

Introduction

At the International Monetary Fund (IMF)'s annual meeting in Rio de Janeiro in 1967, the IMF endorsed the first amendments to its Articles of Agreement since the Bretton Woods meetings in 1944. The most significant change in the amended Articles (which were ratified two years later) was the invention of Special Drawing Rights (SDRs). According to the first of 12 new articles, the primary purpose of SDRs was 'to meet the need, as and when it arises, for a supplement to existing reserve assets...'.¹

Contemporary observers from both the policy making and academic communities felt that SDRs had much more potential than this, however. In the late 1960s and early 1970s SDRs were widely heralded as necessary not only to the functioning of the international monetary system, but also as a first step towards a world international money. Needless to say, this outlook was wildly optimistic, and this book asks why this initial and widespread enthusiasm was not sustained during the following decades.

The first and most obvious reason why SDRs did not live up to expectations is that they were designed for a different international monetary system than that which evolved after the breakdown of Bretton Woods only a few years later. After all, much of the initial analysis of SDRs was written with the needs of the international monetary system under Bretton Woods arrangements in mind.² Nonetheless what emerges in this book is that the central fact of the breakdown of Bretton Woods does not solely explain the SDR's demise from the 1980s until very recently. In addition, despite the retreat of prospects for the asset, its post-Bretton Woods evolution—particularly through the 1970s and the Second Amendment negotiations—nonetheless succeeded in confirming the role of the IMF in post-Bretton Woods monetary arrangements, including current prospects for the institution, and indeed SDRs, as the issue of international monetary stability again assumes a higher profile.

Although the economics of the SDR and international liquidity are important to this story, the main contribution of our investigation lies elsewhere. As a Fund historian perceptively noted:

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[M]uch of the discussion about the inadequacy of international liquidity, or projections of its future inadequacy, disguised in technical dress problems that were really political.³

Focusing on the politics of SDRs allows us to see that—whatever its technical merits or drawbacks—the failure of SDRs to live up to the optimism they engendered at inception also occurred because two of the principal actors in structuring post-Bretton Woods international monetary relations, namely the US and the IMF, gradually turned away from the asset. The SDR simply became increasingly irrelevant to the national interests of the US; importantly this also became true of the supranational institutional interests of the Fund.⁴ Thus, their contribution to international monetary arrangements in the last two decades of the twentieth century was increasingly ill fated.

Although a subject of enquiry in the fields of contemporary economic history and political economy, the narrative approach in this book is that of a case study that lends itself to two investigative approaches in international relations literature. Politics and institutions are of course fundamentally important to international monetary relations, and this is no less true with respect to recent experience with the SDR. Indeed the evolution of the Fund as an international institution in our investigation is particularly illustrative of this. Acknowledging this places us within a neo-liberal institutional approach to international relations theory as articulated by Robert Keohane, who has argued forcefully that international institutions are of fundamental importance to an understanding of international relations.⁵ This is not the sole approach to the investigation of the history of SDRs in this book, however, as the chapters on evolving US policy in the 1960s and 1970s demonstrate. The examination of the influence of US power on international monetary relations and the SDR also implicitly defers to a neo-realist perspective in maintaining that the importance of the state and state structures is the most useful means of capturing the strong US influence on the SDR and post-Bretton Woods international monetary arrangements.⁶ Parenthetically, these two approaches have both been furthered by the contribution of a small group of influential individuals—many of whom were generous with their time in agreeing to be interviewed for this book—that also affected prospects for the SDR. Indeed the viewpoints and roles of important individuals such as successive IMF managing directors, and a number of influential economists, adds another dimension to our investigation, which lends additional insights into the development of post-Bretton Woods monetary arrangements.⁷ Such an avowedly eclectic approach nonetheless facilitates an examination of the evolution of the Fund, the US, as well as their interrelationship, and simply contributes to a more comprehensive understanding of the significance of the

SDR and the evolution of international monetary relations as the post-Bretton Woods system emerged.⁸

The introductory chapter of this work examines the early history of SDRs. What emerges is that, contrary to the optimism for SDRs fostered in the wake of the Rio Agreement, a greater role for SDRs was circumscribed by the compromises necessary for the negotiation of the First Amendment. These limited prospects are thrown into sharper relief in historical perspective by examining the main precursors to the SDR, beginning with Keynes's Bancor proposal, but also including some of the later proposals of the 1960s.

