

Failure to Launch:
The Special Drawing Rights of the International Monetary Fund &
System Maintenance

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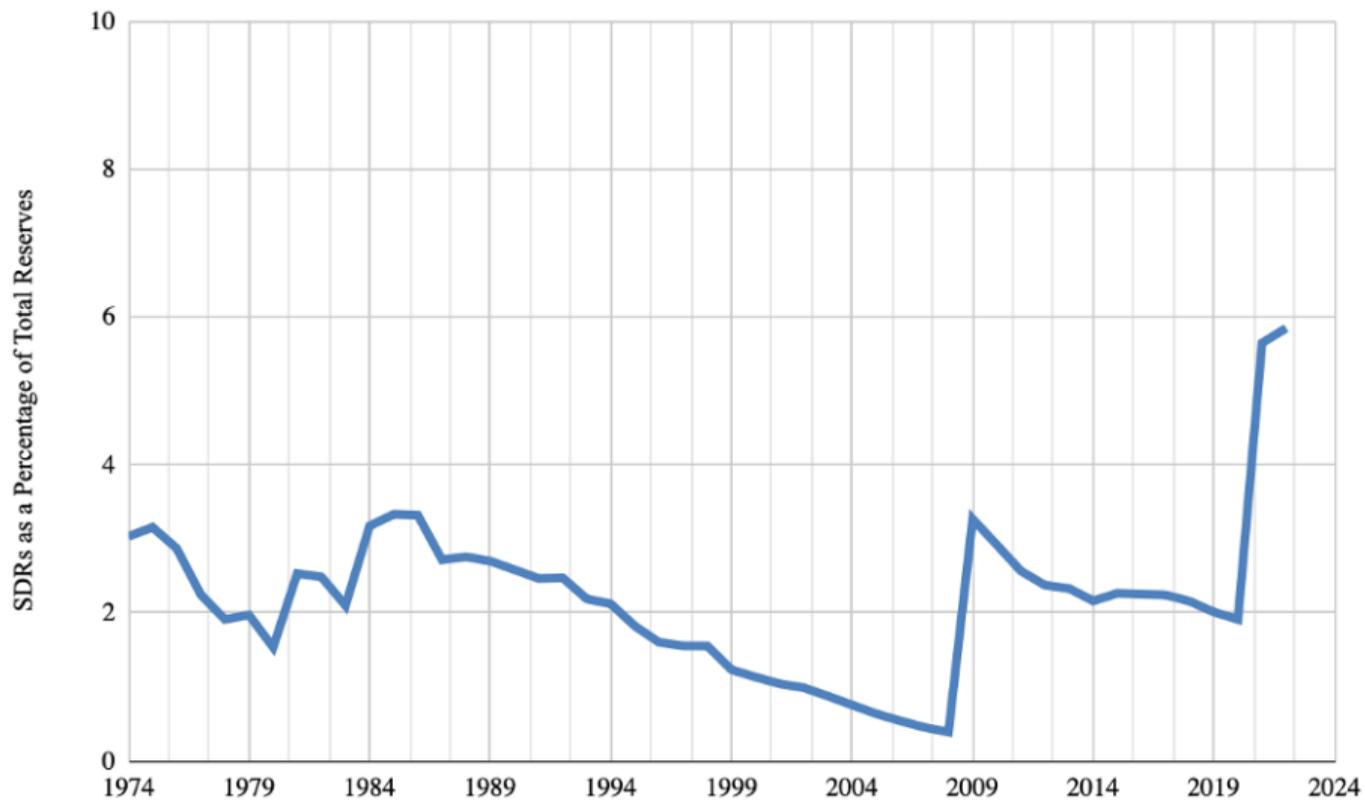
December 2025

Puzzling Aspects

- ▶ U.S. pushes the creation of the SDR as a "principle reserve asset" (Solomon 1982, 1996),
- ▶ Consistent calls within and outside of the IMF to make it so, (e.g., Clark and Polak 2002, Cooper 2011, Alessandrini & Presbitero, Jeanne 2012, Obstfeld 2011, Truman 2023 & 2024)
- ▶ **But** the SDR's potential never materializes, remains relatively marginal.
- ▶ Basket extended, but only 5 allocations
1970-1972, 1979-1981, two in 2009, and 2021
- ▶ WHY?
Examine IMF archives

