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A Lever to Move the World

The IMF could be a powerful tool for turning around the global economy, if the globe can just agree on a good place to stand

BY JOSEPH J. SCHATZ

ONE MORNING two weeks ago, as anger over AIG bonuses boiled over and lawmakers agonized about spending hundreds of billions to shore up the nation's financial underpinnings, two of the Senate's most deliberative members endorsed using billions more to prop up faltering economies abroad. They proposed to put the money in the hands of the International Monetary Fund, an organization that doesn't have the best reputation in Washington or in many other capitals across the globe.

Framed by the marble and frescoes outside the Foreign Relations Committee meeting room, the panel's new Democratic chairman, John Kerry of Massachusetts, and its top Republican, Richard G. Lugar of Indiana, insisted the IMF is the only organization with the reach and capability in this time of economic calamity to stabilize the developing world, from Afghanistan to Hungary to Zambia. After all, they noted, global financial instability is exactly what the IMF and its associated organization, the World Bank, were created to handle in the aftermath of World War II.

The two senators, flanked by Dominique Strauss-Kahn, the IMF's managing director, and Robert B. Zoellick, the World Bank's president, called for a tenfold increase in the IMF's emergency borrowing authority. The institution would be allowed to tap up to $500 billion, a large portion of which would come from the U.S. Treasury.

"The work of the IMF and the World Bank are critical to helping us emerge from this global economic crisis," Kerry said. "They are essential to stability in critical regions of the world."

That straightforward argument is intended to win the requisite permission for additional borrowing from Congress, which has long been critical of the IMF and which now appears increasingly worried that the past year's wave of bailouts, even though focused on immediate domestic problems, isn't sitting well with the voters back home.

Complicating matters is the fact that some of the same developing countries that want access to U.S. money in the short term also have the long-term goal of having the United States yield some of its power over the IMF.

There is a paradox here. In the eyes of much of the world, transforming the IMF into the very sort of effective global lender that its Washington critics envision can be accomplished only if the United States and the countries of Western Europe allow the rest of the world a greater say in the fund's decision-making. This isn't seen as just a matter of fairness, either. As the United States and other industrialized countries seek to prop up economies around the world, they need emerging economic players — particularly China and India — to share the financial burden.

"I don't see how they can avoid the choice, or the decision, to change the voting structure" that governs the IMF, John W. Sewell, a senior scholar at the Woodrow Wilson International Center for Scholars, said of U.S. and European leaders. "I don't think China is going to put funds into the IMF to deal with the financial crisis without more voting power within the institution."

Congress holds unique leverage over the IMF, not only because it has the authority to approve or reject U.S. contributions, which amount to about one-sixth of the fund's coffers, but also because it can effectively dictate how the United States votes on the IMF's governing body. So bipartisan support, such as that signaled by Kerry and Lugar in recent days, is likely to be critical to any new financing or new power structure for the fund.

Such a high-profile vote of congressional confidence was especially striking, given that less than a year ago, the IMF was widely being dismissed as irrelevant. Long criticized by developing countries for attaching stringent conditions to its loans even while turning a blind eye to financial excesses in the United States and Europe — including those that led to the current economic crisis — the IMF came off as outdated in comparison with the newly influential China, India and other emerging market economies. During the financial boom in the middle of this decade, many countries found their money else-

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where, leaving the IMF bureaucracy less potent.

What a difference a few months makes. Now, economic activity is expected to decline worldwide this year for the first time in six decades. The World Trade Organization projects a 9 percent decline in total export sales, the biggest since World War II. And there is little evidence that industrial countries acting on their own can or will help the developing world.

As a result, the IMF finds itself back in demand. It has shelled out almost $50 billion in loans in recent months, and is straining under the pressure.

The fear that collapsing economies overseas will add to the contraction at home is the principal reason why President Obama and leaders of most large industrialized and developing countries are expected to propose a huge increase in IMF financing and possibly a change in its voting structure when they convene in London this week for their second summit meeting in five months to discuss the financial crisis.

"The global economic situation has radically changed over the last several months, and the need for emergency funding across the global landscape has increased dramatically," said Callisto Madavo, a visiting professor at Georgetown University who served as regional vice president of the World Bank for Africa. A year ago, "there was nobody who was beating down the door of the fund to borrow," Madavo said. "The fund in some sense was saying, 'What's going to be our role?' "

The Obama administration wants the IMF to play an even greater role in U.S. efforts to coordinate financial regulations and stimulate the global economy. So it is pushing world leaders to support increased resources and structural changes.

But these proposals come at a politically awkward time, to say the least. On the very day Kerry and Lugar spoke, March 18, members of the House Financial Services Committee, which has jurisdiction over the IMF, spent hours castigating American International Group Inc. chief Edward M. Liddy. The contrast between lawmakers railing against bailouts on one side of Capitol Hill and embracing them on the other was a striking reminder of just how much of a sales job those who favor more U.S. involvement in global lending have ahead of them.

"None of us are happy with what we are faced, particularly when you see something like the AIG payouts," Kerry said. Still, he said, the United States cannot go it alone in the world. "This is a small investment compared to the return on that investment you get by fixing the economy and providing stability in those countries."

