Memo about a possible SDR-related anti-crisis proposal for the G 20

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1. The present economic crisis has two main characteristics:
   a) it is a crisis which not only started as a financial crisis but is still accompanied by and deepened by a continuing chaos in the banking sector; and
   b) it is a crisis which is also characterized by a diminishing level of effective demand in the countries of the South; it is also increasingly an economic crisis of diminishing global expenditures.

2. It is remarkable to see that most proposals to fight the present crisis, also those made in the context of the coming G20 meeting, do not make a clear connection between these two characteristics (a and b). Most efforts go in the direction of mainly national plans to supplement or heal distorted bank-balances (in order to restore the willingness of banks to provide credits), combined by efforts to rescue the own soaring industries with some kind of financial support. No plans are available which tackle the crisis at a real global level in the context of both sustainability and solidarity.

3. Three options that are neglected are however available here and should be carefully considered :

(i) *the option of a primary enhancement of the level of global effective demand in and via the economies of the countries of the South instead of (primarily) via the economies of the North.* Most rich economies in the North already live on a too high and therefore unsustainable level of resources- and energy use. It is of the highest importance that the level of expenditures in the world economy be restored from the perspective of both solidarity and sustainability, and not from the perspective of higher material Western mass-consumption.

(ii) *the option of debt- relief and debt- cancellation*: It is generally acknowledged that the debt-crisis is in the heart of the present economic crisis . If so, the continuing debt-position of the countries of the South should also be seen as not only a part of the same problem, but also as a part of possible solutions;

(iii) *the option of and need for a restructuring of the banking sector*, as indicated by Stiglitz and others, if possible also leading to an improvement of the capital (and leverage) basis of the most responsible banks.

4. In this context it would of course be wonderful if the G-20 could reach an agreement on a voluntary joint subtantial debt-cancellation of the most indebted countries (SILICS) in the South to enlarge in this way also their combined import-levels and the world's global effective demand: it is however not realistic to have those expectations. **But they could change their mind if another way is choosen: namely a separate emission of Special Drawing Rights by the IMF , geared to the explicit purpose of a reduction or cancellation of still existing debts of the countries of the South.**
This would *firstly* cost almost nothing to them, because SDR's are emitted freely. It would *secondly* decrease substantially the debt burdens of the South, and thus contribute to the fight against the global economic crisis. And *thirdly* it would, because of the repayment of debts, also substantially improve the capital position of those banks in the North which invested in previous years in the ecomnomies in the South, usually not the most worse banks.
The question then is if this is possible in the context of the present IMF rules? Not entirely - but there is a remarkable precedent! In his book "George Soros on Globalization" Soros describes on page 77 vividly how in 1997 "the IMF members agreed to amend the IMF articles to allow a single special "equity" allocation of SDR's , that would channel a bigger share to the former Soviet republics and other transition countries as well as poorer member countries than would result from the standard quota-based distribution". The amount of 21.433 billion dollar is mentioned there.
This is an important entry to reopen the debate especially if (perhaps via the Club of Paris) a solution could be found to buy those still existing debts against their present market value, and allow the indebted countries to use the difference between the nominal and the market value of those debts for new, peaceful and sustainable investments in their own economies. That would imply a second impulse to escape from the present crisis in the world economy.

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