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# Understanding Special Drawing Rights (SDRs)

John Williamson

***John Williamson**, senior fellow at the Peterson Institute, has been associated with the Institute since 1981. He was project director for the UN High-Level Panel on Financing for Development (the Zedillo Report) in 2001; on leave as chief economist for South Asia at the World Bank during 1996–99; economics professor at Pontificia Universidade Católica do Rio de Janeiro (1978–81), University of Warwick (1970–77), Massachusetts Institute of Technology (1967, 1980), University York (1963–68), and Princeton University (1962–63); adviser to the International Monetary Fund (1972–74); and economic consultant to the UK Treasury (1968–70). His numerous publications include* Reference Rates and the International Monetary System *(2007) and* Dollar Adjustment: How Far? Against What? *(2004).*

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A once-familiar but long-neglected acronym has reappeared in newspapers in recent weeks. We have read that the G-20 meeting in London endorsed a proposal that the International Monetary Fund (IMF) should create $250 billion in Special Drawing Rights (SDRs). We have been told that one problem with this proposal is that most of the SDR allocation would accrue to countries that are unlikely to use them, and some readers may have seen proposed ways around this difficulty. We have read that the governor of the People's Bank of China, Zhou Xiaochuan, has proposed that the SDR should gradually displace the dollar at the center of the international monetary system and that surplus countries should be able to convert their dollar holdings into SDR-denominated assets. No one can doubt that the SDR is back.

But what is an SDR? Yes, SDR stands for Special Drawing Right, but that hardly answers the question. How and why did the SDR originate? How did it get its strange name? How many are there, who holds them, and what can they be used for? Do the rather-distinct proposals outlined above all refer to the same animal? How are these proposals interrelated? Can one speculate usefully about the future of the SDR? This policy brief aims to answer such questions.

## HISTORY

In 1960 one of the most original analysts of the postwar international monetary system, the Belgian/US economist Robert Triffin, published a small volume with a big thesis called *Gold and the Dollar Crisis*.[1] He argued that the system that had been agreed at Bretton Woods and had just come into operation would not last because its inner workings contained an internal contradiction. Apart from gold, whose supply was small and erratic, the increase in demand for international liquidity could be satisfied only if the reserve center, the United States, ran a payments deficit to supply more dollars to the world. But such deficits were bound to undermine confidence in an unchanged link of the US dollar to gold. The Triffin Dilemma posited that the world therefore confronted a choice between running short of liquidity and undermining confidence in the dollar, which was destined sooner or later to produce a crisis.

Analysts argued that the system had other problems, such as the lack of a crisis-proof adjustment mechanism as a result of widespread unwillingness to change exchange rates except as a last resort. But officials decided that the problem they could solve best, or at least the one they would solve first, was the Triffin Dilemma. Their solution was to create a synthetic reserve asset to supplement the supply of gold. Its price was fixed in terms of gold at exactly the same level as $1, so that SDR1 = $1. Because of a continuing disagreement over whether the new reserve asset should be considered money ("paper gold") or credit (since countries receiving assets had to reconstitute a part of their endowments in due course), it was given the anodyne

1. Robert Triffin, 1960, *Gold and the Dollar Crisis: The Future of Convertibility*, New Haven: Yale University Press.

name, Special Drawing Right. Hence we still live with the term SDRs.

The first SDRs, 3 billion of them, were created and allocated among members of the IMF in proportion to their quotas on January 1, 1970. The rationale for making, by the standards of the time, such a sizeable allocation was the prospect of a reserve shortage as a result of stringent US monetary policy in 1969. Further allocations of approximately SDR 3 billion a year were agreed simultaneously for the following two years: The actual allocations were SDR 2.9 billion in 1971 and SDR 3.4 billion in 1972. At the end of that process the SDR constituted some 9.5 percent of the world's stock of nongold reserve assets.

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However, before the last of these allocations had occurred, the world was no longer short of liquidity. Monetary stringency had led to a US slowdown, and the US Federal Reserve, seeing that this posed a threat to the president's reelection, stepped on the monetary accelerator. This resulted in an explosion of international liquidity and the breakdown of the Bretton Woods system, and in 1972 the IMF convened a Committee of Twenty (C-20), based on the 20 constituency chairs then operative in the Fund, to agree on an appropriate reform of the international monetary system.

