Rodney’s Take

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Our IMF Gift to Those Who Hate Americans

I’ve been to Paris a few times and have always found the people welcoming. Maybe it’s because I try to speak a bit of the language before they graciously switch to English to save us both from my bad French, or perhaps it’s because they mistake me for a German or a Russian (which has happened before). Whatever the reason, I’ve not experienced the dismissive attitude from the French that Americans have described on travel sites and have recounted to their friends, even though I’m sure the stereotype emerged from such a pattern.

Still, the French and the rest of the peoples of Western Europe are our allies, even if we go about life a bit differently and trade disparaging remarks. We have treaties with our global friends and a history of pursuing common goals. The same can’t be said for several nations around the globe, and yet we’re on the cusp of handing those countries billions of dollars virtually for free.

The International Monetary Fund (IMF) is expected to vote today on a general $650 billion Special Drawing Rights (SDR) allocation. SDRs are a unit of account comprised of five currencies, including the U.S. dollar, British pound, Japanese yen, euro, and Chinese yuan. SDRs aren’t spendable like national currency, but they can be traded for cash.

Every country that is a member of the IMF receives a share of a general allocation proportional to its global share of GDP. The IMF has allocated shares three times since 1970 and did one special allocation in 2009, resulting in about $318 billion in SDRs outstanding. The current proposal of $650 billion is just under the threshold that would require approval from the governments of the backers of the IMF, including the U.S. If the proposal passes as expected, Iran will get 0.75% of the allocation, or $4.875 billion worth of SDRs, Russia will receive 2.71%, or $17 billion, and even Syria is in line for 0.06%, or $390 million.

With SDRs in hand, a country can ask another member country for a voluntary loan of that nation's currency in exchange for the SDRs at a preset interest rate, which is the proportional three-month interest rate of the currencies that make up the SDRs. Today, that rate is about 0.05%. To be fair, a nation doesn't have to make such a loan, at least at first. If Iran comes knocking on our door and asks for dollars in exchange for its SDRs, we can say no. But if Iran cannot get a loan from any country considered to have strong reserves, then the IMF can force member countries to make loans. That has not happened so far in the history of the IMF, because there's always been a country willing to hand out cash, presumably because the borrowing country will use some of the funds to buy goods from the lending nation.

It doesn't take much imagination to think of what Russia, a nation known to support cyber attacks on the U.S., or Iran, which supports military attacks on our armed forces and even planned to kidnap someone from U.S. soil, will do with some of their newfound money. And while we might not lend them U.S. dollars directly, we're definitely supporting the structure that ensures they get yuan, euros, or some other spendable currency in exchange for their SDRs.

The general allocation will do enormous good for poor and developing nations that have been hard hit by the pandemic, even though it will provide capital to those who wish us harm. Just like Iran, poor nations will be able to get hard currency essentially for free, giving them some relief in international trade and potentially providing a way for them to by foreign medical equipment and medicine to fight the pandemic. There's no doubt the general allocation will be beneficial around the globe, but it still stings a bit that in part we're giving money to governments that do all they can to harm us.

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Got a question or comment? You can contact us at info@hsdent.com.