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Abstract. Freezing the reserve assets of some countries and the danger of spreading it to other countries have made the existing international monetary system a very unreliable instrument of international financial relations. This will undoubtedly lead to its transformation, first of all, to a decrease in the role of the US dollar in international trade and finance. In this respect, it is interesting to trace the evolution of the international monetary system, looking at how the US dollar came to dominate it. This is the purpose of this paper. It examines the period before World War II and the emergence of the dollar on the world stage, the rise and fall of the Bretton Woods system, and the subsequent functioning of the international monetary system up to the present.

Keywords*:* international monetary system, gold standard, Bretton Woods system, International Monetary Fund, Jamaica Accords, exorbitant privilege

JEL classification: F01, F33, N10

INTRODUCTION

The history of the international monetary system is quite interesting and extensive. Many books and journal articles deal with it. This article considers one line of this history: it traces the way of the US dollar to dominance in the international monetary system, leaving aside many of the side lines of its evolution.

This issue becomes extremely interesting in the current situation, the main trend of which is the flight from the dollar. Krikke (2024) calls it "the path to global financial freedom." The point is that freezing of the reserve assets of some countries – first of all, of Russia – and the danger of spreading it to other countries have made the existing international monetary system a very unreliable instrument of international financial relations.

The paper distinguishes three periods in the history of the US dollar as a reserve currency. The first period is called 'prehistory.' Because of World War I, the dollar turned from a peripheral currency into one of main reserve currencies. The second period is that of the Bretton Woods monetary system. It covers 1941–1971, starting from designing a new monetary system to its collapse. It was this system in which the US dollar started to play a dominant role. The third period can be called the 'Jamaica monetary system' in which the dollar was not linked to gold. This period lasts from 1976 to the present. The fact that the issuance of dollars was no longer limited to the US gold reserve caused the 'exorbitant privilege' (that France had accused the USA of back under the Bretton Woods system) to grow incredibly. Its essence is shown by the statistical data given.

PREHISTORY: THE DOLLAR APPEARS ON THE WORLD STAGE

Prior to World War I, gold and silver (in coins) were the world's money. In the literature, this period is often referred to as the gold (or gold-coin) standard. Occasionally (mainly in Russian-language publications) it is pointed out that the international monetary system based on it was legally formalized in 1867 at the Paris International Conference on Weights, Measures and Coins, calling the then currency system 'Parisian.' However, monetary conventions were also concluded before this conference, and although at the conference 19 of the 20 participating countries voted for the recognition of gold as a measure of value, the decisions of the conference were only advisory and had no legal force. Bimetallic monetary systems (based on gold and silver) were not then replaced by monometallic monetary systems (based on gold alone). Moreover, at subsequent monetary conferences, supporters of bimetallism (the USA among them) tried to promote the idea of its adoption. But without success – more and more countries gradually switched to the gold standard. Even in the USA, the Treasury stopped the purchase of silver bullion in 1893; in 1900, the gold standard was legally established by the Gold Standard Act.

In 1913, the official reserves of central banks and treasuries and special funds in 35 countries of the world were 68% in gold, 16% in silver, and 16% in foreign currencies[1] (mainly the British pound, French franc and German mark). Of the total reserves in foreign currencies, Russia, India and Japan accounted for three quarters (74.4%). There were no foreign currencies at all in the reserves of the United Kingdom and United States (Lindert, 1969, pp. 10–12). In countries where the gold standard was in effect, the gold values of national monetary units was legally fixed. Banks were obliged to freely exchange banknotes for gold, and the total value of banknotes in circulation should not exceed the value of the gold reserve (however, the latter condition was often violated in practice).

Although the United States was already an economic giant at the beginning of the twentieth century, the US dollar did not enjoy authority in the world at that time. It was however present in official reserves, but in small amounts and only in Canada and some Latin American countries (Lindert, 1969, pp. 17, 20). The US was a net debtor of other countries; besides, for a long time (since 1837), there was no central bank there. The Federal Reserve was created only at the end of 1913. In Europe, the United States was treated as a peripheral power at that time.

World War I fundamentally changed the situation. With the outbreak of the war, the exchange of banknotes for gold in the warring countries and a number of others was stopped. The United States was almost the only country that retained the gold standard. It became a key player in the European market, supplying food, raw materials, military equipment, ammunition, automobiles and other goods.[2] In 1919, US exports relative to the 1910–1913 average increased by the factor of 4.1 (Fordham, 2007, p. 286). Payment for US supplies was made in gold; as a result, the US gold reserve approximately doubled. While in the middle of 1914 the net debt of the United States to other countries amounted to $2.2 billion, the United States became a net creditor in 1919: its claims to other countries exceeded its liabilities by $6.4 billion (U.S. Bureau of the Census, 1975, p. 869). The US dollar became a respected currency, and the role of the world financial center shifted from London to New York.

