Key Points

- The International Monetary Fund’s (IMF’s) 2015 semi-annual meetings triggered the final phase of the international effort to end the five-year-old impasse over quota and governance reforms that remain unratified by the United States.

- There is little reason to believe the situation will be resolved smoothly. The IMF’s steering committee instructed the executive board to come up with an interim solution by the end of June. There is no consensus on what this would entail.

- The best option remains an agreement between the White House and Congress that would bring about the United States’ ratification of the 2010 reform package. That should motivate stakeholders to mount an eleventh-hour push of their own, as President Barack Obama’s administration and lawmakers have done little to show they can be trusted to secure an agreement.

The five-year impasse over IMF reform is nearing an end.

By the end of June 2015, either the United States will ratify changes agreed in 2010 at the Group of Twenty (G20) summit in Seoul or the global community will attempt to move forward without the IMF’s largest shareholder.

It could be the last chance for the United States to realign its moral authority with its dominant position as the only member of the Fund with an effective veto over major decisions. The decision of dozens of countries to ignore Washington’s reservations and sign up to become founding members of the China-led Asian Infrastructure Investment Bank (AIIB) shows US influence is waning. The New Development Bank, the lending institution established by the BRICS countries (Brazil, Russia, India, China and South Africa) as the 2010 IMF reforms languished, gained its first leader in May (Mishra 2015), a separate reminder that the big emerging markets are quite prepared to make their own way.

In April 2015, the G20 and the International Monetary and Finance Committee (IMFC), the steering committee of the IMF, directed the Fund’s executive board to decide on “interim” measures that would achieve at least some of the goals of 2010. The board’s deadline is June 30, 2015. The United States could pre-empt the exercise if the Obama administration and Congress resolve their differences regarding the IMF before that date.

None of the interim measures under discussion inspire confidence. Agustin Carstens, the governor of Mexico’s central bank and the chairman of the IMFC, called all the potential options “suboptimal.” In fact, Carstens, in comments to reporters after the joint G20-IMFC meeting, appeared to hold out hope for a last-minute compromise in Washington. While the executive board debates interim measures, other stakeholders should contemplate an eleventh-hour effort to secure ratification of the 2010 reforms. The political backdrop in Washington may have shifted just enough to bring about a compromise.
Background

On April 18, 2015, finance ministers and central bank governors from the G20 had a rare joint meeting with the IMFC. The special assembly was convened to discuss the inability of the United States to broker a political agreement that would allow for ratification of the 2010 reforms: this would double the permanent financial contributions from its members, known as quota; grant increased voting power to the biggest emerging markets; and create an all-elected executive board, replacing the current system under which the executive directors from the IMF’s five largest shareholders are appointed by their respective governments.¹

Most nations ratified these changes years ago. But in Washington, the administration of President Obama has failed to overcome the stubborn resistance of IMF skeptics in the Republican Party. Opinion is split on which side deserves most of the blame for the impasse. The stance of the Republican leadership, since it regained the majority in the House of Representatives in the fall of 2010, has been to oppose the White House on virtually everything. At the same time, there are questions about the administration’s commitment to the reform initiative.

Obama’s Treasury Department was the leading advocate of the overhaul. Yet, the White House waited a year before it sought legislative approval. This raised questions about whether the United States really wanted the IMF to change. “It was the view of some congressmen that the administration really wasn’t serious about this process,” John Lipsky, who was the first deputy managing director at the IMF between 2006 and 2011, recently told an audience in Mumbai. “There are allegations on both sides, but the truth of the matter is Congress rejected the proposal in 2012 and again last year it wasn’t clear there were any substantive grounds, only a desire not to cooperate with the administration” (Lipsky 2015).

The changes could have been made piecemeal. But negotiators opted to tie everything together. Because the creation of an elected executive board would require the rewriting of the IMF’s Articles of Agreement, members controlling a combined 85 percent of voting shares must agree to the change. The United States controls almost 18 percent of total quota. Therefore, US support is necessary for the 2010 reforms to take effect. Unfortunately, the most significant attempt at realigning the IMF quota occurred during an especially toxic moment in US politics.² Republican leadership proved unwilling to overrule IMF skeptics within its ranks, and the Obama administration balked at the political trade-offs it would have had to make to win enough Republican support. In effect, the will of the international community has been held hostage by Washington’s gridlock.

