EMBARGOED UNTIL DELIVERY

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Treasury Under Secretary for International Affairs Lael Brainard
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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.