IMPLICATIONS OF THE G-20 LEADERS SUMMIT FOR LOW-INCOME COUNTRIES AND THE GLOBAL ECONOMY

HEARING

BEFORE THE

SUBCOMMITTEE ON
INTERNATIONAL MONETARY
POLICY AND TRADE

OF THE

COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

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WITNESSES

WEDNESDAY, MAY 13, 2009

APPENDIX

IMPLICATIONS OF THE G-20 LEADERS SUMMIT FOR LOW-INCOME COUNTRIES AND THE GLOBAL ECONOMY

Wednesday, May 13, 2009

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTERNATIONAL
MONETARY POLICY AND TRADE,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 2128, Rayburn House Office Building, Hon. Gregory W. Meeks [chairman of the subcommittee] presiding.

Members present: Representatives Meeks, Moore of Wisconsin, Driehaus, Maffei; Miller and Manzullo.

Also present: Representative Hensarling.

Chairman MEEKS. Good morning. This hearing of the Subcommittee on International Monetary Policy and Trade will come to order. Without objection, all members' opening statements will be made a part of the record.

Subcommittee chairs and ranking minority members will be recognized for 5 minutes, and all other members will be recognized for 3 minutes each.

I will start with an opening statement. On April 2, 2009, the leaders of the G-20 nations gathered in London to address the global financial crisis which has gripped nearly every nation in the world.

The resolution put forward by the leaders was broad and far-reaching, both in its scope as measured by the actions proposed, but also in its inclusion of nations which we may have been tempted to ignore in the past.

Indeed, the very fact that the meetings in London were of the G-20 leaders, plus representatives from other key emerging economies and international financial institutions, is a testament to the global nature of the crisis and the imperative of a global approach to the solution.

But the question remains as to why, when we are faced with the deepest economic and financial crisis since the Great Depression, we should allocate time, energy, and resources to poor and emerging economies beyond our usual aid and humanitarian activities.

I believe that beyond the altruistic reasons for assisting poor and emerging countries, we have strong business, economic, and geopolitical reasons to follow through on the commitments made by President Obama and the other leaders of the G-20 summit.

Indeed, it is critical to note that when we are not present, either directly through bilateral assistance, or indirectly through international financial institutions and multilateral development banks, others will step in to fill the void. To do nothing, and look the other way, is in fact to do something.

When we decide to walk away from our obligations under the pretext that the crisis is too severe to help others, we open the door for others to step in and fill the void we create. This is not just a theoretical threat, but in fact, a very real one.

Institutions like the IMF and the World Bank and many others which America supports, and which were mentioned as critical to global economic recovery in the G-20 communique, act as ballast mediums to provide countries in need with much-needed resources to forestall crises while moving these same countries to more stable, more sustainable, and more peaceful paths to economic growth. This is something we should all support.

We have called this hearing to follow up on the G-20 resolutions endorsed by our President, Barack Obama, which made explicit the importance of not just providing aid to those nations and communities in the most dire need, but rather, to include poor and emerging economies as full participants in any strategy to pull the global economy out of recession. The wording of the G-20 communique made this explicit.

The reasons for following through on the commitments made by President Obama and the other leaders at the G-20 summit in London can be broadly grouped into three categories: One, supporting American industry; two, preventing further systemic risk in global capital markets and encouraging continued sound economic reforms; and three, promoting socio-political stability.

Addressing these issues in order, I will begin by discussing the impact on American industry. As the G-20 communique stated, emerging economies have been a true engine of global economic growth in the recent past. As we saw with the Asian financial crisis of the late 1990's, when the emerging economies of Asia stalled, world economic growth stalled. When the financial crisis that struck Asian economies was resolved, the world as a whole resumed on a path of rapid economic expansion.

In many ways, we face a similar crisis today, on a much larger scale. As our economies have become increasingly interdependent, through trade and vertical outsourcing, American producers are directly and indirectly exposed to consumers and manufacturers around the world.

Driven by their rapid economic growth, emerging middle classes, and young populations eager to consumer American goods and services, the emerging economies have become major consumers of goods and services produced by American companies. As a result, many American companies stand to gain from our efforts to support the continued economic growth in these countries.

As was the case in the Asian financial crisis, restarting the economic growth in emerging economies will be a critical component to restart our own economy here at home.

Looking at the second point, about preventing further systemic risk in global capital markets, it is important to revisit some important changes that occurred in the past decade or so.

It has been well documented that, following the Asian financial crisis and the Argentinean crisis earlier this decade, the IMF experienced a dramatic drop in its lending activities around the world.

This was in part due to what was seen as overly harsh conditionality on loans and stigma associated with turning to the IMF for balance of payment assistance, but this was also largely due to the availability of other sources of funding for many emerging governments.

Indeed, as capital markets matured and expanded aggressively to the four corners of the world, companies and governments in emerging markets found themselves able to borrow from global banks, investment funds, and alternative investment vehicles, like never before. This enabled many of these countries to pursue their economic development strategies while building up healthy reserves.

While the debt stock of poor and emerging economies would previously have been constituted nearly entirely of IMF, World Bank, or other international development institutional debt, increasingly, banks and investment funds account for a large share of that debt. This, of course, includes American investors and American banks.

The risk of default primarily on solvent debt, but also by the largest companies in these emerging economies, is equally true in countries that follow what would be considered sound macroeconomic policy, building up healthy reserves and investing in the development and diversification of local industry.

This is true because of the nature of the crises that they are facing. They are dealing simultaneously with falling demand for their exports, a steep fall in the commodity prices, collapsing remittances, drastic reductions of international aid, rising domestic unemployment, and returning emigrants.

Even the best-prepared emerging economies cannot withstand such a confluence of negative shocks at once, and risk severe balance of payment pressure.

As described, many poor countries and emerging economies have implemented sound microeconomic policies in the past decade or more. This, of course, has not been universally true, but evidence abounds of countries in Africa, Asia, Eastern Europe, and Latin America in applying more conventional trade-driven free-market policies.

These countries have reversed long trends of nationalization of industries, choosing instead to forge the entrepreneurships and competition, open their economies to international trade, and put in place the foundation of good governance.

To fail these nations now, by not supporting their continued efforts of reform is to risk reversing a decade or more of economic achievement.

And finally, the socio-political stability that should be on top of the minds of all nations seeking a way out of this global financial crisis. Simply put, we are at an inflection in this point in history, and our decisions in the coming weeks and months will define the future path of global economic growth and broader geopolitical events.

As already explained, many poor and emerging economies face a perfect storm of external shocks, which is putting a great strain on

their economies, both at the macroeconomic level, but also at the microeconomic level.

Emerging economies and fragile democracies will be severely tested by collapsing demand and prices for their exports, rising unemployment, falling remittances, and unemployed migrants returning to their home countries.

If nothing is done, these other factors will inevitably push some countries into civil unrest, if not outright war. It is in the interest of all peaceful nations to ensure that this is avoided.

As we approach this inflection point in history, and accept that to do nothing is not an acceptable option, we now consider how our actions can set emerging countries on a path to sustainable, peaceful growth, sowing the seeds of freedom and democracy in regions of the world where they have been elusive.

Trade, finance, and rejection of protectionism are critical components of the G-20 resolutions, but details are lacking, and present a great opportunity for us to put our imprint on the nature of this recovery and the structure of future economic relations between rich and poor nations of the world.

I end as Frederic Bastiat, a 19th Century French economist, rightly said, "When goods don't cross borders, armies will."

And I yield to my good friend, Mr. Miller from California.

Mr. MILLER. Thank you, Mr. Chairman, for holding this hearing today on the implications of the G-20 leaders' summit on low-income countries and the global economy.

As we are seeing, nations across the world are experiencing unprecedented economic challenges as a result of the financial fallout.

While low-income countries are not exposed to non-performing mortgage assets and troubled financial firms, they have been directly impacted by the overall constriction of credit and decreasing investment, employment, and demand that developed as conditions in the financial circuit continued to worsen.

Many emerging economies around the globe have made significant progress in implementing financial, government, and social reforms necessary to foster stable economic growth. The development of good economic policies, especially in a bleak period, required great sacrifice and tradeoff as spending scaled down.

The United States should work to ensure that these struggling nations are successful in their pursuit of progress and their stability is not threatened because of actions and errors that occurred outside of their control.