The monetary system that existed between the world wars is characterized as the gold-exchange standard. Currencies freely exchangeable for gold (US dollar, pound sterling, French franc) began to be used on a significant scale in the reserves of central banks along with gold

[1] Eichengreen and Flandreau (2009, p. 381) note that this estimate of the share of foreign currencies is probably overstated.
[2] Although the predominant part of the supplies went to the Entente countries, the USA continued to trade with their enemies until the entry into the war in 1917 (Jefferson, 1917).

(however, no longer in coins, but in bullion). The currencies of other countries were exchanged for a reserve currency and then for gold. Sometimes (again, mainly in Russian-language publications) this system is called ‘Genoese,’ referring to some agreement concluded at the Genoa Economic and Financial Conference in 1922. In fact, there was no such agreement. The Genoa Conference adopted only resolutions of a recommendatory nature. Resolution 5 stated: “Gold is the only common standard which all European countries could at present agree to adopt.” And with the reservation in Resolution 8: “This step can only be taken in each country when economic circumstances permit” (Mills, 1922, pp. 362–363). Foreign currencies were seen as a means of “economizing the use of gold.”

‘Economic circumstances’ allowed restoring external and internal convertibility of national currencies into gold in Great Britain in 1925 and in France in 1928. In 1924–1926, internal convertibility was restored in a number of other countries. By 1928, the share of foreign currencies in the official reserves of 28 European countries amounted to 42%; in some of them, the reserves consisted mostly of currencies (Eichengreen, 2014, pp. 7–8). The overwhelming part of currency reserves – 97%, according to data on 16 countries in 1929 – consisted of US dollars (very roughly, 55%) and pounds sterling (about 42%) (Eichengreen and Flandreau, 2009, p. 393). Subsequently the dollar somewhat ceded its position to the pound. The competition between the dollar and the pound continued throughout the interwar period.

The stabilization of the international monetary system was short-lived because of the global economic crisis that started in 1929. In 1931, the pound sterling was devalued and its exchange for gold was stopped. In 1933, the internal convertibility of dollars into gold was abolished in the United States. Moreover, Executive Order 6102 (1933) of April 5 prohibited the hoarding of gold coin, gold bullion, and gold certificates by individuals, partnerships, associations and corporations (this prohibition was abolished only in 1974). All owners of such assets required to deliver them before May 1 of that year to a Federal Reserve Bank or a member bank, getting an equivalent amount in banknotes (or coins). Violation was punished severely: $10,000 fine or 10 years imprisonment, or both. Gold assets were redeemed at a price of $20.67 per troy ounce (31.1 g) according to the gold content of the dollar lasted for a century, since 1834. After the completion of this operation, the price of gold was raised to $35 per ounce. In 1936, the gold convertibility of the French franc was abolished with a simultaneous devaluation. Nevertheless, by agreement of the central banks of the USA, United Kingdom, and France, the external convertibility of the currencies of these countries into gold was preserved. In 1939, the last country that retained the gold backing of its currency, Albania, refused to back its currency with gold.

The risk of currency devaluation led to the fact that the share of currencies in the official reserves was significantly decreasing. In 1938, it amounted to only 6.3% (Borisov et al., 1987, p. 356). Thus, by the end of the 1930s, the international monetary system was at death's door. World War II finally finished it off.

BRETTON WOODS SYSTEM

The principles of the post-war world order, including economic ones, were of concern to the United Kingdom and United States already in the first years of the war, even before the United States entered it. They were discussed at a meeting between US President Franklin Delano Roosevelt and British Prime Minister Winston Churchill, which resulted in the Atlantic Charter published on August 14, 1941. Of its eight points, two concerned economic issues: (4) furthering the enjoyment by all states of access, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity; (5) bringing about the fullest collaboration between all nations in the economic field with the object of securing, for all, improved labor standards, economic advancement and social security (Noble et al., 1959, Document 372).

Soon, experts in the United Kingdom and the United States began to develop more specific plans for the creation of an international monetary system that would ensure the implementation of these provisions. In early 1942, two initial versions of its architecture were proposed. The development of the British plan was led by John Maynard Keynes (as an adviser to the British Treasury), and the American plan by Harry Dexter White (assistant to the Secretary of the US Treasury Department). These plans were aimed at avoiding all the troubles that were caused by the previous monetary system. They were not developed from scratch: back in the interwar period, Keynes published his thoughts on the reform of the international monetary system in a series of newspaper articles (published in 1933 in the USA as a separate brochure). Although the goals of both plans were similar, the organizations proposed in them differed in the volume of resources, functions, and philosophy.[3]

Keynes's plan envisaged the creation of International Clearing Union, a supranational bank designed to regulate mutual debts of countries. Its resources have to be formed from deposits of participating countries. International trade should be denominated in special units, bancors, with a certain gold content. They should replace gold and national currencies in international trade. The exchange rates of national currencies are set to the bancor and are fixed. Keynes regarded the Clearing Union as a bilateral agreement between the founding countries, United Kingdom

[3] Two versions of the Keynes and White plans (initial and final) are published in IMF (1969), pp. 3–96.

and the United States; other countries could join if they wished under certain conditions.[4] This was a fundamental position: Keynes was on opponent of multilateralism, based on the need to preserve the special status of the United Kingdom as the center of the British Empire and bilateral relations with the United States (Boughton, 2002).

