

The Role of International Financial Institutions in Promoting Financial Stability

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What are the stakes?

- Averting and containing financial crises requires international cooperation
- Twin pillars:
 - Crisis prevention
 - Crisis management
- Will the United States shift away from using international institutions of cooperation to promote US policies and interests broadly defined?

Crisis Prevention - I

- The Trump administration wants to “do a big number” on the Dodd-Frank Act (DFA)
- The DFA was the cornerstone of US cooperation with other countries on post-crisis financial reforms
- Significant modifications to the DFA and stepping away from the institutions of cooperation on crisis prevention would weaken US and global financial stability

Crisis Prevention - II

Possible casualties:

- The final chapter of Basel III
- The Volcker Rule
- Consistent identification of systemically important financial institutions
- Congruent orderly liquidation authority
- Comprehensive Capital Analysis and Review and the use of stress tests

Crisis Prevention - III

- A breakdown of negotiations on Basel III and halt to other forms of cooperation would be a blow to crisis prevention efforts
 - If the US withdrew, it would lose influence to the detriment of our own financial stability
 - If the US scaled back its participation, the post-crisis regime would be incomplete and further reforms stalled

Crisis Management - I

- The Trump administration has signaled reduced support for international institutions of crisis management
- The major tools are embedded in the global financial safety net with the IMF at its center
- The role of the IMF as a crisis manager has already been weakened by developments since the Seoul G-20 summit in 2010

Crisis Management - II

- A quota review was to be completed at the end of 2014, but it was derailed
- Deadline now: the end of 2019
- The US can block any agreement
- The administration could instead:
 1. Agree to increase quotas but not the US quota: giving up our veto
 2. Agree to an increase in the US quota
 - a) Tied to congressional approval: preserving our veto
 - b) Not tied to congressional approval: potentially losing our veto

My view: If we do not support the IMF, we should get out of the way, and give up our veto

Crisis Management - III

- Existential question: Future US participation in the Fund?
- If US participation in the NAB is to continue beyond 2022, the Congress must renew our participation of \$38.5 billion
- Decision must be taken by November 2021
- Ground will be laid by this administration before the 2020 election

Crisis Management - IV

- Would US withdrawal from the NAB kill the IMF?
- No, but it would be tantamount to US withdrawal from the Fund
- Fund could limp along
- Countries would turn to other institutions for support

Crisis Management - V

- For seven decades the US had used the IMF and other international financial institutions to advance US interests from the United Kingdom to Pakistan
- Played a critical role in Mexican crises, Asian crises, and global financial crisis
- Trump administration will show its intentions in its upcoming budget proposals

Conclusion

- The Trump administration may in time recognize the contributions of international institutions to US interests, meanwhile . . .
- Reform and replacement of the DFA may undermine progress on crisis prevention
- If US support for the IMF and other institutions of monetary cooperation wanes, crisis management will be more challenging