It is more important than ever to ensure that these nations continue a course of sound economic policies that allow them to move forward, building a strong middle class, and thus a sustainable foundation for recovery.

As we all know, terrorism respects no national border and can gravely impair the economies of nations large and small. Poverty breeds unrest and instability that creates the type of conditions that allow dictators and extremists to thrive. Worsening economic conditions throughout the globe will foster terrorism and jeopardize our safety.

U.S. policy should support and encourage responsible participation in the global economy in which we live. Just as low-income

countries have been affected by downturns in the United States, the United States is impacted by downturns in emerging markets.

These nations represent an ever-increasing consumer base for U.S. exports. When they suffer economic strife, global demand diminishes, and U.S. jobs are affected as a consequence.

With that, I look forward to the hearing today, and further, to the review the subcommittee has made on G-20 in their April hearing. I'm looking forward to hearing the witnesses today and the input they have.

But I would like to ask unanimous consent to recognize Congressman Hensarling for 1½ minutes.

Chairman MEEKS. Without objection, it is so ordered.

Mr. HENSARLING. Thank you, Mr. Chairman. I appreciate the committee allowing me to participate.

I'm not here today to have the debate about how worthy the IMF may be, but I am here today to raise the question of whether or not today is the time that the United States should be committing an extra $100 billion of taxpayer money to the IMF. That's a commitment of $861 for every American household.

This comes on top of $6,034 to fund the $700 billion worth of bailout money last September; $9,810 to fund the $1.13 trillion government stimulus plan; and $3,534 per American household to fund a $410 billion omnibus spending plan. We are now borrowing 46 cents for every dollar that the government spends.

Now, this Congress just passed a budget which will triple the national debt in just 10 years.

Yesterday, we received the news from the Medicare trustees—no surprise here—that Medicare is going to go broke sooner than we had thought. It will be going flat broke in 2017, 2 years earlier than projected, and they tell us the unfunded liability of Medicare over a 75-year period is up an additional $1.8 trillion.

At some point, I think we have to ask ourselves the question, is there any limit to the liability exposure we're willing to place on the American taxpayer? Is there any limit to the amount of debt that we are willing to place on our children and our grandchildren?

Now, I know some will argue that, for CBO scoring purposes, this shouldn't actually be scored. This is simply an asset transfer. We're just extending a $100 billion line of credit.

Well, we heard the very same argument in favor of Freddie Mac and Fannie Mae. We were told there would never be any taxpayer liability there. Well, we kind of know how that story turned out. And if press reports are credible, we understand that this request may be attached to the war supplemental.

I mean, how do we explain to our constituents, then, that Congress may be on the verge of committing more money to the IMF and to foreign nations instead of committing to our American troops in the field? That's certainly not something I care to try to explain.

And when so many of our own citizens are having trouble paying for accessing credit to refinance their homes, their interest rates are going up on their credit cards, credit cards are being withdrawn from the market, and I believe certainly Congress has exacerbated that trend, how do we tell them that, "You can't get credit,

but we're going to make you more exposed as a taxpayer to give foreign nations more credit?"

I think this is an incredibly poor time to be putting an additional $100 billion of taxpayer liability exposure for an additional contribution to the IMF.

And again, Mr. Chairman, I appreciate the indulgence of the subcommittee for allowing me to speak, and I yield back the balance of my time.

Chairman MEEKS. Ms. Moore of Wisconsin.

Ms. MOORE OF WISCONSIN. Thank you, Mr. Chairman. And I will keep my opening statement brief.

I guess I would like to build upon the comments of Mr. Hensarling by just pointing out that the collapse of these emerging economies bodes very poorly for the United States. We will not have the opportunity to export products, if we allow these emerging economies to fail.

And what we're trying to do, the financial collapse that we're all experiencing globally, bodes for us to develop a sustainable world economy, and so while it is pennywise to be protectionist and to only look out for ourselves, it is pound foolish to think that we can allow the economic collapse of peoples and economies across the globe and expect that we're going to survive.

So I think that the gathering of the G-20 was very significant in that it reinforced a truth that we're all in this together.

And with that, Mr. Chairman, I yield back.

Mr. MILLER. Can I reclaim the balance of my time?

Chairman MEEKS. Yes.

Mr. MILLER. Mr. Manzullo is on his way. He was delayed by some traffic, as you all saw in the hallway, I think in the Judiciary Committee.

Mr. Hensarling made some good points, and I don't want his argument to be taken improperly. I think we have a responsibility to the American people, like Mr. Hensarling said. We do understand that when smaller countries are developing and have problems, many times terrorists breed upon that.

But I think it's incumbent upon us to look at all the aspects of what our government is involved in today, the amount of money we're spending, the amount of money that this type of a loan could benefit in the long run, too, to these emerging countries, and to create stability in those sectors, and I think it's very important that we look at that.

But I think he made some valid points. I think that's perhaps something we should also address in this committee, because we know the President is looking to try to do the right thing in many of these countries, but we're also in a situation where the American people are suffering, and how the perception is taken by them as to where these dollars are invested is something I think we need to look at from a sincere perspective and understand really the positive and negative of doing what we're trying to do.

And I think I could talk forever, and Mr. Manzullo might not show up, so I will yield back the balance of my time.

Chairman MEEKS. We will allow Mr. Manzullo, when he does show up, to have a few words, right after we hear from our distinguished witnesses.

Mr. Maffei, do you have an opening statement?

Mr. MAFFEI. I will just agree with the chairman.

Chairman MEEKS. Smart man.

Okay. We have some distinguished witnesses that I'm delighted to have testify this morning.

First, Mr. Amar Bhattacharya, who is the director of the Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development, the G-24. The G-24 was established in 1971 as a representative body of finance ministers and central bank governors of developing countries with the objective of helping to articulate and support the position of developing countries in the discussions of the IMF, World Bank, and other relevant fora.

Prior to taking up his current position, Mr. Bhattacharya had a long-standing career in the World Bank. His last position was as senior advisor and head of the International Policy and Partnership Group, and the Poverty Reduction and Economic Management Network of the World Bank.

He was advisor to the president and senior management and focal point for the bank's engagement with key international groupings and institutions, such as the G-7, G-8, G-20, IMF, OECD, and the Commonwealth Secretariat.

He is an Indian national who completed his undergraduate studies at the University of Delhi and at Brandeis University, and his graduate study at Princeton University.

Second, we have with us Ms. Nancy Birdsall. She is the founding president of the Center for Global Development.

Before launching the center, she served for 3 years as senior associate and director of the Economic Reform Project at the Carnegie Endowment of International Peace from 1993 to 1998.

She was executive vice president of the Inter-American Development Bank.

Before joining the Inter-American Development Bank, she spent 14 years in research policy and management positions at the World Bank.

She is the author, co-author, or editor of more than a dozen books and monographs on international development issues.

Ms. Birdsall holds a Ph.D. in economics from Yale University, and an M.A. in international relations from Johns Hopkins School of Advanced International Studies.

Third, we have Mr. Simon Johnson, who is the Ronald A. Kurtz professor of entrepreneurship at MIT's Sloan School of Management.

He's also a senior fellow at the Peterson Institute for International Economics in Washington, D.C., and a co-founder of the BaselineScenario.com, a widely cited Web site on the global economy, and a member of the Congressional Budget Office's Panel of Economic Advisors.

Professor Johnson is an expert on financial and economic crises, and as an academic in policy roles with the private sector over the past 20 years, he has worked on severely stressed economic and financial situations around the world.

His research and policy advice focuses on how to limit the impact of negative shocks and managed risk faced by countries.

He is co-founder and current co-chair of the National Bureau of Economics Research Project on Africa, and he is also a faculty director of MIT Sloan's New Moscow Initiative and former member of the Global Advisory Board of Endeavor, which promotes entrepreneurship in Latin America and around the world.

And last, but far from least, we have Mr. Timothy D. Adams, who is the managing director of The Lindsey Group.

Previously, Mr. Adams served as Under Secretary of the Treasury for International Affairs. As Under Secretary, Mr. Adams was the Administration's point person on international financial issues, including exchange rate policy, G-7 meetings, and IMF and World Bank issues.

He regularly interacted with counterparts in key emerging markets, including China, India, and Brazil, and traveled extensively throughout Asia, the Middle East, and Europe.

Prior to assuming his post as Under Secretary, Mr. Adams had served as Chief of Staff to both Treasury Secretary Paul O'Neal and Treasury Secretary John Snowe.

