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PROJECT UPDATE
The International Coordination of Economic Policies Revisited
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For several decades I have been working on a project in which I seek to review the successes and failures in the international coordination of economic policies since the late 1960s to address several questions:

1. What were the essential ingredients of success?
2. What were the major causes of failure?
3. What lessons should have been learned?
4. Has there been progress?

My intention is to write a book in which I will trace the evolution of the challenges and institutions of international economic policy coordination with a focus two types of episodes:

1. Macroeconomic issues: global imbalances, growth, inflation, and exchange rates that principally involve the advanced economies.
2. Economic and financial crises that spill across national borders in both advanced and emerging market countries.

My current research strategy has been to write a series of working papers on several episodes in which I focus on three elements:

1. Development of a common diagnosis.
2. Agreement on appropriate policy responses and adjustments in those responses.
3. Accompanying or subsequent reforms.

My purpose is to assess how policymakers could have done better and what did they, or did they not, learn from these episodes.

At the Mossavar-Rhamani Center for Business and Government, I have worked primarily on papers on two topics. The papers do not quite fit elements of my basic framework, but the pieces can easily be adopted for the final book manuscript.

The Future of the SDR

In this draft paper which was circulated during the summer, I review the 50-year history of the IMF's Special Drawing Right (SDR) and its re-emergence in the past dozen years as a crisis management tool with the \$250 billion allocation in 2009 and the \$650 billion allocation in August of this year.

The question is whether the SDR can be more than a crisis management tool in the future. My answer is a tentative yes. The goal, in my view, should be to revert to original

objective of the SDR which was to supply the demand for increased international reserves from IMF members via regular annual SDR allocations over five-year basic periods.

My paper has three parts:

1. Review of the history of allocations and failures to agree on allocations.
2. Review the recurring issues concerning the SDR.
 - a. The role of the SDR in the international monetary system.
 - b. The distribution of SDR among IMF members.
 - c. The lack of conditionality on economic policies associated with SDR allocations.
 - d. Characteristics of the SDR – valuation and interest rate.
 - e. Geopolitics.
3. Advance four proposals to enhance the attractiveness of SDR allocations.
 - a. Establish the record of recent SDR allocations in meeting its original objective of improving the working of the international adjustment process.
 - b. Increase the interest rate on the SDR.
 - c. Expand the list of “freely usable currencies” to facilitate SDR mobilization.
 - d. Use the upcoming 16th review of IMF quotas to adjust the allocation of SDR.

NOTE: My assessment in my book of the role of international cooperation in this area of economic policies will conclude that the record is decidedly mixed:

1960s – too late
1970s – promising start
1980s – failure to employ the tool
1990s – controversy without result
2000s – prompt resurrection
2020s – delayed implementation

The 1980s Global Debt Crisis

I am in the final stages of revising a paper on the debt crises of the 1980s and lessons for sovereign debt relief in the wake of the Coronavirus pandemic for publication in the *Financial History Review*.

The paper reminds readers that the International Debt Strategy in the 1980s went through three phases:

1. Concerted lending phase of 1982 to 1985
2. Baker plan phase of 1985-1989
3. Brady plan phase starting in 1989

The principal lessons are:

1. Debt relief, in particular reduction of the debt stock in present value terms, requires a consensus among creditors, borrowers, the major countries, and the major international institutions. Building that consensus takes time.
2. Once established, the application of the agreed approach necessarily will be on a case-by-case basis.

With respect to sovereign debt relief in the wake of the pandemic, we are in phase one at best, limited debt relief provided to low-income countries only on claims of official lenders. In some respects, the system is better prepared to handle debt relief today, but in other respects that is not the case.

Again, I do not fit this paper directly into my framework of assessment of the international coordination of economic policies. When I do, I will conclude:

Phase I – remarkably successful in preventing a global economic and financial crisis such as we did not avoid in the global financial crisis.

Phase II – reasonable design but failed to jump-start the debt strategy and restore growth.

Phase III – Occurred later by a year or two than was necessary or desirable, marked the end of the crisis but the crisis had a long coda stretch into the 1990s.

The “Lost Decade” was lost by 1984, and the delayed implementation of debt stock reduction was not the cause of the loss.