



## The IMF Gets Shut Out Again in Washington

*Douglas A. Rediker says the failure of the Obama administration to win Congressional approval of funding and governance legislation for the International Monetary Fund is a blow to US credibility around the world.*

*Transcript of interview recorded January 14, 2014. © Peterson Institute for International Economics.*

Steve Weisman: Republicans and Democrats in the House and the Senate have reached a deal on a bipartisan trillion dollar budget package to keep the government open thru September. But once again, the International Monetary Fund has been left at the altar. Douglas Rediker, visiting fellow at the Peterson Institute for International Economics is here with me, Steve Weisman, to discuss the implications and the outlook for the much maligned IMF. Doug, what were the Obama administration and the IMF hoping to get out of this deal?

Douglas Rediker: Let's take a step back. The IMF every five years is required to reassess the economic weights of its member countries and to implement those changes as countries get more or less important, by means of what's known as Quota. Quota is effectively a country's equity contribution, for want of a better phrase, in the IMF. And the US retains the largest single share, which is actually a veto share of the IMF Quota.

Every five years the IMF has to realign the weights of its members and if there is new money that has to go in to goose up, either the resources or simply so that the weights actually end up where they are supposed to by virtue of the formula, the US has to go to Congress and seek approval of that capital increase or that Quota commitment from the US, or else none of it works. So, the US is the indispensable actor here.

Steve Weisman: And the Quota was going to shift more toward the emerging market countries and away from Europe. Is that now on hold?

Douglas Rediker: It's very much on hold. There are two levels to this. One is the actual voting power of the countries, that's the Quota. Then the Quota on a day-to-day basis is reflected by the Board of Directors, the Executive Board, which has 24-board seats. And in 2010, the US took the lead in, basically putting a finger at Europe and saying the Europe had a disproportionate number of those 24-board seats. At times, because there are rotations, it could have been as high as 10 of the 24.

Steve Weisman: I should have said at the onset, and forgive me for interrupting, but you were involved in this in an official capacity.

Douglas Rediker: That's right. I was representing the Obama Administration at the Executive Board of the IMF at the time. We took the view that this did not help the credibility of the IMF with the world's emerging markets to have 10 of the 24-board seats represented by Europeans. We took the initiative in seeking a commitment, which we ultimately got, that the Europeans would--actually to be technically correct, the Advanced European Economies -- would give up two board seats in favor of developing markets, or non-advanced countries in the world, which would somewhat address this overly European weighted executive board.

But that was all contingent on the US approving the Quota Reform, agreeing to commit its share along with every other country that needed to do so, to reach a super majority, to allow the IMF to basically impose all of these governance and reform changes all at once. It did require, let's be clear, a shift of some \$63 billion for the US commitment to the IMF from one pocket of funding to another. It was not actually new money. It was a commitment to shift from a credit line effectively to something more closely aligned with an equity contribution.

Steve Weisman: Was that what Congress choked on? Or was it the governance issue or simply the fact, as some reports suggest, that some in Congress didn't want to put this through unless, they got something else in return from the administration?

Douglas Rediker: I wasn't in the room and we may never know what the game's playing was, but it does seem as if it's a part of the broader budgetary negotiations. This was something that the US Treasury and the White House were pushing hard for, for good reason. Some in opposition wanted to extract some concessions in order to get that.

Steve Weisman: And we don't know what those were.

Douglas Rediker: We don't know specifically what these are. They were presumably unrelated to the IMF. But as to the issue itself, it is more or less a bookkeeping issue. Of course, you can say that quite easily and be criticized from those who believe it's more than that. But really what it is is in 2009 at the height of the financial crisis, the US committed \$100 billion to something called the New Arrangements to Borrow, it's known as the NAB. And that's basically a credit line for the IMF, so that when they need additional resources for their broader remit of creating a more financially stable world, there is \$500 billion that is available and the US ponied up \$100 billion of that.

The point is that that is a temporary emergency facility by its creation and in order to make it a more permanent funding structure, because the IMF is supposed to be governed by a Quota-based government structure, the IMF sought to have the US switch \$63 billion of that \$100 billion from the NAB to Quota. So, it was no new money, it's simply moving it from one pocket to the other.

Steve Weisman: The larger issue is that the IMF, the global financial situation, has stabilized some so people maybe have become complacent about the need for the IMF. How dangerous is it that these arrangements have been deferred by Congress? Can the IMF still function?

Douglas Rediker: The IMF can certainly function. As I mentioned, the \$500 billion remains in the NAB, so funding wise, this doesn't really represent a big shift. But from a governance perspective and from a broader political perspective, it's a pretty big slap in the face of the IMF by the US at a time when the US is trying to re-establish its global leadership, both in these organizations and more broadly.

Steve Weisman: Is it also a blow to US leadership and credibility as some have suggested?

Douglas Rediker: I think it's actually, unfortunately quite real. I think that at the G20 this past year, President Obama heard repeatedly from countries, both advanced and developed, that this was a big issue and it was starting to become a really big problem for them to take the US

commitment to these institutions and broader international policy issues more seriously, that the US reluctance to move ahead with this was causing some friction.

The fact that the administration tried to get this over the goal line and failed, in full transparency to the world, I think probably is a pretty decent slap at President Obama's ability to go into these meetings in the future and make commitments that others look and then say, "Well we don't know if you can deliver on them."

I think what it means at the IMF in particular, is there are now going to be other means by which countries seek to fund the IMF in return for which we don't know what they're going to seek because they're not going to get voting rights, because that's directly linked to Quota. So, what would they get? That's an open question. I would argue that if countries come to the IMF and provide them with bilateral credit lines of \$100 billion, \$150 billion, \$50 billion at a time, they are not going to do so because they're just good international citizens, they're going to expect that their level of influence will increase with their financial commitment. That just made common sense.

How that is actually seen through the policy prism at the IMF remains to be seen, but I do think that if the US fails to actually get this Quota Reform over the goal line, we are at risk of actually really causing a problem now. The next Quota Reform is supposed to be completed this year. We haven't even passed the last one and now we're trying to deal with the new one. I think you're going to see countries that are going to exercise different levels of influence in a more indirect way than at the Executive Board of the IMF to the detriment of the United States and its broader interest.

Steve Weisman: When will this come before Congress again?

Douglas Rediker: I don't think there is a plan yet. I think that the idea of sending it up as a stand-alone piece of legislation, which has its merits, probably is not, in this administration, a high legislative agenda. That means it's got to be slapped on to another piece of must-pass legislation and it's unclear what that's going to look like. I think for the time being, we are stuck where we are and there is no immediate next step that I see as something that's going to stop the drift away from the US on these organizations and on the broader international economic policy agenda. It may change if we can get our act together and figure a way to get it through, but for the short term, this is clearly a step back.

Steve Weisman: Thanks, Doug.

Douglas Rediker: Sure. Thank you.