He was policy director for the Bush-Cheney re-election campaign from November 2003 through the end of 2004, and also served as a full-time member of the Bush-Cheney campaign staff in Austin in 2000.

In 1993, Mr. Adams co-founded the G-7 Group, a Washington-based advisory firm. He later headed the Washington operations as managing director.

Mr. Adams holds a B.S. in finance and a Master's in public administration and an M.A. in international relations from the University of Kentucky.

So we have a group of distinguished witnesses, and we will first hear from Mr. Bhattacharya.

STATEMENT OF AMAR BHATTACHARYA, DIRECTOR, G24 SECRETARIAT

Mr. BHATTACHARYA. Thank you, Mr. Chairman. It is a privilege to testify in front of this subcommittee.

Chairman MEEKS. Let me just say before we start, that without objection, your written statements will be made a part of the record, and you will be recognized for a 5-minute summary of your testimony.

Mr. BHATTACHARYA. It is a particular privilege to be here, given the very, very high stakes that emerging markets and developing countries have in your deliberations.

I want to make three points, based on my testimony:

The first, echoing very much what has been said, is that while the developing world is in many ways an innocent bystander in this crisis, they can be and must be part of the solution, the global solution. If you look at the record right now, there's no doubt that the crisis is having a disproportionate impact on the developing world.

Unemployment, for example, in the developing world is expected to increase by maybe as much as 50 million this year. And in Sub-Saharan Africa, per capita income growth is expected to decline by 2.5 percent, something that we have not seen for almost 2 decades.

So the crisis is really having a very, very serious impact, and assisting these countries is important for many of the reasons that you stressed.

First, the fact that time around the emerging markets is not amplifying the crisis is good news, and helping them to ensure that they can contain the crisis is good for us all.

Second, you have to remember that the developing world now constitutes three out of the four engines of global growth.

So when you think about global recovery, helping these countries get back on their feet is good for the global world, and it's very good for the United States, which has exported more than 50 percent of its exports to the developing world over the last 3 years. So it is in everybody's self-interest.

The very important point, Mr. Chairman, you made, about social stability and peace, in particularly the fragile countries, and particularly the poorest countries, is good for everybody in the world.

The second point I want to make is that there is great urgency in giving effect to the decisions that were made by the G-20, especially with regard to the resources of the IMF.

As no doubt Ms. Birdsall will make the point that she always has, the IMF is the world's fire brigade, and we have to remember that we are in the midst of a raging fire.

Since the crisis broke out, the IMF has committed $147 billion for 20 countries, including 3 countries under the new flexible credit line. That amounts to 60 percent of the available resources of the IMF, excluding the bilateral loan from Japan.

There are many more countries in active discussions with the IMF, and as we know, the downside uncertainties are very large. So there is really great urgency to getting agreement on these arrangements to borrow.

Does that mean that the IMF should be given a blank check? The answer is absolutely no, in three particular respects.

First, this temporary borrowing must be seen as a bridge to a more permanent increase in quotas, and that's what the G-20 committed to.

Second, it must be linked with fundamental reforms in governance, governance with regard to voice and vote, in particular, a shift from Europe to the developing world; second, with regard to the selection process of the heads of the institutions; and third, with regard to conditionality.

The IMF has put in place a new conditionality framework. Some will say that perhaps it's too lax. Others, like ourselves, will say perhaps it's not lax enough.

But the key is that the decisions will be in the implementation, and it is important that the IMF implement it in a way that doesn't penalize the developing world and that recognizes that this crisis is exogenous.

The last point I want to make is, important though the increase in the IMF resources is, the area where the G-20 was perhaps the least ambitious was with respect to the poorest countries.

Yes, $6 billion has been put on the table, but the needs of the developing, the poorest countries we estimate are in the order or more like $35 billion to $50 billion.

Hence, it's very important to follow through on the increase in concessional resources, not so much only for the IMF, but for the concessional arms of the multilateral development banks.

At the moment, therefore, giving effect to IDA is very important, and it is simply not good enough to say, we are going to frontload IDA. We have to recognize that the amount of money that IDA needs now is much greater than what we had contemplated before the crisis.

And so it's on that note of raising, in fact, even more the ambition of the G-20, where I think this body could make a great deal of difference.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Bhattacharya can be found on page 45 of the appendix.]

Chairman MEEKS. Thank you.

Ms. Birdsall.

STATEMENT OF NANCY BIRDSALL, PRESIDENT, CENTER FOR GLOBAL DEVELOPMENT

Ms. BIRDSALL. Thank you very much, Mr. Chairman, Ranking Member Miller, and members of the subcommittee for your statements. I think you have already said much that is important, and said it very eloquently.

But let me repeat that today's challenges in our global village do not respect borders, and that's true for human security, it's true about food safety, it's true about climate change, and now it's most evidently true with respect to the financial crisis.

And we are complicit in the United States in starting a fire, or at least contributing in a major way to a fire in the global village. We're the biggest player, and we have a responsibility to raise the resources to deal with this raging fire, particularly as it affects the low-income countries, the poorest countries in the world, and the poorest people.

We also need resources for the fire department, so that it is more capable and more effective in enforcing building codes in the future, and other measures that will make all the houses in the village more resilient and less exposed to the vulnerabilities that this financial crisis has demonstrated.

Let me make four points very quickly:

The first is that we need the IMF, we Americans.

The second, that Congress should approve the overall package that the Administration has requested, including the $100 billion for the new arrangement to borrow facility.

Congress should approve the sale of gold, and I would be happy to answer questions beyond what I say orally on how that gold should be—those resources should be allocated.

And Congress should ensure that the governance reforms are a go-ahead, that Treasury is urged to push on those.

Two reasons why Americans need the IMF, I think Amar Bhattacharya has also said very nicely, as have you. The first is that our own economic recovery does depend heavily on economic recovery in emerging markets and in other developing countries. And the second has to do with development more generally.

Both the Bush Administration and the Obama Administration have said that our foreign policy relies on a three-legged stool: defense; diplomacy; and development. And the IMF can and must play a critical role in ensuring that the development leg, with U.S. leadership, is not weakened further than it already is.

That has to do with insecurity, instability. It has to do with protecting the incredible progress most developing countries have made in the last decade in reforming their own governance, reducing corruption, managing their own macroeconomic matters much more effectively, and so no.

So that's my first point.

The second point is that the United States should agree to a loan of $100 billion to the IMF.

Congressman Hensarling raised the question whether this would increase risks for Americans, and the answer is essentially that it would not. This is a credit to an institution that is extraordinarily sound, that follows extraordinarily conservative policies.

This is not in my written testimony, but I'm saying it in response to his query, that there is absolutely no way to compare the situation of Fannie Mae and Freddie Mac prior to this crisis in terms of its soundness, to that of the International Monetary Fund today. There is no way that the taxpayers could be said to really be taking any reasonable risk in this kind of transfer, in effect, transfer of assets between the United States and the IMF.

In addition, I support the idea of an additional $250 billion of SDRs that are being created, as called for at the G-20 summit in London, and I urge the Congress to endorse heartily this move. I believe the Administration has made the necessary notification to the Congress in order to go ahead with that part of changes at the IMF.

Third point, the Congress should endorse the sale of IMF gold, for two purposes. I urge this subcommittee to push for approval of those gold sales, and to provide guidance to Treasury for its discussions with other IMF members on the allocation of the sales revenue between the two purposes, the one purpose being for the endowment at the IMF that would strengthen the fire department functions; and the second purpose being for additional resources for the low-income countries.

I think on the issue of additional resources for the low-income countries, the key issue is actually timing, and the Congress faces, the Senate now also faces the question of how urgently to move.

My concern would be that it's important to move quickly to exercise U.S. leadership and to insist that the Treasury take steps to insist on the associated reforms that we have been talking about.

I have comments on how the concessional resources should be used by the IMF, where this subcommittee may want to lend its guidance. And one of those comments has to do with, if possible, using the resources for grants, to minimize future debt.

And a second has to do with ensuring that the IMF uses those resources in exactly the same way, in effect for standby type loans, as it does in the case of middle-income countries, the only difference being in the charges it charges.

And finally, the Congress should push for faster and further governance reform at the IMF.

It is in our direct national security and economic interest to make the IMF not only better resourced, but a more credible and effective global financial institution. That's only possible if China and other major emerging market economies have a much larger role in IMF decisionmaking, are brought into the process, and become also shepherds of the global economy.

