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The IMF and U.S. National Interests by Eric Melby

The sight of the Secretary of Defense testifying in January before the House Banking and Financial Services Committee was indicative of the many dimensions to the Asian currency crisis. Secretary Cohen accompanied Treasury Secretary Rubin and Federal Reserve Board Chairman Greenspan to urge that the Congress expeditiously approve increased funding for the International Monetary Fund (IMF). It is an indication of the apparent depth of Congressional unease with what might appear to be a relatively uncontroversial request by the Administration to provide additional resources for the IMF. Most importantly, however, Secretary Cohen's testimony was a striking example of how, especially since the end of the Cold War, economic, foreign and defense policies have become mutually reinforcing threads of our national security fabric.

What does the Administration seek? In January 1997, the U.S. and other key IMF members agreed to set up a new mechanism, the New Agreements to Borrow (NAB), to provide additional resources to deal with financial emergencies such as happened in Mexico in 1994, and is occurring in Asia today. The U.S. share of the $24 billion NAB is $3.5 billion. Separately, in September 1997, the U.S. and other members of the IMF agreed to increase its capital base by 45%, or roughly $90 billion. The U.S. share of this quota increase is $14.5 billion.

Administration officials argue that Congress should approve the funds lest the Asian financial crisis worsen and adversely affect our economic well-being. They also argue that how Congress votes will have a direct impact on important American political and security interests in the region. In addition, other countries are likely to interpret Congressional action on this issue as a clear signal of the role Congress sees for the U.S. in the world – i.e. continued engagement or creeping retrenchment.

Opponents of the Administration's request make two related arguments. First, they reject any obligation for America to take the lead, directly or indirectly through the IMF, in resolving this crisis. They prefer to let the market sort out the winners and losers. Second, they argue that, in any event, the IMF has neither the mandate, institutional competence nor the correct prescriptions for dealing with Asia's current financial problems. Some go so far as to call for the IMF's abolition. What is going on and who is right?

It is important to understand four things. First, the U.S. share of the quota increase and the NAB does not require a budget outlay; it will neither increase the deficit nor take funds from other programs. The Congressional Budget Office has determined that U.S. contributions to the IMF have no budgetary impact. Indeed, when U.S. funds are used by the IMF, the U.S. is given an interest bearing asset in return. As Secretary Rubin has pointed out, U.S. contributions to the IMF over the past fifty years have cost the U.S. taxpayer absolutely nothing.

Second, because of America's leading role in the IMF, other countries are unlikely to fulfill their obligations until the U.S. acts. Thus, delay on our part imposes real costs to the integrity of the international financial system, which, in turn, directly threatens the prosperity and well-being of Americans.

Third, the IMF has a good track record. The IMF has played a critical role in all the important international economic challenges of the recent past, e.g. the recycling of petrodollars in the 1970s, the Latin American debt crisis in the 1980s, economic reform in the former Soviet Union in the 1990s, as well as the Mexican peso crisis. These are clear successes that have been important to U.S. growth. Further, critics should recognize that the IMF has averted many incipient problems through its regular economic surveillance program with individual member countries.

Fourth, and perhaps most important, an international crisis requiring U.S. leadership is bringing to the surface a fundamental issue which has been on the back burner for some time. The end of the Cold War inevitably has raised the question whether the international security and economic institutions key to sustaining the triumphant Western ideals and policies – the North Atlantic Treaty Organization (NATO), the United Nations, the IMF, the World Bank, the General Agreement on Tariffs and Trade (GATT and now the World Trade Organization, WTO) and the regional economic organizations such as the Organization for Economic Cooperation and Development (OECD) -- need a fresh look. Is the institutional status quo appropriate for the new era we are entering or is it time to change the mandate and role of at least some of these institutions?

