# THE ROLE OF THE INTERNATIONAL MONETARY FUND IN A CHANGING GLOBAL LANDSCAPE

## VIRTUAL HEARING

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SUBCOMMITTEE ON NATIONAL SECURITY, INTERNATIONAL DEVELOPMENT AND MONETARY POLICY

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# THE ROLE OF THE INTERNATIONAL MONETARY FUND IN A CHANGING GLOBAL LANDSCAPE

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**Thursday, February 17, 2022**

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON NATIONAL SECURITY,
INTERNATIONAL DEVELOPMENT
AND MONETARY POLICY,
COMMITTEE ON FINANCIAL SERVICES,
*Washington, D.C.*

The subcommittee met, pursuant to notice, at 12:05 p.m., via Webex, Hon. Jim A. Himes [chairman of the subcommittee] presiding.

Members present: Representatives Himes, Gottheimer, San Nicolas, Lynch, Garcia of Illinois; Barr, Hill, Williams of Texas, Zeldin, Davidson, and Sessions.

Ex officio present: Representative Waters.

Also present: Representative Pressley.

Chairman HIMES. The Subcommittee on National Security, International Development and Monetary Policy will come to order.

Without objection, the Chair is authorized to declare a recess of the subcommittee at any time. Also, without objection, members of the full Financial Services Committee who are not members of the subcommittee are authorized to participate in today's hearing.

Today's hearing is entitled, "The Role of the International Monetary Fund in a Changing Global Landscape."

I now recognize myself for 4 minutes to give an opening statement.

The International Monetary Fund (IMF or the Fund) plays an essential role in the modern global monetary system. When a financial crisis hits, the IMF is essential to ensuring the system does not collapse, by stepping in to calm markets and to prevent chaos. This work, however, has never been without controversy.

The IMF does and should play a critical role both as a policy advisor and as a lender of last resort. Some, however, rightly in my mind, criticize the IMF for demanding that countries apply what may be overly-tough policy reforms in times of intense stress, requiring governments to cut social spending and wages.

Debates about the proper role of the IMF resurfaced when the COVID-19 pandemic triggered a sweeping global recession. The IMF's COVID response suggests that it has shifted strategies somewhat away from the traditional policies of austerity. Instead, this time around, the Fund encouraged governments to spend liberally, in order to bolster struggling economies to address the pandemic and to not withdraw support too early.

But, now, nearly 2 years removed from the start of the pandemic, the IMF has urged countries to prepare for a return to normalcy. As governments beat back the virus and distribute more vaccines, the IMF will be monitoring infection rates to ensure that recovery strategies are fair, inclusive, and sustainable. And with the pandemic pushing nearly 100 million people worldwide into poverty, the IMF will use its research skills and technical assistance to help build and rebuild equitable societies.

Now, other challenges exist. Dozens of countries are nearing unsustainable levels of sovereign debt, requiring IMF involvement to coordinate with creditors, assess risk, and work with international partners to restructure payment plans in a way that is consistent with the well-being of their people.

Likewise, climate change and its associated costs and risks will require the IMF to help identify macroeconomic risks related to that, to offer technical assistance, and to leverage its financing tools to assist countries in tackling these systemic and structural issues.

The United States is the IMF's largest financial contributor, and we have a deep interest in ensuring that the Fund is prepared to confront these challenges head-on. A well-prepared IMF can work closely with policymakers to enact reforms that stimulate inclusive growth, adapt to macroeconomic threats, and overcome unexpected obstacles.

And, of course, Congress, and this subcommittee in particular, plays a vital oversight role in tracking the IMF's progress, and boosting resources when they are needed.

One issue which I hope we will deal with a bit today is the issue of the special drawing rights (SDRs).

Last August, when the Fund deployed $650 billion of special drawing rights, or SDRs, several of my colleagues argued that the SDRs could provide unconditional liquidity to countries who act against broadly-shared international values, such as China's activity with respect to its Uighurs, the activities by the despot in Syria, and, of course, Russia now sits poised to invade a vulnerable sovereign country.

Since last August's SDR allocation, however, none of those countries have converted their SDRs into hard currency, and the IMF has blocked SDR access to countries with unrecognized governments, like Afghanistan, Venezuela, and Burma.

Nevertheless, we should continue discussing these arguments on their merits. After a worldwide pandemic, a global financial crisis, and many other fiscal emergencies, the Fund is no stranger to tough decisions. Now with the world's economy facing new and evolving challenges, the IMF must be ready to adapt as well.

With that, I would like to welcome our panel of witnesses and thank them for helping us continue this important discussion.

I now recognize the ranking member of the subcommittee, the gentleman from Kentucky, Mr. Barr, for 5 minutes for an opening statement.

Mr. BARR. Thank you, Mr. Chairman, for holding today's hearing.

And thank you to our witnesses for joining us today.

The International Monetary Fund serves an important role of promoting international macroeconomic stability. I recently had the pleasure of visiting Bretton Woods, New Hampshire, the site of the 1944 meeting where representatives from 45 nations gathered to discuss post-war economic recovery, which ultimately resulted in the creation of the IMF.

Over the decades, the IMF has grown, adapted, and changed. Our hearing today will examine the appropriate role of the IMF and how it has functioned through crises, including the global financial crisis, the eurozone crisis, and, most recently, the economic crisis brought on by the COVID-19 pandemic.

We will also examine how the IMF has evolved, including how recent developments in the Fund's objectives may stray from its core mission as a lender of last resort and a catalyst for reform in struggling economies.

As the COVID-19 pandemic raged across the world, many developing nations struggled, and turned to the IMF for assistance. The IMF abandoned the traditional and longstanding requirements—as the chairman noted—associated with its loans, offering no-strings-attached assistance.

As the COVID crisis subsides, we must face reality: The IMF is a lending agency and must be repaid.

Unfortunately, what began as an attempt to help struggling nations navigate the challenges from the pandemic has further fueled the IMF's mission creep away from its traditional role as lender of last resort into a politicized development organization.

As we have seen with other lenders of last resort, such as the Federal Reserve, activist organizations and/or vocal policymakers are intent on using the COVID-19 pandemic as a smokescreen to corrupt the IMF into a no-strings-attached checkbook or to focus it on matters outside of its narrow mandate.

Last summer, the IMF approved a $650 billion disbursement of its special drawing rights so that developing economies could obtain hard currency and import medical supplies and personal protective equipment to combat the pandemic. While potentially well-intentioned, this allocation was troubling because it strayed from the core purpose of SDRs, and awarded handouts to U.S. adversaries. SDRs are intended to address a long-term need in world reserves, not to hand governments unconditional aid to boost emergency spending.

Based on the SDR allocation formula, only 3 percent of SDRs end up going to the poorest nations. Meanwhile, other countries, such as Mexico and Argentina, admitted their money may not be spent to tackle COVID-19 as intended but, rather, be used to pay off old loans or to prop up struggling state-owned enterprises. Even more unsettling is the fact that these SDRs will go to countries like Syria, Iran, China, and Belarus, whose brutal dictators are certainly not using them to purchase PPE for their citizens.

Despite the misgivings by some Biden Administration Treasury Department officials about the $650-billion SDR allocation, some of my colleagues on the other side of the aisle have called on the IMF to triple-down, with an additional $2.1-trillion no-strings-attached handout to countries like Russia and China.

A portion of those SDRs is also being funneled into a new Resilience and Sustainability Trust at the IMF intended for climate change and public health loans, showing a complete lack of understanding or perhaps a blatant disregard for the true purpose of the IMF.

This attempt to redefine the core mission of the IMF comes at a time when its leadership is mired in scandal. Last year, a bombshell investigation revealed how Kristalina Georgieva, former CEO of the World Bank, pressured her staff to manipulate data after Chinese officials complained that their economy hadn't ranked highly enough in the Bank's widely-read and regarded, "Doing Business" report. An independent report by law firm WilmerHale detailed the episode. And Ms. Georgieva now leads the IMF.

Members of this committee from both parties expressed concern about the leadership at the IMF following these revelations. Republicans and Democrats can agree that strong, credible leadership at the IMF is necessary to ensure that the Fund is able to sustainably navigate the future and to operate squarely within its mandate.

While we are at the crossroads in global competitiveness, as China seeks to usurp the U.S. as the preeminent economic power, China's debt-trap diplomacy has left many developing economies at the mercy of the Chinese Communist Party (CCP). There is little debt transparency about loans from China. I am concerned that no-strings-attached funds from the IMF will be used to satisfy the usurious terms of Chinese loans to struggling economies, including through the Belt and Road Initiative. Congress should demand reform and accountability to ensure that this is not the case.

I fear, Mr. Chairman, that the IMF has lost its way. I hope the hearing today will inform us on how best to return the IMF to its core mission and ensure that it remains a tool for macroeconomic stability well into the future.

Thank you, Mr. Chairman, and I yield back.

Chairman HIMES. I thank the ranking member.

And I now have the privilege of recognizing the Chair of the full Financial Services Committee, the gentlewoman from California, Chairwoman Waters, for 1 minute.

Chairwoman WATERS. Thank you, Chairman Himes.

The International Monetary Fund has long been criticized for its willingness to impose painful reforms on countries in crisis with little concern for how the burden of these painful economic adjustments were distributed in society. In many cases, the effect was to undermine democracy itself, as the people who were made to bear the short-term pain began to associate the IMF's imposed austerity with their democratic government.

While there has been some improvement recently, I look forward to hearing from our witnesses today not only on the issue of conditionality, but also on the increasing levels of debt distress many countries now face, and how we should best address these challenges.

I yield back, and thank you very much.

Chairman HIMES. I thank the chairwoman.

And now, we welcome the testimony of our distinguished witnesses: Dr. Daouda Sembene, a distinguished nonresident fellow with the Center for Global Development; Ms. Stephanie Segal, a senior associate with the Economics Program at the Center for Strategic and International Studies; Professor Jayati Ghosh, a professor of economics with the University of Massachusetts at Amherst; Dr. Joseph Stiglitz, a university professor at Columbia University; and Professor Kenneth Rogoff, the Thomas D. Cabot Professor of Public Policy at Harvard University.

Witnesses are reminded that your oral testimony will be limited to 5 minutes. You should be able to see a timer on the screen in front of you that will indicate how much time you have left. I would ask that you be mindful of the timer, and quickly wrap up your testimony once your 5 minutes have expired, so that we can be respectful of both the witnesses' and the subcommittee members' time.

And without objection, your written statements will be made a part of the record.

Dr. Sembene, you are now recognized for 5 minutes for an oral presentation of your testimony.

**STATEMENT OF DAOUDA SEMBENE, DISTINGUISHED NON-RESIDENT FELLOW, CENTER FOR GLOBAL DEVELOPMENT**

Mr. SEMBENE. Thank you. Thank you very much, Chairman Himes. I am grateful to you, Mr. Chairman, Ranking Member Barr, Chairwoman Waters, and the distinguished members of the House Financial Services Subcommittee on National Security, International Development and Monetary Policy, for inviting me to speak today at this hearing on the role of the International Monetary Fund in this changing global landscape.

My name is Daouda Sembene, and I am a distinguished non-resident fellow at the Center for Global Development.

Until 2018, I was an executive director of the International Monetary Fund, where I represented 23 African countries on the executive board. During my tenure, I chaired the Statutory Board Committee, which is responsible for strengthening collaboration between the IMF and other international institutions, notably the World Bank, the United Nations, and the World Trade Organization (WTO).

After my IMF support tenure, I served in my home country of Senegal as senior economic advisor to President Macky Sall. I now run a global development advisory focused on Africa, called AFRICATALYST.

In the written testimony I submitted for your consideration yesterday, I made a number of detailed suggestions about the future role of the IMF. Now, I would like to take this opportunity to emphasize some key messages I wanted to convey in my testimony.

My first message is that the IMF should continue to play a central role in efforts by the international community to address global challenges such as climate change and pandemics, including by advising countries on appropriate macroeconomic policy responses. This would be in line with its mandate, especially in view of the enormous potential of this calamity to shake global financial stability and derail global recovery.

At the same time, I believe that the IMF should place a special focus on the world's most-vulnerable countries, where it can make the most difference. In addition to policy advice, the institution should be well-equipped to deploy on a timely and needed basis adequate levels of financial and technical assistance.

At this time, an urgent role for the IMF to play is to sustain its support for countries around the world that still face daunting challenges exacerbated by the COVID-19 crisis, including rising poverty, significant financing gaps, growing debt vulnerabilities, and weak social protections.

My second message is that, to be more effective, the IMF needs to adapt its business model and policies to the evolving global landscape, while better leveraging partnerships with other multilateral institutions. For instance, it is critical to ensure that the access of developing countries and fragile states to IMF's resources during this time, crisis time, but also in the post-pandemic era, is more determined by the scope of their financing needs rather than the size of their quota.

The IMF also needs to make progress toward full country ownership of macroeconomic adjustment in countries that request its financial assistance.

Let me now conclude with my final message. Successful IMF engagement with member countries hinges on timely support from its major shareholders, particularly the United States. But it also requires holding IMF leadership accountable for institutional performance.

Under existing decision-making processes prevailing at the IMF, no major initiative can be approved by the executive board without the U.S.'s consent. And then, without U.S. leadership and support, the IMF's ability to fulfill its mandate and provide timely and adequate support for the countries in most need will therefore be very limited.

Thank you, Mr. Chairman.

[The prepared statement of Dr. Sembene can be found on page 61 of the appendix.]

Chairman HIMES. Thank you, Dr. Sembene.

Ms. Segal, you are now recognized for 5 minutes.

**STEPHANIE SEGAL, SENIOR ASSOCIATE, ECONOMICS PROGRAM, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES**

Ms. SEGAL. Thank you. Thank you, Chairman Himes, Ranking Member Barr, Chairwoman Waters, and distinguished members of the subcommittee. Thank you all for the opportunity to testify before you today.

The IMF's Articles of Agreement lists six purposes that guide the institution in all of its policies and decisions, including the promotion of international monetary cooperation and temporary financing to help countries correct macroeconomic imbalances.

In practice, the IMF focuses on three principal activities. It monitors economic and financial developments through IMF surveillance. It provides financial support to facilitate adjustment and shorten crises through IMF lending. And it builds capacity with training and technical assistance through capacity development.

Over the years, these activities have evolved along with the international system. That evolution is often prompted by crisis and the recognition that existing tools may not be adequate to deal with current challenges.

Given the backdrop of the past 2 years, unprecedented in so many ways, it is not surprising that we are again seeing further evolution. On the one hand, we have a greater appreciation of the risks to growth and stability posed by threats such as climate change and pandemics. And on the other hand, there is concern that an overly-expansive list of items deemed, "macrocritical," will dilute the IMF's effectiveness and steer the institution away from its founding purpose. The IMF and its members need to strike a balance between these competing considerations.

I will focus my remaining time on two challenges facing the global economy: climate change; and debt.

First, on climate change, one of the world's largest insurers recently called climate change the, "biggest long-term threat to the global economy." A report from the Financial Stability Board highlights that, "physical risks as well as a disorderly transition to a low-carbon economy could have destabilizing effects on the financial system ... in the relatively short term."

Given these realities, failure to engage on climate would be at odds with the IMF's mandate. The question is how, and whether the IMF's tools are up to the task?

IMF surveillance is the most immediate and consequential way in which the institution can engage its members on climate. The IMF's board supports coverage of climate-relatedissues in Article IV country reports whenever macrocritical. The board also supports including climate in the financial-sector assessment programs where climate change may pose financial stability risks.

IMF surveillance entails a bilateral component which applies to all 190 members, and a multilateral component which covers regional and global conditions. This structure enables the Fund to engage on climate at the country level, where policy is typically set, and multilaterally, reflecting climate-change mitigation as a global public good.

Unlike surveillance, IMF lending programs are active in only a subset of IMF members. Many of the largest carbon emitters have not had an IMF program in decades, if ever, meaning the IMF's ability to gain traction on climate issues through lending activities is more limited.

That said, there can be a role for climate-related issues in IMF lending. Climate issues can impact budgets and the health of financial systems, areas covered in standard IMF programs.

Also, the proposed Resilience and Sustainability Trust, or RST, provides another template for such engagement. If approved, and pending donor financing, the RST would be available to vulnerable members to target macrocritical structural challenges such as climate change and pandemic preparedness.

Financial support for the RST could come from rechanneling SDRs to the most-vulnerable members. This would also address one of the common critiques of the recent allocation as not sufficiently benefiting the poorest countries.

Turning to debt, the subcommittee rightly calls out rising levels of unsustainable sovereign debt as a challenge facing the IMF. The IMF alone cannot resolve debt vulnerabilities. Such resolution requires agreement between the debtor country and its public and private creditors to reschedule or restructure the debt. But the IMF plays an essential role in developing the macroeconomic framework and financing envelope that serves as the basis for such an agreement. The IMF, with G20 support, can drive this process and call for more predictable and time-bound targets for negotiations.

Further, the IMF should bolster its concessional instruments. Additional donor support for the Poverty Reduction and Growth Trust (PRGT), along with the RST, is needed. The Fiscal Year 2022 budget request includes funding to cover grants to the PRGT and subsidy cost of rechanneling SDRs and would demonstrate U.S. leadership in supporting the IMF's most-vulnerable members.

In conclusion, I just want to thank the subcommittee for the chance to share my views, and I look forward to your questions.

[The prepared statement of Ms. Segal can be found on page 55 of the appendix.]

Chairman HIMES. Thank you, Ms. Segal.

Professor Ghosh, you are now recognized for 5 minutes.

**JAYATI GHOSH, PROFESSOR OF ECONOMICS, UNIVERSITY OF MASSACHUSETTS AT AMHERST**

Ms. GHOSH. Thank you very much for this opportunity. I feel deeply grateful to be allowed to address this subcommittee.

And I want to emphasize the crucial role that has already been talked about of the IMF, not just in maintaining financial stability, but in reviving the global economy.

This is particularly important because there has been such inequality in fiscal stance over the course of the pandemic, with the advanced countries spending on average more than 16 percent of gross domestic product (GDP) in additional COVID-19-related spending, emerging markets spending only 5 percent, and low-income countries spending around 2 percent of their GDP. And this has obviously hindered their possibilities of recovery.

In this context, the release of new SDRs has been absolutely crucial, even though they are unequally-distributed, because SDRs are automatic. They are debt-free. And we have heard already about the problems of sovereign debt in much of the developing world. They do not require fiscal conditionalities, which can be countercyclical, like so much other IMF lending. And it is effectively costless, which is a huge thing. There is no cost for other countries that do not use the SDRs.

What is important to remember is that these are effective even when they are not used. Because the additional SDRs add to reserves, they reduce the borrowing costs of the recipient country, and they provide some kind of a cushion for the very volatile capital movements that we have seen and we are likely to see more of as U.S. and other interest rates are raised.

But we also see that at least 80 countries have already used these SDRs in various ways: to add to their imports; to pay back the IMF, which is a very useful thing, going forward; and for their own budget increases.

What is worth noting is that this has added, to some degree, to helping the world economy revive, but it has also helped the United States economy. There has been a very big increase in exports, monthly exports of the U.S. after August 2021 when the SDRs were allocated.

And I have provided in my written testimony some data on this. If you look at specific countries, like Ukraine, which is very important nowadays, Philippines, Congo, you find that there is a very significant increase after they have used the SDR allocation for additional imports.

It is also worth noting that, in fact, the countries that many members of this committee are concerned about cannot access these SDRs. And it is not just that they have not. Russia, Iran, Syria, et cetera, cannot access it because the international banking system does not enable them to get ahold of it. Even though formally, they have gotten these SDR reserves, they will not be able to use them.

And other governments which are not recognized by the IMF—Afghanistan, Myanmar, Sudan, Venezuela—cannot access the SDRs, even though it is in the countries' reserve formally, but the governments cannot access it. China does not needs SDRs. China already has $3.5 trillion of reserves, and it really is unlikely to make any difference to China whether it gets SDRs or not.

In addition, it is very important to enable the rechanneling of SDRs, as Ms. Segal has already pointed out, and I do believe that there are many important and imaginative ways in which the United States Government can use its own SDR allocation in this way.

I believe that the RST, the sustainability trust set up by the IMF, is not the ideal mechanism. It is too small; it is only $50 billion. It involves debt, which is an additional problem, with associated conditions. It is only meant for low-income countries or the countries that are IMF program countries, which really means that it is so limited that it is unlikely to have much impact.

Instead, we should actually think of other ways of using the SDRs, including the U.S. allocation, the additional allocation, which it will never otherwise use. It could be used to improve the capital base of regional development banks, which could actually then lend out more to meet sustainable development goals, to provide climate finance, and so on.

It can be provided in a trust that auctions the resources not on the basis of the ability to repay, but as grants for the best climate investments for both mitigation and adaptation, which is absolutely crucial. This is important, because we find that IMF programming still contains some austerity. Even though the most-recent loans did not involve it, most of the programming contains measures to reduce government spending.

We know that this kind of inequality has sociopolitical consequences, and it has global consequences. And, therefore, it is important for the United States, which has such an ability to influence IMF positions and still holds such large SDR reserves, to assist in a global institution meeting global challenges.

It is important not to be stuck in a mandate that was created 70 years ago, to allow a multinational, international financial institution to meet the global challenges that we face today, because otherwise we are unlikely to face them.

Thank you.

[The prepared statement of Dr. Ghosh can be found on page 44 of the appendix.]

Chairman HIMES. Thank you, Professor Ghosh.

Dr. Stiglitz, you are now recognized for 5 minutes.

**JOSEPH E. STIGLITZ, UNIVERSITY PROFESSOR, COLUMBIA UNIVERSITY**

Mr. STIGLITZ. It is a pleasure to be here to address you on a set of issues that are so critical.

We all know the importance of global financial stability. We cannot have a robust American economy in a world of financial instability. Enhancing stability can best be addressed multilaterally through the IMF.

This is especially important as the world faces a multiplicity of risks. The pandemic, its economic aftermath, the climate crisis, the inequality crisis—all of these touch directly on the core mission of the IMF. It would be a dereliction of its responsibility if the IMF paid insufficient attention to any of these.