The state of thought at the time can be gleaned from a conference convened by the IMF in 1970 to discuss the criteria that should govern reserve creation. The prevailing view saw the IMF as essentially controlling the world's reserve base, consisting of a more-or-less fixed supply of gold plus a consciously variable quantity of SDRs. Countries would choose to hold dollars and secondary reserve currencies in a fairly fixed relationship to their holdings of primary reserve assets and they would issue domestic money more or less in proportion to their reserve holdings. Hence by varying its issues of SDRs the IMF could determine the monetary evolution of the world. This being the heyday of monetarism versus Keynesianism, the big bone of contention was whether the IMF should allocate SDRs so as to secure an equilibrium long-run monetary growth rate independent of short-run fluctuations in aggregate demand or whether it should try to engage in short-run countercyclical fine-tuning. The monetarists won, and so the IMF continued to determine the rate of SDR allocations for multiyear "basic periods," based on prospective shortages of reserves.

The Europeans came to the C-20 assuming that its mandate was to secure such a world. But it turned out that European preoccupations were not shared by others. First, the United States was not prepared to consign the advantages it accrued from issuing the world's reserve currency, at least not without much-stronger assurances that it could rely on the rest of the world to adjust when needed, which it sought to achieve by the institution of a "reserve indicator" system. Under such a system each IMF member would have been assigned—there was no agreement on how—a target level of reserves and would have then assumed an obligation to adjust so as to keep its reserves within some limits around this target. Specifically, if reserves hit an upper limit of some specified, proportionate difference from the reserve target, the country would have been obliged either to revalue or to take other adjustment measures. Deficit countries would have been under a symmetrical obligation to adjust if they hit a lower reserve limit. Second, in an early flexing of its muscles, the developing world was prepared to enthrone the SDR only in return for an "aid link." Under such a system a disproportionate share of new SDR issues would have accrued, directly or indirectly,[2] to developing countries, with the result that they would have been net debtors to the SDR account, just as the United States is a net debtor in dollars under a dollar-based system. Since the major powers could not agree on objectives, the C-20 did not reach any agreement, and the international monetary system evolved into the largely ruleless arrangements of the past 35-odd years.

However, there was a further important development regarding the SDR during the period of the C-20. When it was finally conceded in 1973 that the breakdown of the Bretton Woods system was permanent and that the exchange rates of the major currencies would float against one another in the future, the previous practice of valuing the SDR in terms of only one currency, the US dollar, appeared distinctly anomalous. The only viable alternative in a system of predominantly floating exchange rates was to value the SDR as equal to a basket of currencies. In the first instance this basket consisted of the 16 currencies whose issuers each accounted for more than 1 percent of world exports. This basket was subsequently revised to the G-5 currencies, and it is now a basket of four, since the French franc and the Deutschmark have both been merged into the euro. Since 1972 the IMF has used the SDR as its basic unit of account, so that all the Fund's transactions are denominated in SDRs.

The IMF has periodically debated whether to create additional SDRs, but with one exception it has always concluded that the additional reserves stemming from the US deficit obviated

2. In one version of the aid link, newly issued SDRs would have gone to multilateral development banks like the World Bank.

a reserve shortage that would justify additional SDR creation. The lone exception occurred in 1978, when major reserve holders did not wish to increase their dollar holdings. Instead, there was active consideration at that time of creating a substitution account at the Fund. This would have entitled reserve holders to sell dollars to the Fund in exchange for an equivalent amount of SDRs at the current market exchange rate. According to normal practice, the Fund would have thereby obtained an SDR claim on the United States, and hence the United States would have been obliged to pay the Fund sufficient dollars to make up for any subsequent depreciation in the value of the dollar in terms of the SDR (just as the United States would have profited by any subsequent appreciation of the dollar, which in fact happened). But the United States wished to have a dollar-denominated debt, and this difference remained to the end. However, there was sufficient suspicion of the dollar at that time to make most reserve holders reluctant to accept more dollars, and so a new SDR allocation was agreed. The basic period agreed was again three years (against the five years that were supposed to be normal), and the issue was to be about SDR 4 billion per year.

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There has periodically been debate about the value of creating a reserve asset that would principally accrue to those countries with large IMF quotas (the industrial countries) rather than to those in need of additional reserves (largely the developing countries). It has been suggested that this could be avoided by having the industrial countries donate their excess reserves to a pool that could be tapped by countries in need. Several questions can be raised about such proposals. First, would such transactions be legal under the present IMF Articles? Opinions differ, but if not, the proposal would require a new amendment. Second, because the SDR is an interest-bearing asset, countries that tap such a pool would need to accept responsibility for servicing the SDRs they receive, unless this is to be another form of aid.[3] Would advanced countries trust developing countries to service the SDRs tapped from such a pool, or would they regard default as a possibility? Third, some way of distributing the SDRs in the pool among claimants would need to be devised. One method would be to distribute these SDRs in proportion to IMF quotas, though this would imply acceptance of the legitimacy of the IMF's quota arrangements and would make the division between donors and recipients a critical margin. Further, some advanced countries might have reservations about making their share of an SDR allocation available to certain developing countries.

