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The Congress Should Support IMF Governance Reform to Help Stabilize the World Economy

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INTRODUCTION

The International Monetary Fund (IMF) continues to play an indispensable role in stabilizing the world economy and financial system, particularly in Europe, much to the surprise of some observers who had thought the institution had become irrelevant. Now it is the IMF that needs assistance with outside support, particularly by the United States Congress, if it is to continue to function in a beneficial way for troubled and strong countries alike. US leadership has been crucial in promoting reform of the IMF. Legislation is now before the congress to cement recent reform agreements.[1] That legislation will strengthen the IMF without the need to authorize one additional dime of the taxpayers' money and with no economic, financial, or political downside for the United States. The main issue before the US Congress is not funding the IMF but steps to reform IMF governance to ensure that the institution is credible in the eyes of all regions and countries of the world.

IMF governance reform has been a staple of international discussions for last 15 years. The United States has played a prominent role in pushing for responsible change to make the voices and votes in the IMF better reflect the new international economic and political landscape. Progress has been significant. However, progress will likely halt unless the United States promptly implements the IMF reform package that was agreed by the G-20 leaders in Seoul in November 2010. Implementation requires action by the US Congress.

This policy brief, first, sets the stage by providing some background on IMF governance reform discussions and actions over the past 15 years.

The case for congressional approval of the 2010 Seoul package rests on three major considerations. First, US leadership, once again, was decisive in producing the package. A failure to enact the pending IMF legislation would undermine US leadership, which is essential to future progress. Second, the package involves no economic, financial, or international political downside for the United States. Implementation, as mentioned earlier, will strengthen the central role of the IMF in stabilizing the global economy and financial system, involve zero true cost to the US taxpayer, and enhance US standing with key emerging market and developing countries, which are the principal beneficiaries of the package. Third, approval of the 2010 Seoul package will allow IMF reform discussions to move

1. The Obama administration proposed that the necessary IMF legislation be included in the continuing budget resolution to fund the government for the remainder of FY 2013. That proposal was not accepted by the House of Representatives or the Senate Committee on Appropriations. However, the issue remains squarely on the legislative agenda of the US Congress.

on to the next stage in which the United States must be a major player if IMF governance reform is to progress further.

The final section of the policy brief, which some readers may want to delay looking at, examines some of the issues in that the next stage of IMF governance reform. It must start with a thorough, permanent reform of the arcane IMF quota formula, in which greater emphasis is placed on economic weight (measured by GDP) and the formula recognizes the increasing role of emerging market and developing countries in the world economy and the shrinking role of advanced countries, in particular, in Europe. Reform of the quota formula has been under consideration since the G-20 meeting in Seoul, but discussions have stalled, in part because the 2010 Seoul package has not been implemented. Progress needs to be accelerated over the next 10 months so that the revised formula can be used to deliver further IMF governance reform in the context of the 15th review of IMF quotas that is to be concluded by January 2014.

A failure to enact the pending IMF legislation would undermine US leadership.

The clock is ticking on IMF governance reform.

BACKGROUND

In 1990, as the former Soviet Union was disintegrating and countries in Eastern and Central Europe began to embrace market-oriented economic systems, the emerging market and developing countries accounted for only 31 percent of global GDP on a purchasing-power-parity (PPP) basis, and only 20 percent in terms of current market prices and exchange rates. That watershed followed a decade of stagnation in many developing countries, and decline in quite a few, particularly in Latin America. But by 2000, the collective share of the emerging market and developing countries in global GDP on a PPP basis had risen to 37 percent—though it was unchanged in terms of current exchange rates and market prices because of the influence of the economic and financial crises at the end of the decade. However, the winds of IMF governance reform were blowing. The focus was on quota and voting shares and representation on the IMF executive board and, in connection with the former, on the multiple quota formulas that had been in use since the eighth general review of IMF quotas in 1983 to guide adjustments in IMF quotas.[2]

In the wake of the 11th general review in 1998, a committee was formed to review the quota formulas. The resulting report by a committee under the chairmanship of Richard N. Cooper (IMF 2000) recommended a simplified formula consisting of shares of global GDP (at current market prices and exchange rates) with two-thirds weight and shares of global variability of current receipts and net long-term capital flows with a one-third weight. Conspicuously, the report recommended that two variables should be dropped from the formula for international trade and international reserves. The recommendations were not accepted. However, the debate continued.[3]

No change in the quota formulas was adopted for the 12th review in 2003 or the 13th review in January 2008, neither of which, in any case, resulted in a general increase in IMF quotas. However, changes in IMF governance were underway. The old quota formulas remained under active review, and a first installment of quota adjustments was agreed in Singapore in September 2006. They granted ad hoc quota increases to China, Korea, Mexico, and Turkey whose quota shares were judged to be most out of line with economic reality. See "pre-Singapore" columns in table 1. Indeed, in the spring of 2008, agreement was reached on a new simplified quota formula (see box 1), a modest set of quota adjustments for 54 member countries including the United States, and some governance reforms, including a tripling of the number and share of basic votes for each member country in the IMF, irrespective of the size of its quota, and the authorization of the potential appointment of a second alternate executive director for certain groups of countries that form executive board constituencies.[4] See "current" columns in table 1.

Following the intensification of the global financial crisis in the fall of 2008, the United States proposed, and at the G-20 meeting in London in April 2009, endorsed a $500 billion enlargement of the permanent IMF borrowing arrangements, the New Arrangements to Borrow (NAB), and general $250 billion allocation of special drawing rights (SDR) along with a smaller and long-delayed special $30 billion allocation of SDR.[5] The US Congress acted on the necessary legislation for

2. A member's IMF quota determines (a) the amount of its own currency or reserves it is obligated to lend to the IMF to lend to other countries, and (b) for most members, the larger component of its voting power in the IMF. The remaining component is a country's basic votes. A member's quota also is the basis, often overridden by various exceptions, for determining norms for how much a member may be allowed to borrow from the IMF.

3. I sought to contribute to this debate in Truman (2006a and 2006b).

4. The number of basic votes for each country was tripled, and the share of total basic votes was fixed at 5.502 percent of total votes.

5. The NAB is a set of credit arrangements between the IMF and potentially 40 other countries and their entities. The total of all arrangements is SDR 370 billion, about $550 billion. The SDR is an international reserve asset, first created by the IMF in 1969 to supplement its member countries' official reserves.

