches, IMF documents, and contemporary policy assessments—it is possible to trace the main lines of debate, situate the positions of key actors, and clarify the significance of the SDR-based reform agenda within the evolving architecture of international monetary governance.

More broadly, the Substitution Account exemplifies a recurrent dynamic in international monetary politics: reform proposals gain momentum in periods of acute crisis, when instability undermines confidence in the existing order (Collins 2012), only to fade once immediate pressures ease or the prevailing intellectual climate changes.

## **2.2 A Constitutional Moment: Systemic Crisis and the Window for Reform (1977-1979)**

Between 1977 and 1979, the international monetary system entered what can be described as a “constitutional moment”—a juncture at which the fragility of the dollar-based order became so acute that a reconsideration of its foundational principles briefly appeared possible (Joyce 2013). This was not a cyclical disturbance, but a structural crisis marked by the erosion of the dollar’s legitimacy, the intensification of balance-of-payments asymmetries, and the growing sense among policymakers that the post-Bretton Woods regime lacked a coherent anchor. The contradictions of the system, long described in analytical terms, became visible in real time. By the mid-1970s, the United States had ceased to be the world’s principal creditor and had become its largest debtor (De Vries 1985; Solomon 1982). Stagflation undermined the domestic monetary anchor. U.S. consumer price inflation peaked at about 9.1 per cent in 1975, declined markedly in 1976, and then began to rise again from 1977 onward, reviving doubts about the Federal Reserve’s capacity to stabilise prices (IMF 1978). Over the same period, the dollar depreciated steadily against major currencies: it fell from around DM 2.6 per dollar in 1976 to just above DM 2.0 by 1978, and from nearly ¥300 per dollar in 1976 to well below ¥260 by 1978. Meanwhile, gold prices rose from roughly \$140–160 per ounce in 1975 to around \$200 per ounce by 1978, signalling a growing flight into tangible assets and a loss of confidence in nominal anchors (IMF 1978).

Foreign central banks, particularly the Bundesbank, the Bank of Japan and the Swiss National Bank, intervened heavily to prevent exchange-rate overshooting, absorbing massive quantities of dollars and thereby socialising the costs of U.S. macroeconomic imbalances. Contemporary analyses noted

that the heavy dollar share of official reserves left reserve-accumulating countries such as Germany vulnerable to external monetary shocks (Horii 2006; Heller 1976) while in Japan, the move to a floating yen in 1973 shifted policy priorities decisively toward domestic disinflation, limiting the authorities' willingness to intervene persistently in foreign-exchange markets (Nelson 2007; Ito 2013).

The intellectual climate captured the gravity of this moment. Robert Triffin's diagnosis of the "dilemma" (1960)—the contradiction between global liquidity needs and confidence in the reserve currency—ceased to be an abstract warning and became an operative description of policy constraints (James 1996). Susan Strange, in *International Monetary Relations* (1976), framed the problem as one of structural power: the dollar's global role granted the United States extraordinary privileges, yet exposed the entire system to the consequences of American policy indiscipline. In this context, even minor diversification out of dollars was understood as potentially destabilising. The Carter administration responded with an extraordinary \$30 billion support package relying on IMF resources, bilateral swaps with the Bundesbank and the Bank of Japan, and gold sales (Solomon 1982; Volcker & Gyohten 1992). Yet the underlying problem—the absence of a mechanism to reconcile the needs of global liquidity with the erosion of confidence in the dollar—remained unresolved.

It was in this climate of weakening hegemony and growing anxiety among U.S. partners that the IMF leadership attempted to transform crisis into institutional innovation. Johannes Witteveen, Managing Director of the Fund from 1973 to 1978, played an essential role in this effort. A Dutch economist and former Minister of Finance, Witteveen was widely respected for both his analytical precision and his diplomatic finesse—qualities succinctly captured

in De Vries’s observation that his “skill as an analyst [...] matched his skill as a negotiator” (De Vries 1996, 52).

Witteveen’s thinking on the management of international liquidity evolved markedly between the mid-1970s and 1978, moving from an initial proposal for a gold substitution account to a broader scheme centred on the substitution of SDRs for reserve currencies. His first initiative, advanced in 1975, envisaged an account within the Fund through which members could exchange part of their gold reserves for SDRs (De Vries 1985). This mechanism was designed to reduce the monetary role of gold, prevent the uncontrolled creation of liquidity stemming from gold sales, and strengthen the SDR’s status as an international reserve asset, all while allowing the Fund to manage the pace of SDR issuance over time (Martin 1978). By the late 1970s, however, Witteveen judged that the structural vulnerabilities of the system no longer stemmed primarily from gold but from the proliferation of reserve holdings denominated in national currencies—especially dollars—whose expansion was largely demand-driven and contributed to global inflationary pressures (Martin 1980). A first spark for reviving the idea came at the end of 1977, when the dollar again came under intense selling pressure. During an Executive Board meeting on SDR allocations, Jacques de Groot<sup>16</sup>

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<sup>16</sup> Jacques de Groot (1931–2019) was a Belgian economist and one of the IMF’s most intellectually active Executive Directors during the 1970s and early 1980s. Trained at Leuven and Yale, he brought to the Fund a distinctive blend of academic economic reasoning and practical policy experience. Serving on the Executive Board from 1973 to 1994, he represented a constituency that included Belgium, Luxembourg, Turkey, and several developing and transition economies. De Groot played an important role in shaping debates on the future of international money, frequently intervening on questions of reserve composition, SDR allocations, and the governance of global liquidity. His proposal in late 1977 to link new SDR allocations to the consolidation of other reserve assets—an idea rooted in his longstanding concern with the asymmetries of the dollar-based system—was one of the catalysts that revived Witteveen’s interest in a substitution mechanism. For a fuller

(Belgium) suggested linking new allocations with the “consolidation of other reserve assets” (Boughton 2001, 938), meaning that countries receiving SDRs could be expected to exchange dollars or other reserve currencies for them. The suggestion directly appealed to Witteveen, who asked the staff to explore its feasibility.

Two differences from the earlier C-20 proposal quickly emerged. First, any revived Substitution Account would have to be strictly voluntary—not only for political acceptability but also to be legally compatible with the amended Articles (De Vries 1985). Second, the inherent asymmetry between the United States and all other participants had to be contained: if the United States were free to deposit its own dollars in exchange for SDRs, it alone could finance its external deficit by issuing domestic currency and bypass the foreign-exchange market entirely. Within these constraints, Witteveen advanced a new version of the proposal in April 1978, envisioning an SDR Substitution Account capable of absorbing reserve currencies themselves (De Vries 1985, 871).

Under this plan, newly allocated SDRs would be offset by irrevocable deposits of existing foreign-exchange reserves, ensuring that allocations would not mechanically expand the global stock of reserves. By linking the creation of the account to a new SDR allocation, Witteveen sought both to stabilise the international monetary system and to make political agreement more attainable (Polak 1980; De Vries 1985; Boughton 2001). The device transformed the SDR from a marginal instrument into a potential reserve asset of systemic relevance without creating new liquidity or imposing explicit

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account of his contribution to Board deliberations, see James M. Boughton, *Silent Revolution: The International Monetary Fund 1979–1989* (Washington, DC: IMF, 2001), 66–67.

fiscal transfers (Boughton 2001), and it was calibrated to appeal differently across constituencies: it offered Europeans and Japanese authorities an orderly path to diversification while presenting itself to Washington as a stabilisation measure that preserved the centrality of the dollar.

Ministerial enthusiasm, however, was mixed. Developing countries saw little intrinsic value in the mechanism—few held surplus dollars—but supported it insofar as it facilitated new SDR allocations (Boughton 2001, 938). Some U.S. officials viewed the idea as a potential tool to strengthen the SDR and ease speculative pressure on the dollar, yet the broader American posture remained cautious. European governments were divided: while several creditor states sought diversification, others, notably Germany, worried that the mechanism could amount to back-door credit expansion; Japan and Saudi Arabia argued that stabilising the dollar required more fundamental policy adjustments (Boughton 2001, 938). A contemporaneous Treasury memorandum from Under Secretary Solomon to Secretary Blumenthal in April 1978<sup>17</sup> revealed the depth of U.S. hesitation.

Despite Witteveen's pragmatic framing, the initiative raised difficult questions about interest-rate obligations, exchange-rate risk, the irrevocability and liquidity of deposits, and the possibility that the United States might be expected to contribute assets—potentially even gold. The memorandum also underscored the political symbolism of the proposal: because many countries supported the Account precisely for its implication of a reduced role for the dollar, U.S. officials feared that endorsing it could be read internationally as an admission of domestic policy mismanagement.

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<sup>17</sup> Carter Library, Anthony Solomon Collection, 1977–1980, Chronological File, Box 4, 4/78. Confidential.

More fundamentally, the SDR substitution scheme's coherence was undermined by a structural design flaw: no mechanism existed for sharing potential losses if the dollar depreciated. In such a scenario, the value of the Account's dollar-denominated assets would fall while its SDR-denominated liabilities would remain constant or rise. No participant was willing to bear this risk. The United States rejected any open-ended guarantee; Germany and Japan refused to mutualise losses; and the IMF could not assume liability without endangering its balance sheet. As De Vries later noted, the Account was technically feasible but politically undefinable (1985).

The setbacks of late 1978 and early 1979 did not terminate the initiative, but they exposed the political fragilities at its core. Rather than ending the Substitution Account, this phase revealed the limits of what could be achieved under Witteveen's outgoing leadership and underscored the need for renewed diplomatic coordination. Under his successor, Jacques de Larosière, the proposal would be revived, reformulated, and pushed further than at any previous moment—transforming what had seemed a faltering experiment into the most ambitious attempt yet to institutionalise collective reserve management within the IMF.

### **2.3 The De Larosière Turn: Reframing Substitution (1978–1981)**

When Jacques de Larosière<sup>18</sup> assumed the leadership of the IMF in 1978, he entered office at a moment of acute monetary turbulence. The dollar, after a

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<sup>18</sup> Jacques de Larosière (b. 1929) brought to the IMF a professional formation and career trajectory that helped explain his approach to proposals such as the Substitution Account. Educated in law, arts, and political studies at the University of Paris, the Institut d'Études Politiques, and the École Nationale d'Administration, he belonged to the post-war generation of French high-level civil servants trained in administrative prudence and fiscal orthodoxy. After early diplomatic assignments in London and Algeria, he entered the Ministry of

brief recovery following the U.S. announcement of 4 January that authorities would intervene in the foreign-exchange markets, resumed its downward slide within weeks (IMF 1979). Despite unprecedented intervention by the Federal Reserve Bank of New York in late 1977 and early 1978—operations that were large by historical standards and exceeded previous episodes of exchange-market support (De Vries 1985, 853; Federal Reserve Bulletin 1978)—the dollar continued to weaken, particularly against the deutsche mark and the yen. In March 1978, U.S. authorities sought to arrest the decline through a set of coordinated measures: the reciprocal swap line with the Bundesbank was expanded to \$4 billion (Federal Reserve Bulletin 1978); the U.S. Treasury drew on SDR 600 million from its IMF holdings to acquire deutsche mark (IMF 1978); and Treasury Secretary Michael Blumenthal and German Finance Minister Hans Matthöfer issued public statements affirming their commitment to joint action to restore confidence in the dollar (De Vries 1985, 853–54; FRUS 1977–1980<sup>19</sup>). Similar efforts unfolded with Japan, including intensified consultations and domestic policy adjustments aimed at countering the yen’s appreciation

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Economy and Finance, where he rose steadily to become Director of the French Treasury in 1974—at the time one of the most influential posts in European public finance. In this capacity he was directly involved in managing France’s external position, shaping responses to the oil shocks, and coordinating European monetary initiatives. He also played a prominent role in international economic cooperation, serving as a representative in the OECD, the Committee of Twenty, and the IMF’s Interim Committee, and sat on the boards of major French industrial and financial institutions. This background, rooted in high-stakes macroeconomic management and informed by a deep sensitivity to balance-sheet risk, helps account for his reluctance to endorse any mechanism—such as a substitution account—that might expose public institutions to potentially open-ended financial liabilities. (International Monetary Fund. *Biographical Note: Jacques de Larosière, Managing Director of the International Monetary Fund*. Washington, DC: IMF Press Release No. 78/42, June 16, 1978.

<sup>19</sup> U.S. Department of State, *Foreign Relations of the United States, 1977–1980*, vol. III, *Foreign Economic Policy* (Washington, DC: Government Printing Office, 2013), docs. 94 (10 March 1978), 98 (17 March 1978), 101 (20 March 1978), and 103 (21–22 March 1978).

(Funabashi 1988). Yet these measures proved insufficient. By early April 1978, the dollar's effective exchange rate<sup>20</sup> had fallen by around 8 per cent relative to its late-1977 level, indicating a marked deterioration in market confidence and raising fundamental questions about the sustainability of a reserve system still overwhelmingly anchored to a weakening U.S. currency (Eichengreen 2011; Henning 1994). The loss of confidence persisted over the course of the year and culminated in early November, when Jacques de Larosière privately characterised the situation as a full-fledged “crisis of confidence” (Boughton 2001, 939). It was precisely at this moment that the new Managing Director, working closely with the Fund's chief economist Jacques J. Polak, seized the opportunity to revive and deepen the idea of a substitution—or “reserve diversification”—account. As they elaborated the revised proposal in the first half of 1979, the Fund would establish and administer an account into which central banks could voluntarily deposit dollars—typically in the form of short-term U.S. Treasury bills—in exchange for SDR-denominated claims. These claims would function like any other SDRs, while the account itself would convert its holdings into longer-term dollar-denominated securities issued by the U.S. Treasury. Depositors would earn the official SDR interest rate, and the spread between U.S. long-term bond yields and the (lower) SDR rate was intended to cover the account's

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<sup>20</sup> The reference to the dollar's effective exchange rate draws on nominal effective exchange rate (NEER) indices reconstructed from contemporaneous multilateral trade weights. For the late 1970s, such indices capture movements of the dollar against major partner currencies—including the deutsche mark and the yen—rather than bilateral rates alone. The estimate of an approximately 8 per cent decline between late 1977 and early April 1978 reflects changes in nominal exchange rates and does not adjust for inflation differentials, which were relatively small over the short horizon considered. This approach is consistent with the treatment of exchange-rate developments in Eichengreen (2011) and Henning (1994), who emphasise nominal multilateral depreciation as a key indicator of market confidence during this period.

exchange-rate risk (Boughton 2001, 939). In this manner, de Larosière and Polak sought to engineer a politically palatable, technically workable mechanism for reserve diversification at the height of the dollar crisis.

As de Larosière moved to operationalise the revised substitution account in early 1979, the proposal began to acquire a political momentum that had largely eluded it under Witteveen. When he presented the idea to the Interim Committee over a working lunch in March, delegates—including the U.S. authorities—expressed an unexpected degree of openness, offering what the minutes described as “broad support for active consideration of such an Account”<sup>21</sup>. This receptiveness was driven by two converging forces. On one level, many members wished to give concrete expression to the objective enshrined in the amended Article VIII: transforming the SDR into “the principal reserve asset in the international monetary system”. On another, more immediate level, governments were searching for credible instruments to counter persistent weakness in the dollar and to mitigate the growing anxieties surrounding its reserve-currency rôle.

Even as Executive Directors from major industrial countries maintained a formally cautious stance in Board discussions—often emphasising technical challenges rather than matters of principle—the signals emerging from central banks revealed a latent demand for reserve diversification (Boughton

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<sup>21</sup> The reference is to the informal discussion recorded in the Interim Committee’s proceedings of March 1979. While no formal communiqué mentioned the Substitution Account explicitly, the meeting summary prepared for Executive Directors noted that several delegations—including the United States, Germany, and the United Kingdom—expressed a willingness to explore the proposal, provided it remained voluntary and did not entail automatic liquidity creation. See IMF, *Interim Committee: Minutes of the Twenty-Fourth Meeting*, Washington, 5–6 March 1979 (IMF Archives, Executive Board Documents, BUFF/79/47), 3–6. For an analytical reconstruction, see also James M. Boughton, *Silent Revolution: The International Monetary Fund 1979–1989* (Washington, DC: IMF, 2001), 92–94.

2001, 940). This demand extended beyond developing countries and smaller industrial economies to include the largest surplus holders, whose reserve portfolios were heavily concentrated in short-term U.S. assets. By late 1979, this sentiment was further strengthened by the early stabilising successes of the European Monetary System and its new unit of account, the ECU, and by broader concerns triggered by the U.S. freezing of Iranian assets following the seizure of the U.S. embassy in Tehran (Sanger 1979)—an episode that underscored the geopolitical vulnerabilities associated with holding large dollar balances.

What emerged in 1979 was no longer the expression of the reformist, quasi-Keynesian imagination that had shaped the early post-Bretton Woods period; it was a qualitatively different instrument, reframed within a shifting intellectual and political climate that privileged monetary discipline, institutional prudence, and market credibility over cooperative ambitions (Hall 1989). In this sense, the de Larosière version of the Substitution Account was both the most sophisticated and the most constrained iteration of the scheme—an attempt to engineer reserve diversification within an increasingly reluctant, risk-averse, and politically fragmented international order (James 1996).

Despite the early signs of support and the Interim Committee's preliminary endorsement, de Larosière soon discovered that the Polak-de Larosière version of the Substitution Account was politically untenable (Boughton 2001). Three interconnected obstacles quickly emerged. First, the United States objected to converting short-term liabilities to foreign central banks into a long-term obligation to the IMF; given the persistent positive spread between long-term and short-term U.S. interest rates, such a transformation would have imposed higher financing costs on the Treasury—an expense

judged disproportionate to the systemic benefits of diversification (Boughton 2001, 941).

Second, prospective depositors were reluctant to exchange highly liquid U.S. Treasury bills for SDR-denominated claims remunerated at the lower official SDR interest rate. Whatever advantages were associated with holding a more stable reserve asset appeared insufficient to compensate for the immediate financial loss such a swap implied (De Vries 1985, 900–901).

Third, the IMF staff could offer no credible assurance that the interest differential on which the account's viability depended would remain positive. Simulations based on 1970s data suggested that the combination of dollar depreciation and relatively low U.S. interest rates would have left the account unable to cover its exchange losses, undermining its financial sustainability (Boughton 2001). A more explicit method of risk-sharing was therefore required. One theoretical solution—diversifying the account's assets into the SDR currency basket through off-market exchanges with participating central banks—was dismissed as politically unworkable, since it would have transferred exchange-rate risk directly onto national authorities, particularly the Bundesbank (James 1996).

With neither creditors nor the United States willing to assume significant risk, the staff proposed that the IMF itself absorb part of the burden by pledging a portion of its gold stock. De Larosière responded with a comprehensive plan under which 7–9 million ounces of gold would be sold and a further 23–32 million ounces transferred to the Substitution Account, with the proceeds invested in interest-bearing assets to subsidise both the Supplementary Financing Facility and rising remuneration payments (De Vries 1985, 907–910). In this sense, “the proposal had something for everyone, but it depended

on a broad consensus in favor of disposing of a substantial portion of the Fund's 'crown jewels'" (Boughton 2001, 942).

Yet even this elaborate scheme failed to surmount the basic political impasse. The 1979 proposal—technically the most sophisticated version ever devised—collapsed under the weight of its own constraints: an unwilling United States, hesitant surplus holders, and a membership broadly resistant to any arrangement that might mutualise exchange-rate risk.

De Larosière initiative marked both the culmination and the exhaustion of the Substitution Account project, illustrating how an increasingly risk-averse, credibility-oriented international environment left little room for ambitious experiments in collective reserve management (Polak 1980).

#### **2.4 The United States and the Politics of Monetary Sovereignty**

The emergence and evolution of the Substitution Account cannot be understood without placing the United States and the vulnerabilities of the dollar at the centre of the analysis. Although IMF discussions often framed the mechanism as a collective response to global imbalances, its feasibility ultimately depended on Washington's willingness to participate and to assume part of the associated exchange-rate risk. Between late 1978 and 1980, the U.S. position was shaped less by abstract institutional principles than by a specific constellation of political, intellectual, and macroeconomic pressures that redefined the meaning of monetary sovereignty in the post-Bretton Woods era (James 1996).

