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POLICY BRIEF

18-9 IMF Quota and Governance Reform Once Again

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Once again, the United States and other members of the International Monetary Fund (IMF) have been asked to address the adequacy of IMF financial resources and the distribution of voting power in the Fund. Observers are justified in thinking that they just witnessed this drama. IMF members completed an agreement on the size of IMF quota resources and governance—or voting power—reform in November 2010 (IMF 2010a). As part of that agreement on the 14th general review of IMF quotas, members committed to bring forward the completion of the 15th general review of quotas to January 2014. The target was not met because the United States delayed approving the 2010 agreement until December 2015, which was necessary for the implementation of the 14th review (Truman 2013, 2014, 2015). As a result, in December 2016, the governors of the IMF freshly resolved to complete the 15th review by the spring of 2019 or the fall of 2019 at the latest (IMF 2017). The Group of Twenty (G-20) reaffirmed this commitment at its meeting in Buenos Aires on March 20, 2018.[1]

Consequently, the US administration must develop a position on the 15th general review in the next several months. This Policy Brief argues that the United States should support a significant increase in IMF quotas and further reform of IMF governance through the redistribution of IMF quota shares and, therefore, voting shares. At a minimum, total IMF quotas and the standing New Arrangements to Borrow (NAB) should be increased by enough to replace the roughly $450 billion in ad hoc bilateral borrowing arrangements that expire in 2020. This would leave the Fund's current lending capacity essentially unchanged for the next decade.

Any change in any IMF quota requires an 85 percent weighted majority vote of its members. Thus, the United States with its voting share of 16.5 percent can veto any increase in any member's IMF quota. If the United States is not willing to participate in the 15th review through an increase in its own quota or to participate without tying that increase to congressional approval, it should step aside and not block agreement by a substantial majority of other members. If the United States instead blocks an increase in IMF quotas, the IMF's resources—the center of the international financial system—are likely to shrink in absolute as well as relative size over the next decade. Such a reduction would threaten the IMF's financial capacity to deal with the inevitable crises. The United States would also lose some of its capacity to use the IMF as a policy tool to deal with international financial crises that adversely affect the United States.

The official position of the Trump administration on this issue is unknown. But US Treasury Under Secretary David Malpass testified on November 8, 2017 that the US Treasury's position is "the IMF currently has ample resources to fulfill its mission…[and] in the upcoming review, [the United States will maintain] its veto on key issues within the IMF." He also said, "the Administration has not yet made a decision regarding the 15th review" (Malpass 2017).

1. "We reaffirm our commitment to further strengthening the global financial safety net with a strong, quota-based, and adequately resourced IMF at its centre. We are committed to concluding the 15th General Review of Quotas and agreeing on a new quota formula as a basis for a realignment of quota shares to result in increased shares for dynamic economies in line with their relative positions in the world economy and hence likely in the share of emerging market and developing countries as a whole, while protecting the voice and representation of the poorest members by the Spring Meetings of 2019 and no later than the Annual Meetings of 2019." G-20 Communique, March 20, 2018, Buenos Aires, http://www.g20.utoronto.ca/2018/2018-03-30-g20_finance_communique-en.html (accessed on March 27, 2018).

If this is indeed the position preferred by the Treasury, it should not prevail in administration discussions. Such a position is counter to long-term US interests. It would undermine US leadership in the IMF and continued cooperation with other like-minded countries on international economic, financial, and monetary issues that are crucial to the future stability of the US and global financial systems and economies (Truman 2017). Moreover, the position appears to misunderstand the issues confronting IMF members in the 15th review: The IMF may have ample financial resources now, but those resources are scheduled to be cut potentially in half by the early part of the next decade. The only way that the United States can ensure that the IMF's financial resources remain at the current level and at the same time maintain the US veto is by supporting a substantial increase in IMF quotas and, preferably, a commensurate increase in the US quota.

Total IMF quotas and the standing New Arrangements to Borrow should be increased by enough to replace the roughly $450 billion in ad hoc bilateral borrowing arrangements that expire in 2020.