Table 1 Summary evolution of IMF voting and quota shares (percent)

	Voting shares			Quota shares			
Country group or country	Pre-Singapore 2006	Current 2012	Proposed[1] 2013	Pre-Singapore 2006	Current 2012	Proposed[1] 2013	Calculated[2]
Advanced	60.6	57.9	55.3	61.6	60.5	57.7	56.1
Emerging market and developing	39.4	42.1	44.7	38.4	39.5	42.3	43.9
United States	17.0	16.7	16.5	17.4	17.7	17.4	15.8
European Union	32.5	30.9	29.4	32.9	31.9	30.3	30.9
Low-income[3]	4.0	4.5	4.5	3.5	3.2	3.2	2.7

1. Proposed under the 2010 Seoul IMF governance reform package.
2. Calculated based on 2008 quota formula and data for 2008–10.
3. Eligible for the Poverty Reduction and Growth Trust adjusted by the prevailing IDA cut-off.

Sources: IMF 2010a and 2012a.

Box 1 The 2008 IMF Quota Formula

The 2008 quota formula includes four quota variables (GDP, openness, variability, and reserves), expressed in shares of global totals, with the variables assigned weights totaling to 1.0. The formula also includes a compression factor that reduces dispersion in calculated quota shares.

The formula is:

$$CQS = (0.5*Y + 0.3*O + 0.15*V + 0.05*R)^k$$

Where CQS = calculated quota share;
Y = a blend of GDP converted at market rates and PPP exchange rates averaged over a three-year period. The weights of market-based and PPP GDP are 0.60 and 0.40, respectively;

O = the annual average of the sum of current payments and current receipts (goods, services, income, and transfers) for a five-year period;

V = variability of current receipts and net capital flows (measured as a standard deviation from the centered three-year trend over a thirteen-year period);

R = twelve month average over a year of official reserves (foreign exchange, SDR holdings, reserve position in the Fund, and monetary gold); and

k = a compression factor of 0.95. The compression factor is applied to the uncompressed calculated quota shares which are then rescaled to sum to 100.

the 2008 quota increase and the increase in the NAB in June 2009. The SDR allocation, which did not require congressional action, was implemented by September 2009. However, the necessary approvals from other countries for the rest of the London package, and for the previously agreed 2008 reforms, were not fully implemented until early March 2011.

At the Pittsburgh G-20 summit in September 2009, the United States strongly advocated and painstakingly negotiated the terms of reference for substantial further reform of IMF

Its value is based on a basket of four key international currencies (the euro, Japanese yen, pound sterling, and US dollar). SDR are not claims on the IMF, but can be exchanged for freely usable currencies. See Williamson (2009).
On the importance to the United States of the 2009 London agreement and associated IMF issues, see Henning (2009).

governance, including the acceleration of the 14th general review of IMF quotas from January 2013 to January 2011.[6] As a result, at the Seoul G-20 summit in November 2010, a package of IMF governance reforms and quota adjustments was agreed. The Seoul package was formally adopted by the IMF board of governors in December 2010. The United States played a major role in crafting the package. It is designed to increase the voting power in the IMF of emerging market and developing countries and to reduce the representation of Europe on the IMF executive board.

The 2010 Seoul package included three major items: (1) doubling of IMF quotas, with a corresponding reduction in the size of NAB commitments for some countries and a reallocation of quota and voting shares in the IMF (see "proposed" columns in table 1.); (2) an amendment to the IMF articles of agreement to provide an all elected executive board; and (3) an understanding that the "advanced" European countries would reduce their representation on the 24-person executive board from the then-current eight or nine seats.[7]

The United States forced the third item in the package back onto the Seoul agenda by threatening to block the continuation of the size of the executive board at 24 seats which would have meant a reversion to a 15-seat board. The policy implications of the last two elements are linked. The aim is to reduce and consolidate European representation on the IMF executive board immediately and progressively over time. If all executive directors are elected, in contrast with the fact that three European executive directors being appointed, because of the quota shares of Germany, France, and the United Kingdom, then it is easier to consolidate European representation in the future.[8]

It was agreed by the G-20 leaders in Seoul that the package of IMF governance reforms should be in place by November 2012, in time for the biennial election of executive directors at that time. That deadline was not met because the United States had not given its formal approval.

Moreover, negotiations were hard fought leading up to the 2010 agreement by the G-20 leaders in Seoul. Partly as a consequence, many countries, in particular emerging market and developing countries, were dissatisfied with the results for a number of reasons large and small. Their view was that the new 2008 quota formula that was used, in part, to guide the negotiations was flawed and did not adequately recognize the increasing role of emerging market and developing countries in the world. As a consequence, they viewed the Seoul package as incomplete even though it met the test laid down by the Pittsburgh G-20 summit.[9] They also viewed the process of reaching agreement on the Seoul package as nontransparent. And, frankly, many individual countries were disappointed by the results for them.

By 2010, the share of the emerging market and developing countries in global GDP had reached 48 percent (34 percent at market prices and exchange rates); that share is projected to reach 51 percent this year (39 percent at market prices and exchange rates), and climb to 54 percent in 2017 (43 percent at market prices and exchange rates).[10] In light of the rapidly changing shape of the global economy, and in response to concerns expressed by emerging market and developing countries in the 2009–10 negotiations, it was agreed, as an integral part of the Seoul package, to revisit the 2008 quota formula with a view to reaching agreement on a revised quota formula by January 2013. It was also agreed to bring forward the 15th general review of IMF quotas from January 2016 to January 2014. The review of the quota formula technically was

6. The relevant portion of the Leaders' statement read:

> To this end, we are committed to a shift in quota share to dynamic emerging market and developing countries of at least five percent from over-represented to under-represented countries using the current IMF quota formula as the basis to work from. We are also committed to protecting the voting share of the poorest in the IMF. On this basis and as part of the IMF's quota review, to be completed by January 2011, we urge an acceleration of work toward bringing the review to a successful conclusion. As part of that review, we agree that a number of other critical issues will need to be addressed, including: the size of any increase in IMF quotas, which will have a bearing on the ability to facilitate change in quota shares; the size and composition of the Executive Board; . . . (G-20 2009).

7. With respect to the NAB-quota switch, this will increase the total quotas plus NAB resources potentially available to the IMF by about SDR 11 billion ($16 billion). But because some members' quota subscriptions are not usable in lending operations, the de facto increase in IMF financial resources is likely to be smaller. With respect to the executive board, currently the five members with the largest quotas are entitled to appoint an executive director: the United States, Japan, Germany, France, and the United Kingdom. China, Russia, and Saudi Arabia are single-country constituencies. With respect to seats of executive directors, in the past the total number of seats occupied by advanced European countries has varied because some advanced European countries may rotate with other countries, for example, Spain in the constituency with Mexico and Venezuela.