While Keynes's plan promoted the interests of the United Kingdom, White's plan promoted the political and economic interests of the United States. It proposed the creation of International Stabilization Fund, the resources of which were to be significantly less than those of the Clearing Union (Keynes's proposals in this respect also reflected the interests of the United Kingdom: its post-war need for international liquidity, in particular, to return to convertibility of the pound sterling, which remained useless in the currency reserves). The fundamental feature of White's plan was multilateralism. This is, of course, a fairer arrangement of international finance and trade; however, White was not driven by considerations of justice, but by the interests of the United States, namely, free access to the markets of all countries. The United Kingdom, on the other hand, tried to preserve the system of preferences of the British Empire in its trade zone, which excluded the USA. This had long irritated the US which therefore wanted the British Empire to collapse. The plans of White and Keynes differed also in the issue of capital controls. Keynes regarded it necessary for the stability of international finance, while White believed that it was permissible only sometimes. The issue of an international monetary unit was also discussed by White; in the final version of his plan he called it 'unitas' and even proposed its gold content (equivalent to $10 of that time).

The result of the agreement of the Keynes and White plans was the "Joint Statement of Experts on the Establishment of an International Monetary Fund" of April 1944 (IMF, 1969, pp. 128–135). In addition to the United Kingdom and United States, France and Canada proposed their plans in 1943. There were also a number of informal proposals. They may have influenced the agreed British-American plan to some extent, but this is not evident from its text. The Joint Statement was a compromise between the Keynes and White plans, but largely in favor of White's plan (Boughton, 2002). Instead of a clearing union or a stabilization fund, it proposed an International Monetary Fund (IMF), whose functions were substantially narrower than those of a supranational bank. Since the member countries do not bank with the Fund, it is no longer necessary to introduce a new international unit, whether bancor or unitas. Any country could become a member of the IMF; there was no special role for the founding countries.

The Joint Statement served as the starting point for the United Nations Monetary and

[4] However, in the first version of the plan, a nod was made towards the USSR: it would be necessary to consider separately the issue of the USSR as a possible third founding country.

Financial Conference held in Bretton Woods (New Hampshire, USA) from July 1 to 22, 1944. Forty-four countries were represented at the conference (curiously enough, India, then a British colony, was among them). In addition, the conference was attended by a representative of Denmark, at that time still occupied by Germany, and delegations from a number of international organizations. In total, 730 people participated in the conference. The result of its work was the Final Act, which included the Articles of Agreement of the IMF[5] (IMF, 1969, pp. 185–214), which determined the architecture of the international monetary system (later called the Bretton Woods system). They entered into force in December 1945. The USSR signed the Final Act, but then did not ratify the agreements included in it, thereby refusing to participate in the IMF (Russia joined the IMF in 1992).

The basic principle of the Bretton Woods monetary system is fixed exchange rates to be determined against gold or the US dollar as of July 1, 1944 ($35 per ounce) with an allowable deviation of no more than 1%. To maintain exchange rate stability, the IMF lends to countries experiencing temporary shortages of reserve assets. However, the peg was adjustable. In case of 'fundamental disequilibrium' (the definition of which was deliberately not given), devaluation or revaluation of the currency within 10% of the initial exchange rate was allowed after consultations with the IMF. If this value was exceeded, a special decision of IMF was required.

The main source of IMF funding is the quotas of its member countries. On the one hand, this is the contribution that a country commits to the IMF. On the other hand, it limits the amount of credit that the IMF can lend to a given country. Quotas are calculated according to a certain formula, the most important component of which is the country's GDP. Initially, the IMF's capital was to be $8.8 billion, of which 31.3% was accounted for by the United States, 14.8% by the United Kingdom, and 13.6% by the USSR (certainly, the USSR's refusal to participate in the IMF changed the distribution of quotas). The quotas are not only of economic importance: country's quota also determines the voting power of the country. The high share of votes of the USA at times allowed it to implement IMF decisions favorable to the USA or block unfavorable ones.[6]

The US dollar was not given a special role in the Bretton Woods system. The fact that exchange rates could be determined not in gold, but in dollars, and that the quotas of member countries were expressed in US dollars is explained by the fact that the US dollar was the only

[5] This document is also the charter of the IMF. It is still in force today with a number of amendments adopted between 1968 and 2010, see https://www.imf.org/external/pubs/ft/aa/pdf/aa.pdf

[6] The situation has not changed at present, although the share of the United States has decreased. According to the latest quota distribution (July 2022), the US share is 17.4%, followed by Japan with 6.5%, China with 6.4%, Germany with 5.6%, France and the UK with 4.2% each. Russia is in ninth place with a quota of 2.7% (https://www.imf.org/external/np/fin/quotas/2022/data/0728.xlsx).

serious currency that remained convertible into gold; it was more convenient to use it as a unit of account than ounces of gold. But due to the unique position in which the dollar found itself after the war, the Bretton Woods system did not work as its creators had envisaged: there was no equality of currencies, and the US dollar became the dominant international currency. By the end of the war, two thirds of the world's monetary gold was concentrated in the US (Bordo, 1993, p. 38). As for economic power, the US GDP exceeded the total GDP of the United Kingdom, France, Germany, Italy, Austria, the USSR, and Japan (Harrison, 1998, p. 10). Instead of the intended gold-exchange standard, in reality it became a gold-dollar standard.