The Crisis Hits

The Group of 20 — the heads of 19 large countries plus the European Union — will discuss the role of the IMF against a backdrop of distaste for an organization that has been perceived as outdated and often ineffective. But as global recession imperils economic advances and topples governments, the London summit has the potential to enlarge the IMF's role even amid such reservations.

Many developing countries need help to stimulate their economies as demand for their goods rapidly declines and private lending throughout the world becomes harder to come by. Indeed, the IMF warned that 22 of the world's poorest nations might need as much as $140 billion in assistance if the economic crisis deepens.

For example, Zambia, a major copper exporter, was enjoying a fast-growing stock market and foreign investment last year. Now, thousands of miners are losing their jobs, and the IMF includes the country on a list of countries now viewed as "highly vulnerable."

And it's not just the poorest of the poor countries that are in trouble. Countries with a far bigger impact on the global system also are on the ropes. Countries across hard-hit central and Eastern Europe have lined up to borrow from the IMF. Late last year, Iceland became the first Western European country

RUNNING THE SHOW: The IMF's Strauss-Kahn, left, and the World Bank's Zoellick discuss a plan to boost IMF lending with senators earlier this month.

CQ / RYAN KELLY

U.S. Tops in IMF Quotas

The United States is by far the largest single contributor among the 185 IMF member countries, and its 16.77 percent voting share carries an effective veto since major decisions require approval of 85 percent of the membership.

Largest contributors to the IMF

Countries with the highest quotas, in billions of dollars as of March 27, and more than 1 percent of voting shares

COUNTRY	QUOTAS	PERCENTAGE OF VOTING SHARES
United States	$ 55.6	16.77
Japan	19.9	6.02
Germany	19.5	5.88
France	16.1	4.86
United Kingdom	16.1	4.86
China	12.1	3.66
Italy	10.6	3.19
Saudi Arabia	10.4	3.16
Canada	9.5	2.89
Russia	8.9	2.69
Netherlands	7.7	2.34
Belgium	6.9	2.09
India	6.2	1.89
Switzerland	5.2	1.57
Australia	4.8	1.47
Mexico	4.7	1.43
Spain	4.6	1.39
Brazil	4.5	1.38
Korea	4.4	1.33
Venezuela	4.0	1.21
Sweden	3.6	1.09

Total from all IMF members: $327.6 billion

SOURCE: International Monetary Fund

to enter into a borrowing arrangement with the fund since Britain did in 1976.

Yet many countries are approaching the new borrowing with an air of defiance. Sri Lankan President Mahinda Rajapaksa declared that his country "will not pawn or sell our motherland to obtain any monetary aid" as he negotiated a $1.9 billion emergency loan with the IMF. In late 2008, Pakistan approached China for a loan, only to be turned down. It reluctantly entered into a new financing arrangement with the fund.

Such reluctance stems from the IMF's controversial history of lending.

Conceived in 1944 amid fresh memories of the devastating trade wars of the 1930s, the IMF was designed by the United States and Britain to ensure that currency exchange rates would remain stable and trade flows unrestricted as Europe rebuilt and former colonies in Asia and Africa became independent. The World Bank was set up to finance development projects in war-torn countries with grants and loans.

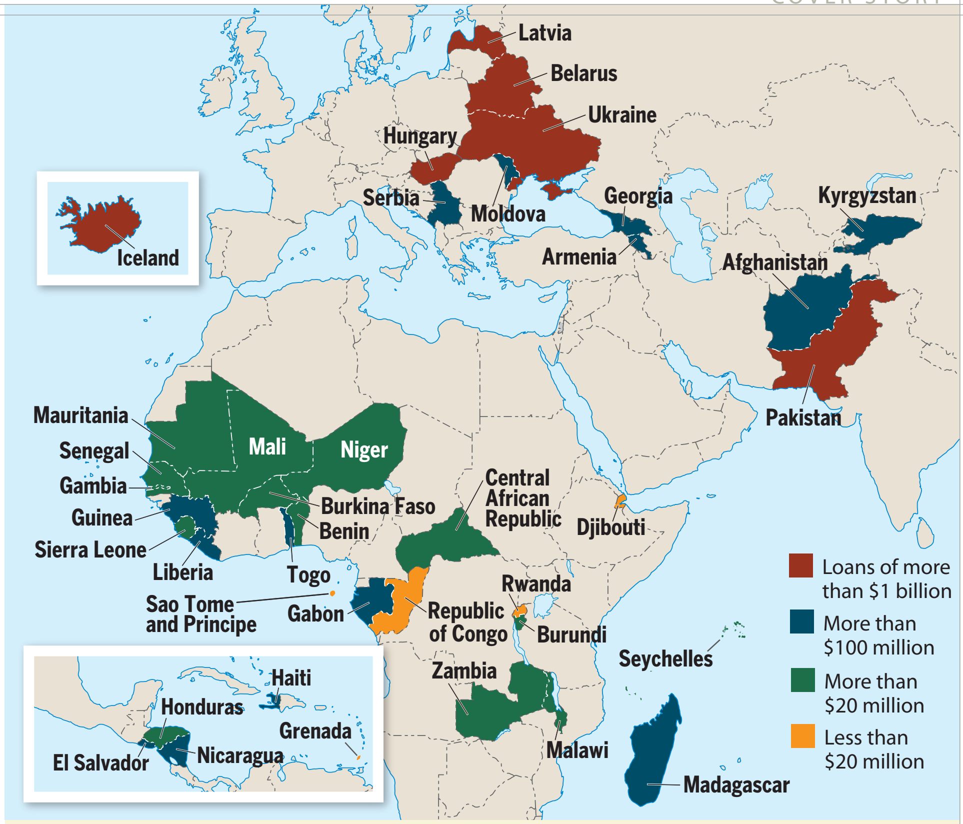
The IMF "spells the difference between a world caught again in the maelstrom of panic and economic warfare culminating in war," President Franklin D. Roosevelt said in a Feb. 12, 1945, address to Congress, "or a world in which the members strive for a better life through mutual trust, cooperation and assistance."

