

<b>Institution:</b> <b>University of Glasgow</b>
<b>Unit of Assessment:</b> <b>D30 - History</b>
<b>Title of case study:</b> <b>Influencing debates about international monetary reform in response to the 2007 financial crisis</b>
<b>1. Summary of the impact</b>

In the wake of the 2007 financial crisis, Schenk's expertise on the history of the international monetary system influenced debates and discussions in the International Monetary Fund and the G20 about international monetary reform as a means of achieving global financial stability. Schenk's work was also used to inform discussions about the potential role for gold as a strategic response to the financial crisis conducted by Chatham House (Royal Institute for International Affairs).

<b>2. Underpinning research</b>
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Professor Schenk (Senior Lecturer and Reader, University of Glasgow 1996-2005; Professor of International Economic History, University of Glasgow 2005 to present) has a sustained record of research on the history of international monetary reform and the international monetary system. Schenk has researched and published widely on these issues particularly in relation to the role of gold in the international monetary system, on international reserve currencies, and on sterling as an international currency since 1945. Schenk's expertise is based on extensive archival research from the UK, USA, International Monetary Fund, Bank for International Settlements, Australia, and Hong Kong. This includes evidence from central banks, commercial banks and government economic departments. Schenk's key insights from this research centre on historical transitions between international currencies, in particular, the transition from sterling to the dollar and advance the arguments that:

- Firstly, that the impact of the international role of sterling on the British economy in the 1945-58 period was not as important as had been assumed in popular and academic discourse [1; 2; 3; 5].
- Secondly, sterling's international role was sustained for a longer period than assumed in traditional and modern accounts of the international monetary system so that the 1950s and 1960s should be characterised as a multi-currency system rather than a dollar system exclusively. This finding has implications for those who claim that a multipolar world monetary system is not sustainable [1; 2; 3; 5].
- Thirdly, the transition from sterling to the dollar was more prolonged than has been assumed. The transition was relatively smooth (without causing the collapse of the international monetary system) but this should not give solace to those who would like to anticipate a smooth transition from the dollar to another lead international currency in the future. Schenk's research shows that the decline of sterling was carefully managed through international cooperation and substantial lines of credit among G10 central banks and governments which required a consensus and commitment that may not be replicable [1; 2; 3; 5].

This important finding about the likely nature of the transition from the dollar to another lead currency in the future is also addressed by Schenk in her research on international reserve currencies. Schenk shows that the introduction of a Substitution Account, which would have facilitated the promotion of Special Drawing Rights (SDR) (a deliberately managed and neutral

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international reserve asset) as a replacement reserve asset for the US dollar, was abandoned in 1980 because it was thought to carry too great a burden of risk, would have required use of IMF gold and posed insuperable challenges to IMF governance [3;4;5].

The role of gold in the international monetary system has also been investigated by Schenk. Of particular note, is Schenk's examination of the reasons behind the decision to eliminate monetary uses of gold in the late 1970's. The decision to demonetise gold, Schenk argues, was due to problems in terms of price volatility, constrained supply, lack of effective control and distribution of gains and losses [4].

### 3. References to the research

1. C.R. Schenk, 'Sterling, International Monetary Reform and Britain's Applications to the EEC in the 1960s', *Contemporary European History*, 11(3), pp. 345-369, 2002, ISSN 0960-7773 [available from HEI]
2. C.R. Schenk, *The Decline of Sterling: Managing the Retreat of an International Currency 1945-1992*. Cambridge: Cambridge University Press, 2010. ISBN 9780521876971 [REF 2]
3. C.R. Schenk, 'Lessons from History', in P. Subacchi and J. Drifill eds., *Beyond the Dollar; rethinking the international monetary system*, Chatham House Reports, Royal Institute of International Affairs, pp.16-22, 2010. ISBN 9781862032279 [available from HEI]
4. C.R. Schenk, 'Gold as a Money Anchor: We have been here before', The Gail Fosler Group LLC, September 2011, available at: <http://www.gailfosler.com/gold-as-a-money-anchor-we-have-been-here-before>
5. C.R. Schenk, 'The Retirement of Sterling as a Reserve Currency after 1945: Lessons for the US Dollar?' *World Financial Review*, May/June 2011 [available from HEI]

