Statement of the Honorable Clay Lowery
Vice President
Rock Creek Global Advisors LLC

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Chairman Huizenga, Ranking Member Moore, and Members of the Subcommittee, I thank you for the opportunity to testify on the International Monetary Fund.

My name is Clay Lowery and I am currently Vice President of Rock Creek Global Advisors, a consulting firm that advises its clients on international economic and financial policy matters. I also serve as a visiting fellow at the Center for Global Development and as a senior advisor to the Center for Strategic and International Studies. From 2005 to 2009, I was the Assistant Secretary of International Affairs for the Treasury Department which exercises oversight of the executive branch of U.S. involvement in the IMF.

I am honored to be testifying alongside John Taylor, who is not only a former boss of mine at Treasury but also one of the most important macroeconomic thinkers in the United States, as well as Meg Lundsager who is a former colleague of mine for many years and deeply knowledgeable about the IMF.

In my testimony, I will describe (i) the core functions of the IMF, (ii) the quota reform package negotiated by IMF members in 2010, and (iii) why I think Congress should approve legislation to implement that reform package.

The IMF

The United States and its allies established the IMF, along with the World Bank and the predecessor of the World Trade Organization, during the Bretton Woods conference of 1944. The idea at the time – an idea that is still true today – was that international cooperation on key economic, financial and trade issues and the maintenance of an open, rules-based economic order are important for global stability and prosperity.

For its 188 member countries, the purpose of the IMF is to promote three objectives: macroeconomic stability, financial stability, and economic growth. The IMF has three primary tools to achieve these objectives:

1) It provides technical assistance, particularly to fiscal authorities, in areas such as data collection and analysis, expenditure management and tax administration. For instance, the IMF is currently providing assistance to the Government of Afghanistan in statistical data systems and customs issues.

2) It conducts surveillance on a country, regional, and global level. IMF staff monitor countries based on their monetary, fiscal, foreign exchange, and financial policies and analyze factors such as capital flows, a country's balance of payments, and structural issues that can impact a country's macroeconomic or financial position. The IMF identifies strengths and vulnerabilities and provides recommendations – privately and publicly.

3) It lends to countries that are suffering from a balance of payments crisis and provides a line of credit to countries implementing sound policies that want additional insurance in case of external or even internal shocks. Some people confuse this lending activity with the work of the World Bank. For comparison sake, the World Bank is designed to provide long-term finance – whether project finance or direct budgetary support – to assist less developed countries. The IMF, by contrast, provides temporary support to any of its member countries – not just the least developed – to stabilize that country's financial situation or insure against shocks. Currently, the IMF has roughly 20 lending programs[1], including notable ones with Greece, Ukraine, and Jordan, and currently has undrawn lines of credit extended to countries such as Mexico and Poland.

The IMF and the World Bank also differ in their mechanisms for financing loans. Member countries provide the World Bank with capital that enables the institution to issue bonds in global capital markets. The World Bank uses the proceeds to provide financing to its borrowing countries. In contrast, the IMF is less like a bank and more like a credit union in which members contribute shares to a general resource fund from which the IMF can provide loans. The size of the contribution, which is called a country's quota, is based on a formula that takes into account a country's economic size relative to other members.

IMF members decide collectively how to allocate IMF resources. Unlike some international institutions where each country is allowed one vote, the IMF largely bases its voting share on the size of the country's contribution. The United States is the largest economy in the world and its voting share is almost 17 percent, whereas the next largest voting share, held by Japan, is slightly more than 6 percent.

[1] The IMF also extends highly concessional finance to lower income countries. These programs are typically much smaller. There are roughly 20 of these lending programs at this time.

Before explaining the quota reform package of 2010, it is important to understand how the IMF lends money. When the IMF provides loans, the country receiving funds is usually in deep financial trouble, such as a liquidity crisis or a potential solvency crisis. As the IMF does not receive collateral for this highly risky form of lending, it instead relies on two key factors: (i) a presumption that IMF loans are senior to other creditors, and (ii) conditionality on macroeconomic and financial reforms to alleviate the concern that the IMF is simply "throwing good money after bad." We are currently witnessing how difficult these reforms can be in the drama taking place among Greece and its official-sector creditors, including the IMF.

