EVALUATING U.S. CONTRIBUTIONS TO THE INTERNATIONAL MONETARY FUND

HEARING

BEFORE THE

SUBCOMMITTEE ON MONETARY POLICY AND TRADE

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRTEENTH CONGRESS

FIRST SESSION

APRIL 24, 2013

Printed for the use of the Committee on Financial Services

Serial No. 113–17

U.S. GOVERNMENT PRINTING OFFICE

80–883 PDF WASHINGTON : 2013

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

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EVALUATING U.S. CONTRIBUTIONS TO THE INTERNATIONAL MONETARY FUND

Wednesday, April 24, 2013

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON MONETARY
POLICY AND TRADE,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2 p.m., in room 2128, Rayburn House Office Building, Hon. John Campbell [chairman of the subcommittee] presiding.

Members present: Representatives Campbell, Huizenga, Pearce, Mulvaney, Pittenger, Cotton; Clay, Peters, Foster, and Carney.

Also present: Representative Royce.

Chairman CAMPBELL. The Subcommittee on Monetary Policy and Trade will come to order.

Without objection, the Chair is authorized to declare a recess of the committee at any time. And I will note that I am likely to be declaring a recess because we are estimating that votes are going to be called between 2:25 and 2:40 p.m.—we will recess while that vote series goes on. There should be no more than two or three votes, and then we will reconvene the hearing after that.

Also, without objection, members of the full Financial Services Committee who are not members of this subcommittee may sit on the dais and may participate in today's hearing.

So, with that, I would like to turn to opening statements. And I will recognize myself for 5 minutes—I won't use all of it—to recognize Under Secretary Brainard, and to thank you for being here. It is good to see you this afternoon.

We are here to talk about the International Monetary Fund (IMF), and the potential transfer of money from the New Arrangements to Borrow, known as the NAB, to the quota for the IMF, which is an amount I will call $64 billion, since some estimate it at $63 billion and others call it $65 billion. So, I will call it $64 billion. And apparently, the Administration is interested in this. But today, I think we have a lot of questions about this. And I don't think that anyone up here, to my knowledge, has their mind made up one way or the other.

But I do believe that we have a lot of questions. And amongst them are this is part of an agreement that the Administration made, it is my understanding, in 2010. But until the President's budget came out this year, there was never any formal request for this transfer. So if this agreement was made in 2010, and if this is a priority for the Administration, why have there been no other requests, nothing formal about this for 3 years until today, and even until last month.

And even though there is something within the President's budget, it could be argued that there still isn't a formal request, and it could be argued to be a tepid request in one sort or another.

Other questions that are raised are about why the money really is necessary: Why does the IMF need to expand the capital that it has?

The IMF has nearly $400 billion of borrowing capacity available to it today. Does it really need another $500 billion when it is not using the $400 billion that it has? And if so, are there additional amounts that may be needed in the future beyond that amount as well?

We have to look at all this in the context of our budget, of the budget of the United States Government. And we all know we have had a sequester. Some of us were late getting flights here because of that; whether that is justified or not is a matter of debate. But certainly the sequester is a matter of great discussion here in Washington and the Federal budget and reductions in the Federal budget, et cetera. And although this is often characterized as an exchange of assets, the United States' contribution to the International Monetary Fund cannot be considered as a zero cost or a benign contribution, or something that has no impact whatsoever on the United States, on our budget, or on how much money we have to borrow through Treasury bills in order to finance things.

So I think we have to look at all this in the context of the other things that we are doing now in the International Monetary Fund and that we are doing with the U.S. Government as well.

Further, recently in the continuing resolution, there was $4.6 billion which wound up being appropriated for the World Bank. Now, this was an amount which had never been requested, there had never been a hearing, never any exposure whatsoever. I still don't even, frankly, know entirely what it is because it never had any exposure or anything at all to this committee whatsoever and was merely stuck in by Senate Appropriators in the continuing resolution and then passed. That is not a correct way or a good way or a proper way to do this sort of appropriation, this sort of authorization with this sort of spending of U.S. taxpayer funds. So I would be remiss if I didn't mention that seeing that thing go on in the last month or so has left some of us up here with a not particularly good taste in our mouth for what exactly are the Administration's plans and why are they not being as forthcoming and as direct and as open with those plans as perhaps they could be.

With that, I will now yield 5 minutes to the ranking member of the subcommittee, the gentleman from Missouri, Mr. Clay.

Mr. CLAY. Thank you so much, Mr. Chairman, and thank you for holding this hearing entitled, "Evaluating U.S. Contributions to the International Monetary Fund."

Also, I want to thank Treasury Under Secretary for International Affairs Lael Brainard for appearing today to discuss the President's Fiscal Year 2014 budget request. As we all know, the IMF was born at the Bretton Woods conference in 1944, post World War II, in the Great Depression, to address the concerns of allied nations. And the United States in the Bretton Wood Act requires congressional authorization to change the U.S. quota or shares in the Fund or for the United States to vote to amend the Articles of Agreement of the IMF or the World Bank. The U.S. Congress thus has veto power over major decisions at both institutions.

Currently, the Administration has requested to authorize governance reforms at the IMF that increase U.S. quota share by $63 billion. Quotas are the primary national contribution to the IMF and are the foundation of country representation at the IMF. The country's quota determines subscriptions, access to financing, and voting power. The total of all member countries' quota subscriptions is $238 billion; special drawing rights, approximately $376 billion. In regards to voting power at the IMF, U.S. voting share is 16.75 percent. The United States is the only country able to unilaterally veto major IMF decisions. And the functions of the IMF are surveillance of financial monetary conditions in its member countries in the world economy, financial assistance to help countries overcome major balance of payment problems, and technical assistance and advisory services to member countries.

Due to the recent financial crisis, Congress has become more aware of world economics. There are many issues that Congress may want to consider including: should the IMF act as an international lender of last resort; are the resources of the IMF sufficient to meet its goal; and how can IMF surveillance be more effective?

Again, Mr. Chairman, thank you so much for this hearing. I look forward to the witness' testimony.

Chairman CAMPBELL. Thank you, Mr. Clay.

The gentleman yields back. I now recognize the vice chairman of the subcommittee, Mr. Huizenga from Michigan, for 5 minutes.

Mr. HUIZENGA. Thank you, Mr. Chairman, and Ranking Member Clay as well for holding this hearing today. I know everyone recognizes the role that the IMF plays as far as global financial surveillance, technical assistance, and of course, as we have seen, lending, and a lot of it. And although the IMF membership is comprised of 188 countries, the United States is a contributor of about 17 percent of its budget.

There are a lot of us who fear that if there was a European default of some sort, it would put taxpayers on the hook for that 17 percent. And, frankly, that is just not acceptable to me. It is not acceptable to my constituents in the Second District on the west side of Michigan.

We simply have to look at the record. The IMF is—I would say most have recognized it as not always having its most shining moments in most eyes. Sixty-two percent of their total commitments are currently to Europe as a whole. Despite the IMF's financial commitments to Europe, obviously stagnation has continued to constrain the European economy. Optimism that it was headed toward a recovery has been punctured by continued struggles in Greece, of course, Cypress, the botched bailout there, and the court ruling against the austerity measures in Portugal, and certainly a lot of political pushback on that.

Most everyone believes that Europe certainly has the capacity and the capability to solve these issues on their own. But they simply don't seem to be willing to do that. And that is where I think so many people have that concern.

Every dollar that the Congress sends to the IMF implicitly expands the IMF's mandates from countries struggling to find that economic footing to nations in danger of squandering their inheritance. To be more direct, I believe the use of IMF as a backstop for advanced European countries calls into question whether the institution is becoming an enabling crutch instead of a helping hand for a lot of these countries which have gone through that.

We simply have to look at what the Netherlands has done, and some of the other countries, contrasted with some of the other larger economies; some of those European countries have definitely put their financial house in order, and others are refusing to do so.

As we know from our experiences in this country, guarantees can create moral hazards as well. And even for the most advanced nations, the freedom to succeed requires the freedom to fail and to get back up as well.

What I don't understand, and I know the chairman alluded to this as well, is if this funding is a priority for the Administration, I am a little surprised and, frankly, a bit confused as to why it has not been more directly budgeted up to this point. And we will see what the Under Secretary has to say as well with this current budget proposal.

But, Mr. Chairman, I appreciate that, and Ranking Member Clay, I look forward to this discussion. It is a meaningful conversation on these topics, and I am looking forward to the responses. So thank you. I yield back.

Chairman CAMPBELL. Thank you. The gentleman yields back.

And now, I will yield 1 minute for an opening statement to the gentleman from Illinois, Mr. Foster.

Mr. FOSTER. I hope not to use all of it. I just wanted to express my gratitude to Under Secretary Brainard for you making yourself available to me and my staff for a very good bipartisan meeting where I know that certainly I got all my questions answered and my staff was also completely satisfied. So I just want to thank you for really being, to my mind, very transparent and open about all the details that we had time to ask you. Thanks so much.

Chairman CAMPBELL. The gentleman yields back. All opening statements have been completed.

I would now like to welcome our distinguished witness, the Honorable Lael Brainard, Under Secretary for International Affairs at the U.S. Department of the Treasury. She served as Deputy National Economic Advisor and Deputy Assistant to President Clinton for International Economics; held the position of vice president and founding director of the Global Economy and Development program at the Brookings Institution; is a former associate professor of applied economics at the Massachusetts Institute of Technology's Sloan School of Management; and was a former consultant for McKinsey and Company. She holds a bachelor's degree from Wesleyan University, and a master's and a Ph.D. from Harvard University in economics. I am exhausted just reading all that.

But you will be recognized for 5 minutes to give an oral presentation of your testimony. Without objection, your written statement will be made a part of the record. I think you know all this, but on your table, there is a light. It will start out green. When it turns yellow, you have 1 minute to sum up; and when it turns red, please suspend. And each member of the subcommittee will have 5 minutes with which to ask you questions once your testimony is completed.

Under Secretary Brainard, you are now recognized for 5 minutes.

STATEMENT OF THE HONORABLE LAEL BRAINARD, UNDER SECRETARY FOR INTERNATIONAL AFFAIRS, U.S. DEPARTMENT OF THE TREASURY

Ms. BRAINARD. Chairman Campbell, Ranking Member Clay, and members of the subcommittee, thank you very much for taking the time to consider this important issue and for giving me the opportunity to discuss it with you today. On July 19, 1945, not far from this room, Congress provided, on a strong bipartisan basis, overwhelming support for U.S. participation as a founding member and key architect of the International Monetary Fund.