However, in 1947, the share of the US dollar in official foreign exchange reserves was only about 13%, while about 87% was in the pound sterling (Eichengreen, Chiţu, and Mehl, 2016, p. 359). But the pound reserves belonged almost entirely to the members of the British Commonwealth of Nations and the British colonies and were used for payments only in the sterling zone, while the dollar and gold reserves of United Kingdom (not to mention other European countries) were depleted. The point is that, despite lend-lease, the United Kingdom (like the USSR) had to pay for part of the supplies from the United States in dollars (while they existed) and gold. The 'dollar deficit' in Europe was not in the interests of the United States, because it prevented European countries from importing American goods. Therefore, the financial aid provided by the USA to Western European countries according to the European Recovery Program (better known as the Marshall Plan), which was in effect in 1948–1951, pursued not only the noble goal of helping to reanimate the European economy, but also facilitated the sale of American products to Europe.[7]

The inflow of dollar liquidity, initially due to the Marshall Plan, and later to the growth of exports of countries recovering from the war, led to the fact that the share of the US dollar in the official foreign exchange reserves began to grow, while the share of the pound sterling fell. In 1953, these shares equalized, and in 1971 the share of the pound fell to 10%, while the share of the US dollar (including Eurodollars) reached about 73% (Eichengreen, Chiţu, and Mehl, 2016, p. 359).

By 1952, all countries participating in the Marshall Plan had surpassed the pre-war level of production; in general, it was 35% higher than the level of 1938 (Eichengreen, 2008, p. 57). Since the end of December 1958, the currencies of the industrialized countries of Western Europe became convertible on current transactions (i.e. they could freely exchange for each other

[7] By the way, the Marshall Plan gave the initial impetus to the emergence of the European Union (EU). One of the goals of the plan was the integration of Europe, the elimination of trade and currency barriers between countries. The further development of this integration eventually led to the creation of the EU.

and for the US dollar in foreign trade transactions, but the control over the international movement of capital was maintained). A number of researchers believe that it is 1959 when the Bretton Woods system began to function. However, international trade and finance had already ‘addicted’ to the dollar: prices in the world market, international trade, and various international financial transactions were nominated in the US dollars. Therefore, the Western European currencies (as well as the Japanese yen, which became convertible in 1964) could not noticeably displace the dollar. For instance, the shares of the West German mark and the French franc in the official foreign exchange reserves amounted to a few percent in 1971 (Eichengreen, Chiţu, Mehl, 2016, p. 359).

The dominance of the dollar posed serious threats to the Bretton Woods system. Robert Triffin in his speech in the U.S. Congress in 1959 (reproduced in Triffin (1960)), warned that it is impossible to fix the rate of one of the national currencies to gold and at the same time use it as a world currency in international trade. The growth of trade requires a constant increase in the volume of world currency, and eventually the obligations of the issuing country may exceed its gold reserve, which undermines confidence in the currency. (Later this was called ‘the Triffin dilemma’; now there are different versions of it, reflecting the current conditions.) At that time Triffin’s warning was ignored, but after a short time it began to be realized.

Although the US trade balance up to 1970 was positive (as well as the current account balance, except for 1953 and 1959), the country’s balance of payments in general was negative since 1949. Financial flows abroad (foreign military expenditures, including for the maintenance of military bases, aid to other countries, private capital flows) exceeded the receipts from foreign trade. As long as the US balance of payments deficit was small, other countries viewed it rather positively because they needed the inflow of dollars to increase their foreign exchange reserves. But from 1957 onwards, this deficit began to rise sharply, while the need to further increase dollar reserves declined. Therefore, a number of countries began to convert a notable proportion of the increase in reserves into gold. As a result (probably together with the sale of gold to prevent a rise in its market price), the US gold reserve fell by a third between the end of 1957 and the end of 1963 (Economic Report, 1964, pp. 141–142).

Nevertheless, the US position as the issuer of the main reserve currency allowed it to finance its balance of payments deficit without resorting to any measures that were applied in such cases in other countries. France was especially concerned about this. Valéry Giscard d’Estaing, being the Minister of Finance of France, called this situation an ‘exorbitant privilege’ of the USA. At a sensational press conference on February 4, 1965, French President Charles de Gaulle said that the United States was a debtor to other countries, covering its deficit by issuing unsecured dollars. In the post-war years, when most of the gold reserves were concentrated in the USA, the gold-dollar standard was acceptable, but now the gold reserves of the Common Market countries are no less than the American ones. France therefore favors a return to a gold-based international monetary system to overcome dominance of the United States.[8] Subsequent events showed that France's goal was not to return to the gold standard, but to reform the monetary system in order to overcome its asymmetry. However, France's proposals in this regard were not supported by other countries at various negotiations, and were met with opposition from the United States (Bordo, Simard, and White, 1995).

