Rebuilding the Global Economy

A series outlining policy priorities and solutions

MEMORANDUM ON

PRIORITIES ON FOREIGN AFFAIRS AND INTERNATIONAL FINANCIAL INSTITUTIONS FOR THE 117TH US CONGRESS

To: The Chairs and Ranking Members of the Senate Foreign Relations Committee, House Financial Services Committee, and House Foreign Affairs Committee
From: Edwin M. Truman
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Background: US foreign affairs programs underpin US soft (nonmilitary) power, which is in decline as these programs have been underfunded. In FY2020, the United States spent $57 billion on international programs, activities, and institutions. Spending on the major international financial institutions (IFIs) was $1.4 billion. They include the International Monetary Fund (IMF), the World Bank Group, and the other multilateral development banks (MDBs). These institutions are crucial magnifiers of US policies toward the problems and priorities of the global economy and financial system. Through them the United States leverages financing from other countries to address US priorities and mobilize international public opinion to support those policies. Unfortunately, new IMF financial commitments during the first eight months of the global coronavirus pandemic lag behind its commitments during the first eight months of the 2008-10 global financial crisis (see figure).

Edwin M. Truman, nonresident senior fellow at the Peterson Institute for International Economics, served as assistant secretary of the US Treasury for International Affairs from December 1998 to January 2001 and returned as counselor to the secretary March–May 2009. He directed the Division of International Finance of the Board of Governors of the Federal Reserve System from 1977 to 1998. From 1983 to 1998, he was one of three economists on the staff of the Federal Open Market Committee.

Increase in IMF financial commitments
(billions of US dollars)

Source: International Monetary Fund.

KEY PRIORITIES

In the 117th Congress, US priorities for the IFIs should focus primarily on the global coronavirus pandemic and its economic aftermath. Congressional committees should view all administration proposals through the lens of whether they will aid in limiting the spread and reemergence of the COVID-19 virus and/or help countries recover from the economic shock from the pandemic. I recommend the following four priorities:

1 Originate legislation to authorize the US Treasury to lend up to $75 billion to the IMF over the next two years to provide the Fund temporarily with the financial resources to support its members in recovering from the pandemic. The United States, with one exception in the late 1970s, has not participated in coordinated bilateral lending to the IMF. The pandemic demands another exception. At $75 billion, US participation in such an arrangement would be larger than that of any other current bilateral lender to the Fund, as is appropriate for the United States. This special authorization should expire on December 31, 2023.

2 Originate legislation to authorize the US Treasury to make an advance commitment of $4 billion to the 20th replenishment of the World Bank's International Development Association 20 (IDA20), which focuses on the world's poorest countries, to enable it to continue to operate smoothly and to augment its lending to eligible members during the pandemic and its aftermath.[1] More than half of IDA borrowers are in Sub-Saharan Africa. A period of low growth and economic contraction known as the "lost decade of the 1980s" was centered in Latin America. The "lost decade of the 2020s" will be centered in Africa unless countries act now to prevent it. A US commitment to IDA20 will help relax the constraint on spending IDA19 funds.

3 Engage with the administration to ensure an early completion of the 16th General Review of IMF Quotas, which is to end by December 2023. Quotas are set according to each country's size as a portion of the world economy, and they determine the maximum amount of financial resources a member is obliged to provide to the IMF. The principal issues are (a) the size of the overall increase in quotas, which should at least replace existing bilateral lending commitments to the Fund, and (b) the redistribution of IMF quota shares to give greater representation to dynamic emerging-market countries, as well as other developing-country members, while reducing the shares of European members, which are a combined 32.4 percent, and preserving the US share, which is 17.4 percent.

4 Encourage the administration to apply to join the Asian Infrastructure Investment Bank (AIIB), which China established in 2015 as a financing vehicle to support infrastructure in Asia and beyond. Both the Obama and Trump administrations have been wary of the initiative, viewing it as a tool of Chinese ambitions. But 103 countries are already members or prospective members of the AIIB, including all the other major advanced countries except Japan, which shares US concerns. The AIIB also has had a good track record of adhering to international standards in lending, unlike the China Development Bank and Chinese policy banks. US membership would help to limit China's use of the AIIB to achieve its narrow political objectives and upgrade China's other international lending activities. Former officials in the administrations of both parties agree that the decision by the Obama administration not to join the AIIB was a strategic mistake.

POLICIES TO REVERSE

Congressional activity on the IFIs has been counterproductive in several respects during most of the past several congresses. Congress could improve the effectiveness US policies by reversing past tendencies.

1 This would be a one-third increase in the $3 billion US commitment to IDA19.

1. Congressional committees should recognize that the IFIs and other international organizations such as the Organization for Economic Cooperation and Development (OECD)[2] and the World Health Organization will not always align with US objectives in implementing their policies. On balance, they have been effective in advancing US policy objectives. Congress should refrain from criticizing and seeking to penalize IFIs for actions that the United States does not approve and praise actions that advance US objectives.

2. Congressional committees should seek to better coordinate congressional action and oversight of US bilateral and multilateral assistance especially to countries in Africa and should encourage the executive branch to contain its own turf battles. The distribution of US economic assistance is seriously biased toward achieving narrow political objectives and away from economic objectives that are essential to reinforcing US political objectives.

3. US policies toward IFIs involve many diverse objectives ranging from humanitarian assistance to strategic geopolitical aims. The credibility of US use of IFI tools to achieve US objectives is undercut by the fact that the United States is currently almost $3 billion in arrears in its financial commitments to the IFIs. Almost two-thirds of that amount involves commitments to the Multilateral Debt Reduction Initiative (MDRI) for IDA and the African Development Bank. The MDRI arrears problem is of the United States' own making. The time has come to resolve it.

ACTIONABLE TO-DO LIST:

- Originate legislation to authorize the US Treasury to lend up to $75 billion to the IMF over the next two years to provide the Fund temporarily with the financial resources to support its members in recovering from the pandemic.
- Originate legislation to authorize the US Treasury to make an advance commitment of $4 billion to the 20th replenishment of the World Bank's International Development Association.
- Engage with the administration to ensure an early completion of the 16th General Review of IMF Quotas, which is to end by December 2023.
- Encourage the administration to apply to join the Asian Infrastructure Investment Bank.
- Refrain from criticizing and seeking to penalize IFIs for actions that the United States does not approve and praise actions that advance US objectives.
- Better coordinate congressional action and oversight of US bilateral and multilateral assistance especially to countries in Africa and encourage the administration to do the same.
- Resolve the problem of arrears in US financial commitments to the Multilateral Debt Reduction Initiative (MDRI) for the International Development Association and the African Development Bank.

2 The administration's budget for FY2021 proposed defunding the OECD.