By Mark Sobel

THE ISSUE AND RECOMMENDATIONS

G-20 Leaders and Finance Ministers and the IMF’s policymaking International Monetary and Financial Committee (IMFC) have long reaffirmed a commitment to complete work on a quota review by the spring meetings of 2019 and no later than the fall annual meetings in 2019. What might be a sensible approach for the United States to take?

- Notwithstanding the current administration’s skepticism of international institutions, the IMF remains highly beneficial to the United States. The administration’s strong backing of the recent exceptional IMF loan to Argentina underscores that reality. The cost to the United States of doing nothing on Fund resources will be great. In contrast, making modest changes, even if doing so requires legislation, could garner strong goodwill for the United States. The United States should act responsibly to ensure that IMF resources remain sufficient.

- On quotas, while the case for a large general quota increase is not compelling, the administration could either pursue a limited modest increase with a redistribution of quota shares, or a more narrowly targeted redistribution. The question of a large general quota increase can be left for another day.

- On the New Arrangements to Borrow (NAB), the administration should act now to ensure that this backstop to quotas remains fully intact with strong U.S. participation; absent that, Fund resources would be insufficient. With action on quotas and the NAB, the need to roll over existing bilateral borrowing agreements is less salient.

- Thus, the administration should stand ready to seek legislation to modestly increase the U.S. nominal quota, maintain our IMF voting share, and protect the NAB. It can legitimately argue that such legislation is needed to maintain the U.S. position in the Fund, not to enlarge the IMF.

- Some redistribution of shares—especially a boost for China, given its large underrepresentation at the Fund relative to the size of its economy—is needed. That should not come at the U.S. expense.

- A comprehensive package of IMF reforms should be negotiated.

- The IMF should not lose sight of the need to reform “chairs.”
THE CHALLENGES FACING A 2019 TIMELINE
IMF quota negotiations are time consuming. The current discussions will be even more complicated than in the past given nettlesome politics in the United States and elsewhere, and difficult questions that at their heart go to how big the Fund should be and who wins and loses voting power. What is to be done with the entire resource envelope, including quotas, the New Arrangements to Borrow (NAB), and bilateral borrowings slated to expire in the coming years? How much of a quota increase would be in order and should the focus be on boosting the overall size of quotas, redistributing shares to dynamic economies, especially emerging markets, or both? Can an agreement be found on a new quota formula to guide the calculation of shares, and more generally, whose voting power should go up and down? Are broader IMF reforms needed?

Further, in the United States, the Treasury must consult Capitol Hill in advance of commencing negotiations. The United States is slated to withdraw from the NAB in 2022 unless legislative action is otherwise taken, and any decision to either stay in the NAB or withdraw would need to be signaled to the Fund before late 2021. Administrations frequently attempt to place requests for legislation on Fund resources into the normal budget process.

The bottom line is that if any 2019 timeline for acting on quotas (other than to do nothing) is to be met, let alone with U.S. legislative horizons in mind, the United States must immediately develop a position and intensive international discussions on a path forward need to begin soon.

BASIC FACTS AND NUMBERS
There are three pots of Fund resources.

<table>
<thead>
<tr>
<th>Resources</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quotas</td>
<td>$668 billion</td>
</tr>
<tr>
<td>NAB</td>
<td>$255 billion</td>
</tr>
<tr>
<td>Bilateral borrowings</td>
<td>$440 billion</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,363 billion</strong></td>
</tr>
</tbody>
</table>

- The IMF is a quota-based institution and IMF quotas are the first line of usable resources. Not all quota resources can be lent out. A more proper measure of the amount of available quota resources to be lent out is the so-called Forward Commitment Capacity (FCC)—$310 billion. The FCC is calculated in an extremely conservative manner and could be seen as understating the amount of available lending resources.\(^2\)
- The NAB is a second line of defense, backstopping quota resources. It is only likely to be drawn when the FCC is expected to fall below $140 billion. NAB activation requires an 85 percent majority vote of NAB participants. The United States currently can veto NAB activation. Again, the United States will need to withdraw from the NAB in 2022 absent legislative action.
- Bilateral borrowings are a third line of defense, and can be tapped only if uncommitted NAB resources are below $140 billion. There are around 40 bilateral agreements. The United States is not a participant. Many bilateral agreements are extendable till 2020. These borrowings were put on the books in large measure as a backstop for the European crisis, and many key European central banks have indicated that the borrowings should be viewed as temporary and expire.