In Chapter 2 we examine the basic mechanisms of SDR transactions during this period for an understanding of how SDRs worked. We also examine SDRs in the context of a monetary system in transition, noting the new system of liquidity provision and the role of reserves under the new exchange rate system. Triffin colourfully termed this development the 'abdication of responsibility [for liquidity provision] to the private market' in the 1970s;⁹ it may be more neutrally said that under the new arrangements a move to market mechanisms was increasingly evident, which in turn contributed to an increasingly poor prognosis for the SDR. In this context the Committee of Twenty (C-20) and its proposals and disagreements regarding SDRs are also addressed here, not only for reasons surrounding their failure (which has been covered by John Williamson¹⁰), but to put the debates into a perspective that further experience with the new international monetary arrangements facilitates.

In Chapter 3 we focus primarily on the changing international monetary policy of the US administration, which in turn greatly affected prospects for the SDR after the First Amendment. First of all, though, we briefly examine the change in European approaches to the SDR in the 1970s. This is important because European indifference to the SDR during the 1970s contrasted with its much more unequivocal backing only a few years earlier. Importantly, part of the reason for the change in European attitudes lies simply in the continuing predominance of the US under post-Bretton Woods arrangements.¹¹ But in any case the shift away from support for the SDR was surprisingly abrupt in Europe. Thus we turn to the evolution of the US administration's policy towards the SDR for the remainder of this chapter in order to focus upon why the undeniable US enthusiasm for the SDR in the 1960s crumbled in the 1970s. For apart from a brief resurrection in the late 70s during the Carter administration, US support for the SDR waned markedly for the next 30 years.

Some of the reasons for this must be sought in an examination of the changing US policy process itself, which is the primary focus of Chapter 4. How did some of the broader structural influences on US policy change in the first years of the post-Bretton Woods era? As a relatively arcane subject for policy makers, the SDR was not a subject of intense media scrutiny or

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lobbying. It therefore lends itself well to an examination of international monetary policy determination within the US policy-making apparatus at all levels. This leads to an analysis of how the structure of the US international monetary bureaucracy changed in the 1970s, and how this influenced policy towards the SDR. As a consequence of this, we are led to other influences on US international monetary policy determination such as the Federal Reserve Board, and particularly the role of Congress, which, as we shall see, assumes increasing importance in the 1970s and 1980s. The US domestic policy environment is very important to the international monetary policy process, and in this context theoretical debates concerning US foreign policy determination are also of interest. Ultimately, changing US policy process in the 1970s strongly reinforced the moves away from the SDR in the US administration, and thereby contributed to the SDR's retreat on the international monetary stage.

A fuller understanding of the marginalization of the SDR entails returning in Chapter 5 to the changing role of the IMF vis-à-vis the SDR as post-Bretton Woods arrangements consolidated themselves. Central to any discussion of the Fund's role is the negotiation of the Jamaica Agreement (the Second Amendment to the Fund's Articles of Agreement), which included the provision that the SDR become the principal reserve asset in the international monetary system. Excellent source material is available for this examination, amongst which are seven volumes of documents and minutes of the Fund's Executive Board meetings entitled *Documents Relating to the Second Amendment of the Articles of Agreement of the International Monetary Fund*.¹² These comprehensive volumes, including the contributions and views of IMF executive directors and Fund staff, provide a fascinating window on international monetary policy determination in the early evolution of the post-Bretton Woods era.

Importantly, the Fund's Articles after the Second Amendment were more flexible than either of its two previous incarnations discussed in 1944 and 1967, and encompassed possibilities to enhance the role of SDRs. But the fact that this yielded few if any tangible results indicated that the Fund, too, would gradually divorce itself from SDRs, or at least from too closely identifying its own role with that of SDRs. Nonetheless to overlook the role of the Fund on the development of international monetary relations as a whole during this time is a mistake—indeed the influence of the Fund on the international monetary agenda (although not necessarily the results) in the late 1960s and 1970s is a fundamentally important development for international monetary relations during and indeed since that time.

In Chapter 6 the focus shifts to SDRs after the Jamaica Agreement. The debate over the SDR, when it occurred, reflected a growing impasse, the language of the G10's Dini report in 1985 typical of the stalemate that lasted

for another 25 years.¹³ Here we examine the second allocation of SDRs and review more recent issues for further illustrations of the impasse, including the uneasy grafting of the SDR on to post-Bretton Woods monetary arrangements. We noted in Chapter 2, for instance, that the mechanisms surrounding the SDR worked satisfactorily, and in this chapter it emerges that a tiny market in SDRs continued to develop. However, without the fundamentally important political support of the US and IMF, the SDR retired to the margins of international monetary arrangements where it languished until recently.¹⁴

Thus the politics surrounding the SDR—more specifically the key influences embodied in the US international monetary policy process, the institutional role of the IMF, and the inter-relationship between them—are fundamentally important for a more complete understanding of the SDR's marginalization under post-Bretton Woods monetary arrangements. In addition to the history of the SDR, this book also contributes to a fuller appreciation of the evolution of international monetary relations in the post-Bretton Woods monetary era.

