The Flight of the Dodo:

Is there a Future
For the SDR?

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Super Dodo Revival?
A little history:

- The SDR failed at its original purpose
  - Too little, too late
- The par-value system collapsed
But it adapted to survive:

The 4 key changes were:

1. converted to a currency basket
2. pared down to four key currencies
3. given a flexible market interest rate
4. participants allowed to borrow continuously and permanently
The key features of today’s SDR:

- IMF extends lines of credit to all member countries
- In aggregate, net holders (above allocation) lend to net users
- Primarily an official market
- Liquid, but not money
- Relatively strong and stable basket
But it diminished in importance
Two principal reasons for decline

Some creditor countries object that allocations are

1. potentially inflationary
2. indiscriminate and unconditional
But benefits may be substantial

- Expanding lines of credit is costless
- Holding SDRs is liquid
- Using SDRs is low-cost
- As supplemental source of finance, using SDRs does not weaken incentive to reform policies
The SDR can be strengthened

1. Have regular annual allocations
2. Establish redistribution mechanisms
3. Restore reconstitution requirement
4. Establish a substitution account
5. Modernize and expand the basket
Can the Dodo fly?