It would be misleading, however, to assume the IMF had $1.363 trillion immediately at its disposal. As described above, the three “pots” of Fund resources—quotas, the NAB and bilateral borrowings—can only be tapped sequentially. As reflected in the FCC, some quota resources are already lent out or committed and further amounts from quotas are set aside to maintain the liquidity of lender positions. The amounts above for the NAB and bilateral borrowing agreements also overstate resource availability, given the need for various offsets. The IMF estimates its total resources available for lending at just above $1 trillion.\(^3\)

Just as critical a question facing a quota adjustment is the distribution of the increase, or put differently, whose voting power goes up and down, a subject intimately bound up with country representation in the IMF executive board. Needless to say, this is a topic fraught with great controversy.

While the IMF’s quota formula is supposed to measure relative country weights in the world economy as a means to guide redressments, in fact there is little agreement on the variables and weights to be used. GDP accounts for half of the formula’s weight. It is clearly the most robust variable in the equation. Another 30 percent is accounted for by “openness” (e.g., to international trade and investment flows). While “openness” might make sense as a variable in theory, it is fundamentally difficult to measure and its current derivation yields highly perverse results—enormously raising the quotas of small and prosperous open economies. Needless to say, small European countries, which have made invaluable financial and intellectual contributions to the Fund over many years, strongly defend and are vigorously resistant to fundamental change of “openness.”

Variability, which measures the volatility of current transactions and net capital flows to an economy, accounts for another 15 percent and there is a growing consensus to eliminate it from the formula. A 5 percent international
reserves variable, while small, is not robust in the sense that there is no optimal level of foreign exchange reserves and the variable rewards excess reserve accumulation. Meanwhile, an opaque and capricious “compression” factor is included, which is reported to “reduce the dispersion in calculated quota shares across members,” but in essence is designed to take calculated quota share away from the United States (around 1.5 percent) and China and give it in significant measure to small, open economies.

Reaching a deal on a new quota formula, which for many years has been seen as a precondition for a general increase, will not come easily and is unlikely in the cards unless the Fund’s membership can agree on a far more balanced approach. Further, even once the formula is used to derive “calculated quota shares,” many further adjustments, which would be the subject of difficult compromises, are often made before actual quotas are derived.

That said, substantial distributional adjustments in shares were made in 2006 and 2008, with dynamic emerging market economies gaining some five percentage points in quota shares. A further six percentage point adjustment occurred as part of the 2010 quota agreement (implemented in early 2016).

Where does the need for redistribution stand at present? Again, the answer may be in the eye of the beholder. However, the following table offers some clues.