In 1997 the IMF agreed on a Fourth Amendment to the Articles, which involved doubling the quantity of SDRs outstanding. The additional allocation of SDR 21.4 billion would have been distributed in such a way as to bring each country's cumulative allocation up to the same percentage as its 1997 quota. Thus the bulk of the allocation would have been distributed to members that had joined after the earlier allocations, principally the former communist countries. However, amending the Articles requires an 85-percent majority approval, and since the United States has a quota of about 17 percent, it effectively has a veto over such actions. Because the US Congress has not yet ratified this amendment (if only because Congress has not previously been asked to ratify it), the amendment has not come into effect and countries have not received the additional SDR allocations that were agreed. This is one of several IMF reforms requiring congressional action that the Obama administration has recently submitted to Congress for approval.

## BASIC FACTS

There are now 21.4 billion SDRs in existence. As a proportion of total world (nongold) reserves, this is less than a derisory 0.5 percent. They were originally distributed in proportion to countries' IMF quotas on the dates of allocation, but since then they have tended to gravitate from developing countries in deficit toward industrial countries in surplus. When a country wishes to use some of its SDRs, it finds a country (or the IMF) that is willing to receive the SDRs and supply a reserve currency (in practice the US dollar) in exchange; SDRs cannot be spent in the market.

When the SDR was first created, countries had a duty to hold, or if necessary rebuild, some proportion of the SDR allocations they had originally received. In 1981 this "reconstitution provision" was abrogated, which is slightly less definitive than being abolished. It was argued that this marked a step toward

3. Admittedly the interest rate is low, being the average of defined money-market rates in the currencies that compose the SDR basket. The standard analysis is that countries benefit financially from receiving an SDR allocation because they get a long-term loan—even if they have limited creditworthiness—at the short-term interest rate of the most creditworthy countries.

acceptance of the SDR as money, since countries face no obligation to reestablish their currency holdings, but they are bound to repay credit.

The SDR is currently defined as a basket consisting of:

- US dollar, 63.2 cents;
- Euro, 41.0 euro cents;
- Japanese yen, 18.4 yen; and
- Pound sterling, 9.03 pence.

The percentage weights used for calculating the above figures were 44 percent for the US dollar, 34 percent for the euro, and 11 percent each for the Japanese yen and the pound sterling. The basket is recalculated every five years, most recently on the basis of these weights and market exchange rates for the three months preceding the last SDR recalculation on December 30, 2005. The SDR interest rate is an average of defined, short-term, money-market interest rates of the four currencies in the basket, with similar weights to those used in defining the value of the SDR. This figure is calculated weekly.

The creation of a substitution account, which would enable countries to exchange dollars for SDRs, has been proposed at two periods in history. The first was after the breakdown of the Bretton Woods system in 1971–73, when many countries feared for the future value of their dollar holdings. The second was the period of dollar weakness in the late 1970s. The basic proposal was that dollar holders would have the right to present their excess dollar holdings to the IMF, which would then issue an equivalent value of SDRs. If the IMF had maintained its normal practice of transacting with members exclusively in SDRs, this would have resulted in the United States accepting an SDR-denominated liability. US reluctance to accept such liabilities presumably contributed to the failure on both occasions to agree on a substitution account.

There are four major differences between an SDR-centered system and a dollar-centered system such as we have had in recent years. First, there is the issue of elasticity of reserve supply. The supply of dollar reserves depends upon the US balance of payments position and can therefore expand in response to an increase in demand as well as to an exogenously determined increase in the US payments deficit. In contrast, the supply of SDRs depends on an administrative decision of the IMF, and if the supply of competing reserve assets (in practice dollars) has been tied down, the reserve supply will be unresponsive to demand except insofar as those administrative decisions respond. A common view is that the reserve supply should respond automatically to variations in demand—because the alternative would be a destructive attempt to achieve adjustment—but that exogenous variations in supply that may impose global inflation or deflation should be avoided. Opinions have differed sharply as to whether this view pointed to the dollar system or an SDR system being preferable.