Quota Reform Agreement

The IMF has evolved since its founding seventy years ago, and it must continue to evolve in order to remain relevant and legitimate. A key weakness of the institution has been that IMF voting shares – again, based on a country's relative economic size – have not kept up with economic reality.

Starting roughly ten years ago, the United States led an effort to change the voting structure within the IMF so that emerging market countries would receive a greater share of the governance responsibilities in the IMF. This made sense to the Bush Administration then, as well as to the Obama Administration now. The proposal was to increase the voting shares for some countries while decreasing it for others because the relative size of economies in 2015 no longer reflects what it was in the 1950s, 60s, and 70s. A series of negotiations with interim steps took place culminating in the 2010 quota reform package, which is the subject of pending legislation. The package has two major governance reform elements and one significant financial element.

1) First, it alters the voting weights to reflect more accurately today's global economy. Countries such as China, India, Mexico, Brazil, Korea, and Singapore will see their votes increase noticeably, whereas a number of European countries, oil-producing states and a few others will see their voting shares decline. The United States' voting share will barely change at all, moving from 16.7 percent of the total votes to 16.5 percent.

2) Second, it alters how voting shares are translated into "voting chairs" which oversee the IMF's management day-to-day. While there are 188 member countries in the IMF, there are only 24 board seats.[2] By mandate, five of these seats are held by the U.S., Japan, Germany, France, and the UK, while the remaining seats are held by different constituencies of countries – typically based on geographic regions. In many respects, the mandatory appointment of board

[2] IMF governance consists of staff and management reporting to a "resident" board of directors that represent member countries and vote on day-to-day decisions at the IMF. This structure is overseen by a board of governors consisting of finance ministers and central bank governors. The United States is represented at the board of governors level by the Secretary of the Treasury and at the board of directors by a senate confirmed official.

seats is part of the larger problem of imbalanced representation within the IMF. While European member states occupy 8 or 9 of the 24 chairs, including three mandatory appointments, Africa has 2 chairs representing 46 countries and Latin America has 2 or 3 chairs. Under the quota reform package, the mandatory appointed seats would be eliminated and Europe would consolidate its board chairs, thereby enabling dynamic emerging markets to enjoy greater representation. This proposed change is significant, as the number of board seats occupied can be just as significant as voting shares when an issue is brought forward to the board for debate.

Some observers have raised the concern that the reform package would include the U.S. also giving up its appointed seat. In the end, however, this turns out to be irrelevant. Let me explain:

> Today, each board seat represents a constituency of countries that together account for -- on average – four percent of the voting shares (100 percent of the voting share divided by 24 board seats). The United States has nearly 17 percent of the voting shares, nearly four times the amount of those represented by the average board chair, and therefore will be assured of maintaining its board seat despite no longer having an appointed seat.

In addition to improving the IMF voting structure, the 2010 reform package aims to normalize the emergency increase of IMF resources that occurred in 2009. As noted earlier, the IMF is designed to work as a cooperative in which every member country contributes its designated shares – or their quota. The 2009 increase in IMF resources was agreed to under exigent circumstances, when there was little time for a protracted debate about quotas and voting shares, which is highly technical and politically sensitive particularly to those countries losing their voting shares. Instead, many IMF member countries, including the U.S., in 2009 boosted the resources of the institution by contributing to a special financial account called the New Arrangements to Borrow (NAB) that historically had been relatively small and created for emergency liquidity purposes. This infusion made the NAB larger than quota resources.

The 2010 quota reform package would transfer a large portion of those NAB resources into quota resources. The effect is to shrink the NAB resources but double the IMF's quota, which allows for the reallocation of voting shares mentioned above and to return the IMF – in essence – back to regular order.