So the G-20 leaders recognized this at the summit in April, and the call for additional resources for the IMF where the United States did take leadership is twinned—and again, the United States has been a leader with calls for governance reform.

You have heard a lot about the governance reform already today. You will hear more about them. I believe that despite the shortcomings of the current reform process, it's now sensible to go ahead with the overall package, including those governance reforms, with a lot of guidance from this committee and from your committee and from the Senate to the Treasury on how insistent the United States should be in pushing for even faster implementation of the reforms, and pushing for the next round to be less modest and more deep.

Let me conclude by saying that the IMF is far from perfect; there have been a lot of concerns from many people over the years. But in the last couple of years, the IMF has made substantial progress in implementing a better approach to conditionality and beginning the reform process on the governance side.

It is going in the right direction, and at this point, I think the urgency we should all face is the need for the additional resources to be put at the IMF.

I urge the Congress, the House, and the Senate, therefore, to move quickly on the necessary legislation.

Thank you very much, Mr. Chairman.

[The prepared statement of Ms. Birdsall can be found on page 48 of the appendix.]

Chairman MEEKS. Thank you.

Mr. Johnson.

STATEMENT OF SIMON JOHNSON, PROFESSOR, SLOAN SCHOOL OF MANAGEMENT, MASSACHUSETTS INSTITUTE OF TECHNOLOGY

Mr. JOHNSON. Thank you very much.

Let me begin by emphasizing one piece of my bio I'm not sure was mentioned, which is I was the chief economist of the IMF until the end of August, and as a result, have a particular perspective on both the view of the global economy and the issues of IMF reform.

I'm on the record as being strongly in support of the IMF on some dimensions, but certainly not on all dimensions. I would like to break that, my agreements and disagreements, into three pieces.

Let me speak briefly about the global economy and the summit, the context of this discussion, and then spend a little bit more time on the proposals that are coming before you.

First of all, on the global economy, I broadly agree with the numbers put forward, the summary by Mr. Bhattacharya. I actually think that the IMF baseline, which is regarded as being fairly negative in the context of overall global economic forecasts, to my mind is a little too optimistic, and if you read between the lines, and look

at the way the report is presented, there's a lot of discussion there of downside scenarios.

Believe me, these are not scaremongers, the IMF. These are very sensible, professional people. They are warning you in no uncertain terms that, while the global economic situation has stabilized to some degree, there is substantial potential for things to get worse, and I think that the chairman's opening statements about the social stability are absolutely critical in that context. That is exactly how the economy can worsen.

We have seen many economic shocks. We're seeing a lot of the hits on the world's poorest people just now coming through. And we haven't yet seen the full social and political impact of that. So I think the global situation is extremely dangerous.

Secondly, and speaking directly to that, I think the G-20 summit was a remarkable success. I think in large part this was due to the efforts of the Obama Administration. It was a come-from-behind win. The previous G-20 summit, which was held in Washington again, of last year, was a severe disappointment.

And the Obama Administration rightly focused on certain key issues which they felt they could win, the central, most important one, of course, or set of issues, was around the IMF, and within the IMF context, the most important issue was money. How much money does the IMF have to lend, have available to lend, if times get tough, if the downside scenario materializes?

And you need a lot. The downside scenario is very, very bad in this context. I called back in the fall for the IMF to have $2 trillion available to lend. This is when the IMF had $250 billion total. And that call, I think, was regarded as somewhat exaggerated.

Well, now the IMF is going to have, if the full set of funding proposals and special drawing rights allocation goes through, they'll have about $1 trillion available to lend. I regard that as a very sensible step in the right direction, but I'm still not sure that's enough. This is a very big world, with a lot of interconnected problems, and many things can still go wrong.

The IMF is the fire brigade, as Nancy Birdsall stressed repeatedly, and Larry Summers is also stressing, and fire departments are essential, and you don't want to start from scratch and rebuild in the middle of a crisis, but you do want to make sure they're credible, legitimate, and they have the resources they need to fight the fires, and that's the context in which I support additional resources for the IMF.

In fact, I would go further, and if Mr. Hensarling comes back in, I would be happy to discuss that with him directly.

But, at the same time, I would stress, and absolutely emphasize in every context, the need to continue and follow through the so-called process of IMB reform.

I put a long list of items that need to be addressed in my written statement, but let me close by emphasizing three of them.

First of all, the process of selection for the next managing director of the IMF must be an open competition. You must look for, they must look for, and you should impress upon Treasury the importance of following through with this declaration of the G-20, that the next manufacturer of the IMF cannot be a European.

It has always been a European, since the end of the Second World War. There is no good reason for this. It is regarded in some quarters as having become a sinecure. That is not what you need for the top position of the world's leading financial fire department.

I think the leaders agreed to change that, and I think it's most important to make sure there's no backsliding on that whatsoever. Anything less than that, I think, will be regarded with derision and scorn around the world, and it will further undermine the credibility and hamper the rebuilding of legitimacy of the IMF.

Second, in terms of IMF resources, there has been an unconscionable gaffe, if I may use a technical term. The IMF was forced to cut its budget a year ago. This was a process that had been long in the making, and we can go back and argue about whether it was right or wrong at the time the decisions were made.

But the point is, it was implemented just as the global crisis was beginning to become more severe, and, as the IMF itself was warning about that, the fire department was cut back.

You have five fire engines, and then you're told to go to three, and you're saying, "The forest fire is coming." They say, "No, actually, go to 2½ fire engines." That's crazy. It's irresponsible. That budget must be reversed.

The IMF has plenty of cash on hand. The IMF is earning money from its loans. It's earning money from its new flexible credit facility, which has a potential also to generate revenue during stable times, as well as unstable times.

The IMF staff levels must be returned at least to the level they were at at the end of 2007. You cannot reasonably and responsibly call on the IMF to do the job that the G-20 is asking to do with the reduced level of resources. It's just not serious.

Thirdly, and finally, the job of exchange rate surveillance is absolutely essential. This responsibility has traditionally been with the IMF, and particularly because of issues around the undervaluation of the Chinese exchange rate over the past 5 to 8 years, it has become more severe.

The IMF has unfortunately, for reasons we can discuss separately if you're interested, dropped the ball on this issue. You cannot rebuild confidence in the global system, you cannot persuade developing countries to cooperate fully and not to try and run big current account surpluses, accumulate lots of reserves, and undervalue their currencies, and take jobs away from America, and generate resentment among your constituents, unless and until somebody manages the exchange rate system properly.

This is how the flow of trade, the flow of goods across borders breaks down, and this is how the flow of soldiers across borders starts, with this kind of mismanagement.

So the IMF reform process must be completed.

Thank you very much.

[The prepared statement of Mr. Johnson can be found on page 59 of the appendix.]

Chairman MEEKS. Thank you, Mr. Johnson.

Mr. Adams.

STATEMENT OF THE HONORABLE TIMOTHY D. ADAMS, MANAGING DIRECTOR, THE LINDSEY GROUP

Mr. ADAMS. Thank you, Mr. Chairman, Ranking Member Miller, and members of this subcommittee.

For the sake of brevity, and to avoid duplication, I will be quite brief.

I agree with Dr. Johnson that the global environment, the global economy is very fragile, and as he mentioned, I think he used the phrase "extremely dangerous," I think is an accurate description of economic conditions.

Two, let me say that I agree with the G-20 agenda that was laid out in London on April 2nd. I, too, applaud the President for his leadership at that summit and for helping shape the outcome of the G-20 meeting.

I also fully endorse the sub-component of that agenda, which is directly focussed on the IMF. There have been times where I have been a harsh critic of the Fund, but I think even prior to this crisis, but certainly in this crisis, they should be applauded for their creativity, their imagination, and the speed with which they have jumped into the trenches to try to craft new programs and retool old programs to meet the changing nature of this crisis and to be relevant, given the nature of this crisis.

But I want to address the point that the Congressman made earlier, about why do we want to do this. It is a tremendous amount of money. We're spending a lot of money.

We're going to the, as one of my old bosses once said, to the plumbers and carpenters of Chicago and asking them to spend more of their hard-earned money and send it to Washington. Why should we do that? And I'll note, for a number of reasons.

One is because we need to reward good performers. We need to send signals to countries that taking the political risk of doing the right thing on policy will be rewarded, and they should continue doing it in the future.