But as the system of fixed exchange rates collapsed in the early 1970s, the IMF's responsibilities shifted from monetary fine-tuner into a lender and adviser, financing poor countries that were increasingly hurt by rising inflation and falling prices for the raw materials and other commodities they exported.

In return for its loans, the IMF demanded that countries make free-market-oriented adjustments to their economies, including the elimination of state-run industries and budget cuts that sometimes gutted education spending and other social programs.

The imposition of painful conditions fostered widespread resentment, particularly in Africa and Latin America. Argentina has long argued that the IMF helped drive it into deepening debt in the late 1990s, leading to a $100 billion default in 2001 and a currency devaluation in 2002. When the country paid off its remaining $9.5 billion in IMF debt in 2006 and regained its fiscal independence, Argentinians celebrated in the streets.

Earlier this decade, rising commodity prices and increasing foreign investment around the globe made it easier for emerging market



Where the IMF Money Goes

The bulk of IMF loans are made for economic stabilization purposes and are intended to help countries weather specific troubles. They are made over relatively short terms and carry market interest rates. Following is a list of outstanding IMF loans of this type. Not shown are loans made to very poor countries on concessional terms. (In millions of dollars)

COUNTRY	LOAN AMOUNT	AMOUNT DRAWN
Loans of more than $1 billion		
Ukraine	$16,451.4	$4,545.1
Hungary	15,760.4	6,303.9
Pakistan	7,730.7	3,097.4
Belarus	2,419.9	774.7
Latvia	2,276.3	800.1
Iceland	2,093.8	837.5
Loans of more than $100 million		
El Salvador	$768.7	—
Georgia	713.4	$242.3
Armenia	550.4	242.3
Serbia	524.9	—
Liberia	357.4	320.1
Haiti	172.0	136.1
Moldova	166.0	152.5
Togo	125.6	46.4
Afghanistan	121.1	86.7
Nicaragua	116.7	107.7
Gabon	115.2	—
Madagascar	109.2	95.7
Guinea	104.7	67.3
Kyrgyzstan	100.2	149.6

COUNTRY	LOAN AMOUNT	AMOUNT DRAWN
Loans of more than $20 million		
Malawi	$77.8	$121.1
Zambia	73.3	92.7
Senegal	73.3	62.8
Burundi	68.8	76.3
Central African Republic	67.3	58.3
Sierra Leone	62.8	52.3
Honduras	58.3	—
Mali	41.9	38.9
Niger	34.4	49.4
Gambia	29.9	19.4
Seychelles	26.9	9.0
Mauritania	23.9	15.0
Benin	22.4	22.4
Burkina Faso	22.4	52.3
Loans of less than $20 million		
Djibouti	$19.4	$16.5
Grenada	17.9	10.5
Republic of Congo	12.0	37.4
Rwanda	12.0	13.5
Sao Tome and Principe	4.5	4.5
TOTAL	$51.5 billion	$18.8 billion

SOURCE: International Monetary Fund

European Crisis Renews Relevance

FOR THE PAST TWO DECADES, Romania has been striving to throw off the rusty industrial legacy of its Communist past and build a free-market economy with a vibrant middle class. In 2007, the republic of 22 million people joined the European Union. As recently as last year, foreign companies such as Ford Motor Co., Microsoft Corp. and Nokia Corp. were pouring billions of dollars into operations there, including call centers and car factories.

But when the global financial crisis hit last fall, the good times came to a screeching halt for Romania and for other nations in what's often called "emerging Europe" — the band of former communist states in the central and eastern part of the continent where both economic and political stability are particularly fragile. After negotiations last week, Romania is poised to become the sixth country in the region — after Ukraine, Hungary, Latvia, Belarus and Serbia — to take a package of loans from the International Monetary Fund.

> "If the Eastern European economies were to default, that would cause huge problems for banks in Western Europe."
>
> — Desmond Lachman, fellow, American Enterprise Institute

Some experts say the emergency aid the IMF has provided to European countries since the meltdown began proves it still has a critical stabilizing role to play, after a period of relative economic tranquility when its mission wasn't always clear.

"When it comes to a country like Hungary or a country like Ukraine, in particular, the IMF support has been enormously crucial," said Douglas Rediker, director of the Global Strategic Finance Initiative at the centrist New America Foundation. "They have acted surprisingly quickly and with surprising flexibility to stave off what could have been a real crisis both domestically and internationally."