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>ACTUAL QUOTA SHARE</th>
<th>GDP BLEND WORLD SHARE</th>
<th>CALCULATED QUOTA SHARE</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>17.398</td>
<td>20.137</td>
<td>14.478</td>
</tr>
<tr>
<td>Japan</td>
<td>6.461</td>
<td>5.533</td>
<td>5.100</td>
</tr>
<tr>
<td>China</td>
<td>6.390</td>
<td>15.441</td>
<td>12.581</td>
</tr>
<tr>
<td>Germany</td>
<td>5.583</td>
<td>4.255</td>
<td>4.951</td>
</tr>
<tr>
<td>France</td>
<td>4.225</td>
<td>3.077</td>
<td>3.168</td>
</tr>
<tr>
<td>UK</td>
<td>4.225</td>
<td>3.190</td>
<td>3.568</td>
</tr>
<tr>
<td>Italy</td>
<td>3.159</td>
<td>2.387</td>
<td>2.399</td>
</tr>
<tr>
<td>India</td>
<td>2.749</td>
<td>4.299</td>
<td>3.113</td>
</tr>
<tr>
<td>Russia</td>
<td>2.705</td>
<td>2.781</td>
<td>2.564</td>
</tr>
<tr>
<td>Brazil</td>
<td>2.315</td>
<td>2.862</td>
<td>2.250</td>
</tr>
<tr>
<td><strong>OTHERS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Saudi A.</td>
<td>2.095</td>
<td>1.158</td>
<td>1.663</td>
</tr>
<tr>
<td>Mexico</td>
<td>1.868</td>
<td>1.766</td>
<td>1.737</td>
</tr>
<tr>
<td>S. Korea</td>
<td>1.799</td>
<td>1.734</td>
<td>1.989</td>
</tr>
<tr>
<td>Belgium</td>
<td>1.344</td>
<td>0.574</td>
<td>1.113</td>
</tr>
<tr>
<td>Turkey</td>
<td>0.979</td>
<td>1.282</td>
<td>1.161</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0.974</td>
<td>1.692</td>
<td>1.307</td>
</tr>
</tbody>
</table>

• First and foremost, China’s underrepresentation sticks out like a sore thumb. China’s actual weight in the Fund is roughly half of its calculated quota share and only somewhat more than one-third of its global GDP weight.
• The United States also appears anomalous. On one hand, its actual quota share is much larger than its calculated share, suggesting overrepresentation. But its global GDP share is over 20 percent of the world economy and much higher than its actual quota share; the U.S. calculated quota share is two-thirds its GDP share; this points to extreme underrepresentation. Given the enormous subjectivity around the quota formula, it is fully reasonable to place far more weight on the U.S. global GDP share than the calculated quota share.
• European countries have much lower GDP shares than actual quota shares, especially smaller European countries.
• In addition to China, some other emerging markets stand out as underrepresented, especially in Asia (India and Indonesia).
• Of course, there are 189 Fund members and the table above, focusing on the largest members, does not capture many of them. It is worth noting that the basic votes for lower-income countries were tripled as part of the 2008 quota negotiations and there is agreement to protect the voting power of the poorest in any quota package.

**WHAT CAN ONE CONCLUDE FROM THIS CURSORY DATA?**
• The need for an upward adjustment for China is absolutely clear.
• The current U.S. voting share is reasonable, given that the U.S. GDP share in the world economy is much higher than the U.S. “calculated quota share,” which again reflects the deeply flawed quota formula. For the last decade, the
United States has seen no need for its voting power to rise, but also no need for it to fall, especially so as to maintain an ample cushion above the 15 percent veto threshold for major IMF issues.\(^\text{2}\)

- Europe is highly overrepresented in the Fund’s voting power.
- Outside of China, there are also still a few clear cases of underrepresentation. However, much of the “underrepresentation” was dealt with between 2006 and 2010.

**WHAT DO IMF STAFF AND MANAGEMENT WANT?**

In the final analysis, any action will be taken by the Fund’s 189 members, and heavily reflect the interests—and tough compromises—among key countries and country groupings.

The Fund staff and management, however, while they have not put forward specific proposals, can heavily influence the debate and be expected to press for a substantial increase in IMF quotas and to maintain the current resource envelope.

- They will likely put forward rationales for a large increase in quotas, based on measures such as maintaining the size of the Fund in line with the growth in the world economy and capital flows. They may also model stress scenarios for the global economy, such as the global financial crisis (GFC), and derive a substantially increased need for quotas so that the Fund has enough ammunition to deal with such global stresses, should they emerge.

- Interest rate normalization in the United States will also be seen as adding to potential strains in global financial markets, especially for emerging markets, which have taken in substantial portfolio flows in recent years.