8. Schedule E of the IMF articles of agreement limits the voting share of a director elected by more than one member country to 9 percent. Thus, the European Union, with a combined voting share of 29.4 percent after the implementation of the 2010 Seoul package, could easily be reduced to representation by three executive directors once its voting share declines by a further 2.4 percentage points. Logically those three executive directors should come from the euro area, the non-euro area European Union, and the remainder of Europe.

9. See footnote 5.

10. These data are drawn from the IMF's *WEO Database*, October 2012 (IMF 2012d), accessed February 13, 2013. That database includes Hong Kong, Korea, Singapore, and Taiwan as advanced countries, contrary to their classification in IMF quota discussions. If those economies are reclassified in the group of emerging market and developing countries, and Taiwan, as a non-member of the IMF is excluded, the emerging market and developing countries reached PPP-GDP parity with the advanced countries in 2010.

completed on January 30, 2013, but it did not produce agreement on a revision to the 2008 quota formula. Effectively, another deadline was not met.

Thus, progress on IMF governance reform has stalled.

IMPLEMENTATION OF THE 2010 SEOUL PACKAGE ON IMF REFORM

The United States bears substantial responsibility for the current situation. After 15 years in which US administrations of both political parties have pushed aggressively and imaginatively for governance changes in the IMF culminating with the central US role in shaping the 2010 Seoul package, the United States has failed to implement that package. The rest of the world has been remarkably tolerant of the US delay in acting on the 2010 Seoul IMF reform package, but that patience is running out. US leadership and influence in the IMF is weakening, and thereby the influence of the institution itself. This is the principal reason why it is urgent to enact the pending IMF legislation.

From a US and global perspective there is only downside and no upside in further delay. Doing so would support the IMF as the central institution promoting global economic growth and financial stability, involve no true financial cost to the US taxpayer, and reinforce US leadership and influence in this crucial institution, positioning the United States to continue to lead in negotiating further IMF governance reforms.

The entry into force of the first item in the 2010 Seoul package (doubling IMF quotas and reforming their distribution) is dependent on the entry into force of the amendment of the articles of agreement on the election of all executive directors. The European commitment with respect to the third item (reducing the number of executive board chairs held by advanced European countries) was also, in principle, dependent on implementation of the first two items. To their partial credit, in the executive board election in November 2012, the Europeans took some first steps. The number of seats occupied by advanced European countries was slightly reduced, but their representatives were generally replaced by representatives of non-advanced European countries and, in several cases, an individual from an advanced country took advantage of the relaxed provision on the number of alternate directors in each constituency to occupy such a slot.

As of March 1, 2013 148 members of the IMF with 77.4 percent of total votes had consented to the increases in their quotas, more than the required 70 percent. A total of 133 members had approved the amendment, more than the required 60 percent (113 members), but they represented only 70.8 percent of total votes, shy of the required 85 percent.[11] Because the United States currently has 16.75 percent of total votes in the IMF, US approval of the amendment is required for it to become effective.[12] However, the United States would not want the new amendment to go into effect, thereby triggering increases in the quotas of other members without an increase in the US quota sufficient to maintain its quota share. Therefore, the United States must consent as well to the doubling of its IMF quota, with a commensurate reduction in its financial commitment to the NAB. Hence, US approval is necessary for the entire package to take effect. The United States has been holding up implementation of the 2010 Seoul package of IMF reforms.

The rest of the world has been remarkably tolerant of the US delay in acting on the 2010 Seoul IMF reform package, but that patience is running out.

The Obama administration chose not to submit to the 112th United States Congress, which adjourned in early January 2013, the legislation necessary to implement the 2010 Seoul package. It did not do so in 2011, presumably, because the package was formally agreed too late to incorporate it into the necessary request for budgetary authorization and appropriation. It did not do so in 2012, presumably, because it did not want the package to become embroiled in US presidential election-year and budgetary politics. It took three years before a sufficient number of countries approved the 2008 IMF package, and two years for approval of the much-more-urgent 2009 agreement increasing the size of the NAB. Therefore, it was not clear, in advance, that by the November 2012 target date sufficient approvals would have been forthcoming from other countries to make US approval the stumbling block for implementation of the Seoul package as scheduled.[13] The administration also had asked for a heavy agenda of capital increases for the multilateral development banks in 2012, which it gener-

11. One should not be surprised that a larger number of countries have consented to their quota increases than have approved the amendment. Once the entire package is approved, those countries that have consented to their quota increases will have larger quotas immediately, but the quota increases for those countries that have not given their consent will be unchanged until the necessary consents are received.

12. IMF quota shares, of which the United States has 17.69 percent, determine 94.5 percent of a country's share of total votes, and the remaining 5.5 percent comes from basic votes, of which the United States has 0.53 percent as one of 188 members of the IMF.

13. In the event, by the end of September 2012 the IMF had received enough acceptances of the amendment and consents to quota increases that the 2010 Seoul package could have become effective if the United States had also approved.

ally received. Finally, IMF involvement in the European debt crises was questioned by some in the US Congress; partly in response, several pieces of legislation were introduced into the previous session of the 112th Congress seeking to repeal the 2009 US financial commitments to the IMF, principally to the NAB.[14] Some press reports[15] distinguish between the US quota commitment to the IMF and the US NAB commitment to the IMF, arguing that the former is permanent and the latter is temporary. It is technically correct that the United States could give notice to other NAB participants and withdraw its commitment to the NAB, but that commitment has been permanently approved by the United States. It would take an act of the US Congress to reverse that commitment, which dates back to approval of US participation in the GAB in the early 1960s. Such an action would be regarded around the world as tantamount to the United States announcing its withdrawal of support for the IMF.

To date, the rest of the world has been remarkably tolerant of the US political calendar. However, given the status of approvals by other IMF members, that toleration is wearing thin. It is generally expected that the Obama administration will, therefore, seek the necessary congressional approvals at its earliest opportunity, for example, in connection with addressing the pressing US budgetary issues that are on the agenda of the 113th Congress.[16]

On the surface, the required legislation is quite simple. The US Congress must authorize a reallocation of a portion of current US commitment to the IMF from the NAB to the US quota—formally an increase in the US quota and a reduction in the US commitment to the NAB. Not one additional dime is to be authorized. The total US financial commitment to the IMF would remain at about $170 billion via its IMF quota and its participation in the NAB.[17] The US quota commitment is currently about $63.5 billion; it would be doubled to $127.0 billion. The US NAB commitment is about $104.3 billion; it would be reduced to $40.8 billion.

