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Rising Powers Challenge U.S. on Role in I.M.F.

By [MARK LANDLER](#)

WASHINGTON — Barely six months ago, the [International Monetary Fund](#) emerged from years of declining relevance, hurriedly cobbling together emergency loans for countries from Iceland to Pakistan, as the first wave of the [financial crisis](#) hit.

Now, with world leaders gathering this week in London to plot a response to the gravest global economic downturn since World War II, the fund is becoming a chip in a contest to reshape the postcrisis landscape.

The Obama administration has made fortifying the I.M.F. one of its primary goals for the meeting of the [Group of 20](#), which includes leading industrial and developing countries and the [European Union](#). But China, India and other rising powers seem to believe that the made-in-America crisis has curtailed the ability of the United States to set the agenda. They view the Western-dominated fund as a place to begin staking their claim to a greater voice in global economic affairs.

[Treasury](#) Secretary [Timothy F. Geithner](#), who once worked at the fund, has called for its financial resources to be expanded by \$500 billion, effectively tripling its lending capacity to distressed countries and cementing its status as the lender of last resort for much of the world.

Japan and the European Union have each pledged \$100 billion; the United States has signaled it will contribute a similar sum, though its money will take longer to arrive because of the need for Congressional approval. China, with its mammoth foreign exchange reserves, is the next obvious donor.

Yet officials of China and other developing countries have served notice that they are reluctant to make comparable pledges without getting a greater say in the operations of the fund, which is run by a Frenchman, [Dominique Strauss-Kahn](#), and is heavily influenced by the United States and Western Europe.

A senior Chinese leader, Wang Qishan, said Friday that Beijing was willing to kick in some money, but he called for an overhaul of the way the fund is governed. China wants its quota — which determines its financial contribution and voting power — adjusted to reflect its economic weight better.

China's contribution, Mr. Wang said, should not be based on the size of its reserves but on its economic output per person, which is still modest. Some American officials now expect a pledge on the order of \$50 billion from China.

“Their arms may yet be twisted, but they simply do not want to pony up based on vague promises of governance reform,” said Eswar S. Prasad, a professor of economics at [Cornell University](#) who has discussed the matter in recent days with Chinese and Indian officials.

Given the inevitability that these countries will have a growing influence, the London summit meeting,

which begins Thursday, is likely to be remembered “as the last hurrah for the U.S. and Europe rescuing the world economy,” said Simon Johnson, a professor at [M.I.T.](#) and a former chief economist of the fund.

One reason the I.M.F. has emerged as such a popular cause is that the United States has been unable to rally countries behind its other major priority: economic stimulus. The European Union opposes further stimulus packages in 2010, arguing that its social safety net makes an increase in government spending unnecessary.

European and American officials are also still divided, to a lesser degree, on how to rewrite international financial regulations. France and Germany are more receptive than the United States to giving regulators supranational authority to scrutinize global banks and other financial companies.

“The United States is desperately trying to assert leadership, as if it were 10 years ago, when the U.S. set the agenda,” said Kenneth S. Rogoff, an economist at [Harvard](#) and another former chief economist of the fund.

With more countries slipping into crisis by the week, there is general agreement that the fund needs additional resources. Since last year, the I.M.F. has made nearly \$50 billion in loans to 13 countries. It is streamlining the process for making loans and loosening its strings, hoping to counter the resentment that built up against it during past crises because of its stringent demands.

At a [preparatory meeting two weeks ago](#), finance ministers of the Group of 20 agreed to “very substantially” increase financing, though the Europeans favored an extra \$250 billion, not \$500 billion.

Whatever their reservations about financing, the Chinese have seized on the fund for another purpose: to tweak the United States. The governor of China’s central bank, Zhou Xiaochuan, recently proposed that the American [dollar be phased out](#) as the world’s default reserve currency. As a replacement, he suggested using special drawing rights, or S.D.R.’s, the synthetic currency created by the fund that is used for transactions between it and its 185 member countries.

Few economists view that idea as a realistic one, at least for years to come. But the mere assertion that [the dollar](#)’s pre-eminence is waning — a theme picked up by Russian officials as well — sends a message.

“I don’t think the Chinese or Russians really believe the S.D.R. is a viable currency,” said Mr. Prasad, the Cornell economist. “But they’re laying down a very clear marker that they’re going to be much more assertive about their role.”

Mr. Geithner took the remarks seriously enough that he [publicly reaffirmed](#) the primacy of the dollar.

The United States will address China’s status this week, when it announces details of a new high-level strategic and economic dialogue with Beijing, led by Mr. Geithner and Secretary of State [Hillary Rodham Clinton](#), according to a senior administration official, who spoke anonymously because the information was not yet public. The announcement will come after the first meeting between [President Obama](#) and the Chinese president, [Hu Jintao](#), in London.

The Obama administration has personal reasons to support the fund. Mr. Geithner was the I.M.F. director of policy planning from 2001 to 2003, after his first stint in the Treasury Department. He recruited Edwin M. Truman, another former Treasury official and a longtime advocate of the fund, as a temporary adviser to develop policies for the Group of 20 meeting.

Just before leaving his academic position at the Peterson Institute for International Economics, Mr. Truman proposed that the fund issue \$250 billion in S.D.R.'s on a one-time basis to be allocated to all its members, as another way of increasing its resources. Western European countries, he said, could use their S.D.R.'s to lend money to their troubled Eastern neighbors.

That proposal is in a current draft of the statement to be issued at the Group of 20 meeting. If all the American proposals for the fund are adopted, its resources will approach \$1 trillion — a big number, even in these extraordinary times.

Yet for Mr. Johnson of M.I.T., it merely shows how difficult it is for the United States to marshal support for anything else.

“They can’t agree on fiscal policy; they can’t agree on regulations,” he said. “The only thing left is the I.M.F.”

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