BACKGROUND

With its near-universal membership, the IMF is the major global institution of the international monetary system. Among other responsibilities, the Fund plays a significant role in the management of global financial crises through its policy advice and lending operations. Because the Fund has pre-positioned financial resources that can be deployed in a matter of days, it is at the core of the global financial safety net for countries hit by crises associated with either their own policy mistakes or those of other countries. The Fund is positioned to respond promptly without the need to make an ad hoc appeal to members to advance financial support to and through the Fund, a process that can take months if not years.

The 15th general review of IMF quotas has two parts: First, the IMF's executive board is charged with seeking agreement on a new formula for the calculation of IMF quotas.[2] Second, members must agree to increase total IMF quotas or not, and, if they increase total quotas, how to distribute that increase, for example, in the direction of a relative increase of quota shares of members with more dynamic economies over the past decade. Quota shares are the principal determinant of voting shares and governance in the IMF.[3]

The IMF's financial resources today are about $691 billion from quota subscriptions by its 189 members, about $265 billion from the New Arrangements to Borrow (NAB) from 38 of its members, and an expected $450 billion in bilateral borrowing arrangements with 40 of its members—see table 1.[4] The bilateral borrowing arrangements are designed to augment IMF resources in anticipation of the increase in IMF quotas in the 15th review of quotas; they will expire in 2020. In addition, US participation in the NAB will expire in 2022 unless the United States renews its commitment. That renewal must be approved by the US Congress, which would not be easy under the best of circumstances and would be next to impossible if the United States does not, in the meantime, agree to an increase in IMF quotas in 2019. After the bilateral borrowing arrangements expire in 2020 and if other countries also decline to renew their NAB commitments, the IMF's financial resources will be cut almost in half.[5]

2. The current formula includes four 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 (CQS). The formula is CQS = (0.50*GDP + 0.30*Openness (the sum of current payments and receipts) + 0.15*Variability (of current receipts minus net capital flows) + 0.05*Reserves) ^K. GDP is blended using 60 percent market and 40 percent purchasing power parity (PPP) exchange rates; K is a compression factor of 0.95 (Truman 2013, 3).

3. Each member country has the same number of basic votes expressed as a fixed percentage of total votes and additional votes based on the size of its quota. For countries with small quotas, basic votes make up a larger proportion of their total votes and the reverse for countries with large quotas like the United States. About 30 other members of the IMF have quota shares that are larger than their voting shares.

4. The IMF does its accounting using the Special Drawing Right (SDR), which on January 24, 2018, was worth $1.4547. That rate is used in table 1 to convert current and past IMF financial resources from SDR into US dollars. At the end of January 2018, 37 of the expected 40 bilateral borrowing arrangements had been formally completed for a total of $449 billion (see IMF Financial Data Query Tool, available at http://www.imf.org/external/np/fin/tad/query.aspx [accessed on March 13, 2018]). Pledged amounts are converted to US dollars at the SDR or bilateral exchange rates with the dollar on January 24, 2018. The IMF expected as of October 2017 to set up arrangements for SDR 319 billion, which they translated as about $450 billion (IMF Bilateral Borrowing, October 13, 2017, http://www.imf.org/en/about/factsheets/sheets/2016/10/20/imf-bilateral-borrowing [access March 27, 2018]). That is the figure used in table 1.

5. For more detail, see Truman 2013, 2014, 2015, and 2017.

Table 1 IMF financial resources (billions of US dollars)

	End of year		
Source	**2000**	**2008**	**2017**
Quotas	306	316	691
New Arrangements to Borrow (NAB)	76	76	265
Bilateral borrowing	n.a.	n.a.	450
Total	**382**	**392**	**1,407**
Percent of global GDP	1.13	0.62	1.77

n.a. = not applicable; IMF = International Monetary Fund

Notes: (1) Individual items may not total because of rounding. (2) All nondollar figures are converted to US dollars from Special Drawing Rights (SDR) at the January 24, 2018 rate of $1.4547 per SDR. (The rate on March 20, 2018, was $1.4509 per SDR.) (3) Bilateral borrowing includes some commitments that have not yet been formalized; see footnote 4. (4) IMF financial resources are not all usable in IMF lending operations because the external financial condition of some countries is too weak for them to fulfill their commitments; on average about 15 percent of the total would not be available, a larger percentage for quota commitments and a smaller number for NAB and bilateral borrowing sources because the latter are with member countries that are generally in stronger external financial positions.