In sum, the SDR's role as the new system emerged, and indeed what the experience with the SDR reveals about international monetary arrangements at the apogee of market-driven approaches to financial and monetary policy, has been a relatively neglected subject in contemporary international economic history, as well as in relevant political, economic, and international relations literature. Although the SDR was widely heralded at its birth, as new arrangements evolved the SDR was not germane to the interests of the US, and changes to the American international monetary policy process reinforced this. In addition, after halting attempts to improve its functioning and increase its profile, the SDR also became less integral to the interests and role of the IMF—and to systemic needs in general—in the international monetary arena under post-Bretton Woods arrangements.

However the fragility of these arrangements became evident extremely rapidly as the current international financial crisis unfolded in late 2008. Since the G20 meetings in London in April 2009, it is again evident that reform is near the top of the international monetary agenda.¹⁵ The long overdue ratification of the Fourth Amendment to the Fund's Articles of Agreement endorsed first at the G20 meeting in London and subsequently by the IMF resulted in an SDR allocation of SDR 21.4 billion (with all new members receiving a weighted disbursement to make up for previous allocations that occurred prior to them joining the Fund). Most importantly, an SDR allocation of \$250 billion (SDR 161.2 billion) as part of the \$1.1 trillion G20 finance package (also agreed to at the London G20 summit) was issued in August, 2009.¹⁶

And within this rubric, once again latent but strong support for SDRs among much of the Fund membership heralds a prospectively greater role for the asset. Just prior to the G20 London Summit in 2009 Bank of China Governor

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Zhou Xiaochuan called the SDR ‘... the light in the tunnel for the reform of the international monetary system’.¹⁷ And President Sarkozy of France, on assuming the chairmanship of the G8 and G20, set the reform of the international monetary system as a G20 priority for 2011, having arranged with President Hu of China a ‘working seminar’ on the subject, including an examination of the role of SDRs.¹⁸ Notably, it is not only liquidity needs, but, with the rise of the Euro and even renminbi as alternative reserve assets, interest in international monetary stability that has prompted reconsideration of a greater role for SDRs.

This may yet prove another in a long line of optimistic prognostications for the asset. But at the very least it now appears that that the SDR’s very survival during a period when they seemed anachronistic is significant. It is partly thanks to previously unheralded work at the IMF and elsewhere—when SDRs appeared largely irrelevant to systemic needs—that this prospective contribution again appears possible.

Notes

1. Article XXI of *Articles of Agreement of the International Monetary Fund as Modified by the Proposed [First] Amendment* (includes typewritten palimpsests), IMF (Washington, DC: n.d. [1968]).
2. See Stephen Cohen, *International Monetary Reform 1964–69: The Political Dimension*, Praeger (New York: 1970); Dorothy Sobol, *Europe Confronts the Dollar—The Creation of the SDR, 1963–69*, Garland (New York: 1982); and Fritz Machlup *Remaking the International Monetary System: the Rio Agreement and Beyond*, Johns Hopkins Press (Baltimore: 1982).
3. Margaret Garritser de Vries, *The International Monetary Fund 1966–71*, IMF (Washington, DC: 1976), vol. 1, *The System Under Stress*, p. 34.
4. As Robert Mundell succinctly observed: ‘... there is a tendency for the dominant country to reject the world currency’—see Mundell, Robert, ‘The International Monetary System and the Case for a World Currency’, Leon Koźmiński Academy of Entrepreneurship and Management (WSPiZ) and TIGER, Distinguished Lectures Series n. 12, Warsaw, available at: <http://www.tiger.edu.pl/publikacje/dist/mundell2.pdf> (accessed 8 June 2011), 23 October 2003, p. 4.
5. The importance of international institutions in international relations is largely the product of the proliferation of these organizations this century, particularly of the United Nations Organizations after World War II. See Robert Keohane, ‘Neoliberal institutionalism: a perspective on world politics’—chapter 1 of R. Keohane, *International Institutions and State Power*, Westview Press (Boulder, Co: 1989). This essay builds on Robert Keohane and Joseph Nye’s earlier classic work *Power and Interdependence: World Politics in Transition*, Little Brown and Company (New York: 1977).