Let me emphasize, this is not an issue of mission creep. The SDRs have long been a part of the IMF's toolkit and part of its architecture. Again, this is not a departure from its core mandate.

The consequences of the pandemic should be obvious. Debts in most countries have increased significantly, and there is a growing concern that rising interest rates, combined with high levels of debt, could precipitate debt as well as balance-of-payments crises. Such a crisis could be much harder to manage than earlier crises.

Over the intermediate term, the consequences of the climate crisis could be even greater; 2008 showed what could happen to global financial markets as a result of the mispricing of the U.S. mortgage market. There is a significant risk of a mispricing of a much greater part of the global asset base, both fossil fuels and real estate. The COVID risk would be hard to contain.

What the IMF can and should do for international financial stability is vital. In the remaining time, I would like to call attention to a few areas of concern.

First, the $650-billion issuance of special drawing rights was of extraordinary importance. Several of the advanced countries have agreed to recycle these funds to those that need them.

There is also a need for more issuances of special drawing rights. SDRs can be an important tool for sustaining global aggregate demand during periods when global demand is insufficient. And the international community has made a commitment to help developing countries make the green transition. An annual emission of SDRs would be a reliable way to achieve our climate commitments.

The issuance of SDRs does not cost the U.S. Government anything, either in present or future costs.

Second, many countries will need to restructure their debt, as we have already said. If we are to avoid the too-little-too-late syndrome that has proven so costly, all creditors need to cooperate. Programs need to be designed to incentivize this.

The debt sustainability analyses, which are the cornerstone of debt restructurings, have to be improved. For instance, there are analyses that don't recognize that making excessive demands on a country reduces growth.

Third, for many countries facing debt crises, IMF programs can play a helpful role, which requires that they be structured appropriately. The question is not whether conditions should be imposed, but what conditions, and how they should be determined. Countries shouldn't be stifled by unnecessary and counterproductive fiscal tightening or inappropriate structural reforms.

Fourth, the Fund needs to go further in its new institutional view of capital account management techniques. These should not be viewed only as a last resort. They are among the instruments that many countries will need to draw upon in this world of financial instability.

Fifth, the IMF has come to increasingly rely on surcharges on borrowing countries to finance its operations. This is inappropriate and counterproductive. The IMF was supposed to help countries dealing with foreign exchange problems. It is now contributing to their foreign exchange problems through the surcharges.

I have focused my remarks on global economic and financial risks. These could compound the political turmoil around the world that is so evident.

The U.S. plays a critical role with the IMF. We are the only country with veto power. We will be held accountable for the successes and failures of the IMF. What I shall call for shorthand the, "old IMF," won few friends and made many enemies. It was marked by hypocrisy, with advanced countries employing countercyclical policies as it demanded that others engage in procyclical policies.

We live in a different world than we did 2 decades ago. It is imperative that multilateral institutions adapt to these new realities. I hope my brief remarks will point the way to how that might best be done.

Thank you.

[The prepared statement of Dr. Stiglitz can be found on page 69 of the appendix.]

Chairman HIMES. Thank you, Dr. Stiglitz.

Professor Rogoff, you are now recognized for 5 minutes.

**KENNETH ROGOFF, THOMAS D. CABOT PROFESSOR OF PUBLIC POLICY, HARVARD UNIVERSITY**

Mr. ROGOFF. Thank you very much for the honor of speaking to the subcommittee. And I am following a number of excellent remarks and excellent points.

As the only truly global multilateral financial institution, the International Monetary Fund is needed today as much as ever.

The Fund's activities have multiple facets. These include its essential surveillance activities, including macroeconomic and financial forecasts for the entire world. Unlike private-sector forecasts, the Fund's work is distributed for free, and it is highly valued, especially in poorer countries where there are few alternatives.

The Fund is also a reservoir of global macroeconomic and financial data, again, made widely available. They have made major steps forward—also the World Bank—in work on debt-reporting transparency, which had been a weakness in the run-up to 2008, and is now a growing strength. This includes, importantly, increased transparency over China's massive lending activities.

The Fund's single-most important and unique activity is its role in lending to debt-distressed economies. Although best known for programs in emerging markets and lower-income countries, the Fund played a large role in the European debt crisis over the last decade. Not as new as one might think, the U.K. alone had 11 IMF programs from 1950 to 1970.

Today, the focus is shifting again, as the search for yield has allowed many lower- and middle-income countries and developing economies that once relied exclusively on official and concessional lending to access private markets.

Unfortunately, the situation has now become dire for these newer borrowers, with over 60 percent of lower-income countries in debt distress, and a handful of emerging markets, including Argentina and Lebanon, already in default. If U.S. interest rates were to rise more sharply then markets, perhaps naively, think: This could cause problems in many more emerging markets. Turkey is going to be a problem regardless.

True, many emerging markets will become more resilient, thanks to more foreign exchange reserves and a marked shift to borrowing in the local currency and, more importantly, under domestic debtor-country legal jurisdiction. This gives governments considerably more agency over debt workouts, should they be needed, with foreign creditors. I have been arguing for this change for over 3 decades.

Nevertheless, a sufficient rise in global interest rates will place stress even on many of these borrowers, as well, because there is still massive emerging-market corporate borrowing in dollars or euros under New York and London law.

Let me conclude with four points.

First, the Fund is a revolving credit agency with loans that typically need to be repaid within 2 to 4 years. It can forgive loans, but only if its main hard currency shareholders stand ready to replenish its resources.

Second, the Fund is at its best when it plays the role of the honest broker, whether in its routine forecasts and policy advice or its design of bailout programs.

Sometimes, however, the most realistic advice is that a country needs to restructure its private debts, but the Fund is not legally allowed to specify that. Its only tool is to avoid lending in the situations it deems unsustainable. But it often gets gamed into making excessively-optimistic forecasts about growth and compliance. This happened yet again in Argentina, and it is a serious risk going forward in trying to exit pandemic-era loans.

In general, advanced countries must be prepared to make vastly larger aid programs—outright grants, not loans—than currently envisioned. And here, I certainly agree with many of the other speakers. The two emergency SDR issuances, during the global financial crisis and again during the pandemic, on balance made sense. Plans to reallocate a large share to poor countries, or some share, if successful, is welcome.

But SDR allocations are far too crude an instrument to be used as a routine aid instrument. And one of their main advantages, lack of transparency to shareholder taxpayers, will inevitably get stripped away if used too routinely.

Lastly, the problem of helping developing countries control their carbon footprint as they develop is probably beyond the scale and expertise of either the IMF or the World Bank, but they can play a supporting role. I believe there is a case for creating and funding a world carbon bank to help countries, for example, phase out coal plants and facilitate transfer of technology.

Thank you very much for the opportunity to address the subcommittee.

[The prepared statement of Dr. Rogoff can be found on page 53 of the appendix.]

Chairman HIMES. Thank you very much, Dr. Rogoff.

I now recognize myself for 5 minutes for questions.

I want to devote my 5 minutes to an issue where I find I part company with my Republican friends. And I usually agree with my Republican friends on all sorts of things; it might be the balance between austerity and sustainability, SDRs. I am just so puzzled, though, by the fact that every hearing of this committee begins with an indictment of those financial institutions which are addressing what, as Ms. Segal pointed out, Swiss Re deemed to be the, "biggest long-term threat to the global economy."

It particularly surprises me because when we are talking about the National Flood Insurance Program, when it is taxpayer dollars that are on the hook, my Republican friends urge caution and a very, very thoughtful evaluation of risk so that we are not underwriting projects that don't make sense from a coastal risk standpoint.

I want to explore that a little bit.

Ms. Segal, you brought forward Swiss Re—Swiss Re, of course, is a global insurance company. And I will say it again: They say that climate change is the biggest long-term threat to the global economy.

Ms. Segal, in a minute or two, make the case and give an example of how the IMF might—were it to completely ignore the risks associated with climate change, where it could take risk that would ultimately damage both the lender, the IMF here, and the borrower?

Ms. SEGAL. Thank you, Mr. Chairman, for the question.

And I appreciate that you pulled out the reference that I made to Swiss Re, because I think the important point here is that it is a private-sector entity making that claim. And I also included in there the Financial Stability Board.

The point being that the world is taking on climate change as an economic risk in their operations. There is basically no escape from the fact that there are economic consequences to climate change. And the actors in the global economy are making those adjustments.

So, for the IMF to not be paying attention to climate as a macrocritical issue, and to not reflect that in its surveillance activities, and to not, kind of, move in the same direction, where appropriate, in its lending activities, would basically make the institution irrelevant in this issue.

Chairman HIMES. Ms. Segal, bring this home for the layperson watching. Give us an example—if my Republican friends' philosophy prevailed and the IMF made loans and undertook its activities without any consideration of what Swiss Re is calling the biggest long-term risk to the economy, what would be something that the IMF might do that could ultimately prove catastrophic? Just give us a real-world example.

Ms. SEGAL. It is precisely the case that Professor Rogoff made, that it is a lending institution with revolving resources; it has to be repaid.

So, if it is in the business of making loans to countries whose economic stability is undermined because of climate change—let's take a large carbon-energy-source exporter. If the financial viability of that economy is dependent on a resource that is suddenly unviable, nobody is wanting to buy those carbon-intensive resources, that actually leaves the Fund on the hook with very bad credit.

That is kind of a single example, but to the extent climate change is just a pervasive issue—

Chairman HIMES. I am sorry to interrupt, Ms. Segal, but thank you for that specific example.

But, yes, not just the Fund—and, at the end of the day, 17 percent of that is our money—but also the country that borrowed the money. The country that borrowed the money is now in a terrible place because they have built an asset without any consideration of what that asset might look like 20 years down the road, which can cause an immense amount of pain to the borrower as well, correct?

Ms. SEGAL. Yes. And that is probably a more concise and a better example to give.

But it is the fact that these risks are, kind of, impacting every economic actor. To ignore them would actually be at our own peril.

Chairman HIMES. Thank you.

Dr. Rogoff, I read carefully what you said here in your testimony, that the problem of helping developing countries control their carbon footprint is beyond the scale and expertise of the IMF.

I hope that is not true, but let's stipulate that it is true. If Swiss Re is right and this is the single biggest long-term threat to the global economy, at a minimum, don't you believe—I will ask you to sort of think of yourself as a board member of the IMF or of a financial institution—don't you believe that it should be at the very core of the IMF or any financial risk institution to take into account projections of risk associated with climate change?

Mr. ROGOFF. As far as I know, the IMF has made a big point of saying they don't see an end game to this without a global carbon tax, by the way, as being really the number-one thing that needs to be done.

But, yes, the question is, do they have the expertise? Do you give them the funding? And I think it is an interesting question about the SDR. That question has been raised. How do you give aid? There needs to be massive amounts of aid.

I don't really think the IMF and the World Bank are ideally tuned to do that. But, yes, it is certainly good to shame Japan if they—

Chairman HIMES. Dr. Rogoff, I am out of time. My question was actually whether they should incorporate future risk associated into their underwriting decisions. That was all I was asking.

Mr. ROGOFF. I think that is questionable, whether that should be—40 years from now, they are not going to be able to repay it, and then they will keep rolling over the debt.

I am totally on board for fighting climate change, but I find that argument a bit of a stretch.

Chairman HIMES. Okay. Thank you.

I am well over time, so I now recognize the distinguished ranking member, Mr. Barr, for 5 minutes of questions.

Mr. BARR. I thank the chairman.

And I wish I had time to get into this climate change issue at the IMF. I would just say one thing, one editorial comment. I appreciate the chairman's focus on that. I just would say that it is difficult to just make the assumption that lending into a carbon-intensive industry is actually counterproductive to the fight on climate change, when lending could, in fact, provide capital to companies that have the expertise to make investments in technology and innovation that actually could fight climate change, harness the carbon cycle, and innovate in carbon capture and things like that.

So, starving energy companies of capital or starving countries of capital that are engaging in investments in fossil energy could actually have a counterproductive effect in terms of fighting climate change. But I don't have time to go into that.

Let me talk about economic reforms and conditionality, because I think that is very important when we talk about the role of the IMF.

And one of the primary roles of the IMF is to drive meaningful, pro-growth, economic reform. These economic reforms associated with IMF lending help struggling economies prosper in the long run, not just because of the funds loaned directly—

[Audio interruption.]

Chairman HIMES. Mr. Barr, let me ask you to suspend. Your last 20 seconds did not—I could not hear you.

Could the other members of the committee hear Mr. Barr?

Okay, I am seeing shaking heads.

I am going to ask the staff to run the timer back 20, 25 seconds or so.

Sorry, Mr. Barr. You just cut out. I think you may want to try again. You might want to back it up about 20 seconds or so.

Mr. BARR. Thank you, Mr. Chairman. I apologize. There was a call coming into my phone, and I am using my phone because I was having technical problems. So, thanks for the additional time. I will restate my question.

One of the primary roles of the IMF is to drive meaningful, pro-growth, economic reform. The economic reforms associated with IMF lending help struggling economies prosper in the long run, not just because of the funds loaned directly from the IMF, but because they have a catalytic effect that provides private creditors the confidence to lend into a particular economy. This private credit, in turn, amplifies the capital pledged by the IMF. Put another way, absent concrete economic reforms, private lenders will be hesitant to invest in struggling economies.

Professor Rogoff, do you agree? And can you elaborate on why economic reforms and this idea of conditionality is important when the IMF is negotiating these loans, especially as it relates to the long-term growth and recovery of struggling economies?

Mr. ROGOFF. Thank you.

Look, for starters, when we are talking about the really poor countries of the world and the ones that are most-distressed, they need aid. They don't need any sort of loans. Although, they also need technical assistance and help.

But if you get into the larger emerging markets, there is a lot of Chinese money, there is a lot of private money. And when the IMF comes in, it is often because these other lenders have dried up, and they are not giving money.

The, "austerity," of many IMF programs—and I don't argue that they can be designed better in some cases, but it is coming with or without the IMF. That seems to be little understood. The IMF, in these cases, mitigates austerity.

But I think a big problem—and many speakers have alluded to this; Professor Stiglitz did and others—is that the IMF is legally restricted from saying, "This isn't going to work. We could give you money, but it is not going to work. It is not realistic in the growth. It is not realistic in the compliance. You need to get rid of some of this debt first." And they are not allowed to say that. That is sort of a problem with the current structure.

Thank you.

Mr. BARR. Thank you for that.

Let me talk about surcharges. Some of my colleagues on the other side, including several on this committee, sent a letter last month to Treasury Secretary Yellen that labeled IMF's surcharge policy, "unfair and counterproductive." They called for these surcharges to be abolished.

However, according to media reports, the Biden Administration has rejected these Democrats' request, citing the importance of surcharges for the IMF's precautionary balances.

To any of the witnesses: Why are surcharges important for the IMF, and why might the Treasury Department have opposed their elimination?

Professor Rogoff, can you comment on that?

Mr. ROGOFF. I think, after the pandemic, there is a real question of, if they should have done something different with the surcharges. I am not talking about Argentina, but some of the other countries. Because the idea is not just to help the IMF's balances but to encourage countries to repay, because it is revolving credit.

But the pandemic was truly an extraordinary situation, and to the extent it affected some of the poorest countries, I think there is an issue there.

But as a routine matter, believe me, the surcharges that China is charging and that the private creditors are charging are far greater.

Mr. BARR. Speaking of China—

Ms. GHOSH. If I could just to add to that, the IMF's own economic model specifies that they do not need the surcharges for their precautionary balances. And it is a really tiny amount relative to the capital base and the lending program of the—

Mr. BARR. Let me shift back to China.

In the past, some have argued that China needed greater importance at places like the IMF so that it would commit itself to international norms. But in 2015, for example, China's shareholding at the Fund was increased, and the IMF decided to include the renminbi in the Fund's elite currency basket, but Beijing went on to wage genocide in Xinjiang, tore up its treaty obligations in Hong Kong, and tightened its grip on the central bank, all while continuing its opaque Belt and Road lending.

Professor Rogoff, given these facts, why should Congress listen the next time someone argues that China needs a stronger voice at the IMF? How can we better hold China accountable?

Mr. ROGOFF. This is a very difficult question. I think, back in 2015, they sort of hoped for another trajectory. We depend on China to be a big lender. We had hoped they would give more money. We wanted to bring them in. But this is a very complex issue. I don't think the IMF can necessarily take the lead on this, but things are rapidly moving if you look at the governance in China.

Chairman HIMES. The gentleman's time has expired.

Mr. BARR. Thank you, Mr. Chairman.

Chairman HIMES. The Chair of the Full Committee, Chairwoman Waters, is now recognized for 5 minutes of questions.

Chairwoman WATERS. Thank you very much.

I would like to direct my question to any of the witnesses who would like to respond to it.

This is where the IMF draws the line on the question of respecting a country's sovereignty: "The IMF has adopted a policy by means of a legal opinion that it not will not take political considerations into account in determining a country's eligibility for assistance."

The IMF, as well as the World Bank, has used this political clause as justification, for example, for not insisting that a country adopt internationally-recognized poor labor standards, as the Fund views these standards, such as freedom of association, as an interference in the political affairs of a country.

On the other hand, both the IMF and the World Bank have consistently intervened in a country's labor market policies by encouraging, "labor market flexibility," a euphemism for policies that make it easier for firms to fire workers and dilute the power of unions to negotiate on behalf of workers.

But people like Stanley Fischer, the former first deputy managing director at the IMF, has candidly acknowledged that there are limits to political tolerance, noting that a country such as Nazi Germany would not, on political grounds, have been eligible for IMF assistance.

I would appreciate hearing the views of any of our witnesses on this issue. Where is the line drawn between a government's sovereignty and the Fund's macroeconomic and fiscal mandate, with respect to labor rights, human rights, or crimes against humanity?

Mr. SEMBENE. If you allow me, Chairman Himes, I would like to respond to this question by Chairwoman Waters.

I certainly agree with you that the IMF needs to be respectful of countries' sovereignty. I think it is clear that the institution should not be interfering politically in sovereign countries.

The IMF has—and as a former board member, I can say this—the obligation to advise whenever there is a decision, whether it is political or any type of decision, that has some effect on the macro stability of the country. If, for instance, there was an issue about labor standards that have a macroeconomic effect that may actually jeopardize macroeconomic stability, the IMF has a duty to intervene.

But, certainly, there is something that is important that we need to keep in mind: The institution, to be effective, has to be rules-based. And I think this is also, actually, a response to the previous question by Ranking Member Barr.

If China has received and enjoys its quota share, it is because, according to the IMF rules, there is a need whenever a country actually has an increasing economic [inaudible] in the global economy to benefit from additional quota shares. And even regardless of that, at the IMF, of course, China is still underrepresented.

It is to say that it is important to make sure that the IMF is rules-based and to be respectful of the countries' sovereignty.

Chairwoman WATERS. Would anyone else like to weigh in on that?

Mr. STIGLITZ. Yes. I want to second the point about the importance of a rules-based international order. And part of that rules-based international order is we have a set of international conventions, agreements, and the like, against child labor, the core labor standards, and I think adherence to those core standards is actually part of the safeguards that are put into most of the lending of the multilateral financial institutions.

They sometimes have not implemented them effectively. And there have been particular problems at the International Finance Corporation (IFC) and in some of the more private-sector-oriented, where they have not adequately respected labor standards and the right to collective bargaining. And, obviously, I think they should be more forceful in recognizing those international standards.

Chairwoman WATERS. Can we agree that the IMF does respect sovereignty, but there are some conditions that should be adhered to, and this may be considered interference, but it is not absolute that there is no interference based on the criteria that has been developed to be eligible? Is that something that maybe we can conclude?

Mr. STIGLITZ. I hope so. The framework that Dr. Sembene reported—we are trying to create a rules-based rule of law internationally, both with respect to raising funds, voting rights, and for labor standards.

Chairwoman WATERS. Thank you, Mr. Himes.

Chairman HIMES. The gentlelady's time has expired.

Just so the committee and the witnesses know, it looks like we have time, and a number of Members are interested in a second round of questioning. I think I will have to be a little sharper on the gavel if we are going to do that. I have been pretty lax in these last couple of questions. So, I am going to be a little sharper on the gavel around the 5 minute-mark, with the intention of doing a second round of questioning.

With that, the gentleman from Texas, Mr. Sessions, is recognized for 5 minutes.

Mr. SESSIONS. Mr. Chairman, thank you very much.

And to our witnesses, I find each of your testimonies very instructive to us as Members to hear your ideas, and I appreciate and respect those.

My questions essentially revolve around exactly where our ranking member, the gentleman from Kentucky, was coming from. I have a bit of association and knowledge about the Millennium Challenge Corporation, which is also a billion-dollar organization, although not as large as the IMF.

They have characteristics about them, much like the IMF does, to make sure that there are people who qualify and under what circumstances, and we look at that, up to and including corruption indicators, values related to gender nondiscrimination, as well as how they look up to people to build women and women's rights.

I think what I see and hear from this is a similar question but would be really related to—and I don't know how many of our witnesses—I don't know that this is a fair question, is what I am saying.

How much money is really going out directly related to what I might call climate change, or other circumstances? I don't think it is appropriate for us to look at the IMF as necessarily—I think they could include a thought process, when we engage a particular country, for them to include their needs-based answers in their applications.

But I wonder how much money is really going out in other funds that are asking the same questions that we are, as opposed to us looking at the IMF and what our characteristics and models should be.

This is a question to any of the participants who are our witnesses today. How big are all of these funds that are going, and is there someone else who really should be doing necessarily related to global changes with economics and related to climate change?

Ms. SEGAL. If I could take that question first—

Mr. SESSIONS. Yes, ma'am. Thank you.

Ms. SEGAL. In my written testimony, and also in my oral comments, I really put the focus on the Fund's role with regard to climate on its surveillance activities. And so the short answer is, I believe surveillance is where the Fund can actually be most effective. Its ability to monitor both at the country level, and then tie it back to how it affects the multilateral system, that is where I think the Fund can add the most value.