Sources: IMF, *International Financial Statistics*, various issues; IMF (2010a, 2010b); and IMF *World Economic Outlook Database* (October 2017).

IMF QUESTIONS FOR THE UNITED STATES

The United States faces two questions concerning IMF resources and governance. First, even if IMF financial resources are ample now, will they be adequate for the period starting in 2020 and for the next decade? Second, if the general membership of the IMF favors an increase in and reallocation of IMF quotas, should the United States block the agreement?

Are IMF financial resources likely to be adequate for the next decade?

In the wake of the global financial crisis, the IMF's financial resources have increased by more than three times, from less than $400 billion at the end of 2008 to about $1.4 trillion at the end of 2017. At the end of 2000, total IMF financial resources were 1.13 percent of world GDP—see table 1. By the end of 2008, IMF financial resources had increased by a small amount in US dollar terms but had shrunk to 0.62 percent of global GDP. At the London G-20 summit in April 2009, member countries agreed to augment the NAB by $500 billion. That decision was formally agreed in March 2010 (IMF 2010b) and became effective in March 2011. About $250 billion in IMF bilateral borrowing that had been arranged in 2009–10 was rolled into the NAB. Currently, IMF financial resources are $1,407 billion, or 1.77 percent of estimated GDP.[6]

Are IMF resources likely to be ample to "fulfill its mission" over the next decade? That is not a question that can be answered with certainty, but several points are relevant to its consideration.

First, the current composition of the Fund's resources is inconsistent with IMF doctrine that "quota subscriptions are and should be the basic source of the Fund's financing" (IMF 2016). At present, less than half of IMF financial resources are derived from quota subscriptions. This suggests that IMF quotas should be increased and the reliance on borrowed resources, especially bilateral borrowing, should be reduced. If the present ratio between quota subscriptions and NAB commitments were maintained to replace current bilateral borrowing (about 70 percent quotas and 30 percent NAB commitments), IMF quotas would have to increase by about $315 billion, or almost 50 percent, to $1,006 billion. If the United States were to maintain its current share (17.4 percent), the US quota would have to increase by about $52 billion.[7] The NAB would also have to increase by about 50 percent. If the United States were to maintain is current share of the NAB (15.5 percent), its commitment would have to increase by about $20 billion.

Second, if today's level of IMF financial resources were maintained until 2022, they would shrink by almost a quarter as a percent of projected global GDP, to 1.38 percent. In other words, if today's level of IMF financial resources is ample enough to fulfill the IMF's mission today, that level will fall short by 2022. This fact argues for an increase in the IMF's financial resources beyond what is available today.

Third and most serious, on the current trajectory, today's level of IMF financial resources is not likely to be available, or at least not fully available, in 2022. One reason is that the IMF's bilateral borrowing arrangements expire in 2020. They are intended in large part to supplement the IMF's resources until the 15th quota review has been completed. Moreover, Barry Sterland, the Australian former executive director for Australia's constituency of members of the Fund, has argued, based on conversations with

6. The source for the GDP estimates and projections is the IMF's *World Economic Outlook Database*, October 2017.

7. These estimates assume that all members of the IMF have taken up the increases in their quotas associated with the 2010 agreement; a few have not and two members have joined the IMF since then, slightly reducing the quota shares of other members.

former colleagues, that members who currently participate in bilateral lending to the IMF are unlikely to renew their commitments after 2020. Sterland (2017) does not make this statement in so many words, but in oral presentations at the Peterson Institute for International Economics in October 2017 and in South Korea in November 2017, he made that argument.