Today, the President's budget request for the IMF is vital to preserve that leadership of the United States in the IMF. The budget proposal will expand the core quota resources of the IMF with no net new U.S. financial participation in the IMF, while preserving the U.S. veto, the only veto, and enhancing the legitimacy of the institution.

The President's budget includes this commitment in a way that is fully offset and does not change the net U.S. financial participation in the IMF. We are open to working with you and other Members of Congress on any viable option to get this enacted expeditiously.

Our participation in the IMF is an exchange of equivalent assets. And our claims on the IMF are fully secure. The IMF has a strong balance sheet, with a value of reserves and gold holdings in excess of total credit outstanding. As the world's preferred creditor, the IMF has an excellent repayment record with no history of default. The IMF has the unique ability to leverage strong economic reform conditions as a precondition for extending credit.

We are the only country with a veto to shape major IMF governance and resources decisions. We should carefully steward this privilege, especially as emerging economies, like China, seek greater influence in the coming years.

Let me touch very briefly on the three ways the IMF promotes American core interests. First, the IMF is the world's financial firefighter. When financial conflagrations strike beyond our shores, the IMF provides firebreaks to limit contagion, while helping our trading partners stabilize and heal their economies. By sheltering our economy from headwinds abroad, the IMF helps to cushion the impact on U.S. jobs, business investment, and household savings for college and for retirement.

In Europe, the IMF has encouraged European leaders and the ECB to put in place a joint strategy backed by a strong European firewall which has enabled countries undertaking tough necessary reforms to clean up bank balance sheets and ensure ample liquidity. The IMF is now calling for a European strategy to boost demand and combat unemployment, which is important to our recovery here in the United States.

Second, the Fund's work as peace builder helps prevent and mitigate the economic stresses that foster instability, extremism, and violence. In the Middle East, the IMF is helping to address long-standing impediments to sustainable and inclusive growth that are essential in securing democratic transitions in Arab Spring countries, such as Tunisia and Yemen, and to anchor economic stability in Jordan and Morocco. The United States has successfully advocated for the IMF to support spending for poor people in its low-income country lending arrangements and to eliminate Haiti's entire outstanding debt to the Fund, following its devastating earthquake, at no cost to the United States.

Third, and finally, the IMF is a key global economic standard setter, setting standards for the open-market-based system of international trade and finance that is core to U.S. prosperity. When countries join the IMF, they sign up for important obligations that help maintain open markets and avoid beggar-thy-neighbor policies. The IMF releases public assessments of member policy frameworks to strengthen market discipline. The Fund helps investors better assess risks by setting international standards for the quality, timeliness, and consistency of national data reporting. Countries face censure when they fail to meet those reporting obligations, as was the case in Argentina recently. G-20 leaders committed to implement the quota and governance reforms late, by the end of last year. Today, only U.S. approval is necessary for these important reforms to go into effect.

The IMF is one of the great triumphs of international cooperation, forged in the ashes of war in order to strengthen the foundations of peace. At its founding, the United States had more influence on the IMF's design and operations than any other country. Today, it is vital we safeguard that historical legacy in the face of rapid shifts in the global economy. Thank you.

[The prepared statement of Under Secretary Brainard can be found on page 24 of the appendix.]

Chairman CAMPBELL. Thank you, Secretary Brainard.

The Chair recognizes himself for 5 minutes for questioning.

Let's first talk about what this costs. You talked about an exchange of assets, suggesting that perhaps there is little or no taxpayer risk or no cost to this. We are not the CBO. But my understanding is that if we move this $64 billion from the NAB account to the quota, it requires a quarter of that to be paid in capital, which actually requires a check from the U.S. Treasury. Is that inaccurate?

Ms. BRAINARD. The IMF quota reserve tranche position is an exchange of assets. So we have a reserve position at the IMF, which is fully liquid and encashable. It is viewed as a one-for-one exchange of assets, and has been for the decades that Congress has supported U.S. participation in the IMF.

Chairman CAMPBELL. Okay. I understand. But we do have to have 25 percent paid in capital for the quota. I understand what you are saying, an exchange of assets. But technically, if I buy this table, it is an exchange of assets, cash for the table. So every transaction, in a sense, is an exchange of assets. But we do actually have to send roughly $16 billion there, which will have to be borrowed. Isn't that correct?

Ms. BRAINARD. The way it operates is that we have access to our liquid assets that sit at the IMF. And, in fact, we have drawn on them in the past. So, in that sense, it really is truly an exchange of liquid encashable assets. And it is been viewed for decades by Congress as something that for those reasons does not warrant outlays.

Chairman CAMPBELL. Okay. I really have a hard time—I guess it must be this 25 percent paid in capital because you haven't actually answered that particular question. But assuming that is correct, it is hard for me to sit here and say, all right, this is a $64 billion investment that somehow doesn't take any cash, doesn't take anything, and there is absolutely no risk to the U.S. taxpayer. Gosh, why don't we send them a trillion dollars, then? I don't think that is something that passes the smell test, frankly.

Ms. BRAINARD. So the way that this has always been treated, with one exception in 2009, by Congress, is, because it is quite a unique arrangement, because the IMF reserve tranche of the United States is a liquid encashable part of our reserves, it has always been treated as not necessitating outlays of any kind.

Chairman CAMPBELL. Okay. Let me go on to something else, then. We may be disagreeing on that.

It is also my understanding that the IMF right now has $400 billion in available lending capacity. I believe with the U.S. interests and then the other countries' interests, it would increase their capacity by about another $500 billion. Why does the IMF need more money to lend when they aren't lending the money they have?

Ms. BRAINARD. I would say, first of all, that while this is a very modest expansion of the overall resources of the Fund, it is primarily a transfer from the standing backstop, the NAB, to the core quota resources of the Fund. And we view that as important because it is in the core quota resources of the Fund that we have our veto and that is the core central operations of the IMF.

Chairman CAMPBELL. Okay. But why does it need it there potentially to loan more? Because there is a different threshold for loaning money out of the quota than there is out of the NAB.

Ms. BRAINARD. For the purposes of the IMF voting shares, of course, it is the core quota resources of the Fund that we think are critically important. The second thing you asked about, the overall size of the Fund, the size of the Fund in relation to the world economy has actually slipped pretty considerably from closer to 1 percent of world GDP to approximately half of a percent of world GDP today. So our sense is that for the reasons that we all believe strongly, because the IMF is a crucial financial firefighter that protects our jobs, because the IMF protects U.S. national security, and because the IMF helps to ensure open and transparent international financial markets, we think it is important that the Fund be adequately resourced relative to the size of the global economy.

Chairman CAMPBELL. Thank you, Under Secretary Brainard. I want to keep myself and everybody else on time, if we can.

Mr. Clay is recognized for 5 minutes.

Mr. CLAY. Thank you, Mr. Chairman.

Madam Secretary, before I get into the contributions to the IMF, as you know, our neighbor to the south, Haiti, experienced a devastating earthquake on January 12, 2010, that killed more than

300,000 people, left over 1 million homeless, and crippled the ability of the Haitian government to provide security and deliver services. In the wake of the disaster, the American people and the global community rallied in solidarity with the Haitian people to provide one of the largest relief efforts in history. As the Center for Economic and Policy Research points out in a recent report, despite billions of dollars pledged to build back better in Haiti, more than 350,000 Haitians remain internally displaced, and it is unclear what sustainable impact our funds have had. Congress has a responsibility to ensure that relief and reconstruction funds in Haiti are effectively spent to maximize long-term impact. Can you tell us about the status of efforts in Haiti or provide this committee in writing a report on the progress in Haiti since the disaster?

Ms. BRAINARD. Let me just speak briefly about the parts of that effort that Treasury is responsible for overseeing. As you say, Haiti experienced a devastating earthquake, and there was strong bipartisan support here in Congress and certainly in the Administration for helping Haiti to build back better from that. Through the IMF, that led to full debt relief for Haiti, which we think was extremely important. Also, through the multilateral development banks, working hand in hand with our bilateral assistance windows through the U.S. Agency for International Development (USAID), we put a great emphasis on moving quickly to help Haitian families recover and rebuild. And the Inter-American Development Bank (IDB), in particular, we were able to secure agreement around debt relief there that released $200 million annually for 10 years of cash assistance, of grant assistance to Haiti. And we are in the third year of that funding today. That funding has gone toward helping to create more private sector employment, and trying to help rebuild devastated communities. We are frustrated, as you are, that those efforts are as difficult as they are, but we are very committed to continuing the hard work that needs to be done.

Mr. CLAY. Would you be able to supply this committee with something in writing assessing the progress that has been made in rebuilding?

Ms. BRAINARD. I would certainly be happy to do so, again, with regard to the parts of our assistance efforts for which Treasury has responsibility.

Mr. CLAY. Going back to the budget request, do you believe that United States involvement is required to help play a role in balancing the world economy? Just a general question. Let me hear your thoughts on that, please.

Ms. BRAINARD. The IMF is absolutely core to advancing American values and interests around the world. It is designed in a way that I think gives us disproportionate influence in the way that countries prevent and respond to financial crises. And, again, helping sustain the international system of trade and finance that is so vital to our economic system. I think if the United States were to walk away from this agreement, it would lead to other countries finding alternative arrangements and a devastating loss of U.S. influence in the international financial system.

Mr. CLAY. With the uncertainty of global economic status and the results of the recent financial crisis, please explain why the U.S. involvement with the IMF is necessary.

Ms. BRAINARD. I think it is a illustrative period in history. In the wake of the financial crisis, which led to unprecedented collapses in trade around the world, in 2009, the G-20 leaders came together, and they asked the IMF to do more. And they had very strong bipartisan support from Congress in helping ensure that the IMF would have adequate resources to do that. As a result of the efforts through the IMF and through the other multilateral development institutions, trade was restored quickly, financial flows, which were collapsing in many emerging market countries were reversed—

Chairman CAMPBELL. Secretary Brainard, if I could ask you to wrap up?

Mr. CLAY. My time is up, and I yield back.

Chairman CAMPBELL. The gentleman yields back.