At the same time, France converted $150 million into gold. Apparently, because de Gaulle announced this at the same press conference, this episode is widely known and often mentioned in the literature,[9] although France was followed by Spain, which converted $60 million. Moreover, this was not the first time France had done this: in 1959–1960, it more than doubled its gold reserve, mainly by converting dollars into gold (Bordo, Simard, and White, 1995, p. 161). And, as noted above, other countries had also exchanged dollars for gold with the United States in previous years. Therefore, as early as 1964, the US foreign dollar liabilities to foreign monetary authorities equaled the country's gold reserve. Further, they continued to grow, while the gold reserve continued to decline (Bordo, 1993, p. 39). In 1965, the situation worsened due to the financing of the escalation of the Vietnam War and the building of the Great Society (a set of programs that addressed poverty, civil rights, education, medical care, etc.). The result was an acceleration of inflation in the United States. The decrease in the purchasing power of the dollar and the risk of its devaluation against gold reduced confidence in the dollar, prompting a number of countries to convert dollars into gold.

One more problem of those times was the need for maintaining the market price of gold at the level of the official price ($35 per ounce). In order to solve it by interventions in the gold market, eight countries (the United States, Great Britain, France, West Germany, Italy, Belgium, the Netherlands, and Switzerland) created the Gold Pool in 1961. It coped with its task for some

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[8] Charles de Gaulle paroles publiques. https://fresques.ina.fr/de-gaulle/fiche-media/Gaulle00105/conference-de-presse-du-4-fevrier-1965.html

[9] There is even a story circulating on the Internet and in the press about a French warship sent to the United States for gold exchanged for dollars (it occasionally also appears in scholarly publications); however, no reference to sources is ever given. One version is as follows: "In the spring of 1965, a French ship anchored in New York harbor. … The French brought $750 million in bills to the United States in order to receive 'real money' for them, that is, gold" (Privalov, 2008, p. 32). The absurdity is obvious: settlements in international trade are conducted in cashless form; the Bank of France simply could not have so many dollar bills to fill a whole ship with them. Other authors claim that this happened in 1971, not mentioning cash dollars (for example, Graetz and Briffault, 2019, p. 132). Highly likely, this story was sparked by unrealized proposal of de Gaulle (who was dissatisfied with the slowness of the exchange, namely, a few tons of gold per month) to send the cruiser *Colbert* to New York for gold (Giscard d'Estaing, Walrafen, and Le Boucher, 1994, p. 320).

time, the more so as the market price of gold was lower than the official price before 1966 and the Pool bought gold on the market. However, the demand for gold rose dramatically in 1966 and the Gold Pool had to sell gold. The sales amounted to about $3.7 billion for 1966–1968, of which about $3 billion was sold between November 1967 and March 1998 (Eichengreen, 2010). However, France, Switzerland, the Netherlands, and Belgium compensated for the gold sold on the market by exchanging the dollars they received for it for American gold. In this way, they shifted the main burden of stabilizing the price of gold to the United States, whose gold reserve was melting even faster because of this. Nevertheless, France left the pool in 1967. And in 1968, unable to cope with the rising price of gold on the market, the Gold Pool ceased to exist. A 'two-tier' gold market was created. The official price of gold for transactions between central banks remained fixed, while the market price was no longer regulated and could fluctuate depending on supply and demand.

In the same year, all IMF member countries, except France, voted in favor of adopting the long-discussed Special Drawing Rights (SDR) plan. It was probably the only French proposal for currency reform that was adopted, but in a modified form that France was not satisfied with. SDR launched in 1969 is an artificial international reserve asset issued by the IMF and used as a supplement to foreign exchange reserves. They are neither a currency nor a claim on the IMF, and can only be used in official international settlements; private ownership of them is excluded.

However, the launch of SDR could no longer change the situation. Although the unrest in France in 1968 significantly worsened its economic situation, and the United States replenished its gold reserves by buying gold from France, uncertainty about the dollar's ability to maintain its value actually grew. In 1971, Belgium and the Netherlands converted dollars into gold, and Germany and France were about to do the same. Meanwhile, by mid-1971, the U.S. gold reserve had shrunk to less than half of what it had been in 1948 (from $24 billion to about $10.5 billion) (Bordo, Simard, White, 1995, p. 169). The last straw was United Kingdom's intention to exchange a significant amount of dollars for gold. In response, the exchange of dollars for gold was 'temporarily' stopped on August 15, 1971, by the decision of US President Richard Nixon. This date is considered the day of the end of the Bretton Woods system (although some researchers believe that its end was the creation of the 'two-tier' gold market).