A fourth reason why IMF financial resources in 2022 may not be as large as they are today is that if the United States is going to continue to participate in the NAB after November 2022, its current $41.1 billion commitment must be reauthorized and appropriated in advance by the US Congress.[8] The US decision to renew its participation in the NAB must be made by November 2021, which would be only a year after the next US presidential election. Therefore, the US position on the 15th quota review in 2019 will lay the groundwork, positive or negative, for the US position on its continued participation in the NAB.

There is a compelling case for further governance reform via reallocation of IMF quota and voting shares in the 15th general review of quotas.

Sterland argues implicitly in his paper and in oral presentations on the paper that if the United States pulls out of the NAB, other countries will as well. In other words, the NAB would collapse as a source of back-up funding for the IMF. Figure 6 in Sterland (2017) implies that IMF financial resources in 2022 will consist only of IMF quotas at their current size. Malpass's November 2017 congressional testimony contained the same figure, embracing the same projection. If this scenario eventuates, IMF resources in 2022 would fall to less than $700 million, or 0.67 percent of projected global GDP, only slightly higher than in 2008 when the global financial crisis was erupting. One does not need to posit a repetition of the global financial crisis or its euro-area aftermath to conclude that IMF resources were inadequate in 2008 and are likely not to be either ample or adequate at the same level in 2022. To put this figure in context, the IMF does not face generalized conditions of financial crises today, but as of March 2, 2018, the IMF's lending commitments were $188 billion (IMF 2018).

Of course, Sterland's negative outlook on the prospects for IMF resources in the 2020s is not the only possible outcome. Other countries may step up to take the US role as the principal champion and become larger potential suppliers of financial resources to the IMF.[9] But other countries are less likely to want to do so if the 15th review of IMF quotas does not significantly increase quotas to reduce reliance on bilateral borrowing and also further reallocate voting power in the IMF away from the advanced countries to the emerging-market and developing countries, especially those that have grown the most since the last quota review was completed in 2010.

On this last point, the 14th general review of quotas in 2010 shifted 2.8 percentage points of quota shares (60.5 to 57.7 percent) and 1.6 percentage points of voting shares (57.9 to 56.3 percent) from the advanced economy members of the IMF to emerging-market and developing countries. Is there a case for another significant adjustment in the 15th review, as many representatives of the latter group of countries anticipated in 2010? Table 2 provides an insight into this question.

The table summarizes the relative GDP performance of the 35 advanced and nonadvanced countries with the largest IMF quotas as of the 14th review in the period since that review was completed (18 nonadvanced countries and 17 advanced countries). The table is based on changes in the blended GDP variable that accounts for 50 percent of the quota formula from the data used in the 14th review and estimates through 2017.[10] The 18 nonadvanced countries increased their collective GDP share by more than 10 percentage points, and the advanced countries' share declined by more than 12 points. Only one advanced country (Switzerland) has had an increase in its share. This observation implies that at least some of the advanced

8. This was the concession that the Congress extracted from the Obama administration for approval of the 2010 agreement; see Truman (2015).

9. It is noteworthy that only three G-20 countries (Argentina and India in addition to the United States) are not participating in the current program of bilateral lending to the IMF. On the other hand, almost half ($210 billion) of the $449 billion that has been lined up comes from members of the European Union, and most of that ($185 billion) from participants in the euro area. It would be reasonable to assume that the Europeans have stepped up in part because of the heavy IMF lending to their area in recent years.

10. See footnote 2. The GDP variable is a blend of 60 percent of GDP shares at market exchange rates and 40 percent of GDP shares at purchasing power parity (PPP) exchange rates based on data for 2015–17. The blended GDP variable not only has the largest weight in the current formula but also is highly correlated with the other variables. Using the most recent updated IMF quota data through 2015 (available at http://www.imf.org/external/np/fin/quotas/2017/0817.htm), the correlation for the 40 members with the largest quota shares of their shares of the GDP variable with their shares of the openness variable is 0.9228; with their shares of the variability variable, 0.9274; and with their shares of the reserves variable, which only has a weight of 5 percent, 0.5634. In other words, the GDP variable is a reasonable proxy for what the current quota formula would produce using data through 2017.