They have called the votes. I think we will do one more set of questions here, and then we will recess at that time for this series of votes, and then we will come back and continue with Mr. Foster.

So, right now, I will recognize the gentleman from Michigan, Mr. Huizenga, for 5 minutes.

Mr. HUIZENGA. Thank you, Mr. Chairman.

Under Secretary Brainard, do you believe the IMF has been successful?

Ms. BRAINARD. I think the IMF has been successful in advancing core economic interests and values and that the right way to assess the value of the IMF is the extent to which we have seen rapid rebounds from major financial crises abroad and the extent to which we have managed to shelter jobs and investment savings here at home from those events.

Mr. HUIZENGA. And that would be sort of your definition of success?

Ms. BRAINARD. We have a broader set of interests. As I stated earlier, the IMF was critically important, for instance, when countries like Poland came into the community of market democracies after many years. The IMF has been extremely important in helping advance our national security. And today, it is playing a role helping to provide economic foundations for the political transitions currently underway in Arab Spring countries and, of course, again, in helping to ensure an open international financial and trade system.

Mr. HUIZENGA. But we know most of their activity is not in the Arab world, it is not in Haiti, it is not in these other places. The sixth largest commitments and/or loans that are out there are Greece, Ireland, Portugal, Mexico, Poland, and Colombia. You can make the argument that at least four of those should be able to do this just fine on their own. With Colombia and Poland, as you point out, there might be some issues.

But I am concerned because it seems to me that their operations really ought to be grouped, and I think I talked about this in my opening statement, technical assistance, surveillance of what is happening, and then the lending part.

So it is one of three. And I think if we look at the surveillance, with the IMF monitoring the economic and financial policies of its member countries to identify possible risks to financial stability and offer advice on policy adjustments. Just look at Europe. It seems to me that is a failing grade there.

Technical assistance: The IMF provides technical assistance and training to help its member countries strengthen their capacity to design and implement effective policies. And whether it is assistance in monetary and financial policies, fiscal policy and management, statistical data compilation, economic and financial legislation, I haven't seen that out of there either.

It is the third thing, the lending, that you are pointing to as the definition of success. And, to me, that is a part of that definition. It would seem to me that they need to be doing all of the others. I am sure that they are surveilling this and monitoring it, but I have not seen much success, by that definition.

Ms. BRAINARD. I think it is very important that we do not define the IMF primarily as a lending institution. It is extremely important.

Mr. HUIZENGA. But didn't you just do that?

Ms. BRAINARD. I believe, in fact, that the emphasis I have tried to place in the discussion here today, and certainly in our engagement in the Fund, is very much on the activities of standards setting and surveillance of implementation of those standards.

Mr. HUIZENGA. Have they been successful on that?

Ms. BRAINARD. Just recently, the IMF censured Argentina for not releasing public data according to internationally acceptable standards.

You mentioned commitments to Mexico, Poland, and Colombia. I think it is important to recognize those are conditional commitments. And, in fact, none of the three countries has drawn a cent from those three conditional commitments. They are really intended as a certification of the really outstanding policies, economic policies those countries—

Mr. HUIZENGA. Just a moment. You can't have it both ways. And here is how you are trying to have it both ways. In this particular instance, you are saying, well, this really doesn't cost anything. It is just a commitment. It is really nothing that needs to be accounted for. Yet we are hearing, from this request, no, no, we need this additional money in because we can't subject this to phantom accounting. And it seems to me that you are being inconsistent on that particular point.

Ms. BRAINARD. Let me just read you a quote; I think it is a really good quote: "The IMF is not foreign aid and the requested funds are not being given away. We will have additional drawing rights in that amount from the IMF. The sum we are asking Congress to approve does not increase our budget. The IMF and its programs help keep Americans at work."

That is a quote from President Ronald Reagan in 1983.

The emphasis that we are placing today on the IMF and the way that we are asking for bipartisan support for this very important commitment is absolutely consistent with bipartisan leadership, both in the Executive Branch and in the Congress, over the many decades the IMF has helped strengthen the world's economy and our economy.

Chairman CAMPBELL. Thank you, Madam Secretary.

The gentleman from Illinois, Mr. Foster, wants to try and squeeze in a question before the vote. So I will recognize you for 5 minutes, and hope you don't take it all.

Mr. FOSTER. That is my plan. Could you briefly walk us through the sequence of events that could, in principle, lead to a taxpayer loss from this commitment and highlight any differences before and after the proposed transfer from the NAB to the quota?

Ms. BRAINARD. Yes. I think the record is pretty compelling in this regard. Since 1945, there has been no taxpayer loss on the IMF. The IMF has a very unique balance sheet. The IMF's reserves and gold outstanding exceed total credit outstanding. Again, the way this has traditionally always been viewed, and it is viewed in every other country, is an exchange of assets, where the U.S. position in the IMF is fully liquid and encashable. And when the IMF itself—again, we are not exposed directly to borrowing countries; we are exposed to the balance sheet of the IMF. But when the IMF extends credit, it is quite unique in being able to set the policy framework in which the lending takes place so that there has never been a default on an IMF—

Mr. FOSTER. I understand the historical record. But if you are to be infinitely skeptical, can you define a series of events, a bunch of unwise lending by the IMF followed by a sovereign default or whatever it is, what sequence of events might in principle lead to a taxpayer loss? And would there be any differences before and after the proposed transfer?

Ms. BRAINARD. So for all the reasons that I suggested—the rock solid balance sheet, the nature of our claims—it is very difficult to specify circumstances under which the U.S. taxpayer might actually lose money. And, again, these are commitments that we ourselves have access to in times of liquidity duress.

With regard to differences, the NAB is a permanent standing backstop. So, in that sense, it is simply a transfer from one window of the IMF to another. The only difference in the way that the two mechanisms operate is that there is a reserve position associated with a quota. We earn interest on that. It is part of our set of liquid assets to which we have access.

Mr. FOSTER. I understand. I was just fishing for any scenario—so you are saying that there is not any scenario that you could—

Ms. BRAINARD. I couldn't rule out hypothetically—

Mr. FOSTER. Just describe one scenario.

Ms. BRAINARD. It is difficult because of the number of safeguards to see that kind of a scenario coming to pass.

Mr. FOSTER. Okay. Thank you. I yield back. I have to go vote now.

Chairman CAMPBELL. Thank you, Mr. Foster.

The subcommittee will now be in recess until after these votes. [recess].

Chairman CAMPBELL. The subcommittee will reconvene.

I thank Under Secretary Brainard very much for your indulgence during these votes.

And I will recognize the gentlemen from New Mexico, Mr. Pearce, for 5 minutes.

Mr. PEARCE. Thank you, Mr. Chairman.

And thank you, Madam Secretary, for your presence here today.

One of the things that I continue to hear no matter who is testifying about the IMF is that we have never had a bad loan. Have any of the terms ever been changed on any of the loans?

Ms. BRAINARD. There has never been a restructuring of the loans, although, of course, programs do change as macroeconomic conditions evolve and—

Mr. PEARCE. So, you are saying we have never had a change in loan terms? Have we ever written down any loans?

Ms. BRAINARD. Loans have not been written down at the IMF.

Mr. PEARCE. Okay. And have we ever extended maturity dates?

Ms. BRAINARD. Normally, what would happen is you might have a new program coming in, and that would be the more normal way of doing things at the IMF.

Mr. PEARCE. Yes. Since that doesn't translate to New Mexico talk, I will just say that it sounds like we probably have. And Christine Lagarde was here sitting out there right where you are, except it was a very small gathering, kind of intimate, quiet, after hours, no press, and she said absolutely that loan terms have been changed, that loan amounts have been written down, they extended maturity dates, all to avoid default.

And so when I hear that the taxpayers never lost a dime, that is kind of a curious position, because when I think, has a taxpayer ever lost a dime, we have never asked for the money back? And so it is like the money I have loaned my brother through the years and I never get it back, but I haven't technically lost it. I suspect I could go and squeeze him and maybe get part of it, but I can't declare it a loss. And I get the feeling that our defensible position here is that we have never asked for money back and so we have never really—we have put a lot of money in.

So this idea that Greece is going to make good on its loans, maybe in 100 years, maybe not. They are not paying their taxes. That is the reason they are having problems.

And my difficulty is I have to go back and explain to people who make $31,000 a year, on average, in New Mexico—we are 47th per capita in income—why they are going to pay taxes to bail out Greece when its own citizens won't pay taxes to bail out Greece. So, that is a pretty hard sell. And, likewise, Ireland—go ahead.

Ms. BRAINARD. I was just going to say, you won't need to make that sell. The arrangements that we have with the IMF are with the IMF. And so, in fact, U.S. taxpayers are not making loans—

Mr. PEARCE. That is funny, because I see a $63 billion request here in the President's budget. Is that correct, that we are going to send $63 billion? The fact that they may get it back someday, I might get my money back that I lent to my family, but maybe not also.

Ms. BRAINARD. Yes. No, it is not a bank. We have a reserve position in the IMF. We have a one-for-one exchange of reserve assets. And, in fact, we have a liquid position in the IMF that we can and have drawn on, and so it is quite a different kind of institution.

And the reality is that if every loan from the IMF were to default tomorrow, the gold and reserves position at the IMF is more than adequate to completely cover all of that. So it is a very different kind of institution.

And, again, the history here is that because of the IMF's preferred creditor position, unique preferred creditor position, because of the strength of its balance sheet and because it sets program conditions, we have never had countries that actually borrow from the IMF default.

Mr. PEARCE. If I could reclaim my time—

Ms. BRAINARD. So it is a very different kind of institution.

Mr. PEARCE. —because it is winding down pretty quickly. I suspect that if we, the American taxpayer, went back and asked for our money back, all the money we have sent through the decades, I suspect that we could not get our money back no matter how strong the balance sheet is. I suspect—I remember, in 2008, we were sitting in this body and we were told that we needed to bail out Fannie Mae and Freddie Mac, that they are actually pretty solid, but we just need to guarantee those loans, and if we guarantee them, we won't have to do them. We are about $200 billion deep into that pool right now. I remember a firm called AIG. I remember the four rating agencies and the insurance firms that had less than $1 for every dollar that they insured, and they collapsed right in front of our eyes.