- A further rationale will be that quota increases happen rarely and then require many years for ratification, and hence any quota increase will need to serve the Fund well into the next decade.

- They will also make the case that a redistribution of quota shares is needed to emerging markets, and redistribution is easier the larger expansion in the pie (e.g., quota base).

Altogether, one might guess that Fund management and staff could well be interested in a quota increase on the order of 60+ percent. Framed differently, given management concerns about the expiration of bilateral borrowing agreements, let alone with the fate of the NAB lurking in the background, replacing bilateral borrowings dollar for dollar with quota resources would result in a roughly 65 percent quota increase and sustain a $1+ trillion IMF.

**WHAT SHOULD THE UNITED STATES DO?**

The U.S. position must be rooted in a thorough analysis of the value of the Fund to the United States, the Fund’s arguments, and domestic political realities. On that basis, a number of options could be considered.

**THE VALUE OF THE IMF TO THE UNITED STATES**

The IMF is immensely valuable to the United States.

- The Fund reinforces U.S. national security interests. The Fund is the world’s recognized first responder in the face of economic crises. It helped stabilize the world economy during the 1980 Latin debt crises, transform the central European and former Soviet states in the wake of the collapse of the USSR, tackle the Asian crisis, provide debt relief to Africa, and address financing woes in many emerging markets and advanced economies during the GFC. In doing so, it has helped many countries of strategic importance to the United States, such as South Korea, Indonesia, Mexico, Brazil, Egypt, Turkey, Jordan, Tunisia, Morocco, Poland, and Ukraine, to name but a few. It has been active in Iraq and Afghanistan. Most recently, the Fund stepped in with a major $50 billion loan to support Argentina and staunch wider contagion to global financial markets. To be sure, helping stabilize countries living
beyond their means and facing crises is going to prove controversial. One can debate the Fund’s prescriptions, but country difficulties can be hardly put at the feet of the IMF.

• The Fund helps support a stronger U.S. economy. When countries fall into crisis, the decline in GDP hurts not only the country and its people, but also the world economy. The concerned country imports less from abroad; it generates less foreign direct investment; financial chaos can spread to global markets. IMF support can limit the fallout, and thus curb the destruction of international prosperity. For example, during the GFC, IMF programs for many economies—along with steps to bolster the Fund such as the expansion of the NAB in the context of the April 2009 London G20 leaders summit—contained a sudden stop in capital outflow from emerging markets.

• The Fund is a good investment for the United States. The IMF can provide massive infusions of balance-of-payments support, but in contrast the ability of the United States to provide budget support or development assistance for countries is highly limited. For example, in 2014, the IMF announced a $17 billion program for Ukraine, at a time when the United States only mustered a $1 billion loan guarantee. For every dollar the United States puts into a Fund program, others put in roughly four. The United States earns market rates interest on the dollars it extends to the IMF. The Fund is widely recognized as the world’s de facto preferred creditor, and its repayment record is excellent. Plus, with ample reserves, the Fund’s balance sheet is rock solid, further securing U.S. claims on the Fund.

The United States played a special role in creating the IMF in 1944 at Bretton Woods. Since then, the United States has been the Fund’s largest shareholder. On top of the benefits to the United States, the IMF is prized by the rest of the world as a unique collaborative institution able to help countries and promote multilateral cooperation. The IMF provides a quintessential global public good. U.S. support for the Fund can be a cheap way for the United States to garner tremendous soft power. The United States should take advantage of all of that.

In short, the United States has every reason in principle to support a potential IMF quota increase, should a reasonable outcome be attainable.

ASSESSING THE FUND’S ARGUMENTS

There is much right and wrong with the Fund’s position on a large quota increase.

What is plausibly right? The Fund’s strongest arguments are that the outlook for the global financial system is potentially more brutish, that volatility in portfolio capital flows can be more pernicious, and that any quota increase will need to serve the institution for many years to come. Hence, there is a credible case for an increase.