There are efforts to kind of experiment, and the RST is one of them, to recognize climate as a macrocritical issue and see where the Fund can help mobilize funding from institutions and the private sector toward climate ends. I think that is an additional role that the Fund can play. But per your question, I would really put the focus on the Fund's work here in the surveillance area.

Mr. SESSIONS. Anyone else?

Mr. SEMBENE. May I add something to this question?

Mr. SESSIONS. Yes, sir.

Mr. SEMBENE. Thank you, Congressman.

I would remind you that the IMF is in the process of putting in place what it calls the Resilience and Sustainability Trust, but this is going to be a $50 billion trust based on the SDRs that will be rechanneled to the IMF. And let me tell you: If you want to look at the impact on climate change at the global level, I would believe that would be minimal because of the amount that we are talking about, because of the size of this trust.

But it is going to be important for those eligible countries, whether they are low-income countries or middle-income countries, to benefit from those resources. And I will tell you why quickly, because most of those countries—and I am actually from one of those countries—are facing calamities that are actually extraordinary and that are having a large impact on their budgets. There is coastal erosion. There are droughts. There is flooding. There is, I guess, everything that you can imagine that is actually a ramification of climate change. So, by receiving some support from the IMF and whatever other funds that take care of climate change, they certainly would have some sort of relief.

But at the global level, of course, this will be quite limited, the impact would be quite limited, because these countries, low-income countries and middle-income countries, actually are little and small polluters and they certainly do not contribute much to global pollution.

Mr. SESSIONS. Dr. Rogoff?

Ms. GHOSH. If I could—

Mr. ROGOFF. Indeed, I—

Ms. GHOSH. —just add very briefly—

Mr. ROGOFF. Sorry. Go ahead.

Mr. SESSIONS. I'm sorry. Professor Rogoff—

Ms. GHOSH. Yes, if I could just add very briefly, just to repeat—

Mr. SESSIONS. Yes, ma'am.

Ms. GHOSH. —the RST fund, it is too small. It is limited to debt, which is a mistake; it should be grants. And it should be available to all countries. And it should be much, much larger, based on the climate adaptation and mitigation needs.

Mr. ROGOFF. I would just second the point that we need much more money. I don't think it should go through the SDR, myself.

And I would point out that if we want to stop pollution, look at the coal-burning plants in Asia and try to figure out how to phase those out faster, and share technology.

I think the funds involved in coaxing countries and helping them do this are vast, much bigger than we have been talking about, but I think we need to start talking about it.

Mr. SESSIONS. Mr. Chairman, once again, you have seen to it that the witnesses that you and Mr. Barr put together have provided, I think, positive references and indications. And I appreciate this hearing, and I appreciate the witnesses and your making this such an available hearing.

I yield back my time, Mr. Chairman.

Chairman HIMES. Thank you, Mr. Sessions.

The gentleman's time has expired.

The gentleman from Guam, Mr. San Nicolas, is recognized for 5 minutes.

Mr. SAN NICOLAS. Thank you, Mr. Chairman.

Greetings, Chairwoman Waters, and hello to my colleagues.

And thank you to the witnesses who are testifying before us today.

I really appreciate the big-picture approach and the conversations that we are having. I am particularly keen on the conversation about climate change. And I would like to focus my lens a little bit more on the impact of climate change with respect to the region that I represent in the South Pacific.

To the south of Guam, we have several small island countries—the Republic of Palau, the Federated States of Micronesia, and the Republic of the Marshall Islands. And these small countries enjoy a unique relationship with the United States through the Compact of Free Association and the treaty that represents.

These small countries would not have a dramatic effect on the overall economy as they suffer through climate change. That is just the reality. They don't play big roles in international trade or international finance.

But the reality of climate change in those types of communities is catastrophic when you look at what they are going through. The Republic of the Marshall Islands, for example, the recent king tides that swept through there literally had water washing over entire atolls of that particular country.

The IMF, of course, focuses on big-picture issues and big-picture solutions, but when we have climate change impacting these smaller nations and the access of resources or to resources to address the climate change impact is far more limited for these smaller nations, I really sit back and ask myself, what more can we be doing to help them mitigate the impacts of climate change, whether or not we are going to be able to actually offset it by attacking the issue and the much larger contributors to the problem?

So, I wanted to ask the witnesses present, do you believe that the IMF should tailor specific climate change resiliency support to these smaller nations? And, if so, how do you think we should structure those types of support?

I will go ahead and start with Mr. Sembene.

Mr. SEMBENE. Thank you very much, Congressman.

I fully agree with my co-panelists that the $50 billion that is going to be channeled to the IMF to help fight climate change and, of course, the pandemic, will be quite small. But I actually think that there are two things that we can do to make sure that the work of the IMF is effective in helping the global community fight climate change.

First of all, we have, especially the U.S. has, and other large shareholders have to make sure that the IMF handles and manages these resources in the most effective way by partnering with other multilateral development banks, starting with the World Bank, to make sure that they can take advantage of their expertise to fight climate change.

The second issue is, we are talking about $50 billion, but don't forget that the G20 members have accumulated more than $440 billion out of the SDR allocation of $650 billion. So, we are talking about money that is sitting there at the IMF not serving any purpose. Why wouldn't the G20 accept on top of the $100 billion that it has pledged to recycle to add actually all of that and use SDRs in the IMF to allocate it to the fight of climate change? I think that would be the best way and the most effective way to mobilize more resources.

And not necessarily through the IMF. It can go through the World Bank. It can go through regional development banks like the Inter-American Development Bank (IDB) or the African Development Bank. But I think that would be the most effective way to mobilize more meaningful resources toward the fight against climate change.

Thank you.

Mr. STIGLITZ. Can I add one more thing to that?

I think the point that has just been made, that while a little money to these small countries can make a very big difference to those countries, from a global point of view, it is not a lot of money.

I want to make two other comments very briefly. The SDRs are not a perfect instrument, but they are an instrument that we have. And there is an urgency, particularly in some of these islands, for taking actions very quickly.

Mr. SAN NICOLAS. Yes.

Mr. STIGLITZ. That is why I support this annual issuance of SDRs in the amount of $200 billion or $300 billion a year that would make a very big difference, even if it is not perfectly targeted.

Over the long run, I really strongly agree with my colleague, Ken Rogoff, that we need a global institution to focus on climate change, but that is not going to happen overnight. We need to have more grants, not loans. But until we get these better-designed institutions, let's use the institutions, the instruments that we have to make sure that these countries are not devastated.

Mr. SAN NICOLAS. Thank you, Mr. Chairman. My time has expired. I yield back.

Chairman HIMES. The gentleman's time has expired.

The gentleman from Texas, Mr. Williams, is recognized for 5 minutes.

Mr. WILLIAMS OF TEXAS. Thank you, Mr. Chairman.

China isn't transparent. It cannot be trusted with much of the information it shares with the world. We saw this with COVID-19 and their reluctance to allow any international body to come in and get to the bottom of the origins of the pandemic. They take a similar posture to the world with some of their lending practices, which are also often hidden and obscured.

If China is willing to offer money to troubled economies and trap them into debt with little transparency to the outside world, then the IMF really is no longer the true lender of last resort.

So, Professor Rogoff, what pressure points do we have at our disposal so that we can get greater transparency into China's lending practices?

Mr. ROGOFF. There really has been some significant progress on that in the last couple of years, in getting more transparency about the Chinese loans, particularly in work from the World Bank.

That said, now that we have the greater transparency, we see that they are lending at private-sector terms. They are not writing down debt when they lend into a really poor country and it is in deep distress. They just roll it over. You pay a penalty, interest, and it is not really resolved. This is a huge, unresolved problem.

Certainly, in the IMF, in designing aid, loans, anything, a big concern is to make sure that it is not used to give the Chinese more favorable conditions than, certainly, the Fund is getting, and the World Bank and other official creditors. And you can start by providing transparency.

But I think where the Chinese will run into trouble, and we have over the years is, yes, everybody is your friend when you are lending the money, and you are building the Belt and Road project and giving loans—often, with a lot of corruption mixed in, by the way—but then, when you want to get it back, you find your leverage is much less.

Mr. WILLIAMS OF TEXAS. That is right. And, of course, China invests to get these people indebted to them.

The more the IMF involves itself in the politics of climate change, the less credibility I believe it gives them around the globe. We saw how they adjusted the economic forecasts of Brazil and Japan for climate-related measures while turning a blind eye to some of the worst polluters in the world, like China. We have mentioned some others today. Now, their actions are obviously not driven by the facts on the ground but, rather, to carry out a political agenda.

So, again, Professor Rogoff, can you talk about some of the negative consequences if the IMF continues to operate outside of its mission and it gets involved in this unrelated task called climate change?

Mr. ROGOFF. I don't have any problem with the IMF keeping a scorecard of the way it provides other data. I think the International Energy Agency (IEA) has much more expertise generally in the area, although they are not really a global institution the way that the IMF is. The IMF can use it. I think they can do that.

I don't want to apologize, exactly, for the IMF, but I would say that, since this is new, it is not exactly easy to decide exactly how to calibrate the advice and what they should say. There is not a lot of precedent. So, I hesitate to destroy the whole idea of saying something about climate because maybe they fumbled in a couple of cases.

Mr. WILLIAMS OF TEXAS. Okay.

Elizabeth Warren and Bernie Sanders—we have all heard of them—have called for an additional $2 trillion of special drawing rights for the IMF to deal with poverty, hunger, and disease across the world. This massive increase in funding would seem to be outside of the normal bounds of the IMF and more in line with some other international institutions' purview.

So, Professor Rogoff, can you elaborate on why the IMF would not be the appropriate institution to try to deal with some of these broad humanitarian goals?

Can you hear me?

Mr. ROGOFF. I just think the World Bank, for starters, has more in this area. The SDR is housed in the IMF. I think it is possible, as has been mentioned by one of the other speakers, that you could issue the money through the IMF and have it dispensed by the World Bank.

But I think it is a very crude instrument, and I think we need to do something now about having something more focused. And I do worry it is a distraction from the IMF's central focus. It is hard to be both an aid agency and the revolving lender. People say, well, they can do both. I think that is actually very hard.

Mr. WILLIAMS OF TEXAS. Okay.

I yield my time back, Mr. Chairman. Thank you.

Chairman HIMES. The gentleman's time has expired.

The gentleman from Massachusetts, Mr. Lynch, is recognized for 5 minutes.

Mr. LYNCH. Thank you, Mr. Chairman. And you and the ranking member have really put together a distinguished panel here, and I am grateful for the testimony of all of our witnesses, and for your willingness to lend your considerable talents to helping the committee do its work.

I want to try to address something that I think might be—and I may be wrong—more workable in the near term.

Professor Ghosh, we got into this issue about surcharges on so-called middle-income countries. And, just to be clear, we are talking about Ukraine, we are talking about Egypt, Argentina, Brazil. There hasn't been any relief for those countries in terms of the surcharges that have been applied by the IMF. And I am told that during the period of this pandemic, there will be about $4 billion paid by these countries to the IMF in terms of surcharge fees.

Forgive me, but it would seem that it would be reasonable, just during this period that we are dealing with the pandemic—and all of these countries, I think, have about 25 to 30 percent of their population vaccinated, so two-thirds of the country is not. They are struggling. And they are asking, in many cases, just for a pause in the application of these surcharges.

Would it not be reasonable to ask the IMF—and I know about the revolving-fund nature of this. I understand that, and I appreciate that. But, given the circumstances, would this not be an opportunity for us to show a little bit of reasonableness and sensitivity to these situations, to suspend for the short term? We seem to be coming out of this pandemic eventually, hopefully. Couldn't we suspend that without upsetting the balance of the IMF?

Ms. GHOSH. Thank you for this question. And you are absolutely right. I absolutely agree with you. I would argue that there is really no logical reason for the surcharges.

The ostensible reason is that it is to prevent countries from taking on too much debt or holding onto IMF loans for too long. But both are of these are in the hands of the IMF. The IMF decides how much they are going to lend to a country, and then it punishes that country for taking too large a loan.

This has nothing to do with the revolving fund. This is an additional charge, which really even for its own operational balances is not necessary.

And it punishes countries precisely when they least need it. At the moment, Argentina spends more on surcharges than it would to vaccinate its entire population. And this is true of a number of other countries.

It is a completely unnecessary kind of imposition on countries that are very distressed and cannot afford it. So, I completely agree with you.

Furthermore—

Mr. ROGOFF. Can I—

Ms. GHOSH. —it is, yes, this pandemic, but we are facing major climate challenges as well. So, there is really no justification for surcharges which are punishment for decisions made by the IMF itself. And I believe they should actually be abolished.

Mr. STIGLITZ. Can I have one more point, which is that they are not—

Mr. LYNCH. Please do.

Mr. STIGLITZ. —based on any actuarial basis. So, they are not part of a precautionary basis. They are not a repayment in anticipation of nonpayment.

Ms. SEGAL. If I could—

Mr. LYNCH. Thank you, Professor Stiglitz, and it's good to see you again.

Please, Ms. Segal, go ahead. I'm sorry.

Ms. SEGAL. Thank you. I'm sorry to cut you off.

I just wanted to say, on surcharges, they do serve a purpose for IMF operations, first to build precautionary balances. The IMF has a plan for achieving a precautionary balance, and surcharges are what goes to fund that, so there is a purpose there. That should be part of the analysis.

And the second purpose, actually, is to maintain the Fund as a lender of last resort. And that means that it is not, kind of, the cheapest source of financing there, and you wouldn't want to be in the business of encouraging countries that otherwise don't need to go to the Fund, to go to the Fund. So, there is a purpose behind the surcharges.

I would say, if the issue that we are really concerned about is debt—and that has been kind of the theme throughout the hearing—that is what should be dealt with in a comprehensive nature, knowing that whatever policy is decided should be, kind of, across the membership.

I think the discussion needs to be on how Argentina and others need to deal with their debt issue, and not, kind of, pick off surcharges as the issue to be dealt with.

Ms. GHOSH. If I could very quickly respond?

Chairman HIMES. Very, very quickly. The gentleman's time has expired. Professor Ghosh, very quickly.

Ms. GHOSH. Yes. The IMF's own model in the World Economic Outlook specifies that surcharges are not required for its operational balances. It is actually meeting it without the surcharges.

And the other issue is that the reason China is successful in lending to so many countries and making itself attractive is because the IMF and others are becoming so expensive in many ways, in terms of the surcharges, in terms of conditions that make it very difficult to do countercyclical policies.

So, if you really want to make China less important as a global lender, we have to make these sources of multilateral lending more available and attractive.

Mr. LYNCH. Thank you.

Thank you, Mr. Chairman.

Chairman HIMES. The gentleman's time has expired.

The gentleman from Arkansas, Mr. Hill, is recognized for 5 minutes.

Mr. HILL. Thank you, Mr. Chairman. Thanks for having this hearing, and the witnesses are outstanding. I enjoyed very much reading their testimony.

Two weeks ago, Senate Democrats sent a letter to Majority Leader Schumer calling on him to support the $900 billion equivalent of special drawing rights to be included in this year's appropriations bill. That passed the House on a party-line vote last July. I said this when I voted against the bill last summer, and I will say it again: In my view, using SDRs in this manner is a mistake.

Just last August, the IMF sent half-a-billion dollars to the Taliban in Afghanistan as a part of its general allocation of last year's $650 billion equivalent allocation. Thanks to the efforts of Republicans on this committee, while no SDR has made it to the Taliban, $42 billion was allocated to the corrupt Chinese Communist Party; $18 billion, as you noted, Mr. Chairman, to menacing Russia, poised on another invasion; $5 billion to Iran, the state sponsor of terror; $1 billion to Belarus, Putin's co-conspirator; and $400 million to Assad in Syria, the mass murderer. Only in Washington can this be considered common sense.

And as we have talked about today, some who advocate for SDRs as a foreign development aid tool or turning SDRs into a climate bank—again, in my view, this is not the right way to strengthen global economic recovery and reduce global poverty. SDRs really do neither of these things. They are too blunt an instrument.

SDR allocations are not targeted, tailored, or tied to COVID injury. There are no conditions for how a government can use SDRs, no accountability. They never have to be repaid. They are a blank check, as Mr. Sembene said, to wealthy nations. As he noted, $440 billion of the $650 billion goes to the wealthiest countries.

Secondly, it is due to this allocation based solely on shareholding that I think does not help the poorest countries.

Last summer, I warned Secretary Yellen of all these issues. That advice and counsel fell on deaf ears. I suggested: Do a special allocation of SDRs to the poor for COVID. Get the board to agree to that, not a general allocation. Insist on concessions and guardrails in advance of the allocation. Insist that countries belong to the Paris Club, as Ms. Segal suggested. Put up transparency guardrails. Make sure you can't use SDRs for debt repayment. Make sure they can't be traded with rogue nations for hard currency. Exact these technical commitments for rechanneling SDRs in advance of that allocation. None of those things were done in writing in a committed way.

And for all these reasons, that is why I have introduced the Special Drawing Rights Oversight Act, which would limit the Executive Branch's ability to bypass Congress to authorize SDR allocations by limiting the size and frequency of allocations unless Congress authorizes them by law.

Treasury has broad authority to circumvent Congress and unilaterally approve SDR allocations. My bill would ensure that there is a proper check on the Executive Branch, and provide greater accountability to Congress.

It is time to stop providing a blank check to our adversaries, and a non-rules-based approach to SDRs that are unaccountable and untargeted. Let's be strategic and smart in the use of this very valuable reserve asset.

And, as has been noted by Ranking Member Barr, SDRs are just one of the challenges with the Fund. Because I agree with this conversation that Ken Rogoff highlighted in his written testimony, that the SDRs are just one small issue. What is the role of the IMF in 2022 and beyond?

Historically, we are seeing the IMF use its surveillance to monitor the stability of the international financial system, while the World Bank is focused on poverty reduction and sustainable development, along with the regional development banks, not the IMF. So, the IMF in this hearing is facing an identity crisis.

The role as traditional lender of last resort, as you noted, Mr. Chairman, in your opening statement, has been somewhat replaced, as central banks have pumped trillions of dollars into the economy and wealthy countries' quantitative easing has made the IMF loans functionally obsolete.

Really, we are seeing recommended today the IMF become a donor of first resort rather than its traditional role. In my view, we should use the U.S. position to make sure that the Fund sticks to its core message.

I look forward to our continued discussion, and I yield back.

Chairman HIMES. The gentleman's time has expired.

The gentleman from Illinois, Mr. Garcia, is recognized for 5 minutes.

Mr. GARCIA OF ILLINOIS. Thank you, Chairman Himes, and Ranking Member Barr, for this lively and timely hearing.

The IMF's role in the world is at a turning point. If we are going to take on the pandemic, climate change, and hunger successfully, we can't be stuck on the same policies of austerity that got us here because of the fact that our world has gotten more unequal during the COVID-19 pandemic.

Here in the U.S., President Biden led a remarkable economic recovery based on economic stimulus. I think it could go further. But if the IMF is stuck on its old policies of austerity, the rest of the world will never recover.

Professor Ghosh, last year's issuance of SDRs was a tremendous success. Dozens of countries have used them to finance their response to the pandemic. My bill supporting the issuance of $2 trillion in SDRs passed the House, and I hope we see more soon.

But, meanwhile, there is the IMF. Unfortunately, the IMF plans to attach conditionality to these recycled SDRs. What does the IMF conditionality actually mean for the world's ability to recover from this pandemic? And will it undermine our ability to get SDRs to countries that need them most?

Ms. GHOSH. Thank you so much for this question.

And, yes, I do agree with you that the last year's issuance was a success, but necessarily limited, because the amounts were not sufficient for the needs.

What is wonderful about the SDRs is that they are costless for the countries that receive them. And the countries that don't need them, don't use them, so they do not actually have—they don't matter for the countries that don't need them. So, when we say that so much is going to those countries, it doesn't matter. It doesn't really affect global liquidity in any meaningful sense. And it is a very small part of the huge quantitative easing of $25 trillion that advanced countries have engaged in over the last decade.

So, if we issue $2 trillion in SDRs, still, a small proportion of it will go to middle-income and low-income countries that really do need it, but it will provide a huge buffer. The critical point is that it is not debt. And currently, the RST will actually give you debt. And, necessarily, with debt, there will be conditions, because that debt will have to be repaid.

It is now important, given the massive climate challenges, and given all of the other challenges that we have in meeting sustainable development goals, to provide this debt-free money to countries that don't need it. Those who don't need it, will not use it, so that is fine.

If we can provide this, it is debt-free, it is costless, and it provides a massive buffer even for the reserves in terms of other capital flows coming in. It enables countries to meet the challenges that are most important for them. It could be a climate adaptation challenge. It could be a health challenge. It could be whichever is currently the most important challenge that they need.

Mr. GARCIA OF ILLINOIS. Thank you.

Ms. GHOSH. And, therefore, a large allocation would actually play a huge role in determining a future recovery in the global economy.

Mr. GARCIA OF ILLINOIS. Thank you very much.

And to Professor Stiglitz, countries around the world owe billions of dollars to the IMF in surcharge fees, all because they have too much debt or take too long to repay. To me, this looks like the business model of payday lenders here in Chicago, not an economic development agency.

We all know Ukraine is currently at risk of attack from Russia. What's more, it has only vaccinated about a third of its population. But Ukraine has to pay surcharge fees to the IMF.

Professor Stiglitz, why does Ukraine, one of the poorest countries in Eastern Europe, owe surcharge fees to the IMF? And do surcharges threaten economic growth in countries like Ukraine and undermine the legitimacy of the IMF in an unstable world?

Mr. STIGLITZ. You are absolutely right; the surcharges are procyclical. They go exactly against the objective of good economic policy. As I pointed out in my written testimony, the IMF is supposed to help countries with foreign exchange problems, but the surcharges are making things worse.

And our earlier discussion pointed out very forcefully that the arguments that have been put forth for the surcharges make absolutely no sense. They are not based on actuarial risk. They are not needed for building up the precautionary balances. They are not needed for the operations of the IMF. And they are not needed to stop countries from borrowing from the IMF, because the IMF has control over who borrows from the IMF.