And so, when I am telling the New Mexico taxpayer that we are going to send $63 billion, forget whether they actually are giving it to them or not, we are going to write a check, and they wrote a check to make that happen, I have a really hard time selling that, because they are worried about what we are going to do in this country to keep us afloat.

Thank you, Mr. Chairman. I yield back.

Chairman CAMPBELL. Thank you.

I now recognize the gentleman from Delaware, Mr. Carney, for 5 minutes.

Mr. CARNEY. Thank you, Mr. Chairman.

Thank you, Ms. Brainard, for being here with us today.

I was at that meeting, the informal meeting we had with Christine Lagarde as well, with the gentleman, Mr. Pearce, and I remember her saying that the member nations had never experienced a loss as well, consistent with what you said today.

But Mr. Pearce asked a pretty relevant question, and that is, what is the relevance of the IMF to ordinary Americans? I think you touched on it a little bit in some of your opening comments, particularly when you talked about it being a firewall in protecting U.S. commerce and U.S. workers.

Could you talk about that a little bit, why you think that this investment and our involvement in the IMF is important for U.S. workers?

Ms. BRAINARD. I think the history at the IMF has been that there has been strong bipartisan support from Presidents from both parties, and Members on both sides of the aisle in recognition that we created this institution in part because we thought it was vital to both U.S. national security and economic interests.

When there are massive financial conflagrations abroad, the IMFs ability to go in and to create a fire break to help countries to stabilize their economies and to grow means that the financial contagion is limited, and as a result, Americans don't suffer risk to their college savings, and their retirement savings. Business investment here falls much less than it would otherwise and our jobs are preserved. And we saw that in 2009 when Congress had the foresight to support the new arrangements to borrow, and we have seen that repeatedly in the Asian financial crisis, in Latin America, with Italy and the U.K. in the 1970s during the oil crisis.

Mr. CARNEY. Somebody mentioned earlier today—I think it was Mr. Huizenga—that the six largest loans were Greece, Ireland, Portugal, Poland, Colombia, and I don't know what the others were.

Please briefly comment on the protection that those loans might be providing for U.S. workers and commerce here in the United States.

Ms. BRAINARD. We need to distinguish between Poland, Mexico, and Colombia, which just have credit lines with the IMF.

Mr. CARNEY. Okay.

Ms. BRAINARD. And, in fact, that reflects their really outstanding macroeconomic performance. They haven't drawn a penny from those lines.

In the case of Greece, Portugal, and Ireland, as you will remember, just as our economy was starting to gain strength, financial stress in Europe began to transmit to our financial markets, and we saw that equity values fell, and we saw that funding markets were also stressed here, until the IMF, working with the euro area, came in and helped these countries put in place programs to stabilize their economies.

Mr. CARNEY. So, in some ways, this is like a hedge against contagion or against negative impacts on our own economy, which would affect the men and women in my district who make $40,000, and the men and women in Mr. Pearce's district and other districts who make middle-income wages. Would that be your view?

Ms. BRAINARD. Exactly. It is a cushion. We help to cushion our economy from negative impacts from abroad through the IMF.

Mr. CARNEY. So why is the Administration supporting this particular change? Could you speak on that briefly?

Ms. BRAINARD. Yes.

Mr. CARNEY. My time is running short, but—

Ms. BRAINARD. This is no net new financial participation on the part of the United States. We think this is important because it strengthens the core of the IMF, which is where our veto sits, and it will help strengthen the core resources of the IMF and also make sure that our veto remains secure. Again, we are the only—

Mr. CARNEY. Does that mean we have more say over what our funds, what our investments or how our investments are being used or—

Ms. BRAINARD. We are the only country in the world that can veto changes in governance or in resources, the only country in the world. And secondly, we do have, through the quota, outsized influence on the policies of the IMF that we, I think, would see slip away if we did not step up and act.

Mr. CARNEY. So the consequences of not approving this could be that we would lose influence or—

Ms. BRAINARD. Yes. I think the consequences of not going forward and supporting this change in the IMF, again, no net new financial participation by the United States, would be to lead to more arrangements going outside of the quota, the IMF would spend more time raising bilateral loans from members that—

Mr. CARNEY. Where we have less say.

Ms. BRAINARD. We would absolutely have less say.

Mr. CARNEY. Thank you very much. My time is up.

Chairman CAMPBELL. Thank you. The gentleman yields back.

Now, I would like to yield for a moment to the ranking member for a unanimous consent request.

Mr. CLAY. Thank you, Mr. Chairman. I ask unanimous consent to submit into the committee record two letters: one from the Bretton Woods Committee, with a list of signees; and another letter stating their support for the Administration's request.

Chairman CAMPBELL. Without objection, it is so ordered.

Now, I yield 5 minutes to Mr. Mulvaney, the gentleman from South Carolina.

Mr. MULVANEY. Thank you, Mr. Chairman.

Secretary Brainard, I would like to go back to a question that I thought was well-phrased by my friend, Mr. Foster, before we took the break, which was, can you foresee circumstances under which taxpayers would be on the hook for IMF loans? I think your answer, and I don't want to put words in your mouth, was that it would be difficult. I would respectfully suggest to you that doesn't answer the question. Can you foresee circumstances under which the taxpayer would be on the hook for these loans?

Ms. BRAINARD. Again, let me just say if all the credit outstanding today were to go into default—of course we have never seen a default—today, the reserves and the gold holdings of the IMF would be more than sufficient to completely cover all of those claims. So for that reason, it is extremely hard to envision circumstances where the U.S. taxpayer would be in any way at risk. And, in fact, again, the IMF is for us a—we have a liquid claim on the IMF where if we needed to do so, we would have access to those resources as well.

Mr. MULVANEY. Okay. Let's move on to another part of your testimony, which was—and I may have misheard it, so I had them actually take a look at the transcript during the break, because either I heard it wrong or you and I are saying different things about different parts of the IMF, which is that you said it is in the core resources of the Fund that we have our veto.

My understanding was that we have a veto on the NAB account in terms of new activities, activating the account. If we are going to lend money out of the NAB, we have a veto there, but that our veto in the quota account, what I think you called the core account, exists mostly to do with the governance of that account and the paid-in shares, the quotas, and that a loan out of the quota account is not subject to our veto. Do I have that correctly or not?

Ms. BRAINARD. That is right. Loans from both the NAB and the IMF are subject to majority votes.

In the case of bilateral loans, however, because we don't participate in bilateral loans, and as you know, the IMF has recently amassed $460 billion of bilateral loans, because the quota had not been fully put in place, we don't have any kind of veto in that arena of activities.

Mr. MULVANEY. So if we move the $64 billion out of the NAB account into the core account, what I am calling the quota account, we would not have veto rights over the subsequent lending of that $64 billion out of the quota account? Is that a true statement?

Ms. BRAINARD. We will have a veto on governance and resources, but not on each individual loan, as has always been the case.

Mr. MULVANEY. Right. So if the IMF decides to take the $64 billion, along with all the other contributions from the other countries under this same program, and lend that out, we will not have a veto over that particular process?

Ms. BRAINARD. We will have—that is right. It is a majority vote. And we have a 17, slightly above 17 percent share on those. So it is—

Mr. MULVANEY. All right. I want to go to—again, I am struggling with why we are doing this. I may have just hit upon it, because now essentially we won't have a veto right over the loan in the future, but your testimony is interesting. It says this deal that we are talking about will also allow the United States to accept an amendment to the IMF articles of agreement facilitating changes in the composition of the IMF executive board while preserving a U.S. board seat and veto.

By the way, just coincidentally, this morning Jack Lew said almost exactly the same thing. He said the legislation will allow, et cetera, et cetera, preserve the U.S. board seat. He didn't mention the veto in his testimony this morning.

I ask you, why are we doing this, and why can't we preserve our U.S. board seat and our veto without doing this?

Ms. BRAINARD. We will maintain our board seat and our veto, but we will be the only country not to move forward with an agreement that we believe to be in the U.S. interest. And we will, I believe, by doing that, contribute to the erosion of that core voting arrangement, core resources of the IMF, which is and has been at the center of the International Monetary System and—

Mr. MULVANEY. Fair enough. Tell me, then, why—

Ms. BRAINARD. —will undermine U.S. leadership.

Mr. MULVANEY. And I am sorry to cut you off, but you know we are under these tight time constraints.

Tell me why it is in our best interest, when we could loan money directly out of net—we could loan the $64 billion. Again, I know it is a number that may not be accurate, but we could loan it out of the NAB. We have done it in the past. Okay? We could loan it out of there today subject to our veto. Once we move it into the quota account, we won't have that veto. Why is it in our interest to move that $64 billion essentially into an account that we no longer have unilateral veto over?

Ms. BRAINARD. I think it is important to say that the veto that you are talking about, the NAB, is only on activation.

Mr. MULVANEY. Correct.

Ms. BRAINARD. It is not on—it is not any different in that sense, then, in the core resources of the Fund. It is only on activation; it is not on the individual program decisions. So I think that distinction is not there.

It is in our interest because for us, the quota is the core governance mechanism of the IMF. The IMF is a quota-based institution. And to the extent that we want to continue to have the IMF be at the center of the system and not have our influence eroded by ad hoc arrangements like bilateral loans, it is very important for the United States to sustain—

Mr. MULVANEY. But we have made loans out of—

Ms. BRAINARD. —and support international agreements around the world.

Mr. MULVANEY. We have made loans out of the NAB account in the past without running them through the quota account, correct? That ability is available to us?

Ms. BRAINARD. The additional piece that I am referring to is bilateral loans directly to the IMF from other countries that the United States did not request and is not participating in.

We think it is very much in our interest to shift back to the model of the IMF as focused on its core quota resources. And this agreement will do that, again, at no net new financial participation on the part of the United States.

Mr. MULVANEY. Thank you.

Chairman CAMPBELL. The gentleman's time has expired.

The gentleman from North Carolina, Mr. Pittenger, is now recognized for 5 minutes.

Mr. PITTENGER. Thank you, Mr. Chairman.

Madam Secretary, thank you for being with us. Tell me, in what developing countries in Africa and also in the Arab world, Arab Spring countries, has the IMF played a role?

Ms. BRAINARD. The IMF is very actively engaged with all of the Arab Spring countries and other important Arab countries in the region that we think are vital to our strategic interests and vital to the future stability of that region.

Mr. PITTENGER. Could you kindly outline those?