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6. An example of this approach is embodied in Robert Gilpin's *US Power and the Multinational Corporation*, Basic Books (New York: 1975). It is shared to a degree by the balance of power perspective in Kenneth Waltz's *Theory of International Politics*, Addison-Wesley (Reading, MA: 1979), and, as Keohane has noted, is also implied by the absence of a supranational authority in Hedley Bull's *The Anarchical Society*, Columbia University Press (New York: 1979).
7. Without addressing the relevance of constructivism to international monetary relations (i.e. that the international monetary system is a social construct), it is nonetheless possible to acknowledge the power of ideas and the influence of individuals on the emergence of post-Bretton Woods arrangements. See in particular John Odell's *US International Monetary Policy: Markets, Power, and Ideas as Sources of Change*, Princeton University Press (Princeton, NJ: 1982); also *Negotiating the World Economy*, Cornell University Press (Ithaca, NY: 2000).
8. This eclecticism is echoed and has important antecedents in contemporary international relations theory. As liberalism deferred to neo-liberalism and realism to neo-realism these schools implicitly deferred to respective explanations of international relations and international political economy. For instance, as indicated in the title to Robert Keohane's 1989 book, neo-liberal institutional theorists increasingly acknowledge the importance of the state in their analysis. See Robert Keohane, *International Institutions and State Power*, *op. cit.*, pp. 162–6. The same dynamic is evident in neo-realist perspectives. Most importantly, eclecticism itself has recently been accorded formal legitimacy by one of the doyennes of international political economy theory, Peter Katzenstein—see Rudra Sil and Peter J. Katzenstein, 'Analytical eclecticism in the study of world politics: reconfiguring problems and mechanisms across research traditions', *American Political Science Association's Perspectives on Politics*, vol. 8, no. 2, June 2010.
9. Robert Triffin, "'Europe and the Money Muddle" Revisited', *Banca Nazionale del Lavoro Quarterly Review*, March 1978, p. 55.
10. See John Williamson, *The Failure of World Monetary Reform*, Nelson (Sunbury on Thames: 1977).
11. Denis Healey, former Chancellor of the Exchequer and Chairman of the IMF's Interim Committee during an important time for the SDR (1977–9), reiterated that the US was fundamentally important to the success of international monetary initiatives, but that this was no less true of post-Bretton Woods monetary arrangements than it was in the 1960s. Correspondence with the author; see also Chapter 3, fn. 14, below.
12. This material consists of three volumes of documents, three volumes of Executive Board minutes, and an index, covering all intermediate phases of the negotiations, and comprises almost 5,500 pages. Though stamped 'not for public use', these volumes were made available to a limited number of researchers and libraries in 1986, and have since been declassified by the Fund. For detailed contents, see Appendix 1, below.
13. The report stated that '... the Deputies have discussed both normal SDR allocations and other ideas for developing the SDR, but found no consensus within the Group on any specific proposal', in *IMF Survey*, July 1985 (Supplement), p. 14. Similar

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wording reflecting this and indeed other SDR-related impasses were a feature of successive communiqués through until the 2008 financial crisis.

14. Despite a failure to approve the Fourth Amendment to the Fund Articles until 2009, the US indicated sporadic rekindling of US interest in the SDR; for example a willingness to discuss it at the 1994 G7 summit in Naples, and a UK–US proposal for a limited SDR allocation. See ‘US and Britain Propose Boost to Reserves of Poorer IMF Members’, *Financial Times*, 19 September 1994, p. 18. And in the wake of the financial crisis the US quickly agreed to an SDR allocation of \$250 billion as well as a ratification of the Fourth Amendments to the IMF Articles of Agreement (see: http://www.g20.org/Documents/g20_communique_020409.pdf (accessed 8 June 2011)).
15. Working Group 3 (G20 finance officials) was mandated by G20 leaders to advance actions in their ‘Leaders Declaration’ in November 2008 on ‘reform of the IMF’. The WG3 report in March 2009 recommended ratification of the Fourth Amendment to the Fund articles which, as noted, was endorsed by G20 leaders in London. See: http://www.g20.org/Documents/g20_wg3_010409.pdf (accessed 8 June 2011).
16. See ‘Leaders Statement—The Global Plan for Recovery and Reform, London, 2 April 2009’, at: <http://www.g20.org/Documents/final-communique.pdf> (accessed 8 June 2011).
17. Governor Zhou’s statement also noted that a ‘super-sovereign reserve currency’ could both ‘create and control’ global liquidity. See People’s Bank of China, ‘Reform the International Monetary System’, 23 March 2009 as at: http://www.pbc.gov.cn/publish/english/956/2009/20091229104425550619706/20091229104425550619706_.html (accessed 8 June 2011).
18. ‘G20 Summit Press Conference Given by Nicholas Sarkozy, President of the Republic’, excerpts, Seoul, 12 November 2010, as at: <http://ambafrance-us.org/spip.php?article1958> (accessed 15 June 2011). See also the French-inspired ‘Palais-Royal Initiative’ on the reform of the international monetary system in the run-up to the French chaired G20 meetings in 2011 as at: http://www.elysee.fr/president/root/bank_objects/2011-007.Palais-Royal_Initiative-Final_version_of_the_Report-Jan_18.pdf (accessed 8 June 2011).