So, all of the arguments that have been put forward for the surcharges make absolutely no sense, and they are counterproductive.

Mr. GARCIA OF ILLINOIS. Thank you, sir.

With that, thank you, Mr. Chairman, and I yield back.

Chairman HIMES. The gentleman's time has expired.

The gentleman from Ohio, Mr. Davidson, is recognized for 5 minutes.

Mr. DAVIDSON. Thank you, Mr. Chairman. And I appreciate you putting together this interesting cast of characters to cover a really important topic.

And I will say, we have spent a lot more energy on climate than I had expected. Let me just address up front something that wasn't really in my plan to spend as much time on.

But when we look at—Professor Rogoff, maybe you could address this. What is the normal timeframe for an IMF loan? And I emphasize the, "loan," something that is expected to be repaid.

Mr. ROGOFF. Yes. The normal timeframe, outside of a few very small programs for the lowest-income countries, is on the order of 2 to 4 years.

Mr. DAVIDSON. My base question is, then, in 2 to 4 years—when I look at the really, really aggressive climate change models, we are talking about sea levels rising at less than a centimeter a year. So, do you really think that in 2 to 4 years, we are going to see something so catastrophic that the risk can't possibly be conceptualized or underwritten?

Mr. ROGOFF. Certainly, the private sector looks at that.

If I could just make one other point. There have been complaints about the IMF putting in conditionality. The Chinese lend at much higher rates than the IMF does. Why does everyone love the Chinese lending? Because there is no conditionality on corruption and things like that. They have not been party to the Paris Club agreements. And I think you cannot look at what the IMF is doing without looking at what China is doing at the same time.

Mr. DAVIDSON. Yes. Thank you for that. And that is a nice pivot to the core topic.

The reality is, of course, people can understand and assess risk in that short time horizon, even if you take the most aggressive models. I think we could just focus on the loans being what they are; they are loans. And the idea, to the chairman's point, that somehow this poses some systemic risk to the IMF is a fallacy.

You may say that climate change does pose a systemic risk to the planet if you believe the most aggressive models, but the idea that the IMF or anyone else lending in a 2- to 4-year time horizon couldn't take that into account, to me, is a fallacious argument.

But Mr. Rogoff, last year, I introduced my bill, the Chinese Currency Accountability Act. And this bill would make any increase in the Chinese RMBs' weighting in the IMF's special drawing rights currency basket conditional on Treasury certifying that China is complying with key provisions of the IMF's Articles of Agreement, the Paris Club, and the OECD Arrangement on Officially Supported Export Credits.

I think it is essential for the United States to do more to combat the Belt and Road Initiative by taking actions such as this and features that you highlight that are important in IMF that aren't embedded in the way the Chinese lend.

Do you believe this approach could be effective in forcing China to become more transparent or to maybe alter their terms in their own lending programs?

Mr. ROGOFF. I think Dr. Sembene said very well—and Professor Stiglitz as well—that we are trying to have rules of the international system, and China has gotten really big for its share in the IMF. It kind of doesn't even make any sense. It is still way too small.

So, I'm not sure how we say no—we have been begging them to increase their quota, actually. The Chinese have been resisting it, because they don't want to be responsible for what the IMF is doing. They like keeping a low profile and doing their own thing. We are trying to bring them into the tent and our rules in this situation.

Mr. DAVIDSON. Yes. Thanks for highlighting that.

And I think that is it. They are working on an entirely different, alternative architecture that is rife with corruption, and it purely pursues China's national interests. In fact, China has flaunted their agreement with many of the same countries that are part of the IMF, and the World Trade Organization. They have never become an actual market economy. They are a state-sponsored economy.

And I want to highlight, Professor Ghosh, at least you are transparent in essentially wanting to turn the IMF into a big global charity. And I think you also touched on something that is really important in saying, look at the rate of quantitative easing, which is a word for debasing the currency. Look at the global West. How dare we put such vigorous terms and conditions on people who are essentially doing the same things that the wealthiest countries in the world are doing.

So, far from austerity, we have debased our currencies globally to the tune of $25 trillion to $30 trillion. Shame on us.

And I yield back.

Chairman HIMES. The gentleman's time has expired.

The gentlewoman from Massachusetts, Ms. Pressley, is recognized for 5 minutes.

Ms. PRESSLEY. Thank you, Mr. Chairman.

And thank you to our witnesses for appearing before this subcommittee today.

We find ourselves in the third year of this pandemic that has laid bare the deadly consequences of weak investments in our global public health infrastructure and so much more. Over 5 million people have died globally from COVID-19, including nearly 1 million people here in the United States.

Our country may be on track towards recovery, but many developing countries are still struggling due to the long legacy of colonialism, unsustainable debt, and IMF surcharges. The IMF surcharges policy, which imposes extra, often hidden fees onto countries with high levels of debt, has been widely denounced as an unjust burden and a hindrance to our global economic recovery by development experts and civil society organizations.

Dr. Ghosh, what are the impacts of surcharges on developing countries that are already burdened by unsustainable debt?

Ms. GHOSH. Thank you so much for this question.

And, yes, you are absolutely right; these are surcharges that are imposed on countries that are already in distress, that already do not have the foreign exchange that they need for basic imports, that are unable to meet the critical health spending that they need in the pandemic.

And now, they are forced to pay more than they would normally or that other debtors are repaying the IMF simply because the IMF has this particular rule. It is deeply unjust, and unjustified as well, as Professor Stiglitz has already pointed out.

But the economic impact is actually quite brutal. It requires the budget to be set aside for this repayment. It requires a further drain on very, very limited foreign exchange resources that prevent you from importing essential goods, that prevent you from doing anything for poverty alleviation and for just coping with the pandemic and all of the livelihood losses.

And it is deeply procyclical, as Professor Stiglitz has already mentioned, so it can make a downturn even worse. There is—

Ms. PRESSLEY. Thank you.

Ms. GHOSH. —absolutely no justification for the surcharges, and they really are a big damage to the developing countries that have to pay them.

Mr. SEMBENE. May I add something to this?

Ms. PRESSLEY. Yes, please.

Mr. SEMBENE. hank you very much, Congresswoman.

We can agree or disagree on whether surcharges are good from an ethical and moral standpoint. We can agree and disagree. But I think what matters, also, is actually from a fiscal standpoint, if surcharges actually compound and aggravate the liquidity issues that countries are facing, so that they are having issues servicing their debt, that is actually where the problem lies.

I am saying that because we just had the Debt Service Suspension Initiative that was put in place by the G20 expire last month, in December, and so far we don't have an alternative mechanism—

Ms. PRESSLEY. Thank you. I am going to run out of time here, but I appreciate those answers.

And there was a recent report which reported that Argentina will spend more than $3 billion covering surcharges through 2023. I want us to sit with that. That is 9 times the amount it would cost to vaccinate every single Argentinian against COVID-19.

Dr. Ghosh, several governments have called for the suspension of these surcharges for the duration of the pandemic. Yes or no, given the urgency, do you agree that there should be an immediate review of surcharge policy?

Ms. GHOSH. Absolutely. I believe that right now in the continuing pandemic, there should absolutely be a review. I believe the IMF should actually cancel this program altogether because it really does not make sense—

Ms. PRESSLEY. Thank you.

Ms. GHOSH. —and it is not justified, but I believe the U.S. Government should actively propose this.

Ms. PRESSLEY. And, Dr. Stiglitz, do you agree with arguments in support of the IMF surcharge policy, claiming they offset the risk of non-repayment? Why or why not?

Mr. STIGLITZ. The risk of non-repayment is miniscule. The number of loans that have not been repaid is very small, because the IMF has what is called, "preferred creditor status." They almost always get repaid. And so, the idea that these are important for precautionary balances or based on actuarial risk is nonsense.

So, especially in the midst of this pandemic, they ought to be suspended, but, as Professor Ghosh pointed out, there is no basis for them as part of the long-term framework, because they are procyclical and they contravene the basic role of the IMF in helping countries with foreign exchange problems.

Ms. PRESSLEY. Thank you.

And, Dr. Stiglitz, what is standing in the way of the elimination of this onerous surcharge policy? And how can Congress work towards achieving that goal?

Mr. STIGLITZ. I think there is a lot of support among many other countries. The United States is one of the countries standing in the way right now, unfortunately.

Ms. PRESSLEY. Indeed, surcharges are an obstacle to our global economic recovery and our efforts to end this pandemic. And I agree, they should be abolished.

It is also alarming to see the IMF continuing to support austerity measures in many of its lending programs during the pandemic. The consequences have been deadly. In Ecuador, we saw how IMF-backed austerity cuts contributed to one of the deadliest outbreaks of COVID-19 worldwide.

Dr. Ghosh, how might the IMF—

Chairman HIMES. I'm sorry. The gentlelady's time has expired.

Ms. PRESSLEY. I yield back. Thank you.

Chairman HIMES. And we will go immediately into the second round. We have reduced the number of Members. We do have an administrative hard stop in just over half an hour, so just a fair warning to my colleagues that I will be particularly aggressive with the gavel at the 5-minute mark, so that we can get to everybody in the second round.

With that, I will very quickly recognize myself for 5 minutes of questions.

And I just want to cap off this surcharge debate. It has been really interesting, very good. What I haven't heard is an affirmative defense of surcharges.

Dr. Rogoff, I did hear you say that they were lower—the surcharges are considerably lower than one would experience in the private sector. That is not a ringing affirmative defense.

But just in the interest of analytical rigor, does anybody want to mount an affirmative defense for the existence of surcharges?

Mr. ROGOFF. I first want to say that I didn't get a chance to speak up, but I really second everything Ms. Segal said in her last remarks about how you just have to look at the whole picture.

As I understand it—and Professor Stiglitz is probably much more involved in discussing with the Argentines than I am, but they have arrived at a program where they are not actually making payments on any of this stuff. It is being re-lent. And there is going to be some big negotiation, possibly not coming, I think, until 2026 when all the loans are coming due, about who gets paid what. And I suspect these surcharges are going to come out of some private-sector pocket or Chinese pocket, not necessarily from the IMF.

But, as I said in my opening remarks, I think the pandemic clearly is a very exceptional situation, and in many cases, I could understand suspending them.

In the case of Ukraine and Argentina, these are countries that are—they are different, but Argentina has a profound willingness-to-repay problem. It would have been much better if the IMF did not give it a loan in 2018, probably better if it hadn't given a loan 17 years before that. This is a piece of that, but it is not the whole picture.

Chairman HIMES. Thank you, Dr. Rogoff.

Ms. Segal, you were cut off earlier. Again, it has made an impression on me that even Dr. Rogoff's comments just now were hardly a ringing affirmative endorsement of surcharges. Do you have anything to add?

Ms. SEGAL. I would just say, on the debt front, I would like for all of us to keep in mind that when the official sector steps up and provides debt relief but doesn't insist that the private sector and other creditors do as well, it actually doesn't help the country or address the problem. It leaves the lenders of last resort, kind of, holding the bag without fundamentally addressing the problem.

And I think we saw that with the Debt Service Suspension Initiative (DSSI), which was an excellent initiative. It was quick. It had to be done in the face of crisis. But the official sector stepped up, provided debt relief, strongly suggested to the private sector that they do the same, and they didn't.

So I really think we need to think in terms of, kind of, what is the additionality here? And if the official sector is providing relief, it should be because private creditors are as well and that the countries themselves are basically taking steps to go ahead and address the imbalances that led to the problem in the first place. That is kind of the tie-in to conditionality.

Chairman HIMES. Thank you, Ms. Segal.

I am going to, in the interest of discipline, yield back the balance of my time. But I am also going to get with the ranking member and see if we can find, given what we have all heard today, some proposal that would at least make the situation around surcharges better.

With that, I will yield back the balance of my time, and recognize the ranking member for 5 minutes.

Mr. BARR. Thanks, Mr. Chairman.

And I will jump into this discussion on surcharges and maybe try to mount a defense of some of the surcharges but invite other ideas and feedback on it.

Obviously, the purpose of the surcharges is risk management and contributions to the Fund's precautionary balances. And I invite the witnesses to tell me why surcharges aren't part and parcel to conditionality and the need for conditionality to actually produce the catalytic effect we want.

We want these loans to be repaid. We want to invite private capital investment. And if we simply transform the IMF into a global charity, as Mr. Davidson described, what incentive exists for private lenders to get into some of these distressed countries?

I did find Professor Ghosh's argument to be interesting, something that I think we ought to consider, that maybe Chinese lending is more attractive when surcharges are in place. But what I would offer as a counterpoint, perhaps, is: Shouldn't the goal not be to just waive surcharges but, rather, to get more aggressive, have the IMF—or demand of the IMF to be more aggressive in calling out China's opaque lending practices and its non-adherence to international credit standards?

That, in my judgement, is what threatens the Fund's work by saddling countries with unsustainable debt. If China's opaque lending standards in Belt and Road gets these countries into trouble, it will place greater pressure on the IMF.

So, rather than waiving the surcharges, wouldn't it be better if the United States and other members of the governance of the IMF demand greater accountability of China and greater debt transparency as a means of holding China accountable and also helping these countries that are the victims of Chinese debt-trap diplomacy?

And with that comment, I would invite feedback from Professor Ghosh or any of our witnesses.

Ms. GHOSH. Thank you so much, and I would be very happy to respond to that.

It is very difficult for the IMF to tell China who they can or cannot lend to or to tell countries whether or not to accept Chinese loans. So what it has to do, really, is to say, well, we are offering you loans that are more acceptable, et cetera.

And it is not only corruption, because, let's face it, the IMF has also lent to so-called corrupt countries and governments, and China also lends to non-corrupt countries and governments.

I think the Chinese lending pattern, yes, it is coming into problems of its own. The Belt and Road Initiative definitely is entering a morass. But it is of its own making.

By imposing surcharges, you are not necessarily helping this at all. If anything, the fact that Pakistan has to pay all these surcharges to the IMF is causing Pakistan to approach the Chinese even more, saying, "Please help me. I have such a shortage of foreign exchange, and now, in addition to everything else, I have to pay these surcharges."

I do believe that the surcharges are counterproductive even from that point of view, from the geopolitical point of view, because they are adding a burden which is unnecessary, unjustified, illogical, and does not prevent countries that have been in—Pakistan has been under the IMF's control for almost 4 decades now.

Mr. BARR. Thank you for that, but can I reclaim my time?

If we don't require anything, even of these distressed countries, in the way of conditions or economic reforms or paying a surcharge, why would private capital flow into these distressed countries?

Ms. GHOSH. Pakistan has been following IMF conditionality for 40 years, and it doesn't have the growth conditions because the IMF's own review suggests that their own strategies are such that they are overly optimistic about the growth outcomes. They impose fiscal austerity, and then they are very surprised when that gives you declining growth.

Mr. BARR. If any of the witnesses have a—

Ms. GHOSH. It is the nature of the conditionalities. It is not conditionalities per se; it is the nature of the conditionalities.

Mr. BARR. Do any of the witnesses have a different viewpoint?

Mr. ROGOFF. Another viewpoint would be that Pakistan has had—the military has been incredibly powerful and corrupted the system in many ways. And many studies suggest that is why they haven't been growing. To blame it on the IMF, I think, may be a very small issue here.

Mr. STIGLITZ. Can I add one—

Mr. BARR. Just in the remaining time, for any witness: What can we do to improve debt transparency? What can we do to support making IMF lending conditional on a country's comprehensive disclosure of Chinese debt?

Mr. STIGLITZ. Can I make—

Chairman HIMES. I'm sorry. The gentleman's time has expired, and I do have to be disciplined. So I will, on behalf of the ranking member, invite each of our witnesses to respond for the record. I, for one, would be very interested in hearing the answers to those questions. But I do need to be disciplined about the time, so let's take that for the record.

And I now recognize the gentleman from Guam, Mr. San Nicolas, for 5 minutes.

Mr. SAN NICOLAS. Thank you, Mr. Chairman.

I wanted to use my time to kind of circle back on my initial line of questioning and the point that I was trying to make.

I listened throughout the hearing about hundreds of billions of dollars in SDRs being out there. And then, I go back and I look at the data on the Republic of the Marshall Islands, the Republic of Palau, and the Federated States of Micronesia: The Marshall Islands accessed $7 million in SDRs; the same for the Federated States of Micronesia; and the Republic of Palau accessed $12 million in SDRs.

Mr. Chairman, that is not even enough to pave a road in these island communities, much less build seawalls, much less harden water infrastructure, much less mitigate the impact on housing and the availability of housing in these particular areas that are becoming inundated with water as a result of the climate change that is materially happening and directly affecting these countries and presenting an existential risk.

I would like to emphasize in my role here and in my time in this hearing the need for us to really press home the point that the stability of our global financial system is not unlike the stability of our domestic financial system. We can't just provide robust funding and robust opportunities for the biggest players while we ignore rural communities here in this country, and while we ignore those people who are trying to take advantage of what we are able to make available and are just not able to do so because they don't have the same means as some of the other bigger players.

And that is the situation right now in our international financial situation. We have these island nations that are literally suffering directly as a result of these things, and they are not able to access the resources that we make available on a global scale.

So, I really would like to encourage the IMF to take some kind of different approach and really factor in the real-time risk profiles that are being affected by climate change and provide the financial support to these areas that are already being dramatically impacted.

We can try and address the big picture, and of course, that is always going to be important, but we have real-world consequences happening right now. And for us to have hundreds of billions in SDRs out there while these island communities are receiving $7 million in SDR support is really just a failure of the system with respect to the problem.

And so, I want to just emphasize that. I will make time for any witnesses who may want to chime in, but, if not, Mr. Chairman, then I will yield back.

Ms. SEGAL. Could—

Mr. SEMBENE. I would add, Congressman, if you allow me, that I fully agree with you. I think there are a lot of things that can be done with those unused SDRs that are sitting in the account of the IMF.

The main issue, in my mind, is we need to make sure that borrowing costs are reduced for those countries that are facing debt distress or that are under risk of high debt distress. If you don't do that, they won't have any other choice but to go to other alternative sources, be it China, be it the private sector, unfortunately. Because they have to make sure that they respond to the current pandemic properly. They also have to make sure that they provide basic services to their population. And they also have to make sure that there is social cohesion, while also doing the war on terror.

So, we certainly need to use those SDR proceeds in what might be an innovative way to make sure that the funds get used not on borrowing costs of those countries. I think that would be the best service that we would give to those countries.

Thank you.

Mr. SAN NICOLAS. Ms. Segal?

Ms. SEGAL. I would just say, it sounds like the panel, and the committee, for that matter, is unanimous in wanting to channel more resources to deal with the issue of climate. I think where there is perhaps a difference is how those resources are channeled and through what institutions.

And I would just add, if you look at the budget request for Fiscal Year 2022, it is in the nature of $100 million or so from the U.S. that is dedicated to the IMF and the redirecting of SDR resources, but more than 10 times that is dedicated to other facilities that are directed at climate issues.

So, I don't think there is any argument about the need to channel more resources. It is just how and to which institutions.

Mr. STIGLITZ. Can I add one—

Mr. SAN NICOLAS. And just in closing—oh, go ahead, Mr. Stiglitz.

Mr. STIGLITZ. I think your comments highlight the importance of recycling the SDRs, that more countries need to do that recycling. And the institutional framework for doing the recycling has to be improved, as I mention in my report and Professor Ghosh mentioned in her written testimony, that the current framework is not up to the task. It needs to be a much better facility and much broader.

I think in the short run, we face a real urgency because of the pandemic. In the long run, I think we ought to be thinking of the kinds of institutions that Professor Rogoff talked about, which is a new international institution, a green bank of some kind.

But we know how long it takes to create those institutions, and in the meantime, we have to act. And that is why the SDR issuance and recycling of that is the intermediate solution until we get the kind of institution that Professor Rogoff talked about.

Chairman HIMES. The gentleman's time has expired.

The gentleman from Texas, Mr. Sessions, is recognized for 5 minutes.

Mr. SESSIONS. Mr. Chairman, thank you very much.

At this time, I do not seek time, except I want to reinforce my thanks to this witness panel and to the wisdom of having this hearing.

I yield back my time.

Chairman HIMES. The gentleman from Arkansas, Mr. Hill, is recognized for 5 minutes.

Mr. HILL. Thank you, Mr. Chairman.

And, again, I want to add to the compliments for the panel, their detailed answers, and for your engagement, and Mr. Barr as well.

I do want to turn back to the role of who is in the right position to handle things like long-term structural adaptation for something as serious and long-range as climate. And I just don't think it is a short-term-lending, foreign-exchange-based financial intermediary like the IMF.

I continue to state that we shouldn't convert the IMF into either an aid organization or into a global development organization. It is an intermediate-term institution to aid companies with foreign exchange and short-term debt management challenges.

And I do agree with a couple of points. One was on the surveillance work of the IMF. Clearly, long-term projections on surveillance as it relates to a country's intermediate- and medium-term financial risks associated with coping with climate—that is certainly a worthy use of the macroeconomic resources and analysis resources of the IMF.

But if climate is our real focus, then why do we treat China like a developing nation at the World Bank? Why do we keep funding no-strings-attached SDR issuances to giant carbon emitters like India or China or many, many other countries? That just doesn't make any sense. And that shows you the blunt incoherence of an across-the-board SDR issuance.

And since it is based on shareholdings—my friend from Guam, Mr. San Nicolas, makes many good points on Palau, and the people of The Marshall Islands, and I concur with him. And it says to me that that is, again, a long-term development risk strategy, not a short-term financing risk, considering their association and their financial position. So, again, it is more of a development challenge. That is the World Bank; that is the regional banks.

If we are concerned about climate, why aren't we pursuing former Congressman Ed Royce's strategy of building smaller nuclear reactors for Africa with a 150-year life, low-waste reprocessing that generates power and gets people off of fossil fuel?

I don't mean to be rhetorical, but I think that is how we should be looking at this, and not burdening these sorts of structural issues with an entity not created to cope with them.