▶ SDRreserves

SDR in Foreign Exchange Reserves



Contemporary Relevance

- ▶ Policy relevance in U.S.-dollar dominated IMS
But decline of U.S. dollar over time (Arslanalp and Simpson-Bell 2022)
- ▶ A supplemental reserve asset is helpful for IMS stability
More cost-effective than running C.A. surpluses
Development tool
- ▶ Why not the SDR?
- ▶ What has the U.S. position been, in particular?
Examine IMF archives + 2 high-level, in-depth interviews

Paper's Argument

- ▶ *Direct* Institutional Maintenance at the IMF
 - U.S. not keen on elevating the SDRs after the fall of B.W.
 - Disagreements in general
- ▶ *Embedded* Institutional Maintenance at the IMF
 - A number of complementary reforms would need to take place
 - e.g., widen the holders of the SDR, or change the quota-based nature of allocations
 - Threshold for change is high, but not impossible (SDR basket extension)

Rest of the Presentation

- ▶ Select findings on Direct Institutional Maintenance at the IMF
- ▶ Policy Implications

Rationale for SDR's Creation

- ▶ As the expected post-war dollar shortage turns out to be a "dollar glut"
- ▶ Triffin dilemma kicks in &
- ▶ The U.S. is keen to relieve the pressure on the USD
- ▶ while maintaining USD dominance
- ▶ Hence, the SDR emerged (1969) among many proposals

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- ▶ The U.S. is keen to relieve the pressure on the USD
- ▶ while maintaining USD dominance
- ▶ Hence, the SDR emerged (1969) among many proposals
- ▶ U.S. officials favored **"the concept of a drawing right to [reserve] unit out of concern that a unit would be too obvious a competitor for the dollar."**
(Solomon 1996)

Limited by Design

- ▶ The original goal of the U.S. is to use the SDR to maintain the Bretton Woods fixed exchange rate system,
- ▶ by solving the problem of the dollar glut
- ▶ President Johnson: **"the greatest step forward in financial co-operation in the 20 years since the creation of the International Monetary Fund itself."**

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- ▶ The system crumbles soon, thereafter,
- ▶ U.S. loses interest in the SDR

Direct Institutional Maintenance: U.S. Lack of Enthusiasm, post-B.W.

- ▶ **Substitution Account** is proposed in the IMF (1971, 1978), discussed extensively, but shot down
- ▶ It would allow countries to exchange USD-denominated assets for SDR-denominated ones

Lasting Disagreements (U.S. and other countries): Evidence from Archives over Decades

- ▶ How should countries obtain reserves? U.S. officials keen on countries' borrowing
- ▶ How many reserves are needed when the system is no longer a fixed exchange rate system?
- ▶ Is the IMF suited to achieving "social objectives" to quote one U.S. ED?
- ▶ Should reserves serve "social goals"?
- ▶ Do SDR allocations really alleviate "precautionary" reserve build-up?
- ▶ Unconditional unlike IMF programs

Consistent U.S. Skepticism: Select Quotes from U.S. EDs

- ▶ "we should not be spending substantial resources in the near term to explore the SDR issue extensively" (Lissaker, 1996)
- ▶ "as it has been for several decades, there is little support for a greatly enhanced role for the SDR in the system and little direction for a clear path forward" (Lundsager, 2011)
- ▶ "our chair has no appetite for conducting further work on the role of the SDR." (Sobel, 2018)

Historical Lessons to Today

- ▶ This deep dive into IMF institutional documents/debates shows the issues to be addressed before the SDR's role can be elevated
- ▶ Reform of the SDR has to address U.S. hesitation (veto-player and not alone)
- ▶ Reform difficult but not impossible (SDR basket extension to include the RMB)
- ▶ SDR's historical purpose can be revived: use them to stymie USD decline
Winning argument with the U.S. & positive spillovers

SDRs & Dollar Dominance

- ▶ Multiple correlates of trust in the USD (e.g., deficits, sanctions), but
- ▶ If U.S. promotes the SDRs, then short-run, conversions into USD
- ▶ Longer run, *contingent upon financial returns*, stable diversification (e.g. SDR basket currencies)
- ▶ U.S. should like this because it has influence over the IMF

▶ USDreserves

Additional Slides

USD in Foreign Exchange Reserves