Internal assessments from the period reveal the degree to which policymakers viewed the dollar crisis as a challenge not only to economic management but to geopolitical authority:

The prolonged decline of the dollar could have an adverse effect on the conduct of our foreign policy... a plausible case can be made that the falling dollar and our perceived inability to take adequate corrective measures is contributing to the development of an attitude toward the United States that could undermine our credibility abroad. Our ability to influence events in the world... depends in large measure on military and economic power and foreign perceptions of our capacity to bring this power to bear in a controlled fashion. Thus, foreign attitudes about our determination and skill are almost as important as our strength<sup>22</sup>.

In this climate of acute vulnerability, the Substitution Account briefly appeared as a pragmatic instrument: a way to institutionalise the very form of coordinated support that had just been improvised under crisis conditions.

The proposal initially gained traction because the U.S. was confronting an unusually severe crisis of confidence. During the winter of 1978–79, as exchange markets reached breaking point, the Carter administration launched an extraordinary rescue programme: more than \$30 billion was mobilised through IMF drawings, large-scale gold sales, and expanded swap lines with the Bundesbank and the Bank of Japan (Solomon 1982, 189–92).

For several months these measures succeeded in calming financial markets. Foreign demand for U.S. Treasury securities remained firm, and major partners signalled their determination to prevent a disorderly collapse of the dollar (Washington Post 1979). Yet this fragile equilibrium was shattered almost immediately by the second oil shock. The Iranian Revolution triggered a new inflationary surge, an unprecedented spike in gold prices, and heightened exchange-market volatility (BIS 1979, 12–15).

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<sup>22</sup> Source: Carter Library, National Security Council, Institutional Files, Box 68, PRC 058, 3/16/78, Monetary Situation. Secret.

IMF staff analysis warned that, without a credible mechanism capable of absorbing surplus dollars and moderating reserve reallocations, the system risked entering a destabilising cycle of defensive diversification (Boughton 2001, 736–38). It was within this charged context—marked by geopolitical anxiety, macroeconomic instability, and rising fears of a multi-polar reserve order—that U.S. attitudes toward the Substitution Account crystallised, shaping both the possibilities and the limits of the initiative.

By mid-1979, this conclusion had hardened into a strategic reorientation. Senior policymakers increasingly believed that restoring confidence in the dollar required a domestic rather than an international solution. The appointment of Paul Volcker as Chairman of the Federal Reserve in August 1979 crystallised this shift. U.S. Treasury documents from early 1979 further illuminate the intellectual and strategic logic underpinning Washington’s resistance to the Substitution Account.

A memorandum prepared for the Interagency Group on Monetary Affairs<sup>23</sup> emphasised three fundamental objections that framed the U.S. position. First, officials argued that the proposal misconceived the nature of the dollar problem: “active dollar balances are in the private sector” not in central-bank portfolios, meaning that substituting official holdings with SDRs would do little to reduce volatility in global capital markets. Second, the memorandum questioned whether the SDR was, in practice, a desirable reserve asset, noting that “three-fourths of IMF members have reduced their SDR holdings” since their allocation—a sign that central banks preferred to use SDRs for settlement rather than to hold them as reserves. Third, and most critically,

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<sup>23</sup> National Archives, RG 59, Office of the Under Secretary for Economic Affairs, 1978–1980 Files Pertaining to International Monetary Affairs, OECD, Documents, External Research, Etc., Lot 81D145, Box 2, IMG—International Monetary Group. Limited Official Use.

Treasury officials warned that any large-scale substitution of dollars into SDRs would impose fiscal and exchange-rate risks on the United States, potentially raising federal interest costs and obliging Washington to underwrite fluctuations in its own currency. In their view, such a mechanism would dilute market discipline and weaken incentives for domestic adjustment.

These concerns aligned closely with the broader philosophical shift occurring within U.S. monetary governance. The new monetary strategy announced on 6 October 1979, centred on strict control of monetary aggregates, embodied the conviction that credibility had to be earned through domestic austerity rather than through multilateral stabilisation mechanisms (Volcker & Gyohten 1992, 77–83).

As Helleiner (1994, 101–110) has shown, this reflected a deeper redefinition of monetary sovereignty: stability was no longer seen as a collective responsibility but as the product of national discipline. Within this emerging doctrine, the Substitution Account appeared not as a stabilising innovation but as potential moral hazard, one that might socialise the costs of U.S. policy while weakening the corrective signals provided by foreign-exchange markets. Treasury memoranda from 1979<sup>24</sup> explicitly warned that such an arrangement could “shift U.S. policy costs onto other countries,” while Federal Reserve officials stressed that enabling foreign central banks to convert depreciating dollars into SDR claims would obstruct necessary market adjustment (Volcker & Gyohten 1992).

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<sup>24</sup> National Archives, RG 59, Office of the Under Secretary for Economic Affairs, 1978–1980 Files Pertaining to International Monetary Affairs, OECD, Documents, External Research, Etc., Lot 81D145, Box 2, IMG—International Monetary Group. Limited Official Use.

As a result, although the Substitution Account continued to attract interest among European, Japanese, and surplus-country policymakers, their deliberations unfolded against the backdrop of a United States increasingly committed to restoring credibility through unilateral discipline. This stance effectively set the boundaries of what was politically feasible: even as systemic pressures mounted, U.S. monetary autonomy—and the preservation of the dollar’s privileged position—remained the overriding priority (Helleiner 1994, 98–105).

### **2.5 OPEC and Japan: Two Pillars of the Global Reserve System**

The international monetary landscape of the late 1970s was shaped in decisive ways by two actors whose positions were structurally distinct yet functionally intertwined: the OPEC surplus economies and Japan. Among these, the OPEC countries occupied a uniquely ambivalent position. The quadrupling of oil prices in 1973–74 transformed the major exporters—Saudi Arabia, Kuwait, the UAE, Iran, and Venezuela— one of the principal sources of global net savings during the second half of the 1970s.

Their foreign-asset portfolios, overwhelmingly dollar-denominated (75–90 per cent by most estimates), were channelled primarily through short-maturity Eurocurrency deposits (BIS 1975; BIS 1979; World Bank 1980). This concentration had initially reflected a judgment that the dollar was a stable and liquid currency, but by the late 1970s the sustained depreciation of the U.S. currency exposed OPEC governments to mounting valuation risks. IMF simulations indicated that a 10 per cent decline of the dollar against the SDR could reduce the real value of the major Gulf countries’ surpluses by several billion dollars (De Vries 1985, 255). U.S. diplomatic reporting confirmed that dollar weakness triggered growing anxiety among OPEC

authorities, with several states calling for denominating oil sales in alternative currencies and exploring reserve diversification strategies. As one internal assessment put it, OPEC's confidence in the dollar had reached a point where "some OPEC countries have begun to question the wisdom of depending so heavily on the dollar" and were openly weighing the consequences of "switching away from the dollar"—a shift that would likely affect their broader foreign-policy outlook, especially if they concluded that the United States lacked "the determination or the ability to handle its currency properly"<sup>25</sup>.

In principle, the Substitution Account offered OPEC an elegant solution to these dilemmas: by converting part of their dollar reserves into SDR-denominated claims, the Gulf exporters could hedge depreciation risk without disrupting the U.S.-centred system through which their surpluses were recycled. Yet precisely the features that made the Account attractive to OPEC rendered it politically unacceptable to the United States and Europe. Key OPEC members—above all Saudi Arabia—signalled that participation was conditional on guarantees insulating them fully from valuation losses. IMF officials, summarised by De Vries (1985, 256), noted that OPEC's "strong interest in diversification could not translate into participation absent a credible guaranteed mechanism," but neither Washington nor the major European governments were willing to mutualise exchange-rate risk on that scale. The Saudis, in particular, resisted pressure from within OPEC to diversify unilaterally, making clear that their confidence in the dollar—and their willingness to maintain it—depended on their assessment of the United States' capacity to reverse inflation and restore monetary stability.

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<sup>25</sup> Carter Library, National Security Council, Institutional Files, Box 68, PRC 058, 3/16/78, Monetary Situation. Secret.

apan's position, though structurally distinct from that of the OPEC surplus economies, generated a parallel set of constraints that proved equally fatal to the Substitution Account. As the world's largest oil importer, Japan suffered a severe external shock following the 1973–74 oil price spike, temporarily slipping into deficit. By 1976, however, vigorous export growth had restored external balance, only for the country to confront a new challenge: the rapid appreciation of the yen—from around ¥295–300 per dollar in 1976 to roughly ¥185–200 by late 1978—which sharply constrained Japan's willingness to absorb additional dollar exposure (Boughton 2001). To resist this appreciation, the Bank of Japan undertook massive foreign-exchange intervention, accumulating dollar reserves at a pace unmatched in its postwar history: from \$12.7 billion in 1975 to almost \$33 billion by 1978 (Bank of Japan Annual Report 1979). This strategy, however, produced a severe dilemma. Intervention prevented further yen appreciation but simultaneously exposed Tokyo to mounting valuation losses as the dollar weakened and expanded the domestic monetary base, complicating inflation control.

Japanese officials expressed growing concern to the IMF, insisting that participation in any substitution arrangement would be impossible without explicit guarantees against exchange-rate losses (De Vries 1985, 255–257). This position was reiterated in diplomatic exchanges between the US Assistant Secretary of the Treasury for International Affairs Bergsten and Professor Chiaki Nishiyam, where Japanese representative stressed that “valuation losses arising from U.S. policy should not fall on Japan”<sup>26</sup>.

Yet Tokyo's reservations were not only financial; they were also political and psychological. As U.S. National Security Staff paper noted, “the Japanese, in

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<sup>26</sup> Carter Library, Anthony Solomon Collection, 1977–1980, Chronological File, Box 4, 8/78. Secret

addition to sharing the European worry that the U.S. is not able to act decisively and effectively to strengthen the dollar, are concerned that they are being discriminated against”<sup>27</sup>. Long sensitive to unequal treatment, Japanese officials resented that Washington intervened aggressively in the dollar–deutsche mark market but refrained from similar action in the dollar–yen market. This asymmetry fed the perception that U.S. monetary policy was being used to pressure Japan in ways deemed unacceptable vis-à-vis Germany, reinforcing Tokyo’s determination not to assume any portion of the dollar’s depreciation risk (Boughton 2001).

Because neither the United States nor Europe was prepared to underwrite such losses, Japan’s conditional interest could not translate into participation. This convergence of economic vulnerability, political sensitivity, and an uncompromising stance on risk allocation rendered Japan’s support structurally incompatible with the scheme’s viability, mirroring the impasse already visible among the key OPEC states (De Vries 1985).

The convergence of OPEC and Japanese reluctance had profound systemic implications. Taken together, OPEC and Japan held close to 40 per cent of global official dollar reserves by 1978 (BIS Annual Report 1979, 144). For the Substitution Account to generate meaningful diversification, their participation was indispensable; yet they constituted what one IMF official later described as a “coalition of refusal”<sup>28</sup>. Saudi Arabia indicated explicitly in late 1978 that participation required full protection against valuation losses Japan adopted an almost identical stance, insisting that it could not absorb

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<sup>27</sup> Carter Library, National Security Council, Institutional Files, Box 68, PRC058, 3/16/78, Monetary Situation. Secret.

<sup>28</sup> United States Department of State, Foreign Relations of the United States, 1977–1980, vol. III: Foreign Economic Policy (Washington, DC: U.S. Government Printing Office, 2013), doc. 154.

depreciation losses arising from U.S. policy (De Vries 1985, 255–257). Major European governments, including Germany, likewise made participation conditional on the establishment of a clear and credible guarantee mechanism (Funabashi 1988, 64–69). Meanwhile, the United States refused to provide such guarantees, with Treasury Secretary Michael Blumenthal warning that Washington “cannot write an open-ended insurance policy on the dollar” (Solomon 1982, 193–95).

The outcome was a structural impasse: without OPEC and Japan, the Account lacked scale; without U.S. underwriting, it lacked credibility; without European backing, it lacked political balance. As De Vries summarises, “every major reserve holder wished to diversify out of dollars, but none was willing to pay for the privilege” (De Vries 1985, 255). IMF Executive Board discussions in March 1979 acknowledged this reality explicitly, noting that no member was willing to absorb the exchange-rate risk inherent in the proposal (Boughton 2001, 739–741). The negotiations of 1978–79 thus reveal not merely a failure of institutional design, but a symptom of deeper structural tensions within the post-Bretton Woods order—an environment increasingly marked by asymmetric vulnerabilities, heightened risk aversion, and an erosion of the cooperative ethos that had animated earlier reform efforts (James 1996, 270–276; Helleiner 1994, 98–110). The collapse of the Substitution Account reflected not only U.S. preferences but the broader fragmentation of international monetary cooperation, as key reserve holders sought insulation rather than integration and the politics of valuation risk eclipsed the ambition of building a collectively managed reserve asset (Solomon 1982, 212–14).

## 2.6 The United Kingdom Between Support and Scepticism

The United Kingdom's stance toward the Substitution Account cannot be understood in isolation from the profound macroeconomic and political reorientation that followed the sterling crisis of 1976. The collapse of the pound in September of that year—against a backdrop of inflation that had peaked at 24.2 per cent the previous year (ONS 2023), persistent current-account deficits, and destabilising capital outflows—exposed the structural fragility of the British economy and culminated in a \$3.9 billion IMF stand-by arrangement, then unprecedented in scale.

As Susan Strange (1976) argued, the crisis marked not only a moment of acute financial strain but the symbolic end of sterling's erstwhile reserve-currency status. The ensuing conditionality, focused on fiscal consolidation, monetary tightening, and the emergence of the Medium-Term Financial Strategy, left a deep imprint on British monetary diplomacy (Dell 1981; Boughton 2001). It fostered within the Treasury a durable culture of caution toward mechanisms that might impose contingent liabilities or replicate the vulnerabilities exposed during the 1976 crisis<sup>29</sup>.

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<sup>29</sup> The “1976 sterling crisis” refers to the severe loss of confidence in the pound that culminated in September–December 1976, when sterling fell sharply against both the dollar and the Deutsche Mark amid accelerating inflation, widening fiscal and current-account deficits, and large capital outflows. International markets began to doubt the UK government's capacity to stabilise the currency, prompting heavy intervention by the Bank of England and eventually forcing the Callaghan government to request a stand-by arrangement from the IMF—the largest in the Fund's history up to that point. The crisis is widely interpreted as marking the symbolic end of sterling's residual role as an international reserve currency (Strange 1976), exposing the structural weaknesses of the British economy and inaugurating a shift toward stricter fiscal and monetary discipline. For authoritative accounts, see Susan Strange, *Sterling and British Policy* (1976); Catherine R. Schenk, *The Decline of Sterling* (2010), 204–210; and James M. Boughton, *Silent Revolution: The IMF 1979–1989* (2001), 316–318.

This context shaped the UK’s position both in early Article IV consultations<sup>30</sup> and in the debates surrounding the Substitution Account. When the IMF began its surveillance operations in 1978, the UK—having just drawn SDR 2.25 billion under the 1977 stand-by—was already on a trajectory toward financial stabilisation, even as sterling’s sharp appreciation in 1979–80, driven by North Sea oil revenues and the Thatcher government’s monetary tightening, created unprecedented competitiveness losses (Boughton 2001, 182).

Fund staff repeatedly highlighted the risks of “protracted large-scale intervention in one direction,” while British officials, notably Executive Director William Ryrie, complained that the IMF seemed to be preaching a “gospel of free floating” (Boughton 2001, 182). Yet despite such frictions, the Board broadly endorsed the government’s anti-inflationary stance, reflecting an implicit convergence around the primacy of domestic monetary discipline.

It was precisely this post-1976 sensitivity to exchange-rate risk and fiscal exposure that informed the UK’s ambivalent position on the Substitution Account. Britain supported the principle of strengthening the SDR—especially after the Second Amendment designated it the “principal reserve

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<sup>30</sup> Article IV consultations were introduced following the Second Amendment of the IMF Articles of Agreement (1978), which replaced the par-value system of Bretton Woods with a framework centred on surveillance of members’ exchange-rate and macroeconomic policies. Under Article IV, the Fund conducts regular (usually annual) consultations with each member state to assess the consistency of national policies with international monetary stability. These missions—combining staff visits, policy reviews, and Executive Board discussions—became the cornerstone of post-Bretton Woods surveillance and marked a shift from the Fund’s earlier focus on lending operations toward systematic oversight of domestic economic management. For authoritative treatments, see James M. Boughton, *Silent Revolution: The IMF 1979–1989* (Washington, DC: IMF, 2001), 77–84; and Margaret Garritsen de Vries, *The International Monetary Fund, 1972–1978: Cooperation on Trial* (Washington, DC: IMF, 1985), 21–29.

asset” of the system—but remained wary of any arrangement that might entail open-ended risk sharing or generate liabilities reminiscent of the sterling era (De Vries 1985, 252–57).

This ambivalence surfaced both in official communications to the Fund and in domestic political discourse. Addressing the House of Commons on 3 April 1979<sup>31</sup>, Chancellor Denis Healey affirmed the UK’s support for expanding the SDR’s role but emphasised that any substitution facility would require strict limits on Exchequer exposure. As De Vries’s reconstruction shows, British representatives consistently welcomed efforts to strengthen the SDR yet insisted that the Substitution Account must incorporate clear and predictable arrangements regarding the allocation of valuation losses (De Vries 1985).

Thus, while the UK broadly endorsed multilateral monetary reform and recognised the strategic rationale for reducing reliance on the dollar, its recent experience with exchange-rate instability and IMF conditionality made it one of the most cautious supporters of the Substitution Account (Schenk 2010). Britain exemplified a wider trend within advanced economies in the late 1970s: a shift toward privileging monetary sovereignty, fiscal prudence, and clearly bounded obligations over the more ambitious, solidaristic reform proposals that had characterised the immediate post-Bretton Woods era (Helleiner 1994).

British intellectual assessments echoed these concerns. Susan Strange argued that the Substitution Account risked reinforcing U.S. monetary dominance by embedding confidence in dollar-denominated assets within an IMF-managed framework (Strange 1979, 347). Schenk (2010, 214–16) notes that several

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<sup>31</sup> Hansard, House of Commons, December 13, 1978, vol. 959, col. 493

British commentators doubted the willingness of the United States to accept any meaningful constraint on its monetary autonomy and warned that an inadequately designed facility could shift U.S. adjustment burdens onto the Fund. Within the Bank of England, reserve-management discussions—documented in Schenk’s archival work (2010)—highlighted fears that substitution might introduce exposures difficult to reconcile with the UK’s post-1976 fiscal and monetary strategy.

Britain’s position on substitution was also shaped by its ambivalence toward European monetary integration (Boughton 2001). While France and Germany saw the European Monetary System, launched in March 1979, as a regional shield against dollar instability, the Callaghan government declined full participation. As James (1996, 433–40) and Dyson & Featherstone (1999) show, UK officials considered sterling too fragile to bear the obligations implied by the EMS’s exchange-rate mechanism and prioritised domestic stabilisation over regional commitments. In Parliament, Healey reiterated that securing internal stability had to take precedence over new international obligations<sup>32</sup> and Ryrrie<sup>33</sup> invoked the feared IMF’s “gospel of free floating” (Boughton 2001, 183).

This logic extended naturally to the Substitution Account: supporting the SDR carried little immediate cost, whereas binding loss-sharing obligations resembled both the constraints associated with the EMS and the limitations imposed by the 1976 IMF programme (Boughton 2001, 183).

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<sup>32</sup> Hansard, 13 December 1978, vol. 959, col. 493

<sup>33</sup> William Ryrrie (1938–2018) served as the United Kingdom’s Executive Director at the International Monetary Fund from 1978 to 1982, a period that coincided with the early implementation of Article IV surveillance and the Fund’s debates on exchange-rate management and the Substitution Account. For biographical context, see James M. Boughton, *Silent Revolution: The IMF 1979–1989* (Washington, DC: IMF, 2001), 138–39.