The international community eventually tired of being held hostage. In April 2014, G20 finance ministers and central bank governors said if the 2010 reforms remained unratified at year-end, they would call on the IMF to “develop options” for the next steps (G20 2014, paragraph 7). Early in 2015, the IMF’s executive board proposed a deadline of June 30, 2015 to decide on “steps that represent meaningful progress” toward the objectives of the 2010 reforms (IMF Communications Department 2015). The G20 and the IMFC endorsed this timeline at the April spring meetings.

IMF Managing Director Christine Lagarde and other senior officials have been circumspect on how they could proceed without US support. Two proposals have received most of the attention (Nelson and Weiss 2015). The 2010 package could be broken into its component parts, “delinking” the quota increase from the creation of an elected executive board. (The doubling of IMF quota requires only 70 percent of voting shares, a threshold that already has been met.) Also, there is support for an “ad hoc” quota increase that would seek an approximation of the redistribution of quota shares agreed in 2010.

Brazil is the most visible proponent of the “delinking” option. Separating the quota increase from the move to an all-elected executive board would require an 85 percent vote by the IMF’s board of governors, and would, therefore, require the backing of the US administration, but not Congress. However, if this was the case, the Obama administration would risk sacrificing the United States’ veto at the Fund. Other countries would increase their quota shares, while the United States stood still. The American share eventually would be diluted to less than 15 percent — giving the White House every reason to oppose the proposal. Paulo Nogueira Batista, Brazil’s current executive director at the Fund, and Hector R. Torres, a former Brazilian executive director, say the IMF’s board of governors could promise that it would advance decisions that require 85 percent approval only with US consent. (Nogueira Batista and Torres 2015). (The United States would have to take the board at its word; there is no obvious way to enforce such a commitment.) India, Gabon and Russia were among the countries that voiced support for the delinking option during the spring meetings.

The ad hoc option appears to have more support. Canada, Switzerland, Belgium and France all came out in favour of this approach in their official statements to the IMFC meeting. “We are convinced that the option of delinking the quota increase from the Board reform amendment is not feasible, in particular, because it cannot obtain the support needed from the broad

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¹ The five largest shareholders currently are the United States, Japan, Germany, France and the United Kingdom. China, the word’s second-largest economy, is the IMF’s sixth-largest shareholder.

² Analysis by the Pew Research Center shows the 113th Congress that ended in December 2014 and the 112th Congress are among the least productive legislative sessions in American history.
membership,” said Eveline Widmer-Schulumpf, Switzerland’s finance minister. “Moreover, this option would take too long to be implemented. Instead, we see merit in the option of limited ad hoc quota increases for those members that are most underrepresented” (IMFC 2015d, 3–4).

Whether by design or by accident, emerging markets and older powers have taken opposite sides in the debate. There is a note of distrust that could make a resolution difficult. “We do not have any assurances that it will deliver a result sufficiently close to the 2010 reforms to make it worthwhile, nor that it will be truly temporary,” Brazil’s finance minister, Joaquim Levy, said of the proposal to do an ad hoc quota increase (IMFC 2015a). Canadian Finance Minister Joe Oliver joined Switzerland in dismissing the delinking option.³ Oliver’s IMFC statement called an ad hoc increase the “most realistic way forward” (IMFC 2015c).

A Third Way?

This author’s review of the spring 2015 IMFC statements shows there is one thing on which all countries agree: the superiority of the 2010 reforms over all other options on the table. The broad support for the existing quota-and-governance package therefore prompts a question: has every effort been made to bring about US ratification? The answer is no. This author has argued (Carmichael 2015a) that the G20 and other stakeholders have been passive observers of Washington’s debate over IMF reform. As a former IMF board official said in a private conversation, the G20 and other leading nations have a “moral imperative” to at least try to persuade US politicians to pass the 2010 reforms, even if the effort would face difficult odds.⁴

US Treasury Secretary Jacob Lew told his colleagues at the IMF that he was confident an agreement was within reach. “President Obama has requested approval for the reforms in his current budget request and at the same time we are seeking every possible legislative opportunity to implement the reforms as soon as possible,” he said. “We continue to believe that Congress will soon pass legislation to implement the 2010 reforms, which are critical to U.S. economic and national security and global economic stability” (IMFC 2015b, 3).