For the United States, the 2010 package does not require the U.S. to increase its total contribution to the IMF. Rather, it requires us to increase our quota resources but reduce our NAB contribution by an equal amount. This reallocation from NAB to quota requires authorization from Congress as well as appropriations because NAB resources were provided under emergency legislation but quota resources are not, which leads to a different budget scoring.

As this committee is well aware, every major country has ratified the quota reform package except the U.S. Due to our voting shares being greater than 15 percent, the U.S. has a veto for some of the changes that have been negotiated in this package.

U.S. Interests

There are many economic and financial reasons for the United States to support the IMF. Global financial stability, a core objective of the IMF, is important to U.S. economic growth, exports, and job creation. Secondly, the IMF is a bargain for U.S. taxpayers. The U.S. leverages its resources many-fold with the contributions of the other 187 member countries. Without the IMF, were a financial crisis to occur, the U.S. and other wealthy nations would most likely end up shouldering the burden directly at a much higher cost, with more concentrated repayment risks. Thirdly, the IMF's mission of open markets and sound economic policies to strengthen economic and financial stability is in line with our international ideals and vision.

Maybe just as importantly, the IMF is a key foreign policy tool that the U.S. has called upon many times.

- In the 1980s, the IMF played a key role in advising Latin American countries' to reform their economies as well as providing financing to complement the efforts of President Reagan and President Bush to develop the Baker and Brady plans that finally ended the Latin America debt crisis.

- In the 1990s, the IMF provided significant financing to South Korea – a country where many of our troops are stationed -- during the Asian economic crisis at a time when Korea's economy was on the verge of collapse.

- In the 2000s, the IMF played a leading role in providing finance to Pakistan after 9/11, when that country came under incredible financial pressure. In addition, the IMF worked in Iraq and Afghanistan to provide technical advice and financial support throughout the decade. In fact, in the past two weeks, the IMF is working on a financing program to help Iraq stabilize its finances in the face of the growing threat of ISIS and falling oil prices.

- In just the last year, we have seen the IMF provide large sums of money to support Ukraine soon after the country was invaded by Russia. However, the IMF's support is not free. Despite the urgency of the situation, the IMF worked with Ukraine to design reforms that could place the country in a more secure financial position.

On a more personal note, in 2008, I recall speaking for a few hours on the phone with the prime minister of Georgia when Russia invaded that country. He was worried that the loss of confidence would create a bank run and was urgently looking for liquidity support from the U.S. to boost central bank reserves. The U.S. was very supportive of Georgia during that time, but we were in the midst of our own financial crisis and providing emergency liquidity support to another country is difficult for the U.S. to do even during stable times. Instead, we worked with the IMF which stepped up very quickly to provide the financing Georgia needed to preserve confidence in the banking system.

It should be of no surprise to this committee that every Secretary of Treasury going back to the Carter Administration and former Federal Reserve Chairs have supported the IMF quota reform package. And it is probably no surprise that almost every U.S. Trade Representative going back to the Reagan Administration has supported this package given the role that the IMF plays in fostering open trade and investment.

However, what may surprise you is that most Secretaries of Defense, Secretaries of State, and National Security Advisors to Presidents Nixon, Carter, Reagan, Bush, Clinton, Bush, and Obama have also supported this legislative request of the Administration. They recognize that the IMF is an important tool to conduct strong foreign policy and to provide the conditions that assist in keeping our troops out of harm's way. They recognize that U.S. leadership in the IMF is not only vital to the institution, but also important for our own national security interests.

The IMF is far from perfect and will continue to need U.S. leadership to reform and evolve. I know that John Taylor and Meg Lundsager have ideas about this, and I look forward to discussing them. However, U.S. leadership cannot occur from the sidelines; it must come in the form of strong legislation that can certainly have conditions.

Therefore, I ask that Congress work with the Administration and join what I believe is a strong bipartisan consensus and demonstrate this leadership.

Thank you and I'm happy to field any questions.