The arrival of the Thatcher government in May 1979 further consolidated the United Kingdom's cautious stance. The new administration's commitment to fiscal discipline and monetary control—well documented in the economic histories of the period (Brittan 1983; Grant 1985; Gamble 1988)—made policymakers wary of mechanisms that might dilute domestic sovereignty. Boughton (2001) notes that British officials ultimately judged the Substitution Account unworkable given the absence of a credible and limited formula for allocating valuation losses and the lack of a firm U.S. guarantee. De Vries (1985) similarly records that, by late 1979, UK representatives concluded that the scheme could not proceed without clearer commitments from major reserve holders and that these commitments were politically unattainable.

In retrospect, the British case illustrates the dilemmas of a former reserve-currency state navigating the asymmetric interdependence of the post-Bretton Woods order. Unlike France, whose critique of U.S. monetary power was rooted in Gaullist doctrine, or Germany, whose hard-currency philosophy made it sceptical of risk mutualisation, Britain's ambivalence derived from the intersection of vulnerability, institutional memory, and ideological transition. The Substitution Account appeared to London as both an appealing and a perilous prospect: appealing because it promised a more orderly reserve system; perilous because it risked re-exposing the UK to contingent liabilities at a time of still-fragile monetary autonomy. The British stance thus exemplifies a broader trend of the late 1970s, when states confronted deepening monetary interdependence yet increasingly doubted the viability of its institutional management (Eichengreen 2008).

## **2.7 France and the Return of Monetary Gaullism**

Among the major European actors engaged in the debate over the Substitution Account, France distinguished itself by the clarity and consistency of its opposition. For Paris, the proposal was not a neutral instrument of reserve stabilisation but a mechanism that risked reinforcing the centrality of the dollar at a moment when Europe was seeking to reassert a measure of monetary autonomy. This stance drew on a longer intellectual and diplomatic lineage. It is impossible to understand France's position without recalling the critique articulated by Jacques Rueff—De Gaulle's principal economic adviser—whose attacks on the “exorbitant privilege” of the dollar and his calls for a return to a gold-based system shaped French monetary diplomacy throughout the 1960s (Rueff 1963; Rueff 1971). De Gaulle's famous 1965 press conference, in which he denounced a system that allowed “the United States to run deficits without tears,” was itself grounded in Rueff's theoretical objection to a reserve system based on a national currency and the inflationary biases it generated (De Gaulle 1965; Rueff 1963).

Within this intellectual framework, the Substitution Account appeared to many French officials less as a step toward symmetry than as a technocratic device that risked prolonging the very asymmetry they had spent a decade criticising. The turbulence of the 1970s reinforced this Gaullist perspective. The collapse of the Bretton Woods parities in 1971, the repeated depreciations of the dollar, and the broader instability of the decade appeared to vindicate earlier French warnings about the fragility of a reserve system tied so closely to the domestic policy choices of one country (Eichengreen 1985, 204; James 1996, 192).

At the same time, France faced internal vulnerabilities: inflation averaged 13 per cent in 1974 and remained high throughout the decade (INSEE 1983).

President Valéry Giscard d'Estaing's *franc fort* strategy—centred on monetary and fiscal discipline—depended on insulating the economy from external volatility. Within this context, officials in the Trésor and the Banque de France regarded the Substitution Account as a distraction from a more strategic priority: constructing a European framework capable of reducing the continent's exposure to U.S. monetary instability.

French scepticism is well documented in the historical record. As De Vries (1985, 656–659) notes, French representatives—including Executive Director Clément Bonnefous and senior Treasury officials such as René Larre—acknowledged the intellectual coherence of the proposal but doubted its fundamental logic, arguing that the Substitution Account risked transforming the IMF into a vehicle for perpetuating dollar liabilities without addressing the asymmetry at the core of the system. The French position also reflected what scholars describe as *monétarisme gaullien*<sup>34</sup>—an intellectual tradition that emphasised fiscal orthodoxy and national monetary sovereignty over international risk-sharing (Helleiner 1994; Dyson and Featherstone 1999).

A core French concern was the relationship between substitution and responsibility. While the mechanism promised diversification in form, it preserved dependence in substance: participating countries would hold SDR-

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<sup>34</sup> The term *monétarisme gaullien* refers to a strand of French monetary thought that emerged in the 1960s and combined fiscal and monetary discipline with a commitment to national monetary sovereignty. Rooted in Charles de Gaulle's critique of the asymmetries of the dollar-based system, this doctrine held that international monetary order required symmetrical adjustment obligations and that risk mutualisation could undermine national responsibility. Scholars such as Helleiner (1994), James (1996), and Dyson and Featherstone (1999) show that this tradition persisted well beyond the Gaullist era, shaping French scepticism toward mechanisms—such as the Substitution Account—that appeared to redistribute exchange-rate risk without altering the structural privileges of the reserve-issuing country.

denominated claims, but the IMF would continue placing the underlying dollar assets largely in U.S. Treasury securities. French officials feared that such an arrangement would institutionalise a system in which the reserve-issuing country faced weaker adjustment pressures than its partners. This critique echoed longstanding French dissatisfaction with what de Gaulle had described as the “asymmetry of obligations” in the international monetary system (De Gaulle 1965; Eichengreen 1985; James 1996).

Paris, therefore, promoted an alternative vision of international reform—one centred on Europe rather than on the IMF. The creation of the EMS embodied this regional strategy. Anchored in the European Currency Unit (ECU), the EMS provided a framework for intra-European exchange-rate stability and, indirectly, a means of reducing reliance on the dollar (Dyson and Featherstone 1999). As James (1996, 343–49) notes, French attention that had once been directed toward global reform increasingly shifted toward regional construction, which Paris regarded as the only viable path to monetary autonomy within a dollar-centred system.

Contemporary commentary in France reflected this orientation. Press analyses routinely characterised the proposal as a mechanism that would stabilise dollar liabilities without imposing corresponding discipline on their issuer (Le Monde 1978). Discussions in the National Assembly similarly emphasised that meaningful international reform required greater symmetry in adjustment obligations. This perspective was not rooted in political disagreement but in a principled view about the foundations of monetary order (Cohen 1977).

In international negotiations, France adopted a tactful but firm stance. French representatives supported strengthening the SDR and shared the general objective of enhancing systemic stability, but they consistently rejected

substitution models that transferred part of the dollar's valuation risk onto the international community without addressing systemic asymmetry (De Vries 1985). While this position overlapped with that of the Federal Republic of Germany, the underlying motivations differed: Bonn focused on inflation risks and fiscal exposure; Paris focused on sovereignty and systemic principles (James 1996).

The intellectual tension between France and the United States was thus both technical and normative. For Witteveen, the Substitution Account represented pragmatic reform. For France, its pragmatism was precisely the problem: it risked entrenching a framework in which the reserve-issuing country could externalise adjustment costs (James 1996). Helleiner (1994) notes that French critiques of U.S. monetary power remained consistently grounded in the principle that stability requires symmetrical obligations among states.

The arrival of Jacques de Larosière at the helm of the IMF in 1978—himself a senior figure of the French Treasury tradition—has been interpreted by some scholars as indirectly favourable to the French position. While de Larosière did not act as an agent of French monetary doctrine, his emphasis on financial prudence, institutional discipline, and the protection of the Fund's balance sheet aligned more closely with Paris's scepticism than with Witteveen's earlier reformist ambition (Boughton 2001, 739–740; Henning 1994). In this sense, the gradual narrowing of the Substitution Account during his tenure can be read as a partial, if unintended, vindication of longstanding French concerns.

The institutional consolidation of European monetary cooperation further reinforced French scepticism. The alignment between domestic anti-inflation strategies and Europe's emerging monetary framework left little space for global reforms that appeared redistributive or insufficiently anchored in clear

principles (James 1996). While France continued to support an expanded role for the SDR, the Substitution Account never met the standard of symmetry and responsibility that Paris considered essential. As De Vries (1985) observes, the lack of French support proved decisive: without Paris, European backing for the mechanism dissipated.

By the early 1980s, the French position had effectively prevailed. The abandonment of the Substitution Account, the retreat from broader SDR reform, and the increasing centrality of the EMS marked the consolidation of a European—and especially French—approach privileging monetary autonomy and symmetry of adjustment over global liquidity management (Goodman 1992; Dyson & Featherstone 1999; James 1996). In retrospect, France’s resistance illustrates the re-emergence of a European critique of dollar hegemony grounded in sovereignty, symmetry, and accountability (Helleiner 1994). It marked the return of monetary Gaullism—not as a nostalgic posture, but as a coherent response to the structural challenges of the 1970s. However technically sophisticated, the Substitution Account failed to meet France’s criterion of a legitimate reserve system: one in which responsibilities are shared as evenly as rights (Eichengreen 1985).

## **2.8 The Federal Republic of Germany: Discipline Without Leadership**

Among the major industrial economies involved in the Substitution Account negotiations, the Federal Republic of Germany occupied a position that was simultaneously central and constrained. West Germany combined strong external fundamentals—persistent current-account surpluses, comparatively low inflation, and a reputation for monetary orthodoxy—with an institutional culture that elevated price stability to a constitutional principle. These strengths, however, reduced Bonn’s willingness to engage in collective risk-

sharing. As several historians note, Germany had become a stabilising force in an international system that it neither designed nor fully endorsed (James 1996; Eichengreen 1985).

The breakdown of the Bretton Woods parities placed the Bundesbank at the front line of international monetary turbulence. Between 1973 and 1978, it intervened repeatedly to counter appreciation pressures on the Deutsche Mark, absorbing large quantities of dollars and thereby expanding domestic liquidity at a time of rising global inflation (Bundesbank Annual Report 1979; BIS Annual Report 1978). German policymakers interpreted these developments as a clear demonstration of the structural asymmetry of the post-Bretton Woods system: surplus countries bore the inflationary consequences of dollar weakness, while the reserve-issuing country remained partly insulated from adjustment pressures. Within this context, the idea of a multilateral Substitution Account—designed to absorb depreciating dollars on a permanent basis—appeared to the Bundesbank economically dubious and institutionally incompatible with its mandate (Marsh 1992).

By 1978–79, these concerns were reinforced by Germany’s new obligations under the European Monetary System, which placed the Deutsche Mark at the centre of Europe’s fixed-rate arrangements. The Bundesbank’s leadership, drawing on an ordoliberal conception of monetary governance prioritising stability, discipline, and clear lines of responsibility, consistently argued that a substitution mechanism would weaken the market signals required to enforce adjustment and would shift valuation risk from markets to public institutions (Holtfrerich 1999; De Vries 1985). Because the Account would have issued SDR-denominated claims backed by dollar assets, any depreciation of the dollar would have generated losses that participants would need to absorb—a design feature fundamentally at odds with the Bank’s anti-

inflationary orientation and its resistance to open-ended contingent liabilities (Eichengreen 1985; Issing 1998).

These institutional and intellectual commitments shaped Germany's stance in IMF discussions. German officials acknowledged the long-term desirability of strengthening the SDR and reducing excessive reliance on the dollar, but they resisted any arrangement that involved shared responsibility for dollar depreciation or that could be interpreted as underwriting the reserve-currency privileges of the United States (Boughton 2001). As Dyson and Featherstone (1999) note, Bonn's priority was to preserve monetary credibility and ensure the stability of the EMS, even at the cost of blocking global initiatives perceived as redistributive or fiscally ambiguous. In this sense, German scepticism toward the Substitution Account was not merely a tactical objection but the expression of a deeper normative commitment: stability required symmetry, and symmetry required that the issuer of the reserve currency—not its creditors—bear the consequences of its own policies.

Within the federal government, attitudes were more nuanced but broadly aligned with the Bundesbank's caution. The Ministry of Finance recognised the systemic rationale for substitution but drew attention to the fiscal implications of any mechanism that redistributed dollar depreciation losses among participants. De Vries (1985) notes that even moderate valuation losses could have imposed substantial fiscal burdens on surplus countries, a politically sensitive issue in West Germany given the memory of past inflation. Chancellor Helmut Schmidt, though personally sympathetic to international cooperation, consistently deferred to the Bundesbank on matters directly affecting monetary stability (James 2001).

In international discussions, German representatives adopted a stance that was formally cooperative yet substantively cautious. They supported

analytical exploration of the Substitution Account but insisted that participation remain voluntary and free from open-ended guaranteed obligations. IMF sources confirm that German officials repeatedly questioned the scale of the proposals under discussion and stressed the need for strict limits on any potential liability (De Vries 1985, 254–57). Bonn’s position thus combined recognition of the systemic problem with resistance to any arrangement that diluted national control over risk.

This approach was rooted in the intellectual framework of *Stabilitätspolitik*, the policy paradigm that had guided the Bundesbank since the 1950s. The German monetary doctrine—shaped by ordoliberal economic thought—prioritised price stability, fiscal discipline, and the principle that adjustment responsibilities must lie primarily with deficit countries (Hall 1986; Issing 1993; Dyson and Featherstone 1999). Consistent with this view, the Bundesbank rejected exchange-rate commitments that might compromise domestic stability, resisted mechanisms that could accommodate external shocks through liquidity creation, and opposed arrangements that might mutualise the consequences of policy mistakes made elsewhere (Marsh 1992; Holtfrerich 1999). Against this backdrop, a substitution mechanism supported by multilaterally shared guarantees appeared incompatible with both Germany’s monetary philosophy and its institutional responsibilities as the anchor of the EMS. Inflation was understood not only as an economic problem but as a breach of the social contract underpinning the post-war monetary order. As Issing later observed, for the Bundesbank stability functioned as a constitutional value (Issing 1998).

Political considerations reinforced this orientation. Domestically, underwriting the consequences of U.S. macroeconomic imbalances would have been unpopular, while internationally Germany resisted any role that

implied responsibility without corresponding control (Marsh 1992; Holtfrerich 1999).

In this context, a global mechanism based on shared dollar risk appeared strategically misaligned with Germany's preference for a rules-based regional framework (Dyson and Featherstone 1999; Eichengreen 1985). The broader shift in global economic governance during 1979–80 further strengthened German resistance. The emerging consensus around monetary targeting, credibility, and fiscal restraint resonated strongly with long-standing German principles (Hall 1989; Blyth 2002). Against this backdrop, Witteveen's vision of collective risk-sharing seemed increasingly anachronistic.

In retrospect, the German stance reflected a paradox of strength: the Bundesbank possessed the credibility necessary to anchor systemic reform, yet its doctrinal commitment to *Stabilitätspolitik* precluded assuming the shared responsibilities that reform entailed. Stability, in the German conception, could not be pooled or insured but had to be earned through national discipline. The Substitution Account—founded on a logic of cooperative risk-sharing—was thus structurally incompatible with the normative foundations of German monetary governance, reinforcing the shift from global to regional monetary solutions and consolidating the Deutsche Mark as Europe's monetary anchor.

## **2.9 Developing Countries and the UNCTAD Agenda**

The debates on the Substitution Account reopened a longstanding fault line in the international monetary system: the unresolved tension between “liquidity as a collective good” and “liquidity as an instrument of hierarchy”. For developing countries gathered in UNCTAD and the Group of 77, the IMF's late-1970s initiative was perceived less as a neutral response to dollar

instability than as the revival of a conversation from which the South had been progressively marginalised. The Committee of Twenty's Outline of Reform (1974) had already set aside proposals to link SDR allocation directly to development finance; what remained was a procedural committee on the transfer of real resources which, as UNCTAD later acknowledged, did not produce an operational mechanism capable of correcting structural asymmetries between developed and developing members (UNCTAD 1979). This institutional relegation shaped Southern reactions to Witteveen's proposal. In UNCTAD fora and G-77 statements, the Substitution Account was widely interpreted as a predominantly Euro-Atlantic device aimed at containing dollar instability without altering the distribution of monetary power. This reading is supported by UNCTAD's own assessment of the 1978–79 debates, which noted that discussions on monetary reform had become centred within the OECD and largely detached from the concerns of developing economies (UNCTAD 1979).

Since the first UNCTAD conference in 1964, developing countries had argued that the creation of international liquidity should reflect global needs rather than the portfolio concerns of reserve-issuing states. This position was reiterated in successive UNCTAD reports during the 1970s, especially in debates on the proposed “development link” for SDR allocations (UNCTAD 1964; UNCTAD 1972; UNCTAD 1976).

By contrast, the Substitution Account was framed primarily around the risk-management requirements of major industrial-country reserve holders. Analyses produced by the UNCTAD secretariat in 1978–79 emphasised that the mechanism would chiefly benefit countries holding large stocks of dollars, while offering limited and indirect advantages to the majority of developing economies (UNCTAD 1979; Bird 1982).

This judgement was rooted in a deeper political memory. The early 1970s had seen the apex of Southern activism in monetary affairs: the demand for a New International Economic Order, the G-24's advocacy of a "development link" for SDRs, and a variety of proposals—often associated with Triffin and UN circles—to channel seigniorage from reserve creation towards multilateral development finance. These initiatives were effectively set aside in the C-20 process and in subsequent IMF discussions. As Gamani Corea and other UNCTAD economists later argued, the dominant doctrine of "neutrality" in liquidity creation treated distributional issues as exogenous, and thereby removed development from the core of monetary reform (Corea 1978; UNCTAD 1979).

When the Substitution Account returned to the IMF agenda in 1978, the geography of reform had thus shifted decisively northward. In the OECD world, the scheme was debated as a device for stabilising official portfolios and containing disorderly diversification; in much of the South it was seen as confirmation that monetary governance had become a largely closed process. Moreover, as Boughton (2001) asserts,

Developing countries saw little value in the idea on its own merits; few of them had even comfortable, much less excess, dollar balances, and they had little to gain directly. But they desperately wanted the Fund to start allocating SDRs again, and a substitution account might help promote that objective (Boughton 2001, 938).

Proceedings of UNCTAD V in Manila record recurrent concerns that substitution was being designed primarily as a crisis-management instrument for advanced economies, and that its contribution to the problems of heavily

indebted developing countries would be limited and indirect (UNCTAD 1979).

The intellectual leadership of the South reinforced this reading. Authors such as Corea (1978) and I. G. Patel (1978) interpreted the Account in continuity with a series of reforms that addressed the management of existing reserves but left untouched the asymmetry in the creation and distribution of international liquidity. From this perspective, a scheme confined to converting the dollar holdings of a few surplus countries into SDR-denominated claims did not amount to systemic reform, but rather to a sophisticated form of portfolio insurance for the core (De Vries 1985). Graham Bird's (1982) survey of developing-country interests in monetary reform reached a similar conclusion: without a renewed SDR–development link or some earmarking of substitution earnings for concessional finance, Southern support for such schemes would remain limited (Bird 1982).

The epistemic distance between the IMF and the South was therefore substantial. For Witteveen and the IMF Research Department, the Substitution Account was conceived as a technically “neutral” mechanism to accommodate reserve diversification without adding to global liquidity and without altering the relative position of currencies (De Vries 1985). For UNCTAD economists, however, neutrality itself had become a contested concept: a design that excluded redistribution and left unchanged the privileged role of a national currency as the principal reserve asset could not plausibly be described as neutral in political or developmental terms (Corea 1978; UNCTAD 1979).

The conjuncture of 1979 further deepened this divide. The second oil shock widened the gap between OPEC surplus countries and non-oil developing economies, which faced rising external debt and deteriorating terms of trade.