What is plausibly wrong? Absent a significant shock (or the loss of the NAB and bilateral lines), the Fund’s current quota resources—with loanable funds over $300 billion—are ample, diminishing the need for a large increase. Further, while the rationale for having a strong quota resource base is clear, it is not clear that the Fund’s first-line quota resources should be stocked up to be able to alone address all crisis scenarios, as opposed to having a second line—such as the NAB—to kick in when unusual stresses (like

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the GFC) hit the global economic and financial system. The Fund also conflates to some degree the argument for a big quota increase with the need for some redistribution of quota shares, even though these two questions can be separated.

**U.S. DOMESTIC POLITICAL REALITIES**

Any increase in the U.S. nominal quota requires congressional authorization and appropriation. Traditionally, Capitol Hill has paid little attention to the Fund. A majority of members have seemingly been ready to support the IMF when clearly needed, but otherwise not taken much interest in it, except in individual cases (e.g., lending to Ukraine and Haiti). In contrast, some vocal opposition exists:

- on the right, arguments have been made that IMF lending increases moral hazard, whereas some doubt international institutions more generally; on the left, arguments have been made that the IMF causes austerity.
- Often, issues are raised about IMF program design: Should the IMF accord more weight to structural reforms; does it focus too heavily on reducing budget deficits, including by raising revenues, even through tax hikes; do Fund programs sufficiently protect the poor? The IMF would clearly benefit from developing “champions” on the Hill.
- In this regard, experience shows that Congress has not had much appetite to support increased IMF resources unless there was a “demonstrated need” to do so. As mentioned, the current case for a large quota increase is not persuasive given seemingly ample resources at this time, though recent developments in Europe remind us that the situation could change.

The current U.S. administration is skeptical about international institutions. Further, given strained U.S.-Chinese relations and with China being the obvious and clear beneficiary of any share redistribution, the administration could have less of an incentive to act. That said, the Chinese central bank represents China in the IMF. It has many highly sophisticated U.S.-trained economists who seek to pursue market reforms amid a difficult economic and political environment in China. It has worked closely for years with the IMF, even implementing many IMF-proposed reforms to open the economy and strengthen financial regulation in the face of an inefficient financial system that poses huge risks to the Chinese and global economies.

Whatever the administration’s views of China writ large, the United States has an interest in cultivating strong relations with the People’s Bank of China. Turning one’s back on Chinese reformers is a recipe for a more statist Chinese economy, and for China further drifting away from market reforms and working with other partners across the globe.

**WHAT MIGHT A REASONABLE RESOURCE OUTCOME LOOK LIKE—OPTIONS?**

The future of quotas, the NAB, and bilateral borrowings needs to be addressed as a package.

**ON QUOTAS**

- As noted, the case for a very large quota increase (e.g. 60+ percent) is not strong unless the NAB and bilateral borrowings were to lapse.
- The administration could do nothing. That would leave the current status quo in place. Again, doing nothing would spare the administration the difficulties associated with securing IMF legislation. But with the fate of the NAB and bilateral borrowings in doubt, this would potentially risk systemic stability by underfunding the IMF. Modest quota adjustments are in order at a minimum for redistribution. Doing nothing would mean that the world would squarely single out the United States for opprobrium. Some countries would happily criticize the United States, while gleefully retaining their current positions; there is no reason for the United States to give them cover.
- A more modest increase could be considered.

Source: ANDREW CABALLERO-REYNOLDS/AFP/Getty Images
(20–30 percent?) and distributional shifts could be accommodated within it. Such an increase would recognize the validity of concerns about the increased risks facing the global economy, that another quota increase is not likely over the near term, and uncertainty regarding the future of the NAB and bilateral borrowings. To those who argue that any increase would take the Fund off the short leash, experience shows that Fund lending rises (and declines) at times of poor (good) health in the global economy. A modest limited increase might increase pressure on the IMF executive board to reach agreement on a new quota formula to guide the increase, a challenge that could prove insurmountable.