Thus, the form of the US financial commitment to the IMF would change, but not the total size. The US quota in the IMF is analogous to a commitment to finance the equity base of the institution, while the NAB involves a commitment under certain circumstances to lend to the IMF, in effect taking on quasi-debt, which technically is senior to US quota claims on the IMF, if requested. However, as with all US lending to the IMF, the United States receives a liquid claim on the IMF of equal value. Is this switch in the form of the US commitment to the IMF a relevant consideration? The answer is yes. The switch in form would reinforce the core concept of the IMF as a quota-based institution.

However, in the US context, there is also a technical, financial argument that tends to obscure the basic reality that US quota and NAB commitments to the IMF are essentially the same and involve the same negligible risks to the US taxpayer. In connection with the 2009 IMF legislation, for the first time, the congress called for the $108 billion increase in the US financial commitments to the IMF (an $8 billion increase in the US quota and a $100 billion increase in the US commitment to the NAB) to be scored under the provisions of the 1990 Federal Credit Reform Act, despite the fact that the Administration insists that lending to the IMF is not a credit program (see US Government 2013, 930 and 932), with the subsidy amounts estimated on a present value basis using a market risk-adjusted discount rate. The Congressional Budget Office (CBO) obliged and put the cost of the total package at $5 billion, but the CBO did not disclose the basis for its scoring. I regard this oversight as a highly unfortunate failure of good government and lapse in transparency. The CBO merely issued a blog post (CBO 2009) that described its thought processes; the posting was silent on any of the numbers associated with the assumptions it had used. In that 2009 description, the CBO implied that it had scored a dollar of US commitment to the IMF via NAB at less than a dollar of US commitment to the IMF via quota; the risk on a dollar of quasi-debt was scored at less than the risk on a dollar of quasi-equity. In 2009, the CBO determined that the risk was between 4.5 and 7.0 cents on those dollars, but declined to inform the US taxpayer about the basis of its decision.[18] [19]

14. It is beyond the scope of this policy brief to opine whether the enactment of such legislation, which would have required a veto-proof majority given that the Obama administration proposed the 2009 legislation, would have led to, or implied, a withdrawal of US membership in the IMF, but its introduction certainly called into question both the US commitment to that institution and the likelihood of approval of new IMF-related legislation in 2012.

15. Howard Schneider, "White House Seeks New Money for the IMF," *Washington Post*, March 6, 2013, page A 13.

16. In preparation for congressional consideration of these issues, the Congressional Research Service released, on February 1, 2013, a useful background note (Nelson and Weiss 2013).

17. IMF financial commitments are expressed in terms of SDR, which has a fluctuating dollar value. The US quota is now SDR 42.1 billion and the US NAB commitment is SDR 69.1 billion. The dollar value of an SDR for March 6, $1.508753, is used in the calculations in the text. In addition the United States has a commitment of SDR 4.25 billion (about $6.4 billion) to the IMF's General Arrangement to Borrow (GAB), which is a subcomponent of the NAB commitment. The GAB was a precursor of the NAB involving lending to the IMF by 11 advanced countries; it can only be activated if NAB activation has not been approved by the required 85 percent of eligible contributions.

18. These estimates are based on the scoring of the 2009 legislation at $5 billion in budgetary outlays against $108 billion in financial commitments (an average of 4.6 cents on the dollar) and reports that using the same, unknown methodology the CBO would now score as less than $1 billion a switch of $64 billion from an NAB commitment to a quota commitment.

19. Some observers of US participation in the IMF also like to focus on the financial implications of US participation in the IMF in terms of net interest costs or changes in the valuation of US claims on the IMF. It is arguable

Therefore, it would appear that if the congress decides to follow the 2009 precedent literally, the shift in the US financial commitment to the IMF from the NAB to the US quota would be scored positively. In 2012, this approach would have meant that IMF legislation would have been caught up in the Washington pre-election debates about the US budget as well as debates about the role of the United States in the world. Now, the legislation has been caught up in the post-election US fiscal debates of 2013.

On its face, the congress and the CBO in 2009 made a flawed judgment in the way they applied the change in treatment of US financial commitments to the IMF. In the past, when the United States increased its financial commitments to the IMF, a drawing on that commitment by the IMF was treated as an exchange of assets of equal value and no risk to the US taxpayer. The United States gives up a dollar, and it gains a claim on the IMF worth a dollar.

In principle, the congress and the CBO could have scored the increases in US contributions to the IMF approved in 2009 effectively in the same manner by deciding that there was zero present value or additional market risk to the US taxpayer. In evaluating the risk involved in US financial commitments to the IMF a number of considerations are often incompletely recognized and appreciated. First, drawings on the US quota or NAB commitments are by the IMF itself; the resulting US claims are on the IMF as a whole, not on any individual borrower from the IMF. Second, the IMF has senior creditor status, and its members have acted to ensure that the IMF has always been repaid. Third, nevertheless, the IMF has set up precautionary balances (reserves) of about $16 billion. In addition, and quantitatively more important, the IMF holds 90.5 million ounces of gold worth about $135 billion at the current market price, and about $130 billion net of its historical cost. In comparison, outstanding IMF credit, as of February 28, 2013, was about the same amount, $137 billion. As of the same date, the IMF also had undisbursed commitments of $167 billion, but they are primarily commitments under the flexible credit line, which have a very low probability of being drawn.

One difference between a commitment to the IMF via quota and a commitment via the NAB is that the United States can be called upon for the former by a simple majority (weighted) vote of the IMF executive board, and it can only be called upon for the latter by an 85 percent (weighted) vote of participants in the NAB. Because the United States has an 18.7 percent voting share of the NAB, it must agree to an activation of the NAB (and probable IMF drawings on the US commitment to the NAB), for up to a six month period, for one or more IMF loans to other counties. The drawings are not necessarily linked to programs for specific countries.