There is a popular opinion that France played the main role in the collapse of the Bretton Woods system, with other countries following its example by exchanging dollars for gold. But, firstly, France was by no means the leader in the volume of these transactions. Secondly, it was not the pressure on the US gold reserve – allegedly initiated by France – that weakened confidence in the dollar. It was a consequence, while the cause of the growing mistrust of the dollar was the growing inflation in the US since 1965, caused by the expansionary fiscal and monetary policy that the US pursued solely in its national interests.[10] In essence, what happened was the inevitable implementation of the Triffin dilemma, and the US policy accelerated it.

Along with the cessation of dollar convertibility, a number of measures were taken to reduce inflation and imbalances in the US balance of payments: a 90-day freeze on prices and wages and a 10% increase in import duties. This was followed by bilateral and multilateral consultations, as a result of which the US agreed to devalue the dollar by 7.9% in December 1971 (the official price of gold rose to $38 per ounce). In February 1973, the dollar was devalued again, by 10% ($42.22 per ounce). The move away from fixed exchange rates began in 1970, when Canada switched to a floating exchange rate for its dollar, followed by West Germany, Austria, Belgium, the Netherlands, and Switzerland in 1971, as well as by the United Kingdom in 1972. By March 1973, one of the pillars of the Bretton Woods system had collapsed.

JAMAICA MONETARY SYSTEM

In response to the new reality, the IMF since 1972 began to prepare a project for reforming the international monetary system. In January 1976, at a meeting in Kingston (Jamaica), the IMF Interim Committee created for this purpose proposed changes to the Articles of Agreement of the IMF. Since that time (although the Jamaica Accords were ratified by the IMF member countries in 1978), the existence of the 'Jamaica Monetary System' has been counted, which is in effect to this day. In essence, the amendments simply legitimized the status quo. Gold was deprived of its function as money, turning into a mere commodity. Currencies were not required to have gold content; accordingly, the official price of gold was abolished and the exchange of currencies (primarily the US dollar) for gold was stopped. This led to the abolition of the requirement of a fixed exchange rate of currencies for gold (directly or through the US dollar), legalizing floating rates determined on the foreign exchange market depending on the supply and demand of currencies. The IMF member countries were given the right to choose their own exchange rate regime (it could be not only a freely floating, but also a limited floating, that is, 'managed float,' or a fixed rate to a certain currency or currency basket).

In the new currency system, as in the previous one, the US dollar was not given a special role. Before 1974, the SDR exchange rate was set equal to 1 US dollar, but it was determined by a basket of 16 currencies in 1974–1980 (the number of currencies in the basket was reduced to five in 1981). The share of the US dollar in this basket was 32.6%, i.e., $0.4 – in accordance with

[10] Bordo (2020) calls such policy 'the elephant in the room' and notes that President Nixon, instead of recognizing the fallacy of this policy, blamed the rest of the world.

the economic weight of the United States (Pozo, 1984, p. 309). Nevertheless, the US dollar retained its leading position. It held about 80% of the world's foreign exchange reserves in 1975. It was then somewhat squeezed by other currencies (mainly the West German mark and the Japanese yen). Its share fell to just over 50% around 1990, but then began to grow again to a little over 70% in the late 1990s and early 2000s (Eichengreen, Chiţu, Mehl, 2016, p. 359).

The launch of the euro in 1999 (first in non-cash circulation, and in cash since 2002) although had an impact on the decrease in the share of the US dollar in foreign exchange reserves, however, as Fig. 1 shows, it was not fundamental. At first, the euro simply replaced the currencies of other European countries that had joined the euro zone (their share in foreign exchange reserves, including the ECU, was 17% in 1998, and the share of the euro in 1999 was 17.9%). Then its use began to expand, but this trend was reversed by the global crisis that started in 2008 and caused a decline in world trade, the volume of which recovered only in 2011. As a result, over the past ten years, the share of the euro in world foreign exchange reserves has been fluctuating around 20% (among other currencies, a noticeable role belongs to the British pound and the yen with a total share in the reserves of 7–10%). The share of the US dollar in 2023 has decreased by only 12 percentage points compared to 1999, to slightly less than 60%. In the last decade, it is no longer the euro that has been squeezing the US dollar, but 'non-traditional' currencies, namely, the Australian and Canadian dollars and the yuan (as well as some others). Although the shares of each of them are still quite modest, less than 3%, they continue to grow.