After 1979, real interest rates in the United States turned sharply positive—Sachs, Cooper and Fischer (1981) note that short-term U.S. real rates moved from negative values to levels above 5 per cent by early 1981—raising the cost of refinancing for heavily indebted developing economies and aggravating their balance-of-payments pressures (Sachs et al. 1981). These monetary conditions, combined with the sharp increase in the oil import bill for non-oil developing countries, left little political or financial space for reviving proposals to link SDR allocation to development finance. UNCTAD expert reports instead underscored the normative dimension of the Substitution Account, stressing that a facility designed solely around financial stability for reserve holders, without any developmental component, risked aggravating perceptions of an international order in which stability was secured for some and adjustment was imposed on others (UNCTAD 1979). By the early 1980s, the normative ambitions that had animated Southern proposals in the previous decade had largely dissipated. Subsequent IMF-sponsored reviews of developing-country perspectives on monetary reform tended to treat suggestions for linking reserve management to concessional finance as marginal, even when acknowledging that a modest transfer of substitution-related earnings could in principle, reconcile efficiency with some degree of equity (Bird 1982). Industrial-country debates focused increasingly on credibility, inflation control, and risk allocation among advanced central banks; the South, increasingly peripheral to formal negotiations, viewed the Substitution Account as part of a broader pattern in which reform projects stabilised the core of the system without transforming its hierarchical structure (Helleiner 1994). In retrospect, the episode illustrates the moral exhaustion of post-war multilateralism in the monetary field. For developing countries, the

Substitution Account was never simply a technical exercise: it epitomised the consolidation of an international monetary order that no longer recognised the developmental dimension of liquidity creation. The abandonment of the SDR–development link in the mid-1970s, the limited impact of the C-20’s resource-transfer committee, and the OECD-centred nature of the late-1970s reform debates form a continuous trajectory: the gradual exclusion of redistribution from the vocabulary of international monetary governance. Later analyses of the “non-system” that emerged after Bretton Woods have highlighted precisely this combination of functional adaptation and distributive inertia (Ocampo 2017; Strange 1986, 1987). The Substitution Account thus marked the end of a period in which the South could plausibly envisage international liquidity as a shared resource. What remained was a regime of reserve management designed by and for the core, in which the quest for stability proceeded largely detached from concerns of distributive justice.

## **2.10 The Demise of the Proposal**

The demise of the Substitution Account was not the outcome of technical inadequacy, but rather the product of a profound transformation in the intellectual, political, and macroeconomic environment of the late 1970s. By 1979, the IMF had already accomplished the most technically demanding aspects of the project: operational modalities had been clarified; risk–return simulations had been conducted; and senior staff—particularly Polak—had articulated a coherent analytical framework linking the Account to the broader objective, enshrined in the Second Amendment, of establishing the SDR as the “principal reserve asset” of the international monetary system

(Polak 1980). In purely functional terms, the mechanism was mature. What collapsed was the coalition that would have been required to sustain it.

As several contemporary observers and later historians have emphasised, the crucial turning point occurred between the final quarter of 1979 and the first months of 1980 (De Vries 1985; Boughton 2001). Internal U.S. documentation from this period—especially the memoranda preserved in the “Foreign Relations of the United States” (FRUS)—reveals that Washington’s already-fragile support for the Account deteriorated rapidly under the combined pressure of domestic political constraints and a changing intellectual climate.

A classified State Department analysis of December 1979<sup>35</sup> framed the issue not in technocratic terms, but as a question of sovereignty: any substitution mechanism capable of absorbing large stocks of dollars would expose the United States to “open-ended contingent liabilities,” thereby constraining the discretionary space of U.S. monetary and fiscal policy. The analysis concluded that such constraints were politically untenable at a moment when domestic economic credibility had become the cornerstone of U.S. strategy. This shift was dramatically reinforced by the Federal Reserve’s policy revolution of 6 October 1979. With the announcement of a regime centred on the control of monetary aggregates, Chairman Paul Volcker inaugurated what later scholarship has characterised as the decisive break of the late twentieth century: the reconstitution of monetary policy around the principles of credibility, anti-inflationary discipline, and the primacy of national rather than international objectives (Volcker & Gyohten 1992; Meltzer 2009).

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<sup>35</sup> Carter Library, National Security Affairs, Staff Material, Special Projects, Henry Owen, Box 23, Memcons: 12/79–5/80. Confidential.

Interest rates rose to unprecedented levels, financial conditions tightened sharply, and the dollar began a sustained and unexpected ascent.

A Treasury briefing to the NSC<sup>36</sup> soon after Volcker's announcement noted that the central rationale for the Substitution Account—the need to stabilise a rapidly depreciating reserve currency—had effectively evaporated, as confidence in the dollar was being restored through domestic action rather than multilateral coordination. Boughton would later summarise this moment succinctly: the substitution proposal “lost the problem it had been designed to solve” (Boughton 2001, 953).

Even in the absence of this dramatic policy reversal, however, the project was already burdened by a structural impediment that no amount of technical sophistication could overcome: the absence of an agreed mechanism for sharing valuation risk. Throughout 1979, negotiations oscillated around one central issue: which countries would absorb the losses generated when dollar-denominated assets declined relative to SDR-denominated liabilities. The United States rejected any form of guarantee as a violation of fiscal prudence and monetary sovereignty; Germany and France, invoking the principles of stability, refused to accept liabilities arising from another state's macroeconomic policies; and major reserve holders such as Japan, Saudi Arabia, and Kuwait insisted on full protection against depreciation losses (De Vries 1985, 656–659). As an IMF staff note put it at the time, the fundamental difficulty was that “every major holder wished to diversify out of dollars, but none was willing to pay for the privilege”—a sentiment echoed almost verbatim in De Vries's retrospective account (De Vries 1985, 255).

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<sup>36</sup> National Archives, RG 59, Office of the Under Secretary for Economic Affairs, 1978–1980 Files Pertaining to International Monetary Affairs, OECD, Documents, External Research, Etc., Lot 81D145, Box 2, IMG—International Monetary Group. Limited Official Use.

The archival record indicates that this political stalemate was already recognised within the Fund by late 1979. FRUS documents<sup>37</sup> show U.S. representatives warning that a failure to resolve risk-sharing questions rendered the project “non-operational in any politically realistic scenario”. In early 1980, Executive Directors implicitly acknowledged the deadlock by allowing the proposal to lapse without a formal vote (De Vries 1985, 678). The very fact that the Board elected not to take an explicit decision symbolised the exhaustion of the reformist momentum that had characterised the early post-Bretton Woods decade.

A paradox highlighted by Boughton underscores the contingent nature of this outcome. Ex post calculations demonstrate that, had the Substitution Account been established in early 1980, its dollar assets would have appreciated by 28 per cent over the subsequent five years, while the interest margin—averaging 26 basis points—would have generated sizeable profits (Boughton 2001, 954). In other words, the high risks that immobilised governments would not, in the event, have materialised. Yet this counterfactual underscores rather than diminishes the political logic of the time: in the “bleak economic environment” of 1979–80, as Boughton puts it, no major actor was willing to assume a risk that appeared both open-ended and anchored in another country’s policy regime.

The Substitution Account thus succumbed to a confluence of structural and conjunctural forces. The second oil shock reignited global inflation, encouraging governments to prioritise domestic stabilisation over international innovation (Hall 1989; Blyth 2002). The rise of monetarist ideas

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<sup>37</sup> National Archives, RG 59, Office of the Under Secretary for Economic Affairs, 1978–1980 Files Pertaining to International Monetary Affairs, OECD, Documents, External Research, Etc., Lot 81D145, Box 2, IMG—International Monetary Group. Limited Official Use.

undermined support for mechanisms that implied liquidity creation or collective insurance. Within the IMF, Witteveen's departure and de Larosière's emphasis on institutional consolidation signalled a turn away from ambitious systemic reforms in favour of prudential orthodoxy (Boughton 2001, 739–740). Meanwhile, the major reserve holders, from Japan to Saudi Arabia, refused to internalise depreciation risks that they believed rightly belonged to the issuer of the reserve currency.

By 1981, no major government was advocating the revival of the scheme. The Substitution Account—conceived as the most ambitious attempt to reconstruct international liquidity around a genuinely international asset—had become the casualty of a world economy shifting decisively toward national discipline, financial conservatism, and the erosion of the cooperative ethos that had characterised earlier reform efforts (Eichengreen 1985; James 1996; Helleiner 1994). Its failure marked not merely the end of a proposal, but the closure of a broader historical moment in which the creation and management of international reserves could still be imagined as a collective enterprise.

### **2.11 Intellectual and theoretical foundations**

The intellectual genealogy of the Substitution Account drew on several strands of twentieth-century monetary thought whose influence remained visible well into the reform debates of the late 1970s. Far from being a mere operational fix, the proposal carried embedded assumptions—about adjustment, liquidity creation, and monetary hierarchy—that connected it to earlier controversies involving Keynes, Triffin, post-Bellagio institutionalists, and the structuralist economists of the Global South.

A first and foundational lineage was the Keynesian tradition of international monetary planning. Although the *bancor* proposal and the International Clearing Union had been defeated at Bretton Woods, their core normative premise—that international liquidity should be collectively governed and not tied to the external balance of a single state—retained a subterranean influence. Keynes’s insistence on symmetrical adjustment obligations for deficit and surplus countries (Keynes 1942; 1943) remained an intellectual reference point for subsequent reformers. In the second half of the 1970s, this legacy was particularly visible in the IMF Research Department: Polak, Kenen, Cooper, and others frequently invoked the analytic rationale for a reserve asset whose creation did not depend on U.S. deficits. Although the Substitution Account did not propose a supranational currency, its logic echoed the ICU in seeking to multilateralise the reserve function and reduce the systemic fragility inherent in national-currency reserves.

A second intellectual strand came from the Triffinian tradition. Robert Triffin’s diagnosis of the “fundamental contradiction” of a dollar-based reserve system—formulated as early as “Gold and the Dollar Crisis” (1960) and reiterated throughout the 1970s (Triffin 1978)—was central to the conversations around substitution. Triffin argued that the world’s dependence on U.S. deficits for liquidity generation was both unsustainable and inequitable. His proposals for expanding the SDR and gradually displacing reserve currencies provided a direct analytical template for the more modest, politically constrained substitution schemes considered after 1976. This influence was explicit: senior IMF staff frequently cited Triffin’s work when framing the Substitution Account as a way to reconcile the need for diversification with the unwillingness of governments to contemplate bigger institutional change.

A third layer derived from the analytical work of the Bellagio Group, whose influence on the late-1970s debates is often underestimated. By the 1970s, economists such as Machlup, Cooper, Kenen, Kindleberger, and Williamson had developed a taxonomy of reform options that ranged from systemic reconstruction to incremental adjustment (Machlup 1969; Cooper 1975; Williamson 1977; Kenen 1983). Their work provided much of the conceptual vocabulary, “substitution,” “reserve diversification,” “risk-sharing,” “managed adaptation”, that later shaped IMF discussions. In Bellagio analyses, substitution appeared as a pragmatic “middle way”: ambitious enough to address the Triffin dilemma but compatible with political constraints in the United States and Europe. This Bellagio influence was particularly strong in Polak’s own modelling of the Substitution Account (Polak 1991), which combined analytical rigour with a clear sensitivity to the limits of state consent.

Alongside these Western traditions, a fourth intellectual current—structuralist and Southern—played a crucial role in shaping the broader normative landscape within which substitution was debated. UNCTAD economists such as Gamani Corea, Raúl Prebisch, and I.G. Patel (Corea 1978; UNCTAD 1979) argued that the reserve system reproduced the centre–periphery hierarchy: liquidity was created in the North, while adjustment burdens fell disproportionately on developing economies. Although the Substitution Account was not conceived within UNCTAD, Southern economists saw it as part of a family of reforms addressing the inequities of liquidity creation. The structuralist critique therefore formed an essential—if indirect—intellectual backdrop: by the late 1970s, any initiative touching the SDR inevitably resonated with debates over the “development link” and the distributive structure of the international monetary system. This critique did

not produce the Substitution Account, but it decisively shaped how the scheme was interpreted outside the OECD world.

The intellectual crosscurrents of the period shaped not only the origins but also the evolving interpretation of the proposal between 1976 and 1980. By the late 1970s, economists in the United States and the United Kingdom increasingly embraced monetarist principles, emphasising domestic credibility, anti-inflationary discipline, and market-determined exchange rates. Leading voices such as Friedman, Brunner, Laidler, and Johnson (Friedman 1953; Johnson 1972; Laidler 1999) argued that floating rates rendered institutionalised reserve management obsolete. In this view, the volatility of the dollar reflected domestic macroeconomic imbalances rather than structural flaws in the reserve system; stability would emerge from national discipline, not collective action. This intellectual shift weakened support for substitution within key central banks and finance ministries, particularly after the Volcker shock of October 1979.

Other economists offered a more intermediate reading. Dell, Hirsch, Cline, and Kindleberger (Hirsch 1969; Dell 1981; Cline 1979; Kindleberger 1986) argued that neither pure market discipline nor sweeping institutional reconstruction was feasible. Their analyses emphasised the systemic fragility produced by uncoordinated diversification and the need for instruments—such as substitution—to bridge the gap between Keynesian reformism and monetarist realism. Jacques Polak's work at the IMF epitomised this intellectual middle ground. His analytical designs for the Substitution Account aimed not to overturn the dollar system but to introduce a measure of multilateral risk management compatible with state sovereignty and the increasingly conservative macroeconomic climate of the late 1970s.

By the end of the decade, however, the intellectual balance had shifted decisively. The rise of monetarism in the Anglo-American world, the turn toward new classical macroeconomics, and the elevation of “credibility” as the governing principle of monetary policy narrowed the feasible space for collective reserve reforms. Scholars such as Hall (1989), Strange (1986, 1987), and Eichengreen (1985) later identified this period as the beginning of a major intellectual reorientation: stability was redefined as an outcome of market signals and national discipline, not of cooperative mechanisms.

Within this shifting intellectual environment, the Substitution Account represented—almost inadvertently—the last significant attempt to institutionalise a Keynesian-Triffinian conception of international monetary governance. Even as it failed politically, its analytical and normative concerns resurfaced in later debates: the creation of the European Monetary System, the preparations for monetary union, and the post-2008 revival of SDR reform all echoed arguments first articulated in the late 1970s. As Zhou Xiaochuan’s 2009 proposal made clear, the Triffinian dilemma and the search for multilateralised reserves remain alive.

Seen in retrospect, the Substitution Account was not simply a failed technical device. It was the final articulation of an older intellectual tradition—spanning Keynes, Triffin, UNCTAD, and the Bellagio economists—before the ascendancy of monetarism and market-centred thinking redefined the boundaries of international monetary reform. Its fate therefore illustrates a broader historical pattern: reform ideas begin as ambitious institutional visions, are narrowed under political constraint, and often re-emerge when crises make their underlying arguments impossible to ignore.

## **2.12 Conclusion: From the Link to Substitution—and Beyond**

Viewed in retrospect, the trajectory from the SDR–aid link to the Substitution Account marks the rise and demise of a reformist ambition that once sought to reconcile liquidity with justice within the international monetary system. Both initiatives, though differing in scope and rhetoric, were animated by a shared intellectual lineage: the Keynesian intuition that international money is a public institution, and the Triffinian critique that a reserve currency issued by a single sovereign cannot serve global needs without generating structural instability. The Link attempted to democratise liquidity by linking reserve creation to development finance; the Substitution Account sought to stabilise the system by multilateralising dollar risk. Their ultimate failure represented not merely the rejection of two policy designs but the exhaustion of a broader moral and intellectual project in which global liquidity was treated as a collectively governed common.

The contrast between the early 1970s and the late 1970s reveals a progressive narrowing of the reform imagination. In the first half of the decade, debates were still framed in terms of redistribution, equity, and institutional redesign. By the end of the decade, the language of reform had shifted decisively toward stability, discipline, and risk management. The Substitution Account embodied this intermediate moment: a compromise that still gestured toward multilateralism but within the technocratic and depoliticised limits imposed by the emerging monetarist orthodoxy. Its demise marked the final eclipse of the belief that global liquidity could be consciously and collectively governed.

The intellectual defeat was as consequential as the political one. Whereas Keynes, Triffin, and their successors had envisaged international money as an institution reflecting interdependence, the monetarist revolution redefined

money as an index of credibility rooted in domestic restraint. This epistemic shift reduced the space for institutional imagination and naturalised the hegemony of the dollar as a self-evident, market-validated fact rather than a historically contingent arrangement. What had begun as a debate on justice gradually hardened into a doctrine of discipline. The transition from the Link to the Substitution Account, and from the Account to the austerity-driven adjustment of the early 1980s, thus charts the moral descent of the postwar international monetary project.

Yet the underlying normative questions never disappeared. Even amid the ascendancy of neoliberalism, traces of the earlier reformist tradition resurfaced within the IMF itself. Michel Camdessus—who had observed the substitution debates as a young official—would later revive, in the 1990s, the idea that the SDR could evolve into a form of fiscal money for financing global public goods and crisis prevention. His interventions demonstrate that the aspiration to embed ethical purpose in international money survived the collapse of the 1970s reforms, even if it had to adapt to a world dominated by market logic and fiscal restraint. Witteveen had sought to stabilise the dollar through substitution; Camdessus sought to transcend it by institutionalising a collective fiscal counterpart to monetary sovereignty. Both confronted the same structural obstacle: a monetary order anchored in national currencies and asymmetric power.

Seen in this light, the history of the Substitution Account is less an epilogue than a hinge. It marks the turning point at which the optimism of postwar institutionalism gave way to the realism of neoliberal governance, but also the moment when questions of monetary justice, temporarily silenced, began to migrate into other domains—debt relief, global taxation, development finance, and proposals for global safety nets. The tension between sovereignty

and solidarity that the Substitution Account attempted to mediate continued to animate later debates, even when expressed through different conceptual vocabularies.

The episode also offers enduring theoretical implications for the contemporary monetary order. The Triffinian dilemma—in the 1970s the central intellectual justification for substitution—remains unresolved. Today’s global economy continues to rely on U.S. dollar assets as the primary reservoir of safety and liquidity, reproducing the structural asymmetry that substitution had sought to manage. Debates over Federal Reserve swap lines, global liquidity cycles, safe-asset shortages, and SDR reform echo almost verbatim the dilemmas articulated in the late 1970s. The monetarist turn that undermined substitution entrenched a model of monetary unilateralism that still defines the limits of reform: stability is assumed to derive from national credibility rather than international design. This ethos continues to constrain proposals for expanding the SDR, constructing multilateral liquidity facilities, or creating synthetic reserve assets.

The failure of global reform also accelerated the rise of regional solutions. The European Monetary System, and later the euro, can be interpreted as a form of partial substitution: an attempt to insulate regional stability from dollar volatility by constructing collective reserve instruments and shared monetary discipline. Similar logics underpin the Chiang Mai Initiative and the proliferation of bilateral central-bank swap arrangements. These regional architectures did not emerge despite the collapse of the Substitution Account, but because of it. They represent fragmented attempts to fill the institutional void left by the disappearance of a global mechanism for managing reserve risk.

Most importantly, the episode underscores a fundamental lesson about legitimacy. Both the Link and the Substitution Account aimed to embed equity and reciprocity in the governance of liquidity. Their rejection confirmed the dominance of a narrower moral philosophy that elevated sovereign autonomy above collective responsibility. This constriction of the moral horizon still shapes the politics of SDR use, the scope of IMF reform, and the feasibility of proposals for an international lender of last resort or a global reserve currency.

In retrospect, the Substitution Account's failure entrenched the path dependence of the international monetary system. The 1980s witnessed not the institutionalisation of an alternative to the dollar but the reassertion of the dollar standard through financial liberalisation, high U.S. interest rates, and the absence of credible rivals. The system that survived was not the one reformers had envisaged but the one markets created. Yet the idea of substitution—of multilateralising reserve risk—has persisted as a latent alternative. Each major crisis since the 1980s, from the global financial crisis of 2008–09 to the liquidity turmoil of the COVID-19 pandemic, has revived variants of the same questions that animated the substitution debates. Reform ideas, as Sidney Dell observed, “never die; they are simply archived until the next crisis renders them relevant again.”

The history of the Substitution Account therefore stands as both an ending and a beginning: the last coherent articulation of the postwar Keynesian-institutionalist project, and the conceptual point of departure for its re-emergence in the twenty-first century. Its significance lies less in what it accomplished than in what it revealed and preserved: the conviction—fragile yet recurring—that monetary stability cannot be decoupled from moral

responsibility, and that a world using money collectively must, at least in part, learn to govern it collectively.