I want to turn next to the issue of management at the IMF. I have to say I was so pleased that Chairwoman Waters was very aggressive last September in talking about her concerns and describing them as, "very troubling," where the current CEO of the IMF, the former CEO of the World Bank, essentially changed an economic forecast at China's request. I found that troubling. I think the IMF board should have dismissed the managing director over that. I think it was a bad move.

And that mismanagement of the Fund continues as recently as in December, when the first deputy managing director, Geoff Okamoto, was replaced by an academic whom I don't believe has the Treasury resume or the operational experience to be in the chief U.S. position at the IMF, the first deputy managing director.

Also, Mr. Chairman, I have concerns about the management and operations of the IMF. I hope you and Chairwoman Waters will consider that as a possible oversight topic as this year goes on in the Congress.

Turning to an additional key point I wanted to make—and I am so grateful for the second round, sir—under the IMF's rules, a member country of the Fund does not have to be a U.N. member. For example, Kosovo is not a U.N. member state, but has been an IMF member since 2009. Taiwan is not a U.N. member state, but it belongs to the WTO and the Asian Development Bank. And Taiwan, of course, is immensely larger than Kosovo.

The Biden Administration has called for Taiwan's meaningful participation in all international organizations. And I ask Professor Rogoff or others on the panel, shouldn't we support Taiwan's membership at the IMF, just as the U.S. did with Kosovo?

Mr. ROGOFF. I will take that question briefly first.

Good luck trying to do that. I think if we did, that we might be precipitating China to withdraw. And are we actually prepared to do that?

Mr. HILL. Thank you, Mr. Chairman. I yield back the balance of my time.

Chairman HIMES. The gentleman yields back.

The gentleman from Illinois, Mr. Garcia, is recognized for 5 minutes.

Mr. GARCIA OF ILLINOIS. Thank you, Mr. Chairman. I will be brief, with just one question that I meant to ask Dr. Sembene.

The IMF told the U.N. High Commission on Human Rights that, as a purely economic agency, it does not, "directly engage in the promotion of human rights." But we have seen the IMF work for political reasons on many occasions, including the disastrous 2018 loan to the Macri government in Argentina.

Mr. Sembene, do you agree that the IMF has played a political role in the past? And should it incorporate human rights into its work?

Chairman HIMES. Mr. Sembene, I don't know if you heard the question. That was directed, I think, at you by Mr. Garcia.

Mr. STIGLITZ. Whom was it addressed to?

Chairman HIMES. Mr. Garcia, do you want to repeat that? I will give you the time back.

Mr. GARCIA OF ILLINOIS. Yes. Thank you.

The IMF told the U.N. High Commission on Human Rights that, as a purely economic agency, it does not, "directly engage in the promotion of human rights." But we have seen the IMF work for political reasons on many occasions, including the disastrous 2018 loan to the Macri government of Argentina.

My question to you is, do you agree that the IMF has played a political role in the past? And should it incorporate human rights into its work?

Mr. STIGLITZ. Let me take that.

First, the boundary between economics and politics is always going to be vague, and we try to separate them. When I was at the World Bank, discussing corruption was viewed to be political. And one of the things that President Wilkinson did at the World Bank was to say, no, corruption is an economic issue, it is not a political issue. And so, there was a change in the boundary to say that corruption has economic consequences.

My own view of the Macri loan, the 2018 loan, was that it violated many of the standard rules of the IMF. It was obviously a particularly foolish loan, because they did not put on it a condition that would stop the money going into the country and going out to finance private-sector outflow from Argentina. The result of that very poorly-designed loan, which was, many people think, intended to help the Macri government, was that the country wound up $44 billion more in debt, with nothing to show for it.

That was an example—in my earlier testimony, I pointed out that the issue was not conditionality, but which condition. The condition they should have imposed is that you cannot use that money to finance capital outflow. And, unfortunately, they didn't put that condition on it.

Mr. ROGOFF. I just want to second that it is certainly very awkward, the 2018 loan. And I don't know what they were thinking exactly. The Fund was flush at the time, and had a long relationship with Argentina and they were trying to patch it, but it was a huge mistake.

But I will also say, if you are going to put conditions on capital outflows, that has happened a lot with money made during the pandemic, with money, and SDRs that went to Argentina, and Lebanon, a lot went into capital flight.

It is tricky to put those conditions on, but they just shouldn't have made the loan, not without a big write-down in the private debt.

Mr. GARCIA OF ILLINOIS. Thank you.

And, Mr. Sembene, it looks like you may be back. Did you hear the question?

Well, maybe we didn't get you back.

Without further ado, Mr. Chairman, I yield back.

Chairman HIMES. The gentleman yields back.

The gentleman from Ohio, Mr. Davidson, is recognized for 5 minutes.

Mr. DAVIDSON. Thank you, Mr. Chairman.

And, Mr. Rogoff, I would like to pick up where I left off. In your testimony, you stated that a number of larger emerging markets have become more resilient due to the fact that they have large reserves of foreign currency that provide them a cushion from the need for the IMF.

And this makes me consider our own domestic policy and how our overspending affects inflation. We are the world's reserve currency. We are a substantial backer, the largest, of the IMF. And, of course, we are no longer constrained even by the amount of revenue that we can collect. We are no longer constrained even by the amount of money someone will lend us. We are monetizing—we are debasing our currency, frankly, to state it more plainly. And as was highlighted by, I think, Professor Ghosh's own testimony, about $25 trillion around IMF members.

So, if we are growing this inflation through our own domestic policy and, frankly, through a lot of the leaders of the IMF doing similar things, does this undermine those foreign currency reserves held by those emerging-market countries?

Mr. ROGOFF. The very last question you asked, yes, to the extent that they are longer-term loans—they are holding longer-term loans. To the extent it is short-term, they are choosing to let it be undermined by accepting these really low rates.

The inflation is a threat because if the Federal Reserve decides they need to raise interest rates more—and my guess is they may need to make the interest rate higher than the inflation rate at some point—there really could be a lot of blood in emerging markets. It is a huge concern.

The markets clearly don't think that at the moment, but there is a lot of vulnerability. I think that is a big issue. We are talking about these poorer countries where the sums are not so large, and they really could be solved with aid. They are just not that big. But when you get to the larger emerging markets, getting agreement with China, for example, on what to do and places where loans are much bigger, that is going to be very hard. It already has been.

Mr. DAVIDSON. Yes. Thanks. I think you did a nice breakdown of the consequences for inflation, and I would just put it in contrast to some of the other things.

The time horizon for our problem with our debt is very short. We have trust funds for Social Security and Medicare that are on a path to bankruptcy, which really highlights the solvency problems that countries with an inverted debt-to-GDP ratio, like America, really should pay a lot of attention to, near-term attention. And as we feel the need to become generous and give to this global charity that is envisioned by some folks, we ought to make sure we take care of business in our own countries—

Ms. GHOSH. Could I just add—

Mr. DAVIDSON. —so that we don't default on our own debt.

Thank you, and I yield back.

Ms. GHOSH. Could I just add something?

Mr. DAVIDSON. I have already yielded back, but I will leave it up to the chairman.

Chairman HIMES. Yes, very quickly, Professor Ghosh.

Ms. GHOSH. Yes, just because the $25 trillion was raised. The $25 trillion of quantitative easing that I mentioned was before the pandemic and before the recent Biden Administration money. And we had that over a period since 2008 without any inflation or any consequences globally, and particularly in the advanced economies.

We had a period of 14 years of dramatic quantitative easing without inflationary consequences. I'm just putting it on the record.

Chairman HIMES. Okay. I think the gentleman has yielded back.

So, I am going to say a big thank you to all of our witnesses. Really, my ambition for these hearings, which is rarely met, is that we have a good give-and-take of ideas, that we have dialogue, that we have an exchange of constructive disagreement, and we really achieved that today. So, I really want to thank all of our witnesses for participating.

The Chair notes that some Members may have additional questions for these witnesses, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

With that, and with my gratitude to our witnesses, this hearing is adjourned.

[Whereupon, at 2:16 p.m., the hearing was adjourned.]

# A P P E N D I X

February 17, 2022

**The role of the IMF in a changing global landscape**

**Jayati Ghosh**

Testimony to US House of Representatives Committee on Financial Services, Sub-Committee on National Security, International Development, and Monetary Policy, Virtual Hearing on February 17, 2022.

## The context

The Covid-19 pandemic has increased the inequalities between rich countries and the rest of the world (other than China). Most developing countries face a significantly worse external environment, and their resources are now even more constrained than before. This has already led to has led to declining employment, significant increases in poverty and hunger, and worsening economic prospects in the near future. This process reduces the expansion of global effective demand, which in turn limits the potential for global economic recovery.

One major reason for the K-shaped global recovery is the huge variation in fiscal responses between rich countries and the rest.[i] Although the COVID-19 pandemic caused government revenues to decline in all countries, the advanced economies increased their public spending and tax benefits in 2020 by around 18 per cent of GDP. The United States provided significantly more, as much as 25 per cent. By contrast, emerging-market economies provided less than 6 per cent and low-income countries only 2.5 per cent of their 2020 GDP.[ii] Because their income bases were already lower, developing countries as a group spent only a tiny fraction in per capita terms of what was spent in the advanced economies.

In 2021, even as fresh waves of COVID-19 infections were causing economic havoc, "fiscal consolidation" expressed as attempts to control and reduce public spending was already well underway in many middle and low-income countries, owing to the rising levels of public debt accrued over the previous two years, largely because of events beyond their control.[iii] This inevitably worsened their economic outlook, and prevented even essential public spending on nutrition and health services.

This is why the IMF's new SDR allocation of 2021 was greatly needed, is entirely consistent with the mission of the IMF, and is in the interests of both these countries as well as the United States. It is also why the functioning of the IMF needs to be changed to be able to cope with new and emerging global challenges.

## The 2021 SDR allocation

In August 2021, the IMF issued $650 billion worth of its own liquidity, Special Drawing Rights (SDRs). Because SDRs are distributed according to countries' IMF quotas, low-income and middle-income countries received only around $250 billion, while rich countries got nearly $400 billion, most of which they are unlikely to use. Even so, the SDR allocation was a lifeline for several developing countries facing severe balance-of-payments problems, and helped to prevent further economic decline.

SDRs have several advantages over other types of international financing:

- They do not add to countries' external debt burdens, which is a major plus point given the increase in public and sovereign debt in most countries during the pandemic. Unlike loans from the IMF and other multilateral lenders, they are non-conditional. This makes them similar to the liquidity expansion automatically available to governments in some advanced economies like the US. They are designed to enable them to be used to strengthen the economy; they do not entail forcing countries to adopt measures like fiscal retrenchment that can damage or reverse the possibilities of economic recovery
- It enables them to be used without adopting measures like fiscal retrenchment that can damage or reverse the possibilities of economic recovery.
- SDRs are accessible to all countries, including middle-income economies that may face balance-of-payments constraints but are excluded from other multilateral funding. This is critical because most measures adopted by the international community in the wake of the Covid-19 crisis have been directed only to low-income countries, whereas there has been a widespread increase in poverty and economic distress across the developing world, including in some middle-income countries. A large fraction of the world's poorest people live in these countries, and they have limited resources with which to deal with the poverty within their borders.
- SDRs are virtually costless to use. The interest rate to be paid to the IMF is below 0.1 per cent, so they require only a tiny additional fiscal spending when they are used. Most significantly, they do not impose any costs on taxpayers in other countries.

It is difficult to think of an easier way to provide external finance to countries that urgently require it.

What is most significant for forex-constrained developing countries is that SDRs add to their external reserves *even if they are not used*. This can play an important part in stabilizing and providing some cushion to the balance of payments of recipient countries. These additional SDRs provide precautionary reserves that serve an important role because of the greater volatility of international financial markets,. The increase in forex reserves can also improve their chances of accessing other forms of finance and reducing borrowing costs of recipient countries.

Of course, these SDRs can also be directly used in various ways. Since August 2021, at least 80 countries have used SDRs for these purposes:[iv]

- 32 countries exchanged SDRs for hard currency to the tune of $11.6 billion, presumably for increasing imports.
- 55 countries used SDRs to pay their IMF dues for $6.5 billion, which reduced their debt burden and eased repayment concerns in general.
- 39 countries recorded SDRs in the government budget, equivalent to $31.6 billion, presumably to spend on vaccination, health care and other priorities.

The use of SDRs has been significantly higher than after the 2009 allocation, and it has been more varied, reflecting the flexibility that SDRs provide. This has been crucial for these countries to cope with what has otherwise been an extremely harsh external economic environment, although the amounts are still inadequate to meet the requirement. Most of these uses occurred within three months of the SDR allocation, showing how urgently these resources were required.

It should also be noted that SDR expansion was and remains a crucial measure, because other forms of IMF financing have recently been tightened. In December 2021, the IMF repealed almost all of the flexible access limits on funding that it had introduced during the pandemic, including under the Rapid Financing Instrument introduced in March 2020.[v] Yet the uneven K-shaped global recovery has meant that many countries remain in severe economic difficulties, which are likely to worsen as the US and other advanced economies move to tighten monetary policy.[vi] There are soon likely to be many more countries requiring some form of external liquidity assistance because of such global processes that are not of their own making.

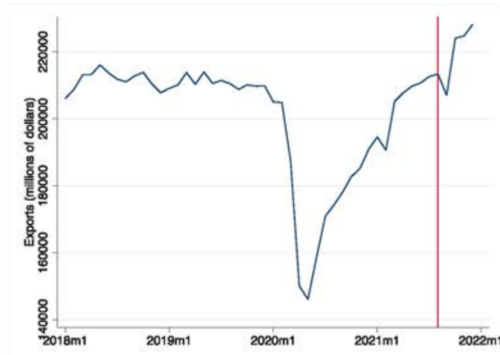
**Impact on the global economy and on the US economy**

While the amounts of SDRs utilized so far may appear to be small, they have still played a critical role for the economies that have used them, and even these small increases have mitigated to some extent the extreme increases in global fiscal inequality noted above. This is clearly of great benefit to these economies; which is clearly important for economic justice and reducing global inequality in general. It also has a positive impact in terms of increasing demand in the global economy, which is critical for a sustained and viable economic recovery even in rich countries. And it is also important for geostrategic reasons, serving to reduce international social and political tensions that could spill over with unpleasant consequences.

Indeed, the US economy is also likely to have benefited indirectly through this SDR expansion, because of a revival of its own exports to the rest of the world. Figure 1 shows the monthly pattern of US exports, which increased very sharply in late 2021 in the months after the new SDR allocation, when developing countries were able to access these additional resources. Obviously, many factors played a role in this increase in US exports, but the enlargement of fiscal space and easing of balance of payments difficulties among some previously very constrained trading partners was also important. The importance of a wider global recovery that includes developing countries, for the future expansion of US exports (with all of its income and employment effects in the US) should not be underestimated.

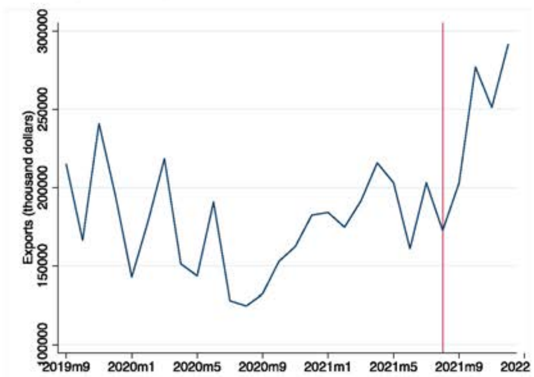
Figures 2-4 provides some examples of changes in US exports to emerging markets and developing countries. In Ukraine, which has been facing severe balance of payments problems well before the current military crisis, and had a very low level of foreign exchange reserves before the new allocation, SDRs were used to repay the IMF so as to reduce its aggregate debt burden, exchanged for hard currency with which it could engage in essential imports, and for increased public spending on covid relief as well as capital expenditure and to cover the deficit without taking on more debt. The importance of such measures for the governments and for the economy and people of Ukraine should be obvious. But it is worth noting that the SDRs issue also enabled Ukraine to increase its imports, and this was in turn associated with a dramatic increase in imports from the US from September 2021 onwards. Similar trends are evident for the Philippines and DR Congo, which also face severe balance of payments constraints. Therefore, in addition to helping the countries that use the SDRs, such imports clearly benefit exporting segments of the US economy.

Figure 1: Exports of the US, 2018-2021



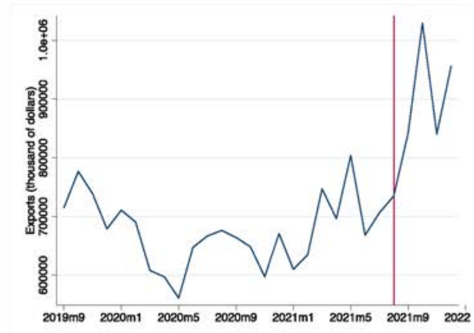

Source: U.S. Bureau of Economic Analysis

Figure 2: Exports of US to Ukraine, 2019-2021



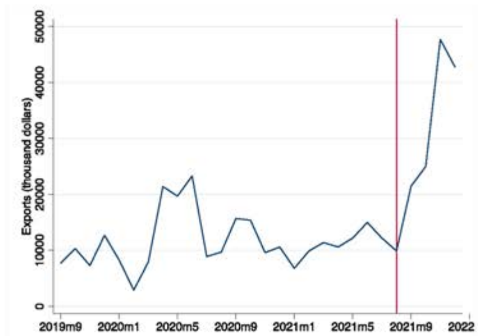

Source: U.S. Bureau of Economic Analysis

Figure 3: Exports of US to Philippines, 2019-2021




Source: U.S. Bureau of Economic Analysis

Figure 4: Exports of US to Democratic Republic of Congo, 2019-2021




Source: U.S. Bureau of Economic Analysis

There is therefore clearly a case for larger and more frequent SDR allocations. In addition to helping countries cope with the fallout of the pandemic, such allocations could be used to provide much needed climate finance to the developing world. It has been persuasively argued that an annual issuance of SDR 500 billion for a certain period could be provided to fund climate action.[vii] Such regular SDR allocations would provide essential resources to bolster mitigation and adaptation efforts in countries where they are most needed, in a context in which advanced economies have not yet fulfilled even their relatively modest pledge at COP15 in 2009 to mobilize $100 billion per year in climate finance for the developing world. In addition, the SDRs would provide some of the financing required to achieve the Sustainable Development Goals, which currently seem out of reach.

**Concerns about SDR allocations**

There is a concern that releasing so many SDRs into the global system would fuel global inflation, which is already seen as a concern. There are several arguments to be made against this position. First, the proposed sums for SDR expansion are trivial compared to the increase in liquidity of as much as $25 trillion fueled by the loose monetary policies in advanced economies since the 2008 global financial crisis.[viii] Total SDRs in the world toady amount to only $943 billion, which is just 7 per cent of the current global reserves of $12.8 trillion.[ix] Even if the share of SDRs in global reserves were limited to a certain proportion of international monetary reserves, say, 30-40 per cent, there is clearly significant scope for more issuance. Second, the SDRs allocated have rarely if ever been fully or even significantly used—most of the rich economies with global reserve currencies or surplus balance of payments positions find no need to draw on their SDR balances. Therefore, the actual liquidity released in the system tends to be a small fraction of the full new issuance. Third, there is a strong case for arguing that the current inflation is because of supply constraints and is cost-push determined, and should be handled accordingly. Therefore, attempts to use monetary restraint to control it would not address the root cause of the inflation even as they could damage prospects of recovery.

The other concern within some US policy circles is that SDRs could be used by countries currently facing US sanctions, allowing them access to foreign exchange and dollars in particular as a way out of the sanctions. But *none of the countries currently facing US sanctions of any kind (such as Iran, Russia and Syria) have used the new SDR allocation at all, largely because they are simply unable to do so* given the controls in international banking for any country that faces sanctions imposed by the Office of Foreign Assets Control (OFAC) of the US Treasury. In addition, the IMF does not recognize the governments of certain countries (such as Afghanistan, Myanmar, Sudan and Venezuela) and so they are also unable to use the SDRs that are listed in those countries' accounts. The question of whether such sanctions and lack of recognition are justified or even in the US' best interests is a separate and highly debatable matter; the point to note here is these governments are not able to utilize the SDRs even though they are formally available to them.

**Recycling SDRs of rich countries that will not use them**

There is a strong argument in favor of finding ways to use the $400 billion of SDRs allocated to rich countries that are unlikely to need them. While there are no costs to other countries if some countries do not utilize their additional SDR reserves, recycling SDRs could provide enormous benefits to the global economy, by enabling a more equitable and sustained recovery and causing a more widespread recovery of global demand.

As a result, how to recycle or re-channel existing SDRs has become an urgent question. The IMF's proposal to establish a $50 billion "Resilience and Sustainability Trust" (RST) is one attempt to recycle SDRs held by rich economies towards developing countries. However, the current plan for the RST would deprive developing countries of many of the advantages of SDRs. To begin with, the amount committed so far is very small, reflecting real lack of ambition. What is more, unlike SDRs themselves which are a debt-free asset, the resources are to be provided in the form of debt that must be repaid (albeit at low interest rates). In addition, they will be subject to IMF conditionalities that have far too often proved hugely counterproductive. The current plan limits the funds to be made available only to low-income countries or those currently under IMF programs, leaving out most of the developing world including the emerging markets. Overall, therefore, this proposal will at best have extremely limited impact, far too little to address the major financing challenges that currently exist. My comments, however, have suggested ways in which a Recycling Fund could easily be structured that would make it more effective. A large part of the funds channeled in this way should be debt-free, especially those provided to low income countries.

There are other means of recycling SDRs that should be considered. These should strive to maintain the features of SDRs that make them an attractive form of financing. That is, ideally they should be debt-free, accessible to middle incomes countries as well as low income countries, and include transparency and accountability safeguards on both providers and recipients. Conditionalities should not be of the kind traditionally associated with the IMF, but rather designed to ensure that the funds are used for urgent social and public helth purposes and for the climate transition.

