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SDRs for the Poor Only!

Is there any need for still more international liquidity? The almost unanimous opinion of the Finance Ministers of the member states of the International Monetary Fund is: yes. In Washington they spoke for the allocation of new special drawing rights (SDRs) as from 1973. Only the amount is still an open question. This unanimity is surprising when considering the recent growth of monetary reserves. Whereas in the 10-year period from 1960 till 1969 the reserves had increased by not more than 32.2 p.c., they rose in the following 2½ years by 87.2 p.c. Hence, their annual growth rate increased more than tenfold. With more than \$ 146 bn international liquidity reached a new record mark in mid-1972; when valuating the gold reserves realistically at \$ 60 instead of \$ 38 per fine ounce, a volume of \$ 179 bn would even be arrived at. In so far an additional creation of special drawing rights appears to be inopportune, if not dangerous.

The distribution of the reserves, however, is extremely one-sided. With \$ 104 bn among them, 15 industrial countries have 71 p.c. of the global liquidity at their disposal, whereas the 99 non-European developing countries must be content with just \$ 26 bn (= 18 p.c.) and thus have altogether little more than the Federal Republic of Germany alone (about \$ 23 bn). The monetary reserves of most of the industrial countries exceed by far the minimum level required to cover temporary balance-of-payments deficits. In this context it has to be taken into account that since

the bands for exchange-rate fluctuations have been widened to ± 2.25 p.c. around par, short-term capital outflows entail considerably smaller losses of reserves. Moreover, the readiness has grown to allow a floating of the exchange rate in the case of strong money movements — this, too, being a measure which saves monetary reserves. The industrial countries can thus afford to "freeze" their gold stocks and to look for long-term investment possibilities for their foreign-exchange reserves. They need no new SDRs.

In most of the less developed countries, however, there is an acute shortage of reserves. The growing demand for imported investment and consumer goods (1971 trade deficit, excluding oil exporting LDCs: \$ 8.5 bn) and the increasing debt service for public and private loans cannot be financed by export proceeds and influx of capital. The IMF has with good reasons emphasized that "receipts of SDR allocations have become important elements in the overall balances of many developing countries". A suspension or reduction of the liquidity flow would definitely affect the development process of the poor countries.

The allocation of special drawing rights in the next basic period should therefore be restricted to the developing countries but should be made to these countries at at least the same level as in the preceding years. With the good intention of the industrial countries this should be possible in spite of restrictive regulations of the IMF Articles of Agreement on the method of allocation. For the advanced countries such a

step has the following consequences: First, a valve is left open for their in principle incompatible (irrational) efforts to achieve trade surpluses; the developing countries can remain net importers. Secondly, the inveterate reserve maximizers are obtaining at last the desired liquidity. This, however, not for nothing, but in return for goods supplied to developing countries. That is only fair. Thirdly, the inflationary effect is insignificant. Proceeding on the assumption that the developing countries use the allocated SDRs fully for the purchase of goods in advanced countries, then the export there rises by \$ 800–900 mn. This amount is negligible compared with the domestic price-enhancing forces and with total exports of the industrial countries (1972: approx. \$ 270 bn).

Instead of allocating the SDRs direct to the individual developing countries, they could be given to the International Development Association (IDA). This would have the advantage that the funds could be specifically directed to the countries needing them most, where they could be employed under constant control for building up economically sound projects. The argument that this would anticipate the results of the reform discussion is not applicable: the "link" between SDRs and development financing will surely be materialised, anyhow.

Now that it is already being considered to allocate only a "symbolic" amount of SDRs — why are the means not concentrated on those countries which really need them?

Hans-Eckart Scharrer