### Key Grants:

Economic and Social Research Council 2002-04: *Managing the Decline of Sterling 1958-73*, Grant Amount: £40,001.88; Grant Reference: R000223973

Economic and Social Research Council 2006-09: *The Experience of Exchange Rate Regime Change among Developing Countries 1968-1978 (results assessed as 'outstanding')*, Grant Amount: £280,222.94; Grant Reference: RES-165-25-0004

### 4. Details of the impact

In the wake of the global financial crisis of 2007 Schenk's research expertise was instrumental in informing debates and discussions about the nature of the international response. The crisis gave rise to significant questions about the need for international monetary reform in order to achieve global financial stability. International economic institutions and groups began to debate the future of the US dollar as a major reserve asset and reconsidered appropriate exchange rate regimes; similar organisations also turned to consider the potential role that gold could play in the international monetary system in the wake of the financial crisis. Schenk was invited to provide expert advice by the International Monetary Fund and the G20; she was also invited to provide expert input to discussions about the potential role for gold as a strategic response to the financial crisis conducted by Chatham House (Royal Institute for International Affairs).

### International Monetary Fund (IMF)

The IMF promotes international collaboration on international monetary issues. Schenk was invited as a Visiting Researcher to the IMF in April-May 2009 in order to engage with and advise the IMF on its policy on exchange rate regime choice. Whilst there, Schenk presented two research papers, *Proposals to Replace Reserve Currencies during the Bretton Woods Era* and *The Retirement of*

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*Sterling as a Reserve Currency after 1945: Lessons for the US Dollar?* to c.40 IMF staff and had a consultation with the IMF Chief Economist regarding the future of the dollar [1].

In December 2009, Schenk was co-organiser with the IMF of the *Conference on the International Monetary System: Looking to the Future, Lessons from the Past*. As part of the Conference, Schenk presented a paper at a special closed workshop to discuss options for international monetary reform, titled, 'What does the historical record suggest about the current proposals to reform the international monetary system?'. Participants included (from the IMF) the Executive Director of the IMF for China, First Deputy Managing Director, Economic Counsellor and Director of the Research Department, and the Deputy Director of the Research Department. The research which Schenk presented at this workshop was subsequently cited in a paper prepared by the IMF's Strategy, Policy, and Review Department, in collaboration with its Finance, Legal, Monetary and Capital Markets Departments, and in consultation with the Research and Area Departments. [2].

Schenk's research influenced the IMF's position regarding its policy on reform of exchange rate regimes and the international monetary system. In particular, Schenk's finding that, in the past, the transition between international currencies (e.g. sterling to dollar) was more prolonged than had otherwise been presumed and that the dollar system may be more robust than previously thought, provided an historical perspective on international monetary reform as a strategic response to the economic crisis. Three of Schenk's research outputs are cited in the IMF's final paper on these matters [3]. The Chief of Systemic Issues for the IMF Research Department commented in his letter of 17 June 2013 that 'Prof. Schenk's work – with which we were very pleased – was directly relevant to, and had an appreciable impact on thinking about, issues related to the stability of the international monetary system...indeed, it would be hard to imagine a piece of purely historical research being of greater relevance to our work' [1].

The impact of Schenk's research on the international monetary system extended beyond her advice to the IMF and in October, 2010 Schenk was invited to visit the Bank for International Settlements (BIS), in Basel, Switzerland. During this visit, Schenk consulted with a range of BIS staff including the Director of Research and Statistics and the Senior Advisor of the Monetary and Economic Department. Schenk presented her findings to c.20 BIS staff and participated in one-to-one consultation sessions with a number of senior BIS representatives [4].