To be sure, the Obama administration has little credibility left when it comes to promising action on the part of Congress. However, Carstens indicated Lew had said something that gave the others reason for hope (Carmichael 2015b). The politics in Washington have shifted from the end of last year, if only slightly. Republicans now control both the Senate and the House of Representatives. They now have an incentive to govern, rather than simply oppose the president. Notably, the White House and Republican leaders compromised on Trade Promotion Authority, the statute that forbids Congress from amending international trade agreements forged by the administration (Weisman 2015). US lawmakers will have seen the attention paid to the AIIB, the rise of which represents the most tangible evidence that the United States is losing influence. Lawrence Summers, the former US Treasury secretary and adviser to Obama, told an audience in Washington during the spring meetings that there was “no question” that the failure of the United States to approve the 2010 IMF reforms had led to the rise of new multilateral lending institutions (Summers 2015).

One can say what one will about the world views of Republican politicians, but few will look casually on the clear evidence of the declining US influence on global economic affairs. The timing could be right for a concerted push to win the votes needed to approve the changes to the Articles of Agreement and to appropriate the United States’ contribution to IMF quota.

Recommendations

International stakeholders should take an active role in persuading US politicians to adopt the 2010 quota reforms. Mike Callaghan, the former Australian G20 negotiator, says the international community should be careful about alienating the United States from the IMF. “If you ever want a relic from the past, have the United States lose interest in the IMF.”⁵ The executive board must work on strategies to move on without the United States — the long delay in ratification has left it no choice. But to avoid the impression that the G20 is turning its back on the United States, select officials should engage Congress to explain the international community’s point of view. The conventional wisdom is that Congress is oblivious to international opinion. Yet this author has observed Canadian cabinet ministers and provincial premiers regularly obtain audiences with Republican lawmakers. The Obama administration has stated repeatedly that the US position on the IMF is hurting the country’s image abroad. Given the deep level of animosity between the White House and Republican lawmakers, it is likely anything said by an administration official is routinely ignored. G20 finance ministers from countries such as the United Kingdom, Australia and Canada could intervene as honest brokers. They need not harangue, only describe what they witness abroad about the waning stature of the United States and attempt to correct erroneous interpretations of the 2010 overhaul.

US stakeholders must construct a way out. Republicans have backed themselves into a corner. Their obstruction for the sake of

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³ Joe Oliver did not attend the IMFC meeting in person, skipping the spring meetings to remain in Ottawa to prepare for the April 21 federal budget.

⁴ The former official agreed to inform this paper on the condition of anonymity.

⁵ Mike Callaghan, email response to author, March 13, 2015.
opposing the president means they cannot stand down without losing face. Unfortunately for champions of IMF reform, Republican lawmakers have little incentive to do so. The onus will be on the Obama administration to help the Republicans “win” this showdown (Lipsky 2015). Some Republicans have based their opposition to the 2010 reforms on the IMF’s decision to bend its rules to participate in the bailout of Greece. Lipsky informed this author that Republicans often cite John Taylor, the former US Treasury undersecretary for international affairs, as intellectual backing for their stand against the IMF. Taylor argued that Republicans were right to block the 2010 reforms as a protest over the IMF’s decision to waive lending conditions put in place after the 2001 Argentine financial crisis in order to participate in the rescue with the European Union and the European Central Bank (Taylor 2014). Other countries, including Canada, have expressed similar misgivings, suggesting the concern is more than just a partisan Republican one. A recommitment to the IMF’s lending principles could suffice as a trade-off to bring Republicans around.

This author makes this suggestion only by way of example. There could be better ways. The point only is to underline that after five years, Republican opponents will not simply lay down arms because of the AIIB. They will need to be given an honourable path off the field of battle.

Conclusion

The non-US leaders of the IMF have set a course to force an end to the impasse over the overhaul agreed in 2010. They have every right to do so: political gridlock in Washington was keeping the rest of the world from following through on its desire to make the Fund a more representative institution, and one better equipped to combat the next financial meltdown. But everyone agrees that Plan B will be less than satisfactory. The IMF’s executive board, which was handed the task of choosing an interim reform program, also will struggle to achieve a consensus, as its members are split on the best way forward. That suggests the G20 and other stakeholders should make an eleven-hour effort to facilitate a compromise between the Obama administration and its Republican opponents on Capitol Hill. It would be a long shot — what American football players would call a Hail Mary pass. But sometimes those plays end in touchdowns. The G20 should substitute its passive approach to lobbying Congress with an active one. At this stage, it has nothing to lose.

Works Cited


6  In addition, Clay Lowry, email response to author, December 23, 2014.


About the Author

Kevin Carmichael is a CIGI senior fellow. An acclaimed journalist in Canada, most recently with The Globe and Mail, at CIGI, Kevin researches and writes on global economic governance summits and major developments in the global economy.
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