The IMF has been acting in concert with other institutions such as the European Bank for Reconstruction and Development, the World Bank and the European Union. The EU and large, wealthy, industrialized nations such as Germany have balked at suggestions that they should spend large sums to provide economic stimulus in the region — or even in their own countries. The IMF, which is financed by its member nations, has agreed to emergency loans totaling $17.5 billion for Romania, $16.5 billion for Ukraine, $15.8 billion for Hungary, $3.9 billion for Serbia, $2.4 billion for Belarus and $2.3 billion for Latvia.

This aid has been an essential backstop, particularly because the IMF alone was prepared to step in and meet a need that was both unanticipated and significant, Eastern Europe specialists say.

"You have some of these countries, like Hungary and Latvia, who had more or less graduated from the IMF before and who are now back," said Grigore Pop-Eleches, an assistant professor at Princeton University who has written on the politics of IMF policies in Eastern Europe. "Suddenly, these countries have gone to the IMF because they don't have another place to go."

The countries of emerging Europe are particularly vulnerable because many financed rapid growth by relying on foreign investment and by borrowing heavily from their wealthier neighbors. Some have also retained costly vestiges of their old, state-run economies.

WHAT'S AT STAKE

In Hungary, for example, the treasury is straining to maintain a pension system that enables citizens to retire at an average age of 58. When the crisis hit, these countries found themselves struggling to pay their debts or to roll over credit at the foreign banks that had loaned to them in the past. At the same time, countries that are heavily dependent on exports, such as Ukraine, saw their foreign markets dry up.

Adding to the problem, most nations of emerging Europe are still operating with old currencies — among them the Hungarian forint, the Ukranian hryvnia and the Latvian lat — in a world largely denominated in dollars, euros and yen. These small national currencies have lost value as investors dumped them in search of better and safer returns. But during the boom times, many Eastern and Central European borrowers also took out loans that were denominated in euros. Those borrowers are now being squeezed by what amounts to higher payments in euros as the local currencies in which they earn their wages lose value.

A potential economic collapse in emerging Europe wouldn't only be a disaster for those countries alone. "If the Eastern European economies were to default, that would cause huge problems for

governments to sidestep the IMF. The IMF's outstanding loans peaked in 2003 at more than $100 billion and had dwindled to $19.4 billion by June 2008.

With global capital flows now contracting, distrust of the IMF and an unwillingness to tap its resources threatens just the sort of international financial instability the institution was created to fight. Indeed, in late 2008 the IMF introduced a new lending program with fewer strings attached, but got few takers. And just days ago, it tried again with another revamped initiative.

"It is politically toxic for many emerging-market politicians to go to the IMF," said Eswar Prasad, who ran the IMF's China division between 2002 and 2004, and is now a trade professor at Cornell University and a fellow at the Brookings Institution. "This has a very, very serious impact for the effectiveness of the IMF."

Moreover, the fund's role as a global financial monitor has come under attack. China and other developing countries, as well as critics in the United States, argue that while the IMF has plenty to say about developing countries' economic policies, it is quiet — and largely disregarded — when it comes to Western powers.

A case in point is the IMF's failure to adequately warn of the 2008 credit collapse that plunged the financial industry into chaos and the worldwide economy into recession — a failure that the IMF acknowledged in a harsh internal review released in February.

The IMF's "surveillance significantly underrated the combined risk coming from growing financial complexity and rising leverage," the report read. "The result was a generally

BAILOUT BITES: Workers in Budapest protest IMF loan-related austerity measures last fall.

GETTY IMAGES/AFP / ATTILA KISBENEDEK

banks in Western Europe, because Western Europe is exposed to Eastern Europe to the tune of about $1.5 trillion," said Desmond Lachman, a fellow at the conservative American Enterprise Institute who previously served as deputy director of the IMF's policy and review department. "Were Eastern Europe to fail, we really would have another leg to the international financial crisis."

What's at stake isn't merely financial. The region's political history also makes it important, and recent events show how precarious the situation is. The leaders of Latvia, Hungary and the Czech Republic have all stepped down within the past two months after facing unrest due to deteriorating financial conditions. Meanwhile, there have been riots in the streets of Bulgaria, Latvia and Lithuania.

Rediker points to Ukraine as a politically unstable country that initially only received help from neighboring Russia when its economy began to totter. In that kind of situation, the IMF becomes important by playing "the role of the honest broker," he said.

"If Russia is the only friend Ukraine has to bail it out of economic disaster, you can assume the calculus on how gas is distributed to Western and Eastern Europe changes in Russia's favor," Rediker said, referring to the natural gas pipeline that runs through Ukraine. "The IMF, by stepping in, gives Ukraine a certain amount of autonomy to determine its own future rather than being beholden to its neighbors."

What's Next

Both the European Union and the United States agree that the IMF needs more money to dispense. In part, that's because the organization has been giving out relatively larger aid packages to counteract the current deep economic contraction.

The size of the loans isn't the only thing that has changed. Although the IMF has drawn criticism in the past for its micromanagement of economic reforms in the countries it aids, this time it has loosened the strings slightly in an attempt to encourage countries to seek help.