Second, the dollar system bestows on the United States what the French, in the days of President de Gaulle and his economic maestro Jacques Rueff, used to describe as the "exorbitant privilege" of paying its debts in its own currency. Unlike every other country, the United States' prospective future deficit is not limited by the assets it currently holds plus what the international capital market will lend it. But note that it is a requirement that debts be settled by a transfer of assets rather than by an increase in liabilities that would resolve this asymmetry. For this reason, "asset settlement" was a big issue in the C-20 negotiations.

Third, the two systems have different implications as to the pattern of payments imbalances and therefore the debt profiles of various countries. Under a dollar-centered system, increases in reserve supply come from an increase in the gross debt of the United States. In principle this increase in gross debt could be financed entirely by increased borrowing by the rest of the world from the United States, so that there would be no net increase in US debt. But in practice one expects that while a part of the reserve increase will be borrowed, a part will also take the form of increased current account surpluses outside the United States and therefore an increased US current account deficit. To the extent that this is true, the US net international investment position will go into higher debt. In contrast, an SDR-centered system that distributes SDRs in exact proportion to the increases in demand for reserves would not require any country to increase its net debt. The increased allocation of SDRs a country receives will be an asset that offsets the country's increased liability to the SDR account. In particular, there would be no need for the United States to increase its net indebtedness to feed the rest of the world's increasing demand for reserves.

Fourth, the mirror image of the last point is what economists refer to as "seigniorage." This refers to the fact that the issuer has a gain, or at least a potential gain, from issuing the zero-interest asset of money or the low-interest asset of reserves. It is clear that the United States gains by making a high-interest loan that is used to buy low-interest reserves from it: Its gain is the interest differential. If the reserve-holding country chooses to run a current account surplus to build up its reserves instead, this is presumed to be as disagreeable as taking the high-interest loan, since for an optimal solution the welfare effects of these two decisions must be equated at the margin. But it is not clear that the corresponding current account deficit is valued as much by the United States as the capital outflow, as is implicitly assumed in high theory. If that is not true, then there is a potential social

gain available from creating reserves through the SDR system instead of the dollar system.

What lies 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. It is the old concern that money must be "backed" by responsible parties. Insofar as the SDR is an interest-bearing asset, then it is certainly true that confidence to hold SDRs depends on certainty that interest will continue to be paid. Beyond that, "backing" would become relevant only in the event of dissolution of the scheme. It is the certainty that money will continue to be accepted by all parties, not who backs it, that determines the social acceptability of money. If the international community decides that it wants an SDR system, it can have it: All that is needed is to give credible assurances that it will continue to accept the SDR.

## REFORM PROPOSALS

Three paths can be envisaged for giving the SDR a greater role in the future. One proposal would turn the SDR into a privately held asset. A second would reform the international monetary system and put the SDR at its center, very much along the lines pursued in the C-20. A third would increase the supply of SDRs while retaining a predominantly dollar-centered system. The creation of a substitution account might accompany any of these systems, though it would be essential only in the second.

### Private SDRs

From time to time there have been proposals to allow private parties to hold SDRs. One advantage from the standpoint of the official sector is that this would potentially make SDRs directly usable by official actors in intervention, which is by its nature a transaction between the official and private sectors. At present SDRs have to be converted into an intervention currency before they can be used in intervention, which presumably makes them less attractive to official holders.

If private parties were permitted to hold SDRs, they might be held either to facilitate transactions or as an asset. Although it would in principle be possible to transact in SDRs even if a country were pegging its currency to a reserve currency like the dollar, this would be pointless: Private transactions in SDRs are likely to be restricted to cases in which the country is seeking to peg its currency to (or intervening so as to limit its variation in terms of) the SDR. This suggests that the SDR is unlikely to take off as a privately held asset, even if this were legal, unless a significant number of central banks decide to stabilize their currencies in terms of the SDR rather than in terms of some bilateral exchange rate or alternative basket. Such a development appears highly desirable, especially for countries whose trade is not dominated by transactions with a single major monetary bloc.

