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IMF Reform Is Waiting on the United States

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The vital role played by the International Monetary Fund (IMF) in stabilizing the world economy and financial system is in serious jeopardy. The failure in mid-January by the US Congress to approve IMF reform legislation that had been pending for more than three years did not simply bring to a screeching halt a decade of slow progress reforming the governance of the Fund to make it more representative, legitimate, and therefore effective. Congress's balking on this issue also did substantial, actual damage to the US reputation around the world, as the leaders of many countries called into question Washington's ability to deliver on promises made in international economic agreements.

The US administration deserves much of this criticism. As the principal architect of the Seoul IMF reform package, the Obama administration failed as the general contractor to implement the project on time. The reasons for this failure include the acid political climate in Washington, but the administration also should be faulted for delaying submitting the necessary legislation to the US Congress, for inadequately explaining the importance of the IMF reform package to Congress and the general public, and for not adequately reaching out to Republicans in Congress for their support on what historically has been a bipartisan and nonpartisan topic. The US administration has proposed to redress the previous failure to enact the IMF quota and governance reform legislation by incorporating it in legislation before the US Congress providing $1 billion in loan guarantees for Ukraine.[1] The IMF provision is expected to be included in the Ukraine legislation before the Senate, but some in the House of Representative leadership have said they oppose its attachment to that measure.

If the IMF is to continue to function for the benefit of strong and troubled countries alike, the administration and the Congress must make every effort to pass this legislation before the early-April meeting of the International Monetary and Financial Committee (IMFC), the key, de facto decision-making body of the IMF.[2]

The IMF governance reform legislation is designed to 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. Indeed, as previously discussed in Truman (2013a), the main issue before the US Congress is not funding the IMF but steps to ensure that the institution is credible in the eyes of all regions and countries of the world. President Obama's commitment to support a change in the governing structure of the Fund, made at the G-20 summit meeting in Seoul in November 2010, was decisive in producing the proposed reform package. US formal approval is the only thing standing in the way of its implementation. The administration needs to redouble its efforts to forge a bipartisan approach with the Republican leadership. This time the US authorities must get the job done.

1. Secretary of the Treasury Jacob Lew said "We are working with Congress to approve the 2010 IMF quota legislation, which would support the IMF's capacity to lend additional resources to Ukraine, while also helping to preserve US leadership within this important institution." US Treasury Department, Office of Public Affairs, "Statement of Secretary Lew on Economic Assistance to Ukraine," press release, March 4, 2014. Available at http://www.treasury.gov/press-center/press-releases/Pages/jl2304.aspx (accessed March 4, 2014).

2. The administration signaled prior to the March 4, 2014 announcement about assistance to Ukraine that it was looking for a vehicle for the Congress to approve the IMF legislation prior to the April meeting of the IMFC. In addition, the administration included the IMF legislation in the fiscal year 2015 budget sent to the Congress on March 4.

The IMF reform legislation is essential to US interests for three main reasons:

First, the IMF is the principal institution of international cooperation on economic and financial issues. As such, the Fund is a dynamic institution whose evolution must be constantly nurtured.

Second, the United States for seven decades has leveraged the IMF and its role in the IMF to promote its international economic, financial, and national security interests. The IMF's role in promoting global economic and financial stability and, thus, enhancing the growth prospects of the US economy is obvious. Less obvious to some is its role in promoting US national security interests, for example, in Korea in 1997–98, in Ukraine today, and potentially in Egypt and other countries where US interests are at stake.

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Third, as the principal founder of the IMF and its largest shareholder, the United States has led the Fund through the many transitions of the global economy and financial system since 1944, including during the global financial crisis of 2008–09 and more recently in the European sovereign debt crises. In 2009–10, the United States was the principal proponent of further evolutionary reform of the Fund. That package still awaits US congressional approval before it can go into effect.

This Policy Brief will outline the Seoul IMF reform package, provide some background to that package of reforms, and discuss and rebut some of the objections to passing the legislation, many of which are based on incorrect information, misperceptions about the IMF, or out of date.

