IMF Members Weigh Options to Sidestep U.S. Congress on Overhaul

Frustrated With Inaction, Some Members Want U.S. to Lose Its Veto Power on Executive Board

By IAN TALLEY
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Balancing Act

The U.S. has yet to ratify a deal to distribute a larger share of International Monetary Fund voting rights to developing nations.

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<thead>
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<th>Advanced economies</th>
<th>Developing/emerging</th>
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<tbody>
<tr>
<td>CURRENT QUOTA SHARE</td>
<td></td>
<td>60.5%</td>
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<tr>
<td>PROPOSED CHANGES</td>
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<td>57.7</td>
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<tr>
<td>CURRENT QUOTA SHARE</td>
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<td>PROPOSED CHANGES</td>
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Biggest gainers (percentage points)
1. China  ▲2.40
2. Brazil ▲0.53
3. South Korea ▲0.39
4. Turkey ▲0.37
5. Mexico ▲0.35

Biggest losers
1. Saudi Arabia ▼0.85
2. Belgium ▼0.59
3. Germany ▼0.52
4. Canada ▼0.36
9. U.S. ▼0.24

Source: IMF    The Wall Street Journal

IMF head Christine Lagarde at the group’s spring meeting Saturday
WASHINGTON—The U.S. would lose its veto power on the International Monetary Fund's executive board under a plan being considered by some emerging economies. The countries are fed up with the United States' failure to ratify a four-year-old deal to restructure the emergency lender.

Some members of the IMF's steering committee indicated at a series of weekend meetings their desire to act now, underscoring the growing discontent abroad about the U.S. Congress's delay in approving an international accord to overhaul governance at the fund.

"The IMF cannot remain paralyzed and postpone its commitments to reform," Brazilian Finance Minister Guido Mantega said in a statement to the IMF's steering committee urging the IMF to sidestep Congress. "Alternatives to move forward with the reforms must be found whilst the major shareholder does not solve its political problems."

Economists warn the IMF's legitimacy is at stake, and they say U.S. standing abroad is being eroded.

The IMF's steering committee said over the weekend the U.S. would have until the end of this year to approve the 2010 IMF restructuring deal before considering any alternatives. "If plan A doesn't work, then we'll worry about plan B," IMF Managing Director Christine Lagarde said Saturday. "But it's currently premature."

The 2010 agreement is designed to double the IMF's general resources to ensure the emergency lender has enough firepower to respond to crises hitting its members. It would update the governing structure—how the IMF's voting power is distributed among members—to reflect a global economy in which emerging markets are now major growth drivers and some European countries have lost their economic might.

Republican lawmakers have opposed ratification of the deal, questioning the Fund's effectiveness and saying the move would erode American authority and undercut U.S. power over IMF lending reserves.

At the same time, Some Republicans have in the past show a willingness to consider the ratification in exchange for domestic political concessions on, for example, new tax rules that govern financing for political groups. The Obama administration hasn't been willing to make such trades. The Obama administration concerns.

"It takes something that's in the core national security interest and it mixes it up with domestic political matters," U.S. Treasury Secretary Jacob Lew said Friday.

The world's top finance officials gathering here this weekend chastised the U.S. in formal policy statements.

"We are deeply disappointed with the continued delay in progressing the IMF quota and governance reforms," the Group of 20 largest economies said in its communiqué.

Ted Truman, a former senior U.S. Treasury official, has proposed one option that would allow the IMF to bypass Washington's lawmakers. But his proposal would force the U.S. Treasury Secretary to relinquish the country's veto power, which requires any major administrative decisions at the IMF to receive U.S. backing.

"No doubt, Secretary Jacob Lew would be roundly criticized by many in Congress and U.S. punditry if he were to embrace Plan B," said Mr. Truman, a senior fellow at the Peterson Institute for International Economics.
It's unclear whether the Obama administration is willing to risk the political consequences or give up the veto power the U.S. holds.

Some analysts say the period after U.S. midterm elections late this year may offer the administration its best chance to get the IMF deal through Congress.

Finance officials warn U.S. inaction won't only undermine U.S. influence, but also create problems for the global financial system.

Singaporean Finance Minister and IMF steering committee chairman Tharman Shanmugaratnam said it could cause "disruptive change" in the global economy.

"We are more likely over time to see a weakening of multilateralism, the emergence of regionalism, bilateralism and other ways of dealing with global problems," he said in a news conference Saturday. That would make the world a "less safe" place, he said.

Bank of Mexico Governor Agustín Carstens, a member of the G-20, said IMF members should wait for the U.S. instead of sidestepping it.

"Certainly we would all have liked to make progress on this issue at a quicker pace, but at the same time, we need to be patient," he said in an interview. "I don't think that it's up to us to interfere with the political process in the U.S."

Still, the more the IMF's credibility as an institution erodes, the more countries around the globe will rely less on the IMF and more on alternative financing arrangements. "Accumulating reserves is certainly a consequence of having in doubt the capacity of the fund," Mr. Carstens said.

Building up foreign-exchange stockpiles to guard against financial crises instead of relying on the IMF puts upward pressure on the exchange rates of other countries, including the U.S. dollar.

Write to Ian Talley at ian.talley@wsj.com