Ms. BRAINARD. Yes. The IMF has concluded and is currently active on a very important program with Jordan. The IMF has negotiated an important program with Morocco. The IMF has negotiated an important program and is in ongoing discussions with Tunisia. And, of course, as you know, today discussions between Egypt and the IMF are ongoing. We think Egypt's discussions with the IMF are vitally important for successful transition in that context. And, of course, the same has also been true in Yemen, where the IMF has negotiated an agreement.

Mr. PITTENGER. Madam Secretary, are there political and governmental structure parameters, philosophies that are required for IMF funding?

Ms. BRAINARD. The IMF, when it engages with its members, focuses on the macroeconomic policy framework, so that they are generally engaged in designing programs that create investor confidence, where private sector capital plays the dominant role. It is also very important that IMF agreements command broad legitimacy in the system, and so they will often, before completing a negotiation, make sure that opposition as well as current government representatives have participated in discussions so that the conditions of the overall program are ones that are broadly accepted in society.

Mr. PITTENGER. Are American interests part of the purview of those who represent us in the IMF, particularly as it relates to any measure or role we play that could also be counterproductive?

Ms. BRAINARD. I think the United States has always played, both directly through its large shareholding position and indirectly because of our leadership position, an active engagement with the

IMF, a disproportionate role in terms of where the IMF is active and also how it moves forward, for instance, ensuring that its programs are broadly legitimate, that they lead to market-based growth. As I noted earlier, the IMFs function of ensuring that countries publish accurate, timely data in accordance with IMF standards is critically important for investors and for the broader international trade and financial system. IMF members take on obligations to maintain open trade accounts and not to engage in beggar-thy-neighbor policies. And the IMF publishes reports on every member every year to that set of obligations.

So we believe it is very much advancing our interests, and so do the many former Treasury Secretaries and Secretaries of State and Presidents, both Republican and Democratic, who have testified on behalf of the IMF.

Mr. PITTENGER. We have had, I think you would acknowledge, a history of foreign aid and military assistance that has ultimately become counterproductive. Would you agree with that?

Ms. BRAINARD. I think it is important to distinguish—and earlier I read a quote from Ronald Reagan, who said this even more directly: The IMF really is not foreign aid.

Mr. PITTENGER. I understand that. No. I am just making that connection.

Ms. BRAINARD. Yes.

Mr. PITTENGER. I am saying we have been proactive in areas, well-intended, that had incompatible conclusions that were not what we had purposed to have achieved.

Ms. BRAINARD. That may well be true. I think with reference to the IMF and its current programs, again, we have had a great deal of influence, and we believe that they support our national interests.

Mr. PITTENGER. Thank you.

Chairman CAMPBELL. The gentleman yields back.

And I believe our final person to ask questions—we had asked unanimous consent earlier for Mr. Royce, who is not a member of this subcommittee, but is a member of the full House Financial Services Committee and, more importantly, is the chairman of the House Foreign Affairs Committee. So Mr. Royce, the gentleman from California, is recognized for 5 minutes.

Mr. ROYCE. Chairman Campbell, thank you. Thank you very much for doing that. And thanks for this hearing.

I did want to ask a question about IMF governance. The United States has the largest quota at the IMF. We are no longer the largest IMF contributor, because of the big increase in bilateral borrowing agreements, but the IMF now has bilateral agreements with 20 countries, including China, France, Germany, and Saudi Arabia that exceed $400 billion. And the continued reliance on borrowed funding has an effect, and in a way it threatens the long-term legitimacy of the quota-based IMF.

Many argue that countries with the largest bilateral agreements with the IMF have the most influence, and the decisions are being made with those countries behind closed doors rather than being made transparently at the executive board.

So I would just ask your view. Do you think that the bilateral agreements are undermining U.S. influence at the IMF? Is the

United States losing ground on policy issues, such as how the IMF treats currency manipulation, capital controls, fiscal policy? That is primarily my interest here.

Ms. BRAINARD. I will say that I share your concern that if the IMF were to move in a direction where bilateral loans became the predominant mechanism for funding, that would be a concern, and that is the reason we think it is extraordinarily important to have bipartisan support for the agreement we negotiated at the IMF, which will put the focus back on the core quota resources.

The areas that you cited, currency manipulation and capital markets openness, responsible fiscal policies, those are the core areas where we think the IMF's influence is extremely important to us, to our national interests, and we think the quota-based center of IMF governance should continue to be the dominant arena, which is, again, why we would like to see Congress move forward on this.

Mr. ROYCE. Yes. One of the difficulties is that on these very issues, we do not necessarily have the same perspective as those countries with growing influence who have a very different take on fiscal policy, certainly a different take on capital controls, right, currency manipulation. In a way, we have the fox guarding the hen house on some of these issues.

Let me ask you another question, and that is about alternative institutions that are developing. The Europeans created the European Financial Stability Facility, and then the European Stability Mechanism, which have already been tapped by Cyprus and by Greece, by Ireland and Portugal. Separately, as an alternative to the World Bank, Brazil, Russia, India, China, and South Africa are all in joint discussions about creating their own development bank.

How does the creation of alternative institutions impact the IMF and the World Bank, and maybe from a perspective of our global leadership?

Ms. BRAINARD. I think we are very mindful that these institutions were created at a moment of unique power and influence of the United States in the world and the global economy, and that today, we continue to enjoy privileges that were associated with our being there as the architect and the leading proponent of their creation, and we think that it is extremely central in America's interest to continue making the IMF and the World Bank the center of the international financial system.

I would distinguish in the case of the European Stability Mechanism, that is working hand in glove with the IMF. And, of course, we encourage the Europeans to be the primary source of funding to defend their own monetary union. They have the capacity, and we thought it was extremely important for them to demonstrate to markets that they were going to stand behind their monetary union. So the IMF is a minority funding partner in those programs. It is only about $1 to $5 of European funding for every $1 of IMF funding, but I will say the IMF is an equal partner when it comes to design of programs. And we think that is extremely important.

But I agree with you that as emerging markets talk about creating alternative financing arrangements completely outside the purview of the global institutions that we were so central in creating, it should give us pause, and we should recommit, I think, to the institutions that we, on a bipartisan basis, have spent so much time strengthening.

Mr. ROYCE. Mr. Chairman, if you could indulge me, there is one thing I don't know the answer to, and I was just going to ask, do either of those European institutions, those new institutions, have any access by way of a call on the IMF? Is there a backstop in any way?

Ms. BRAINARD. No. The European member states are members of the IMF in their own right. And then the European Stability Mechanism and its predecessor were euro-area financed mechanisms.

Mr. ROYCE. But neither de facto nor—

Ms. BRAINARD. There is no direct call on the IMF. And we would not have supported such a call.

Mr. ROYCE. Madam Secretary, thank you.

Thank you very much, Mr. Chairman.

Chairman CAMPBELL. Chairman Royce's time has expired.

And so now Mr. Peters, the gentleman from Michigan, is recognized for 5 minutes.

Mr. PETERS. Thank you, Mr. Chairman.

And Under Secretary Brainard, it is nice to have you here discussing the IMF. I think I have some questions just related a little bit to the history of the IMF, which will put some things in perspective for me in my mind as we work through these issues. And if you would be so kind as to discuss maybe some of the precedents for Europe and other developed countries when they had to borrow from the IMF, and particularly in periods of global crisis?

Ms. BRAINARD. Yes. As you know, the IMF was originally created to help strengthen our European partners in the wake of World War II and to help ensure that they would be strong, healthy democracies. There is ample precedent for developed countries drawing on their claims on the IMF. In particular, we saw that during the 1970s, during a period of balance of payments difficulties associated with oil price increases.

Mr. PETERS. Could you discuss any differences in how—if we looked back to the fairly recent global crisis in 2008, would things have played out differently if the IMF were either undercapitalized or did not exist? What may have been different in this recent crisis that we unfortunately still remember all too well?

Ms. BRAINARD. I think the role of the IMF was extraordinarily important in the global recovery from the very severe financial crisis of 2008. As you recall, leaders, G-20 leaders came together in 2009 and agreed to increase the resources of the IMF by $500 billion. Congress acted very quickly to support U.S. participation in that. And we saw that trade and capital flows that had been plummeting turned around more quickly, we believe, than they would otherwise have done. And, of course, it is those funds that we are talking about, taking a portion of those funds from the permanent backstop, and then transferring them over to the core quota resources today.

Mr. PETERS. You talk about trade picking up much quicker than it would otherwise. I come from Michigan, and manufacturing is a big deal in my State, and is certainly a big deal for the entire country. So can we assume that manufacturing, which certainly was impacted, would have been impacted to a considerably greater extent had it not been for the IMF?

Ms. BRAINARD. I think there is ample evidence. You saw an absolute collapse of trade volumes, a collapse of trade finances. You will recall very sharp reversals of capital flows from emerging markets that have become important customers of ours. And, of course, the same has been true more recently with Europe accounting for 20 percent of U.S. exports and a very large percent of investment into the United States. Had financial instability really been uncontained in Europe, I think it would have led to a much more difficult recovery here in the United States.

Mr. PETERS. It seems to me, too, as I have watched the IMF and policies here on the Hill over the years, that there has always been a lot of bipartisan support from Congress and certainly from Administrations in the White House no matter who was in the White House, no matter the political party.

Could you discuss—kind of look back a little bit about the support that the IMF has received from both Republicans and Democratic Administrations over the last few decades? This has been one area in which people have come together to support because folks understand the importance of the IMF to make sure that the global economy is sound. If you could speak to that, I would appreciate it.

Ms. BRAINARD. When the IMF was originally founded, there were very strong bipartisan votes in both Houses of Congress. And if you look at the last few capital increases, you have seen President Reagan successfully coming to Congress with arguments which are very similar to the ones you have today, that this is really what protects American jobs. You saw President George Bush coming in the early 1990s at the time of transition of the Eastern European economies into market democracies. More recently, President Bush came to Congress for a quota reallocation in 2008, and ultimately Congress acted on that in 2009, along with a request from President Obama, and then, again, we saw, in 1999, President Clinton. So you can see there is a track record there of absolutely bipartisan support. And you will also see that, if you look at President George Bush back in 1991, the U.S. quota increase for the IMF was specifically assumed in the budget agreement and does not require an outlay. This same treatment has been applied by Presidents on both parties over many decades.