Table 2 Changes in shares of GDP blend since the 14th general review of quotas[1]

	14th general review	GDP blend shares		
Countries	Quota shares[2]	Today[3]	14th general review[4]	Change in percentage points
United States	17.40	21.02	23.90	–2.88
Japan	6.46	5.50	7.59	–2.09
China	6.39	16.32	8.52	7.80
Germany	5.58	4.11	5.33	–1.22
France	4.23	2.89	4.08	–1.19
United Kingdom	4.23	3.05	4.20	–1.15
Italy	3.16	2.23	3.38	–1.16
India	2.75	4.79	3.01	1.77
Russia	2.71	2.42	2.70	–0.28
Brazil	2.32	2.58	2.62	–0.05
Canada	2.31	1.81	2.30	–0.49
Saudi Arabia	2.10	1.12	0.78	0.34
Spain	2.00	1.55	2.38	–0.83
Mexico	1.87	1.67	2.03	–0.36
Netherlands	1.83	0.92	1.25	–0.33
South Korea	1.80	1.79	1.86	–0.06
Australia	1.38	1.42	1.48	–0.06
Belgium	1.34	0.54	0.73	–0.18
Switzerland	1.21	0.70	0.67	0.03
Turkey	0.98	1.36	1.23	0.13
Indonesia	0.97	1.78	0.99	0.79
Sweden	0.93	0.57	0.69	–0.11
Poland	0.86	0.74	0.85	–0.11
Austria	0.82	0.45	0.58	–0.13
Singapore	0.82	0.40	0.32	0.09
Norway	0.79	0.42	0.58	–0.16

(table continues)

countries—those focused on their narrow interests in maintaining their voting shares rather than the general interest of the IMF—would be content if the 15th quota review did not increase quotas, and consequently did not change quota or voting shares. In other words, if the United States shows indifference or worse toward a serious negotiation, the other advanced countries, especially those that are members of the European Union, might well be delighted to hide behind the United States.

On the other hand, the GDP shares of 11 of the 18 nonadvanced countries currently with the largest quota shares have increased. They are led by China, with an increase of almost 8 percentage points in its GDP share, but undoubtedly the other 10 countries, with a combined increase of almost 4 percentage points, also will want recognition of their progress. The same holds true for many of the other 154 countries whose collective net GDP share appears to have increased by almost 2 percentage points. I conclude that there is a compelling case for further governance reform via reallocation of IMF quota and voting shares in the 15th general review of quotas. I also conclude that if the United States abandons its traditional position of promoting change in IMF governance, the large emerging-market countries will have to press even harder for action.

Nevertheless, the United States can block a positive outcome from the 15th review of quotas in terms of the adequacy of the IMF's resources and promotion of further governance reform. This brings us to the second question.

Table 2 Changes in shares of GDP blend since the 14th general review of quotas[1] *(continued)*

	14th general review	GDP blend shares		
Countries	**Quota shares[2]**	**Today[3]**	**14th general review[4]**	**Change in percentage points**
Venezuela	0.78	0.34	0.47	–0.14
Malaysia	0.76	0.54	0.43	0.11
Iran	0.75	0.84	0.78	0.06
Ireland	0.72	0.35	0.45	–0.10
Denmark	0.72	0.34	0.78	–0.45
Thailand	0.67	0.73	0.58	0.15
Argentina	0.67	0.77	0.62	0.16
South Africa	0.64	0.51	0.59	–0.08
Nigeria	0.52	0.72	0.37	0.35
Total (35)	**83.44**	**87.29**	**89.13**	**–1.84**
Nonadvanced (18)[5]	28.33	39.41	28.76	10.66
Advanced (17)	55.11	47.88	60.37	–12.49
European Union (11)	25.56	17.01	23.85	–6.85
Other advanced (6)	29.55	30.87	36.52	–5.65
Other (154)	16.56	12.71	10.88	1.84

1. GDP shares are blended using 60 percent of shares at market and 40 percent of shares at purchasing power parity (PPP) exchange rates.
2. The data assume that all members have consented to the increases in their quotas in the 14th review, which some have not, and they reflect the addition of two new members since 2010.
3. Based on data for 2015–17.
4. These data were used in the 14th general review of quotas.
5. In the classification of countries and their quota shares, Singapore and South Korea are nonadvanced countries.