Further evidence of the impact of Schenk's research on the international monetary system is found in her contribution to the Chatham House Taskforce on international monetary reform. In 2010, amid growing concerns around the global economic imbalances heightened by the international financial crisis, Chatham House one of the world's leading think tanks with links to governments, policy-makers, politicians and business, brought together a Taskforce of experts to examine the potential for international monetary reform. Schenk's research insights on the historical transition from sterling to the dollar as the international reserve currency informed the Taskforce's discussions about the limited viability of short-term options for international monetary reform. Schenk's work is cited throughout the Taskforce's Final Report, *The Future of the Dollar: Rethinking the International Monetary System*, and is relied upon in the Taskforce's Recommendations [5].

## G20 (Group of 20)

G20 is the forum for international cooperation on global economic and financial issues. The leaders of the G20 countries hold summits at least annually and, at times, more frequently. When France took over as chair of the G20 in 2011, France's then-President Nicholas Sarkozy put reform of the international monetary system at the top of his agenda. Schenk was invited to provide expert

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advice by the International Monetary Fund and for preparations for the G20 French Presidency. She also presented her research at two preparatory summit meetings in Beijing 6-7 September and Paris 10-11 December 2010 where her paper addressed two key questions: *How Have Multiple Reserve Currencies Functioned in the Past?* and *Why were the Rules-Based Adjustment Indicator and the Substitution Account abandoned in the past?* Participants included the Deputy Assistant Secretary of the US Treasury; the then Economic Minister of France, later managing Director of the IMF; the Governor of the Central Bank of Turkey; the Vice Minister, Ministry of Finance, Japan; the Deputy Governor, Banque de France; the Governor, Banque de France [6]. Schenk's paper was subsequently posted on the IMF's dedicated website on international monetary reform [see: <http://imsreform.org/reserve/pdf/schenk.pdf>].

In her submissions to the preparatory summits, Schenk drew on her research on international reserve currencies, outlined above (at Section 2), to advise why the proposals under consideration relating to a Substitution Account and Multiple Reserve Currencies had been examined in the 1970s and 1980s and rejected. Schenk's position was that this reduced the prospects for the successful implementation of such proposals as a response to the current international financial crisis. France did not pursue international monetary reform during its Presidency (this decision was due, in part, to the onset of the Eurozone crisis).

### Chatham House Gold Taskforce

In 2011 Chatham House, set up a Global Taskforce to assess what role, if any, gold could play in the international monetary system in the wake of the economic crisis. The Taskforce, of which Schenk was an invited member, comprised 11 experts from the UK and abroad representing a range of opinions and backgrounds. This group, met in both London (28/10/2011) and Shanghai (10/11/2011); it carried out the first in-depth examination of all the different suggested roles for gold in nearly 30 years.

Despite gold's positive attributes, the evidence which emerged from the Taskforce's deliberations led to the conclusion that, in today's world, there is little scope for gold to play a more formal role in the international monetary system. The findings of the Taskforce culminated in a Chatham House Report, within which Schenk's research is widely cited, and Schenk was one of three panellists at the public launch of the report at Chatham House. The report was published in hard copy in February 2012 and on the Chatham House website [7].

### 5. Sources to corroborate the impact (indicative maximum of 10 references)

1. Letter re: visit and impact from Chief, Systemic Issues, Research Department, IMF [available from HEI].
2. [Enhancing International Monetary Stability—A Role for the SDR?](#) (7 January 2011).
3. Atish R. Ghosh, Jonathan D. Ostry, and Charalambos Tsangarides, *Exchange Rate Regimes and the Stability of the International Monetary System*, IMF Occasional Paper no. 270, 2011. [available from HEI].
4. Details of BIS visit/itinerary [available from HEI].
5. C.R. Schenk, 'Lessons from History', in P. Subacchi and J. Driffill eds., *Beyond the Dollar; rethinking the international monetary system*, Chatham House, 2010 and statement from Research Director, International Economics, Chatham House [available from HEI].
6. 'The International Monetary System: Old and New Debates, Delegate pack and proceedings circulated in advance of, and at, the meeting for the Paris summit [available from HEI]
7. [Gold and the International Monetary System](#), Chatham House Gold Taskforce (February 2012).