Mr. PETERS. Thank you. I yield back.

Chairman CAMPBELL. The gentleman's time has expired.

Seeing no additional Members who wish to speak, I would like to thank Secretary Brainard for coming and for your testimony today.

The Chair notes that some Members may have additional questions for this witness, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to this witness and to place her responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

And without objection, this hearing is adjourned.

[Whereupon, at 3:54 p.m., the hearing was adjourned.]

A P P E N D I X

April 24, 2013

EMBARGOED UNTIL DELIVERY

Written Testimony before the House Financial Services Sub-Committee on Monetary Policy and Trade
Treasury Under Secretary for International Affairs Lael Brainard
April 24, 2013

Introduction

Chairman Campbell, Ranking Member Clay, and Members of the Sub-Committee: thank you for the opportunity to discuss U.S. participation in the International Monetary Fund (IMF) and the President's Fiscal Year 2014 Budget Request.

On July 19, 1945, not far from this room, Congress provided strong bipartisan support for U.S. participation in the founding of the IMF. As then U.S. Treasury Secretary Fred Vinson said at the time, "[O]urs is a mission of…concrete action, designed to establish the economic foundations of peace on the bedrock of genuine international cooperation."

The IMF's core mission of building the economic foundations for peace and stability has been closely connected to American security and prosperity in every decade since—helping our European and Japanese partners rebuild and recover following World War II, standing with our UK and Italian partners as they confronted financial crises in the 1970s; working with our Latin American neighbors to address indebtedness and instability in the 1980s; helping Eastern Europe transition to market democracy in the 1990s; containing the impact of the Asian crisis in the late 1990s; and working with our European allies to strengthen their monetary union today.

IMF Reform

Our interest in a strong and effective IMF has only grown as our economic fortunes have become ever more closely linked to our partners around the world. The President's budget request for the IMF is vital to preserve U.S. leadership in the IMF so we can continue to shape the norms and practices that ensure an open, resilient global economy. This budget proposal will expand the core quota resources of the IMF—with no net new U.S. financial commitment to the IMF—while preserving the U.S. veto and enhancing the legitimacy of the institution.

At the height of the financial crisis in 2009, Congress provided critical leadership by approving the Administration's request for a permanent increase in U.S. participation in the New Arrangements to Borrow, or NAB—a standing IMF backstop to safeguard the stability of the international monetary system. This strategy worked: it arrested a steep fall in trade and a sharp reversal of capital flows in many emerging markets. As global financial conditions eased, we worked with our international partners in 2010 to secure an agreement on quota and governance reforms that would expand core quota resources and enhance IMF legitimacy, while requiring no new resources from the United States and preserving our unique veto.

Congressional approval of these reforms will maintain the U.S. leadership in the IMF, and restore the primacy of the IMF's quota-based capital structure. The proposal will reduce U.S. participation in the NAB by Special Drawing Rights 40,871,800,000 (approximately $63 billion) and simultaneously increase the size of the U.S. quota in the IMF by an equal amount. It will also allow the United States to accept an amendment to the IMF Articles of Agreement facilitating changes in the composition of the IMF Executive Board while preserving the U.S. board seat and veto.

The President's Budget Request includes this commitment in a way that is fully offset and does not change the net U.S. financial participation in the IMF. We are open to working with Congress on any viable option to get this enacted quickly. I look forward to working with you and your colleagues on this important legislation.

Our participation in the IMF is an exchange of equivalent assets and our claims on the IMF are fully secure. The IMF has a uniquely strong balance sheet: the value of the IMF's reserves and gold holdings exceed total credit outstanding. Moreover, the IMF is treated by all of its members as the world's preferred creditor. The IMF has an excellent repayment record with no history of default. And, finally, the IMF has the unique ability to leverage strong economic reform conditions as a condition for extending credit.

As the world's largest economy, we are the only country with a veto to shape major IMF governance and resource decisions. We should carefully steward this privilege to shape the rules of the global economy, especially as emerging economies, like China, seek greater influence in the coming years.

U.S. leadership in the IMF promotes American core interests in three ways: as the first responder when financial crises abroad threaten jobs and growth at home, strengthening our national security, and designing rules for an open global trade and financial system.

Protecting American Jobs and Growth

This recovery has shown the close links that tie American jobs and growth to financial conditions abroad. When financial conflagrations hit beyond our shore, the IMF provides firebreaks to limit contagion while helping our trading partners stabilize and heal their economies. By sheltering our economy from headwinds abroad, the IMF helps us to cushion the impact on U.S. jobs, business investment, and household savings for college and retirement.

For the past three years, the IMF has been active in helping our European allies combat financial instability and strengthen the foundations of monetary union. We have been closely engaged through our leadership at the IMF and bilaterally in encouraging European leaders and the ECB to put in place a joint strategy backed by a strong firewall to enable countries to undertake necessary reforms while cleaning up bank balance sheets and ensuring ample liquidity. The IMF is now calling for Europe to implement a strategy to boost demand and combat unemployment, which is important not only for Europe but also for recovery in the United States and the world.

Strengthening our National Security

The IMF is an important partner in strengthening our national security —building the economic foundations for peace. The Fund's work on the ground helps prevent and mitigate the economic stresses and conditions that foster instability, extremism, and violence.

The IMF is now helping to anchor economic stability in the Middle East—in Jordan, Morocco, Tunisia, and Yemen—by providing critical policy advice and financial support to help secure the political gains of the Arab Spring. Avoiding financial crisis during this delicate period of regional transition will help avoid more destabilizing political upheavals.

The United States has successfully advocated for the IMF to protect and support spending for poor people in its low-income country lending arrangements. And, in response to U.S. urging, the IMF eliminated Haiti's entire outstanding debt to the Fund from the IMF's own internal resources for low-income countries following Haiti's devastating earthquake at no cost to the United States.

The United States was successful in persuading the IMF to use the $3.8 billion it earned in windfall profits from gold sales to support lending in the world's poorest countries. In 2009, the IMF agreed to more than double the resources available to low income countries by as much as $17 billion through 2014, and just recently, with strong U.S. backing, the IMF extended zero percent interest rates for all concessional lending for another two years through 2014. These actions come at no cost to the United States.

Setting Standards for an Open, Resilient International Trade and Financial System

The IMF plays a central role in setting norms and standards for the smooth functioning of the market-based system of international trade and finance that is at the core of U.S. prosperity and stability.

When countries join the IMF, they sign up for important obligations that help maintain open markets and avoid beggar-thy-neighbor policies. The IMF sets strong standards in areas such as fiscal, monetary, and financial policy and releases public assessments of member policy frameworks in an effort to strengthen market discipline.

The Fund helps investors better assess risks by setting international standards for the quality, timeliness, and consistency of national data publication. The IMF holds countries to these high standards. When a country fails to meet its reporting obligations, as was the case in Argentina, they are censured. The United States has been and will remain a leader in forcefully advocating for the IMF's commitment to transparency.

We will continue to encourage the Fund to toughen its analysis and oversight of members' exchange rate policies. The IMF is now providing much greater in-depth coverage of exchange rates, as well as related analysis on reserves, current account imbalances, and capital measures. We will continue to urge the IMF to actively exercise its oversight role in this area.

Acting Now to Safeguard our Leadership

G-20 Leaders committed to implement the quota and governance reforms by October 2012. The vast majority of the IMF membership has now acted, and only U.S. approval is necessary for these important reforms to go into effect.

Honoring our commitments will preserve our active leadership position and unique veto power and allow us to continue to promote U.S. values and interests around the world without any new U.S. financial commitment to the IMF.

The IMF is one of the great triumphs of international cooperation—forged in the ashes of war in order to strengthen the foundations of peace. At its founding, the United States had more influence on the IMF's design and operations than any another country. Today it is vital we safeguard that historical legacy in the face of rapid shifts in the global economy.

Thank you.

THE BRETTON WOODS COMMITTEE

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March 5, 2013

Dear Speaker Boehner and Majority Leader Reid:

We write to express strong support for the Administration's request for legislation to maintain the current, overall U.S. leadership in the International Monetary Fund (IMF) by increasing the U.S. quota in the IMF and reducing U.S. lending to the IMF under Fund borrowing arrangements.

The IMF has always been a valuable tool for advancing U.S. national interests globally, from helping navigate the Latin crisis of the 1980s to supporting the Arab Spring countries today with policy advice, technical assistance, and financial support. During the recent, unprecedented financial crisis, the IMF intensified support for affected countries and helped to stabilize their economies and maintain growth. It is important that the United States support the Fund, because of the returns it brings to our nation going forward:

- **Advancing U.S. Economic Interests at Home and Business Opportunities Abroad**
  The Fund consistently promotes a growth-oriented agenda, based on open markets and strong macroeconomic and structural policies. With risks still threatening the economic outlook, IMF support lessens the global fallout and financial instability of affected economies, advances the interests of U.S. business and workers of companies that trade and invest in these countries, and supports American jobs and exports.

- **Promoting National Security Interests**
  Economic stagnation and poverty can give rise to instability and terrorism. By helping foster the conditions for economic growth, the IMF enhances political stability in volatile regions of the world. The Fund's financial sector work also helps to stop the financing of terrorism and addresses shortfalls in countries' anti-money laundering efforts.

- **Sustaining Global Leadership and Influence in the IMF**
  Continued support will ensure the U.S.' ability to leverage its economic development dollars and ensure its on-going influence on the IMF to prioritize areas we deem critical, such as improving governance, privatization, and strengthened financial systems.

A stronger IMF, driven by U.S. leadership, supports U.S. and global interests. We would therefore urge the Congress to continue its longstanding, bipartisan support of the International Monetary Fund for our self-interest and for the good of the global system.

Respectfully yours,

Charlene Barshefsky

Harold Brown

William Cohen

Alan Greenspan

Carla Hills

Robert McFarlane

Edward J. Perkins

John Snow

James D. Wolfensohn

Robert Zoellick

Nicholas Brady

Zbigniew Brzezinski

Bill Frenzel

Lee Hamilton

Jim Kolbe

Henry M. Paulson

Bill Richardson

Lawrence Summers

Clayton Yeutter

March 11, 2013

Congressman John Boehner
Speaker of the House of U.S. Representatives
1011 Longworth H.O.B.
Washington, DC 20515

Speaker Boehner:

We write to urge enactment of proposed International Monetary Fund (IMF) legislation. The signatories of this letter are former Senate-confirmed appointees who had oversight responsibilities for the IMF and the World Bank, as well as academics and policy professionals. Many of us have testified before Congress regarding these institutions. Regardless of our policy preferences for the IMF, we all agree on the importance of this institution to the United States.

