

Sleepwalking our way towards a world currency

Posted By: [Edmund Conway](#) at Apr 8, 2009

Let's assume for a moment that we are in the protean stages of [a new world currency](#); that the G20's [moves](#) this time last week are laying the ground for its special drawing rights to replace the dollar as the international reserve currency. On that basis which of these two scenarios would you feel more uncomfortable with:

1. That a shadowy sect of global leaders are conspiring together to set up this new world currency; or that,
 2. Instead, clueless politicians are sleepwalking into this, not knowing precisely what they are doing.
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The conspiracy theories that surround the SDRs usually assume the first scenario, and indeed the events of the past couple of weeks seem to bear this out. First you had the People's Bank of China surreptitiously publishing a discussion [paper](#) on the notion of replacing the dollar as the international reserve currency with SDRs. Then US Treasury Secretary Tim Geithner appeared to acquiesce to such suggestions. Then, last week, you had the decision to issue \$250bn more of the things at the G20, in what might be seen as a prelude to a more widespread plot to install SDRs permanently in place. Under what was approved by the world leaders, the IMF is suddenly behaving like a global central bank, issuing SDRs to control liquidity worldwide. This is a central bank without direct accountability to the people of the world, which only seems to underline the apparent outrageousness of this plot.

But my strong suspicion is that this is no deliberate plot. I suspect the second scenario is far more likely. In fact I have heard that the plan to issue \$250bn worth of SDRs at the G20 last week was not connected in the slightest with the Chinese paper, but was something instigated by the US Treasury, in conjunction with the UK Government, in the weeks running up to the G20. In fact, I gather that the IMF only learnt about the plan at the very last minute, leaving their legal officials scrambling around to try to find out whether it was even possible. Only last Wednesday, barely 24 hours before the G20's decision, panicked representatives from the IMF's legal department phoned the Treasury to find out whether this plan was really likely to happen. Geithner's comments in the wake of the PBoC, which were interpreted as an approval of the global currency plan, were in fact rather confusedly nodding towards the US-led IMF plan. Either he or the headline writers got confused. None of this smacks of a grand plot to lay down the foundations for a world currency, as indeed there was not.

In fact, the SDR plan was installed by the officials in both US and UK camps in the final run-up to the G20 as it slowly transpired that the original plans for the G20 to pledge to spend billions more in fiscal stimulus in the coming years would simply not happen, in the face of German and French resistance. There needed to be a new eye-catching plan for raising money, and SDRs fulfilled that purpose, allowing them to trumpet that \$1 trillion IMF donation.

However, this is not to say that because the original intention behind the SDR issuance was not to install it as a world currency, that such an outcome is not possible.

In fact, perhaps inadvertently the Geithner, Darling, Brown and Obama initiative has dramatically increased the odds of this happening. It will have increased the appetite of the Chinese, the Russians and the others who would like to depose the dollar as the world's reserve currency. Moreover, it has cemented the likelihood that they push for the deposition by trying to get the SDRs installed as the dollar's replacement. Quite how this would work remains to be seen. There appear to be plenty of obstacles and it is dubious that the SDR could be transposed to become a general unit of exchange.

One thing we must all agree on in the wake of this crisis is that politicians do not always take the best decisions, and I doubt the idea of a new global reserve currency is desirable at all. For a start, what is one to tie it to? Gold? And consign ourselves to the same fetters which helped cause the Great Depression ([Eichengreen](#) is the master on this)? Keynes wanted to create an international currency called Bancor which was tied to 30 commodities. But in a world of depleting resources it is difficult to fathom how to create a list of constituents which would not constrain global growth and tie us into many years of deflation. Carbon dioxide, perhaps?

Should we retain a fiat currency system I can't see the point of a global world currency. Sure, in the future we ought to have a system in which a few different currencies share the reserve currency status currently enjoyed by the dollar - the Chinese renminbi, the euro, perhaps - and where commodities are denominated depending on which of these countries most demands or produces them. But aside from the exchange rate risk (which can be hedged), it makes very little real difference to any company whether they buy their oil in dollars, pounds, rubles or yen.

The debate to be had here is not about the currency itself, but about whether it should be tied to anything, or whether we will keep with fiat money: in other words, a Bretton Woods-style debate. With any luck, the G20 decision will trigger the beginning of just such a debate in the coming years. But having heard the shambolic way the SDR issue came about in the first place, I doubt whether anything so organised, well-

thought out and openly-discussed is likely.

http://blogs.telegraph.co.uk/edmund_conway/blog/2009/04/08/sleepwalking_our_way_towards_a_world_currency