Sources: Column 1, Updated IMF Quota Data—August 2017, http://www.imf.org/external/np/fin/quotas/2017/0817.htm; column 2, IMF *World Economic Outlook Database* (October 2017), http://www.imf.org/external/pubs/ft/weo/2017/02/weodata/index.aspx; column 3, Updated IMF Quota Data—June 2010, http://www.imf.org/external/np/fin/quotas/2010/0610.htm.

Should the United States block agreement on an increase in IMF quotas in the 15th review?

The United States should not use its 16.5 percent share of IMF votes to block agreement on an increase in IMF quotas in the 15th review. A majority of members of the IMF likely will want, at a minimum, to increase IMF quota and NAB resources by enough to replace the $450 billion in bilateral borrowing that expires in 2020 in order to maintain the Fund's current lending capacity and the 70 percent share of quotas in total IMF financial resources. An increase in IMF quotas is also required to facilitate further IMF governance reforms by increasing the voting power of those countries with the most growth in recent years. Voting power is affected by increases in quotas that are not distributed in proportion to current quotas.[11] Blocking an increase in overall IMF quotas in the 15th review will lead to a substantial reduction in the IMF's financial resources, at least initially, because the current bilateral borrowing arrangements are expected to have expired.

In this second-best world, the IMF might continue to be able to borrow bilaterally from some members, but the United States would have limited influence over when and how those resources were used. Alternatively, other mechanisms of multilateral financial support such as the European Support Mechanism (ESM) might be expanded. But given the present mood in Europe, it is unlikely that the Europeans would do so. It is more likely that the Chiang Mai Initiative Multilateralized and other institutions led by China would be expanded to fill in the gap left by an underfunded IMF. The United States would have no influence on how these

11. IMF members can voluntarily reduce the absolute size of their quotas but never have because of the political signal that would send and because quotas also are the basis on which borrowing from, as well as lending to, the IMF is calibrated.

financial resources would be utilized. Moreover, these mechanisms are regional and do not include many IMF members, for example those in South America and Africa. Thus, it would be a mistake for the United States to block agreement on an increase in IMF quotas in the 15th review unless a substantial minority of other member countries, most likely other advanced countries, supported such a move. And it would be a mistake for a coalition of the unwilling to form under US leadership.

Should the United States Participate in the Expansion of IMF Quotas?

If the general membership of the Fund favors a substantial increase in IMF quotas, and the United States does not block agreement on the increase, the United States will have three options.

Option 1—Abandon the Veto The United States could forego an increase in its quota. In the scenario in which IMF quotas are increased to maintain their current proportion with the NAB, which also would be increased under this scenario, the US quota share in the IMF would decline to about 12 percent and its voting share would be about a percentage point lower than that.[12] It would have the largest quota and voting share, at least for the immediate future. In effect, the United States would give up its capacity to block independently important changes in the IMF's structure such as amendments to the IMF articles of agreement, increases in quotas, and allocations of Special Drawing Rights. However, with its voting share of around 11 percent, the United States should be able to scrape together another 4 or 5 percentage points of voting power to block changes that it considers as not in the interest of the United States or the general membership of the IMF. If it could not do so, the United States probably would deserve to be outvoted.

Option 2—Maintain the Veto The United States could agree to an increase in its quota sufficient to maintain its voting share at more than 15 percent. A resolution authorizing an increase in IMF quotas for one or more countries requires an 85 percent weighted vote of IMF governors for approval, but the resolution does not become operational until enough countries, based on the percentage of their weighted votes, have consented formally to the increases in their respective quotas. This percentage is set in the resolution that the governors approve. In the 2010 resolution the effectiveness of the quota increases required consents by only 75 percent of members'weighted votes, but its effectiveness also was linked to approval of an amendment of the IMF articles of agreement that, in turn, required an 85 percent weighted vote. Amendments to the IMF articles of agreement, as well as acceptance of changes in the US quota, require an act of the US Congress. It is likely to be very difficult, given recent history, for other members to agree to condition the effectiveness of an increase in IMF quotas on US acceptance of an increase in the US quota. Such a condition in effect would give the United States a second opportunity to block the implementation of the quota increase, as was the case with the 2010 agreement.