Under what conditions would private parties find it convenient to hold assets in the form of SDRs? Presumably only if many of the world's long-term assets were SDR-denominated,

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which would mean that they were denominated in terms of a basket of principal currencies (with specific weights) rather than in any individual currency. This would not help those who issue assets in countries with currencies that are already used to denominate debt. However, it may be attractive either to those who issue assets in countries whose currencies have not traditionally been used to denominate debt contracts or to those who want to undertake activities that straddle several currencies. Until now there has been almost no use of the SDR to denominate private debt contracts, although there is no obstacle to such denomination. Because there have been no private SDR-denominated contracts, there has been no pressure to allow private parties to hold SDRs. But there would be real social advantages to the widespread use of the SDR to denominate the debts of those whose currencies do not move closely with one of the major currencies. The fact that this has not yet occurred may be due to an "infant market" problem—no one has an incentive to be an early user of an asset whose appeal comes from its use by others—rather than any inherent unattractiveness of the proposal.

### An International Monetary System Based on the SDR

Another way of enhancing the future role of the SDR is to make it the center of the international monetary system, as proposed in the C-20. The C-20 argued that this implied making it the principal reserve asset. The prima facie meaning of this phrase is that nearly all reserve holdings would consist of SDRs. In fact, however, the significant economic meaning of the phrase as interpreted by the C-20 is that the evolution of the SDR stock would determine the growth rate of total reserves, which would require merely that the total reserve stock be a fairly constant multiple of the quantity of SDRs. This implies some form of asset settlement: requiring countries that acquire reserve currencies to convert these into SDRs rather than to hold onto them, since otherwise the total reserve stock would be influenced by

the reserve-composition policies of member countries. It would also be necessary to create a substitution account to allow countries to convert their reserve-currency holdings above some limit into SDRs. The C-20 declared that the SDR would be the numeraire, in terms of which each currency would express its central value (at that time it was assumed there would be such a thing). The contemporary equivalent of this proposal would be that countries should declare reference rates in terms of the SDR, ensuring that the countries whose currencies compose the SDR declare rates that are collectively consistent.

It rapidly became clear in the C-20 that the United States would agree to proposals to make the SDR the center of the international monetary system only if there were some mechanism of exerting strong adjustment pressures on countries in addition to asset settlement. It is not difficult to see why. Asset settlement by nature places pressure on deficit countries. In the absence of comparable pressure on surplus countries, all a surplus country would need to do to avoid adjustment pressure is to not adjust, throwing the entire burden of adjustment onto deficit countries. To avoid this danger the United States designed and proposed the reserve indicator system described previously. An obligation to take adjustment actions, including to revalue exchange rates in the absence of alternative concrete actions, provoked visceral objections from countries that had repeatedly witnessed speculators enriched at the expense of their taxpayers when reserve levels had given warnings of impending exchange rate changes. This was a major reason why the C-20 failed to agree on the design of a new international monetary system.

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There seems to be no technical reason why the world should not adopt such a system at the present time, presumably modified by the presence of floating exchange rates, which would therefore limit the SDR's numeraire role to expressing reference rates. Since countries would not be setting their own exchange rates, they could not be enjoined to revalue if reserves hit an indicator level, so this obligation would have to be modified to that of changing their macroeconomic, e.g., fiscal, policy.

## SDRs in a Dollar-Centered System

The fundamental respects in which the present world differs from that envisaged by the C-20 are that (a) today the exchange rates of almost all systemically significant countries float and (b) the main reserve asset is the dollar and not the SDR (a consequence of which is the absence of asset settlement). It has just been argued that one could retain floating exchange rates within a system otherwise similar to that envisaged by the C-20. In this section I examine whether one could also enhance the role of the SDR within a system that retains both of the key features of present arrangements.

Suppose that in the present world one were to make regular allocations of SDRs of a size that would satisfy demand for greater reserve holdings. As noted earlier, there are several key ways in which such a system would differ from the present dollar-based system: It may change the elasticity of reserve supply, it may alter the pattern of payment imbalances, and the distribution of seigniorage may differ.

Consider first the issue of reserve supply. Suppose that the IMF curtailed the rate of SDR expansion in the hope of combating inflation. Countries would be entitled to accumulate dollars instead, and if the IMF had cut the rate of SDR growth to a level that did not satisfy the growth of demand for reserves, one would expect countries simply to shift back their reserve-holding patterns to accumulate more dollars in view of the fewer SDRs. As long as countries retain the right to accumulate more dollars at the margin, it is unrealistic to expect to control the rate of reserve growth by varying the rate of the creation of SDRs. However, a critical difference from the reformed monetary regime envisaged by the C-20 is that a country that felt reserve growth to be excessive would be able to defend itself by allowing its exchange rate to appreciate without violating the letter or spirit of its international obligations.