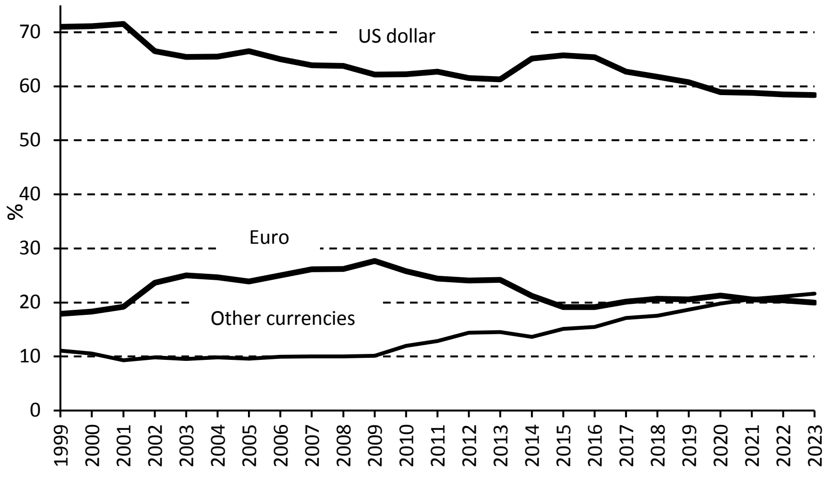

Figure 1. Currency composition of official foreign exchange reserves. Source: COFER (2024).

The reason why the US dollar retained its dominant position after the collapse of the Bretton Woods system is quite clear: there was no alternative. But the need to match the dollar mass with the country's gold reserve under the Bretton Woods system hindered to a certain extent the issuance of dollars. After the demonetization of gold, any serious restrictions for the

US financial institutions in their domestic monetary policy disappeared, and the international monetary system was made dependent on this policy. Fig. 2 shows that the merchandize imports in the US began to exceed the export at times already in 1971, and since 1976 this phenomenon became permanent.

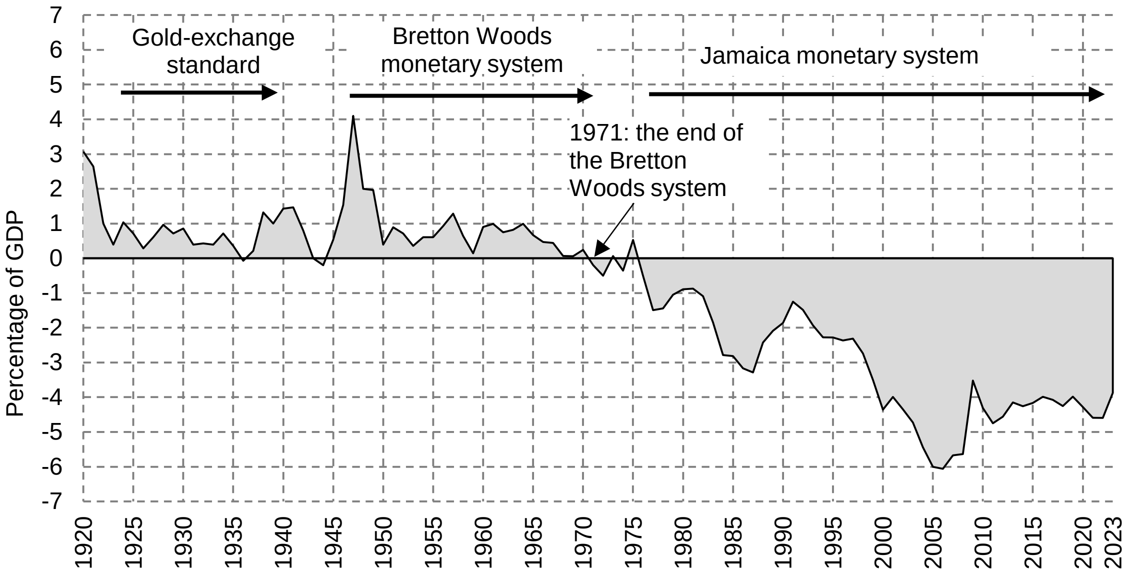

Figure 2. Balance of merchandize trade of the United States. Sources: for 1920–1959, Reinbold and Wen (2019); for 1960–2023, computed from BEA (2024a, b).

Indeed, in order to provide international trade with liquidity, it is necessary that the US, as the issuer of the main reserve currency, should constantly have a balance of payments deficit: the outflow of dollars from the US should exceed its inflow. But under the Jamaica monetary system, there was no longer anything to limit the growth of this deficit. The 'exorbitant privilege' turned into an opportunity for the US to live at the expense of the rest of the world, paying with unsecured dollars. Table 1 shows the current account balance and international investment position of the US in recent years compared to the two other countries with the largest deficits among the rest of the world in 2023.

Table 1. Top three economies with current account deficit and negative net international investment position, billions of US dollars

	2018	**2019**	**2020**	**2021**	**2022**	**2023**
	Current account deficit					
United States	–439,9	–441,7	–597,1	–831,5	–971,6	–818,8
United Kingdom	–117,0	–80,8	–87,8	–47,1	–100,4	–110,4
India	–65,6	–29,8	32,7	–33,4	–79,1	–32,3
	Net international investment position					
United States	–9795,8	–11666,4	–14721,0	–18783,2	–16172,3	–19768,0
United Kingdom	–68,2	–322,1	–261,5	–429,5	–428,8	–1050,5
Brazil	–595,4	–785,7	–554,2	–605,6	–824,0	–967,4

Source: IMF (2024a, b).