Option 3—Risk the Veto The United States could agree to an increase in the US quota sufficient to maintain its voting share at more than 15 percent but not link the implementation of the agreement to congressional consent to the increase in the US quota. If the Congress did not act in time, the quota increases for those countries that had consented to them would go into effect and the US voting share would fall below 15 percent. Under this option, the United States would risk losing its capacity to block certain IMF decisions either for a period (if the Congress later acted positively) or permanently (if the Congress declined to act). Generally, countries can consent to increases in their quotas after the initial agreement has gone into effect.

My recommended ranking of these options is Option 3 (Risk the Veto), Option 1 (Abandon the Veto), and Option 2 (Maintain the Veto). Under the Options 3 and 1, the United States would not have the capacity to block the implementation of an agreement to increase IMF quotas. The will of a clear majority of IMF members would prevail, without US participation under Option 1 or potentially without the United States under Option 3.

Although the US Congress, administration, and public need to face the reality that the US voting share in the IMF should eventually shrink to less than a blocking 15 percent, it is not necessary for that to happen if the Europeans collectively continue to have a disproportionate share of voting power in the IMF. The 28 members of the European Union currently have a combined quota share of 30.3 percent and a combined voting share of 29.6 percent, compared with 17.4 and 16.5 percent for the United States. (The EU shares would drop to 26.1 and 25.6 respectively after Brexit.)[13] Although formal votes are rarely taken in the IMF, the views of the EU countries are generally coordinated in advance.

12. Any increase in total IMF quotas of more than 9 percent that did not include an increase in the US quota would drop the US voting share below 15 percent.

13. An inspection of table 2 reveals that in the data used for the 14th general review of quotas, the 11 members of the European Union that had the largest quota shares had a GDP share approximately the same as the US share. The estimate of the GDP variable today shows these European Union countries lagging the United States by four percentage points.

Therefore, Option 3 is the most attractive because it allows the IMF to move forward and maintain adequate financial resources and reform its governance—and also potentially allows the United States to preserve its current leadership role in the Fund.

A final note: If the United States elects Option 1, declining to agree to an increase in its IMF quota, the presumption would be that a second Trump administration would not ask the Congress to renew US participation in the NAB, starting in 2022. A new administration would be hard pressed to obtain congressional approval of continued US participation in the NAB starting in 2021 in time for the renewal of the agreement, but it could signal its intention to try. If the United States pulled out of the NAB, other members might make up the subsequent shortfall under the scenario I have outlined with proportionate increases in quotas and the NAB. But, again, there is no assurance that they would do so.

CONCLUSION

The IMF is the central institution of global monetary cooperation. For more than 70 years, the United States has used the IMF to further US policy objectives and promote international financial stability. Among other activities, its prepositioned resources allow the Fund to respond promptly to the financial crises—large and small—of its members, including those that threaten the stability of the international economy and financial system. The IMF is at the core of the global financial safety net. Many observers regard it as an imperfect tool for this purpose, but it is the best instrument we have at present.

Against the background of seven decades of IMF success, the United States should support a significant increase in IMF quotas in the 15th review by at least making the funding available from bilateral borrowing more permanent. This would, at minimum, ensure that the IMF's financial resources do not decline for the next decade and restore the balance between IMF quota resources and borrowed resources. It also would facilitate the further reform of IMF governance through a redistribution of quota and voting shares toward faster-growing emerging-market and developing countries. If the US authorities are unwilling to support an increase in the US quota in the Fund, they should stand aside and allow, at least for the immediate future, the US quota share and voting share to drop below the level that allows the United States to block major changes in the IMF's structure and operations.

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