THE SEOUL IMF REFORM PACKAGE

The 2010 Seoul package of IMF quota and governance reforms has three major elements:

(1) Doubling IMF quotas, with a corresponding reduction in the size of commitments to the New Arrangements to Borrow (NAB) for some countries, principally the United States, and a reallocation of quota and voting shares in the IMF (see "proposed" columns in table 1).[3] The NAB-quota switch will increase total quotas plus NAB resources potentially available to the IMF by only a small amount, about SDR [special drawing rights] 50 billion, or $78 billion, 8 percent of the current total of about $936.5 billion. Because some members' quota subscriptions are not usable in lending operations, the de facto increase in IMF financial resources will be even smaller. Thus, the IMF reform legislation is not about providing additional financial resources to the IMF; it is about reforming its governance by redistributing voting power.

(2) An amendment to the IMF Articles of Agreement to provide an all-elected executive board. Currently, the five IMF members with the largest quotas are entitled to appoint an executive director: the United States, Japan, Germany, France, and the United Kingdom. Nineteen persons are elected every two years to fill the remaining seats. The voting power of China, Russia, and Saudi Arabia is sufficient to allow each of those countries to elect their own executive directors. The remaining 16 seats are formally contested, but the outcome is normally pre-negotiated.

(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 by two seats.[4] 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. Without US approval, the size of the board would have reverted to 20 seats.

The policy implications of the last two elements are linked. The aim is to reduce and consolidate European representation on the IMF executive board progressively over time. If all executive directors are elected, in contrast with the current situation in which three European executive directors are appointed, because of the size of the quota shares of Germany, France, and the United Kingdom, then it is easier to consolidate European representation in the future. The US executive director would be elected by the United States IMF Governor, the Secretary of the US Treasury, with the advice and consent of the Senate rather than appointed, but because

3. The NAB is a set of credit arrangements between the IMF and potentially 40 other member countries and their entities. The total of all IMF credit arrangements is SDR [special drawing rights] 370 billion, about $570 billion. The SDR is an international reserve asset, first created by the IMF in 1969 to supplement its member countries' official reserves. It is used to denominate IMF accounts. The SDR's value is based on a basket of four major currencies (the euro, Japanese yen, pound sterling, and US dollar). On February 21, 2014, one SDR was worth $1.54.

4. In the past, the number of seats occupied by representatives of the advanced European countries has varied between eight and nine, because some advanced European countries may rotate occupying the chair with other countries, for example, Spain in the constituency with Mexico, Colombia, and Venezuela. Ireland is part of the constituency led by Canada. Canada normally appoints someone from Ireland as an alternate executive director, but a representative of Ireland has never been elected as an executive director.

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

	Voting shares			Quota shares			
Country group or country	**Pre-Singapore 2006[a]**	**Current**	**Proposed**	**Pre-Singapore 2006[a]**	**Current**	**Proposed**	**Blend GDP[b]**
Advanced	60.6	57.9	55.3	61.6	60.5	57.7	56.6
United States	17.0	16.7	16.5	17.4	17.7	17.4	21.6
European Union	32.5	30.9	29.4	32.9	31.9	30.3	24.1
Emerging market and developing	39.4	42.1	44.7	38.4	39.5	42.3	43.4
BRICS[c]	9.8	11.0	14.3	10.0	11.5	14.8	21.8
Low-income[d]	4.0	4.5	4.5	3.5	3.2	3.2	2.3

a. Before the ad hoc adjustments in quotas agreed in Singapore in 2006.
b. Concept used in the quota formula: 60 percent GDP converted at market rates and 40 GDP at purchasing power parity (PPP) exchange rates. Three-year average through 2011.
c. Brazil, Russia, India, China, and South Africa.
d. Eligible for borrowing from the Poverty Reduction and Growth Trust adjusted by the prevailing International Development Association (IDA) cut-off.

Sources: IMF 2010b and 2013.

of the size of the US quota the US executive director could only represent the United States.

The G-20 leaders agreed 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.

