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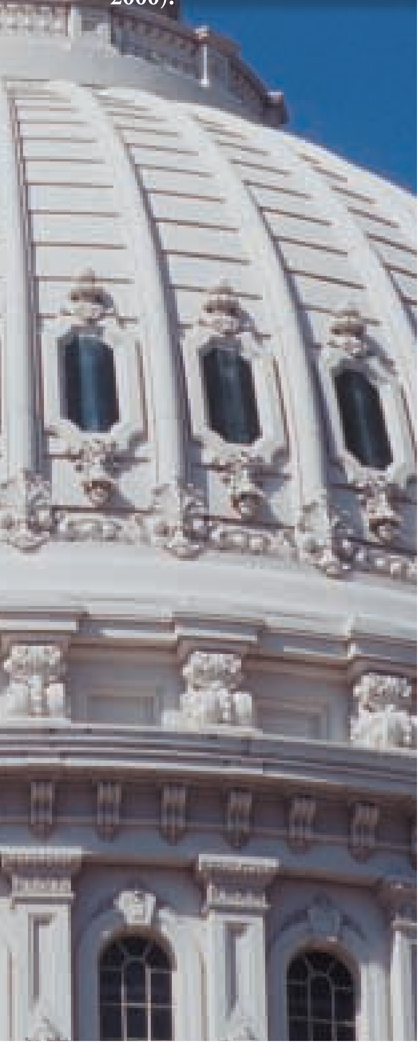

Funding the IMF
The Debate in the U.S. Congress

It has been said that the U.S. Congress works in mysterious ways. During the 1997–98 debate on increasing funding for the IMF, some supporters of the IMF viewed the increasingly intense debate with foreboding. Even some knowledgeable insiders believed that opponents of the quota increase were getting the upper hand. So how was it that full funding was ultimately approved?

Mary Locke

WAS THE OUTCOME of the debate over funding the IMF a combination of mystery, madness, and the dog that didn't bark—a tale worthy of Sherlock Holmes? Or was it the textbook example of legislatures at work—debate and deliberation ending in compromise and resolution? Interviews with key observers and top-level congressional staff, including opponents and supporters from both political parties and both houses of Congress, tell a story probably simpler than a Sherlock Holmes mystery but decidedly more complicated than any textbook.

The IMF's unique situation

Most money bills come to the U.S. Congress for approval annually, but, although IMF quotas are reviewed regularly, an increase is agreed only when there is a clear need for it. For example, the most recent quota increase was proposed in January 1998 but only became effective in January 1999. Congressional inquiries in the years between quota reviews are neither systematic nor frequent, as members of Congress tend to focus their legislative and oversight work on policies and questions that need immediate attention. Turnover of staff, and even of members, is also quite high. Some 60 percent of the seats in the House of Representatives and some 40 percent in the Senate had turned over since the last debate on a quota increase in 1992. So it should have come as no surprise that the institutional memory of the IMF's purposes and policies was modest when the congressional debate began.

Complicating the environment for a debate on the IMF is the fact that quota increases tend to be requested at times of international financial crises because that is exactly when they are needed. In 1982–83, the background to the Eighth General Review of Quotas was the international debt crisis. The breakup of

Note: The periodic IMF quota increase exercises take place outside the U.S. budgetary process, and the money contributed to the IMF by a member remains part of that country's reserves. In these ways, the quota increase authorization differs from the standard foreign aid authorization and appropriation procedures.

the former Soviet Union into its constituent republics strongly influenced the 1992 debate on the ninth general review. In the case of the most recent increase, the emergency started in 1997 in Thailand with the collapse of the baht and soon spread to Indonesia, Korea, and elsewhere. In August 1998, Russia added to the sense of crisis when it defaulted only one month after negotiating an $11 billion augmentation of its program with the IMF. The merits of the quota increase and the ups and downs of the crisis inevitably became intertwined as members of Congress watched what impact IMF-supported remedies would have in an uncertain situation.

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Trends in Congress

IMF funding, though unique in several ways, has shared the same experience as a number of other foreign policy issues brought before the U.S. Congress. It was affected by trends that have been evolving over recent years.

First, the consideration of almost all foreign policy issues in the Congress has become increasingly diffused. The sense of urgency and international tension produced by the Cold War has diminished, and time and effort spent on resolving domestic, rather than foreign policy, problems is seen as more rewarding. The foreign affairs authorizing committees have continued to lose stature and influence. Old coalitions of internationalists have broken up, and leadership on foreign affairs issues, whether for or against, is not coming from the traditional sources. In the case of the IMF, a wide range of committees became involved—the Banking Committees, the House International Relations and Senate Foreign Relations Committees, the Agriculture Committees, the Appropriations Committees, the Budget Committees, the Joint Economic Committee, and even the House Rules Committee. In the end, the elected leadership in both chambers played a decisive role.