One option is for rich countries to channel their SDRs to regional development banks, which are authorized to hold them. For example, institutions like the African Development Bank could use the SDRs to enlarge their capital base and provide developing countries with more climate finance and budgetary support for meeting the SDGs. Specifically for climate finance, there is a proposal (made by Avinash Persaud) to create a $500 billion per year climate finance trust, funded by SDR issuance. The trust would auction funds to countries, with auctions based not on monetary returns but on climate action: successful bids would be those that promise the greatest likely reduction of greenhouse-gas emissions resulting from the proposed investment. There are other ways of using recycled SDRs

It has been argued that such initiatives are not part of the remit of the IMF. But with the world economy facing such crucial challenges, it is important not to be stuck in older categories that may not be relevant to the current context. The need for all international institutions to cooperate is greater than ever, and the IMF can play a critical role in assisting such cooperation, specifically when there are major financial implications.

**Some concerns with current IMF practices:**

**1. IMF Surcharges**

One policy of the IMF that is currently counterproductive even in terms of its own goals is the practice of imposing surcharges on some debtor countries. While the IMF's base lending rate is low, it imposes a hefty surcharge on countries whose debt to the IMF exceeds a certain amount, or who have been in debt for more than four years. This punishes countries that the IMF chose to provide large loans to and makes it harder for them to grow out of their debt because of the higher interest costs they are forced to pay. It also reduces their ability to engage in essential public spending necessary to halt the pandemic and reduce its adverse impact. For example, Argentina will have to spend US $3.3 billion on surcharges from 2018 to 2023, which is 9 times what it would take to fully vaccinate every Argentine against COVID-19.[x] These surcharges are not just a problem for Argentina: the IMF's own estimates based on its WEO model suggest that "the number of surcharge-paying members would increase to 38 in FY 2024 and FY 2025, more than double the current level, and total surcharge income would increase by 50 percent".[xi] All of this income comes to an unfair redistribution from countries that are already facing extreme balance of payments difficulties to the IMF.

The surcharges have become an important source of revenue for the IMF: it is estimated to receive more than $4 billion in surcharges through end 2022, in addition to interest payments and fees. This amounts to nearly half of the revenue over this period, and indicates a significant increase in recent years, even though the IMF's own model makes it clear that it does not need this amount to add to its precautionary balances. These surcharges are hugely counterproductive for the countries that are forced to pay them, being imposed when they are already in distress and operating to worsen outcomes for both the borrowing country and its investors, affecting the government's ability to spend on essential services like health, on poverty reduction, and damaging economic prospects into the future.[xii]

The ostensible purpose of providing a disincentive for countries to keep borrowing from the IMF cannot be justified, given that all countries now seek to avoid borrowing from the IMF as much as possible, given the onerous conditionalities that are imposed. The costs to the country concerned and to the IMF's own presumed goals with respect to that country, far outweigh the monetary gains to the IMF, which are in any case unjustified. Individual countries cannot be blamed for receiving large loans, when it is the IMF that decides which country to lend to, the amount and the conditions of the loan. Similarly, surcharges cannot be justified as payment for risk: given the IMF's preferred creditor status, there are almost no defaults.

**2. Continued emphasis on conditionalities involving fiscal austerity and regressive taxation in IMF programmes**

The IMF continues to have double standards for some advanced and other countries on countercyclical spending and moves for fiscal austerity. The need for countercyclical macroeconomic policies is widely recognised in advanced economies, including the US; yet developing countries are forced to engage in procyclical policies. As a result, IMF programs impose policies on developing countries in balance of payments difficulties, that are not followed at all by the rich countries that are the major shareholders of the IMF. This was especially evident after the Global Financial Crisis of 2008-09[xiii], but remain true today. While the IMF leadership explicitly recognised the need for countercyclical spending during the pandemic, and some emergency financing avoided procyclical conditions, in general its programs on the ground typically continued to impose conditions that required very rapid fiscal consolidation (starting as early as 2021) and emphasised relying on regressive forms of taxation like VAT that disproportionately hit the poor.[xiv] The IMF's own review of its programs and conditionalities in 2018 noted that "Programs also appear to have systematically underestimated the impact of adjustment on growth. The regression analysis suggests that staff underestimated the growth impact of adjustment, both public and private".[xv]

**3. Inadequate response to climate challenges**

As the pre-eminent multilateral financing institution, the IMF has a major responsibility to recognise the significance of climate change and its macroeconomic, financial and developmental effects, and to work towards addressing climate challenges. This also requires a shift in its own monitoring and surveillance framework, to cover various types of climate risk including physical risk, transition risk, and spillover transition risk (resulting from climate policies of rich countries that hurt poor countries, such as a carbon tax with a carbon border adjustment mechanism that impacts hydrocarbon producers).[xvi] In addition, the IMF needs to be bolder in devising financing strategies for climate mitigation and adaptation efforts in the Global South, which are currently hugely underfunded. Since such investments fall in the realm of global public goods, it is important that they be dealt with in terms of global public investment, which the IMF (rather than the World Bank) can promote. Clearly, conditions for such finance need to move beyond conditional loans to grants that are based on climate response rather than the standard repayment requirements, particularly for low income countries.

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[i] See for example, Michael Spence, Joseph E. Stiglitz and Jayati Ghosh, "Avoiding a K-shaped recovery", Project Syndicate, March 24, 2021, https://www.project-syndicate.org/commentary/global-economy-avoiding-k-shaped-recovery-by-michael-spence-et-al-2021-03

[ii] IMF Fiscal Monitor April 2021, https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19

[iii] IMF Fiscal Monitor October 2021, https://www.imf.org/en/Publications/FM/Issues/2021/10/13/fiscal-monitor-october-2021

[iv] https://cepr.net/eighty-countries-have-already-used-their-special-drawing-rights-but-more-are-needed/

[v] Only the cumulative access limit (mainly for countries that already have an emergency loan and might need another one) for emergency financing was extended for another 18 months.

[vi] See, for example, the World Bank's World Development Report 2021.

[vii] Such a proposal was made by the prime minister of Barbados, Mia Amor Mottley At the United Nations Climate Change Conference (COP26) in Glasgow last November. https://euobserver.com/climate/153407

[viii] http://fingfx.thomsonreuters.com/gfx/rngs/GLOBAL-CENTRALBANKS/010041ZQ4B7/index.html

[ix] https://www.imf.org/en/Topics/special-drawing-right#:~:text=To%20date%2C%20a%20total%20of,on%20August%2023%2C%202021). https://data.imf.org/?sk=E6A5F467-C14B-4AA8-9F6D-5A09EC4E62A4

[x] https://cepr.net/report/imf-surcharges-counterproductive-and-unfair/?__cf_chl_jschl_tk__=pmd_ohhclqt9I0TSyDmjXlBPdWMaOdiRjPQmlXAsGl2owXQ-1633955388-0-gqNtZGzNAnujcnBszQgR

[xi] https://www.imf.org/-/media/Files/Publications/PP/2021/English/PPEA2021073.ashx

[xii] Joseph E Stiglitz and Kevin Gallagher, "Understanding the Consequences of IMF Surcharges: The Need for Reform" Policy Brief, https://www.bu.edu/gdp/2021/10/04/understanding-the-consequences-of-imf-surcharges-the-need-for-reform/

[xiii] https://www.bu.edu/gdp/2020/11/17/imf-austerity-since-the-global-financial-crisis-new-data-same-trend-and-similar-determinants/

[xiv] See, for example, Eurodad, "Arrested development: IMF lending and austerity post-Covid-19", chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/viewer.html?pdfurl=https%3A%2F%2Fd3n8a8pro7vhmx.cloudfront.net%2Feurodad%2Fpages%2F1063%2Fattachments%2Foriginal%2F1608122652%2Farrested-development-FINAL.pdf%3F1608122652&clen=264511&chunk=true;

[xv] https://www.imf.org/en/Publications/Policy-Papers/Issues/2019/05/20/2018-Review-of-Program-Design-and-Conditionality-46910

[xvi] Luma Ramos, Corinne Stephenson, Irene Monasterolo, Kevin P. Gallagher, "Climate Risk and IMF Surveillance Policy: A baseline analysis". chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/viewer.html?pdfurl=https%3A%2F%2Fwww.bu.edu%2Fgdp%2Ffiles%2F2021%2F04%2FGEGI_WP_047_FIN.pdf&clen=1654334&chunk=true

Testimony to the House Financial Services Committee: Sub-Committee on National Security

On "The Role of the International Monetary Fund in a Changing Global Landscape"

Kenneth Rogoff, Thomas D Cabot Professor of Public Policy, Harvard University

February 17, 2022

As the only truly global multilateral financial institution, the International Monetary Fund has played a critical role in helping to preserve global financial stability, thereby supporting global growth. And it is needed today as much as ever.

The Fund's activities have multiple facets. These include its essential surveillance activities, where it aggregates, synthesizes and curates information from a wide variety of public and private sources to provide macroeconomic forecasts and policy assessments for all its members, and the world as a whole. Unlike private sector forecasts, the Fund's work is distributed for free, and is highly valued, especially in poorer countries where there are few alternatives.

The Fund is also a reservoir of global macroeconomic and financial data, with again, most of the work made widely available. A major step forward has been in its work in debt reporting transparency, which had been weakness in the runup to 2008, and is now a growing strength. Transparency is essential in reducing vulnerability to debt crises, and in resolving them. This includes transparency about the massive but often opaque lending activities of China.

The Fund also provides technical assistance to countries in a variety of areas, from tax systems to financial regulation, and provides a forum for sharing best practice.

I will concentrate my remarks today, however, on the Fund's single most important and unique activity, which is its role in lending to debt distressed countries. Although best known for its role in emerging markets and lower-income countries, the Fund played a large role in the European debt crisis last decade. This was not as new as one might think: Many forget that the United Kingdom alone had 11 IMF programs from the 1950s to 70s.Today, the focus is shifting again, as the search for yield has allowed many lower middle-income countries and developing economies, that once relied almost exclusively on official lending, to access private markets. Non-Paris club official lenders such as China, Saudi Arabia and India have also become more prominent in these debtor countries .

Especially since the pandemic, the situation has become dire for these newer borrowers, with over 60% of low-income countries in debt distress. A handful of emerging markets (e.g., Argentina, Lebanon) is already in default, and there is a risk that a greater than expected rise in world interest rates could cause problems in larger emerging markets. Turkey, thanks to unorthodox monetary policies, faces problems regardless.

Fortunately, a number of larger emerging markets have become resilient thanks to two critical changes. First, many have large reserves of foreign currency, providing a cushion before needing to call on the IMF. Second, and even more importantly, the global low inflation environment that prevailed until recently has allowed many countries to deepen their local domestic markets. This allows them not only to borrow in their own currencies, which is safer, but even more importantly, to borrow more frequently under local court jurisdiction, which gives governments considerably more agency over debt workouts should they be needed, even with foreign creditors. I have been arguing for this change in my academic writings for over three decades. Nevertheless, a sufficient rise in global interest rates will place stress even on many of these borrowers as well, in part because even if government debt is increasingly domestic, emerging market corporate borrowing from abroad is almost exclusively in dollars (or euro), and governed under New York or London law.

Let me conclude with five points

(1) The Fund is built as a revolving credit agency; with loans that typically need to repaid within two to four years. It can certainly forgive loans, but only if its main hard-currency shareholders stand ready to replenish its resources.
(2) The two emergency SDR issuances during the global financial crisis (183 billion SDR) and again during the pandemic (650 billion dollars), on balance, made sense. Plans to reallocate a larger share to poor countries, if successful, are welcome. But the SDR is not designed as an aid instrument any more than the Fund was designed as an aid agency, and a better plan for more efficient and transparent aid is needed, bigtime.
(3) The Fund is at its best when it plays the role of the honest broker, when in its routine forecasts and policy advice, or the design of its bailout programs.
(4) There are many cases where the most realistic advice to a country is that it needs to restructure is private debts, but the Fund is not legally allowed to make that a stipulation of its programs. It can only say that it will not lend into unsustainable programs, but unfortunately all too often it gets gamed into giving overly optimistic projections about growth and compliance. This happened (yet again) in Argentina and is a serious risk going forward in trying to exit the pandemic-era loans.
(5) It would be a mistake to try to twist the Fund into being an aid agency, which is a role better suited for the World Bank. In general, advanced countries must be prepared to make vastly larger aid programs (outright grants not loans) than currently envisioned. Risks to the environment and the experience of the pandemic underscore that we cannot ignore how economic and human progress evolves in the rest of the world.
(6) The problem of helping developing countries control their carbon footprint as they (hopefully) grow is beyond the scale and expertise of either the IMF or the World Bank. There is a case to be made for creating and funding a World Carbon Bank to help countries, for example, phase out coal plants, and to help facilitate transfer of technology. In a changing world, this is a problem that may need a dedicated solution.

Thank you.

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**Statement before the House Financial Services Subcommittee on National Security, International Development and Monetary Policy**

# *"The Role of the International Monetary Fund in a Changing Global Landscape"*

A Testimony by:

**Stephanie Segal**

*Senior Associate (Non-resident), Economics Program, CSIS*

**Thursday, February 17, 2022**
**Virtual**

**Introduction**

Chairman Himes, Ranking Member Barr, and distinguished Members of the Subcommittee on National Security, International Development and Monetary Policy, thank you for the opportunity to testify before you on "The Role of the International Monetary Fund in a Changing Global Landscape."

The Subcommittee has asked witnesses to address the IMF's role in "monitoring and preserving the stability of the international financial system" and "examine the shifts and challenges the IMF currently faces, including disruptions brought on by climate change, rising levels of unsustainable sovereign debt, and the potential for an uneven Covid-19 recovery to exacerbate inequality, undermine social cohesion and increase instability across the globe." My testimony will address these topics with respect to the IMF's mandate and principal activities and will conclude with brief thoughts on IMF collaboration.

**IMF Mandate and Principal Activities**

The IMF's Articles of Agreement list six purposes that are intended to guide the institution "in all its policies and decisions."[1] They include the promotion of international monetary cooperation "through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems;" facilitation of "the expansion and balanced growth of international trade," thereby contributing to high levels of employment and income; as well as the temporary provision of financial resources, under adequate safeguards, to provide IMF members the "opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity."

Translating purpose into practice, the IMF focuses on three principal activities:

- Monitoring economic and financial developments and policies at the country, regional and global levels to foster growth and promote stability through **IMF Surveillance**
- Providing financial support to IMF members for external (balance of payments) needs to facilitate adjustment and shorten economic crises through **IMF Lending**
- Building capacity through training and technical assistance to IMF members through **Capacity Development**

Over the years, these activities have evolved along with the international system. That evolution is often prompted by crisis and the recognition that the existing tools are inadequate to address current economic conditions and challenges. For example, the advent of larger programs in the 1990s, driven by capital account crises, led to formalized "exceptional access" criteria; an intensified focus on financial sector issues and coverage of potential spillovers in IMF surveillance came in response to the Global Financial Crisis; while the introduction of "realism tools" to scrutinize projections for purposes of debt sustainability analyses came in the wake of the Eurozone sovereign debt crises.

Today, much of the world remains in the grip of Covid-19, and the global economy still struggles to deal with the economic fallout. Given the unprecedented needs and policy response of the past

[1] https://www.imf.org/external/pubs/ft/aa/index.htm

two years, it's not surprising that we once again are witnessing a further evolution of IMF activities. On the one hand, policymakers have a greater appreciation of the potential risks to growth and macroeconomic stability, including those posed by global threats such as climate change and public health emergencies. On the other hand, there is concern that an overly expansive list of items deemed "macro-critical" will dilute the IMF's effectiveness and steer the institution away from its founding purpose and into the domain of development institutions.[2] The IMF and its members need to strike a balance between these competing considerations, bearing in mind the financing, capacity, and political constraints of the membership.

**"Shifts and Challenges"**

The Subcommittee has asked witnesses to evaluate the IMF's role in meeting the challenges facing the global economy as we emerge from the pandemic, and specifically climate change, unsustainable debt, and inequality.

***Climate Change***. The climate's impact on macroeconomic outcomes is well-established and concerns both the economic impacts of a changing climate as well as the impacts of policies designed in response to climate change. A recent presentation from one of the world's largest insurers calls climate change "the biggest long-term threat to the global economy,"[3] while a July 2021 report from the Financial Stability Board highlights that "physical risks as well as a disorderly transition to a low-carbon economy could have de-stabilizing effects on the financial system, including through a rise in risk premia and falling asset prices in the relatively short-term." Failure to engage on climate issues would be at odds with the IMF's mandate, but that leaves open the question of how the Fund should engage and whether its tools are up to the task.

The IMF's surveillance activities represent the most immediate and consequential way in which the IMF can engage with members on climate change. The IMF's Executive Board has formally supported coverage of climate-related issues in IMF surveillance, with discussion of the 2021 Comprehensive Surveillance Review (CSR) resulting in broad support for coverage of climate change adaptation and transition risk in Article IV reports wherever macro-critical.[4] The Board also supports including climate in Financial Sector Assessment Programs where climate change may pose financial stability risks.[5]

IMF surveillance activities entail a bilateral component via Article IV consultations, which apply to all 190 IMF members and include direct engagement between IMF staff and country authorities, private sector participants, and civil society, as well as a multilateral component on regional and global economic and financial conditions. This structure enables the Fund to engage on climate at the country level, where relevant policies are typically set, while covering climate issues in

[2] Some experts have also raised concerns around IMF conditionality and whether IMF lending terms are sufficient to reestablish financial stability (https://www.project-syndicate.org/commentary/imf-acting-like-aid-agency-risks-embarrassment-by-kenneth-rogoff-2022-01.)

[3] https://www.swissre.com/media/news-releases/nr-20210422-economics-of-climate-change-risks.html.

[4] https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/05/18/2021-Comprehensive-Surveillance-Review-Overview-Paper-460270

[5] https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/07/30/IMF-Strategy-to-Help-Members-Address-Climate-Change-Related-Policy-Challenges-Priorities-463093

multilateral surveillance reports to reflect the nature of climate change mitigation as a global public good.

While surveillance obligations apply to all IMF members, IMF lending operations come into play only at the request of an IMF member, require a balance of payments financing need, and entail conditionality designed to achieve needed adjustment. Unlike bilateral surveillance, which applies to all IMF members, IMF lending programs are active in only a subset of IMF members. As a case in point, many of the largest emitters have not had IMF programs in decades, if ever, meaning the IMF's ability to gain traction on climate change issues through its lending is more limited relative to surveillance.

That said, there is a role for IMF engagement on climate-related issues in the context of an IMF lending program. Climate issues can impact budgets and the health of financial systems, issues covered in standard IMF programs. Also, the proposed Resilience and Sustainability Trust or RST provides another template for such engagement. If approved by the IMF's Executive Board, and pending adequate donor financing, the RST would be available to low-income, small island states, and vulnerable middle-income countries for purposes of targeting macro-critical, longer-term structural challenges such as climate change and pandemic preparedness. Financial support for the RST could come from the rechanneling of Special Drawing Rights (SDRs) by members with strong external positions, addressing a common critique of the most recent SDR allocation as not sufficiently benefitting the poorest countries. Qualification for the RST would require a concurrent IMF-supported program and a package of policy measures consistent with the RST's purpose. In this respect, the division of responsibilities between the IMF and development partners is a critical aspect of the RST, which I will address later in my testimony.

Finally, the IMF also engages its membership on climate-related issues through Capacity Development activities and in coordination with other institutions and donors. To date, climate-related capacity development has focused on fiscal issues, but the need for such support as relates to financial sector surveillance is growing.

***Debt***. The Subcommittee rightly calls out "rising levels of unsustainable sovereign debt" as a challenge facing the IMF, but the debt issue can more precisely be described as challenging the IMF's ability to engage in lending activities with highly indebted, often low-income countries. Unfortunately, high debt burdens were identified as problematic well before Covid-19, and the pandemic has further constrained countries in their ability to respond to the public health crisis and its economic fallout. The strong likelihood of higher global interest rates and withdrawal of central bank support in the very near future is adding fuel to the fire.

The lack of transparency and availability of comprehensive debt statistics challenges the quality of IMF surveillance and policy advice, but the bigger challenge relates to IMF lending activities. Specifically, the IMF is prohibited from lending into situations where a member's debt is judged unsustainable, leaving many countries most in need of IMF financial support unable to access it unless debt is rescheduled or restructured.

To their credit, the leaders of the IMF and World Bank reacted with urgency to the pandemic needs of the Fund's poorest members against a backdrop of excess indebtedness, calling on G-20 countries to temporarily suspend debt service from the poorest countries to official sector creditors and re-direct proceeds to health and other social spending. The resulting Debt Service Suspension Initiative (DSSI), which expired at the end of 2021, provided a rapid response to an unprecedented crisis, but many private sector creditors and official lender China Development Bank failed to provide relief on the same terms. Nor could DSSI provide the deeper debt relief required of a subset of DSSI-eligible countries. To that end, the G-20 introduced the Common Framework as a voluntary mechanism to provide a common approach among G-20 creditors to treat unsustainable debt. Despite its potential, which benefits greatly from the inclusion of China as the largest official bilateral creditor to low-income countries under the Framework, the Common Framework has thus far fallen short, with only three countries applying for relief under the Framework. To-date, only Chad has reached agreement on financing assurances with creditors, while negotiations between Zambia and its creditor committee are ongoing. Ethiopia's negotiations have stalled due to security conflicts.

The IMF cannot resolve low-income countries' debt vulnerabilities—such resolution requires agreement between debtor and public and private creditors to reschedule or restructure the debt—but it plays an essential role in developing the macroeconomic framework and financing envelop that serve as the basis for such an agreement. The IMF, with G-20 support, can drive this process and call for more predictable and timebound targets for negotiations under the Common Framework. It could also shed light on why more eligible countries have not sought relief under the Framework. Further, the IMF can bolster its concessional support to low-income members with adequate donor support. Additional donor support to the Poverty Reduction and Growth Trust or PRGT, along with the RST will provide the IMF with resources to assist low-income countries with balance of payments support on concessional terms.