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, they also agreed, as an integral part of the Seoul IMF reform package, to revisit the formula used to guide quota allocations, which had been revised in 2008, with a view to reaching agreement on a further revision by January 2013. They also agreed to complete the 15th general review of IMF quotas one year earlier than scheduled, in January 2014 instead of January 2015. As a technical matter, the review of the quota formula was completed on January 30, 2013, but it did not produce agreement on a revision to the 2008 quota formula. The target date for revising the formula was bumped forward to January 2014. The January 2014 deadline also was not met because the United States had not given its formal approval to the Seoul package of reforms. Further IMF governance reform is on hold.

BACKGROUND TO THE 2010 SEOUL PACKAGE

IMF governance reform has been a staple of international discussions for decades, and intensively for more than 15 years.[5] The United States has played a prominent role in pushing for responsible changes to make the voices and votes in the IMF to reflect better the changing international economic landscape. Progress has been significant. However, progress will remain halted until the United States implements the IMF reform package that was agreed by the G-20 leaders in Seoul in November 2010.

In the late 1990s, the United States, under the Clinton administration, pushed for the establishment of the NAB to bring more countries into a substantive role in financing the IMF. It also supported a modest adjustment in quota and voting shares as part of the 11th general review of quotas in 1998.

The Bush administration was the driving force behind a substantial reform of the IMF quota formula, agreed in March 2008, making the formula simpler and more transparent, and in using the new formula to produce a sizeable realignment in IMF quota and voting shares in the direction of dynamic emerging market and developing countries. This action built on a smaller adjustment in a few members' quotas agreed in Singapore in 2006. The 2008 agreement also involved a small increase in the US quota.

Following the intensification of the global financial crisis in the fall of 2008, the Obama administration mobilized the IMF and its resources. In addition to supporting a number of changes in IMF lending policies and procedures, the United States proposed, and the G-20 leaders in London in April 2009 endorsed, a $500 billion enlargement of the permanent IMF borrowing arrangements, the NAB, and a general $250 billion allocation of special drawing rights (SDR). In June 2009, the US Congress enacted the necessary legislation for the increase in the NAB, the 2008 increase in the US quota and accompanying redistribution quota and voting shares, and a smaller and long-delayed amendment of the IMF Articles of Agreement to permit a special $30 billion allocation of SDR. The 2009 general SDR allocation, which did not require congressional action, was implemented by September of that year. However,

5. See Truman 2013a for additional background.

the necessary approvals from other countries for the rest of the London package, and for the previously agreed 2008 reforms, were not received 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 governance, including the acceleration of the 14th general review of IMF quotas from January 2013 to January 2011. 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 voting power of Europe and Europe's representation on the IMF executive board.

The entry into force of the first item in the 2010 Seoul IMF reform 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) is 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 executive directors were generally replaced by executive directors from nonadvanced European countries. In several cases, the newly elected executive director, by pre-arrangement, also took advantage of a relaxed provision on increasing the number of alternate executive directors in each constituency to two and chose an individual from another advanced European country to occupy that slot.

As of February 25, 2014, 158 of the 188 members of the IMF with 78.7 percent of total votes had consented to the increases in their quotas, more than the required 70 percent. A total of 142 members had approved the amendment, more than the required 60 percent (113 members), but they represented only 76.1 percent of total votes, shy of the required 85 percent. 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. The US Congress could just approve the new amendment. 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 and voting 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 IMF via the NAB.

SUBSTANTIVE OBJECTIONS TO CONGRESSIONAL ACTION

On the surface, congressional passage of the IMF governance reform legislation looks like a no-brainer. No additional commitment of US funds to the IMF is involved. Similar reforms have been advocated by Republican and Democratic administrations and passed by the Congress in the past. Passage of the legislation would revive the tarnished US leadership role in the IMF.

What is holding up passage of the IMF reform legislation?

The required legislation is simple. The US Congress must approve the amendment to the IMF Articles of Agreement and 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 commitment and a reduction in the US commitment to the NAB. Not one additional dime in US funding of the IMF needs 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.[6] The US quota commitment is currently about $65 billion; it would be approximately doubled to $128 billion. The US NAB commitment is about $105 billion; it would be reduced to $42 billion.