This is a weak and dangerous argument to employ against US approval of the 2010 Seoul package. The IMF operates by consensus in almost all its decisions including its lending decisions. In addition, the IMF was designed as a quota-based institution. Quota resources are analogous to equity in they are provided proportionately by each IMF member and those proportions are used in making decisions on the use of those resources. IMF use of borrowed resources involves a second layer of rules, which tends to undermine the basic governance structure of the institution. Today, quota resources make up only about 40 percent of total potential resources, which is an overestimate because, at any point in time, some members' quotas are not usable to finance IMF borrowing. Under the 2010 Seoul package, the quota share would rise to about 75 percent.[20] I am aware of only one case in which NAB or GAB participants declined to finance an IMF program; that was for Italy in the mid-1970s. The result was that the IMF staff and management renegotiated the program, and GAB activation was subsequently approved. If this precedent was drawn upon in the NAB, and the United States alone was to block activation of the NAB, contrary to the Italian case, when 39 of the other 40 participants had agreed, there would be an IMF governance crisis.[21]

With respect to governance arrangements more broadly, in my personal view after four decades of observation, US officials and politicians tend to exaggerate the importance of the size of the US voting position in the IMF, which will remain

whether such calculations are relevant, as we do not make them for other programs. Nevertheless, for the past dozen years or so, the US Treasury has posted on its website (http://www.treasury.gov/resource-center/international/int-monetary-fund/Pages/imf.aspx) reports to the congress on this topic. An inspection of those reports over the past 10 fiscal years ending in 2012 reveals that, with respect to IMF lending operations, the United States was a net positive recipient of income from the IMF in seven years; interest income exceeded the average cost of funds to the Treasury. However, the total was less than $400 million. Over this same period, the value of the associated US claims on the IMF increased by $2.4 billion. Similar calculations can be made with respect to US holdings of SDR; over the same period, the United States was a net positive recipient of income in six years, for a total of $25 million, and the dollar value of our SDR holdings increased by about $650 million. This is all pretty small change whatever one thinks of the basic concern.

20. These calculations do not include the roughly $450 billion in additional ad hoc, bilateral borrowing that IMF managing director Christine Lagarde lined up during 2012. Those potential, additional, borrowed resources would be supplemental to NAB resources which are supplemental to quota resources though now being used. The United States did not participate in this potential ad hoc supplementary financing, which would have required approval by the US Congress. That is a point of contention and criticism from some other members of the IMF.

21. In the Italian case, no vote was taken initially. The broad consensus among GAB participants was that the Italian program needed strengthening.

unchanged under the 2010 Seoul package.[22] In this respect, the United States is no way different from any other member of the IMF in not welcoming a reduction in its relative status. Today, with its current 16.75 percent voting share, the United States can block some IMF decisions, as in the case of the 2010 Seoul package. Those generally involve important governance issues, such as changes in the IMF articles and IMF quotas.

On the other hand, the United States must be judicious in its use of its ability to block such IMF changes. This is one reason why it is in the United States' interest to enact the 2010 Seoul package, which the United States principally crafted, has been widely agreed, and only awaits final US action. If the United States were to stand alone and effectively block governance changes in the IMF, because of a failure of the executive and the congressional branches to get on the same page, US global economic and financial leadership and influence would be reduced on IMF governance issues as well as other policy issues in the IMF, such as policies on exchange rates and capital flows, that do not involve supermajority votes.

For the record, I do not favor a substantial reduction in the US voting share in the IMF at this time. However, I can see the day, in 10 or 20 years, when this would be appropriate. But I would not favor such a reduction until the voting share of the European Union, which now has almost two times the voting share of the United States, was also reduced below 15 percent. Nevertheless, the United States should prepare itself for this reality.

To enlarge the 2010 Seoul governance reform package, the United States did constructively use the size of its vote to force a governance change. As noted earlier, the United States declined to approve the continuation of a 24-seat executive board, rather than a 15-seat board, until the advanced European members agreed to give up two of their seats. This was an instance where US leadership forced change rather than blocked change, but the United States had the enthusiastic support of many other members. Moreover, that important US leadership initiative will not take effect until or unless the US Congress approves the relevant pieces of the 2010 Seoul package.

The crucial point is that the United States wields substantial influence in the IMF. That influence reflects only to a minor degree its capacity to block certain IMF decisions. More importantly, US influence reflects constructive US initiatives over the decades to promote the evolution of the IMF, including in its governance. A failure to enact the 2010 Seoul package would undercut that component of US influence in the IMF by blocking the governance reforms that are part of the Seoul package.

The governance reforms in the Seoul package did include a commitment of the advanced European countries to reduce their representation on the executive board by two seats, which was on the agenda set by the G-20 leaders in Pittsburgh. The package also achieved the objective set by the G-20 leaders in Pittsburgh of an increase in the quota share of the dynamic emerging market and developing countries of 5 percentage points and similar increase in the share of underrepresented countries. The quota shares of these groupings of countries were increased 6.0 and 5.7 percentage points respectively.[23] In the process the package produced a shift of 2.8 percentage points in the combined quota share of the advanced countries (as defined in this context) to the emerging market and developing countries while protecting the quota share of low-income members of the IMF.[24] See table 1. Moreover, under the new alignment, China would have the third largest IMF quota and voting share, after the United States and Japan, and India and Brazil would join eight other countries with the top 10 quota and voting shares.[25] This is progress.

However, under the Seoul package, the combined quota share of the EU countries, which are widely seen outside of Europe as being overrepresented in the IMF, would decline only 1.6 percentage points.[26] See table 1. It is also important to understanding the narrative of ongoing IMF governance reform to note that these headline results were achieved in 2010 via substantial nontransparent contortions. First, the 2008 quota formula was used to distribute only 60 percent of the overall increase in quotas via a selective increase in quotas based on the calculated quota shares generated by that formula. The remaining 40 percent of the increase was assembled using ad hoc adjustments involving eight separate elements and three footnotes to those elements (IMF 2010b, 4–5). Second, the definition of underrepresented countries and dynamic countries was based on their shares of PPP-based GDP; in effect, the process gave greater weight to this variable than the 20 percent weight assigned to it in the 2008 quota formula: 50 percent of 40 percent; see box 1.

22. The US voting share in the IMF would decline slightly to 16.48 percent once the 2010 Seoul package is fully approved and implemented, but, for those who worry about such issues, the US voting share will remain above 15 percent. See table 1.

23. The associated increases in their voting shares are 5.7 and 5.4 percentage points respectively.

24. The shift in voting share was slightly smaller, 2.6 percentage points.

25. India would move into eighth place and Brazil would move into 10th place. The other countries with shares in top 10 are Germany (4), France and the United Kingdom (tied at 5), Italy (7), and Russia (9). Saudi Arabia and Canada dropped out of this group.