I strongly think that incentives matter, so it's an important signalling effect to all those countries out there that have done the right thing over the past 5 or 10 years.

Two, it's in our national security interest, without question. If you look at some of the countries that the Fund has provided additional assistance to, Pakistan, 170 million people and a very fragile economy that appears more perilous by the day.

We should do everything in our power—I know the Congress is even looking at bilateral assistance—we should do everything in our power to help countries like Pakistan remain a stable, vibrant democracy as part of our overall national interest.

And there are other countries that receive support: Colombia, which is on the front lines of fighting narco-terrorism; Mexico, which is an important partner and with which we share a border and many challenges; and the Ukraine, which is a way-point for Russian energy into Europe.

Europe's energy security depends on the gas that flows across the Ukraine, and I can only imagine that if there is political turmoil in the Ukraine, might our friends in Moscow decide to redraw the map of Europe.

A place like Tajikistan, which relies on a tremendous amount of remittances for its budget, 45 percent—remittances account for 45 percent of the GDP of Tajikistan. Why is it important? Because it's a northern way-point of terrorists, terrorist resources, and those hostile to the United States to gain entry into Afghanistan, where our men and women in uniform are dying every single day, and is also a through-point for poppy and for opium to find its way out. Most of it goes to Europe, but some of it ends up in the streets of the United States.

It is in our national security interest to ensure the stability of fragile states everywhere.

Thirdly, it's in our economic interest. Some of the statistics that were noted, I just want to re-emphasize, because I think they're important.

Sixty percent of U.S. exports since 2004 have grown at 3 times the pace—to emerging markets—have grown at three times the pace to the developed markets, and that has grown at 60 percent since 2004.

Ninety-five percent of the world's population resides outside the United States, and 98 percent of population growth, between now and mid-century, will occur in developing and emerging markets.

It's where the middle class is growing. It is consumers for U.S. goods and services. And the IMF estimates that non-advanced economies will account for 70 percent of global growth over the next 5 years.

Our economic future is tied to the prosperity and stability of the emerging and developing world, without question.

Fourth, we should reward institutional reform. It goes back to the same point I made earlier about countries.

The IMF is reforming itself. It is changing. It needs to do more. We all have a number of suggestions on how it could do a better job. But we should reward that behavior.

Institutional change in international organizations comes infrequently, and I applaud the Fund for the changes they are making.

And lastly, this is an important time for U.S. leadership. I spend a tremendous amount of time traveling around the world, and everywhere I go, there is a belief that somehow U.S. power is on the descent, that U.S. values, U.S. principles are no longer relevant, that we live in a multi-polar world, that possibly the Beijing agenda will become paramount or on the ascendancy. The United States needs to maintain its important leadership role in the global economy.

So let me just conclude by saying, I strongly endorse the G-20's agenda; I strongly endorse the IMF component; and I would strongly urge this committee, this House, and this Congress to move as quickly as possible.

Thank you.

[The prepared statement of Mr. Adams can be found on page 38 of the appendix.]

Chairman MEEKS. Thank you. Thank you very much. And I think that you have given us all some food for thought.

Let me start out by asking a series of questions.

The G-20 agreed that the new arrangements to borrow should be expanded by $500 billion, and we have talked about and we have

heard some, which is the topic that is among many of us here, that the Obama Administration has proposed that the United States participate in this plan by extending a $100 billion line of credit to the IMF through the NAB.

Now, the G-20 also said that the enhanced NAB would be more "flexible" in its operations, though it is not clear what flexible means, you know, what is proposed by flexibility and what might be entailed therein.

So my questions are, have the terms for access and use of the current NAB been too restrictive, first; and if you think so, how might they be improved?

Should Congress require the Administration to provide it with the ground rules for the new enhanced NAB before it goes into effect? These are decisions that we have to make.

And are there any ground rules that you believe Congress should mandate for U.S. participation in the new NAB program?

And so I throw those out to you first. Anyone can jump at it who wants.

Mr. BHATTACHARYA. The NAB of the past was essentially a fairly complicated legal instrument, as we understand it, which restricted, in many ways, the speed and the flexibility of the use of resources.

So when the new Japanese loan, which is $100 billion, was negotiated, the IMF and Japan agreed to several improvements that would allow for considerable flexibility in the use of the Japanese money in association with programs that were put in place. And the aim is to move towards a more multilateral version of that, through the new arrangements to borrow.

As I said, the only other point I would make, though, is that this is a temporary arrangement, and there must be a balance between the temporary arrangement and the permanent size of the Fund.

It wouldn't seem unseemly to have temporary arrangements of twice the size of the Fund, so a very important part of the conditions that I was saying is that there must be a bridge to an agreement to increase the permanent size of the Fund through quota increases.

Now, that is in the G-20 agreement that would be done by January, and that's something that could be part of the guidance that could be given.

The other part of the guidance on the NAB, of course, is that it must be linked to some of the governance reforms that many of us were talking about.

Ms. BIRDSALL. My view would be that the relevant issue in terms of flexibility is associated not only with the NAB but with the operations of the IMF in general.

And here, I think what's useful to recognize is that the IMF has been going through a process of reform, in terms of streamlining and reducing conditionality, for some years, and that recently, with the agreement on what's called a flexible credit line, the IMF has finally set up an instrument.

It's only available to a limited number of countries that have a record of good macro-policy, but it's going in the right direction. It allows them to have access to resources when they need those re-

sources, without really paying much, if anything, until they actually ask for those resources.

A number of countries, as mentioned, Mexico, Poland, have already applied for this flexible credit line, which is a very good sign that there's something about the way this was set up that is reducing the domestic political problem that many leaders faced within countries because of the stigma of going to the IMF.

I think there are other issues around the NAB that are specific, such as other countries being able to contribute than were originally, so I'm not sure, frankly, what the leadership meant by more flexible, but I do think that the Congress should emphasize the need for the Treasury, in implementing lending in the future from the IMF, particularly in the light of the crisis, to be more flexible and to push in the direction it has been taking already.

Chairman MEEKS. Here is the difficulty—and then I'm going to ask Mr. Johnson, and then I'm going to yield to the ranking member, Mr. Miller.

But I think, and what I have heard both of you say thus far is that everyone agrees that there needs to be some kind of reform and, you know, we have to move, and though the progress is starting to happen, we still know that reform is generally slow.

And what I have also heard from many who have come before me is the urgent need, and I have heard—I think I am hearing some of that from you—of the recapitalization of the IMF and the World Bank and other institutions.

There is a tradeoff, though. You know, we are pressured here in Congress, talking about there has to be reform. And then there's an urgency for recapitalization.

How does that tradeoff play? You know, and that's the difficulty I think some of us will have in deciding which way we go on this committee and in this Congress.

Mr. JOHNSON. I think, to answer your original question, the Treasury should come and explain to you much more precisely what they have in mind with regard to the flexibility. They are obviously just one voice at the table, but they are a very important voice at the IMF.

I think part of the flexibility we're seeing around the flexible credit line is sensible, but it's a pretty small step. Only three countries so far have signed up. I think you need at least a dozen to really establish the credibility of that.

And secondly, around conditionality, some of the progress we're seeing, for example, protection social spending, is very sensible and long overdue, but some of the retreat from structural conditionality is, I think, a mistake.

And so there are a lot of details getting lost in the translation here between the various statements, that you really need to follow-up on, and pin down Treasury on exactly what they have in mind.

Ms. BIRDSALL. Mr. Chairman, let me just add that I don't—I think it's very important to recognize that this kind of hearing, in itself, helps create the right kind of benign pressure, both on the Administration and the Treasury, and indirectly, on IMF management and staff, and board.

So my view is that the direction is right, and that it's very important to continue providing a lot of guidance to Treasury on the position the United States should be taking on increasing its flexibility while retaining, as I say in my written testimony, the rationale behind some conditionality at some times in some settings.

The point is that, right now, we have a global economic emergency, and this is the time to provide the resources and to be sure that those resources are used as quickly and urgently as particularly the poor countries need them.

It is useful, also, to push for the idea of something like the flexible credit line being made available to low-income countries. At the moment, that facility is really meant for middle-income emerging market economies.

There should be something absolutely comparable, with the exception of the cost, for the poorest countries. Many of them meet the standard in terms of macroeconomic management and good governance that some emerging market economies have met.