The current account includes exports and imports of goods and services, compensation of labor and capital income, and international private transfers. As the table shows, the US has consistently bought more than it sells, and its deficit has been growing almost steadily. Compared to the next largest deficit country, the UK, the US had a deficit seven times larger in 2023. The current account shows the results for a year, while the accumulated difference between claims on other countries and liabilities to them is given by the net international investment position. It first became negative in the USA in 1989 and since then the American debt to other countries has been growing almost continuously (Bivens, 2004, p. 2). At present, it has reached a huge value: $19.8 trillion in 2023, almost 20 times more than the neighboring UK in the table. It is impossible to pay off this debt: all US reserve assets, including the gold reserve, amounted to $777 billion at the end of 2023 (BEA, 2024c). In relation to GDP, the US foreign debt was 47.7% in 2018 and 72.2% in 2023 (computed from BEA, 2024b).

Although I have not found studies on the required volume of dollar liquidity, it can be stated with a high degree of certainty that the existing volume is excessive. Indirect evidence of this is the fact that the accumulated dollar part of currency reserves in countries with a surplus of the international investment position (Japan, Germany, China with Hong Kong, Norway, etc.) is many times greater than the sum of the debit items of their current accounts, i.e. the needs of these countries to pay for imports and other expenses included in this account. China’s purchase of companies in Europe and the creation of mining enterprises in Africa can be explained not only by the desire for expansion, but also by the need to spend somewhere the dollars accumulated in a very significant volume.

Gold, although being money no more, still remains in the official reserves of most countries. Which to some extent, of course, can be explained by inertia; Graetz and Briffault (2019) even call this a ‘barbarous relic.’ Indeed, after the end of the Bretton Woods system, gold reserves in the world were declining, albeit slowly. They decreased in physical terms by 12% in the end of 2007 compared to 1999. But the global crisis of 2008–2011 changed the trend to the opposite. Since 2009, gold reserves began to grow steadily, increasing by the beginning of 2023 by 6% relative to 1999 (although the share in official reserves by market valuation of gold was almost constantly decreasing) (Arslanalp, Eichengreen, and Simpson-Bell, 2023, p. 4, 8). Recently, a number of countries have been trying to return gold reserves stored in other countries to their territory. The latest event is taking out Indian gold from the United Kingdom. It would seem, why keep and even more so increase gold reserves, which is lying dead weight in vaults, while the currency is placed on bank deposits (mainly in the banks of the USA and, to a lesser extent, in Europe) or used to buy government debt obligations, bringing interest income?

However, gold is a highly liquid commodity that can be sold for any currency. Its price, except for short-term fluctuations, is constantly rising (currently it is $2.3–2.4 thousand per ounce, compared to $35 before 1971). Therefore, gold serves as a ‘safe haven,’ a reliable refuge in case of economic, financial and geopolitical instability in the world, when it is impossible to rely on other reserve assets.

CONCLUSION

Despite the discontent with the ‘exorbitant privilege’ that allows the USA to spend more than it actually earns, and concerns about the steadily growing external debt of the USA, which undermined confidence in the dollar, it continued to serve as the main reserve currency, although its collapse was predicted many times. Some shift in foreign exchange reserves from the US dollar to other currencies is still happening, but rather slowly (see Fig. 1). The United States is still the largest economy in the world (although it has already lost the primacy to China in terms of GDP adjusted for purchasing power parity), and no country in the world can compare with it in terms of the scale of financial markets, which makes transactions using the US dollar very attractive.

Until recently, there were no fundamental reasons for flight from the dollar. Eichengreen (2011, p. 8) wrote: “Serious economic and financial mismanagement by the United States is the one thing that could precipitate flight from the dollar. ... We may yet suffer a dollar crash, but only if we bring it on ourselves.” And the United States did make such mismanagement by initiating in 2022 the freezing of Bank of Russia’s exchange reserves (mostly in US dollars) on deposits in banks of the US, G7 and some others countries.

America used ‘financial terror’ before as well, starting from 1979, when Iran’s exchange reserves were frozen, after which such actions were taken against North Korea, Libya, Syria, Venezuela, Afghanistan. But this was of little concern to most other countries. However, when the ‘financial terror’ was used against such a large country as Russia, it turned out that the existing international monetary system has become a very unreliable instrument of international financial relations, and no country is immune from freezing of its reserves under one pretext or another. This is of particular concern to China, whose chances to become the next victim are quite tangible. It is indicative that Saudi Arabia has agreed to accept payments for oil exported to China in yuan. It would seem that Saudi Arabia which has good relations with the US has nothing to fear. But they have already found themselves on opposite sides of the barricades during the 1973 oil crisis. And there is no guarantee that this will not happen again, especially given the current situation in the Middle East.

Both Russia and China are taking some ad hoc steps to mitigate the actual or impending freezing of their foreign exchange reserves, in particular by increasing their purchases of monetary gold. But this is clearly a palliative, and the international monetary system will undergo a fundamental transformation, primarily aimed at getting rid of the dominance of the US dollar.

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