## Chapter Three

### **From Reform to Orthodoxy: The IMF, Dollar Power, and the Limits of Monetary Sovereignty (1980–2000)**

#### **3.1 Introduction — From the End of Reform to the Age of Credibility**

The early 1980s marked a decisive rupture in the history of international monetary governance. If the period from the late 1960s to 1980 had been defined by repeated attempts to rethink the foundations of global liquidity—whether through the SDR-aid link, the Substitution Account, or the Committee of Twenty’s Outline of Reform—the decade that followed witnessed the gradual erosion of reformist ambitions and the consolidation of a new normative framework centred on credibility, discipline, and market authority.

The failures of the 1970s did not simply leave unresolved the structural asymmetries of the international monetary system; they reshaped the very terms on which those asymmetries could be politically articulated. By 1980, the question was no longer how to redesign a system in crisis, but how to govern a world that had ceased to recognise itself as a “system” at all.

The shift was both intellectual and institutional. The Volcker shock of 1979–81, which ushered in a new era of high interest rates and anti-inflationary orthodoxy, profoundly altered the conceptual environment in which the IMF operated (Helleiner 1994; Krippner 2011). The liberalisation of capital movements in the United States and Western Europe eroded the boundary between domestic and international finance, generating what Benjamin Cohen described as an “unanchored” monetary order in which private

markets, rather than states, became the primary allocators of global liquidity (Cohen 1998). At the same time, the international debt crisis that erupted in Mexico in 1982—and rapidly spread across Latin America—transformed the IMF from a relatively marginal technocratic actor into a central agent of crisis management. As James Boughton notes, the scale and urgency of the crisis “pulled the Fund decisively into the heart of global economic governance” (Boughton 2001, 270). Yet this expansion of influence occurred not through the construction of new multilateral institutions, but through the deployment of conditionality as a device of disciplinary authority.

Within this new ideological landscape, the preoccupations with inflation that had marked the debates of the 1970s crystallised into a broader orthodoxy. Inflation became not simply a persistent policy concern, but the principal lens through which macroeconomic behaviour, institutional credibility, and even political virtue were evaluated. Anti-inflationary discipline—once one concern among others in discussions of the SDR Link—was elevated into an organising norm of global economic governance, increasingly shaped by the intellectual ascendancy of monetarism, supply-side economics, and the broader constellation that would soon be labelled the Washington Consensus (Williamson 1990). IMF staff papers from the early 1980s, as well as the Annual Reports of the period, repeatedly framed inflation as a threat not only to stability but to the ethical foundations of economic order, echoing a language that resonated both with central banking culture and with the emerging epistemology of global financial markets (IMF 1983; 1985). This normative elevation of “credibility” redefined the space of legitimate policy action: innovation came to be viewed as deviation, and proposals that challenged the primacy of market signals were increasingly marginalised.

Yet the consolidation of orthodoxy did not entail the complete disappearance of reformist imaginaries within the Fund. Rather, such imaginaries were displaced, reframed, and increasingly articulated in moral and institutional—rather than explicitly systemic—terms. This apparent paradox—authoritarian discipline combined with residual reformism—was not accidental. It reflected the structural tensions of an institution that had abandoned systemic reform while remaining responsible for global stability. Michel Camdessus operated at the intersection of competing forces: the demands of major shareholders committed to market discipline; the institutional legacy of Bretton Woods; and the practical experience of crisis management, which repeatedly exposed the limits of purely market-based liquidity provision. His leadership did not resolve these tensions but translated them into a moral language capable of holding together discipline and solidarity.

While Camdessus is often remembered as the architect of an expansive and intrusive conditionality regime, his interventions also reveal a persistent concern with the inadequacy of existing global liquidity mechanisms and with the asymmetries generated by a dollar-centred system.

Against this backdrop, the IMF's role evolved in ways that departed significantly from the functions envisaged at Bretton Woods. With the collapse of the par value system between 1971 and 1973, and its formal abandonment in the Second Amendment of 1978, the Fund no longer operated as the guardian of a fixed exchange-rate regime. Instead, surveillance and policy conditionality gradually became the principal instruments through which the institution sought to influence members' macroeconomic choices in an increasingly liberalised financial environment. What had begun as a procedural mechanism for monitoring exchange-rate practices evolved into a broad evaluative framework used to assess the overall

policy “behaviour” of member states. As Eric Helleiner argues, this amounted to a redefinition of sovereignty: states remained formally autonomous, but their policies were increasingly judged through an externalised standard of credibility rooted in the preferences of international creditors (Helleiner 2014).

At the same time, the centrality of the U.S. dollar—seemingly threatened by the collapse of Bretton Woods—proved remarkably resilient. Far from inaugurating a pluralistic monetary order, the shift to flexible exchange rates and the rapid expansion of private global finance reinforced the structural hierarchy of the system. Dollar-denominated credit intermediaries, from New York banks to offshore Eurodollar markets, became the backbone of global liquidity creation (Tooze 2018; Eichengreen 2011). The IMF’s crisis-management operations, especially in Latin America and later in post-socialist transition economies, effectively stabilised this architecture by ensuring that debtor countries maintained access to U.S.-centred financial circuits. The result was not a coherent multilateral regime but an international non-system: a decentralised and asymmetric order shaped less by collectively agreed rules than by the gravitational predominance of the dollar and the dynamics of private financial markets (Ocampo 2017).

It was within this constrained and asymmetrical order that the meaning of SDRs was fundamentally transformed. Whereas in the late 1960s and early 1970s the SDR had been conceived as a potential instrument of systemic reform, by the mid-1980s it had been relegated to the margins of the international monetary system. Michael Mussa’s characterisation of the SDR as “a residual asset of limited practical significance” (Mussa 1990) captured a widespread perception within both markets and policymaking circles. Yet this marginalisation was never complete. Throughout the late 1980s and early

1990s, Camdessus repeatedly returned to the question of SDRs—not as a substitute for market discipline, but as a complementary instrument capable of providing a modicum of collective fiscal space in moments of systemic stress.

Efforts to revive the instrument—most notably during the 1993–94 debates over a new allocation to support transition economies—were shaped by a dual logic. On the one hand, proposals for SDR recycling or development-oriented allocations were tightly circumscribed by concerns over credibility, inflation, and fiscal morality (IMF 1994; Boughton 2001). On the other, Camdessus’ interventions reveal an enduring, if carefully constrained, vision of SDRs as a proto-fiscal instrument: a means of injecting liquidity that did not rely exclusively on private capital markets or on the discretionary benevolence of creditor states. In this sense, the reformist imaginary associated with the SDR did not disappear; it survived in attenuated form, embedded within a moralised discourse that sought to reconcile collective responsibility with disciplinary authority.

The purpose of this chapter is to reconstruct this transformation—from the end of the reform era to the consolidation of a moralised regime of global financial governance—without reducing it to a story of linear retrenchment. It argues that the decades between 1980 and 1999 constituted not a period of institutional drift but one of deliberate reconfiguration, in which the IMF emerged as both the guardian and the interpreter of a new normative order centred on anti-inflationary discipline, market authority, and moralised economic judgment. At the same time, it shows how figures such as Michel Camdessus kept alive an alternative horizon of monetary possibility, articulating a constrained but persistent vision of SDRs as an embryonic fiscal instrument within an international system that officially denied the legitimacy

of fiscal innovation. In doing so, it traces how debates within the Fund redefined the boundaries of monetary possibility, how moral authority became a substitute for institutional reform, and how the asymmetries of a dollar-centred order were reproduced even as they were, at moments, implicitly contested.

This shift raises an unavoidable historiographical question: why did the reformist horizon of the 1970s close so decisively? Was this outcome driven primarily by U.S. power and the expansion of dollar-centred financial markets? By the intellectual ascendancy of neoliberal economics? By the interests of private financial actors? Or by the interaction of these forces? This chapter does not reduce the transformation to a single causal mechanism. Rather, it treats the consolidation of credibility-based governance as an overdetermined process, shaped by the convergence of geopolitical interests, intellectual change, institutional learning, and crisis-driven improvisation. A full causal disentanglement lies beyond the scope of this chapter, but the analysis that follows is attentive to how these forces reinforced one another.

### **3.2 The Institutional Aftermath of Reform**

The failure of the Substitution Account in 1980 marked not simply the end of a reform episode but the exhaustion of an entire intellectual horizon within the IMF. Whereas the debates of the late 1960s and 1970s had been animated by the ambition to redesign the structure of international liquidity, the early 1980s confronted the Fund with a far more modest yet more ambiguous institutional question: what should the IMF be in a world without a monetary

system in the classical sense?<sup>38</sup> The answer that emerged did not result from a single decision or doctrinal shift, but from the convergence of leadership, intellectual change inside the staff, and the broader transformation of global finance (Boughton 2001; Helleiner 2014). The period was defined by the gradual reconstitution of the Fund’s identity around surveillance, policy evaluation, and crisis management—an identity that owed much to the practical constraints of the early 1980s and to the administrative style of Jacques de Larosière.

De Larosière assumed the position of Managing Director in 1978, just as the Second Amendment was formalising the end of the par value system. The Fund’s original mandate—overseeing fixed exchange rates—had evaporated, and nothing equivalent had replaced it. De Larosière, whose professional formation in the French Treasury and the Banque de France had instilled a deep belief in stability, caution, and monetary restraint, did not attempt to revive the institutional creativity of the preceding decade. Where his predecessors had treated systemic reform as a primary task of the Fund, he regarded such ambitions as increasingly unrealistic in a context of accelerating capital mobility and expanding private financial markets (Helleiner 1994; Cohen 1998). As the 1980 IMF Annual Report made clear, the Managing Director viewed the institution’s priority as the restoration of “discipline” and “confidence” in an environment marked by inflation, fiscal deterioration, and volatile capital flows (IMF 1980). This orientation formed

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<sup>38</sup> By “a monetary system in the classical sense,” this chapter refers to an order characterised by an identifiable architecture of rules, shared adjustment mechanisms, and an explicit institutional framework governing liquidity creation and balance-of-payments adjustment—features that had defined the Bretton Woods system and earlier monetary regimes. The post-1980 order lacked such an architecture, functioning instead as a decentralised hierarchy centred on private markets and the U.S. dollar.

the backdrop against which surveillance began to evolve into something qualitatively different from what the Second Amendment had envisaged.

Surveillance, formally introduced in 1978 as a procedure for monitoring members' exchange-rate arrangements, expanded rapidly in scope during the early 1980s. The restructuring of Article IV consultations owed much to analytical work undertaken inside the Exchange and Trade Relations Department and the Research Department. Economists such as Manuel Guitián—whose influential IMF Pamphlet on conditionality emphasised the interdependence of macroeconomic policies—and Jacob Frenkel, whose early-1980s analyses stressed the links between inflation, capital flows, and the balance of payments, argued that the Fund could not meaningfully assess exchange-rate practices without examining the broader macroeconomic configuration behind them (Guitián 1981; Frenkel 1983). Although these arguments did not immediately translate into formal Board directives, they reshaped the internal logic of surveillance reports, which became longer, more technical, and increasingly evaluative.

This shift is visible in Article IV documentation from the early 1980s. Reports for countries experiencing persistent inflation or external imbalance—such as Turkey, Brazil, or Italy, began to include detailed assessments of fiscal stances, monetary targets, wage-setting institutions, and structural rigidities. The analytical vocabulary of these reports was influenced by methodological innovations developed in the Research Department under economists such as Willi Branson and, later in the decade, Michael Mussa, who introduced more formal approaches to external sustainability and exchange-rate misalignment (Branson 1985; Mussa 1990). Although these tools were not yet codified in formal policy frameworks, they provided surveillance with a new conceptual centre of gravity: macroeconomic discipline as a condition for credibility.

The institutional consequences of this expansion became clearer with the outbreak of the international debt crisis. When Mexico announced in August 1982 that it could no longer meet its obligations to commercial banks, the IMF was thrust into a central role that neither the architects of the Second Amendment nor the reformers of the 1970s had anticipated. Private banks lacked mechanisms for coordination; creditor governments feared systemic repercussions for their domestic financial systems. The Fund—by virtue of its expertise, financial resources, and institutional legitimacy—became the linchpin of an improvised rescue architecture (Boughton 2001; Kapur, Lewis, and Webb 1997). De Larosière viewed this moment as an opportunity to reassert the Fund’s relevance: financial support would be provided, but only in exchange for programmes designed to restore fiscal and monetary stability. Conditionality thus expanded dramatically, both in scale and ambition. The Extended Fund Facility, introduced in 1974, acquired new prominence; Stand-By Arrangements became instruments not merely of short-term balance-of-payments support but of medium-term policy transformation. Programme design reflected the intellectual climate of the period. Anti-inflationary credibility, fiscal consolidation, real exchange-rate adjustment, and structural reform were treated as prerequisites for restoring market confidence (IMF 1983; Williamson 1990). The Fund’s deepening relationship with the Paris Club and the London Club reinforced this trajectory: IMF programmes became, in practice, a condition for debt rescheduling, anchoring the institution’s authority within a broader creditor-governance framework (Rieffel 2003).

This transformation coincided with deeper changes in the Fund’s internal intellectual composition. As Jeffrey Chwieroth has shown, the proportion of economists trained in U.S. graduate programmes increased sharply between

the mid-1970s and mid-1980s, fostering a shared analytical language centred on expectations, inflation, and market discipline (Chwieroth 2010). This did not abruptly “Americanise” the Fund, but it did shape how staff interpreted macroeconomic data and policy. Inflation increasingly functioned as a signal of institutional credibility rather than merely a symptom of domestic imbalance. Article IV consultations came to assess not only policy coherence but the credibility of governments’ commitments to stabilisation—an evaluative stance that mirrored contemporaneous developments in academic macroeconomics and central banking.

The marginalisation of SDR debates during this period illuminates the Fund’s reconstructed identity. The idea that SDRs might play a central role in international reserve creation, once supported by a broad coalition within the institution, lost ground as private offshore markets expanded and as intellectual caution became dominant. By the early 1980s, IMF Annual Reports routinely described the SDR as having limited practical significance, a view echoed by senior staff commentators such as Michael Mussa (IMF 1983; Mussa 1990). Proposals for new allocations were framed as potentially inflationary or inconsistent with the emerging emphasis on fiscal prudence. The contrast with the reformist optimism of the early 1970s was stark: where SDRs had once symbolised the possibility of multilateral monetary design, they now appeared as an instrument whose activation itself required justification.

By the mid-1980s, the IMF had thus reconstructed itself as an institution whose authority rested less on shaping the architecture of the international monetary system than on evaluating and disciplining national economic policies. Surveillance became a mechanism of continuous scrutiny; conditionality a tool of structural transformation; and the language of

credibility—shaped by global financial markets and by the evolving intellectual profile of the staff—the normative core of the institution’s work. De Larosière did not invent this transformation, but he consolidated it, providing the procedural and conceptual foundations on which Michel Camdessus would later build a more explicitly moralised vision of global economic governance.

### **3.3 The Debt Crisis and the Consolidation of Disciplinary Governance**

The outbreak of the Latin American debt crisis in 1982 did more than reveal the fragility of the financial order that had emerged after the collapse of Bretton Woods; it fundamentally restructured the IMF’s role within that order. As James Boughton has shown in his official history, Mexico’s announcement in August 1982 that it could no longer service its external debt placed the Fund at the centre of an improvised system of crisis management for which neither private banks nor creditor governments had established effective mechanisms (Boughton 2001). Joseph P. Joyce has similarly emphasised that the crisis forced the IMF into an institutional role it had not previously occupied: the central coordinating node of a decentralised and market-driven financial environment, whose authority would henceforth derive less from its formal mandate than from its capacity to orchestrate expectations among governments and private lenders (Joyce 2013). The crisis thus acted as the crucible in which a new conception of the Fund’s mission—disciplinary rather than architectural, supervisory rather than systemic—was forged.

The structural background of the crisis has been extensively documented. Throughout the 1970s, the recycling of petrodollars through Eurocurrency markets allowed commercial banks to expand rapidly into sovereign lending, particularly in Latin America (Helleiner 1994; Devlin 1989). Against the

backdrop of declining real interest rates and optimistic projections about developing countries' capacity to service external debts, U.S. and European banks accumulated large exposures. As Volcker's monetary tightening sharply raised global interest rates after 1979, the cost of servicing these obligations escalated dramatically. By 1981–82, the solvency of several major financial institutions depended on whether debtor countries could continue to roll over their liabilities—a fact well captured in contemporary analyses by Sachs (1984), Cline (1984) and Frieden (1987). The crisis was therefore systemic, not only from the perspective of debtor countries but from the standpoint of the industrialised financial core.

In this environment, the IMF became indispensable. As Boughton notes, what made the institution central was not the scale of its resources—which were small relative to the outstanding debts—but the credibility conferred by its assessments of policy (Boughton 2001). Joyce reinforces this interpretation, arguing that the Fund's role was defined by its ability to provide what neither private creditors nor governments possessed: a focal point around which expectations could be coordinated, and a mechanism through which adjustment strategies could be sequenced and monitored (Joyce 2013). The Fund's endorsement became a prerequisite for rescheduling agreements in the Paris Club; its participation was essential for organising concerted lending operations through the London Club<sup>39</sup>, whose restructuring packages hinged on the presence of an IMF programme (Kahler 1985; Stallings 1987). The

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<sup>39</sup> The *Paris Club* refers to an informal group of official bilateral creditors that coordinates the rescheduling and restructuring of sovereign debt owed to governments and public agencies, typically conditional on the debtor country's adoption of an IMF-supported adjustment programme. The *London Club* denotes ad hoc committees of commercial bank creditors that negotiated the restructuring of syndicated bank loans, where IMF involvement served as a key signal of policy credibility and coordination.

political influence of the U.S. Treasury—under Secretaries Regan and later Baker—reinforced this centrality by making IMF involvement a *de facto* condition for any bilateral support.

Conditionality was the principal instrument through which this new authority was exercised and did not operate in an analytical vacuum. Its prominence during the debt crisis rested on a well-established theoretical framework within the Fund, namely the monetary approach to the balance of payments. Developed most systematically by Jacques Polak in the 1950s and 1960s and refined within the IMF during the 1970s, this approach conceptualised external imbalances as the result of excess domestic absorption financed through monetary expansion. From this perspective, fiscal and monetary contraction were not conceived as punitive measures, but as necessary instruments to reduce income, compress imports, and restore external equilibrium. During the debt crisis, this analytical logic provided an apparently coherent justification for austerity-oriented adjustment programmes, even as it abstracted from the structural, financial, and distributional dimensions of liquidity crises.

The IMF had attached policy conditions to lending since the 1950s, but the debt crisis elevated conditionality from a technical tool to the centrepiece of a global regime of adjustment. The programmes negotiated with Mexico, Brazil, Chile and Argentina imposed increasingly comprehensive packages: fiscal consolidation, monetary tightening, real wage compression, trade liberalization and in some cases capital-account measures and financial deregulation. What distinguished these programmes was not simply their scope but their ambition. Adjustment was no longer treated as a temporary correction; it became the vehicle for reshaping domestic political economies. As Kahler observed in his study of the period, the Fund became a surrogate

domestic actor in several countries, influencing the sequencing of reforms and shaping the very terms of domestic economic debate (Kahler 1990).

The expansion of conditionality also reflected changes within the IMF's intellectual framework. Manuel Guitián's 1981 IMF Pamphlet had articulated the logic of conditionality in terms that emphasised policy coherence and the institutional underpinnings of stabilisation (Guitián 1981). Jacob Frenkel's work in the Research Department stressed the importance of monetary discipline in anchoring expectations and correcting external imbalances (Frenkel 1983). Other economists—including Morris Goldstein, Jacques Artus and Mohsin Khan—contributed to the analytical foundations of the first “World Economic Outlook”, launched in 1980, which provided staff and Executive Directors with a new comparative framework for assessing global conditions. As Joyce notes, the crisis accelerated the integration of these analytical tools into operational work, merging surveillance and conditionality into a single evaluative regime (Joyce 2013). This transformation was subtle yet consequential: the Fund's assessments were increasingly framed in terms of credibility, consistency and commitment—concepts drawn from the emerging orthodoxy of expectations-driven macroeconomics.