In the past, the IMF has also drawn flak for favoring allies of the United States and Western Europe. Pop-Eleches says it's too soon to tell if that will be the case this time. "It would be interesting to see whether Eastern Europe gets relatively more money than other regions," he said. "They were harder hit than other regions, too, so at some point it is hard to tell these things apart." And in any case, he said, aid is going to both Serbia and Belarus — no friends of the West — at the same time that it's going to EU members such as Hungary, Latvia and Romania.

In the end, Lachman said, the precarious situation in many emerging European economies might still lead to collapse in spite of efforts by the IMF and other institutions. "Whether or not this will succeed remains to be seen," he said. "The bottom line is the IMF would be derelict in its duty if it didn't try."

— Clea Benson

optimistic view on advanced countries and financial innovation."

Against this backdrop, the Obama administration is now seeking to use the IMF as a tool to help coordinate the global response to the economic crisis. On March 11, Treasury Secretary Timothy F. Geithner proposed several steps that would greatly increase the fund's available financial resources. As a first step, he has proposed allowing the IMF itself to borrow up to $550 billion from its largest member countries through the so-called New Arrangements to Borrow. This emergency financing mechanism, set up in the aftermath of the Mexican financial crisis in 1994, currently is limited to $50 billion.

Geithner also has proposed speeding up to 2011 the next review of paid-in IMF membership shares, known as quotas and tied to voting rights in the institution. He says the G-20 countries should agree to a road map for giving increased voting shares and financial roles to emerging-market economies.

"I think there's a broad-based recognition that our fortunes are closely linked to the fortunes of the rest of the world," Geithner said.

His words were aimed not only at foreign governments, but also at U.S. lawmakers, who would have to approve the new borrowing proposal — and who have had an outsized role in shaping IMF policy since its founding.

The Congressional Role

The voting structure of the IMF, combined with U.S. laws, gives Congress the ultimate ability to approve or block many decisions at the institution. That's mostly because the fund has long been regarded with suspicion by both conservatives and some liberals who were concerned about putting taxpayer money in the hands of a little-understood international organization. Testifying before the Senate Foreign Relations Committee on March 25, billionaire financier George Soros noted what he called the "well-known negative attitude of Congress towards anything connected to the IMF."

A country's voting power within the fund and the amount of money it is required to contribute to it both depend on its quota, which is determined by the relative size of its gross domestic product, trade flows and foreign exchange reserves. Major decisions on changing those quotas require the approval of 85 percent of the membership.

Since the United States has always controlled more than 15 percent of the IMF's voting share — it currently has 16.77 percent — the federal government has always held effective veto power over IMF decisions.

In the 1945 law that allowed U.S. participation in the IMF and World Bank, Congress prohibited the president from agreeing to any changes in the U.S. quota or IMF governance or any IMF or World Bank loan requests without congressional approval.

The executive and legislative branches have tussled over the U.S. role in IMF financing for years, usually during requests for increases in the U.S. quota. Congress hasn't waged a full-fledged battle over the IMF since 1998, when President Bill Clinton asked lawmakers to appropriate $17.9 billion for a controversial quota increase and a separate financing program as IMF coffers dwindled from an Asian financial crisis at the time.

That request sparked a yearlong debate in the Republican-controlled House and Senate that pitted Clinton's allies against conservative skeptics of international institutions and liberals who said the IMF treated developing countries unfairly. In the end, pressure from the president and the business community helped push through the financing, although Congress also appointed an International Financial Institution Advisory Commission, which subsequently called for overhauling IMF lending practices.

The 1998 debate was instructive, says J. Lawrence Broz, a political science professor at the University of California at San Diego who has studied the relationship between Congress and the fund. Broz argues that lawmakers' views about the IMF are affected by their economic ideology, the share of campaign contributions they receive from banks that do international lending and the number of highly skilled, "pro-globalization" constituents they represent. "Conservatives typically don't like big government — in this case, international government," Broz said. "And that's what the IMF does."

That's close to the view expressed by Tennessee Republican Bob Corker, who has become a central player on the Senate Banking Committee. Corker says he is concerned that bailed-out governments will be unable to pay back the IMF when the time comes. "I think that some of the European countries are in serious problems" and could possibility default on their debts, Corker said. "At the end of the day, it's our money, right?"

U.S. conservatives have often called the IMF a bureaucracy in search of a mission. The administration of President George W. Bush argued that the IMF had failed to do enough to monitor the manipulation of currency exchange rates by China and other countries.

But liberals have their own concerns about the IMF, and the Democratic-controlled House and Senate are also likely to assert themselves when Congress debates Geithner's proposals and any recommendations that come from the G-20 summit.

Democrats tucked a provision into the just-enacted omnibus spending law for fiscal 2009 that directs the U.S. representative to the IMF

Post-War Agreement — and Beyond

The International Monetary Fund was conceived by 45 Allied nations meeting in July 1944 in the bucolic New Hampshire mountain village of Bretton Woods. The Bretton Woods agreements were intended to help regulate global trade and economic activity following World War II. In addition to creating the IMF, the conference agreed on terms for the International Bank for Reconstruction and Development, commonly called the World Bank, and the General Agreement on Tariffs and Trade, the precursor to the World Trade Organization, which was established in 1995.

