



Two Cheers for Congress on IMF Funding

Edwin M. Truman hails the decision to provide fresh US funding to the multilateral lender but argues the move comes a bit too late to prevent damage to American leadership.

Unedited transcript of interview recorded December 22, 2015. © Peterson Institute for International Economics.

Pedro da Costa: Hi, I'm Pedro da Costa, editorial fellow here at the Peterson Institute for International Economics and I'm joined by Ted Truman. And he is a senior fellow here and we're going to talk about the funding of the IMF. It looks like we've finally managed to get some money together for those guys. Can you explain why your glass is only half-full of champagne as you said in your blog post?

Ted Truman: Well, it's only half-full for two reasons. But the principal reason is, I think, that there's a risk that this will have been a Pyrrhic victory. Here we have been struggling to get this piece of reform legislation through for five years and the price that was paid was on the one hand to take efforts to pull back from the Fund. Because one condition, before we complete the operation, requires us to get a change in IMF policy. That change is one that is favored by most other countries. It was not initially favored by -- it is not the United States.

So, that's all right in the short run but the precedent of saying that holding hostage something like to the US Congress because of its negative views about what the Fund is doing is quite damaging.

Pedro da Costa: Do you think it's likely to be followed by other countries now?

Ted Truman: Other countries can't do it that's the point. And so because we were necessary to do it, we were necessary to put through the package the way it was put together. We could hold the Fund hostage and Italy can't do that or Brazil can't do that or even China can't do that.

Pedro da Costa: What does that do to our leadership within the Institution?

Ted Truman: So I would suggest that we are--we're throwing our weight around but it's in a way in which the other members of the Fund, sometimes if the situation were reversed, is something that we wanted and they, the rest of them didn't want, then you'd have to be a loggerhead.

And the other aspect of it is that this is the way down the road but as one of the provisions in the legislation is that in 2022, in order to continue our funding, the backstop relays the funds for the Fund under the so-called new arrangements to borrow. The Congress has to re-authorize that and if not, we would pull out of that operation and we would be --

Pedro da Costa: So, it's for another political fight in the future?

Ted Truman: In the long future, it's a long time away, but we put some marker down that we are actually--want to withdraw from our leadership in the international organization and probably others.

Pedro da Costa: Why is that? I mean, this is an institution that was founded with the leadership of the United States. The US has played the leadership both in its funding and its functioning. Why are we flagging in our commitment to the institution?

Ted Truman: Well, my sense is that a lot of our public opinion -- two answers. A lot of our public opinion and leadership is withdrawing from the world. The world is messy. We don't seem to be able to have our way whether it's talking about immigration or ISIS or whatever it might be or various incursions around the world. We don't like the rest of the world and we're withdrawing, in some sense, withdrawing from that traditional post-World War II leadership world in the world economy.

And the other side is that, if you want to put it that way, we--and this is if we want to put it that way, the elites like those people here at Peterson Institute for International Economics have done a lousy job in explaining the value of international institutions to the general public, not only with the Congress and their staff.

Pedro da Costa: The importance of the Fund, the Fund's role seem to diminish as emerging market crises of the late 1990s kind of faded, but then, of course, its role came into full prominence with the Euro zone crisis. Does our internal political squabbling in any way imperil funding for the Institution or functioning in the short term or how does it affect the Fund?

Ted Truman: Well, it wasn't an issue this time because this particular package, although it provided a little bit more effective funding to the IMF, it was tiny. It was something like 8 percent of the total effective resources were increased, and that increase will be that small.

In the meantime, the Fund's actually gone off and Bob made us some special borrowing arrangements which would add more like 30 or 40 percent to the resources.

So, in some sense, the resource argument is not part of this debate but is a part of the next debate because the Fund has demonstrated in the context of the Euro crisis and there all have been more crises that the funding of the IMF is inadequate for its job.

We would like to pretend that we can put in place preventive measures so no countries would ever have to borrow from the Fund or other people look at the other way by providing so much money to the Fund. We encourage moral hazard behavior. I'm skeptical on both points, not that prevention isn't a good idea, not that moral hazard is there. But I don't think moral hazard is the biggest thing associated with IMF lending.

Pedro da Costa: All right, Ted, thank you very much for your time.

Ted Truman: Welcome. Great.