Chairman MEEKS. Mr. Miller?

Mr. MILLER. Thank you.

I think it's incumbent on us to demonstrate to the American people that we're trying to do the right thing, and as you all recognize, we're in most unusual times for this country. We have a budget deficit of about $1,830,000,000,000 that, I mean, is staggering when you look at that.

And in California, specifically, we have an unemployment rate of about 11.2 percent, and in the Inland Empire region of our area, which has been an economic engine for California, it's actually in excess of 12 percent.

And it's actually greater than that in reality, because you figure one out of six people work for the government, and government unemployment is virtually zero, so when you add that number of the equation, unemployment amongst the private sector is really much greater, in the 11.2 percent in California, than they show out there.

Now, if we're going to commit $100 billion to the IMF, how do we ensure that these resources are being used to address economic stability and assist in our global economy recovery? How do we show that is going to be done? Can you try to address that? Because there is great concern about that.

Ms. BIRDSALL. I'm sorry, was that addressed to any of us?

Mr. MILLER. Yes, whomever would like to—I mean, it's a lot of money, especially during our economic times, and you have justified a great need, and you demonstrated how that need will benefit the overall, you know, developing countries of the world, but how do we ensure the resources are being used to address stability? How can we guarantee that?

Mr. ADAMS. I'll take a crack at it, Congressman.

First of all, this is an insurance policy. It's a contingent line of credit. So it's only used if called upon, and it is, Dr. Birdsall noted, it is for the best performers, those who have achieved a certain level of performance standards that I think are pretty rigorous.

So it is for those who have done the right thing, who have been good performers, and for no fault of their own, they are the collateral damage, suffering the collateral damage of a crisis which, in some ways, really started here in the United States.

Two is, I was just looking at a report from JPMorgan, put out yesterday, that said strong—if you support international financial institutions, support appears to be working to address the fears of extreme balance of payments risks in emerging markets.

So there's a sense that just the signalling effect of the desire to use these resources, and have these new resources, it in fact is having a stabilizing impact on global markets.

So in some ways, it has already begun working. We just have to ensure that the resources are there to support the signalling effect.

But I think it goes back to an earlier point, with greater flexibility for managing these programs, which I think are important, but the Treasury will have to have appropriate oversight, and this body will have to hold the Treasury Department accountable for these actions, too.

Mr. MILLER. But you used a real term out there, that the economy recognizes right now, when you said line of credit.

And I can name business after business, industry after industry, that normally had lines of credit that had been completely terminated because of the economy today, through no fault of their own. They have done the right thing. They have tried to pay their bills. Many are current.

But the lines of credit that they need to continue their business have been terminated, just because the industry is so questionable.

So although it's a line of credit, I recognize that, but the American people are looking at that as hard dollars, because that's what lines of credit are; if you need the money, it's going to be there.

And we just need to demonstrate to the American people that their global recovery is going to benefit them, in us making the investment.

So if the other three would like to respond to that, I would really appreciate it.

I'm not arguing. Don't get me wrong. I think we have a level we must meet as elected officials to say we're doing the right thing with these type of dollars.

Mr. BHATTACHARYA. I want to just put it in perspective in terms of the original sin.

There has been a withdrawal of something like $1 trillion of finance from the developing world, through no fault of their own. So this is a tsunami of gargantuan proportions.

And the money that is being used is really not money in some sense, you know, to make up for some fault of theirs. It's essentially a firewall to ensure that the crisis doesn't get deeper in that part of the world, and that helps, in at a moment of extreme fragility in confidence, you don't want other sources or worries to come up, and by preventing it, you are helping us all, and you're not going to use that money in these cases, as was pointed out, with much risk.

There are some other cases, which are the more difficult cases, for example, some countries in Eastern Europe, which are facing somewhat more difficult circumstances.

So what are the protections there?

And as Ms. Birdsall pointed out, the IMF is a very conservative institution. It may be the lender of last resort in some ways, but

it is also the lender that gets paid back first, and that's been the track record.

So this is relatively smart use of very limited money to produce a world in which we can climb out of this crisis in a way that manages the risks and manages the spillovers from it.

The part where you really do need some generosity is for the poorest countries, but that's a very different part of the equation from the NAB.

Mr. MILLER. And I really appreciate that comment. You said they were in a situation due to no fault of their own.

And see, we have to justify what we're doing to the American people who have lost their jobs, due to no fault of their own.

And so I know $100 billion, with what we're trying to do, may seem like a paltry amount, but to real people in this country, that's a lot of money.

And Ms. Birdsall, I know you had a response, and Mr. Johnson.

Ms. BIRDSALL. I just wanted to reiterate a point made earlier in a slightly different way, that in 2008, the U.S. economy grew very little, if at all.

Virtually all of our growth in 2008 was associated with our exports, with the increases in our exports, and a substantial amount of those exports went to developing countries.

So I think that makes—that is an argument, I hope, that can help make sense to even those American businesses that have had their own lines of credit terminated, that to the extent that jobs in the United States depend in part on ensuring there is this firewall that prevents the rest of the world from sinking further into difficulty, and not having the wherewithal to purchase our own exports, we are better off to deal with the fires everywhere.

Mr. MILLER. I recognize what you said about the exports. Many people think that their jobs were also exported to other countries, and that's a difficult thing for them to understand right now.

Mr. Johnson?

Mr. JOHNSON. I think the way you're framing the question is entirely appropriate, and I would suggest two answers.

First of all, the United States has a veto. There's no major decision that the IMF can make without the United States' approval and agreement. And the IMF is located two blocks from the White House for a reason. Okay.

No, this is very important. It's absolutely the way the IMF operates, the way the IMF thinks is very much related to, and influenced by, what the Administration is doing, and that's why you need to understand what Treasury wants them to do, because Treasury is not—they're not calling all the shots, but they have a huge influence there.

And the second thing is, much more bluntly than exports, the price you pay on your credit, as an American business, the risk premium that is demanded, from all of us, whether we want to borrow against our mortgages, is determined by the level of risk in the global financial market. It's a global financial market.

Right now, the major risks, not just according to the IMF, but according to everybody who looks at it seriously, the major risk is outside the United States. The United States, if it was just up to the United States, we would begin to get on our way to a decent

recovery. It is the instability in emerging markets, and frankly, in Western Europe, that is really the big danger here, and that comes back and hits every household and every firm in the United States smack in the face if it goes wrong.

Mr. MILLER. Thank you for your thoughtful answers.

Chairman MEEKS. Ms. Moore?

Ms. MOORE OF WISCONSIN. Thank you, Mr. Chairman.

And I certainly feel very grateful to this distinguished panel for visiting with us today.

Mr. Chairman, are we going to have more than one round of questions?

Chairman MEEKS. I see that we have votes coming up.

Ms. MOORE OF WISCONSIN. Okay. All right. So I have to pick and choose.

Chairman MEEKS. I would like to have more than one round.

Ms. MOORE OF WISCONSIN. Okay. I guess one of the first things that—my time is limited, so I will—I want to straighten something out between Ms. Birdsall and Mr. Johnson.

I heard you, Ms. Birdsall, say that we needed to continue governance reforms at the IMF, and China should be brought in.

But I also noted from Mr. Johnson's testimony that the IMF credibility has been damaged by our inability to follow through on the exchange rate surveillance, particularly with regard to China, and that these competitive devaluations or even accidental undervaluations will lead to greater global imbalances and potential instability as countries compete to get current account surpluses over other countries.

And I guess I need a little bit more appreciation for this. I think this undervaluation of currency, particularly in China, and the fact that they ought to be brought in, really is something that I have been struggling with for a very long time, so I appreciate having your expertise today to address that.

Ms. BIRDSALL. Yes. Let me try to address that, and see if Simon wants to add to what I say.

He's absolutely right. I don't disagree at all with the point he's making, which is—can be put this way, that the IMF has been relatively toothless, unfortunately, in addressing the global imbalance, which I would characterize in simple terms as follows: The Chinese are doing all the saving and exporting, and the United States has been doing all the borrowing and importing.

So the global imbalance was the outcome of difficulties and poor arrangements, both in China and in the United States, and the reality is that the IMF unfortunately, despite its warnings, it's not as though there were not—there was not written down, from time to time by the staff, and by management, an explication of this problem. It's difficult to discipline major powers.

