



The IMF's Existential Crisis

Edwin M. Truman, elaborating on his proposal jointly offered with C. Fred Bergsten, says the International Monetary Fund should walk away from the United States if Congress fails to support its governance and finance reforms.

Transcript of interview recorded April 9, 2014. © Peterson Institute for International Economics.

Steve Weisman: The International Monetary Fund is holding its meetings this spring in Washington DC along with the World Bank and as usual a throng of central bankers and finance ministers in town. This year, the IMF is facing what Fred Bergsten and Ted Truman of the Peterson Institute are calling an existential crisis because of the failure of Congress to approve the finance and governance reform that President Obama agreed to a couple of years ago.

Ted Truman is here with me to discuss this situation. Ted, why is there an existential crisis for the IMF?

Ted Truman: The simple answer is that the United States crafted this agreement more than three-and-a-half years ago to reform the IMF's governance and its financial structure. The administration has been unable to persuade the Congress to approve this agreement. Therefore, all other changes in the fund, further governance reform, further augmenting resources and associated issues are frozen. We essentially have paralyzed the fund from moving forward. Not that it can't do its day-to-day business, but its legitimacy is gradually leaking away because we have blocked the approval of this piece of reform and financial legislation in our case.

Steve Weisman: The fund is proceeding with a package for Ukraine. Doesn't this suggest that it can do its major business?

Ted Truman: Yes, it can do its major business. But it is Ukraine and it has plenty of money now. The issue is not money. In fact, the legislation is not about more money for the fund. It is about recognizing in the fund that the world is changing and the dominance of the North Atlantic -- the Europeans, but also United States -- over the fund and fund policies should change as the other countries in the world have become more important. By putting the whole institution in deep freeze doesn't mean you're abolishing the fund. It you will make it, if the status quo persists, increasingly irrelevant in terms of not just lending to Ukraine, but all its other activities.

People forget that the lending activities of the International Monetary Fund absorb about 15 percent of the manpower at the institution. People at the fund do lots of other useful things in the world -- publishing outlooks and doing research, promoting better transparency and accountability and enforcing and observance of international standards and codes, all very useful public goods that having nothing to do with lending. All that and the power to coax and cajole countries to have better policies, to be more transparent and accountable about their policies and the governmental activities will gradually erode unless we can act to reinforce or reinvigorate its legitimacy.

Steve Weisman: Are you seeing signs of this reduced legitimacy as you attend and participate in meetings this week?

Ted Truman: I think there are two views on this. There is a view that is highly frustrated and then there's the other view that is more of the bureaucratic view that says, "Well, these things take time." Sure it takes times. It's not the first time the United States has blocked change in the fund. But this

is the biggest one we've blocked for an extended period of time. Each time we do this, each time we slow down the process, block change, delay change, we take away from the authority of the fund.

I think you have seen some public statements and frustration about the US inaction. The rest of the world can't do much other than wring their hands, but there will be speeches at the fund and remarks in various forums about the failure of the United States to act. Each time someone says that, the more people say, "We can't count on the fund, so we're going to look elsewhere."

Steve Weisman: You and Fred Bergsten have suggested a radical approach to the fund, maybe more as a thought experiment than a realistic possibility, that the fund just walk away from the US and reform on its own using various arcane mechanisms, set-up a new governance structure, which would effectively reduce US influence and maybe eliminate the US veto over fund actions. Are you getting anywhere with that idea?

Ted Truman: I think both ideas [do not] have a high probability. One idea would be to at least create a sort of parallel fund, at least the funding part of the fund in which the United States did not participate and the United States did not have a vote. That would be in part creating a fund next to the fund and that's the idea that Fred has put forward -- not so much as a proposal, but as the inevitable result that the fund, if it's thoughtful about these things, will try to figure out a way to go on without us.

My proposal is a little more Machiavellian and therefore even less realistic. You could restart this process not to give up the US veto in the fund. The point is that if on certain major decisions and certain aspects of it, the United States -- because it has more than 15 percent of the votes in the fund and can block certain decisions that require an 85 percent vote -- would go through a two-step process by which we restart the quota proposal, which is essentially a governance proposal reallocating quotas and therefore reallocating votes.

The Secretary of the Treasury votes for that, which she would have to because it requires an 85 percent majority, but the implementation of that, the effectiveness of that resolution would not require 85 percent approval. That would say to the United States Congress and to the Administration that if you want us to keep your voice and your vote at the level that it is in the fund, then you have to approve this governance reform. The chances of that are somewhere between null and zero. But the fact that both Fred and I embrace this as former assistant secretaries who defended the fund for many years shows the level of frustration among American friends to the fund.

Steve Weisman: Is there any chance on the horizon of Congress returning to this and approving it?

Ted Truman: I think we should make one thing clear. The latest round was killed by the Democrats, not by the Republicans. The Republicans at least in the Senate were lined up. It was the Democrats who ran away from the issue. So, the fault lies with the Republicans in the house, the Administration, the White House in the Treasury and the Democrats in the Senate. We got a lot of room for blame on this issue.

I think there is some hope that the proposal is in the US budget, in the 2015 budget. There will have to be some sort of budget resolution by the end of September and there certainly is a chance that the Congress will approve this as part of the 2015 budget.

I certainly hope so. That would be the best outcome. An even better outcome would be for the Congress to take it up sooner or to attach it to another piece of legislation.

Steve Weisman: Ted, thank you very much.