The legislation would maintain the current U.S. financial commitment to the IMF, by doubling the U.S. quota (akin to equity shares in the IMF), and commensurately reducing the U.S. commitment to lend to the IMF's New Arrangements to Borrow. In essence, the legislation seeks authorization to transfer funds within the IMF that the U.S. Congress has previously approved. The legislation would also approve an amendment to the IMF Articles of Agreement to implement associated governance reforms to realign representation on the IMF executive board.

The IMF is the leading international institution dedicated to promoting U.S. objectives of advancing global growth, financial stability, and sound economic policy. The IMF has played a crucial role in the global approach to recent financial crises and in navigating the world economy through severe threats. While the United States is on a path to recovery, threats remain. Uncertainty in Europe continues; Japan's growth outlook is sluggish; growth even in big emerging market economies is slowing. In times like these, a financially strengthened and reformed IMF is in the U.S. interest.

Additional quota resources for the IMF are essential to preserve its central role in a global financial system that benefits the United States. Realignment of IMF quota shares, while preserving U.S. influence in the IMF, will enable the IMF to respond to shifts in the global economy, involving emerging powers more deeply in the institution and avoiding their disengagement. Positive action by the U.S. Congress on both elements will also unlock financial contributions from other countries.

Congressional enactment of the proposed IMF legislation will sustain U.S. leadership in global financial matters. Failure to act would diminish the role of the United States in international economic policy-making and undermine U.S. efforts to promote growth and financial stability.

We urge you to enact the proposed IMF legislation.

CC: All Senators and Representatives

Signatures (Affiliations are for identification purposes only)

Name		
Tim	Adams	Former Under Secretary of the US Treasury
Bishop	Akolgo	Executive Director, Integrated Social Development Centre
Tanweer	Akram	ING Investment Management
Leslie Elliot	Armijo	Portland State University

Marcel	Arsenault	CEO, Real Capital Solutions
Anders	Åslund	Peterson Institute for International Economics
John	Bailey	Professor of Government and Foreign Service, Georgetown University
Martin	Baily	Brookings Institution and former Chairman Council of Economic Advisers
Navin	Beekary	Former Head Anti-Corruption Commission and presently Doctor in Juridical Studies at George Washington University Law School
C. Fred	Bergsten	Senior Fellow and Director Emeritus at Peterson Institute for International Economics and former assistant secretary of the US Treasury
Thomas	Bernes	Center for International Governance Innovation
Nancy	Birdsall	Center for Global Development
Christina	Blanc	International Union of Anthropological and Ethnological Studies
Paula	Boland	United Nations Association of the National Capital Area
Jack	Boorman	Former Special Advisor to the Managing Director and Director of the Policy Development and Review Department at the IMF
Barry	Bosworth	Brookings Institution
James M.	Boughton	Former Historian of the IMF
Colin	Bradford	Brookings Institution
Deborah	Brautigam	School of Advanced International Studies, John Hopkins University
Lawrence	Broz	University of California
Ralph	Bryant	Brookings Institution
Coralie	Bryant	American University School of International Service
Deborah	Burand	University of Michigan
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Alan	Derman	
Cinnamon	Dornsife	
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Seamus	Finn	Missionary Oblates of Mary Immaculate
Tony	Fratto	Former Assistant Secretary of the US Treasury and former Deputy Assistant to the President
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Mirvari	Gahramanli	Oil Workers' Rights Protection Organization Public Union
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John	Griesgraber	
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Valerie	Heinonen	Dominican Sisters of Hope, Mercy Investment Services, Inc., Ursuline Sisters of Tildonk
Ricki Tigert	Helfer	Former Chairman FDIC and Independent Consultant
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Harold	James	Princeton University
Olivier	Jeanne	John Hopkins University and Peterson Institute for International Economics
Karen	Johnson	Former Director, Division of International Finance, Federal Reserve Board of Governors
Joseph P.	Joyce	Wellesley College
Adam	Kanzer	Domini Social Investments LLC
Jacob	Kirkegaard	Peterson Institute for International Economics
Steven	Klees	University of Maryland
Gary	Kleinman	Member, Bretton Woods Committee
Donald	Kohn	Brookings Institution and former Vice Chair of Federal Reserve Board
Jim	Kolbe	
Gawain	Kripke	Oxfam America
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Scott	Morris	Center for Global Development
Todd	Moss	Center for Global Development and former State Department official
David	Mulford	Former Under Secretary of the US Treasury for International Affairs
Tara	Nath Dahal	Freedom Forum

Anirudra	Neupane	Freedom Forum
Rob	Nichols	Former Assistant Secretary of US Treasury
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Seamus	O'Cleireacain	Columbia University
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Bro. Steven	O'Neil, SM	Marianists International
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James G.	Wallar	Former US Treasury representative to Iraq, the EU, Afghanistan, Russia, Germany and Switzerland
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Steven R.	Weisman	Peterson Institute for International Economics
Olin	Wethington	Former Assistant Secretary for US Treasury
Marina v.N.	Whitman	University of Michigan and former member of President's Economic Advisors
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Questions for the Record submitted by Chairman Jeb Hensarling
Committee on Financial Services
Subcommittee on Monetary Policy and Trade
Hearing on "Evaluating U.S. Contributions to the International Monetary Fund"
Hearing Date: April 24, 2013
Witness: The Honorable Lael Brainard, Under Secretary for International Affairs, United States Department of the Treasury

Question #1:

Absent any further economic difficulty than EU countries already face, would the Administration still advocate raising the US's IMF quota? Why and by what standard?

An effective and well-resourced IMF is strongly in the U.S. interest. When financial turbulence occurs beyond our shore, the IMF provides firebreaks to limit contagion, while helping our trading partners stabilize and heal their economies. By helping to shelter the global and U.S. economies from headwinds abroad, the IMF helps us to cushion the impact on the United States and support and protect U.S. jobs, exports, and the savings of American households. It is also essential for the continuing credibility and legitimacy of the institution that IMF quota shares evolve to better represent countries' weights in the global economy. If the IMF is out of step with changes in the global economy, it will be a less effective institution and thus it will be more difficult to achieve U.S. interests through the IMF. The U.S. quota increase will be matched by an equal and permanent reduction in U.S. financial participation in the New Arrangements to Borrow (NAB), for no net change in overall U.S. financial participation in the IMF. This change in the composition of U.S. financial participation in the IMF is necessary to protect the strong U.S. leadership position in the institution, which is a function of our quota share.

Question #2:

Why would the Administration advocate for having this money as a part of the US's quota rather than as part of the NAB?

The IMF's financial and governance structures are based on quotas. U.S. influence in the IMF, and veto power over major institutional decisions, is a function of our quota share. The United States derives unique benefits from its privileged position in the IMF. This includes our ability to veto key decisions such as changes to the IMF's Articles of Agreement, as well as the informal influence we wield as the country with far and away the largest quota share. It is important to ensure the IMF's basic capital structure (quotas) is strong to avoid IMF reliance on borrowed bilateral resources from other countries and the dilution of U.S. influence.
The NAB is the IMF's financial backstop to supplement the IMF quota resources if needed to respond to systemic stresses that threaten the stability of the international monetary system. However, the IMF's financial backstop is currently larger than the IMF's core capital. Implementation of the 2010 quota reform will restore the primacy of the IMF's quota-based capital structure and preserve the U.S. leadership position.

Question #3:

Would the Administration support or advocate for raising the US's IMF quota in future reform negotiations beyond the quota increases proposed in December 2010? Why and by what standard?

The Administration's priority is to work with Congress on legislation to implement the 2010 IMF quota and governance reforms as quickly as possible. Enactment of this legislation will enable the United States to fulfill an international commitment to strengthen the IMF and maintain U.S. leadership and influence, without adding one new dollar to our overall financial participation in the IMF. The Administration has not taken a position on future IMF quota reform discussions at the IMF Executive Board and will consult with the Congress on a bipartisan and bicameral basis before doing so.

Questions for the Record submitted by Rep. Grimm
Committee on Financial Services
Subcommittee on Monetary Policy and Trade
Hearing on "Evaluating U.S. Contributions to the International Monetary Fund"
Hearing Date: April 24, 2013
Witness: The Honorable Lael Brainard, Under Secretary for International Affairs, United States Department of the Treasury

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Question #1:

Undersecretary Brainard, the IMF has a taken a firm stand so far on the economic misbehavior of Argentina. We on the subcommittee commend that stand, as it's critical to send a message that defying international norms and the rule of law should not be tolerated.

The IMF action—which follows equally resolute positions by the World Bank and the Paris Club—highlights that there is still at least one multilateral institution that is still enabling Argentina's bad behavior. I refer to the Inter-American Development Bank, which continues to lend to Argentina despite Argentina's record of failing to meet its obligations.

Since you help oversee the US relationship with the IDB, I was hoping you could answer this question:

Do you believe that the IDB's AAA credit rating is potentially in danger if it continues to lend to Argentina? Obviously, a domestic financial institution would be harshly judged by the market if it continued—alone among its peers—to lend to poor credit risks. Is the US concerned that IDB could be downgraded as an institution for its "business as usual" attitude to Argentina? And would the loss of IDB's AAA rating have the effect of raising borrowing costs for other nations in the hemisphere that are highly dependent on IDB lending—the Caribbean nations, for example?

I have expressed concerns to IDB senior management about the IDB's continued lending to Argentina, and the need for the IDB to address the potential risk posed by its large Argentina lending portfolio. We will continue to use our leadership position in the IDB to press for sound financial practices.

Argentina's failure to honor its international commitments is a matter of ongoing concern. I have pressed Argentina to abide by its international obligations and to normalize its relationship with the international financial community and foreign investors, including by honoring its international obligations to provide accurate data to the IMF, paying amounts that are past due to the United States and other Paris Club members, and honoring final International Centre for the Settlement of Investment Disputes (ICSID) arbitral awards in favor of U.S. companies.