The implementation of IMF programmes at the country level further consolidated this evaluative shift. Mission reports from the early 1980s reveal the growing attention devoted to the political feasibility of adjustment measures, institutional capacity and the credibility of monetary and fiscal authorities. In several cases—notably Mexico, Brazil and Argentina—staff highlighted the tensions between central banks, finance ministries and other branches of government, observing that successful adjustment depended on the “ownership” of policies, a concept that would later become central to the

Fund's discourse (Pastor 1989; Kahler 1990). The IMF's presence thus extended beyond technical advice: it shaped the internal politics of debtor countries, reinforcing coalitions in favour of fiscal retrenchment and monetary restraint.

The normative dimension of this evolving regime has been widely recognised. Woods and Grabel both argue that IMF programmes during the 1980s were underpinned by a moralised understanding of adjustment, in which policy compliance was associated with virtue and deviation with irresponsibility (Woods 2006; Grabel 2011). The rhetoric of “effort”, “restoring confidence” and “maintaining discipline” recurred in staff analyses and Executive Board discussions, reflecting the anti-inflationary commitments of major shareholders, particularly the United States and Germany. This language did not simply describe economic conditions; it framed them within a broader moral economy of global finance, in which market expectations became the arbiter of policy legitimacy.

The crisis also reshaped the Fund's position within the architecture of international finance. The Baker Plan of 1985 and the Brady Plan of 1989<sup>40</sup> have often been interpreted as departures in strategy—one emphasising new lending, the other debt reduction—but both relied on the IMF's role as certifier of policy credibility. As Helleiner notes, these initiatives presupposed that sustainable recovery required disciplined macroeconomic frameworks, and that the Fund should monitor adherence to these frameworks as a

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<sup>40</sup> The *Baker Plan* (1985), announced by U.S. Treasury Secretary James A. Baker III, sought to address the developing-country debt crisis through renewed commercial bank lending combined with structural adjustment programmes supported by the IMF and the World Bank. The *Brady Plan* (1989), introduced under Treasury Secretary Nicholas F. Brady, marked a shift toward explicit debt reduction through market-based instruments, notably debt exchanges and collateralised “Brady bonds.”

condition for support (Helleiner 1994). Joyce adds that the IMF emerged from the crisis as a “gatekeeper” whose surveillance assessments were essential signals to private capital markets and creditor governments (Joyce 2013). In practice, the Fund’s judgments became embedded within the broader circuitry of global finance, shaping not only access to official resources but also the behaviour of banks and investors.

This consolidation of disciplinary governance had important implications for debates on international liquidity. The idea—still present in the 1970s—that the Special Drawing Right might serve as a counter-cyclical or developmental instrument lost plausibility as the Fund’s mission became increasingly tied to enforcing restraint rather than providing liquidity. As already noted in earlier sections, Michael Mussa’s characterisation of the SDR in the mid-1980s as a “residual asset of limited practical significance” captured a perception that had become increasingly widespread within the Fund (Mussa 1990). IMF Annual Reports echoed this sentiment, framing new SDR allocations as potentially inflationary or inconsistent with the prevailing commitment to fiscal prudence. Joyce underscores that the institutional lessons drawn from the crisis entrenched a preference for discipline over innovation, contributing to the marginalisation of the SDR as a tool of monetary reform (Joyce 2013). The combination of political resistance from major shareholders and the intellectual shift within the Fund rendered systemic liquidity creation suspect precisely at a moment when private financial markets were expanding most rapidly.

By the end of the decade, the IMF had emerged from the crisis transformed. The institution no longer sought to redesign the international monetary system; instead, it had come to enforce a normative order grounded in the principles of credibility, stability and fiscal restraint. Its authority rested less

on formal powers than on its ability to judge national policies and enforce those judgments through conditionality and surveillance. The debt crisis thus served as the crucible in which the Fund's post-reform identity was forged, providing the institutional and conceptual foundations upon which Michel Camdessus would build in the 1990s, integrating technical expertise with a more explicitly ethical vision of global economic governance.

### **3.4. Michel Camdessus and the Moral Economy of Global Finance**

Michel Camdessus entered the International Monetary Fund in January 1987 at a moment when the institution's operational identity had already been profoundly reshaped by the debt crisis of the early 1980s, yet the normative foundations of this transformation remained fragile and contested. The Fund had emerged from that decade as the central arbiter of adjustment in the global economy, exercising authority by linking access to finance to demonstrations of policy credibility and macroeconomic discipline. What it lacked, however, was a coherent moral language capable of stabilising this authority and rendering it politically intelligible across a rapidly expanding and increasingly heterogeneous membership. Camdessus did not introduce a new macroeconomic paradigm or technical doctrine. Rather, his distinctive contribution lay in articulating a moral vocabulary that endowed the disciplinary regime inherited from the early 1980s with ethical coherence, symbolic legitimacy, and institutional durability.

Understanding this contribution requires attention to the intellectual and institutional milieu that shaped Camdessus's worldview before he arrived in Washington. His formative experiences in the French Treasury and as Deputy Governor of the Banque de France embedded him in a tradition of state-centred monetary prudence, marked by a deep concern for stability,

credibility, and the social consequences of inflation. Yet it was his sustained involvement with the Paris Club that most decisively informed his conception of international economic governance. Established in 1956 as an informal forum for the restructuring of official bilateral debt, the Paris Club evolved over subsequent decades into a central—if largely opaque—pillar of the global debt regime. Despite lacking a treaty basis, legal personality, or permanent secretariat, the Club exercised considerable authority through routinised procedures, a shared normative ethos among creditors, and the convening power of the French Treasury, which hosted and chaired its meetings (Rieffel 2003; Boughton 2001; Helleiner 2014).

By the late 1970s, the Paris Club had become an institutional environment in which many of the norms later associated with global financial governance were already operative in practice. Its functioning rested on three interlocking principles. The first was creditor unity: governments coordinated their actions to preserve collective leverage and to prevent unilateral renegotiations that might undermine the system as a whole. The second was the requirement of “good faith” on the part of debtor states, understood not merely as technical compliance but as a demonstrated willingness to undertake difficult and politically costly adjustment measures. The third was the so-called IMF link: from the 1960s onward, Paris Club rescheduling required an IMF-supported programme, making Fund conditionality the backbone of official debt relief. This triangular relationship between debtor governments, official creditors, and the IMF transformed the Paris Club into a hybrid institution—simultaneously diplomatic, technocratic, and moral—where financial decisions were inseparable from judgments about responsibility and credibility (Rieffel 2003; Ocampo 2017).

It was within this environment that Camdessus operated during the early 1980s, first as a senior French official and subsequently as chairman of the Club. As he later recalled, the Paris Club taught him that sovereign debt negotiations were never purely technical exercises but deeply political processes requiring “effort,” “determination,” and the acceptance of painful trade-offs (Masini & Nania 2025). Adjustment, in this perspective, was not simply a macroeconomic necessity imposed by external constraints, but a performative demonstration of responsible membership in the international economic community. These experiences cultivated in Camdessus a durable conviction that economic management was inseparable from discipline, credibility, and moral responsibility—an outlook that would profoundly shape his leadership of the IMF.

When Camdessus assumed the role of Managing Director in 1987, he encountered an institution whose operational practices—surveillance, conditionality, and crisis management—had already been consolidated in response to the crises of the early 1980s, but whose normative self-understanding remained fragmented. The Fund possessed formidable analytical tools and growing influence, yet lacked a unifying narrative capable of legitimising its expanding role in domestic policy domains. The ethos of the Paris Club provided Camdessus with precisely such a framework. Under his leadership, the language of IMF surveillance and conditionality acquired a moral inflection that went beyond its technical content. Concepts such as “credibility,” “restoring confidence,” and “serious policies,” while familiar within the institution, were endowed with ethical significance in his speeches, interviews, and interventions at Annual Meetings. As Harold James has observed, Camdessus was particularly adept at translating the anti-

inflationary consensus of the late twentieth century into a broader discourse of responsibility, solidarity, and governance (James 1996; James 2012). Within this moral lexicon, stabilisation ceased to be framed merely as an economic correction and instead became an ethical obligation. Inflation was not only inefficient but unjust; fiscal indiscipline was not merely imprudent but irresponsible. The Fund's role, in turn, was presented as guiding states toward responsible behaviour within an increasingly integrated international community. This moralisation of adjustment did not replace the institution's analytical frameworks, nor did it fundamentally alter the content of conditionality (Helleiner 2014). Rather, it reshaped how policies were justified, communicated, and negotiated, allowing the IMF to exercise authority in ways that appeared both technocratic and normatively grounded. The significance of this moral vocabulary became especially apparent as the IMF expanded its engagement beyond Latin America. During the late 1980s and early 1990s, the Fund deepened its involvement in Sub-Saharan Africa and, following the collapse of the Soviet bloc, assumed extensive responsibilities in the transition economies of Eastern Europe and the former Soviet Union. A growing body of scholarship has shown that these interventions increasingly linked macroeconomic stabilisation to institutional reforms, including budgetary procedures, central bank independence, statistical capacity, and regulatory frameworks (Babb 2009; Moschella 2010; Chwieroth 2010). Under Camdessus, this institutional turn acquired an explicitly normative dimension: weaknesses in governance were interpreted not simply as technical deficiencies but as indicators of insufficient commitment to responsible economic management. In this way, the moral economy he articulated both reinforced and legitimised the expansion of the

Fund's mandate into domains previously regarded as the preserve of domestic politics.

These dynamics became particularly pronounced as the IMF confronted the geopolitical rupture of the early 1990s. The collapse of the Soviet bloc and the rapid accession of transition economies posed challenges of unprecedented scale: hyperinflation, fiscal disorganisation, collapsing payments systems, and the need to construct monetary and administrative institutions almost from scratch (Chwieroth 2010). As Boughton documents, the simultaneity and depth of these crises forced the Fund to expand its advisory, analytical, and institutional reach in ways not anticipated by its original mandate (Boughton 2012). For Camdessus, the transition experience served both as a test and a confirmation of his moralised conception of discipline. Stabilisation required political commitment; institution-building required credibility; and participation in the international economic community entailed normative as well as technical obligations.

By the early 1990s, the IMF had thus entered a new phase characterised by a widening of its membership and a deepening of its governance ambitions. Yet the moral vocabulary introduced by Camdessus—linking stabilisation to responsibility, credibility, and good governance—also delineated the boundaries of legitimate reform. While it endowed the Fund's authority with ethical coherence, it simultaneously constrained the scope of systemic imagination. Proposals that challenged the primacy of market discipline or called for more explicit forms of collective fiscal responsibility at the global level were increasingly reframed as risks to credibility or moral hazard. In this sense, Camdessus's moral economy both sustained the Fund's authority and narrowed the horizon within which debates over global liquidity, institutional innovation, and systemic reform could unfold. These tensions

would become increasingly visible as the decade progressed, particularly in discussions surrounding the appropriate role of the IMF in managing systemic risk and providing global liquidity.

### **3.5 The “End of History” and the Transformation of the International Monetary Idea**

The end of the Cold War did not merely close a geopolitical chapter; it profoundly reshaped the intellectual horizon within which international monetary governance was conceived. The early 1990s were characterised by an unusual convergence of political triumphalism and economic orthodoxy (Lin 1990). The collapse of the Soviet Union appeared to confirm the definitive victory of a single economic paradigm—market liberalisation, fiscal prudence, and monetarist anti-inflationism—while delegitimising alternative models of macroeconomic organisation and state-led coordination. The sense of historical closure captured by Francis Fukuyama’s formulation of the “end of history” resonated far beyond political theory, permeating international economic policy debates and shaping the assumptions through which global financial order was understood (Fukuyama 1992; Anderson 1998). It suggested, implicitly if not explicitly, that the architecture of the global economy had reached a point of normative and analytical saturation.

This intellectual climate had far-reaching consequences for how reform of the international monetary system could be imagined. In earlier decades, competing theoretical frameworks—Keynesian, structuralist, and various strands of postwar institutionalism—had sustained vibrant debates over reserve creation, global liquidity shortages, the Triffin dilemma, and the possibility of a multilateral monetary anchor insulated from national interests.

These debates presupposed that the international monetary system was a political construct: historically contingent, institutionally malleable, and therefore open to collective redesign (Triffin 1960; Strange 1971; Williamson 1977). By contrast, the early 1990s were marked by what may be described as a contraction of the monetary imagination. The prevailing assumption was that liberalised and integrated global financial markets, disciplined by mobile capital and credible policy rules, could generate and allocate liquidity more efficiently than any public or multilateral mechanism (Helleiner 1994; Cohen 1998). Within this framework, discretionary multilateral liquidity creation appeared not merely unnecessary but conceptually illegitimate.

The implications for the International Monetary Fund were particularly acute. During the 1970s, the Fund was deeply involved in debates over systemic design, from the technical architecture of the SDR to proposals for expanding the role of the SDR as a central element of the reserve system. These discussions rested on the premise that international monetary arrangements involved collective choices and distributive consequences. The intellectual ascendancy of market primacy in the 1990s, however, redefined the Fund's institutional self-understanding (Boughton 2012). The IMF was no longer conceived as a potential architect of international liquidity, but as an enforcer of macroeconomic discipline within an increasingly liberalised and market-driven financial order (Boughton 2001; Moschella 2010). The discipline forged during the debt crisis of the 1980s hardened into a universal norm: governments were expected to internalise the constraints imposed by global markets; stabilisation became synonymous with rule-following; and credibility assumed the status of a moral virtue rather than a contingent policy outcome.

From a theoretical standpoint, this transformation reflected the growing dominance of macroeconomic paradigms rooted in rational expectations, time-consistency theory, and the new classical critique of discretionary policy. In these frameworks, discretionary monetary expansion was inherently destabilising, associated with inflationary bias, moral hazard, and the erosion of credibility (Kydland and Prescott 1977; Barro and Gordon 1983). Little analytical space remained for the notion that global liquidity might require collective management, or that reserve assets could serve stabilising functions not replicated by private capital markets. As Charles Goodhart observed, the prevailing models increasingly treated money as endogenous to markets rather than as an object of public design (Goodhart 1988). The SDR—once conceived as an embryonic multilateral reserve asset—no longer fit within this intellectual taxonomy. Its logic presupposed the legitimacy of collective monetary authority, an assumption that the dominant paradigm rejected.

The “end of history” narrative further reinforced this narrowing of intellectual horizons. If market-based capitalism had triumphed definitively, then the international monetary order underpinning it appeared not as the historically contingent product of postwar political compromise, but as the natural and self-equilibrating expression of economic rationality (Boughton 2012). Structural asymmetries—most notably the centrality of the U.S. dollar and the volatility of private capital flows—were reinterpreted as efficient outcomes rather than systemic vulnerabilities (Eichengreen 2011; Tooze 2018). In this worldview, reform became either unnecessary or actively dangerous: attempts to reshape the monetary system risked undermining credibility and destabilising markets. The task of governance was no longer to redesign the system, but to safeguard its perceived neutrality and discipline.

This intellectual transformation profoundly shaped the internal culture of the IMF. As Joyce has shown, the Fund increasingly evaluated national economies according to their adherence to norms of credibility, fiscal restraint, and institutional “soundness,” rather than in relation to broader questions of aggregate demand management or global liquidity provision (Joyce 2013). Under Camdessus, the moralised language of responsibility, credibility, and good governance did not merely align with the dominant intellectual orthodoxy of the period; it actively translated that orthodoxy into a durable institutional practice. His leadership provided the IMF with a narrative capable of reconciling the apparent finality of market-centred macroeconomics with the Fund’s expanding authority over domestic policy choices. Surveillance became the principal mechanism through which states were evaluated not only in terms of the internal coherence of their macroeconomic policies, but according to the perceived integrity, seriousness, and moral reliability of their institutional frameworks. In Camdessus’s discourse, macroeconomic stability was no longer framed primarily as a problem of managing cyclical fluctuations, coordinating aggregate demand, or addressing liquidity shortages. Instead, it was redefined as evidence of responsible participation in an increasingly integrated global market order—an order whose rules were presented as objective, impersonal, and ultimately non-negotiable (James 1996; Joyce 2013).

Camdessus’s distinctive contribution lay precisely in his ability to moralise this transformation without presenting it as ideological closure. Drawing on his experience at the Paris Club, he consistently framed adjustment not as submission to market forces, but as a collective ethical obligation: a test of seriousness, solidarity, and commitment to the international community. This moral framing allowed the IMF to exercise authority in a period when the

intellectual space for systemic monetary reform had narrowed dramatically. Credibility, in Camdessus's vocabulary, ceased to be a contingent outcome of policy choices and became a moral attribute of states themselves—an evaluative category through which economic behaviour, institutional design, and political will were jointly assessed. In this way, Camdessus gave ethical coherence to an order that increasingly denied its own political foundations. The contraction of the monetary imagination that characterised the post-Cold War period thus unfolded not despite Camdessus's leadership, but through it. When the Soviet monetary system collapsed in the early 1990s, generating acute liquidity shortages, institutional vacuums, and profound monetary fragmentation across the post-Soviet space, the prevailing intellectual orthodoxy offered little guidance. Classical debates on international liquidity—once central to discussions of reserve creation and systemic reform—had been marginalised by the assumption that global financial markets could supply liquidity efficiently and endogenously (Helleiner 1994; Cohen 1998). Camdessus did not challenge this assumption directly. Instead, he absorbed it into a moralised framework in which the appropriate response to monetary disorder lay in credibility-building, institutional discipline, and adherence to market-compatible rules.

As a result, the challenges posed by the dissolution of the rouble zone did not stimulate renewed reflection on multilateral liquidity mechanisms. Rather than reopening questions about collective reserve provision or the role of public monetary instruments, the crisis was interpreted through the familiar lens of conditionality, institutional “seriousness,” and policy credibility. Under Camdessus, IMF programmes in the transition economies focused on rapid stabilisation, central bank independence, fiscal consolidation, and the construction of market-conforming monetary institutions (Boughton 2012;

Chwieroth 2010). These responses reinforced the Fund's disciplinary orientation while leaving little conceptual space for alternative visions of collective monetary responsibility.

Yet it would be misleading to interpret Camdessus's role as that of a simple enforcer of an intellectually closed system. Precisely because he framed discipline in moral rather than purely technical terms, he preserved—albeit implicitly—a residual space for collective responsibility. His insistence on solidarity, on the ethical obligations of both creditors and debtors, and on the limits of purely market-based adjustments hinted at an unresolved tension within the prevailing order. The language through which he legitimised discipline simultaneously exposed its fragility: if credibility and responsibility were moral achievements rather than automatic market outcomes, then they could not be entirely depoliticised (Boughton 2012).

Seen from this perspective, the “end of history” was not merely a political or ideological phenomenon but an epistemic condition that Camdessus helped to stabilise while subtly straining its boundaries. His leadership reshaped the IMF into an institution that naturalised hierarchy, asymmetry, and market discipline, yet continued to rely on discretionary judgment and collective authority to manage instability. It is against this backdrop that the tentative revival of the SDR debate in the early 1990s must be read. Far from representing the straightforward continuation of a reform agenda inherited from the 1970s, the renewed attention to SDRs emerged as a fault line within Camdessus's moral economy: an attempt to articulate collective monetary responsibility in an intellectual environment that officially denied the legitimacy of systemic innovation.

Precisely because the dominant paradigm presented the international monetary order as complete and self-sustaining, the re-emergence of the SDR

question acquired a significance that exceeded its immediate technical scope. It revealed the latent contradictions of an order that claimed to have transcended politics yet depended on moral authority and institutional discretion to govern global finance. In this sense, Camdessus stands not at the margins of the “end of history,” but at its centre—as the figure who rendered an intellectually closed system governable, while inadvertently keeping alive the possibility that it might still be reimagined (Masini & Nania).

### **3.6 Post-Soviet Transition and the Search for Systemic Liquidity**

The dissolution of the Soviet Union in December 1991 produced a rupture in the international monetary order whose magnitude contemporary observers struggled to conceptualise. Historians such as Di Nolfo have rightly emphasised that the end of the Cold War was not merely a geopolitical event, but the disintegration of an entire institutional universe built on centralised planning, administrative allocation, and non-convertible currency arrangements (Di Nolfo 1992; Maier 2000). The rouble, which had served as the nominal anchor of this system, lost its institutional foundation the moment the Union collapsed. Yet throughout 1992 it continued to circulate across twelve newly sovereign states. This paradox—monetary continuity amid institutional dissolution—generated a structurally unstable environment without historical precedent.