ITS MISSION: The IMF was designed to oversee the international monetary system, help stabilize currency exchange rates and lend to countries that were having difficulty meeting their global payments. When the United States and other major countries abandoned fixed exchange rates in 1971, the IMF became more focused on providing loans to low-income countries, conditioned on certain economic and governance conditions.

WHAT IT DOES: Headquartered three blocks west of the White House, and across the street from the World Bank, the IMF has 2,490 employees around the world to monitor financial flows and economic activity. It operates a variety of lending programs for its 185 member countries. Many loans are intended for short-term needs to keep economies stable and carry market interest rates. Some loan programs aimed at poverty reduction and protection against economic harm from outside effects are made on concessional terms, including very low interest rates. The IMF also provides technical assistance to member countries on economic and financial issues.

HOW IT'S FINANCED: Upon joining the IMF, each member country contributes a sum of money called a quota subscription, which serves as a kind of membership fee. In return, countries are credited with "special drawing rights" that act like interest-bearing savings accounts. Paid-in quotas form a pool of money from which the IMF can lend to countries in financial difficulty. If quota resources aren't sufficient to meet loan demand, the IMF can borrow through one of three special arrangements with member countries that have agreed to lend up to a total of $150 billion for emergency needs.

CAPITAL BASE: IMF's Washington headquarters.

HOW IT'S GOVERNED: Quotas form the basis for determining how much a contributing country may borrow — and also the country's clout in a complicated voting system. Major decisions require an 85 percent majority of the voting quotas. Voting shares aren't exactly aligned with quota shares. However, the United States, which contributes about 17 percent of total resources, is the biggest member and has almost 17 percent of the votes. The smallest member is Palau. Congress appropriates the U.S. contributions, but the receipt of special drawing rights in return

KEYNESIAN TRADITION: Economist John Maynard Keynes addresses the Bretton Woods conference.

results in no actual budgetary outlays. The managing director of the IMF is traditionally chosen by its European members, although the appointment officially comes from the IMF Board of Executive Directors. (By contrast, the United States traditionally names the president of the IMF's sibling organization, the World Bank.) The current managing director is Dominique Strauss-Kahn, a former finance minister from France.

MAJOR IMF MILESTONES

1945: The IMF is officially created in December with 29 member countries.

1947: France becomes the first recipient of an IMF loan.

1977: The IMF launches the first in a series of programs that provide low- or no-interest loans to developing countries to pay down their foreign debts.

1982: Mexico announces that it is unable to meet a loan-servicing payment on $80 billion of debt to the United States, setting off a repayment crisis among developing countries. The IMF responds with a series of stabilization programs in Mexico and several other countries hit the hardest.

1992: Russia and the newly independent Soviet states are admitted to the IMF. Russia is granted a series of loans, including one for $10 billion in 1996 that at the time is the largest of its kind.

1997: Rapid currency depreciation leads to a financial crisis in Asia that sinks regional stock markets and devastates economies. The IMF makes a series of multibillion-dollar stabilization loans to Indonesia, the Philippines and Thailand, and one for $21 billion, then the largest ever, to South Korea.

2005: The IMF agrees to allow 100 percent debt relief, valued at $3.3 billion, for 19 heavily indebted, low-income countries, most of them in Africa.

IMF AID: Africa's Niger benefits from debt relief.

2008-09: The IMF responds to the global financial crisis by creating two new lending programs and issuing relatively larger loans. But facing a budget shortfall, it seeks new financing.

to oppose education and health care spending limits for countries that take IMF loans. That's a major complaint from non-governmental organizations that work in developing countries and from African governments that say they have to cut social spending to meet the conditions of IMF loans and debt forgiveness programs.

Massachusetts Democrat Barney Frank, chairman of House Financial Services, says he will demand a trade-off if Geithner asks Congress to approve a proposal by the IMF board of directors to sell off some of the fund's gold reserves to finance administrative expenses. In return, Frank, along with other Democratic lawmakers, will demand that the IMF take additional steps to cancel the debts of some very poor countries.

Beyond the politics, the nuances of IMF financing arrangements aren't easy to sell, especially since the money is, in effect, going overseas. The broad plan to expand IMF emergency borrowing might require a contribution of as much as $100 billion from the United States, though it would probably have a minimal effect on the federal budget. When the United States contributes money to the IMF, the Treasury receives "special drawing rights" in return, in essence an interest-bearing account at the fund. The net effect on federal finances is effectively zero.

Geithner's proposal to boost IMF resources immediately by allowing it to borrow huge sums would for now avoid a controversial vote on changing the U.S. quota, as well as questions about voting shares. But even winning approval for an increase in the fund's ability to borrow, which would require congressional approval, may prove difficult.

Any financing action has some cost, because the Treasury would have to borrow any amount it gives or lends to the IMF. And that will add to the federal government's total debt and interest expenses.

"There is a need to address the total size of the fund's resources," said Michael Mussa, who was economic counselor and director of research at the IMF from 1991 to 2001 and is now a senior fellow at the Peterson Institute for International Economics. "There undoubtedly is bailout fatigue, so it's not going to be greeted with great enthusiasm."

Proposals on the Table

Regardless of what recommendations come from the G-20 summit, Congress is likely to face new decisions on the IMF soon.