Thus, the form of the US financial commitment to the IMF would change, but not its total size. The switch in form would reinforce the core concept of the IMF as a quota-based institution. The increase in the US quota facilitates significant adjustments in the quota and voting shares of other countries, while leaving the US shares essentially unchanged; see table 1. The 2010 Seoul package doubles the size of total IMF quotas. This is important for some countries under some circumstances, because an IMF member's quota is not only the principal determinant of a member's relative voting share but also is the metric used to scale a member's capacity to borrow from the IMF. For example, the IMF quota reforms would increase Ukraine's quota in the IMF from $2.1 billion to $3.1 billion, even though its quota share would decline from 0.576 percent to 0.422 percent; this would potentially allow Ukraine to borrow more from the IMF's Rapid Financing Instrument to which access is strictly limited by the size of a country's quota. The increase in Ukraine's IMF quota also would mean that the country would become potentially eligible to borrow up to 200 percent of its new quota from the IMF in one year, or $6.2 billion, rather than the $4.2 billion with its current program. Ukraine would also become potentially eligible to borrow up $18.6 billion (600 percent of is quota) over three years, rather

6. IMF financial commitments are expressed in terms of SDR, which has a fluctuating dollar value. See footnote 3. The US quota is now SDR 42.1 billion, and the US NAB commitment is SDR 69.1 billion.

than $12.6 billion, without triggering the IMF's controversial exceptional access policy, which is discussed below.

In contrast with a quota commitment to the IMF, US participation in the NAB involves a commitment under certain circumstances to lend to the IMF, which technically is senior to US quota claims on the IMF. However, in reality the US NAB commitment is no less permanent than its quota commitment. The NAB and the US commitment to the NAB have to be renewed every five years, and the Secretary of the Treasury is required to notify the Congress before renewing the US NAB commitment. However, the United States has renewed all such commitments to IMF borrowing arrangements since the early 1960s, and not to do so would amount to a US decision to withdraw from the IMF. Some argue that the United States has more control over the use of NAB resources because its 18.67 percent share puts it in a position to block activation of the NAB. However, this controversial power is more symbolic than real. Since the NAB's predecessor arrangement, the General Arrangements to Borrow, was established more than 50 years ago, the United States has never by itself blocked an activation or threatened to do.

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However, the proposed legislation does require an appropriation. 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 up to a $100 billion increase in the US commitment to the NAB) to be scored under the provisions of the 1990 Federal Credit Reform Act. The Congressional Budget Office (CBO) obliged and put the cost of the 2009 legislative package at $5 billion, but the CBO did not disclose the basis for its scoring. In the CBO's scoring of proposed 2014 legislation, it has not taken account of the reduction in the US NAB commitment. The CBO has declared that the increase in the US quota alone would require an appropriation of $315 million—a small price tag by US standards.

Some in Congress feel that this figure is too low and understates US risk in lending to the IMF. On the other hand, the CBO could have scored US contributions at zero budget cost by deciding that there was zero present value or additional market risk to the US taxpayer involved in lending to the IMF. In all US lending to the IMF, via its quota subscription or the NAB, the United States receives a liquid claim on the IMF of equal value. In evaluating the risk involved in US financial commitments to the IMF, a number of considerations are often incompletely recognized and appreciated. First, when the IMF draws on the US quota or NAB commitments to lend to other IMF members, 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 $15 billion. In addition, and quantitatively more important, the IMF holds 90.5 million ounces of gold worth about $120 billion at the current market price and about $115 billion net of its historical cost.[7] Thus, there should be no significant financial risk associated with the IMF reform legislation.

From a substantive perspective, some observers are critical of recent operations of the IMF, in particular IMF lending to European countries.

One criticism is that countries that are members of the euro area are wealthy and should take care of themselves. That argument is based upon a misconception about the Fund. The IMF was designed to allow all member countries to have access to its financial resources. The United States itself has drawn on the IMF a number of times. Moreover, the IMF lent to Korea in 1997–98 when Korea was the 11th largest economy in the world and already a member of the Organization for Economic Cooperation and Development (OECD). In 2006, Korea's gross domestic product (GDP) per capita on a purchasing power parity (PPP) basis was commensurate with that of Cyprus and Greece and larger than that of Portugal; see Truman 2013b. The euro area authorities did not welcome the IMF's involvement in their crises: They wanted access to IMF financial resources and, more importantly, IMF credibility with respect to the policies of the countries in crisis.

