



Will Obama Bring “Change We Can Believe In” to the IMF?

Edwin M. Truman urges the new Obama administration to embrace reform of the International Monetary Fund as a part of its international economic agenda.

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Steve Weisman: Welcome to Peterson Perspectives. This is Steve Weisman at the Peterson Institute for International Economics with Ted Truman, a senior fellow here at the Institute. He has been doing a lot of writing and thinking recently about the international financial structure of the IMF and the other international aspects of the current financial crisis.

Welcome, Ted.

Edwin M. Truman: A pleasure to be with you.

Steve Weisman: We speak as Barack Obama is about to take office and he has a very tall agenda. Everybody has an item that they want to put on the agenda. But today, we are going to talk about one that will not go away, which is the international aspect of the economic crisis, and there are some things that are commanding his attention right away. What are the main ones, Ted?

Edwin M. Truman: The major challenge the administration faces is how it is going to use the international financial institutions to address the global dimensions of the economic and financial crisis. In particular, how it is going to address the meeting of the G-20 summit in London on the second of April and to use the International Monetary Fund to demonstrate its commitment to multilateral solutions.

Steve Weisman: The G-20 is the organization set up many years ago of the 20 leading economic powers. They met in mid-November, shortly after the election, with President Bush as the host. They set up a timetable—did they not?—for addressing some of these things.

Edwin M. Truman: They set up a timetable and they set a meeting in the early spring. That meeting has been set for April 2 and is supposed deal with the range of economic financial reform issues as well as the crisis itself. My guess is that the crisis will overwhelm the economic and financial reform issues and, in particular, how to use the existing institutions, starting with the International Monetary Fund.

Steve Weisman: Let's talk about the IMF because there is also legislation pending on the IMF, isn't there?

Edwin M. Truman: Yes. And that is the complication and the strategic decision that the Obama administration is going to have to make. It has a modest set of proposals that sort of slightly update the International Monetary Fund. But these won't take effect until the United States Congress approves them. And so the question is whether the administration decides to go to its partners and the G-20 in particular and say: "Let's reopen this package. Let's do some more dramatic things in recognition of the fact that the world looks very different on January 21, 2009, than it did on January 20, 2008."

Steve Weisman: A year or two ago, the IMF was widely viewed as an irrelevant institution. Then the global crisis erupted and now it's at the center.

Edwin M. Truman: It's at the center of it in several dimensions. First, it is in the center in terms of just coordinating policies and trying to ensure that everybody does their fair share in promoting global recovery. Secondly, it's at the center of it in terms of helping countries hit by the crisis deal with their external financial problems. Then it has committed to dole out more than \$50 billion in the last several months in that process.

Steve Weisman: To how many countries?

Edwin M. Truman: I think there are seven or eight countries so far, but there are a number of others that were in the pipeline.

Steve Weisman: So, an institution once thought to be irrelevant is now crucial to the solvency of countries all over the world.

Edwin M. Truman: Many countries. We live in a world of bureaucracy, so the Fund management also wants to demonstrate its centrality in this one. But not only as the Fund has done in the past, but as an instrument of multilateral action, which the major countries—including the United States—have used repeatedly over the decades to address global problems. And Mr. Dominique Strauss-Kahn wants to demonstrate that once again the IMF is there when we need it and to help the world overcome this crisis.

Steve Weisman: But you and some others have been critical of the Fund's organizational structure. There are reforms on the table that you mentioned. Are they adequate?

Edwin M. Truman: I don't think they are in at least two dimensions. One dimension is in terms of who calls the shots or who's perceived to call the shots. The fund

was created by the United States and Europe at the end of World War II. Basically, that Atlantic partnership has run the Fund for the last six decades. And the question is whether we, including the United States but also Europe, are going to cede authority, a large fraction of the authority—voting power, some of it symbolic—to countries that are much more important today than they were in 1945 or 1975.

Steve Weisman: The Bush administration was in favor of moving in that direction, right?

Edwin M. Truman: The Bush administration was in favor of moving in that direction. They were maybe not quite as expansive as they might have been, but they were basically on that side of the ledger.

Steve Weisman: Where did they meet resistance?

Edwin M. Truman: They basically met resistance in Western Europe because the major European countries—France, Germany, the United Kingdom—all as a group have 30 percent of the votes in the Fund.

Steve Weisman: So, they would have to give up some.

Edwin M. Truman: And we have just slightly over 15 percent of the votes.

Steve Weisman: We, the United States.

Edwin M. Truman: And so, the question is, how do we scale that back? And there is a small scaling back in this package. But we're talking about a percentage point or two, not the five or ten percentage point that's probably needed in order to restore the Fund's legitimacy.

Steve Weisman: Should that package be approved by Congress, but only as a preliminary step to going further? Or should the package be rewritten right away by the Obama administration?

Edwin M. Truman: I think the Obama administration should consult with the other G-20 countries and say, "we think the package should be rewritten," and hope that they can convince the other members of the G-20. It is implicitly on the agenda that this should be done. And that would be the first-best option. And then you could go to Congress with a better package with some energy behind it. And you could say that this is a package designed to help not only deal with this crisis but deal with future crises in terms of putting more money in the Fund and in terms of recognizing the redistribution of economic and financial power around the world. This would be a much more credible thing to put to the Congress. Moreover, it would move the package up on the agenda. The existing package—it's probably a modest step in the

right direction but it's not going to get a lot of attention on the Hill. And I am not sure the administration is going to want to put a lot of "oomph" behind it when it has so many other important things to deal with it.