This system would avoid the need for the United States to maintain a deficit to enable the supply of liquidity to grow. If in fact the rate of SDR creation satisfied the reserve-accumulation objectives of all countries, it would be possible to envisage the elimination of global imbalances. The only exception would be if countries were anxious for current account surpluses because they preferred to maintain an export surplus rather than simply to build up reserves.

The obverse of the obligation to adjust is the distribution of the benefit of seigniorage. Countries would reap this in proportion to their IMF quotas. If the Asian countries maintained high reserve-accumulation objectives relative to the size of their IMF quotas, then they would still need to earn or borrow a part of their additional reserves, but a part would accrue free of the need to adjust, as of right. Presumably the traditional powers in the IMF, primarily European countries, would receive seigniorage benefits that outweighed their reserve-accumulation objectives. The long-proposed reforms to IMF quotas would reduce but not eliminate this discrepancy, since they do not envisage rewarding the Asian countries for their high reserve-accumulation objectives.

The role of a substitution account in a dollar-centered system would be entirely to increase the portfolio choices available to reserve holders. It would enable a reserve holder to convert some of its dollar holdings into SDRs, and vice versa if the substitution account were designed to permit this. There would be no ex ante profit in such switches since the market determines the exchange rate and the SDR's interest rate is consistent with this, nor would there be any market effects of official switches. It would of course be necessary to determine whether liabilities to the substitution account should be SDR denominated or subject to some ad hoc alternative. But in neither case would the creation of a substitution account impose ex ante changes in wealth.

One of the proposals endorsed by the G-20 leaders in London in April 2009 was for a renewed SDR issue of $250 billion of SDRs. This would be the first issue to be approved since 1978. The call was made despite the fact that the total reserve stock (excluding gold, which hardly counts as a reserve asset these days) has increased even faster than its natural comparators (trade and "world GDP," which should be called GWP) in recent years.[4] But the fact that the world is now in a severe recession outweighed the rapid growth in dollar reserves and convinced the G-20 leaders that the world would benefit from an increase in purchasing power. At least when the world is in a severe recession, as now, it appears that current leaders are dominated by a desire to apply Keynesian pump-priming rather than subscribing to the 1970s monetarist logic that SDRs should act strictly as a reserve supplement. But even after an increase that appears massive in comparison with previous SDR issues, SDRs would only account for approximately 5 percent of the world's total nongold reserve stock, as opposed to the 9.5 percent that prevailed after completion of the first basic period in 1972.

**If in fact the rate of SDR creation satisfied the reserve-accumulation objectives of all countries, it would be possible to envisage the elimination of global imbalances.**

4. Reserves increased by 1,938 percent between 1975 and the end of 2008, in comparison with a 1,758 percent increase in visible trade and an expansion in nominal world GDP of 868 percent.

It would not be technically difficult for the IMF to issue liabilities such as bonds denominated in SDRs, as has been proposed recently by a number of emerging-market economies. Indeed, the important issues raised by these proposals for the IMF to issue bonds concern not denomination but the limited maturity of bonds versus the indeterminate duration of a loan under the New Arrangements to Borrow. The attraction seen in the former is that fixed maturity implies that countries would be able to make money available to the IMF during this time of crisis without jeopardizing their future leverage to increase their representation in the Fund.

## CONCLUSIONS

The world created a fiat reserve currency almost 40 years ago. It was given an anodyne name because of a dispute that in retrospect looks theological, but it is still called the SDR. Shortly afterward it was given a basis of valuation well adapted to a world of floating exchange rates and an interest rate to match that jointly eliminate any incentive to arbitrage between its reserve-currency constituents and the SDR (so long as all the currencies used for valuation float). It has since been used mainly in the prosaic role of providing a unit of account for its issuer, the IMF. SDRs were issued in 1970–72 and 1979–81, and a new issue intended to equalize holdings relative to the IMF quotas of all members was approved by the members in 1997 but has never been ratified. The recent G-20 summit in London proposed that the IMF issue $250 billion of SDRs to help combat the recession, and the Obama administration is currently calling on Congress to ratify the agreement of 1997.

Of more fundamental importance is the recent call by China for it to be able to hold a much higher proportion of its reserve stock in SDRs instead of dollars. One way of accomplishing this would be to create a substitution account. A complementary approach would be to start regular SDR allocations. This would permit the world's reserve stock to grow without creating pressure for payments imbalances such as have recently troubled the world, while at the same time securing a distribution of the benefits of seigniorage that is closer to most people's concept of equity.