



Congress Should Support the IMF

C. Randall Henning argues that a measure to increase the US commitment to the International Monetary Fund, approved by the Senate but not by the House, is needed to stabilize emerging-market economies.

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Steve Weisman: This is Steve Weisman at the Peterson Institute for International Economics. Our guest, Randall Henning, senior fellow at the Institute, is going to walk us through a complex but very important topic today: the International Monetary Fund. Randy is also a professor of international economic relations at American University. Thanks for joining us, Randy.

C. Randall Henning: Thank you, Steve. I'm glad to be with you again.

Steve Weisman: This conversation is taking place on the eve of Memorial Day weekend, and Congress has acted or begun to act on an Obama administration request to supply funding for the International Monetary Fund. Let's talk first about the context. The global financial crisis is still in full roar and the International Monetary Fund has become a centerpiece of the solution that's going to get us out of the crisis, in the view of the Obama administration. Tell me why they think that's true.

C. Randall Henning: You're right that the crisis continues. Several countries continue to come to the International Monetary Fund for financing. I'm expecting that the growth in Europe will continue to be slow, the recovery will be lagged. So those countries in Central and Eastern Europe that have suffered may continue to be candidates for Fund financing. Even though many of us have seen green shoots of recovery, that doesn't mean that we're out of the woods yet, and the Fund remains an essential part of the overall strategy for that reason.

Steve Weisman: Roughly how many countries have needed to turn to the Fund since the crisis began and what sort of reasons compelled them to do that?

C. Randall Henning: We have, in Central and Eastern Europe, Latvia, Hungary, now Romania, Ukraine, earlier Serbia, plus a number of others that have come to the Fund, enough so that the liquid resources, liquid uncommitted resources of the International Monetary Fund, have declined. The Fund now has available maybe \$140 billion, which means that if one or two large emerging markets should have trouble, the IMF would need new resources and need them fairly quickly. That's the rationale for moving on IMF funding quickly.

- Steve Weisman: The leaders of the major economic powers, known as the G-20, committed themselves to increasing the resources of the IMF and also to governance changes. How big was that commitment and what portion of that was to have been supplied by the United States?
- C. Randall Henning: It's a very large commitment. If you add up the large numbers for the International Monetary Fund specifically, there are a couple of things in play. One is an increase in the regular quotas of the International Monetary Fund of somewhat less than \$50 billion, on top of the \$325 billion or so already devoted to the Fund through quotas. Of that portion, \$8 billion would be supplied by the United States. But the larger numbers are associated with something called the New Arrangements to Borrow, which is a mechanism that the IMF itself can use to borrow from large members if it runs short of funds to lend to borrowers in a crisis. That amount could be increased by up to \$500 billion, the US share of which would be roughly one fifth, or \$100 billion. So if you add these two together, the US commitment of new money would be \$108 billion.
- Steve Weisman: And then there are the Special Drawing Rights?
- C. Randall Henning: That's right. There are Special Drawing Rights, which is a monetary asset issued by the IMF. Those would be increased by about \$250 billion as well, and distributed to all of the members of the Fund. There is also in play a smaller distribution of Special Drawing Rights to those countries that have joined the Fund since 1981, and the issue of gold sales that could be used to cover the operational expenses of the IMF. So it's complex package.
- Steve Weisman: The reason I mentioned Memorial Day weekend is that Congress has begun to get its arms around this in a supplemental budget bill. Bring me up to date on what congressional action has been taken.
- C. Randall Henning: Sure. On May 21, the Senate passed the supplemental appropriations bill. That bill contained these provisions to fund US participation in the International Monetary Fund, the increase in US participation. The House passed the supplemental appropriations bill earlier without the IMF provisions in it. So the issue now goes to conference, where they'll decide on the final shape of the appropriations bill. The question is whether the International Monetary Fund provisions are in it or out of it. I think there is a good chance that they will remain in the final bill, but I wouldn't take it for granted by any means since there are some who will oppose its conclusion until the end.
- Steve Weisman: The opponents are uncomfortable with more lending generally as a solution to a crisis that was brought on by too much lending. I read a recent editorial in the *Wall Street Journal* that certainly derided that idea and also argued that this was being done in a nontransparent way. How would you respond?
- C. Randall Henning: The main thrust of the *Wall Street Journal* article was that the way that this bill has been approached is not fully transparent. They've argued about the

mechanism by which this is budgeted and accounted for in the US budget. I think that their criticisms are misplaced in that the way to properly score this in the budget is to recognize that not all of the \$108 billion represents an expenditure. In fact, none of the \$108 billion represents an expenditure. It is actually an exchange of assets that doesn't involve an outlay by the United States because the United States gets a claim on the International Monetary Fund, an asset in return. But there should be some recognition of the risk that the money that the United States extends to the IMF—there is a possibility that it will not be repaid. It's a very, very small possibility, but that possibility should be recognized and they've scored it in the budget at \$5 billion for an appropriation. This seems a little high to me but it's within the ballpark.

Steve Weisman: Scoring an outlay in the form of an asset exchange or a loan, scoring it as only a fraction of that, is a time-honored budgetary practice.

C. Randall Henning: That's right.

Steve Weisman: The TARP, which was \$750 billion, was not scored as a \$750-billion budget expenditure, as I recall.

C. Randall Henning: That's right. Since 1990, they've been doing it this way. The Federal Credit Reform Act of 1990 would take the amount of the loan, adjust it for risk and put it on the budget only in the amount of the expected expenditure outlay that would be involved if there was a default on that loan.

Steve Weisman: But the scoring issue was really a proxy issue, isn't it? There are some critics in Congress who are uneasy with the IMF, an international agency, going in and bailing out countries. What do you say to people who just argue that the IMF is this unaccountable international agency that bails out countries that have been profligate?

C. Randall Henning: Well, the large answer to this would be that we need an International Monetary Fund because private financial markets are fickle and unstable. They move with herd behavior and experience periods of creditor panic. And we need an official institution to deal with the problem of sudden stops on capital inflow into emerging markets.

Steve Weisman: Many of these emerging markets are caught up in this crisis through no fault of their own, some argue.

C. Randall Henning: Yes, absolutely, absolutely. And for those that do need to make adjustments in policy, it's appropriate that an IMF loan have a policy conditionality attached. It's better for the International Monetary Fund to apply those conditions than it would be for the United States to apply them.

Steve Weisman: Why?

C. Randall Henning: Because the International Monetary Fund, I think, has better standing and more legitimacy to do so, frankly, than the United States does alone.

Steve Weisman: Especially now.

C. Randall Henning: Especially now, because the United States was an important source of the crisis and also because the membership of the International Monetary Fund is broad and those countries that are borrowing are actually members of the Fund. So I think that despite all of the criticisms about the Fund and its legitimacy and accountability, it still is in a much better position than any individual government or a small group of creditor governments to impose conditionalities, which are politically sensitive, on emerging markets. So we need the International Monetary Fund for these reasons. If we didn't have it, we'd have to create one.

Steve Weisman: Randy, thank you very much for, as I said earlier, walking us through this. It's very complex, very important, and I really appreciate you taking the time to help our listeners and readers understand it.

C. Randall Henning: You're welcome.