***Inequality***. The third challenge flagged by the Subcommittee is the potential for an uneven recovery from Covid-19 to exacerbate inequality, and this is precisely what we've seen over the past year. While most advanced economies including the United States are at or above pre-pandemic trend output, many low- and middle-income countries have yet to recover. This two-speed recovery has various causes, starting with disparate access to vaccines and inadequate health systems to get shots in arms. The IMF does not and should not have a role in the acquisition and administration of vaccines, but it was early to identify and publicize the disparity in vaccination rates and the link to economic outcomes; its partnership with the WHO to highlight the issue of vaccine inequity was a creative and appropriate use of the IMF's platform, as was its attention to the issue in its multilateral surveillance.

Uneven recovery is also a function of the massive disparity in countries' policy response to the crisis. Whereas most advanced economies and some emerging market economies provided unprecedented fiscal support and highly accommodative monetary policies to bolster their economies, low- and middle-income countries simply did not have the capacity to provide the same magnitude of support. As a result, their economic rebound has been considerably weaker.

The 2021 Comprehensive Surveillance Review calls for the IMF to focus on inequality in surveillance as an issue with the potential to impact economic sustainability, with bilateral surveillance covering the distributional impacts of macroeconomic policies already featured in

Fund surveillance.[6] Efforts to respond to inequality between countries associated with the pandemic are also found in IMF lending, where the Fund moved to make additional resources available to its members, increasing access levels on emergency financing and allowing for rapid disbursement with very limited conditionality. In IMF program design, the Fund protects priority social spending with floors for education and health, and there is generally a more measured pace allowed for fiscal consolidation in light of the ongoing pandemic and attention to growth impacts of fiscal consolidation. These efforts are important, but they come with trade-offs, including prolonged imbalances leading to heightened vulnerability for longer.

Boosting the IMF's concessional resources through the PRGT and RST can support efforts to address inequality between countries, but to be effective, they must go along with efforts to address the debt overhang in low- and middle-income countries and provide additional concessional financing to low-income countries through the multilateral development banks.

**IMF-World Bank Cooperation**

Committee members will know the history of the IMF and its creation alongside the World Bank at Bretton Woods in 1944. The two institutions, both integral to the goal of creating a more stable and prosperous global economy, have distinct mandates, with the IMF focused on the stability of the international monetary system and the Bank focused on economic development and poverty reduction. It is critical that the two institutions work together, respecting their distinct roles and responsibilities. As noted in Treasury Secretary Janet Yellen's statement last fall to the International Monetary and Financial Committee, effective IMF and World Bank coordination will be necessary if there is to be a successful and durable recovery.[7]

As the Fund moves increasingly into coverage of issues that have both macro-critical and deep structural aspects, the need for close cooperation between the two institutions will only increase. On the issues we are discussing today—climate, health and debt in particular—there is a track record of coordination between IMF and World Bank staff to build upon, which covers data sharing, transparency initiatives, and assessment letters. The RST, with financing to address long-term structural issues and repayment terms to match, will test the ability of the two institutions to coordinate yet respect the division of labor between them. The IMF's reasoned focus on climate and pandemic preparedness should be a force multiplier and need not morph the IMF into a development agency. But this will require a thoughtful approach, supported by the shared stakeholders and leadership of the two institutions.

I thank the Subcommittee for the opportunity to share my views and I look forward to answering your questions.

[6] https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/05/18/2021-Comprehensive-Surveillance-Review-Overview-Paper-460270
[7] https://meetings.imf.org/en/2021/Annual/Statements

**HOUSE COMMITTEE ON FINANCIAL SERVICES**
**SUBCOMMITTEE ON NATIONAL SECURITY, INTERNATIONAL DEVELOPMENT, AND MONETARY POLICY**

February 17, 2022

**THE ROLE OF THE INTERNATIONAL MONETARY FUND IN A CHANGING GLOBAL LANDSCAPE**

**WRITTEN TESTIMONY OF DAOUDA SEMBENE**
**DISTINGUISHED NONRESIDENT FELLOW, CENTER FOR GLOBAL DEVELOPMENT**

Let me start by thanking Chairman Himes, Ranking Member Barr, and distinguished members of the House Financial Services Subcommittee on National Security, International Development, and Monetary Policy, for inviting me to speak at this hearing on "The Role of the International Monetary Fund in a Changing Global Landscape."

My name is Daouda Sembene and I am a Distinguished Nonresident Fellow at the Center for Global Development. I am also the founder and CEO of AFRICATALYST, a global development advisory based in Africa. I previously spent most of my professional career at the International Monetary Fund, where I ultimately served as Executive Director representing 23 African countries on its executive board. During my tenure, I chaired the statutory board committee which is responsible for strengthening collaboration between the IMF and other international institutions, notably the World Bank Group, the United Nations, and WTO.

I am pleased to share with you this testimony, building on my personal experience and available evidence on the future of the IMF. I plan to center my remarks around the following messages:

- First, the IMF should play a central role in efforts to address global challenges such as climate change and pandemics, as part of its mandate of promoting global financial stability. In doing so, it should put a special focus on the world's most vulnerable countries where it can make the most difference.
- Second, the IMF need to adapt its business model and policies and better leverage partnerships with other multilateral institutions to be more effective amid an evolving landscape.
- Third, successfull IMF engagement with member countries hinges on timely support from its major shareholders, particularly the US. But it also requires holding IMF leadership accountable for institutional performance.

## 1. Addressing global challenges

The COVID-19 pandemic and the climate crisis illustrate the growing extent to which the stability of the global financial system is vulnerable to new types of threats such as public health emergencies and natural disasters. In my view, such global shocks—just to name a few—are among the biggest challenges facing the IMF in coming years and they warrant a greater role for the institution in the provision of global public goods.

How the IMF responded to the pandemic? Should it have attached more conditions to its emergency loans? Was the issuance of special drawing rights (SDRs) the right course of action amid the crisis? These are fair and legitimate questions we can and should debate.

But we should admit that answers to these questions are likely to be overshadowed by the uncertainty over the counterfactual situation. What would have happened if the institution didn't quickly pull the trigger. Would liquidity shortages have translated into more solvency crises, leading more countries to default on their debt? Hard to tell.

Personally, I felt that the IMF did a great job of making additional liquidity available to its member countries. Since the crisis hit in 2020, new concessional commitments of about $ 9 billion were made by the IMF, including over $6 billion to Africa. In total, the IMF approved over 25 billion in emergency financing for Sub-Saharan Africa. This effort was unprecedented in the history of the institution.

But we need to put IMF support for developing countries into perspective. During the same period, total financial assistance extended by the IMF totaled about US$ 170 billion. Overall, the IMF made about $250 billion, a quarter of its $1 trillion lending capacity, available to member countries under its various lending facilities and debt service relief.

Moreover, by promptly acting as it did to support countries' efforts to respond to the pandemic crisis, the IMF has fulfilled part of its mandate which is to act as a lender of resort. At the onset of the crisis, access of African low- and middle-income countries to global financial markets was cut off, thus further reducing their already limited menu of financing options.

So, I think that the IMF's response was consistent with its remit and should be the norm, not the exception, in terms of crisis support for vulnerable low- and middle-income countries.

### Preventing the economic disruptions of global poverty

A key responsibility of the IMF is to promote global financial stability and monetary cooperation. But the main purposes of the IMF, as defined under its Articles of Agreement, also include the need for the institution "to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members". The IMF has therefore a clear mandate to use its lending toolkit to help reduce global poverty and it has strived to fulfill this responsibility with mixed outcomes.

Paradoxically, IMF concessional lending in the pre-pandemic era has typically been quite limited compared to the extensive needs of developing countries. Its concessional window could only support, on a self-sustaining basis, an annual lending envelope of SDR 1.25 billion (about US$1.7 billion).[1] Still, the IMF continues to face persistent questions over whether it should act as an "aid agency" or a "development institution".

But to me the real question is more practical than ideological: it is how the IMF should act in an effective and timely manner, and in line with own mandate, to help address global poverty issues and avert their potential to undermine the international response to the global shocks like those I previously identified.

We are still witnessing how financing constraints and capacity weaknesses in the developing world pose a risk to the end of pandemic crisis and timely implementation of the Paris Agreement. The simple truth is that these global shocks cannot be sustainably overcome unless global development challenges that amplify them are concomitantly and forcefully addressed. And it makes natural sense to sustain the IMF contribution to these efforts, notably in terms of financial and technical assistance and/or policy advice.

Incidentally, it is worth noting that the IMF has long been involved in efforts by the international community to address priority issues that were presumably outside its core areas of competence. These include inequality, gender, climate change, corruption, digitalization, and Fintech. For instance, the executive board unanimously endorsed in April 2018 a framework for enhanced IMF engagement on governance and corruption Issues. The IMF's analytical work on gender has become a reference in the economic literature.

On the surface, these issues may be theoretically outside the IMF's core mandate but cannot be ignored by the institution because of their implications for economic and financial stability. So instead of eluding them, it makes more sense for the IMF to address them based on its own expertise, while building on the relevant expertise from other multilaterals.

It is worth noting that there are several ways the IMF can support the global development agenda without extending loans or issuing SDRs. These include developing technical and institutional capacities, supporting AML/CFT initiatives, monitoring risks to the economic outlook, and providing policy advice.

## 2. Institutional Reforms and Partnerships

What made the IMF continuously relevant since its inception was its ability to adjust to a new role and adapt to evolving circumstances and needs across its membership. This was the case in

[1] This traditionally limited IMF exposure is predicated on the notion that its loans are primarily meant to catalyze efforts to mobilize additional support from development partners.

1971 when the Bretton Woods system collapsed following President Nixon's announcement of the suspension of the dollar's convertibility into gold.

This was also the case as the world continued to change afterward, notably with the combined effects of many developments, including the fourth industrial revolution and the 2008 global financial crisis.

Now we can expect the current pandemic to represent another inflexion point that warrants a new role for the IMF in support of global efforts to facilitate the delivery of essential global public goods.

Going forward, there is a continuous need for the IMF to adapt its business model and policies to the needs and circumstances of member countries. The IMF business model has been found to be inconsistent with the specific needs of some countries. For instance, evidence reported by the IMF watchdog—the Independent Evaluation Office—suggests that the institution provided a useful contribution in countries in fragile and conflict situations by promoting macroeconomic stability, catalyzing donor support, and strengthening institutions. Yet, some aspects of its business model were found ill-suited for these countries, including the short-term focus of the IMF's financial toolkit and the quota-based access policies.

Let me now discuss a number of necessary IMF policy changes in no particular order of importance.

**Greater IMF role in the provision of global public goods**

Given the need for a greater IMF role in the provision of global public goods, I welcome the ongoing efforts by the institution to establish a $50-billion trust fund—the Resilience and Sustainability Trust—to help most vulnerable countries address longer-term structural challenges that entail significant macroeconomic risks to resilience and sustainability, including climate change, pandemic preparedness, and digitalization.

Clearly, the IMF alone will hardly be able to pull this off given its limited expertise on assessing climate risks. So, the reassurances provided by its management about the ongoing close collaboration maintained with the World Bank in the process of designing the RST are much welcome.

Personally, I am a firm believer that the IMF need to develop closer partnerships with other MDBs and regional development banks to better leverage existing SDRs. From my experience as a former chair of the IMF board committee in charge of collaboration with other multilateral institutions, I can tell you that such partnerships will not be concluded nor can they be sustained unless the heads of these institutions receive a strong mandate from their respective memberships and are held accountable for their performance on this front under a formal collaboration framework.

The IMF can play a constructive role in helping its vulnerable members address the challenges of climate change and public health emergencies by implementing sound and appropriate monetary and fiscal policy responses. But this will require strong country ownership of IMF-supported programs.

At the same time, IMF support should be tailored to the specific nature of these global public goods. When a country embarks on a program relationship with the IMF to build resilience to climate and public health shocks, it does so out of self-interest to achieve its own domestic goals. Nevertheless, its actions will also benefit the global community by securing progress toward global goals in these areas. As a result, RST financing should be extended to eligible vulnerable countries on highly concessional terms, notably through longer maturities and very low interest rates.

**SDR reallocations**

In August 2021, the IMF Board of Governors approved a general allocation of Special Drawing Rights (SDRs) equivalent to US$650 billion, which is the largest SDR allocation in the history of the IMF. Of this allocation, Africa received about US$33 billion. These resources significantly boosted official reserves and provided governments across the continent with potential additional financing to help achieve domestic priorities amid the pandemic crisis.

But the irony with the allocation of these SDRs is that countries that needed them most received the least, while those that did not need them secured the most. G7 and G20 countries secured about 280 billion and 440 billion worth of new SDRs, respectively.

Within Africa low-income countries secured about $6.5 billion, which is equivalent to 1 percent of the general allocations to IMF member countries and a bit less than 20 percent of the total amount allocated to Africa's 54 countries. The SDR allocation was welcomed in these countries. But the proceeds paled in comparison with their current financing needs. The IMF estimates that Africa's additional financing needs for COVID response will total about $285 billion through 2025, including $135 billion for low-income countries.

Over time, there is scope for thinking about ways to either make necessary adjustments to allocation rules to produce better outcomes or use more targeted SDR issuances for the benefit of countries in need. But in the immediate term, it is imperative to quickly fulfill the G20 pledge to mobilize $100 billion of voluntary SDR contributions for countries most in need.

**IMF access policies**

At the onset of the COVID-19 crisis, eighteen leaders of African and European countries and institutions jointly called for the IMF and other multilateral and regional institutions to "revisit access policies and quota limitations so that low-income countries can fully benefit from their support."

I fully share this view. In an CGD policy paper that I published last year, I urged the IMF to mobilize additional resources for its concessional window so that it can sustain, at least until full crisis recovery, the level of new concessional commitments that were made in 2020. I also called on the IMF to revisit its internal rules so that eligible African countries with sound debt indicators could potentially enjoy greater access to its nonconcessional funding in the event available concessional resources remains insufficient to close their external financing gap. Although access to nonconcessional resources is relatively more expensive, the reality is that such IMF lending is still generally associated with more favorable terms than many other loans currently available to these countries, including from global financial markets.

We should remember that when low-income countries' access to resources from the IMF and other multilateral lenders is inadequate, they usually have no other choice but to seek alternative—and oftentimes more expensive—financing sources. In many cases, this is often the price to pay to provide vital basic services to their population, preserve social cohesion, while addressing the severe security threats facing them.

**Adjustment, Financing and Growth**

Periodic reviews of IMF policies have led to marked improvements in the design of IMF-supported programs. I believe that there have been conscious efforts at the IMF to avoid *excessive* austerity. A recent report of the IMF watchdog concludes that there is no consistent bias towards excessive austerity in IMF-supported programs. The need to address the social and distributional consequences of adjustment has also been a recurrent theme in IMF board discussions.

But there is still evidence that the strength of fiscal consolidation requirements vary depending on the types of programs—that is concessional vs nonconcessional arrangements. In addition, IMF staff need to do a better job of assessing the implications of fiscal adjustment for growth. For instance, there are indications that IMF staff underestimated the negative growth impact in specific circumstances that increase the size of the multiplier, notably in weak economies and countries with fixed exchange rate regimes where the scope for using offsetting monetary or ER policy is limited.

To optimize the growth impact of adjustment, I believe that it is critical for the IMF to closely work with borrowing countries to:

- Ensure full country ownership of the adjustment and growth strategy;
- Better tailor the composition and pace of adjustment path to country specific circumstances;
- Optimize the growth payoffs of structural reforms;
- Better understand, monitor and address the social and distributional consequences of adjustment.

My sense is IMF's response to economic crises has evolved over time. Although IMF programs typically build on a mix of financing and adjustment, it seems to me that there was a tendency to rely disproportionately on adjustment during earlier crises. By contrast, there has been greater reliance on financing during recent crises, notably the COVID-19 pandemic.

## 3. The Role of the United States

Recent global trends pose several potential threats to an even and sustainable COVID-19 recovery and the stability of the global financial system, including increasing global poverty, rising inequality, growing debt vulnerabilities, the increasing prevalence of natural disasters and frequency of public health emergencies. For the IMF to be effective in helping overcome these threats, effective and timely from the US will be critical.

Let me give you a couple of examples.

**SDR reallocation:**

In the immediate future, the United States should play a leading role in ensuring prompt implementation of the G20 plan to recycle excess SDRs for the benefit of vulnerable countries. As recently noted by my former IMF board colleagues Meg Lundsager and Mark Sobel, the US Congress secure prompt approval of the Treasury's budget request to relend 15bn SDR, in addition to other possible resources for LIC support.

Time has come for the IMF membership to explore ways to innovatively use its toolkit to address global challenges, while building on its expertise and leveraging partnerships with other multilateral institutions, including MDBs. For instance, there is ample room for optimizing the impact of existing SDRs, while preserving their reserve asset characteristics. This includes not only strengthening global health security and supporting climate action, but also reducing debt vulnerabilities, particularly in emerging market and developing economies. This will require securing the 85 percent majority of the total voting power, putting the burden primarily on the United States and large shareholders. The US should also lead efforts to ensure that recycled SDRs are not exclusively used for IMF lending purposes. There is also merit in exploring ways to rechannel these resources through selected MDBs and regional banks such as the World Bank and the AfDB.

**Debt vulnerabilities:**

The COVID-19 pandemic has exacerbated existing debt vulnerabilities around the world, leading global debt to achieve record levels. In low-income countries, the World Bank estimates that debt rose 12%, reaching a record $860 billion in 2020, largely as a result of stimulus packages implemented at the onset of the pandemic.

Going forward, developing economies will continue to underperform their pre-pandemic levels due to inadequate access to vaccines and limited fiscal space. At the same time, output in advanced economies is on-track to reach its pre-pandemic trends as soon as next year.

In this context, the IMF and the World Bank played a welcome role in the formulation and implementation of the DSSI at the onset of the crisis. Since it took effect on May 1, 2020, the DSSI delivered more than $10.3 billion in relief to more than 40 eligible countries, including 32 African countries. Now that the DSSI has expired, liquidity-constrained and debt-distressed countries are currently left with no possibility of temporary debt relief.

The G20 Common Framework for debt treatment beyond the DSSI raised hope in many countries bending under the burden of debt, including the three countries that have already applied for it. But it has not yet delivered and will not reach its objectives so long as its current shortcomings are forcefully addressed. As suggested by the IMF and the World Bank, these include the lack of clarity on the different steps and timelines involving the process and on the methodological approach for assessing comparability of treatment. There will be limited incentives—if any—for any country to apply for it so long as it has not successfully dealt with at least one of the three cases at hand. Other eligible countries will think twice before applying given the potential risks of ratings downgrades and adverse market reaction.

So addressing these challenges will require an inclusive approach involving borrowers and both official and private creditors, all of whom stand to benefit from timely and effective debt restructuring. This begs the questions about what role the IMF should play in implementing G-20 common framework debt relief initiatives.

In my view, the IMF should engage both borrowers and creditors to ensure greater debt transparency. This is not only a requirement for adequate and reliable debt sustainability analyses, but also a critical prerequisite for any successful debt restructuring processes. Transparency in the debt restructuring process is critical to anchor expectations of participating actors and this role should be fulfilled by an independent party such as the IMF.

It is also the IMF responsibility to support efforts to ensure full participation and equitable treatment of creditors in the context of debt restructuring talks.

But time is of the essence. And the United States, China, and other G20 members should work collaboratively with borrowers, the IMF and all concerned stakeholders to quickly put in place realistic and workable debt restructuring mechanisms that produce fair debt treatments across bilateral, multilateral, and private creditors, while decisively helping countries in debt distress restore debt sustainability.

**The Critical Role of the IMF and How to Make it More Effective in the Post-Pandemic World**

**J. E. Stiglitz**[1]

It is a pleasure to be here to address you on an issue that is critical to the United States and to the world.

We all know the importance of global financial stability. We cannot have a robust American economy and a strong global economy in a world of financial instability.[2] The 2008 global financial crisis illustrated how easily global instabilities can move from one country to another, and how grave the consequences can be. These are issues that can best—and in some cases can only—be addressed multilaterally, in particular through the IMF. And it is appropriate that they be addressed multilaterally because global financial stability is a global public good that needs to be tackled through global collective action.

This is especially important now, as the world faces a multiplicity of risks: the pandemic and its economic aftermath; the climate crisis; and the inequality crisis[3]. Let me make clear that all these crises touch directly on the core mission of the IMF, which is to promote and ensure global macroeconomic and financial stability. It would be a dereliction of responsibility if the IMF were to have paid insufficient attention to these three crises. Indeed, the IMF has responded impressively well to fulfilling its mandate as circumstances have changed.

The consequences of the pandemic should be obvious. The speed and magnitude of the downturn in the US were unprecedented. It would have been an economic and financial disaster if our government had not responded with the force that it did. But the economic and financial consequences in some other countries have been even greater, and most did not and do not have the resources with which to respond as effectively. The result is that in many places the magnitude and impact of the downturn is far greater.

Moreover, even though their responses were more limited, debt has grown enormously in these countries, both because tax revenues plummeted as GDP declined and because expenditures on health and social protections had to increase. Many in the developing world and emerging markets have had to pay high interest rates even when the T-bill rate is near zero. There is a growing concern that rising interest rates combined with high levels of debt could precipitate debt as well as balance-of-payments crises. The concern is exacerbated for oil-importing countries by the increased price of oil. This crisis would be much harder to manage, with possibly greater global repercussions than earlier such crises.

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[1] University Professor, Columbia University. Testimony prepared for presentation to the U.S. House Committee on Financial Services, February 17, 2022.

[2] The importance of what happens in the rest of the world is highlighted by the fact that the United States lost over 2 million export-related jobs from January 2020 to May 2021 from a global loss of demand. Cashman, Kevin. "Special Drawing Rights Could Help Recover Millions of Export-Related US Jobs, and Create Even More." Center for Economic and Policy Research, August 2, 2021. https://cepr.net/report/special-drawing-rights-could-help-recover-millions-of-export-related-us-jobs-and-create-even-more/.

