memo

To: Bill Wilson

From: Robert Romano

CC: Rick Manning

Date: 3/7/2012

Re: Washington Post makes Euro systemic risk argument on IMF $108 billion rescission

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Comments: Just as we predicted, now that momentum is building for Rep. Cathy McMorris Rodgers' legislation rescinding the additional $108 billion the Pelosi-Reid Congress gave the IMF in 2009, the mainstream media is beginning with its dire predictions of fallout, financial crisis, and Armageddon.

The Washington Post at http://www.washingtonpost.com/business/economy/as-imf-stumps-for-funds-a-republican-backlash-brews-over-europe/2012/03/06/gIQAbj7VvR_story.html reports today the legislation "could restrict the IMF's finances at a time when agency officials say they need a substantial boost to protect the world economy."

In short, we're beginning to be treated to the same dire warnings of financial calamity that predated the TARP bailouts. Those scare tactics were critical in congressional Republicans folding on the bailout issue.

The mere fact that the Washington Post had two major IMF stories run two days in a row shows that they too are taking the McMorris Rodgers legislation quite seriously. ALG and McMorris Rodgers' office moving this legislation have raised the consciousness on the IMF bailout of Europe sufficiently that is now top of fold in the Washington Post.

We need to counter the "systemic risk" myth with everything we've got.

Americans For
Limited Government

9900 Main Street Suite 303 · Fairfax, VA 22031 · Phone: 703.383.0880 · Fax: 703.383.5288 · WWW.GETLIBERTY.ORG

Memo

To: Rep. Cathy McMorris Rodgers; ALG President Bill Wilson

From: Robert Romano; Richard Manning

Date: Updated 3/7/2012

Re: Rescinding U.S. $100 bil. credit line, $8 bil. of quota from IMF

Would rescinding U.S. $100 billion credit line, $8 billion of quota from the IMF crash the world financial system?

HR 2313 will rescind what remains of the United States' $100 billion New Arrangements to Borrow (NAB) and $8 billion of its $64 billion quota from the International Monetary Fund (IMF). Some critics have charged that if this bill becomes law, it would exacerbate the current sovereign debt crisis in Europe, endangering the wider global financial system.

What will happen if the U.S. rescinded this $108 bil. from the IMF? Would the global financial system crash? That is answered by whether or not the IMF would have enough funding to meet its obligations.

Current lending arrangements

To date, the IMF has lent €78.5 bil. to Greece, Portugal, and Ireland to cope with the sovereign debt crisis, €30 bil. of which went to Greece.

On March 13, the IMF will meet to decide what portion of the latest European Financial Stability Facility (EFSF), European Central Bank (ECB), and IMF €130 bil. bailout it will fund.

The IMF has resources totaling $829 billion[1], according to its balance sheet, of which it has committed about $257.29 bil. according to the Fund[2]. Of that, $142.93 bil. has actually been lent[3]. It has about $422 bil. left in its war chest, or about €320 bil.

This has only resulted in about $22 bil. of the U.S. $64 bil. quota being used, and $7.2 bil. of the $100 bil. NAB being used, or about 20.4 percent of current IMF lending at present. Note the distinction between the amount the IMF has committed, and how much has already been lent — U.S. funds already in use are those that have been actively lent.

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1 http://www.imf.org/external/np/tre/liquid/2011/1211.htm
2 http://www.imf.org/external/np/fin/tad/extarr11.aspx?memberKey1=ZZZZ&date1key=2012-01-31
3 http://www.imf.org/external/np/fin/tad/extcred1.aspx

IMF has more than enough to take care of Greece if needed

Even if the U.S. were to rescind what remains of the $100 bil. of NAB and the $8 bil. additional quota from the IMF war chest, the IMF would still have about $314 bil., or €238 bil. left to lend to whomever it pleases.

That means even if the EFSF and ECB did not provide one cent of the additional €130 bil. bailout to Greece, the IMF, even without the U.S. $100 bil. NAB and $8 billion quota, could still afford to pay for second half of the Greek bailout with existing resources with money to spare. Nor will this bill take the U.S. out of the IMF, which would retain its $56 bil. quota .

What about Spain and Italy?

Additional concerns might be raised that reducing the U.S. role in the IMF might undermine the Fund's ability to act to help Italy or Spain if the crisis should worsen. But IMF director Christine Lagarde has already said the IMF cannot help those countries with its existing resources anyway.

Speaking in Berlin on Jan. 23, Lagarde said, existing bailouts by Europe and the IMF[4] "form pieces, but pieces only, of a comprehensive solution."

If Spain and Italy enter the equation, said Lagarde, all bets are off, saying a "larger firewall" was needed. Without it, Italy and Spain "could potentially be forced into a solvency crisis by abnormal financing costs."

"I am convinced that we must step up the Fund's lending capacity," Lagarde declared, adding, "The goal here is to supplement the resources Europe will be putting on the table, but also to meet the needs of 'innocent bystanders' infected by contagion, anywhere in the world. A global world needs global firewalls."