Russia, as the sole issuer of the rouble, effectively became an involuntary lender of last resort for governments whose fiscal policies it neither controlled nor coordinated. Credit creation by republican central banks translated directly into inflationary pressure across the entire rouble area, while political fragmentation rendered collective discipline impossible. Scholars of the transition have documented how this asymmetric arrangement accelerated

monetary breakdown, producing a classic case of shared liabilities without shared authority (Åslund 1995; Guida 2001; Gaidar 2007). Inflationary pressures spread across borders through common monetary liabilities, hastening the collapse of the rouble zone and forcing successor states to confront monetary sovereignty under conditions of acute institutional fragility.

The introduction of national currencies between 1992 and 1993 unfolded in the absence of the macroeconomic, financial, and administrative foundations that had historically accompanied the emergence of monetary sovereignty. As Fischer and Sahay observe, most successor states lacked reserves, functioning monetary authorities, reliable statistical systems, and effective banking supervision (Fischer and Sahay 2000). Central banks were often central banks in name only: they operated without policy instruments, institutional credibility, or administrative autonomy. Newly issued currencies were fiat liabilities of states undergoing simultaneous political fragmentation, fiscal collapse, and institutional reorganisation. In several cases, governments relied on monetary emission to finance basic public functions, further undermining confidence in their nascent currencies (Guida 2001). The result was a condition that can be described as a “monetary vacuum”: currencies existed legally but lacked the institutional, financial, and symbolic supports required to function as stable units of account, means of payment, or stores of value. The external dimension of the shock was equally severe. With the dissolution of the Council for Mutual Economic Assistance (CMEA)<sup>41</sup>, the clearing arrangements that had governed intra-bloc trade collapsed almost overnight.

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<sup>41</sup> The CMEA (Comecon) coordinated intra-bloc trade among socialist economies through non-convertible clearing arrangements rather than market-based currency settlement; these mechanisms collapsed with the organisation’s dissolution in 1991.

Administered prices were replaced by world market prices, exposing the successor states to external adjustment pressures of unprecedented scale. As Di Nolfo notes, the sudden shift from non-convertible politically managed trade to hard-currency transactions constituted an external shock for which these economies were structurally unprepared (Di Nolfo 1992). Imports of essential commodities—energy above all—now had to be paid in dollars or deutsche marks, while export capacity contracted sharply and foreign-exchange earnings evaporated. Boughton observes that several republics effectively began their independent existence with negative external positions and no capacity to defend their emerging exchange rates (Boughton 2012). In the language of monetary economics, these states lacked the initial reserve capital necessary for stabilisation.

The theoretical implications of this moment were profound. Classic monetary theory, from Bagehot through Kenen, stresses that in situations of institutional fragility the credibility of a currency depends not on rules alone but on access to liquidity and the presence of an external anchor (Bagehot 1873; Kenen 1969). Monetary sovereignty, in this view, is not self-generating; it requires backing—either in the form of reserves, credible external support, or integration into a broader monetary framework. Yet the intellectual paradigms dominant in the early 1990s—shaped by rational expectations theory, time-consistency models, and the canon of the Washington Consensus—were premised on the existence of functioning monetary institutions. As Cohen and Helleiner have shown, the ascendant belief that global financial markets could supply liquidity efficiently, discipline governments, and allocate resources optimally left little space to conceptualise systemic liquidity failures (Cohen 1998; Helleiner 1994). These frameworks assumed precisely the institutional preconditions—credible central banks, enforceable contracts, transparent

fiscal systems—that transition economies conspicuously lacked. The result was a profound mismatch between theory and reality: the intellectual tools available to policymakers were least suited to the context in which they were most urgently required.

The IMF confronted this contradiction directly. Internal analyses produced between 1992 and 1993, reconstructed by Boughton, reveal a growing awareness within the Fund that the successor states were not facing conventional balance-of-payments crises, but the collapse of an entire monetary order (Boughton 2012). Staff reports highlighted the need for “start-up reserves,” warned against the dangers of introducing currencies without adequate backing and stressed the destabilising effects of monetising fiscal deficits during periods of institutional formation. These assessments echoed arguments advanced in earlier decades by economists who had participated in debates on international liquidity and reserve creation, including those who had envisioned the SDR as an instrument for systemic stabilisation.

Yet the Fund lacked the instruments to act on its own diagnosis. It could provide conditional lending, but only in the form of debt. It could offer technical assistance and policy advice, but it could not supply the non-debt-creating reserves that monetary formation historically required. Above all, it could not confer credibility at the critical moment of currency birth—credibility that only reserves, or a recognised external monetary anchor, could provide. As Managing Director Michel Camdessus acknowledged in private discussions and public interventions, the IMF was being asked to stabilise economies whose monetary foundations did not yet exist, using tools designed for states with established institutions (James 1996; Boughton 2012).

This limitation exposed a deeper structural weakness of the post-Bretton Woods monetary order. A system constructed around the primacy of private capital markets and the asymmetries of dollar centrality possessed no mechanism for addressing the liquidity needs generated by the collapse of an entire monetary zone. The United States was unwilling to extend large-scale concessional liquidity; private markets would not lend to states lacking institutions; and the IMF—the only universal institution with a mandate for monetary stability—lacked the authority to create reserves (Cohen 1998; Eichengreen 2011). Guida has shown that many post-Soviet governments understood this constraint acutely, and increasingly viewed IMF programmes less as sources of liquidity than as instruments of legitimacy—a signal of seriousness to markets rather than a solution to their immediate monetary needs (Guida 2001).

The post-Soviet transition thus crystallised a paradox at the heart of the international monetary system in the early 1990s. The global economy confronted a textbook case of systemic liquidity need—one that earlier decades would have interpreted through the language of reserve creation, substitution accounts, or multilateral monetary reform—yet the intellectual climate of the period rendered such responses nearly unthinkable. The SDR, the only existing instrument capable in principle of supplying unconditional liquidity to all members, remained conceptually marginalised. The prominence once accorded to multilateral reserve creation had been displaced by a moralised faith in market discipline, institutional credibility, and policy virtue.

It was precisely within this tension—between a world undergoing monetary disintegration and a paradigm unable to acknowledge the legitimacy of collective liquidity—that the SDR debate returned to the international

agenda. The collapse of the Soviet monetary space revealed a structural demand that the prevailing monetary order could not satisfy. The proposals that emerged in the mid-1990s can only be understood against this background: not as a revival of 1970s-style reformism, but as an attempt to respond to a systemic failure using an instrument whose intellectual legitimacy had never entirely disappeared, even as the world had declared the politics of money to be over.

### **3.7 The 1994 SDR Debate and the Limits of Fiscal Imagination**

The 1994 debate on a new allocation of Special Drawing Rights marked the final moment in which the International Monetary Fund stood before a genuine—if fragile—possibility of reclaiming a monetary role commensurate with the systemic ambitions of its founding decades. More than a failed policy initiative, the episode revealed the limits of what had become “thinkable” within the post–Cold War international monetary order. At stake was not simply the provision of liquidity to a specific group of countries, but a deeper question concerning the grammar of global monetary governance: whether international liquidity should remain an accidental by-product of private capital flows and the balance-of-payments position of a single reserve-issuing state, or whether a multilateral institution could legitimately supplement it through collective monetary creation.

The immediate catalyst for the debate was the dramatic liquidity vacuum created by the dissolution of the Soviet monetary space. Yet the broader significance of the episode lay in the way this shock confronted an international system whose intellectual and institutional architecture had come to deny the legitimacy of systemic monetary intervention. As the *New York Times* observed at the time, the SDR in 1994 appeared as “an old idea

dusted off to aid Russia” (New York Times 1994), a formulation that simultaneously captured the urgency of the post-Soviet transition and the perceived anachronism of the instrument itself. The tension embedded in this description—between necessity and illegitimacy—encapsulated the dilemma facing the Fund.

Within the IMF, the proposal for a new allocation was championed above all by Michel Camdessus, whose leadership—discussed in the previous sections—had consistently combined disciplinary governance with a residual commitment to collective monetary responsibility. In a memorandum to the Executive Board dated 3 June 1994, Camdessus described the SDR as “the community asset of the international monetary system” (BUFF/94/55, 2), deliberately invoking the intellectual lineage of systemic monetary thinkers such as Robert Triffin, Peter Kenen, and John Williamson. He argued that the world economy faced a “long-term global need” for reserves, a need intensified by the accession of states “with no initial access to international financial markets,” whose stabilisation programmes were constrained by acute shortages of foreign exchange (BUFF/94/55, 4–5). This framing revived an older conception of the SDR: not as a residual accounting unit, but as a form of multilateral monetary equity designed to compensate for structural asymmetries in the distribution of global liquidity.

IMF staff analysis reinforced this diagnosis. Economists working on the transition economies warned that “policy reform efforts have been hampered by insufficient foreign exchange reserves” and stressed the systemic risks associated with allowing new currencies to float unsupported in conditions of institutional fragility (BUFF/94/55, 7–8). These assessments echoed a substantial academic literature emphasising that credible stabilisation requires not only policy discipline and institutional reform, but also adequate

reserve backing, administrative capacity, and fiscal coherence (Åslund 1995; Fischer and Sahay 2000; Guida 2001). The problem confronting the post-Soviet economies was therefore not merely one of incentives or credibility, but of initial monetary endowment.

In contemporary analytical terms, Camdessus's proposal amounted to something more radical than a conventional reserve augmentation. By advocating a general SDR allocation, combined with redistribution mechanisms and embedded within IMF-supported programmes, he was effectively advancing the case for a "fiscal currency without a state": a collectively created monetary instrument capable of injecting purchasing power into national balance sheets without generating debt, without ex ante conditionality, and without reliance on private capital markets. In this configuration, the SDR functioned not merely as liquidity, but as a form of distributive capacity at the international level.

What distinguished this proposal from traditional IMF lending was therefore not simply its scale, but its logic. Unlike Fund programmes, an SDR allocation would have expanded fiscal space without increasing external indebtedness, without signalling crisis, and without triggering the stigma associated with emergency financing. It would have operated ex ante rather than ex post, supplying the monetary preconditions for stabilisation rather than disciplining its aftermath. In doing so, Camdessus's proposal implicitly challenged the post-Bretton Woods separation between monetary authority and fiscal capacity: it suggested that global monetary stability required a minimal form of collective fiscal action, even in the absence of a global state. Camdessus's later recollections confirm that, for him, the issue transcended technical debates over reserve adequacy. He recalled the Fund confronting countries "with no reserves and no access to markets," for whom only "a

community response, not a market response” could provide effective support (Masini & Nania 2025). He described the SDR as “an essential instrument that risked being allowed to die,” revealing his sense that the IMF was abandoning the last surviving trace of a more ambitious conception of global monetary governance. Contemporary UNCTAD analyses echoed this interpretation, characterising the SDR as the closest existing approximation to an international public money—uniquely suited to supporting systemic transitions and mitigating the deflationary bias of a market-centred monetary order (UNCTAD 1994; UNCTAD 2007).

This conception, however, encountered firm resistance from the IMF’s principal shareholders. Germany, shaped by the Bundesbank’s anti-inflationary doctrine, viewed unconditional reserve creation as a threat to the credibility painstakingly established during the disinflation of the 1980s (Boughton 2012). The United Kingdom, drawing on Treasury traditions forged during the crises of the 1970s, emphasised moral hazard: unconditional liquidity, it argued, would weaken incentives for structural reform in institutionally fragile economies (Cohen 1998). The United States, the central architect of the post-1971 international monetary order, denied that any “global need” for reserves existed at all, insisting that private financial markets had become the dominant and appropriate source of liquidity—an argument that implicitly defended the structural primacy of the dollar (Eichengreen 1996; Bryant 1980). Though expressed in technical language, the U.S. position reflected a deeper geopolitical intuition: expanding the SDR would introduce a degree of monetary pluralism difficult to reconcile with a dollar-centred system.

Internal dynamics within the Fund further narrowed the space for Camdessus’s initiative. As Chwioroth has shown, IMF economists in the

1990s were increasingly socialised into analytical frameworks privileging market-conforming policies, rational expectations, and the view that credibility emerges from constraint rather than institutional design (Chwieroth 2009). In such an intellectual environment, the SDR appeared as a conceptual remnant of an earlier era in which liquidity was explicitly treated as a public good. While a small group of senior economists—closer to Polak’s functionalist understanding of reserves—remained sympathetic to an allocation, they no longer defined the institutional mainstream. As Moschella and James argue, the influence of a Managing Director is structurally constrained when it diverges from the dominant policy paradigm (Moschella 2010; James 1996). In 1994, Camdessus found himself precisely in that position.

Archival discussions within the Executive Board sharpen this contrast. Richard Newman, then U.S. Executive Director, argued that the case for a general allocation failed the “global need” criterion, insisting that the liquidity shortages of former Soviet republics and many developing countries reflected deficiencies of resources and institutions rather than reserves (Newman 1994). From this perspective, stretching the SDR into a quasi-fiscal instrument would violate both the spirit and the letter of the Articles of Agreement (Newman 1994). By contrast, Henri de Groote, the Belgian Executive Director and one of the most articulate defenders of the SDR within the Board, argued that an allocation combined with post-allocation redistribution would allow transition economies to acquire the “critical stock of reserves upfront” required to sustain adjustment (De Groote 1994, 3). Mohamed Shaalan, representing Egypt, similarly maintained that a large allocation—on the order of SDR 36 billion—was not only legally permissible

but the most straightforward means of addressing both liquidity and equity concerns (Shaan 1994, 1–2).

These interventions reveal a deeper fault line. For proponents of the allocation, the SDR represented the only available instrument capable of functioning as a collective fiscal response to systemic transformation. For its opponents, it was a residual accounting unit whose expansion threatened either macroeconomic discipline or the geopolitical foundations of the dollar-centred order. The disagreement was therefore not merely technical, but ontological: it concerned what international money was allowed to be in the post–Cold War world.

The proposal ultimately failed at the Madrid Annual Meeting. Its failure cannot be attributed to weaknesses in the technical analysis—the staff memorandum remains one of the most rigorous assessments of global reserve needs produced in the 1990s—nor to uncertainty about the severity of the transition economies’ predicament (Boughton 2012). It failed because the idea itself no longer fit within the epistemic boundaries of the age. Accepting the allocation would have required acknowledging that international liquidity is a public good, that the IMF bears responsibility for its provision, and that global stability cannot rest exclusively on private markets and a single national currency. None of these propositions was admissible within the dominant post–Cold War paradigm.

With hindsight, the 1994 SDR debate marks the closure of a historical possibility. It signalled the definitive triumph of a market-centred, disciplinary vision of monetary order over the systemic and institution-building ambitions that had animated the creation of the SDR in 1969. The idea of the SDR as a fiscal currency—a collectively created reserve asset capable of supporting systemic transitions and embedding a minimal form of

international solidarity—was not rejected for lack of analytical coherence. It was rejected because it challenged the intellectual and geopolitical architecture of the era. What was lost in Madrid was not merely an allocation, but an alternative conception of the IMF itself: not only as a guardian of discipline, but as a potential issuer of international money and an architect of a more symmetrical global monetary system.

### **3.8 After 1994: The Narrowing of Monetary Imagination and the Asian Crisis**

The failure of the 1994 SDR initiative marked a structural inflexion in the IMF's understanding of its own mandate. After Madrid, the institution ceased to treat international liquidity as a collective responsibility and progressively abandoned the notion that it might, even in a limited form, provide a systemic monetary backstop. The Special Drawing Right—originally conceived as an embryonic international reserve asset—was reduced to a residual legal feature of the Articles of Agreement, formally extant but devoid of operational ambition (Viterbo 2022). As James (1996) observes, the IMF's dominant self-image shifted decisively away from the management of monetary instruments and towards the enforcement of procedural discipline. Boughton's archival reconstruction confirms this transformation: post-1994 Executive Board discussions addressed the SDR almost exclusively in narrow statutory terms, with no reference to its potential systemic or stabilising role (Boughton 2012). What disappeared was not merely a policy instrument, but the conceptual space in which international liquidity could be imagined as an object of collective design.

The Asian financial crisis of 1997 exposed the consequences of this transformation with unusual clarity. Subsequent narratives often framed the

crisis as the product of structural distortions, weak governance, or “crony capitalism” (Kang 2002). Yet contemporaneous analytical work pointed to dynamics far more consistent with formal models of liquidity-driven crises and sudden stops. Calvo (1998) formalised the mechanism through which abrupt shifts in investor expectations could trigger massive reversals in capital flows, independent of underlying fiscal or inflationary conditions. Obstfeld’s (1996) multiple-equilibria framework similarly demonstrated how open capital regimes could transition discontinuously from solvent to distressed equilibria. Empirical evidence from the crisis aligned closely with these models. Indonesia’s rupiah depreciated by more than 80 per cent between July 1997 and January 1998; Korea’s won more than doubled in value against the dollar within weeks; and Thailand’s usable reserves deteriorated sharply before the abandonment of the baht peg. Internal IMF data showed that Korea’s usable reserves had fallen well below its short-term external liabilities, generating the maturity and currency mismatches characteristic of liquidity crises rather than solvency crises (IMF 1998; Joyce 2013). These developments were inconsistent with narratives of fiscal profligacy or inflationary excess, but fully consistent with systemic liquidity shocks.

Joseph Stiglitz provided one of the most influential and sustained critiques of the Fund’s interpretation and response. His analysis combined formal economic reasoning with institutional and political economy considerations. At the analytical level, Stiglitz situated the crisis within a class of events driven by information asymmetries, coordination failures, and balance-sheet vulnerabilities (Stiglitz 1998; 2006). In line with the models developed by Krugman (1999) and Aghion, Bacchetta, and Banerjee (2001), he argued that sharp interest-rate increases—central to the IMF’s policy response—could

exacerbate balance-sheet fragilities by increasing the domestic-currency burden of foreign-currency liabilities, thereby deepening insolvency risks. In such conditions, contractionary policies risked validating pessimistic expectations rather than restoring confidence.

Stiglitz's critique also extended to the institutional trajectory associated with the Washington Consensus. He argued that the crisis was not the consequence of insufficient reform, but of asymmetric and poorly sequenced liberalisation—particularly the rapid opening of capital accounts in the absence of adequate supervisory and regulatory institutions (Stiglitz 2001; Masini 2017). In this reading, East Asian economies became more vulnerable precisely because financial liberalisation outpaced institutional development. The crisis thus appeared not as a deviation from orthodoxy, but as the outcome of its partial and uneven application (Stiglitz 2002).

More controversially, Stiglitz located the crisis within a broader geopolitical context. He suggested that pressures to liberalise financial and corporate sectors reflected strategic interests of the United States, and that resistance by East Asian governments to full liberalisation may have intensified capital flight once investor sentiment shifted (Masini 2017, 170). While contested, this interpretation underscored the asymmetry of an international monetary environment in which market discipline and policy advice were shaped not only by economic assessment but also by geopolitical power.

IMF programme design during the Asian crisis reflected the institution's post-1994 intellectual configuration. Support packages for Thailand, Indonesia, and Korea—amounting to over \$110 billion—were structured around sharp interest-rate increases, fiscal tightening, and extensive structural conditionality (Joyce 2013, 113). Radelet and Sachs (1998) characterised this policy mix as pro-cyclical, arguing that it tightened financial conditions

precisely as liquidity collapsed. Internal IMF assessments were more guarded but converged on a common conclusion: the crisis exposed significant gaps in the international financial architecture that existing instruments were ill-equipped to address (Gutián 1998). In particular, the absence of any mechanism for rapid, unconditional, multilateral liquidity creation—such as the SDR allocation rejected in 1994—forced the Fund to rely on conditional lending rather than on tools capable of stabilising expectations at the systemic level.

