M E M O R A N D U M

To: Members of the Committee on Financial Services

From: FSC Majority Committee Staff

Date: March 21, 2014

Subject: March 26, 2014 Full Committee Hearing on "The Annual Testimony of the Secretary of the Treasury on the State of the International Finance System"

The Committee on Financial Services will hold a hearing on Wednesday, March 26, 2014, at 10:30 a.m. in Room 2128 of the Rayburn House Office Building to receive the annual testimony of the Secretary of the Treasury on "The State of the International Financial System." Treasury Secretary Jacob Lew will be the sole witness at this hearing.

Statutory Requirement

The International Financial Institutions Act requires the Secretary of Treasury to appear annually before the Committee to testify about (1) any progress made in reforming the International Monetary Fund (IMF); (2) the status of efforts to reform the international financial system; (3) the compliance of countries that have received assistance from the IMF with agreements they entered into as a condition for receiving IMF assistance; and (4) the status of implementation of international anti-money laundering and counterterrorist financing standards by the IMF, the multilateral development banks, and other multilateral financial policymaking bodies.[1]

Background on the IMF

The IMF's primary mission is to ensure the stability of the international monetary system—the system of exchange rates and international payments that enables countries and their citizens to transact business with one another. The IMF seeks to promote international monetary stability in three ways: (1) by monitoring financial and monetary conditions in its member countries and in the world economy; (2) by providing financial assistance; and (3) by providing technical assistance.

The IMF is accountable to the governments of its member countries. The IMF is managed by its Board of Governors, which consists of one Governor and one Alternate Governor from each member country. The day-to-day work of the IMF is overseen by 24 Executive Directors, who represent all the member countries on an Executive Board. A country's voting power is determined by its quota subscription, which is the amount of

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[1] 22 U.S.C. § 262r-4

financial resources each member contributes to the fund. Although quota subscriptions are the IMF's primary source of financing, the IMF has supplemented quota resources through borrowing.

The U.S. remains the IMF's largest financial contributor, providing 17.72% of the IMF's total resources. The U.S. contribution gives the U.S. the largest voting share of all IMF members, as well as veto power over major IMF decisions, though not individual lending decisions. In the management of the IMF's day-to-day affairs, the U.S. is represented by an Executive Director, who operates under the guidance of the Secretary of the Treasury. The U.S. Executive Director's discretion is circumscribed by Congressional directives, which instruct the Executive Director to make policy decisions as mandated by Congress. And while the U.S. Executive Director can make commitments to increase the U.S. quota at the IMF, Congress must authorize appropriations for IMF capital increases or changes to the institution's governing documents.

Governance and Quota Reform at the IMF[2]

In December 2010, the IMF's Board of Governors agreed to a reform package that would make two major changes: (1) it would nearly double the size of the IMF's quota resources; and (2) it would increase the representation of emerging and developing economies at the IMF. The reform package cannot go into effect until a supermajority of IMF countries formally approves the reforms.

Although the IMF's rules do not require that all of its member countries approve the reform package, the United States must approve the package for it to become effective because its voting share is necessary to reach the required 85% supermajority for the reforms to be implemented. Although most other IMF member countries have formally approved these reforms, the United States has not yet approved them. Under U.S. law, the Obama Administration cannot do so without specific congressional authorization.

Although the IMF's Board of Governors agreed to the reform package in 2010, the Administration did not request the $63 billion quota increase in its FY2012 or FY2013 budget requests. In March 2013, the Administration approached the House and Senate about including the reform package in a continuing resolution. The IMF legislation was not included in the House or Senate version of the legislation, nor was it included in the final bill that was passed into law. President Obama also declined to request legislation in his FY2014 budget request, instead noting "the required authorization requests, including for mandatory funding for the IMF quota increase and NAB rollback, will be submitted separately."[3] The Administration finally made a formal request for the IMF quota increase when it submitted, its FY2015 budget request on March 4, 2014.

[2] For more details on the 2010 reform package, Rebecca M. Nelson and Martin A. Weiss, "IMF Reforms: Issues for Congress," CRS Report for Congress (Feb. 1, 2013), available at http://www.crs.gov/Products/R/PDF/R42844.pdf.

[3] U.S., Department of the Treasury, "Justification for Appropriations: FY 2014 Budget Request, U.S. Department of Treasury, International Programs" (March 2013), at p. 45, available at http://www.treasury.gov/about/budget-performance/Documents/FY2014_Treasury_International_Programs.pdf.

Policy Issues

There is disagreement about the extent to which U.S. participation in the IMF advances U.S. interests. Supporters of U.S. participation in the IMF argue that U.S. participation advances U.S. economic interests by reducing the impact of financial crises in other countries on the U.S. economy and promoting the development of overseas markets for U.S. exports. These supporters also maintain that the IMF promotes U.S. national security by fostering stronger economic conditions in fragile states, where economic instability could otherwise breed political instability. Finally, supporters argue that U.S. leadership in the IMF allows the United States to influence IMF policy in areas that are critical to U.S. interests and to leverage U.S. financial commitments to promote macroeconomic stability with financial contributions from 187 other countries.

Others are more skeptical and see the IMF as an enabler of moral hazard. They are concerned that taxpayer dollars are sometimes used to fund IMF programs to bail out private sector creditors, including large financial institutions, as well as governments that have implemented irresponsible fiscal and monetary policies. They argue that bailing out private sector creditors socializes the costs onto the citizens of the country receiving the loan while easing the burden on banks and other institutional investors. They also argue that the availability of funding from the IMF reduces incentives for governments to adopt difficult, but prudent, economic policies. Opponents also point out that the IMF is often unpopular in countries receiving IMF assistance. In some cases, public anger is also directed towards the United States, which is seen by some citizens of borrowing countries as responsible for the policy prescriptions imposed by the IMF as a condition for receiving funds.

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