So it's in the interests of the United States to have China at the table and to be engaged more and more in the discussions of how our behavior and China's behavior create risks for all of the rest of the world.

It's not going to be perfect, ever, but my own view is that we need, in addition to clubs and networks where countries get together, we need to bring as many countries that are powerful, like ourselves, and like China, into institutions where they can be sub-

ject to, and make themselves subject to rules of the game, and honor those rules. That makes everyone better off, both Americans and those in the rest of the world.

I don't know if Simon would put it differently.

Mr. JOHNSON. Yes, I would put it slightly differently, although I broadly agree that there is, of course, a major difference between the United States and China, in which the United States has a floating, flexible exchange rate in which we don't intervene on a systematic basis, whereas the Chinese exchange rate is, for all intents and purposes, a fixed, managed exchange rate, which means that if they want to—if they fall into an undervalued situation, for whatever reason, and they wish to remain there, they have to accumulate—the process of keeping that exchange rate undervalued means they will accumulate a large amount of foreign reserves, and what has happened is, they have amassed almost $2 trillion in reserves.

Now, I'm not saying this is the main driver of the crisis. I am saying that it has undermined the IMF's ability to deal with this, undermined their credibility, but going forward, think of it like this. Every emerging market and developing country that has this potential thinks, "Wow, I would love to have $2 trillion equivalent for my size of country. That's clearly a big stabilizer for me individually."

At the level of the system, that's a huge destabilizer. The only way you can have more accumulation of reserves, more current account surplus, is if somebody is running a deficit. Well, that might be the United States, it might be the Euro zone. Whoever it is, it's not going to be a stabilizing force.

You need the countries to buy into the system. You need a governance change. You need relegitimization. I advocate an emerging market person to head the IMF next time the job comes up, which I think will be quite soon. We must have some teeth on the exchange rates available.

Ms. MOORE OF WISCONSIN. Okay. So is this part of the reform that is occurring at the IMF now? What ability do they have to enforce this—I see my time is expiring, and I—

Chairman MEEKS. Finish up the question, and then I want to make sure we get to Mr. Manzullo, if he has time, and then we can go back around if we have time before the votes.

Ms. MOORE OF WISCONSIN. Is this a reform that the IMF is undergoing, and is it—how do they get this club, this billy club, to enforce it?

Ms. BIRDSALL. You know what, I would say at the moment, that the most important thing is for the IMF to have additional sufficient resources, so that the countries that—the other emerging market economies see collective insurance as the—they can count on the IMF. They do not need to build up their reserves. They do not need to abandon flexible exchange rates.

And the same might be said for China, which is trying now to increase domestic demand. It has a very big stimulus package.

So, you know, you could argue that it's maybe not enough, but it's moving in the right direction. But none of these countries will go to a position where it works for the overall global economy, un-

less they are reassured that they have someplace to go in the event of a shock.

So what we want is collective insurance, instead of all this self-insurance, which contributed to the imbalance, which in turn contributed to our current problem.

Ms. MOORE OF WISCONSIN. Thank you so much. Mr. Chairman, this was a very important question, but it prevented me from asking some other questions, so I hope there is another round.

Chairman MEEKS. Hopefully, we will get a chance to come back around.

Mr. Manzullo?

Mr. MANZULLO. Thank you very much.

I have a question to ask you, Ms. Birdsall, and then the clerk is passing out a document that was agreed to, "The Global Plan for Recovery and Reform," on 2 April 2009 at the G-20.

You had mentioned in your testimony that, "No way U.S. taxpayers would be taking a risk."

The issue here is that the Congressional Budget Office, on the initial draw of $100 billion, is unable to score it at this point, either the full cost or, as opposed to a zero score, which the White House had requested.

But it's true, is it not, that if these nations default on these loans, that the default runs up the line and that the American taxpayers could end up losing some money?

Ms. BIRDSALL. I don't know if others can speak more effectively to this point, but were those borrowers to default on the IMF, the IMF does have the resources to pay back the line of credit to the United States.

Mr. MANZULLO. Then, is that the reason why they would sell the gold?

Ms. BIRDSALL. For example, in addition to the current plan, gold fails—

Mr. MANZULLO. Right.

Ms. BIRDSALL. —they could call on other assets. Simon is probably better—

Mr. MANZULLO. I want to go to something else, then we can come back to that.

We just passed out this document, "The Global Plan for Recovery and Reform."

Are you folks familiar with this, the document that was signed—

Ms. BIRDSALL. Yes.

Mr. MANZULLO. —or agreed to at the G-20?

And if you take a look at paragraph 15 on the third page, it talks about establishing a new Financial Stability Board with the strength and mandate in that it should corroborate bullet point 2 with the—collaborate with the IMF to provide early warning of financial risk, but then that bullet point says, "To extend regulation and oversight to all systemically important financial institutions, markets, and instruments." This includes, for the first time, systemically important hedge funds.

The fourth bullet point is, "To endorse and implement the FSF's tough new principles on pay and compensation, support sustainable compensation schemes, the corporate social responsibility of all forms."

This is perhaps why the European Central Bank came out and attacked the infusion of $100 billion into the IMF, and why they called it possibly containing the seeds of a global currency in its own right.

What does this document intend to do? I mean, what is the purpose of it? It specifically mentions the $250 billion new allocation in paragraph 5.

Mr. ADAMS. Congressman, obviously, it's a product of a committee, so it represents enormous compromise.

With respect to the Financial Stability Board, is a recognition of the work of the former Financial Stability Forum, which when I was at Treasury, I actually participated in. So that is just, that is giving it formal recognition as a body to coordinate and share best practices among and between the regulators.

Mr. MANZULLO. But it says, "To extend regulation and oversight to all systemically important financial institutions, instruments, and markets," and also, tough new principals on pay and compensation.

Isn't this an international standard to determine the pay and compensation of banks that may be parties, banks whose countries are parties to the G-20?

Mr. ADAMS. Well, I can't speak to this particular—I don't know the origin or the negotiations that went to this.

I think the idea was, again, to try to create an environment where you could exchange ideas and—

Mr. MANZULLO. No, I understand that. I understand that. But one of the statements made by Ms. Birdsall was, "We need to bring the big countries together to make them subject to the rules of the game," to make this illegal document binding upon the G-20 countries.

Mr. ADAMS. No, I think she meant, and I'll let her speak for herself, but it's a phrase we have used before with respect to exchange rate surveillance, is within the Fund, you have a sense of the rules of the game, of what is appropriate behavior and what is not appropriate behavior and what will the institution, the Fund specifically, accept as appropriate behavior, with particular reference to foreign exchange—

Mr. MANZULLO. So you were referencing just foreign exchange rules and not binding IMF rules and regulations upon the countries that are signatories to the IMF; is that correct?

Ms. BIRDSALL. I certainly was not endorsing what is in that April statement from the summit, which, as Tim Adams was suggesting, is the outcome of a number of compromises.

My understanding is that these sorts of principles dealing with compensation schemes, probably that was a position taken by—not by the United States, by this Administration necessarily, but the idea is that there would be principles.

I think that there has been no agreement, however, amongst the G-20 leaders, that could be said to be reflected in that statement—

Mr. MANZULLO. Well, I understand that.

Ms. BIRDSALL. —that there would be international rules imposed on all members.

Mr. MANZULLO. But don't you think that this is pretty shocking, that this agreement should be literally endorsed by the G-20,

Spain, the signatories to the FSF, that attempts to set an international standard for compensation to financial institutions, markets, and instruments?

Ms. BIRDSALL. Well, I think it says new principles—yes, go ahead, Simon.

Mr. JOHNSON. Sorry. I don't think it's shocking at all. I think the point is, and this is I think exactly what the committee is trying to get at, which is that should the global financial system become unstable—

Mr. MANZULLO. No, I understand. You don't—

Mr. JOHNSON. They're trying to address this, and they're trying to establish—

Mr. MANZULLO. No, I understand that, Mr. Johnson. You don't—

Mr. JOHNSON. —the compensation that will reduce that instability.

Mr. MANZULLO. But you don't think it's shocking that an international body would attempt to control the salaries of executives of financial institutions whose countries are members of the G-20, you don't consider that to be shocking?

Mr. JOHNSON. I don't think they're trying to control the compensation levels at all. What they're trying to do is address the issue, which has been raised by the financial industry itself, in this country and in Europe, that there is unnecessary, excessive, and mismanaged risk-taking in the largest financial—

Mr. MANZULLO. That's not what the bullet point says.