A second criticism is that the European countries have drawn too heavily on the IMF. Scaled by countries' quotas or scaled by GDP, recent IMF lending commitments to European countries have been unprecedented; see Truman 2013b. A case can be made that the Europeans have relied on IMF financing to an inappropriate extent, but as discussed above, such concerns should not be based on the risk to the IMF of that lending. The IMF is a senior lender. One can be sure

7. As of February 20, 2014, the IMF had $82.4 billion in credit outstanding associated with its lending arrangements out of its general resources account, which draws on quota and borrowed resources. It has an additional $104 billion in outstanding commitments to lend largely to Colombia, Mexico, and Poland via its flexible credit line. It had $464 billion in uncommitted usable resources and a forward commitment capacity of $461 billion.

that the European Union or euro area would not allow one of its members to fail to repay the IMF. Finally, to the extent that the Europeans have used their oversized combined voting share in the IMF to obtain disproportionate access to IMF financing, the Seoul IMF governance reform would reduce somewhat the European voting share and lay the groundwork for a further decline in the future; see table 1.

...[R]edistribution of quota and voting power in the IMF is one of the principal objectives of the proposed governance reform: to recognize the increased role and responsibilities of countries like China for the global economic and financial system and for the IMF itself.

A third related criticism is that the IMF has broken its rules in lending to the euro area countries, to Greece in particular, and that the US Congress should not approve the IMF governance reform legislation until the IMF returns to its earlier rules.

John Taylor, former Treasury undersecretary for international affairs, has argued that the IMF cavalierly broke its rules in May 2010 in granting Greece "exceptional access" to IMF resources when it approved IMF participation in the program for Greece.[8] The staff report recommended that the IMF's executive board approve exceptional access in the Greek case, even though the staff had doubts about the medium-term sustainability of Greece's debt.[9]

Taylor was mistaken in his criticisms of this change in IMF policy. First, the criteria in the "exceptional access framework" were changed by a vote of the IMF executive board, the same body that approved the framework in 2002 and revisions to that framework in 2009.[10] Action was rushed given the urgency of the circumstances, but transparency was preserved including via the requirement of an ex post review of the program because it involved exceptional access to IMF financing.

In addition, less transparent exceptions to the 2002 exceptional access policy had previously occurred in cases involving Argentina (2003), Brazil (2003), Turkey (2005), and Uruguay (2005) while Taylor was undersecretary of the US Treasury; see IMF (2008, 18). In the circumstances of Greece, as well as Ireland and Portugal subsequently, it was decided not to force an immediate reduction of the member's debt, even though a year later that decision was reversed in the case of Greece. Moreover, the exceptional access policy to date has never been used to force an immediate debt reduction or rescheduling operation on a member as would have been needed in the Greek case.

One can differ about the economic and financial consequences for Greece, the euro area, or the global economy and financial system of a different decision in May 2010 and about the wisdom of the modification of IMF policy on exceptional access at that time. But if the United States holds IMF governance reform hostage to a return to the previous policy, it can expect to be severely criticized for any such attempted use of its leverage over IMF policies and mostly likely would fail in the attempt.

A final concern expressed about the IMF governance reform legislation is that it rewards China and other members of the BRICS grouping of countries (Brazil, Russia, India, China, and South Africa) with an increase in their voting power that they do not deserve. However, redistribution of quota and voting power in the IMF is one of the principal objectives of the proposed governance reform: to recognize the increased role and responsibilities of countries like China for the global economic and financial system and for the IMF itself.

As shown in table 1, the sequence of IMF governance reforms starting in 2006 through what is now proposed would shift 5.3 percentage points of IMF voting power from the advanced countries to the emerging market and developing countries. The focus has been on the dynamic, growing emerging market and developing countries, in particular the BRICS grouping, which would see their combined voting power increase by 4.5 percentage points to 14.3 percent. On the other hand, the voting power of the European Union would decline by 3.1 percentage points and that of the United States only 0.5 percentage points.