[3] "The Pandemic and the Economic Crisis: A Global Agenda for Urgent Action." Interim Report on the Global Response to the Pandemic by the Commission on Global Economic Transformation. Institute for New Economic Thinking, March 11, 2021. https://www.ineteconomics.org/uploads/papers/INET-Commission-Interim-Report.pdf.

Over the intermediate term, the consequences of the climate crisis could be even greater. In 2008, we saw what could happen to global financial markets as a result of the mispricing of the US mortgage market. It is clear that there is a significant risk of a mispricing of a much greater part of the global asset base, both fossil fuels and real estate. The correlated risks would be hard to contain.

The inequality crisis too has macroeconomic and financial consequences. The growth in inequality has depressed global aggregate demand,[4] and has adverse effects on economic performance of a kind that are at the center of the Fund's mandate.

Obviously, there are no simple solutions to the multiplicity of challenges facing the global financial and economic system today. Still, what the IMF can and should do for international financial stability and shared economic prosperity is vital. In the remaining time I would like to call attention to a few areas.

First, the $650 billion issuance of Special Drawing Rights was of extraordinary importance.[5] I am pleased that several of the advanced countries that did not need these funds agreed to recycle them to those that did (some desperately), including through the proposed Resilience and Sustainable Trust for low-income and vulnerable middle-income countries. I hope more countries will do this, and that the final design of the RST will enable *all* developing countries and emerging markets to get access to sufficient funds at reasonable terms and without counterproductive and stiff conditionalities.

It is important that there be more issuances of Special Drawing Rights, and not just in response to emergencies such as pandemics. SDRs can be an important tool for sustaining global aggregate demand during periods when global demand is insufficient.[6] The international community has made a commitment to help developing countries and emerging markets make the green transition. We won't achieve the internationally recognized goals without the efforts of all countries, and such financial assistance is absolutely essential. Yet the advanced countries have not yet fulfilled their promise of $100 billion, an amount that by itself is insufficient. An annual emission of $200 to $300 billion of SDR's would be a reliable way to achieve our climate commitments in a world of budget stringency. I must emphasize that issuances of SDRs do not cost the US government anything, either in present or future costs.

Second, as I noted above, many countries will need to restructure their debt, or at the very least obtain debt stays. Every country has a bankruptcy law to facilitate debt restructuring; yet there is no international framework, even though cross-border debt restructuring is more difficult than within-country debt restructuring. It is imperative that we work to create such a framework. As the IMF has recognized, the Common Framework for Debt Restructuring has not been functioning as well as had

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[4] "Report of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System." United Nations, September 21, 2009. https://www.un.org/en/ga/econcrisissummit/docs/FinalReport_CoE.pdf.

[5] In footnote 2 we noted the importance of the strength of our trading partners' economies for our economy; SDR's, by helping to strengthen the global economy including and especially the less developed countries and emerging markets, help to create export jobs here and to strengthen the American economy.

[6] See, e.g., Greenwald, Bruce C., and J. E. Stiglitz. "A Modest Proposal for International Monetary Reform." In *Time for a Visible Hand: Lessons from the 2008 World Financial Crisis*, edited by Stephany Griffith-Jones, José Antonio Ocampo, and J. E. Stiglitz, 314–44. The Initiative for Policy Dialogue Series. Oxford: Oxford University Press, 2010; and Greenwald, Bruce C. and J. E. Stiglitz, "Towards a New Global Reserves System." *Journal of Globalization and Development* 1, no. 2 (2010). https://doi.org/10.2202/1948-1837.1126.

been hoped[7]. The private sector, unfortunately, was not as helpful in the Debt Service Suspension Initiative as it could or should have been.[8] If we are to avoid the too-little-too-late syndrome[9] that has proven so costly, it is imperative that all creditors cooperate.

The Debt Sustainability Analyses, which are the cornerstone of debt restructurings, have to be improved. For instance, there are analyses that don't recognize that making excessive demands on a country will reduce growth.[10] That's one of the reasons that programs based on DSA's that take growth rates and other key variables as exogenous so often go awry.[11]

Third, for many countries facing debt crises, IMF programs can play a helpful, even vital role. But that requires that they be structured appropriately. The question is not about whether conditions should be imposed, but what conditions, and how they should be determined. In the IMF's 2018 loan to Argentina, the failure to impose conditions that money could not be used to finance capital flight was a major mistake and the IMF recognized that. The country now owes more than $40 billion with nothing to show for it. On the other hand, austerity has almost always and everywhere led to economic contraction, worsening government budgets, and more difficulty in repaying what is owed.[12] This was a major and damaging result of the 2018 loan agreement.[13]

In some of its more recent programs, the IMF has shown more sensitivity to what I will call simply, for lack of time, "good economics." That includes ensuring that the burden of economic adjustments do not fall disproportionately on workers or harm the most vulnerable. Most importantly, the preliminary agreement reached between Argentina and the IMF last month allows for economic recovery to

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[7] See Georgieva, Kristalina and Ceyla Pazarbasioglu. "The G20 Common Framework for Debt Treatments Must Be Stepped Up," *IMFBlog*, December 2, 2021. https://blogs.imf.org/2021/12/02/the-g20-common-framework-for-debt-treatments-must-be-stepped-up/.

[8] Among other failings of these initiatives has been the lack of involvement of middle-income countries and the absence of an adequate link to development outcomes.

[9] See, e.g., Guzman, Martin, José Antonio Ocampo, and J. E. Stiglitz, eds. *Too Little, Too Late: The Quest to Resolve Sovereign Debt Crises*. Initiative for Policy Dialogue at Columbia: Challenges in Development and Globalization. New York: Columbia University Press, 2016.

[10] Pablo Gluzmann, Martin Guzman and J. E. Stiglitz, "An Analysis of Puerto Rico's Debt Relief Needs to Restore Debt Sustainability," NBER Working Paper No. 25256, November 2018 provides an example of a more economically sound approach to DSA's. See https://www.nber.org/papers/w25256.pdf.

[11] The IMF has recognized this problem, noting that "Programs...appear to have systematically underestimated the impact of adjustment on growth." It went on to recommend the strengthening of "the discussion and analysis of the impact of program policies on growth, including fiscal multipliers and pay-offs from structural reforms." It also recommended "increase[d] scrutiny of the realism of program baselines. Better calibrate risks, discuss downside scenarios, and development contingency plans." See "2018 Review of Program Design and Conditionality." Policy Paper No. 19/012. International Monetary Fund. Strategy, Policy, & Review Department, May 20, 2019. https://www.imf.org/en/Publications/Policy-Papers/Issues/2019/05/20/2018-Review-of-Program-Design-and-Conditionality-46910. Further improvements could be made through more realism on spending needs, including for meeting climate and SDG targets.

[12] The 2019 IMF Review of Conditionality came out with much the same conclusions, including noting that among the reasons for the systematic overestimate of growth under Fund programs could be that "assumed payoffs from structural reforms were overly optimistic, that staff overestimated confidence effects." Ibid.

[13] See "IMF Executive Board Discusses the Ex-Post Evaluation of Argentina's Exceptional Access Under the 2018 Stand-By Arrangement," International Monetary Fund Communications Department, December 22, 2021, https://www.imf.org/en/News/Articles/2021/12/22/pr21401-argentina for the IMF's own critical evaluation of this program.

continue, rather than be stifled by unnecessary and counter-productive fiscal tightening. Hopefully this reflects a change in IMF policy that will continue in the future.

Fourth, the IMF is to be commended for its new institutional view on capital account management. It is an important step forward. But the Fund needs to go further. Such techniques should not be viewed only as a last resort. They are among the instruments that many countries will need to draw upon in this world of financial instability.

Fifth, unfortunately, the IMF has come to increasingly rely on surcharges on borrowing countries to finance its operations. [14] This is inappropriate and counterproductive. The IMF was supposed to help countries deal with foreign exchange problems. It is now *contributing* to their foreign exchange problems. Helping countries requires putting in place countercyclical policies. The surcharges go in exactly the opposite direction: they are procyclical. And while they are highly burdensome for the countries from which they are extracted, they can and should easily be replaced by other sources of income.

I have focused my remarks on global economic and financial risks and the pivotal role that the IMF plays in addressing them. But I hardly need to remind any of you of the perilous times we live in. With so much turmoil in the world, it is in our interest to strengthen our allies and our friendships. The US plays a critical role at the IMF. We are the only country with veto power. Rightly or wrongly, we will be held accountable for the successes and failures of the IMF. What I shall for shorthand call the "old" IMF won few friends and made many enemies. It was marked by hypocrisy, with the advanced countries, for instance, employing countercyclical policies as they demanded that others engage in procyclical policies.

We live in a different world than we did two or three decades ago, with different geopolitics and geoeconomics. It is imperative that we adapt to these new realities, and that multilateral institutions do as well. It is in our interest that they do. We are lucky that last year the IMF responded to global needs with the largest issuance of Special Drawing Rights in its history, but there are many challenges ahead. I hope my brief remarks will have pointed the way to how they might best be addressed.

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[14] See Stiglitz, J. E. and Kevin P. Gallagher. "IMF Surcharges: A Lose-Lose Policy for Global Recovery." *VoxEU*, February 7, 2022. https://voxeu.org/article/imf-surcharges-lose-lose-policy-global-recovery.

**Questions for the Record**
Hearing: "The Role of the International Monetary Fund in a Changing Global Landscape"
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(Committee on Financial Services)
Rep. Jim Himes

**Climate Change**

1. **Mr. Kenneth Rogoff**, the Swiss Re Institute argues that climate change is the biggest long-term threat to the global economy, and that the world is on its way to losing up to 18% GDP over the next 30 years if no action is taken. Swiss Re's economic stress tests predict that 48 countries could be affected by this, making up 90% of the world's economy. Do you believe that it should be at the very core of the IMF or any financial risk institution to consider risk projections associated with climate change? Furthermore, should the IMF incorporate future risk associated into their underwriting decisions?

**Surcharges**

2. **All Witnesses**, the IMF's role is to provide emergency financial assistance to countries facing balance of payments crises. Surcharges on these loans were originally introduced to increase borrowing requirements and to help ensure timely repayment. However, in recent years, some critics argue that these surcharges have created an unfair burden on a select group of countries, particularly as the world continues to fight the Covid-19 pandemic. The Treasury Department argues that surcharges are not applicable to the poorest borrowers and that surcharge serve an important purpose by creating a barrier for potential losses faced by IMF shareholders. In your opinion, why are surcharges important for the IMF and why might the Treasury Department have opposed their elimination?

*According to the IMF, surcharges are important because they generate the income needed for the institution to accumulate precautionary balances and to discourage large and prolonged use of IMF resources. As such surcharges are meant to support the financial position of the institution and the revolving nature of IMF resources, which might be why some shareholders are reluctant to endorse their elimination. But I see merit in the case made by some critics against surcharges: these are not necessarily needed to discourage protracted use of IMF resources. Moreover, even if surcharges are deemed important for the IMF, I believe that the need for their application should be carefully assessed based on how it affects borrowing countries, especially since they tend to request IMF financial support in last resort at a time when they are typically in economic and financial trouble.*

3. **All Witnesses**, some experts argue that surcharges on IMF loans incentivize governments to boost the strength and reliability of their economies. The result can give private capital investors assurance that governments will avoid economic shocks, increase cyclical consistency, and provide an adequate market environment. Securing this confidence plays a vital role in the longevity of a country's economic stability. If IMF loans were to be void of surcharges, what motivations are there, or could be provided, that will attract private business going forward?

*It is not clear whether surcharges on IMF loans play a direct role in securing investors' confidence in governments' commitment to sound economic policies. I would be curious to learn about any empirical evidence in support of this argument. It seems to me that governments' overall readiness to implement strong policies which is signaled by IMF programs is more likely to boost market confidence and attract private investment. Instead of surcharges, the focus should therefore be on ensuring sound policy formulation and implementation by IMF program countries.*

4. **All Witnesses**, some economists argue that the IMF increasingly relies on surcharges from borrowing countries to finance internal IMF operations. In the wake of the Covid-19 pandemic that required immense spending on personal protective equipment, vaccination distribution, and other health expenditures, do you believe that indefinitely suspending IMF surcharges would be a reasonable ask? Furthermore, do you believe it is possible to suspend IMF surcharges without significantly disrupting internal IMF financial balances?

*The IMF significantly relies on surcharges from borrowing countries to finance its operation. In the wake of the pandemic, the institution provided unprecedented levels of financing to borrowing countries amid increasing demand for IMF assistance. In this context, caution needs to be exercised before* ***indefinitely*** *suspending surcharges without determining beforehand the extent to which this would affect the ability of the institution to respond to loan requests from borrowing countries.*

*Indefinite suspension could also disrupt IMF financial balances unless alternative income sources are identified. In 2020, surcharges were estimated by the IMF to represent about one-third of Its projected operational income.*

*That said, there may be scope for either a* ***temporary*** *suspension or reduction of IMF surcharges which is calibrated so as not to disrupt IMF operations amid the current pandemic. The IMF could also explore how to its policy on surcharges could be applied in a more targeted and flexible manner in line with the specific circumstances of borrowing countries.*

**Debt transparency**

5. **All Witnesses**, The World Bank estimated that the debt of developing countries rose 12%, reaching a record $860 billion, in 2020. In your opinion, how can the IMF improve debt transparency across lender and borrower nations? Similarly, how can the international community support the IMF's attempts to condition lending agreements with regard to a borrowing nation's comprehensive disclosure of Chinese debt?

*To improve debt transparency across creditors and borrowing countries, the IMF should use all its toolkit, notably surveillance, capacity development, and lending. More specifically, it could consider a number of options, including:*

- *Building capacities of borrowing countries, notably in debt reporting*
- *Setting standards for reporting and disseminating public debt data*

- *Enacting changes to its relevant policies, including its Policy on Debt Limits in IMF-supported Programs and its lending into arrears policy.*

*To be effective IMF efforts to improve debt transparency should encompass both creditor and debtor countries and be supported by the international community. IMF lending agreements are generally subject to public debt disclosure requirements which apply to all types of official and private debt, including Chinese debt. The international community can support these efforts by helping the IMF take necessary steps for improving debt transparency, as described above.*

**Others**

6. **Mr. Daouda Sembene**, as you stated, a key responsibility of the IMF is to promote global financial stability and monetary cooperation. Do you believe that the IMF played a political role in past decisions? Likewise, should the IMF attempt to incorporate human rights into its work in the future?

*Internal policies do not allow the IMF to play a political role in member countries. But its decision-making process is not immune to political interference since IMF Board members who play a key role in it tend to align their position with the political interests of their capitals. In addition, IMF work often has implications for domestic politics in borrowing countries.*

*The IMF should aim to incorporate into its work any issues that are macro-critical that is with a potential or actual impact on economic stability. If human rights meet this requirement, then the IMF should attempt to address them in close collaboration with country authorities.*

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**Climate Change**

1. **Mr. Kenneth Rogoff**, the Swiss Re Institute argues that climate change is the biggest long-term threat to the global economy, and that the world is on its way to losing up to 18% GDP over the next 30 years if no action is taken. Swiss Re's economic stress tests predict that 48 countries could be affected by this, making up 90% of the world's economy. Do you believe that it should be at the very core of the IMF or any financial risk institution to consider risk projections associated with climate change? Furthermore, should the IMF incorporate future risk associated into their underwriting decisions?

**Surcharges**

2. **All Witnesses**, the IMF's role is to provide emergency financial assistance to countries facing balance of payments crises. Surcharges on these loans were originally introduced to increase borrowing requirements and to help ensure timely repayment. However, in recent years, some critics argue that these surcharges have created an unfair burden on a select group of countries, particularly as the world continues to fight the Covid-19 pandemic. The Treasury Department argues that surcharges are not applicable to the poorest borrowers and that surcharge serve an important purpose by creating a barrier for potential losses faced by IMF shareholders. In your opinion, why are surcharges important for the IMF and why might the Treasury Department have opposed their elimination?

I believe that the Treasury Department is wrong. Treasury has not provided, I believe, any convincing argument for the surcharges, which are procyclical—just the opposite of what the IMF should be doing, which is enhancing economic stability. Moreover, the IMF is supposed to help countries with foreign exchange difficulties; but the surcharges exacerbate their foreign exchange problem. With the surcharges, the IMF has become part of the problem rather than the solution. The argument about "creating a barrier for potential losses" is specious: There is no connection between the charges and any actuarial estimate of losses; if that were the basis of the charges, all we could say is that the numbers are pulled out of thin air. Treasury has, even after being challenged, never provided a basis for those numbers. Indeed, as testimony at the hearing made clear, given IMF's preferred creditor status, there have been almost no losses.

Even the argument that most of the surcharges are paid by those with middle incomes rather than "the poorest," is of questionable validity. Hundreds of millions of very poor people live in middle-income countries. Two of the largest payers of surcharges are Egypt and Pakistan, which have about 31 million and 67 million people below the poverty line, respectively. And Ukraine, another one of the top five victims of surcharges, can certainly not afford them.

As for "ensuring timely repayment," once again there is no evidence indicating that the surcharges have provided any incentive for this.

3. **All Witnesses**, some experts argue that surcharges on IMF loans incentivize governments to boost the strength and reliability of their economies. The result can give private capital investors assurance that governments will avoid economic shocks, increase cyclical consistency, and provide an adequate market environment. Securing this confidence plays a vital role in the longevity of a country's economic stability. If IMF loans were to be void of surcharges, what motivations are there, or could be provided, that will attract private business going forward?

Governments have ample reason on their own, without surcharges, for advancing an economic agenda that promotes growth and stability—and part of that agenda is attracting growth-enhancing private businesses. I know of no government that contemplated an IMF bailout as part of its economic strategy. Quite the contrary, I know of governments that were excessively risk-averse because of a fear that should things turn out badly, they would have to turn to the IMF—and that was true before surcharges became relevant. If anything, because of their procyclical nature, surcharges add to a country's economic woes, making it less attractive for private capital investors. Today, many of the countries facing a likelihood of paying surcharges includes countries whose economic prospects have been devastated by Covid-19—something that no government "planned" on. Some will be triply penalized—first by the disease, then by the direct economic consequences of the disease, and then by IMF surcharges.

4. **All Witnesses**, some economists argue that the IMF increasingly relies on surcharges from borrowing countries to finance internal IMF operations. In the wake of the Covid-19 pandemic that required immense spending on personal protective equipment, vaccination distribution, and other health expenditures, do you believe that indefinitely suspending IMF surcharges would be a reasonable ask? Furthermore, do you believe it is possible to suspend IMF surcharges without significantly disrupting internal IMF financial balances?

In one sense, the IMF is not really dependent on surcharges: The IMF's lending capacity is currently about $1 trillion. The surcharges bring in about one-thousandth of that – less than $1.3 billion in 2021.

It is only recently that the IMF has become so dependent on surcharges for its operating expenses—and it is projected that it will increasingly become dependent on these surcharges. This is not only unjust, it is a poor business model for the IMF. If surcharges are supposed to be a deterrent against delayed payment, they cannot also be seen as an important source of revenue for the organization. The IMF provides a global public good, and as such, it should be financed like any other global public good, by the entire international community, according to each country's ability to pay. Surcharges do just the opposite: A global public good is being financed by those with the least ability to pay, those who have recently faced a financial or economic crisis and have not yet emerged from the aftermath of that crisis in sufficient health to repay the debt. This makes no economic or moral sense. The imposition of the surcharges should be permanently abandoned.

**Debt transparency**

5. **All Witnesses**, The World Bank estimated that the debt of developing countries rose 12%, reaching a record $860 billion, in 2020. In your opinion, how can the IMF improve debt transparency across lender and borrower nations? Similarly, how can the international community support the IMF's attempts to condition lending agreements with regard to a borrowing nation's comprehensive disclosure of Chinese debt?

I strongly support full transparency of all debt *regardless of source*, including full transparency of transactions that affect the "effective" owner of the debt, that is, a CDS or derivative can transfer the risk of nonpayment of debt from one party to another. These derivatives can play a particularly pernicious role in debt renegotiations, because it may be in the interest of a supposed "owner" of the debt to precipitate a default. This comprehensive transparency would include debt from all lenders in China and elsewhere. By being comprehensive, we avoid having to address the question of whether a particular lender is private or public.

**Others**

6. **Mr. Daouda Sembene**, as you stated, a key responsibility of the IMF is to promote global financial stability and monetary cooperation. Do you believe that the IMF played a political role in past decisions? Likewise, should the IMF attempt to incorporate human rights into its work in the future?

Chairwoman Maxine Waters
**Question for the Record to Professor Joseph E. Stiglitz**

"The Role of the International Monetary Fund in a Changing Global Landscape"
Subcommittee on National Security, International Development and Monetary Policy

Thursday, February 17, 2022

**Public Subsidies for the Private Sector**

Through the Private Sector Window (PSW) of the International Development Association (IDA), the World Bank's fund for the poorest countries, IDA has to date committed up to $6 billion in grants to the World Bank's private sector arm, the International Finance Corporation (IFC), which the IFC uses to provide grant subsidies to private firms selected without competition on the basis of unsolicited proposals. The PSW runs counter to the World Bank's own principles that call for subsidies to be justified, transparent, competitively based, focused on impact, and guarded against rent-seeking opportunities.

- Could you please share your views with us on this issue, on the provision of public subsidies offered to private firms on a non-competitive basis?

**Response from Professor Joseph E. Stiglitz**

Engaging the private sector is an important part of development strategies.

There are multiple market failures, some of which may entail the provision of finance for the private sector, as we do in the US through the SBA.

Obviously, there needs to be transparency and competition in the award of any such funds, and the subsidies, if any, should be kept to a minimum

Of more concern to me is that some of the IFC lending may not have lived up to its own labor and environmental standards

Matters have reportedly gotten worse in the last few years, with the new World Bank leadership and the recent Supreme Court decision suggesting that there may be less accountability than we would have hoped.