A second development is that the political parties have become increasingly divided on foreign policy. In the debate over the IMF, the distance between the Milton Friedman free-market Republicans and the business-oriented internationalist Republicans was as wide as the gap between Republicans and Democrats. Party fragmentation, although not always along the same fault lines, can be seen on such issues as China, fast-track trade authority, United Nations funding, and the foreign affairs budget.

In addition to party fragmentation, and actually intensifying it, are the effects of redistricting and low voter turnout, which have given greater voice to single-issue proponents. Redistricting in the states along party lines has meant that the chief political threat to many House members comes from within the party, making special issues—such as abortion on the Republican side and labor standards on the Democratic side—dominating concerns. Low voter turnout—only 37 percent in the 1998 elections, the lowest since 1942—exacerbates the trend.

Divided government—with the Democrats controlling the executive branch and Republicans in the majority in both the House and the Senate—complicates the picture still further. The U.S. Treasury Department took the lead in arguing the IMF's case on Capitol Hill, but, inevitably, resentments that spilled over from previous battles and mutual distrust, especially on the House side, affected the reception the Democratic administration received in the Republican Congress.

The debate

The debate over IMF funding was dominated by the critics. According to one observer, the opposition to the IMF was much better informed and better financed in 1997–98 than it had been in previous years. "Opposition has moved from a fringe group to a mainstream movement that is politically connected," she said. The players involved also differed. "In previous years, the leadership on Capitol Hill had a consensus and had to strategize how to get IMF legislation through. This time, the leadership questioned the IMF itself," an appropriations committee staff member said.

The most threatening opposition came from the House of Representatives. Since a near defeat of IMF quota legislation in a House floor vote in 1983, the legislative strategy has normally been to circumvent consideration on the House floor and to pick up the legislation in conference with the Senate. But this strategy was no longer possible. There could be no agreement among a leadership that was itself divided on the issue.

While the Asian financial crisis continued to wreak havoc in many countries, congressional hearings delved into the pros and cons of an IMF quota increase. As is very often the case with the news, whether it concerns national political campaigns or neighborhood events, negative comments and criticisms received the most press.

• Both opponents and supporters of the quota increase cited "moral hazard" as a key concern. Two opponents, both Republicans, said that what they termed the 1995 Mexican "bailout" had caused the Asian crisis because it led to an expectation among international investors that otherwise risky investments were implicitly guaranteed against default. "We couldn't stop the bailout of Mexico. We were too new in leadership. We let that go and we were sorry later," one aide explained. "Why provide new capital to make even bigger mistakes?" argued another.

• Others watched the impact of IMF reforms in Asian countries with alarm. "Some senators thought the IMF caused the overthrow of Indonesian President Suharto. Is that what the IMF is supposed to be doing?" asked one of six people who cited "mistakes in Indonesia" as a major problem.

• Interest rates also became an issue. The Joint Economic Committee, whose chairman opposed the IMF quota increase, distributed an information sheet to members saying "The going IMF interest rate for loans in Asia is 3.7 percent. Sorry, you don't qualify. Only bankrupt countries need apply," according to a committee staff member.

• Richard Armey, the House Majority Leader, sent a "Dear Colleague" letter opposing funding of the IMF to the homes of members during the 1998 Easter recess. An advocate of free market economics, he opposed IMF intervention in capital markets. "He found the argument persuasive that neither Orange County, California, nor the state of Texas, during its recession, had asked for or received a bailout," a staff member recalled.

• George Shultz, a former Republican Secretary of the Treasury and Secretary of State, lent "gravitas and respectability" to the opponents, according to one observer. He wrote a well-received "op-ed" piece in the *Wall Street Journal*, provided testimony at hearings, and spoke informally with members.

• But the criticism wasn't only from the Republicans. A number of Democrats questioned the negative impact of so-called austerity programs on the poor in Asian client countries as well as elsewhere (even as IMF-supported programs switched to expansive spending policies to strengthen social safety nets). Other Democrats argued that labor standards and the environmental impact of programs needed to become more central in IMF thinking and policy.