Saying the world's financing shortfall "[i]n the coming years" could be as much as $1 trillion, the IMF chief actually proposed a dramatic expansion of her agency. "To play its part, the IMF would aim to raise up to $500 billion in additional lending resources," she said, alluding to a proposal already on the table to double the Fund's current quotas. That includes doubling the United States' current quota in the Fund to $130 billion.

Rescinding $108 billion will not cause a collapse

If Italy and Spain turn to the IMF for bailouts, it will not be because the U.S. rescinded its $108 bil., but because of exterior events beyond the IMF's control. Even the additional $500 billion Lagarde is requesting would nowhere near cover the combined debts of Portugal, Italy, Ireland, Greece, and Spain (PIIGS) — **which total more than €3 trillion**.

The IMF could not bail out **all** of Europe if it wanted to. It was never designed to be used by advanced economies in the first place. If it comes to the point where Italy and Spain are coming to the IMF of all places for money, U.S. taxpayers are better off saving their $108 bil., because that will hardly make the difference. Europe would be faced with its worst nightmare: the likelihood of a continent-wide default.

At that point, the solution would shift from EFSF-ECB-IMF bailouts to an orderly breakup of the Euro system. By then, our $108 bil. will be quite irrelevant.

[4] http://www.imf.org/external/np/speeches/2012/012312.htm

The Washington Post

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As IMF stumps for funds, a Republican backlash brews over Europe

By Howard Schneider, Published: March 6

In the wake of the 2008 financial crisis, the Obama administration helped negotiate a plan to give emerging economic powers increased say at the International Monetary Fund, while also having them contribute more to an enlarged pot of money for the fund.

But a brewing election year fight with congressional Republicans has put that plan in doubt and could restrict the IMF's finances at a time when agency officials say they need a substantial boost to protect the world economy.

The dispute centers on Republican opposition to increasing the United States' financial contributions to the agency, reflecting anger over IMF rescue programs in Europe that some GOP lawmakers argue have become too expensive and have put U.S. taxpayers at risk.

The cost to the United States of the European rescue programs is debatable. Some of the money provided to the IMF is in the form of loans on which the United States earns interest.

Still, opposition is growing to a permanent increase in U.S. government support for the IMF, as well as to a $100 billion credit line the United States provided in 2009 as part of an international move to help the IMF respond to the global financial crisis.

The IMF has been dipping into that credit line for emergency loans to Portugal and elsewhere, and opponents have taken note.

"I worry that the size of the IMF's loans and the difficulty of ensuring adequate reform among countries participating in the IMF's lending arrangements only increases the risk of default," Rep. Cathy McMorris Rodgers (R-Wash.) said in a letter Tuesday to Treasury Secretary Timothy F. Geithner.

"I would like to hear them make the case," that a quota increase is needed, Rodgers said in an interview, citing her concerns about the U.S. debt. "The idea that we are borrowing . . . to help fund the European bailouts raises a lot of questions."

Emergency programs in Greece, Portugal and Ireland are among the IMF's largest ever, and the concentration of lending in one region — particularly a wealthy one such as Europe — has been controversial within the agency itself.

Administration officials, trying to navigate the nation's own deficit problems and the politics of an election year, has yet to say when they plan to send needed legislation to Congress. Planned changes at the IMF, which would shift seats on the fund's governing board from Europe to the developing world, cannot proceed without congressional approval. For practical purposes, neither can a related doubling, from $370 billion to $740 billion, in the total permanent contribution that IMF members make to support the agency.

The individual contribution, or quota, assigned to each country is linked to its economic size and determine its voting clout in the fund. The current U.S. quota is $65 billion, the largest of any IMF member and enough to give it an effective veto over some major issues.

"We are still assessing our legislative options and have not yet decided when to submit legislation," said a Treasury official, who was not authorized to speak for the record.

The potential for a stalemate over the issue in the United States has the IMF and other international officials worried that it could put broader agency reform efforts at risk.

IMF officials say that to backstop the global economy they need about $500 billion in addition to the increase in permanent contributions.

IMF officials had hoped the permanent increase would be approved at the fund's annual meetings this fall.

The uncertainty over U.S. approval is "messing with an institution you need to believe in," said Lourdes Aranda, Mexican vice minister of foreign affairs. Mexico chairs the Group of 20 top economic powers, and Aranda is coordinating the organization's upcoming meetings. Support for the IMF looks to be a central issue at the meetings.

Aranda, in an interview in Washington this week, said it was important for the IMF to build a large base of "firepower," partly because it has become more flexible in how its funds are deployed.

Some of its newer programs, for example, help countries by setting up credit lines, with Mexico a case in point. No money has changed hands, "but for our markets, just knowing the credit line is there is important," Aranda said.

In fact, much of the justification given for the IMF's fundraising drive is precautionary: the bigger the pool of money available to fight a crisis, IMF officials argue, the less markets are likely to worry about or cause financial "contagion," and the less likely the money itself gets used.

Still, when a credit line or other precautionary program is established, the money has to be available and set aside on the fund's books so it is ready if needed.

The IMF has about $400 billion in uncommitted funds, though much of that is through the bilateral credit lines set up by the United States and other countries in response to the financial crisis. The money available from quotas — essentially the fund's membership dues and a core part of its legitimacy as an international institution — has basically been exhausted.