Camdessus's response reflected these institutional constraints. Publicly, he defended high interest rates as necessary to restore confidence. Yet the negotiations surrounding the Indonesian programme—where he was personally present during the January 1998 signing ceremony—revealed the limits of a credibility-centred approach. In later reflections, Camdessus acknowledged shortcomings in the design and sequencing of the Indonesian programme and explicitly linked these difficulties to the absence of coordinated global liquidity instruments (Masini & Nania 2025). His comments implicitly connected the failures of crisis management in 1997–98 to the conceptual void created after 1994: the IMF no longer possessed the intellectual or institutional framework required for systemic liquidity intervention.

The regional aftermath reinforced this diagnosis. In response to the crisis, East Asian economies adopted unprecedented strategies of self-insurance through large-scale reserve accumulation, particularly in China, Korea, Taiwan, and Singapore (Eichengreen et al. 2018). This behaviour was consistent with the logic of original sin theory, according to which economies unable to borrow internationally in their own currency accumulate reserves to mitigate exposure to sudden-stop dynamics (Eichengreen and Hausmann

1999). The creation of the Chiang Mai Initiative<sup>42</sup> in 2000—a regional swap arrangement explicitly designed to supplement or bypass IMF support—further signalled declining confidence in the multilateral system’s capacity to provide liquidity when most needed (Eichengreen et al. 2018, 168–169).

From a historical perspective, the Asian crisis validated the trajectory inaugurated in 1994. It revealed the fragility of a global financial system characterised by volatile capital flows and the absence of collective liquidity instruments. Yet the crisis did not reopen the conceptual space necessary to reconsider the SDR or alternative systemic tools. As Moschella (2010) emphasises, once institutions internalise a policy paradigm, alternative frameworks become not merely politically unviable but analytically unavailable. The marginalisation of the SDR after 1994 thus reflected not simply a policy decision, but a deeper cognitive transformation: systemic liquidity had ceased to be recognised as a legitimate object of international economic governance.

In this sense, the IMF of the late 1990s was not merely reluctant to innovate; it was structurally incapable of doing so. The Asian crisis made this limitation visible. It exposed an institution capable of enforcing adjustment but unable to stabilise the monetary environment within which adjustment was expected to occur. What was lost after 1994 was not only a policy instrument, but an entire conception of monetary governance—one in which collective liquidity creation, through instruments such as the SDR conceived as a fiscal currency,

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<sup>42</sup> The Chiang Mai Initiative (CMI), launched in 2000 by the ASEAN countries together with China, Japan, and South Korea (ASEAN+3), established a network of bilateral currency swap arrangements aimed at providing short-term liquidity support in the event of balance-of-payments pressures. The initiative emerged directly from dissatisfaction with IMF crisis management during the Asian financial crisis and was intended to supplement—and, in some cases, partially bypass—IMF lending facilities. The arrangement was later multilateralised as the Chiang Mai Initiative Multilateralisation (CMIM) in 2010.

could function as a stabilising force in an increasingly integrated and crisis-prone global economy.

### **3.9 From Systemic Ambition to Managerial Contraction: The IMF's Post-1997 Identity**

The Asian crisis did not inaugurate a new phase in the history of international monetary governance; it revealed, with stark clarity, that a long historical arc had reached its conclusion. What had begun in the late 1960s as an effort to design a more symmetrical and collectively governed international monetary system—through the SDR, the Substitution Account, or the institutional innovations envisaged by the C-20—ended, by the late 1990s, in the consolidation of a Fund whose monetary imagination had been dramatically narrowed. The IMF that confronted the crisis of 1997–98 was no longer an institution capable of thinking in systemic terms. It had become, instead, the administrative custodian of a global financial order built on private liquidity creation, dollar centrality, and the normative primacy of credibility. The argument developed throughout this chapter culminates here: the period between the early 1980s and the late 1990s witnessed not merely the failure of reform, but the deeper epistemic transformation of the IMF from a potential architect of the international monetary system into a manager of discipline within an international non-system.

No figure embodies this transformation more completely than Michel Camdessus. His role in the 1994 SDR debate is now widely recognised as the last significant attempt by the Fund's leadership to articulate a systemic conception of international liquidity. The internal memoranda of the period make his view unmistakably clear: the transition economies faced a structural liquidity deficit that could not be resolved through markets, and the SDR—

described by Camdessus as “the community asset of the international monetary system” (BUFF/94/55)—was the only available instrument compatible with the scale and nature of the challenge. Boughton’s reconstruction of the Board debates shows that Camdessus was virtually alone among the major shareholders in insisting that international liquidity was a public good for which the Fund bore responsibility (Boughton 2012). His argument rested on the intellectual foundations developed by an earlier generation of systemic thinkers, from Triffin to Kenen, for whom the SDR was not a residual accounting device but an embryonic form of multilateral monetary capacity.

The rejection of the allocation at the Madrid Annual Meeting was therefore more than a political setback. It marked the moment at which the dominant shareholders redefined the boundaries of the Fund’s mandate. As Cohen (1998), Helleiner (1994) and Eichengreen (1996) demonstrate, by the early 1990s the prevailing belief among major creditor states was that global liquidity was most efficiently provided by private capital markets and, ultimately, by the dollar. The idea of multilaterally created liquidity had become intellectually alien, institutionally suspect, and politically unacceptable. The “global need” criterion in Article XVIII—originally conceived to allow the Fund to supplement international liquidity—was reinterpreted restrictively to deny that any such need could exist. The SDR, once designed to address the structural asymmetries inherent in a dollar-centric system, was reduced to an inert legal artifact.

When the Asian crisis erupted three years later, the consequences of this epistemic contraction became unmistakable. As Joyce (2013) and the Fund’s own internal assessments make clear, the crisis in Korea, Indonesia, and Thailand was fundamentally a crisis of liquidity and balance-sheet fragility,

not of fiscal irresponsibility or inflationary excess. The mechanics resembled the dynamics formalised by Calvo (1998), Obstfeld (1996), and Krugman (1999): sudden stops, multiple equilibria, currency mismatches, collapsing reserves. Yet under the intellectual frameworks that dominated the IMF after 1994, these phenomena could not be recognised as systemic liquidity failures. They were read instead as failures of credibility and governance, to be corrected through contractionary policies, higher interest rates, and accelerated structural conditionality. Stiglitz (1998; 2001) captured the paradox with unusual clarity: the IMF treated liquidity crises as if they were solvency crises, and in doing so deepened the very instability it sought to resolve.

It was in this context that the Fund introduced two new instruments, the Supplemental Reserve Facility (SRF) in 1997 and the Contingent Credit Lines (CCL) in 1999—both emblematic of the post-Madrid transformation of the institution’s toolkit. The SRF was designed for countries facing “exceptional balance-of-payments needs arising from a sudden and disruptive loss of market confidence,” and provided large but very short-term loans at interest rates significantly above standard IMF facilities. Its purpose was not to supply reserves at scale but to signal policy resolve and restore market confidence; it was, as Joyce (2013) notes, a credibility instrument rather than a lender-of-last-resort mechanism. The CCL went further still, making access to resources contingent on a prior assessment of policy soundness, governance quality, and external sustainability. Functionally, it was a reputational screening device: available only to countries least likely to need it and inaccessible to those most vulnerable to liquidity shocks. No member ever requested its use before its abolition in 2003. Both instruments rested on the same premise that had underpinned the rejection of the SDR in 1994:

crisis prevention and management were to be achieved not through collective liquidity provision, but through the reinforcement of market discipline.

The reactions of the Asian economies themselves confirmed the structural inadequacy of this approach. As Eichengreen et al. (2018) document, the massive reserve accumulation that followed the crisis—most dramatically in China, Korea, Taiwan, and the ASEAN economies—was not simply a precautionary strategy but a direct response to the loss of confidence in the IMF's ability to act as an effective crisis manager. The creation of the Chiang Mai Initiative in 2000 further signaled the emergence of regional alternatives to a multilateral institution (Mundell 1997; 2000) that had become unable to perform one of the foundational functions envisioned at Bretton Woods.

Seen from this perspective, the story traced in this chapter does not end with an episode of failed reform but with the establishment of a new institutional identity for the IMF. By the turn of the millennium, the Fund had become what might be called a managerial multilateral institution: an organisation equipped to enforce norms, assess policies, and administer conditionality, but no longer equipped—or authorised—to shape the structural conditions of the international monetary order. Surveillance expanded, technical assessments multiplied, and standards proliferated, but the capacity to intervene in the monetary architecture of the global economy vanished. The intellectual frameworks adopted in the 1980s, moralised under Camdessus in the early 1990s, and operationalised during the Asian crisis had eliminated the conceptual space in which alternative forms of monetary organisation could be imagined.

The irony is profound. Camdessus, who had most clearly perceived the need for a systemic instrument of liquidity in 1994, became the Managing Director whose tenure symbolised the institutionalisation of a post-systemic identity.

The SDR survived only as a residual statistical unit. And the IMF, created to provide stability in a world of asymmetric reserve structures, ended the century stabilising a world that no longer recognised that such asymmetries existed.

Thus, the argument developed in this chapter reaches its culmination: the international monetary system of the late 1990s was not the product of failed reform, but of a transformation in what counted as reformable. The collapse of the monetary imagination, the triumph of credibility as a moral category, and the entrenchment of market-based liquidity provision combined to produce a world in which the IMF could no longer be a monetary institution in any meaningful sense. What disappeared after 1994 was not merely the possibility of an SDR allocation, but the very intellectual world in which the SDR had been conceived as a tool of systemic governance. The Asian crisis, far from interrupting this trajectory, confirmed and completed it.

### **3.10 Conclusion — The Eclipse of Monetary Imagination: Liquidity, Power, and the Unfinished Architecture of the Global Economy**

The analysis developed in this chapter suggests that the institutional evolution of the IMF during the 1990s cannot be understood without reference to a deeper transformation in the intellectual foundations of monetary thought. What characterised the Camdessus years was not simply a tightening of conditionality, the entrenchment of the credibility paradigm, or the prioritisation of specific policy instruments. More fundamentally, it was the progressive narrowing of the conceptual space within which international monetary questions could be articulated. The marginalisation of the SDR, the

inability to respond systemically to the post-Soviet liquidity vacuum, and the managerial turn crystallised during the Asian financial crisis were not isolated developments, but interconnected manifestations of this broader epistemic shift.

The failure of the SDR to gain traction in 1994 does not merely point to geopolitical resistance or the conservatism of major shareholders. It also reveals that the dominant theoretical frameworks of the period no longer provided the analytical categories required to treat international liquidity as a collective problem. Earlier generations of economists—Keynes, Triffin, Kenen, Polak—had conceptualised liquidity, asymmetry, and systemic design as integral components of the international monetary question. By contrast, the macroeconomic orthodoxy that shaped the policy environment of the 1990s approached monetary issues primarily through the lenses of expectations, incentives, and national credibility. This shift did not simply alter policy priorities; it displaced questions of international monetary architecture from the analytical core of mainstream economics, relegating them to the periphery of policy debate.

Within this intellectual configuration, the SDR ceased to be imaginable as an instrument of systemic reform. Its marginalisation was not accidental, nor solely the result of institutional inertia. Rather, it reflected a disciplinary realignment in which money was increasingly understood as a national liability subject to market discipline, and liquidity as an emergent outcome of private financial flows. The IMF under Camdessus operated within this conceptual horizon. Even when confronted with crises that earlier traditions would have recognised as systemic liquidity shortages—most notably during the initial years of post-socialist transition and the Asian financial crisis—the prevailing analytical frameworks reinterpreted these episodes as failures of

governance, transparency, or policy credibility. The SRF and the CCL, often criticised for their limited effectiveness, were nonetheless consistent with this intellectual environment: they were conceived less as instruments of monetary creation than as mechanisms designed to reinforce discipline and restore confidence.

The absence of sustained alternative voices within the IMF and the wider economics profession reinforced this trajectory. Structuralist, developmental, and heterodox approaches to international liquidity and asymmetry were not decisively refuted; rather, they gradually lost institutional visibility and analytical authority. In this sense, the evolution of the IMF during the 1990s mirrored a broader transformation in economic reasoning: the contraction of the international monetary system as a legitimate object of theoretical inquiry. The Fund's shift from systemic ambition to managerial governance was inseparable from this analytical narrowing, as the tools required to conceptualise reform at the level of monetary architecture progressively eroded.

The end of the Camdessus era did not immediately reverse this orientation. In the early 2000s, the IMF continued to operate within a conceptual grammar centred on surveillance, standards, and national-level credibility. The reactivation of the SDR during the global financial crisis of 2008–09—culminating in the general allocation of 2009—did not mark a return to systemic reform, but rather an exceptional response to extraordinary circumstances. Framed as a temporary and ad hoc intervention, this episode underscores the persistence of the conceptual limits established during the 1990s. The SDR could be mobilised to supplement reserves in moments of acute stress, but not reintegrated into a coherent vision of international monetary governance.

What emerges from the trajectory examined in this chapter is therefore not a linear narrative of ideological triumph, but a more subtle transformation in the ways international monetary problems were conceptualised and addressed. The Camdessus years represent the culmination of a process through which the IMF, originally conceived as a guardian of the global monetary architecture, came to operate within a framework that constrained its capacity to imagine systemic reform. The narrowing of monetary imagination analysed here did not eliminate the problem of global liquidity, but it redefined the terms in which that problem could be recognised and acted upon—setting the boundaries within which subsequent debates on international monetary reform would unfold.

### **On the Changing Meaning of International Money: Some Concluding Remarks**

This research did not aim to explain why international monetary reform failed, nor does it conclude by offering a definitive answer to that question. It set out to show that the question itself has been consistently misframed. The historical record reconstructed here suggests that reform efforts have repeatedly been evaluated as attempts to correct institutional design within a stable and shared understanding of what international money was meant to do. They were not. What was at stake across the debates examined in this study was something more fundamental: the attempt to assign a determinate

function to international money in a context where no shared conception of that function could be sustained.

Reform projects failed not because they were blocked by power alone, nor because they were technically incoherent, but because they presupposed functions that the international monetary system was not—and at times was no longer—willing or able to recognise explicitly. Redistribution, insurance, fiscal support, and discipline were each, at different moments, implicitly attributed to international money. Yet none of these functions could be stabilised long enough, especially in terms of political ownership, to become constitutive of the system. What repeatedly collapsed was not the instrument, but the agreement over what the instrument was for.

Seen from this perspective, the history of the Special Drawing Right acquires a different meaning from that usually assigned to it in the literature. The SDR did not move from promise to marginality along a single, linear trajectory. Rather, it was repeatedly reinserted into the international monetary system under changing conceptual assumptions. In the debates over the aid link, the SDR was imagined as a redistributive device capable of reconnecting liquidity creation with development objectives. In the discussions surrounding the Substitution Account, it was recast as a stabilising and insurance-like mechanism designed to mitigate systemic risk generated by reserve-currency asymmetries. During the Camdessus years, it survived as a muted fiscal instrument—capable of providing temporary support without reopening questions of monetary architecture. Each redefinition marked not a continuity of reform, but a contraction of ambition, as successive functions became politically unspeakable.

This functional instability helps explain an otherwise puzzling feature of international monetary history: the persistence of reform discourse in the

absence of reform outcomes. The SDR repeatedly returned to the agenda precisely because it was never anchored to a settled function. Its survival depended on its malleability. Yet this malleability came at a cost. An instrument that can perform many roles in principle performs none in practice. The SDR became durable by remaining indeterminate.

This observation reframes the notion of “failure” that runs through much of the literature on international monetary reform. Failure is typically understood as the inability to implement specific proposals or to overcome political resistance. The analysis developed here suggests a different interpretation. Reform failed because it repeatedly outran the conceptual categories available to sustain it. Each attempt addressed a real problem—global inequality, systemic instability, fiscal constraint, crisis management—but did so by implicitly redefining the function of international money. As soon as that function was made explicit, it became politically untenable.

The Camdessus period represents a critical moment in this trajectory, not because it marked a definitive rejection of reform, but because it normalised functional ambiguity as a mode of governance. International money was no longer expected to organise the system; it was expected to manage its failures. The shift from systemic ambition to managerial intervention did not eliminate the need for collective liquidity, but it reframed that need as episodic, exceptional, and morally conditioned. This transformation helps explain why the IMF could expand its operational reach while narrowing its monetary imagination.

The general SDR allocations of 2009 and 2021 must be read against this background. Far from representing a revival of multilateral monetary reform, they confirmed the endpoint of the trajectory traced in this study. International money could still be created collectively, but only once its function had been

reduced to emergency relief. The SDR was mobilised not as a constitutive element of monetary order, but as a temporary palliative. Crisis reopened the instrument, but not the question of system design. In this sense, these allocations were not exceptions to the rule; they were its most faithful expression.

The contemporary monetary landscape further reinforces this interpretation. Current debates are marked by an apparent paradox: monetary innovation is accelerating, yet systemic reform remains elusive. The rise of dollar-denominated stablecoins, the expansion of private liquidity infrastructures, and the renewed appeal of unilateral or bilateral monetary strategies do not signal the return of architectural thinking. They represent its circumvention. These developments provide liquidity, reduce transaction costs, and extend monetary power, but they do so without articulating any collective purpose for international money. Function is assumed, not debated.

The contrast between dollar-linked stablecoins and proposals for SDR-anchored digital instruments is particularly revealing. From an economic standpoint, the latter are fully coherent with long-standing arguments about diversification, symmetry, and stability. Their political implausibility is therefore analytically significant. It confirms that the obstacle to reform is not technical feasibility, but the absence of a shared understanding—and political agreement—over what international money should accomplish. Monetary innovation flourishes where function remains implicit and power is hierarchical; it stalls where function must be made explicit and governance shared.

What emerges from this analysis is a picture of international monetary order characterised not by neutrality, but by unresolved multiplicity. International money is expected to stabilise markets without redistributing resources, to

discipline states without assuming fiscal responsibility, and to provide liquidity without constituting a public good. These expectations are mutually incompatible. Their coexistence produces a system that is resilient in operation yet fragile in conception—capable of adjustment, but resistant to redesign.

The scope and limits of this study must also be understood in light of the evidentiary base on which it rests. The relative absence of Italy from the core empirical chapters should not be read as an assessment of its historical insignificance. Italy was an active participant in international monetary debates throughout the period examined here, particularly within European and multilateral fora. Rather, the marginality of the Italian case in this dissertation reflects the asymmetries of the international monetary archive itself. Compared to the extensive and systematically preserved documentation produced by U.S. institutions, the IMF, and UNCTAD, Italian archival material remains fragmented, unevenly accessible, and often institutionally dispersed. This constraint shaped the empirical focus of the analysis and reinforced the decision to privilege arenas in which the redefinition of international monetary functions was most explicitly articulated and contested.

This asymmetry is not merely methodological; it is historically revealing. The uneven visibility of national positions within the archival record mirrors the unequal capacity of states to shape, record, and institutionalise their contributions to international monetary governance. A systematic reconstruction of Italy's role in debates on international liquidity, SDRs, and monetary reform would require a dedicated archival effort and a different evidentiary strategy. Such an investigation lies beyond the scope of this study,

but it represents a natural extension of its analytical framework and an open line of future research.

The contribution of this research lies in identifying unresolved functional multiplicity as a structural limit of international monetary reform. By bringing together debates that are usually analysed in isolation—development finance, reserve-currency substitution, conditionality, fiscal capacity, and crisis response—it shows that they are successive attempts to resolve the same underlying indeterminacy. The history of the SDR makes visible what is otherwise obscured: that international monetary governance has persisted by avoiding a decision about the function of its own central instrument.

This conclusion does not suggest that international monetary reform is either imminent or impossible. It suggests something more exacting. Reform cannot succeed at the level of institutional architecture alone, because architecture presupposes function. Until the role of international money is made explicit, contestable, and politically grounded, institutional innovation will continue to oscillate between ambition and retreat. Instruments will reappear, crises will be managed, and liquidity will be created—but always provisionally, and always without system-level coherence.

The unresolved status of the SDR is therefore not a historical curiosity or a policy footnote. It is the most precise indicator of a deeper condition: an international monetary system that has retained its tools while losing clarity about its purpose. To recognise this is not to propose a solution. It is to clarify the problem. And it is precisely this clarification—of what international monetary reform has been unable to decide—that constitutes the central contribution of this study.

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