The IMF Board of Governors proposed a package of changes to the fund's voting and governance structure in early 2008, including agreeing to make the formula for determining voting shares more transparent, tripling the "basic shares" allocated to countries and boosting African representation in the IMF's leadership ranks. These changes, if adopted, would mean a stronger voice for 135 of the fund's 185 member countries, with the biggest increases going to China, Korea, India, Brazil and Mexico.

But the momentous economic events of the last year have made those changes look small. Encouraged by Geithner's statements in favor of changing the voting and financing structure of the IMF, a group of 15 economists wrote the Treasury secretary in late January, calling the existing IMF overhaul proposal inadequate and urging him to go back to the G-20 and begin negotiating a broader package of IMF changes.

"The IMF's legitimacy and relevance must be substantially enhanced and supported through bold steps to realign significantly voting power in the IMF, to augment the fund's resources commensurate with the needs of today's globalized economy, to implement the fund's mandate for exchange-rate surveillance, and to reform, once and for all, the management selection process in the IMF,"

INTERNATIONAL MONETARY FUND, LEFT AND TOP; GETTY IMAGES/AFP / ISSOUF SANOGO the letter said.

Voting structure is the highest-profile issue on the table, and is inextricably linked to the IMF's financing shortfall. Strauss-Kahn, the IMF managing director, says he needs to double the fund's lending capacity.

But the elephant in the room is China. In recent years, the IMF faced competition as the "lender of last resort" from the Asian giant. China established itself as a huge provider of aid and loans in Africa and elsewhere as it sought to secure access to natural resources. Oil-rich Angola, for one, has rejected financing arrangements with the IMF in favor of assistance from China.

Moreover, China, despite its huge foreign reserves and growing economic clout, currently has only a 3.7 percent voting share at the fund. In advance of the G-20 summit, Chinese officials and their allies have been signaling that a stronger voice will be key to a bigger contribution.

"It's inevitable for the international financial institutions, as you try to draw more support from some of the rising developing countries, they'll want more voice," says the World Bank's Zoellick, who served as U.S. trade representative and deputy secretary of State during the George W. Bush administration.

The IMF structure is essentially a product "of the immediate post-World War II period. The power reflects who was really important," said Vijaya Ramachandran, a senior fellow at the Center for Global Development who studies voting structures at international institutions.

Cornell's Prasad and others say real changes may require the United States at some point to cede its veto power — a move that few think the Obama administration is ready to suggest. But even if the United States were to give up its veto, either by lowering the 85 percent majority threshold on major IMF votes or by reducing the U.S. share below 15 percent, it would still be likely to retain much of its clout. Given its economic power, the United States would probably be able to find allies on critical votes.

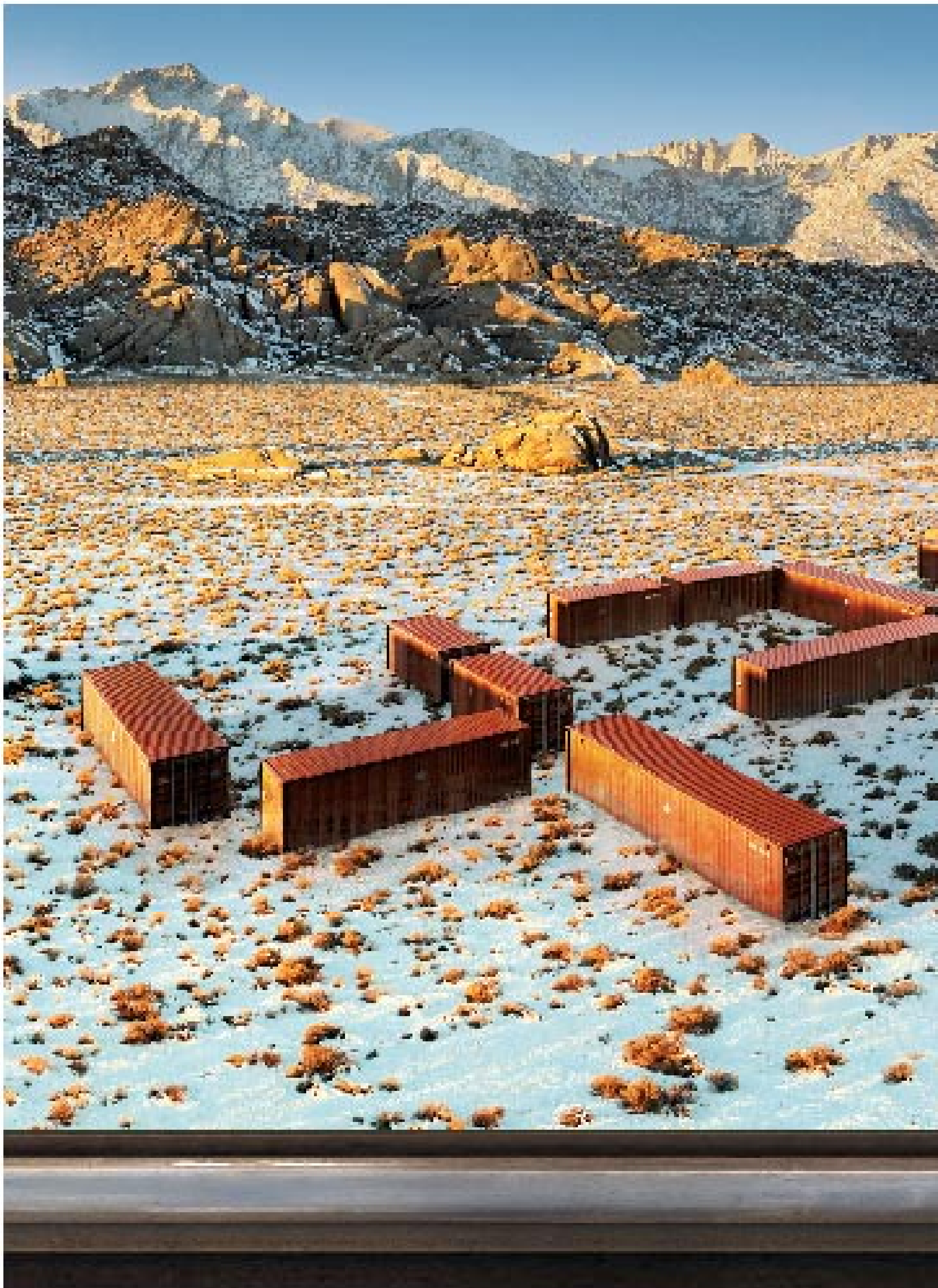
In the meantime, many observers suggest that a more substantive move would be to do away with the tradition that the United States appoints the president of the World Bank — and as a result put pressure on European governments to allow an open competition for the managing director of the IMF, whom they traditionally appoint.