Steve Weisman: But it has to deal with this because of the time table and commitments at the last G-20 meeting. Can they punt it down the road?

Edwin M. Truman: They can punt it, in two ways. They can say: "Yes, we're going to approve this but we won't do it until the end of 2010." Which is a problem, but it doesn't really make any difference in terms of the amount of money that the Fund can disperse because there is not a lot of money in the package.

Steve Weisman: Doesn't the Fund need replenishment?

Edwin M. Truman: The problem is: Do you do it through the traditional way of increasing what we call quotas? That means subscriptions to the fund. The package has increased its subscriptions by about 10 percent. They had \$200 billion lendable funds around the fall of last year. So that would add \$20 billion. That's peanuts in terms of this process. Now, they can also augment their resources by borrowing from other members but that is an ad hoc process. Though some countries like Japan have offered \$100 billion, other countries like China have not because they say essentially: "Why should we bail you out now when you don't give us and like-minded countries the voice at the Fund that we think we deserve?"

Steve Weisman: Based on the public comments of Obama's team, all of whom you know well, what direction do you think they'll go in?

Edwin M. Truman: Well, I know them well. I have not talked to them directly about this issue, of course. My guess is that they will certainly entertain this alternative strategy. Whether they decide in terms of the array of the issues that they have to address both at home and abroad, how far this gets up on the priority list, that, I think, is a different question. And I certainly hope that they will be bold. I think the United States and its leadership in the international financial community, including commitment to multilaterals, demands boldness. And if I have to bet, I would bet 55/45 that they will be bold, at least in putting it on the table, right? If the rest of the world says, "we want the package we agreed to a year ago," I don't think the administration can say, "well, then we're going to forget about it." It's going to be much harder for them to sell the package to Congress. Quite frankly, I wouldn't argue for them to push it in 2009. Let's wait until 2010. It doesn't really make any difference to how things unfold over the next 18 months, unless you can get a lot more money in to, say, doubling of IMF quotas. So, instead of adding 10 percent to the money that the fund could lend out, you would add 100 percent, \$200 billion rather than \$20 billion.

Steve Weisman: We don't know Mr. Obama's travel plans for his first months of office, but we do know obviously that he will be in London within two or three months and that probably will be his first entry on to the international economic stage. Do you think that the Europeans—who we are told are favorably disposed to Mr. Obama—might soften some of their resistance on these steps?

Edwin M. Truman: One would hope so. I think that's a reasonable way of reading history. If Mr. Obama and his advisors decide to be bold in this area, I think the Europeans will have a hard time saying, "we don't think we should be bold because the crisis is isn't as severe as you're portraying it." We all know that the crisis is very, very severe. There is one other sort of bold thing that could be done that involves the Fund, one that would be easier than pushing something through Congress in some sense, and that is to advocate a large issue of Special Drawing Rights, called SDRs, in the Fund.

Steve Weisman: I was waiting for us to get to that. Tell us what Special Drawing Rights are.

Edwin M. Truman: Special Drawing Rights are issued by the Fund via formula to members of the Fund. The members of the Fund can use those rights essentially to transfer them to other members and get credits that they can use to meet their international obligations, increase their foreign exchange. So for example, if you issue \$50 billion of SDRs, which you could do with a vote of the Fund...

Steve Weisman: You mean the Fund would issue it?

Edwin M. Truman: The Fund would issue it and the big chunk of that would go to the United States—about 15 percent, which we don't need, but that doesn't matter. But also 40 percent of it would go to the emerging-market countries, including some of the poor countries. So 40 percent of \$50 billion is \$20 billion transferred to emerging-market countries and some of the poor countries that are being sideswiped by this international financial crisis. Every dollar, if you want to put it that way, helps them to meet the needs of their own people. And I think by acting together decisively, this is something that could be done by the first of April or the first of May. It takes a vote and a process...

Steve Weisman: A vote of the IMF...

Edwin M. Truman: Well, of the board recommending it and the governors of the Fund approving it, and requires an 85 percent vote. And if we say we're going to vote for everybody else, we'll vote for it. I think the Europeans are not going to block this even though traditionally they have not been in favor of this mechanism. It's untied aid. Let's think about it as \$20 billion of untied aid.

Steve Weisman: But it has to be paid back?

Edwin M. Truman: You pay an interest rate, a modest interest rate, so that if Zimbabwe transfers SDRs to the United Kingdom, they pay a small interest rate, short-term interest rate on that to the United Kingdom because they require the SDRs. But it's not like borrowing on the market, so the interest rate might be 2.5 percent now or something like that. But they can't borrow on the market for 10 percent. So it's a lot lower, but more attractive for Zimbabwe, just to cite that example, even if it's a couple of \$100 million or only \$100 million that way when they can't get any cash at all. I think it would be a way for the world to come together and say, "This is one instrument we have, we created it many years ago and it would provide confidence that the collectivity of the nations are addressing this problem together."

Steve Weisman: Well, thank you, Ted. You've presented a daunting array of challenges for the incoming president on the international stage and please come back so we can assess how the new administration is doing with it. Thanks again for joining us.

Edwin M. Truman: Thank you. My pleasure.