NATO, the WTO and, to a lesser extent, the U.N. are undergoing significant modification. However, the international financial institutions (IFIs) have, by and large, not received the same attention. Initial efforts to think about their role and mandate in the post-Cold War world did not take root during the previous administrations. Leaders of the major industrialized countries (the G-7) did commit themselves to such a review during the 1993 Naples Economic Summit. But issues such as Iraq, Bosnia, Haiti, China, as well as important domestic matters, have preempted the attention of G-7 leaders. As a result, although most acknowledge that a thorough review of the IFIs is a big, important issue, it has not received commensurate attention from heads of government and senior ministers. This has turned out to be a mistake. The issue is too important, with too many vested interests within member countries and the IFI bureaucracies, to be guided principally by those who administer the institutions.

That said, the middle of a crisis is not a propitious time to start a serious review of the IFIs. Indeed, crises rarely are a good time to formulate long term reform. This is particularly the case when the U.S. is not the only country involved. The lack of serious debate on the proper role of the IFIs now has collided with the need to provide resources for an immediate need. But the Congress should not confuse these two issues. Each needs to be addressed seriously, but separately.

Legitimate issues have been raised about the IMF's role. They deserve serious study in the context of re-examining the role and functions of all the IFIs. It would be appropriate for the Congress to require, and for the Administration to agree to press our G-7 partners for an expeditious, high level G-7 review of the IFIs. IMF Managing Director Camdessus has already laid out an interesting list of measures he believes would enhance the IMF's effectiveness. Meanwhile, the Congress should approve full, unconditional funding for the NAB and the IMF quota increase.

Why should Congress fund the IMF now, without any assurance that the required review will be undertaken, and much less what it will reveal? The answer is that now is not the time for the Congress to take responsibility for putting the brakes on the IMF's credibility and on its ability to act. It is not an exaggeration to say that the credibility of the international financial system, and that of its principal architect – the United States – is at stake at a particularly delicate moment. For better or for worse, financial markets are looking to the IMF, strongly backed by the U.S., to advance solutions to the individual problems of Asian countries. For the Congress to reject a prudent funding request for the IMF – when there is no credible alternative and when doing so creates no bugetary exposure – would be seen as a vote of no confidence in U.S. leadership.

However imperfect, the IMF is the only institution that can lessen contagion between Asian economies and begin to restore confidence in a region which is vital to American growth. There is no next best option that avoids putting American taxpayers and our export-led growth at risk. Confidence is too fragile. Governments in Asia face difficult internal political and social conditions. With increasingly integrated global financial and economic markets, Asia risk is global risk – which not only can but <u>will</u> spread rapidly to Latin America, Eastern Europe and Russia, quickly reaching the manufacturer and worker on America's Main Street.

It would be risky in the extreme to tell Asian countries to work through their problems without the advice and financial support of the IMF and its key members. Should Asia deteriorate further after a negative vote in the Congress, America will not be able to avoid responsibility. To protect important U.S. national security interests in the region, as well as economic prosperity at home, we should do everything possible to avert this.

The crisis in Asia is largely discussed in economic terms. But risks to American interests are not measured in dollars or jobs alone. This is also a political, social and, potentially, a security crisis. Significant political and social dislocation in the region may impede the important work of rebuilding U.S. security ties there. With over 100,000, troops and at least that many American civilian expatriate, and many of billions of dollars of direct investment, we cannot permit the region to be gripped by chaos or even the threat of chaos. That is why the Secretary of Defense was testifying in support of what might seem to be an "economic" proposal.

This crisis is the most serious test of U.S. interest and commitment to Asia since the end of the Vietnam war. Asian leaders will draw their own conclusions about our reliability based on whether and how we respond.

If the United States cannot mobilize the international community through the IMF, then we will be left to deal with Asian economic problems ourselves or suffer the profound consequences of inaction. Either alternative sets America up to fail.

The international community is looking to the U.S. for leadership. The immediate task is to restore confidence while, at the same time, setting a clear course to more open, transparent systems throughout Asia. The Congress can help by providing the IMF with the necessary resources – or it should begin to prepare for the consequences of a lengthy collapse of confidence in Asia.

Eric D.K. Melby is a Senior Fellow at The Forum for International Policy. This article was originally published as a Forum Issue Brief (No. 98-1, 2/26/98).