For the United States, the toughest part of overhauling the IMF's governing structure may be persuading traditional European powers to give up their far more disproportionate

> "The work of the IMF and the World Bank are critical to helping us emerge from this global economic crisis."
>
> — Senate Foreign Relations Chairman John Kerry, D-Mass.

stranglehold over the institution. While the U.S. has given up voting share over the years to allow other countries to get a marginally bigger voice, European nations hold far more than their fair share of power, given the vast changes that have occurred in the global economy since the last major change in voting shares in 1999.

The Wilson Center's Sewell said that while China's share of the global economy dwarfs that of Belgium and the Netherlands combined, the two countries' combined voting share is greater than China's. The package of proposed IMF governance changes would leave that condition in place and wouldn't touch the composition or size of the IMF board



of directors, which is also disproportionately populated with Europeans.

Beyond the dual issues of representation and resources, however, the financial crisis has renewed questions about the IMF's mission.

Georgetown's Madavo argues that any successful overhaul of the IMF will be "not just about voice, but about the nature of fund programs."

And former assistant Treasury secretary for international affairs Edwin Truman argued in a Jan. 23 speech that the Obama administration should propose huge new resources, substantial voting quota changes to enhance the role of emerging markets, and a strengthening of the IMF's surveillance and currency monitoring role so that it can be used as a central tool to coordinate international financial regulation efforts. Truman, most recently a senior fellow at the Peterson Institute, is now working as a temporary adviser to Geithner.

"Its surveillance role should be enhanced in part with respect to the neglected intersection between national macroeconomic developments and policies and the supervision of individual financial institutions and national financial systems," Truman said.

That might require an overhaul of the internal structure of the fund, as well as its outward governance, some argue.

"The problem is that the IMF has yet to demonstrate an ability to serve as an effective check and balance on the United States and other 'old' powers, like the U.K., France and Germany," said a September 2008 working paper produced by the Brookings Institution's Global Economy and Development division.

But that requires the right personnel. The IMF is well-regarded for the technical assistance it provides to developing countries and emerging markets looking to set up stock markets or regulatory schemes. But critics inside and outside the fund say it relies too much on macroeconomists with too little experience in the on-the-ground realities of developing countries or the complex financial machinations of advanced economies.

Going further, the Brookings report highlights potential benefits from de-linking the IMF and the World Bank, which is far better equipped to finance and guide development work in the poorest countries. The report argues that the IMF should be spending less time on countries that have no "systemic significance," and instead concentrate on critical emerging markets and developed countries.

At the very least, the report suggests writing separate laws to govern the U.S. roles in the IMF and the World Bank, while giving Congress' banking committees and the Treasury Department jurisdiction over IMF issues and putting the foreign relations panels and the State Department in charge of Bank issues.

Going into the G-20 summit, the IMF itself has taken steps in recent days to broaden its appeal. It set up new programs to provide flexible financing for countries with strong economic fundamentals, and is moving toward a lending model where it pre-qualifies countries for loans, rather than attaching controversial conditions to the loans.

Indeed, if the Obama administration and U.S. lawmakers, as well as other G-20 leaders, want to use the IMF as a stabilizing tool, they need to restore confidence in its structure and motives and ensure that faltering governments, whether in Europe or Africa, don't see economic ruin as a better option than running to a 64-year-old institution seen by many as a tool of the United States.

Overcoming political challenges in places such as South Asia and Africa will require a strong, effective IMF backstop, according to Kerry. And that may mean change. "The moment," Kerry said, "is ripe for reform of many different kinds." ■

FOR FURTHER READING: AIG bonuses, CQ Weekly, pp. 651, 672; Senate Foreign Relations Committee, 2008 CQ Weekly, p. 2988; 1998 IMF debate, 1998 Almanac, p. 2-45.