Although the opponents seemed to be more vocal, supporters also spoke out. Alan Greenspan, Chairman of the U.S. Federal Reserve Board, was mentioned by the majority of those interviewed as the most important spokesman for the proponents. He was seen as a neutral and authoritative figure whose judgment that the United States should support the work of the IMF was to be trusted. The farm lobby organized quickly to weigh in on the side of a strong international response to the chaos in international financial markets. A number of key legislators from farm communities spoke up on both the Senate and House floors in favor of IMF intervention in the crisis. The U.S. Chamber of Commerce and the Bretton Woods Committee organized an ad hoc coalition of 313 businesses and business organizations supporting the legislation. In March 1998, the House Banking Committee approved the IMF funding by a vote of 40–9. Three weeks later, the Senate approved full IMF funding by a vote of 84–16 after members worked out a number of U.S. government certification requirements that the Group of Seven industrial countries were seeking to implement specific reforms.

But the House never did have a decisive vote on the merits of full IMF funding. In April 1998, it voted 222–186 to delay the question when the House leadership, including Speaker Newt Gingrich, spoke in favor of giving members more time to consider the issue. Later that year, the House Appropriations Committee voted 30–22 in favor of partial funding (the New Arrangements to Borrow (NAB) funding was approved but not the IMF quota increase), and the full House then passed that appropriations bill.

In the end, it was the issue of transparency that emerged to unify all the critics and also serve supporters as an area in which needed action could be taken. Almost all those interviewed, both supporters and opponents, cited increased transparency as a much-needed reform. The words "secretive" and "arrogant" were often expressed in interviews with reference to the IMF. In the debate, transparency seemed to become a catchall word that expressed an underlying anxiety about the IMF and its programs and a desire for improvement.

The outcome

So how did it finally happen that full IMF funding found its way into the omnibus appropriations bill that passed in October 1998, despite the clear opposition of key members of the House leadership as well as a number of highly vocal opponents outside Congress? Why did the barking dog not bite? While only the principal negotiators know for certain, those interviewed had a number of theories:

• Both the White House and the Treasury Department had made IMF funding a top priority. They made a compelling case to the doubters and they entered the push and pull of executive-legislative negotiations on a massive spending bill willing to make the concessions necessary to get agreement on IMF spending.

• Certifications contained in the Senate bill were combined with new reform and transparency requirements designed in the House. Those changes were enough to convince a majority of the legislators that a new and potentially improved IMF should be supported.

• The position of the IMF's opponents in the House was weakened by their own suspicion that they did not have the votes to defeat IMF funding. In a July 1998 article in the *Washington Post*, Majority Leader Armey is quoted as saying that a majority of House members "would like to have more money and less reform . . . . I can count votes." He retracted the remark the next day but continued to avoid an up-or-down vote. "Don't you think, as it became clear that omnibus negotiations were in the offing, that he would have put the House clearly on record against the IMF if he could have?" one analyst remarked.

• Many felt that it was the Asian economic crisis, combined with the approaching elections, that determined the outcome. Some supported the funding despite doubts about the IMF because they believed that a negative U.S. decision at such a volatile and uncertain time might have negative consequences in world markets. Opponents who acquiesced in its passage did not necessarily change their minds about the merits of the IMF, nor were they persuaded that permanent postponement of a quota increase would roil markets. But some apparently did believe that if the IMF funding were not in the omnibus bill, and if, as things turned out, the Asian financial crisis took a turn for the worse, the Democrats would blame the Republican House and pursue the issue in the congressional election, where there would be a number of exceedingly tight contests for House seats. "The Republicans would be blamed for losses in people's IRAs and Keoghs [retirement accounts] even though it wouldn't be true," said one committee staff member. That perceived threat, many felt, carried the day.

Obviously, the IMF and its policies and programs will continue to undergo congressional scrutiny. Despite the strong recovery by the Asian crisis countries that began in 1999, and prospects for recovery in other economies that were affected by the crisis but adopted IMF-supported programs of economic reform, the IMF will undoubtedly draw criticism as well as praise. One of the most positive outcomes of the IMF's attempt to be more transparent is its website, ***www.imf.org***, where parliamentarians from around the world—as well as the wider public—can find more than they may ever have wanted to know about the organization. Another positive outcome may be a more sustained congressional interest in the institution and participation in the choices involved in designing an international financial system that can work through the new century. An ongoing and informed discussion may not provide the drama of a Sherlock Holmes mystery, but airing issues and reaching a measure of consensus in a noncrisis atmosphere could prevent brinkmanship or damaging gridlock if and when the next crisis breaks. F&D