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# Congress Should Block the Morally Hazardous IMF "Reform" Package

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A little-known provision purported to be in the fiscal year 2014 omnibus spending bill currently being debated in Congress would chip off yet another little piece of American sovereignty—handing it and potentially billions of U.S. taxpayer dollars over to international civil servants at the International Monetary Fund (IMF) to bail out economically distressed countries.

Congress should decline to approve the IMF reform package and send it back for further revisions: i.e., a guarantee that the U.S. will retain the unilateral right to appoint its own representative to the Executive Board and the abolition of the supplemental facility so that it cannot be used in the future as an additional source of morally hazardous lending during the next "crisis."

**Eroding U.S. Influence at the IMF.** At issue is a 2010 "reform" package—approved by the IMF board with support from the Obama Administration—that increases the voting power of BRIC countries (Brazil, Russia, India, and China) and other emerging market nations and doubles the amount of member countries' national "quota" contributions, the primary source of funding for IMF loans.[1] Due to the role of Congress and the veto power that the U.S. has had at the IMF since its creation after World War II, this IMF reform package must be approved by Congress before it can go into effect.[2]

The U.S. has the largest quota of any country in the world and also the largest single-nation voting share (16.75 percent). Major decisions at the IMF—such as increases in quotas—require an 85 percent supermajority approval vote, so the U.S. has been the only country in the world with veto power at the IMF. Since the U.S. is one of the top five shareholding countries at the IMF, it has also had the right to appoint a permanent representative to the Executive Board—and that is where all the power is at the IMF.[3]

Over the years, the U.S. has also committed resources to "supplementary" funds—over and above the quota—at the IMF. These are funds that can be tapped when demand for IMF resources is particularly strong, such as during major financial crises (e.g., the Asian financial crisis in 1997 and the 2008 global crisis and subsequent eurozone crisis). There are two supplementary funds: the New Arrangements to Borrow (NAB) and the General Arrangements to Borrow (GAB). The U.S. currently funds the largest portion of the NAB—about $103 billion, or about 18 percent.[4] This has given the U.S. the power to prevent "activation" of the NAB to block loans that it deems ill-advised.

**Impact of the Reform Package on the U.S.** The Obama Administration supports the IMF reform package. It would double the amount of quota resources, partly by shifting a set and proportionate amount of them from every country participating in the NAB to the quota. The U.S. quota would increase by $63 billion, and that amount would be rolled back

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from the U.S. NAB commitment. Thus, $63 billion of American taxpayers' money would be shifted over to the regular quota lending system over which the U.S. has less control, since the Executive Board approves quota loans by a simple majority vote.

Another (perhaps even more significant) problem with the reform package is its mandate of an all-elected IMF Executive Board. The U.S. would lose its unilateral right to appoint its own representative to that board. What if other countries decided to block election of the U.S. candidate? The result would be even greater loss of U.S. influence and power at the IMF.

**Helpful Conditionality but Also Moral Hazard.** It is clear that the U.S. has benefitted—and will continue to benefit—from the existence of the IMF. U.S. participation in the IMF helps mitigate the impact on the global economy of financial crises in other countries and thus aids American economic stability and the health of overseas markets for U.S. exports. The IMF has also enhanced U.S. national security through the many conditions that are imposed with IMF loans—sweeping demands for reforms that are politically difficult but, if followed, bring economic stability to politically fragile regions.

On the other hand, however, many conservatives have rightly pointed to the IMF as an enabler of moral hazard. They are concerned that American tax dollars are being used for IMF programs that bail out bad decisions by other governments that follow reckless fiscal and monetary policies.

For example, *The Wall Street Journal* reported in June 2013 that, according to an internal IMF document, the IMF "admitted to major missteps over the past three years in its handling of the bailout of Greece" by bending its "own rules to make Greece's burgeoning debt seem sustainable."[5] The potential of additional IMF bailout resources might reduce incentives for governments to adopt difficult, but prudent, economic policies.[6]

In addition, the IMF is no longer the sole candidate to play the global economic stabilizer role it was assigned seven decades ago. Since 2008, the U.S. Federal Reserve and other central banks have shown themselves more than capable of pumping trillions of freshly printed dollars, euros, and yen directly into the global financial system.

**Why the Rush to Reform Now?** Even though these reform proposals have not gone into effect, the IMF has been functioning and serving U.S. interests since it adopted the proposals in late 2010. There is no reason why the IMF cannot continue lending at current levels pending additional revisions to the reform package.

In any case, the pursuit of prudent, free-market, and pro-economic growth policies—those potentially at risk from IMF-funded moral hazard—remains the best prescription for all IMF member countries and requires no IMF resources to follow. These core principles are the foundation of The Heritage Foundation/*Wall Street Journal*'s annual *Index of Economic Freedom*.[7]

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