• Alternatively, the Fund’s membership could seek to address the distribution of shares, while kicking the can on a general increase. Such an approach would undoubtedly frustrate Fund staff and management. However, such a course of action could represent a modicum of progress and thus be preferable to doing nothing. That said, the discussions about who wins and loses shares would still be extremely difficult.

• One major question would be how much share to shift. Again, a case can be made that China is at least six percentage points underrepresented. However, such a large shift could not be readily accommodated. Instead, consideration could be given to raising China’s share by two to three percentage points, clearly moving China to number 2 in the Fund. As noted in the table above, few others are notably underweight and merit sharp increases. Accordingly, perhaps China and other truly underrepresented countries could be accommodated through an overall 5 percent shift. Of course, emerging markets and developing countries would view a 5 percent overall shift as extremely small and press for a much bigger adjustment.

• Who would lose share? Europeans well know that Europe is overrepresented in the Fund, even if they rarely admit it. To slow any effort down, they would vigorously argue that the current quota formula points to a U.S. share under 15 percent, and hence that the United States should lose its veto power. As noted, this view is spurious; the quota formula, including the opaque compression variable, is at best risible, especially given the gap between the U.S. global economic weight and the formula’s flawed results.

• Responsible U.S. officials should seek to maintain a substantial cushion for the U.S. share above the 15 percent veto threshold, a point Congress has often made. Against this background, the current U.S. quota share remains appropriate.

• In addition to Europe, some other emerging markets are overweight. The voice of the poorest should be protected.

• Accordingly, how could a distributional change be allocated?

• In 2006, the Fund increased the quotas of four seriously out-of-line countries (South Korea, China, Mexico, Turkey) by some 1.8 percent of the Fund’s quotas. In turn, the rest of the membership saw their quota shares uniformly reduced—for example, at the time the U.S. quota share was close to 17 percent, and hence the U.S. share went down by over 0.3 percent (e.g., 0.17 share X 1.8 percent increase in Fund quotas). Because the U.S. nominal quota in the Fund remained unchanged, no congressional action was required. Were another such redistribution to take place on the order of a 5 percent increase in total quotas, the U.S. share would decline nearly 0.9 percent, lowering U.S. voting power in the Fund to around 15.5 percent. While this would still leave the United States with veto power, it would substantially erode our veto cushion, likely hastening the day in which future veto power was lost (assuming our global economic weight continues on the path of moderate decline in the future). Jeopardizing U.S. veto power would erode perceived U.S. (and congressional) leverage over the Fund. Further, in this scenario, as China would be the main beneficiary and the United States the largest loser, it would appear as if the United States were ceding its power to China and reducing its global footprint to the advantage of China.

• To address these problems, another approach might be along the lines of the 2008 targeted quota increase. In 2008, underrepresented countries saw their quotas bumped up, the voting power of the United States was kept largely unchanged, and many others absorbed share reductions. To maintain constant U.S. voting power, the U.S. nominal quota in the Fund had to be increased, thus requiring congressional approval (which was secured in 2009). Again, given that the U.S. weight in the world economy is over one-fifth and the
**If the United States were seen as opposing both quota increases and withdrawing from the NAB, it would be damaging to the U.S. internationally.**

Vagaries of the quota formula, U.S. retention of its current voting power is fully justified.

Hence, while a 2008 style increase is more complicated than the 2006 approach and would require legislation, it also seems far more in line with U.S. national interests.

**NEW ARRANGEMENTS TO BORROW (NAB)**

- U.S. participation in the NAB is slated to expire in 2022 unless legislative action to the contrary is taken. If the United States withdrew, there is a serious risk others might withdraw as well, and the Fund would lose its backstop to deal with exceptional situations that pose a systemic threat.

- As noted previously, the United States can only support NAB activation when available loanable quota resources are expected to fall below $140 billion. The United States now has veto power over NAB activation, given the 85 percent activation threshold.

