Global Greenbacks
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If wars, as Clemenceau famously said, are too important to be left to generals, development is too important to be left to finance ministers, central bankers, the IMF and World Bank.

This week's gathering on "Finance for Development" in Monterrey, Mexico is a perfect opportunity for other concerned players, including Presidents and prime ministers, to assert their interests. The international community has agreed on a set of modest goals for global development – reducing poverty and illiteracy and improving health. But this requires a substantial increase in assistance at a time when the paltry levels of aid provided by rich countries continue to fall. The US, the world's richest country, is the stingiest. As long as the world's advanced countries maintain this attitude, innovative approaches to financing economic development need to be tested.

One idea receiving attention is a new form of global money akin to the IMF's Special Drawing Rights (SDRs). SDRs are a kind of global money, issued by the IMF, which countries agree to accept and exchange for dollars or other hard currencies.

The underlying idea is simple: every year, countries around the world set aside reserves as insurance against contingencies such as an abrupt downturn in foreign lenders' sentiment or a collapse of export prices. As a result, some global income sits around rather than financing investments that poor countries need. The amounts held in reserves are huge – roughly $1.6 trillion world-wide. Countries like to keep their reserves growing in tandem with growth in imports and other foreign liabilities. If these liabilities grow by 10 per cent annually, countries need to set aside an additional $160 billion.

Countries hold these reserves in a variety of forms, including gold and US Treasury bills. While America benefits from increased demand for its Treasury bills (which reduces borrowing costs), developing countries receive a return of just 2 per cent – essentially zero in real terms. Investments at home may offer much higher returns, but foregoing them is the price developing countries pay for a safe hedge against the pitfalls of global capitalism.

Instead of holding their reserves in dollars, a new form of global money – "global greenbacks" – could be issued which countries could hold in reserve. The money would be given to developing countries to finance their development programmes as well as global public goods like environmental projects, health initiatives, humanitarian assistance, and so on.

There are a variety of institutional arrangements by which these global greenbacks could be issued. The IMF (responsible for issuing SDRs) could issue them, or a new institution could be created to decide on quantity and allocations. A new institutional arrangement might entail the creation of a set of trust funds – say, for education or health, or the environment – with competition among countries for projects helping to promote these objectives.

For countries that receive less than the amount that they need to put into reserves, the new "global money" would go into the reserves, freeing dollars that these countries would otherwise set aside. Countries that receive more than they must put into reserves could exchange the new money for

conventional currencies. Eventually, all the new money will wend its way into reserves, which in effect represent a commitment by countries to help each other in times of trouble. A country with reserves of the new global money could exchange it for hard currencies to sustain needed imports.

There is another major advantage. The arithmetic of global trade implies that the sum of all trade deficits equals the sum of all trade surpluses. If some countries, say, Japan and China, insist on running huge surpluses year after year, then other countries must run deficits. The deficits are as much the fault of the surplus countries as they are of the deficit countries.

Now, trade deficits are like hot potatoes. Nobody wants them, so they get passed around. If one country gets rid of its deficit, it must show up elsewhere. Uncertainty about whether these deficits can be financed is one reason why the world economy, under current arrangements, faced a succession of crises in recent years. Issuing the new global money would reduce this uncertainty. If a developing country's trade deficit is offset by assistance through a grant of the new global money, its overall financial position will be secure.

Of course, even with this assistance, countries that mismanage their economies will face problems; the proposal is not a panacea to the world's problems. Nor would this scheme be inflationary. Global greenbacks would offset the deflationary bias in today's arrangements that result from the fact that part of the income set aside as reserves never gets translated into global aggregate demand.

Relative to global income — some $40 trillion — the magnitude of monetary growth would be minuscule. Relative to today's levels of spending on official development assistance and global public goods, however, the amounts are enormous. The scheme also provides regular funding, not currently available, to finance global public goods. Commitment to participate in the programme would, presumably, be long term.

The scheme will not require the support of every major developed country. This is important because the US might oppose any plan that undermines demand for Treasury bills (and thus its guaranteed access to low-cost financing). But if most advanced countries were to recognise this new form of global money, they could put pressure on holdouts by limiting their holdings of non-participant currencies and treasury bills in their reserves.

Innumerable details must be worked out before a global money scheme could be put into practice, and changes will not occur overnight. But the Monterrey meeting provides an opportunity for such ideas to be discussed and vetted. This much is clear: addressing the plight of the world's poorest countries and providing the global public goods needed in this age of globalisation requires us to explore innovative ways of raising the necessary financing.

What makes the global greenback proposal attractive is that it provides the funds poor countries need while contributing to global economic growth, stability, and equity.