26. The decline in their voting share would be 1.5 percentage points.

The contortions employed to reach agreement on the 2010 Seoul package of quota adjustments and the associated dissatisfaction with the 2008 quota formula led to incorporating into that package two additional elements. First was a commitment to complete a fresh review of the quota formula by January 2013, constrained by previous decisions, of course. The second was to accelerate the completion of the 15th general review of quotas, based presumably on a revised quota formula, from January 2016 to January 2014. The purpose of these two elements in the package was to placate dissatisfaction with the 2010 Seoul package and to set the stage for further reform of IMF governance via adjustment of quota and voting shares.

Thus, the 2010 Seoul IMF governance reform package was an important step forward. It is in the United States' interest to complete its implementation as soon as possible. Moreover, implementation of the 2010 Seoul package is a necessary but not sufficient condition for making further progress on IMF governance reform, which is the topic of the second part of this policy brief.

FURTHER PROGRESS ON IMF GOVERNANCE REFORM

As instructed, the IMF executive board formally completed its review of the IMF quota formula and issued a report on January 30, 2013 (IMF 2013). The executive board reported "Important progress has been made in identifying key elements that could form the basis for final agreement on a new quota formula." That is a substantial overstatement.

After considerable prodding, the officials involved were forced to confront a significant amount of technical material—more so than was the case with the 2008 revision of the quota formula. The G-24 secretariat deserves a share of the credit for its role in the prodding as well as for its own technical contributions. When the end of January 2013 arrived, no changes in the quota formula could be agreed. Officials and their representatives on the IMF executive board retreated to their former positions, and the executive directors' report (IMF 2013, 1) concluded, "It was agreed that achieving broad consensus on a new quota formula will best be done in the context of the 15th Review rather than on a stand-alone basis. Thus, the discussions on this issue will be integrated and move in parallel with the discussion on the 15th Review."

Few observers were surprised by this non-result. The unfortunate reality is that the IMF quota formula, viewed from the narrow perspective of individual member countries, is a zero-sum exercise. No technician, executive director, deputy, finance minister, or head of government can expect to be congratulated at home for giving up any of the IMF quota share of her or his country, in particular when the underlying data are expected to change before those implications can be discerned.[27]

The discussions of the quota formula will continue in tandem with discussions about the size and distribution of any increase in IMF quotas as part of the 15th review, which is scheduled to be completed by January 2014.

Successful reform of the IMF quota formula must point in the right direction.

Successful reform of the IMF quota formula must point in the right direction. My personal test of success is simple: The share of the EU members as a group, as calculated by the quota formula, calculated quotas in the parlance of the IMF, must be reduced substantially and distributed to other members, primarily, but not exclusively, to emerging market and developing countries. The major focus should be economic weight, relative positions in the global economy, using GDP as the principal metric.

The IMF executive directors' report stated that they agreed "GDP should remain the most important variable, with the largest weight in the formula and scope to further increase its weight. GDP generally is seen as the most comprehensive measure of economic size" (IMF 2013, 2–3). The stumbling blocks are lack of agreement on (a) the relative weight of GDP at market prices and exchange rates and PPP-based GDP, (b) whether the weight of any GDP variable should be increased, (c) what variables other than GDP should be included in the formula, and (d) how the variables should be constructed. In other words, everything is agreed and nothing is agreed.

However, GDP is a useful starting point for analysis. Based on 2008–10 data, the EU share in global GDP at market prices and exchange rates was 28.3 percent, and 21.1 on a PPP-basis, for a blended share of 25.3 percent, all substantially lower than the actual combined EU quota share of 30.2 percent, which is lower than its even higher calculated quota share of 30.9 percent, using the current quota formula. See table 2. By comparison, the US GDP shares are 23.5 percent and 19.9 percent, respectively, for a blended GDP share of 22.2 percent, substantially above the US actual and calculated quota shares of 17.4 percent and 15.8 percent, respectively. By the GDP metric, the 2008 quota formula points in the wrong direction and discriminates

27. The quota formula discussions during 2012 were conducted on the basis of data for 2008–2010; those data will be updated to 2011 by the middle of 2013 in time for the proposed final negotiations.

Table 2 Shares of quotas and data for the IMF quota formula
(percent)

	Advanced countries	Emerging market and developing countries	United States	European Union	Low-income countries[1]
Actual quota	57.6	42.4	17.4	30.2	4.0
Calculated quota[2]	56.1	43.9	15.8	30.9	2.7
Blend GDP (60:40)[3]	58.2	41.8	22.2	25.3	2.2
Blend GDP (40:60)[4]	55.2	44.8	21.5	23.7	2.5
Openness	62.2	37.8	13.1	41.1	2.1
Variability	57.9	42.1	15.5	34.7	2.6
Scaled variability[5]	9.0	91.0	0.1	9.2	49.0
Reserves	23.9	76.1	1.6	8.1	2.1
Population[6]	13.3	86.7	4.5	7.2	19.4

1. Eligible for the Poverty Reduction and Growth Trust.
2. Calculated based on 2008 quota formula and data for 2008–10.
3. Sixty percent weight on GDP at current market prices and exchange rates and 40 percent weight on GDP on a purchasing-power-parity basis.
4. Forty percent weight on GDP at current market prices and exchange rates and 60 percent weight on GDP on a purchasing-power-parity basis.
5. Variability scaled by 60-40 blend GDP.
6. 2012 estimates.

Sources: IMF 2012a and G-24 2012 and 2013.

in favor of European members as a group in the sense that their actual quota share exceeds their GDP share and their calculated quota share, based on the 2008–10 data, suggests that their share should be raised, contrary to the intuition of most non-European members of the IMF.

In light of the euro area debt crisis, in particular, and until and unless the combined calculated quota share for the European Union is clearly on a trend to become commensurate with that for the United States, it will be difficult for anyone in the United States to testify in connection with future IMF governance reform legislation that the IMF quota formula is appropriate for the redistribution of quota and voting shares in the IMF. The challenge for the United States is that the Europeans are hiding behind US non-approval of the 2010 Seoul package and preventing substantive engagement on reform of the flawed 2008 quota formula.

Two additional points with respect to the GDP variable in the quota formula: First, as projected in the October 2012 IMF *World Economic Outlook* (WEO) *Database* (IMF 2012d), in 2017 the share in global GDP of the European Union, on either basis, will be less than that of the United States and the share of the euro area will be one-third less. Second, voting power includes basic votes. Thus, even if the European Union had a quota share that was commensurate with the US quota share, its voting share would be larger by about 75 basis points.