- Absent the NAB, there would be much greater pressure for a very large quota increase from the international community. If the United States were seen as opposing both quota increases and withdrawing from the NAB, it would be damaging to the U.S. internationally. Were that the case, however, the Fund’s management would undoubtedly seek to bolster bilateral borrowing lines (see below) in which the United States would not likely participate, further eroding U.S. credibility and influence globally and within the Fund.

- Separating quotas (the Fund’s normal resources) from the NAB (the Fund’s emergency resources) makes tremendous sense. If one is worried about an IMF that is too big, lends too much, and foments moral hazard—as many Republicans have argued—keeping normal and emergency resources separate should provide greater confidence that the United States can discipline the IMF and curb excessive lending, especially given the current U.S. veto power over NAB activation. Congress should clearly act now to provide for continued U.S. participation in the NAB beyond 2022.

**BILATERAL BORROWING**

- With bilateral borrowings in principle slated to expire in the coming years, Fund management and staff may seek to increase quota resources to broadly offset their loss.

- The Fund has long resorted to bilateral borrowings to supplement resources when needed. There was a strong case for mobilizing bilateral borrowing as a precaution during the GFC, especially as the NAB had not yet been enhanced from roughly $50 to $500 billion, and the European crisis. Indeed, many bilateral loans in recent years came from European members as a de facto firewall for the European crisis. Of course, crises are an endemic feature of the international landscape.

- However, with improved conditions in the world economy relative to the years after the GFC, there is less need for bilateral borrowings as a third line of defense behind quotas and the NAB, especially if Congress provides for continued U.S. participation in the NAB. Further, if new bilateral borrowings were needed due to a flare-up in Europe, for example, experience shows these can be mobilized quickly.

**QUID PRO QUOS—AN IMF REFORM PACKAGE?**

The IMF is a highly successful organization. It strongly supports U.S. interests. Countries across the globe look to the Fund to help stave off crises and provide economic policy advice. Like any organization, it is not perfect and can always be improved. Further, in agreeing to major governance changes, it is only understandable that key actors, such as the U.S. Treasury, might wish to leverage institutional reforms or make bilateral deals.

Were the U.S. administration to support action on IMF quotas, especially a substantial boost in China’s share, it should think long and hard about reaching reform understandings.

- China merits a substantial share boost. But Chinese bilateral lending throughout emerging markets and low-income countries—often associated with the Belt and Road Initiative—is large, the Chinese agencies and state-owned enterprises (SOEs) conducting such lending do not coordinate, and there is little clarity or transparency on the maturities and terms of such lending, let alone their appropriateness. Such lending is clearly undermining countries’ debt sustainability, and often aggravating corruption. The international community should insist that China implement a credible plan to tackle these problems, including developing a centralized register of all official lending.
and joining the international club of official creditors. The global community also has an interest in seeing China move forward on financial liberalization, while enhancing prudential oversight of its financial system. Undoubtedly, the U.S. administration has further bilateral issues to consider with China.

- IMF collaboration with multilateral development banks (MDBs) needs to be strengthened. Notwithstanding multiple efforts over the years, MDB policy-based lending at times goes forward, even when countries have inadequate macroeconomic frameworks in place, which are essential for such MDB lending to achieve its aims. The IMF should be accorded a stronger role by the international community in judging whether macroeconomic frameworks are suitable for MDB policy-based lending. The United States could insist that major creditors of the IMF and MDBs, along with the international financial institutions, gather together to develop strengthened procedures for collaboration.

- Governance and corruption are a major problem in all countries, but especially in many borrowing from the IMF. The Fund has recently strengthened its framework for tackling governance and corruption. The IMF could put forward more detailed proposals on how this framework will be applied in its lending operations.

- IMF internal governance. Fund management and staff have been resistant over the years to a thorough examination of the appropriateness of salaries at various grade levels and a comprehensive review of benefits in general, especially expat packages and pension benefits. An external review by an expert panel might be in order.

