US Treasury misguided on IMF quotas

Stance will set back multilateralism, promote regionalism and damage US interests

by Mark Sobel in Washington

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During the latest International Monetary Fund-World Bank spring meetings, US Treasury Secretary Steven Mnuchin asserted that the IMF 'currently has ample resources' and thus 'we do not see a need for a quota increase at this time'. He added, given that the 'new arrangements to borrow' and bilateral borrowing arrangements are set to expire in the next few years, the US would look to extend a portion of these resources so the IMF can deliver on its mission.

The glass is less than half full. The Treasury's welcome stance on sustaining overall IMF resources merits support. But its position on quotas will set back multilateralism, promote regionalism and hurt US interests – it should be reversed.

The Treasury deserves praise for underscoring the IMF's need to maintain large resource levels. Future resource levels are in jeopardy because end-2015 legislation specified that the US must withdraw from the NAB by 2022 unless Congress decides otherwise and because many bilateral lenders regard their loans, expiring in 2020, as temporary. US withdrawal from the NAB could lead to their unravelling.

The Fund should have a large backstop for emergency systemic situations and when quota resources run low. Some separation of ordinary (quotas) and emergency (NAB) resources makes sense. Absent the NAB, the IMF would rely on massive bilateral loans, creating conditions for opaque deal-making.

In focusing on overall resources, the Treasury is expressing openness to work with Congress and the international community to extend the NAB. Behind the scenes reports suggest [the Treasury proposed doubling the NAB].

The Treasury errs, however, in opposing a quota increase. The Fund is a 'quota-based' institution. Quotas are its first line of defence. Currently, the IMF estimates its loanable quota resources are around $260bn.

The Treasury argues current quota resources are ample, but that future overall resources must be adequate for the IMF to achieve its mission. There is a time inconsistency. Insofar as quota increases entail a multiyear effort for negotiation and legislative approval, the Treasury should not just assess the current ampleness of quotas, but also the future – just as it argues for overall resources.

Even accepting $260bn as ample for the time being, loanable quota resources could be depleted. Last year, the Fund reached a $57bn programme with Argentina, around 13 times Argentina's quota. What if two countries in the news – Turkey and Venezuela – needed large amounts of exceptional finance? Ten times their quotas would be around $115bn. Reports suggest Pakistan may soon fall again into the IMF's arms. Plus, one should never underestimate the potential for broader stresses.

IMF quotas determine voting power. Given current US-China relations, Washington is probably supporting the NAB, rather than quotas, partly because it does not want to give Beijing more voting power. The administration has legitimate complaints about Chinese industrial policies, massive subsidisation and the like. But China's IMF voting power is around 6%, while its global economic weight is around 16%. China obviously deserves some increase.

Opposing such an increase is short-sighted on three accounts. First, the Peoples Bank of China, China's IMF representative, is a proponent of economic reforms of exactly the sort the US should support. If there is one institution in China that backs putting hard budget constraints on state-owned enterprises, boosting the private sector, strengthening China's financial system to lessen shadow banking and systemic risks, and curbing unsustainable lending, it is the PBOC. Past IMF advice has helped the PBOC promote reform. Not boosting China's voting power complicates PBOC advocacy for such improvements. Second, by not helping reformers and moving China up in the Fund – an institution that reflects American values and in which the US is the largest shareholder – Beijing's incentive to a greater extent is to drift away from multilateralism and the IMF, and pursue regional solutions, such as the Belt and Road and Asian Infrastructure Investment Bank. Third, the US could seek to leverage support for higher Chinese voting power for Chinese reforms such as debt transparency and sustainability, especially on Belt and Road lending.

The Treasury would rightly be concerned that action on quotas could unleash a huge IMF donnybrook. China should move up somewhat into the No.2 position. A few other emerging markets, especially in Asia, can make legitimate arguments for a boost. But many others too would stake a claim. Meanwhile, European countries, often clearly overrepresented, may want to preserve their voting power at the expense of the US, even though the case for doing so is weak.

Notwithstanding these travails, the Treasury should reverse its opposition to a quota increase – even if a modest one – while moving forward with its approach to the NAB and overall resources. Blocking a quota increase will only set back multilateralism, promote further regionalism, and damage US interests.

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