Although GDP is the best overall metric for relative weights of IMF members in the world economy, the variable as currently constructed, with a 60 percent weight on GDP at current market prices and exchange rates and a 40 percent weight on PPP-based GDP, does not contribute to redressing the perceived imbalance in quota shares between advanced and emerging market and developing countries. Based on the 2008–10 data, the combined quota share of the advanced countries in the current GDP variable is 58.2 percent compared with their current quota share of 57.6 percent. Thus, the comparable shares for the emerging market and developing countries are 41.8 and 42.4 percent; their GDP share is less than their current combined quota share. See table 2.

It is sensible to include GDP on a PPP basis in the quota formula to better reflect the actual economic weight of the less-advanced countries. Inclusion of PPP-based GDP in the formula respects the fact that the traditional measure of GDP based on current market prices and exchange rates undervalues and underprices output in developing countries. Once the bridge has been crossed to include PPP-based GDP in the formula, the question is what should be the relative weights on the two concepts. Ignorance, or lack of a criterion, suggests 50:50 weights. A bias toward advanced countries suggests the current 60:40, with a higher weight on the traditional GDP measure. Increasing the weight on PPP-based GDP in the GDP variable to 60 percent from the current 40 percent would boost the blended GDP share of the emerging market and developing countries to 44.8 percent. This shift would at least point the formula in the right direction in terms of perceived fairness. The GDP share for the advanced countries would be less than the actual and calculated quota shares, and the same relationship holds for the EU shares. See table 2.

The 2008 quota formula points in the wrong direction and discriminates in favor of European members as a group.

However going much beyond a 40:60 weighting is difficult to justify. The argument that an even higher weight should be placed on PPP-based GDP, because this would benefit so-called dynamic emerging market and developing countries, which are growing faster, is fundamentally flawed.

First, a check of the facts reveals that in 20 of the past 24 years since 1988, and in every year since 1999, the emerging market and developing countries as a group have grown more rapidly than the advanced countries as a group. That is what convergence is all about. Convergence should be applauded, but it should not be rewarded in advance. Nor should one generalize from what is true for emerging market and developing countries as a group to the treatment of each individual emerging market or developing country.

Second, as a matter of logic, the more rapidly a country grows, the faster it will converge to the point where there is little difference between the two measures of its GDP.

The fundamental reason why actual and calculated quota shares of the advanced countries as a group, and the EU members as a group, exceed their shares of the current GDP variable is that the formula includes what is described as an openness variable. The IMF executive directors' report (IMF 2013, 3) states, "It was agreed that openness should continue to play an important role in the formula, and concerns regarding this variable need to be thoroughly examined and addressed." This is a conclusion based on stalemate and the status quo. It is not based on defensible, underlying reasoning.

The principal concern about the openness variable as currently constructed is the assertion in the next sentence of the report, "Openness seeks to capture members' integration into the world economy." The openness variable, as currently constructed, fails this test principally because it only measures each country's share of world trade.[28] In the analytical framework employed by Ralph Bryant (2010), the current variable is expressed as a level share, shares of the total of all countries' trade. But those trade shares do not tell us what happens to a country's GDP when its trade rises or falls. That would be captured by the ratio of a country's trade to its GDP, the economists' traditional measure of openness and an economy's integration into the global economy. The primary effect of the misspecification of the current openness variable is that it tends to favor large countries in terms of their GDP shares. In a regression of trade shares on GDP shares and other variables, GDP shares emerge as the principal determinant (G-24 2012). Integration of countries in the global economy, and the associated increase in economic vulnerability, should be measured in terms of ratio shares, for example, trade scaled by GDP, in order to capture the effect of changes in their trade on their GDP.

It is clear why the current openness variable is favored by many countries, in particular by European countries, following 60 years of economic integration in Europe: It boosts their quota shares relative to their GDP shares even though the variable as currently constructed is flawed and has no economic or financial content. In a regression of trade shares on GDP shares and other variables, the most powerful other variable after GDP is whether the country is located in Europe (G-24 2012). But the underlying arithmetic is more challenging to achieving consensus on the current openness share: For more than 55 percent of the 35 countries with the largest current quota shares, which represented 83 percent of total quotas, their shares of the current, flawed openness variable exceeds their quota share and their GDP-blend share. Moreover, for 61 percent of the 105 countries with the largest quota shares, their shares of the current, flawed openness variable exceeds their GDP-blend share. Where a country stands depends on where it stacks up! Thus, the Europeans have a lot of co-conspirators even though they are the worst offenders: The combined EU share of the currently constructed openness variable is 41.1 percent, compared with their 25.3 percent share of the GDP-blend variable. See table 2.

Unless the current deficiencies of the openness variable can be addressed, the variable should be dropped from the formula. If the variable is to be retained, adjustments should be made in addition to measuring current payments and receipts relative to GDP. An adjustment for intra-EU trade could be introduced, but such an adjustment would be somewhat arbitrary and not go far enough to correct the underlying bias.

Trade should be measured net, in value added terms, rather than gross, as Richard N. Cooper and I argued several years ago (Cooper and Truman 2007). The basic reason is that trade is a gross value concept and GDP is a value added concept; the more complicated the supply chains, the larger is the distortion introduced by measuring trade on a gross basis.

28. The current variable includes merchandise and services trade, transfers, and investment income. But goods and services trade dominates the variable for most countries.

The IMF staff finally was forced to look seriously at this issue. Unfortunately, the IMF staff reached the wrong conclusion (IMF 2012b, 30): "it is not feasible at this stage to provide a robust adjustment of the openness measure for value added." The IMF staff conclusion appears to have been driven by a strong prior, whose origins are beyond the scope of this policy brief.

On the export side, adjustment factors have been computed for almost half of IMF members, including 88 percent of the 26 advanced countries, which is where most of the relevant distortions lie. The extensive research on this issue demonstrates that the ratio of value added in exports to gross value ranges from close to 90 percent (Norway) to less than 50 percent (Belgium), and the range of results among emerging market and developing countries is even wider. In addition, the adjustment factors do not change substantially over time. This extensive research suggests that countries for which studies have not been made, or are less recent, can be slotted with comparable countries. Moreover, methods have been developed to extend the adjustments to the import side. One should be prepared to live with the fact that the adjustments have been computed only for trade flows and not for other current account transactions, where the concept of valued added is much murkier.

A more balanced conclusion by the IMF staff would have been that the analysis clearly demonstrates that an adjustment from gross to net can and should be made to a reasonable approximation. The argument that resulting data would be any less perfect than those currently used for other quota variables is spurious; the data used to construct other variables are not subjected to international audits, and we know, in any case, that sampling, a form of estimation, generates more accurate results than universal censuses.