- The IMF has become a highly transparent organization over the past two decades. Its efforts merit praise. Still, improvements can be made. The IMF should undertake a comprehensive review of its transparency policies and offer further recommendations, including on its archival policies.

- Longstanding questions persist about low-income countries’ debt sustainability more generally, whether debt relief has been effectively used, and do IMF programs adequately protect pro-poor spending. These issues merit examination.

- Finally, the IMF’s articles provide that the seat of the Fund shall be in the largest member. The Fund could revise its articles to state that Washington, D.C., will be the permanent seat of the IMF.

These are but a few ideas. Certainly, the administration and Congress may have others that warrant consideration.

**WHAT ABOUT IMF BOARD CHAIRS?**

The question of board chairs is every bit as critical to a country’s representation as its quota share/voting power, particularly insofar as the IMF generally seeks to operate on the basis of consensus.

Every two years, the IMF determines whether the number of board chairs should remain at 24. The IMF is now in the process of preparing for the new seating of the board in November 2018.

Currently, the configuration of board chairs is imbalanced due to European overrepresentation. Germany, the U.K., and France hold their own chairs. Italy always leads a large multi-country constituency; the Scandinavians combine in their own chair; Belgium and the Netherlands rotate the executive director role in a large constituency; Poland and Switzerland also rotate the executive director role; Spain is in a Mexico/Colombia constituency, which it heads a third of the time; Ireland has a permanent alternate executive director seat in the Canadian-led chair. Other EU and euro-area members are also found in an emerging market-led chair, now headed by the Czech Republic.

In 2010, an informal agreement was reached to reduce “advanced European” board representation by two chairs, with emerging markets benefiting. Advanced European countries continue to fall short by roughly one-third of a chair. While moving Spain into the Italian chair and letting Spain chair the seat one-third of the time would solve the issue, this modest proposal has foundered on national pride.

But more significantly, with so many European voices at the table, especially at a time when critical issues facing Europe and the euro-area have been before the Fund (e.g., Greece, Ireland, Portugal, Cyprus, interest surcharges that large European borrowers could face, the stance of European fiscal policy), Europe has often been able to stare down the rest of the Fund. For example, the views of many emerging-market countries represented in various EU-country-led chairs are suppressed or dampened. Given Ireland’s presence in the Canadian-led constituency and Spain in the Mexican/Colombian chair, Canadian and Mexican/Colombian views on Europe have gone unspoken. Swiss views can be muted by Poland’s EU membership. Europe
also ensures great discipline among EU chairs—there is active coordination in Brussels and Washington of European positions in the Fund ahead of board meetings.

Obviously, a single EU or euro-area chair would address these issues. That is not in the cards for the foreseeable future. However, perhaps more modestly, the EU as a whole—or alternatively euro-area members—could be given an allotment of chairs, and only an EU (or euro-area) member could be in those chairs.

Share redistribution will not suffice for IMF modernization. Europe’s presence and voice in the board, as helpful and constructive as it has been over many years for U.S. interests, needs to be consolidated for a more modern IMF, which reflects the weights and views of today’s global economy. The international community needs to work together to develop a plan to rationalize Europe’s representation in the IMF.

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ENDNOTES

1. Mid-June 2018. An SDR (Special Drawing Right)/$ exchange rate of $1.40 was used for simplicity.

2. For example, Flexible Credit Line and Precautionary and Liquidity Line commitments are roughly $100 billion. These amounts are subtracted in deriving the FCC, even though they are highly unlikely to be drawn.


5. The US voting power is 16.5%, vs. a quota share around 17.4%. The gap arises due to the influence of basic votes in boosting EM/LIC shares. Most IMF decisions are taken with a 50% simple majority, but an 85% majority vote is required, inter alia, for changing the IMF Articles, quota increases, gold sales, and SDR allocations.