The blend GDP column in table 1 illustrates that the current proposal would leave the quota share of the BRICS

8. John Taylor, "The International Monetary Fund needs to get its house in order before Washington green-lights more money," *Wall Street Journal*, February 14, 2014. Normal access to IMF resources is limited to 200 percent of a member's quota in the first year of a program and a cumulative 600 percent of its quota over three years. Access above these limits, which were raised from 100 percent and 300 percent of a member's quota in March 2009, is governed by the IMF's exceptional access policy. The March 2009 reforms limited the applicability of that policy.

9. The staff report recommending approval of the Greek program (IMF 2010a, 21) stated "On balance, staff considers [Greece's] debt to be sustainable over the medium term, but the significant uncertainties around this [judgment] make it difficult to state categorically that this is the case with a high probability. Even so, Fund support at the proposed level is justified given the high risk of international systemic spillover effects. Going forward, such an approach to this aspect of the exceptional access policy would also be available in similar cases where systemic spillover risks are pronounced."

10. The origins of the policy were at the IMF annual meetings in Prague in 2000.

grouping 7 percentage points below their blend GDP share using data through 2011.[11] On this criterion, the United States is also disadvantaged with a quota share that is 4.2 percentage points less than its blend GDP share, and the European Union is advantaged by more than 6 percentage points. Moreover, in the period since the Seoul agreement in November 2010, the BRICS' share of blend global GDP increased by 3.6 percentage points to the level shown in table 1, the European Union share declined by 3.7 percentage points, and the US share has been unchanged. This is one reason why the emerging market and developing countries are anxious to move on to another round of quota adjustments, as was agreed in Korea in 2010. Meanwhile, the Europeans are perfectly happy to delay negotiations of further reform and to hide behind the US failure to agree formally to the reforms contained in the Seoul package.

Until the failure of the US administration and Congress to include the IMF reform legislation in the January 2014 appropriation bill, the rest of the world was remarkably tolerant of US political processes. However, the rest of the world's toleration has worn out.

On January 23, the IMF executive board, in a report to the Board of Governors of the IMF (IMF 2014), said that it would not be possible to complete the 15th general review of quotas by the end of January 2014, the accelerated timetable that was part of the Seoul package. At that time, to signal the importance of the matter and its concern over US inaction, the executive board requested that the chair of the IMFC (Tharman Shanmugaratnam) "consult with the [IMF] membership and...advise the IMFC at its 2014 Spring Meeting on progress in making the Fourteenth Review [of IMF quotas] and the Board Reform Amendment effective, and available options for completing the current round of the quota reform process, with the objective of completing the Fifteenth Review by January 2015."

A month later at the Sydney, Australia summit, the G-20 finance ministers and central bank governors issued their own admonition (G-20 2014):

> We deeply regret that the IMF quota and governance reforms agreed to in 2010 have not yet become effective and that the 15th General Review of Quotas was not completed by January 2014. Our highest priority remains ratifying the 2010 reforms, and we urge the US to do so before our next meeting in April. In April, we will take stock of progress toward meeting this priority and completing the 15th Review of Quotas by January 2015.

The other members of the IMF have little choice but to sit and wait for the United States to act. Meanwhile, however, IMF reform is on hold and the United States is losing status and influence because of its delay in acting on the Seoul reform package.

Bygones are bygones. What is essential to US interests now is to get the IMF governance reform legislation passed before the April meetings in Washington and, thereby, to restore some impetus to ongoing IMF reform and to repair, in part, the damage that has been done to the US reputation for leadership. The Obama and previous administrations have made much of the fact that US voting power in the IMF gives the United States the capacity to block agreements on a limited set of institutional changes in the IMF, such as amending the IMF Articles, changes in IMF quotas, and allocations of SDR. Other countries, understandably, chafe at this power of the United States alone to veto such decisions. The rest of the world will only tolerate that power if the United States wields it with reasonable responsibility. Otherwise, the legitimacy of the IMF will suffer and along with it one of the most important tools of US international economic and financial policy.

11. The 2008 quota formula that is used to guide adjustments in quotas includes a blend GDP variable that is 60 percent GDP converted at market rates and 40 percent GDP at purchasing power parity exchange rates. If these data were updated to 2013, the difference would be even more striking.

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