Because of these concerns about Argentina, since 2011 Treasury has opposed all lending to Argentina by the multilateral development banks (MDBs), with an exception for those loans that benefit the poorest and most vulnerable. I and other senior officials at Treasury have engaged extensively with other donor countries and management at the MDBs on this policy stance. The World Bank has made no new commitments to Argentina since 2011. At the IDB, almost all other donors have joined the United States in opposing proposed loans to Argentina. This level of disapproval by other donors against the proposed loans to any single country is unprecedented in recent memory.

We supported the IMF's decision to censure Argentina for misreporting data. In addition, President Obama suspended Argentina's eligibility for trade preferences under the Generalized System of Preferences (GSP) program.

Treasury will continue to work actively to press Argentina to honor its international obligations.

Question #2:

No discussion of the IMF can be complete these days without a sidebar reference to the alarming situation that continues to develop in Argentina.

As the Argentine government chooses to engage in the most egregious violations of both U.S. and International laws – and as the Kirchner Regime pursues its confiscatory and isolationist policies to the extreme detriment of its own citizens – the precipitous decline in fortunes for our neighbors in the Southern Hemisphere is a sad spectacle to witness.

We grieve for the Argentine populace, while condemning the actions of its Kirchner government; the misery that reigns in Argentina is a direct result of the Kirchner government's many bad choices. But they ARE choices, and as such, can be reversed.

The Kirchner government can choose at any time to comply with international law, and to engage in honest and ethical dealings with the International community, with America, and with its own people.

Until such time as the Kirchner government makes those choices, America and the world community can exert pressure upon it to do the right thing. The decision by the International Monetary Fund to censure Argentina for not providing accurate economic statistics was one such pressure point. So, too, has been the Administration's efforts to deny loans to Argentina in the multilateral development banks.

That latter policy should be applauded; it's akin to denying drugs to a drug addict. Can you assure us – this committee, the American public, the international community, and the Argentine people – that ~~Treasury's~~ the Administration's policy to oppose international financial institution loans to Argentina will remain unchanged? Will you continue to build an alliance of other leading governments to join in this opposition vote? And, can you offer any other policy ideas that might help to pressure the Kirchner regime into complying with established law, and restoring some commonsense to its governance?

Argentina's failure to honor its international commitments is a matter of ongoing concern. I have pressed Argentina to abide by its international obligations and to normalize its relationship with the international financial community and foreign investors, including by honoring its international obligations to provide accurate data to the IMF, paying amounts that are past due to the United States and other Paris Club members, and honoring final International Centre for the Settlement of Investment Disputes (ICSID) arbitral awards in favor of U.S. companies.

Because of these concerns about Argentina, since 2011 Treasury has opposed all lending to Argentina by the multilateral development banks (MDBs), with an exception for those loans that benefit the poorest and most vulnerable. I and other senior officials at Treasury have engaged extensively with other donor countries and management at the MDBs on this policy stance. The World Bank has made no new commitments to Argentina since 2011. At the IDB, almost all other donors have joined the United States in opposing proposed loans to Argentina. This level of disapproval by other donors against the proposed loans to any single country is unprecedented in recent memory.

We supported the IMF's decision to censure Argentina for misreporting data. In addition, President Obama suspended Argentina's eligibility for trade preferences under the Generalized System of Preferences (GSP) program.

Treasury will continue to work actively to press Argentina to honor its international obligations.

Question #3:

The U.S. Administration is pushing for Argentina to normalize its relations with U.S. creditors and honor the adverse rulings issued by the arbitration tribunal of the World Bank (ICSID). Argentina has shown time and again it will not abide by international laws and rulings. Specifically, Argentina has refused to oblige by the decision of the U.S. Second Circuit Court of Appeals, which has demanded that Argentina repay debt owed to U.S. bondholders. At the same time, the U.S. Department of Justice may throw a wrench into the judicial process by filing an *amicus curae* brief in the case of *NML* v. *Argentina*, encouraging the Supreme Court to hear the case. This action sends the signal that Argentina is absolved from its obligations to U.S. bondholders and can continue to act with impunity. Overall, the Obama Administration has been supportive of U.S. interests – from voting against multilateral development bank loans to Argentina to removing Argentina's preferential trade status. How will the different executive branches of government coordinate to put pressure on Argentina to meet its obligations to U.S. citizens and normalize relations with its creditors?

The U.S. Department of Justice (DOJ) submitted amicus briefs in a court case involving efforts by holdout creditors to collect on defaulted bonds from the Republic of Argentina. DOJ submitted these briefs because of public policy issues of vital importance to the United States that extend beyond the facts of this case. In particular, the Administration has expressed overarching policy concerns about a U.S. appeals court interpretation of a common legal provision in sovereign debt contracts that runs counter to longstanding U.S. efforts to promote orderly debt restructuring and could undercut New York's role in global capital markets.

This broad policy concern should in no way be taken as condoning Argentina's treatment of its creditors. In fact, the United States continues to make clear its serious concerns regarding Argentina's policies, including its failure to honor its international obligations to provide accurate data to the IMF, paying amounts that are past due to the United States and other Paris Club members, and honoring final International Centre for the Settlement of Investment Disputes (ICSID) arbitral awards in favor of U.S. companies. Because of these concerns, Treasury opposes lending to Argentina by the multilateral development banks (MDBs). Moreover, Treasury supported the IMF's recent censure of Argentina. In addition, President Obama suspended Argentina's eligibility under the Generalized System of Preferences (GSP) program.

Question #4:

Today, $15 billion of bond debt remains in arrears to private creditors worldwide – $3.5 billion of which Argentina owes to U.S. creditors. As South America's 3rd largest economy, Argentina has the means to immediately repay its debts. The country touts its economic growth and currently has over $40 billion in reserves. Yet it remains locked out of international capital markets due to its scofflaw behavior, U.S. Court judgments against the country and the political decision to not negotiate with holdout creditors.

Do you agree with comments in the April 2013 Capitol Highlights report by the Institute of International Finance (IIF), which remarked in its April 2013 Capitol Highlights report that "Argentina finds itself in this complicated situation by its own behavior, evidenced by more than a decade of unilateral treatment of its creditors"?

It is in Argentina's own interest to abide by its international obligations and to normalize its relationship with the international financial community and foreign investors, including by honoring its international obligations to provide accurate data to the IMF, paying amounts that are past due to the United States and other Paris Club members, and honoring final International Centre for the Settlement of Investment Disputes (ICSID) arbitral awards in favor of U.S. companies.

Treasury will continue to work actively to press Argentina to honor its international obligations.

Questions for the Record submitted by Rep. Ed Royce
Committee on Financial Services
Subcommittee on Monetary Policy and Trade
Hearing on "Evaluating U.S. Contributions to the International Monetary Fund"
Hearing Date: April 24, 2013
Witness: The Honorable Lael Brainard, Under Secretary for International Affairs, United States Department of the Treasury

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Question 1

The administration committed to IMF governance and quota reforms back in 2010 yet only forwarded the request for congressional approval this month - April 2013. With negotiations starting on the next round of reforms in 2014, Congress is being squeezed on the timing. Why didn't the administration request approval earlier?

Although the broad contours of the reforms were agreed by G-20 Leaders in Seoul in November 2010, the specifics of the agreement had to be hammered out in the International Monetary and Financial Committee (IMFC) and IMF Board before we approached Congress with a request. Agreement on the details of the New Arrangements to Borrow (NAB) rollback was expected in September 2011. However, several NAB participants questioned whether the NAB rollback should go forward at all in light of events in Europe at the time and attempted to re-open the 2010 deal. This led to protracted discussions among NAB participants. Agreement on the NAB rollback was not achieved until December 2012.

Question 2

In the last round of reform negotiations, the Europeans agreed to give up two Executive Board seats. Have those seats been transferred to other countries yet? Why or why not?

A significant outcome was to secure a reduction in overrepresentation by small advanced European countries in the IMF Executive Board.

As described in Board of Governors' Resolution 66-2, advanced European countries committed to reduce by two board seats their representation on the IMF Executive Board once the 2010 quota reform becomes effective. This resolution may be found on the IMF website: http://www.imf.org/external/pubs/ft/sd/index.asp?decision=66-2.

The 2010 quota and governance reforms are a package and will only enter into effect after Congress approves the reforms, which will allow the United States to provide its consent to the IMF.

The advanced European countries have made progress toward consolidating their representation at the Executive Board—Belgium, for example, will share an Executive Board seat with the Netherlands—but they still need to take additional steps to reach their commitment.

<u>Question 3</u>

The Internet is expected to be the foundation for a significant portion of future economic growth. Does the IMF have a policy position on Internet freedom and/or governance? Have they addressed Internet freedom and/or governance in an of the policy reforms that it has recommended?

The IMF has no formal role or policy position on the issue of Internet freedom and/or governance as this issue falls outside the scope of the IMF's mandate. Other international and regional organizations are addressing this important issue.

<u>Question 4</u>

Is there anything in the IMF Articles that allow for the bilateral arrangements – outside of the quota structure – that have been recently utilized? If yes, please identify what text justifies the use of bilateral arrangements.

IMF members' quotas are the Fund's main source of financing for lending operations. However, the IMF Articles of Agreement provide that the Fund can supplement its quota resources through borrowing.

Article VII, Section 1(i), states that the Fund is authorized to borrow in order to replenish its holdings of currencies that are needed in connection with its lending transactions. http://www.imf.org/external/pubs/ft/aa/index.htm#art7. Consistent with the Article, the IMF Executive Board has approved guidelines for IMF borrowing. http://www.imf.org/external/pubs/ft/sd/index.asp?decision=9862-(91/156)
As the IMF's quota resources have been drawn down in response to financial crises, the IMF has sought to borrow additional resources bilaterally from other countries outside the IMF's core quota-based capital structure, where the United States has the most influence. Bilateral borrowing erodes the U.S. leadership position as these countries seek to enhance their standing outside the IMF's core quota structure. This is a key reason we strongly support prompt passage of the IMF quota and governance reforms.

The vast majority of other IMF member countries do not score their IMF contributions as budgetary expenditure. Further, the United States is virtually alone among the G-20 countries in seeking budgetary appropriations for IMF participation. Most other countries treat their financial participation in the IMF as an exchange of equivalent reserve assets, whether for bilateral arrangements or core quota resources, so they do not need to seek budgetary appropriations.