It might be necessary to constrain the corrected and revised openness variable's contribution to the quota formula because ratio-share variables can vary over a larger range than level-share variables. Such a constraint should not be opposed. Recent discussions of the quota formula have focused excessively on keeping the quota formula simple. Transparency and accountability are more important than ignorance and simplicity. Moreover, the 2008 quota formula already sacrificed the principle of simplicity by adopting a compression factor—see below.

With respect to the other variables in the 2008 quota formula, the IMF executive directors' report reveals more about their collective muddled thinking, driven by the narrow interests of each executive director, than about their pursuit of first principles in the broader interest of increasing the perceived legitimacy and credibility of the IMF as an institution. The three other variables are variability, reserves, and the compression factor.

On variability, the executive directors' report says "There was considerable support for dropping variability from the formula" (IMF 2013, 3). The principal reason why the executive directors reached this tentative conclusion is that, again, the variable has been specified in level-share terms, when it should be specified in ratio-share terms, relative to GDP. In level-share terms, the variable does not add much to distinguish among groups of countries; see table 2. As described in IMF (2000) and Truman (2006a), this variable is intended to capture the vulnerability of countries to external shocks and their potential need to draw on the IMF for external financial support. Currently it does not do so.

The IMF staff has researched this issue (IMF 2012b and 2012c).[29] Their conclusion is that there is little or no correlation between any of a number of variables trying to capture a link between variability and the actual use of IMF financial resources. One could question whether the correct dependent variable is the actual use of IMF resources via a program or it should be a more sophisticated construction of external pressures. One could also question whether using in the statistical tests an independent variable in the form of the difference between a country's level-share of world GDP and its level-share of the global total of the current variability measure is fully informative, compared with a proper ratio-share variable.

On the last point, we know that the combined advanced-country share of variability as it is currently measured, as level-share variable, is 57.9 percent, but that group's share of variability scaled by GDP, as a ratio share variable, is 9.0 percent. See table 2. We also know that the share of the European Union declines from 34.7 percent to 9.2 percent in the ratio-share formulation, and the combined share of low-income members rises from 2.6 percent to 49.0 percent. There must be something here, but the IMF staff has been unable to find it. A variability variable properly measured, for example variability scaled by GDP, would add a useful dimension to the quota formula. Again, introducing a ratio-share variable into the quota formula would complicate the formula, and the influence of the variable might have to be constrained, but that should not exclude the inclusion a variable in this form. In summary, as with the openness variable, the treatment of this variable by the IMF staff and executive directors has been disappointing.

29. This observer finds it curious that there has not been a similar in depth exploration of the rationale for including the openness variable, as currently measured, in the formula.

With respect to reserves, the executive directors' report says "There was considerable support for retaining reserves with its current weight" (IMF 2013, 3). One can reasonably argue that including a variable with a weight of only 5 percent has limited influence on the formula. However, the distribution of reserves is highly skewed today, and many believe that the accumulation of large holdings by a few countries has distorted the international monetary system. See table 2. The combined share of this variable by the Asian emerging market and developing countries is 44.5 percent.

The United States must be in a position to lead the further evolution of IMF governance, as it has for more than a decade.

With respect to compression, as noted above, the inclusion of this factor in the quota formula already introduces a non-linearity, sacrificing simplicity. The counter argument is that it preserves the order of countries relative to a formula without the compression factor, which may or may not be a virtue. The argument for the compression factor is that it helps to moderate the influence of size in the quota formula, implicitly favoring small countries which are thought to be the poorer countries. It is not clear why size should be regarded as bad. But setting that question aside, the dirty little secret is that the compression factor does not particularly benefit poorer countries. The European Union as a group benefits almost as much from the effects of the compression factor as do the low-income members of the IMF. Five percentage points of compression, from 0.95 to 0.90, boosts the combined calculated quota share of the European Union by 0.48 percentage points and the combined share of low income members by 0.55 percentage points (G-24 2013). In effect, the compression factor redistributes quota share from Germany, France, and the United Kingdom, but also from the United States, Japan, and China, to other members of the European Union.

With respect to the low-income member countries that have been singled out in the quota formula discussions, it should be recognized that they have 19 percent of basic votes. Their total voting share is 4.5 percent; see table 1. Their current (post-Seoul) quota share is about 4 percent, but their calculated quota share is 2.7; see table 2. It is illogical to distort the quota formula merely to preserve, say, 20 percent of that collective voting share, spread among 36 countries, which would be an average of 0.027 percentage points. Moreover, if the collective voting share of this group is protected, with a reallocation of quota shares within the group in favor of the faster growing members of the group relative to the slower growing countries, slow growing members of the IMF that are not included among the low-income countries also are protected, adding a further distortion.

More broadly, it is troubling to endorse the line of reasoning that the quota formula should be permanently distorted in order to protect the current quota shares of members that, as a group, currently are poorer. The quota formula should be applied uniformly as the basis for guiding quota adjustments for all members. If a variable is added to the formula, its addition should be justified on the basis that it is the right variable for all members, not because its inclusion or formulation favors a subset of members. Thus, for reasons that Ralph Bryant (2010) has articulated eloquently, it is reasonable to consider adding population to the quota formula and, thereby, to the voting structure of the IMF. The voting structure now includes votes for each country. Democratic principles suggest there should be some weight for each person in each country. Adding population to the quota formula should be considered, but not because doing so would boost the calculated quota shares of a subset of members even though in fact it would boost the quota and voting shares of low-income members. See table 2.

Of course, where the representatives of a country stand on these matters depends on the circumstances of the country. The challenge is to achieve balance between the interests of the country and those of the institution as a whole. In the interests of the IMF as an institution, every quota review should not be preceded by a reexamination of the quota formula, as has been the case with the current and the previous three rounds. It would be nice to fix the formula for the next 20 years.

But sensible revision of the quota formula should not be allowed to be held hostage by those who are resisting any change in the status quo, in particular by European countries. Essentially no progress has been made over the past 18 months, and they deserve the credit.

Over the next 10 months, IMF governance reform will focus on the quota formula because that is essential to completing a successful 15th general review of quotas by the target date of January 2014. A successful 15th general review will further realign IMF governance with economic reality.

The United States must be in a position to lead the further evolution of IMF governance, as it has for more than a decade. The United States will not be in a position to do so until and unless the US government acts to implement the 2010 IMF governance reform package agreed in Seoul. Thus, enactment of the pending IMF legislation is in the short-run and long-run interests of the United States.

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