Chairman MEEKS. The gentleman's time has expired, and we have a vote going on.

So let me take this time to thank this distinguished panel. I will tell you, on behalf of this subcommittee, that I think your testimony was excellent, and very thought-provoking.

I look forward to working with you in the future as this committee continues to delve into the issues that you have talked about, and I think, in more detail, especially the plight of the least developed countries of the world, and how we can help those economies in dealing with some of the socio-political realities.

Let me note that some members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses and to place their responses in the record.

And at this time, this hearing stands adjourned.

[Whereupon, at 11:26 a.m., the hearing was adjourned.]

A P P E N D I X

May 13, 2009

30

Congressman Gregory Meeks

Opening Remarks

Subcommittee on International Monetary Policy and Trade Hearing

"Implications of the G20 Leaders Summit for Low Income Countries and the Global Economy"

May 13, 2009

On April 2, 2009, the leaders of the G20 nations gathered in London to address the global financial crisis which has gripped nearly every nation in the world. The resolution put forward by the leaders was broad and far reaching, both in its scope as measured by the actions proposed, but also in its inclusion of nations which we may have been tempted to ignore in the past. Indeed, the very fact that the meetings in London were of the G20 leaders, plus representatives from other key emerging economies and international financial institutions, is a testament to the global nature of the crisis, and the imperative of a global approach to the solution.

But the question remains as to why, when we are faced with the deepest economic and financial crisis since the Great Depression, we should allocate time, energy and resources to poor and emerging economies, beyond our usual aid and humanitarian activities. I believe that, beyond the altruistic reasons for assisting poor and emerging countries, we have strong business, economic, and geopolitical reasons to follow-through on the commitments made by President Obama and the other leaders at the G20 Summit.

Indeed, it is critical to note that when we are not present, either directly through bilateral assistance, or indirectly through international financial institutions and multilateral development banks, others step in to fill the void. To do nothing and look the other way is in fact to do something. When we decide to walk away from our obligations under the pretext that the crisis is too severe to help others, we open the door for others to step in and fill the void we create. This is not just a theoretical threat, but in fact a very real one. Institutions like the IMF, the World Bank and many others which America supports and which were mentioned as critical to global economic recovery in the G20 communiqué act as balanced mediums to provide countries in need with much needed resources to forestall

crisis, while moving these same countries to more stable, more sustainable, and more peaceful paths to economic growth. This is something we should all support.

We have called this hearing to follow-up on the G20 resolutions, endorsed by President Obama, which made explicit the importance of not just providing aid to those nations and communities in the most dire need, but rather to include poor and emerging economies as full participants in any strategy to pull the global economy out of recession. The wording of the G20 communiqué made this explicit. The reasons for following through on the commitments made by President Obama and the other leaders at the G20 Summit in London can be broadly grouped into three categories:

1) Supporting American industry
2) Preventing further systemic risk in global capital markets and encouraging continued sound economic reforms
3) Promoting socio-political stability

Addressing these issues in order, I will begin by discussing the impact on American industry. As the G20 communiqué stated, emerging economies have

been a true engine of global economic growth in the recent past. As we saw with the Asian financial crisis of the late 1990s, when the emerging economies of Asia stalled, world economic growth stalled. When the financial crisis that struck Asian economies was resolved, the world as a whole resumed on a path of rapid economic expansion. In many ways, we face a similar crisis today, on a much larger scale. As our economies have become increasingly inter-dependent through trade and vertical outsourcing, American producers are directly and indirectly exposed to consumers and manufacturers around the world. Driven by their rapid economic growth, emerging middle classes, and young populations eager to consume American goods and services, emerging economies have become major consumers of goods and services produced by American companies. As a result, many American companies stand to gain from our efforts to support the continued economic growth in these countries. As was the case with the Asian financial crisis, restarting the engines of growth in emerging economies will be a critical component to restart our own economy here at home.

Looking at the second point, about preventing further systemic risk in global capital markets, it is important to revisit some important changes that occurred in the past decade or so. It has been well documented that, following the Asian financial crisis and the Argentina crisis earlier this decade, the IMF experienced a

dramatic drop in its lending activities around the world. This was in part due to what was seen as overly harsh conditionality on loans and stigma associated with turning to the IMF for balance of payment assistance. But this was also largely due to the availability of other sources of funding for many emerging market governments. Indeed, as capital markets matured and expanded aggressively to the four corners of the world, companies and governments in emerging markets found themselves able to borrow from global banks, investment funds, and alternative investment vehicles like never before. This enabled many of these countries to pursue their economic development strategies while building up healthy reserves. Where the debt stock of poor and emerging economies would previously have been constituted nearly entirely of IMF, World Bank, and other international development institution debt, increasingly banks and investment funds accounted for a large share of that debt. This, of course included American investors and American banks. As some of these debts come due, many countries will be unable to meet their financial obligations, creating the very real risk of another wave of bank failures and a further retrenchment of credit, internationally, but also here in America.

This risk of default, primarily on sovereign debt, but also by the largest companies in these emerging economies, is equally true in countries that followed what would

be considered sound macroeconomic policy, building up healthy reserves and investing in the development and diversification of local industry. This is true because of the nature of the crisis they are facing. They are dealing simultaneously with falling demand for their exports, a steep fall in commodities prices, collapsing remittances, drastic reductions in international aid, rising domestic unemployment, and returning emigrants. Even the best prepared emerging economies cannot withstand such a confluence of negative shocks at once, and risk severe balance of payments pressure. To make credit available to these economies through institutions like the IMF, allowing them to roll-over their debts and continue to meet their domestic and international financial obligations, is to protect global capital markets, including American banks and investors, from another series of systemic shocks that could bring global credit markets to a near halt.

As described, many poor countries and emerging economies have implemented sound macroeconomic policies in the past decade or more. This of course has not been universally true, but evidence abounds of countries in Africa, Asia, Eastern Europe and Latin America applying more conventional, trade-driven, free markets policies. These countries have reversed long trends of nationalization of industries, choosing instead to foster entrepreneurship and competition, opened their economies to international trade, and put in place the foundation of good

governance. To fail these nations now, by not supporting their continued efforts of reform, is to risk reversing a decade or more of economic achievement.

The third topic, socio-political stability, should be top of mind to all nations seeking a way out of this global financial crisis. Simply put, we are at an inflection point in history, and our decisions in the coming weeks and months will define the future path of global economic growth and broader geopolitical events. As already explained, many poor and emerging economies face a perfect storm of external shocks which is putting a great strain on their economies, both at the macroeconomic level, but also at the microeconomic level. Emerging economies and fragile democracies will be severely tested by collapsing demand and prices for their exports, rising unemployment, falling remittances, and unemployed migrants returning to their home countries. If nothing is done, these and other factors will inevitably push some countries to civil unrest, if not outright war. It is in the interest of all peaceful nations to ensure that this be avoided. As we approach this inflection point in history, and accept that to do nothing is not an acceptable option, we now consider how our actions can set emerging countries on a path to sustainable, peaceful growth, sowing the seeds of freedom and democracy in regions of the world where they have been elusive. Trade finance and a rejection of protectionism are critical components of the G20 resolutions. But the

details were lacking, and present a great opportunity for us to put our imprint on the nature of this recovery, and the structure of future economic relations between rich and poor nations of the world. As we follow-through on the commitments made at the G20 Summit, we can and must focus on capacity building in emerging markets, to make them full participants in a sustainable, open and fair system of global trade. The alternative is no longer acceptable, as it leads to instability and open conflict within and between nations. As Frédéric Bastiat, a 19th century French economist rightly said, "when goods don't cross borders, armies will".

Testimony by Tim Adams
House Committee on Financial Services
International Monetary Policy and Trade Subcommittee Hearing
"Implications of the G-20 Leaders Summit for Low-Income Countries and the Global Economy"
Wednesday, May 13th, 2009

Overview of the crisis and its impact

The economic and financial crisis that has engulfed the United States over the past year continues to cascade throughout the global economy, producing a painful, sudden, synchronized global contraction. The IMF has once again revised downward its estimate for global growth in 2009 to a negative 1.3%, which is the most acute global recession since the Great Depression. Many noted private forecasts are even more pessimistic. The World Bank estimates that global trade will decline 6% this year, the largest decline in 80 years. The likely global wealth loss from this crisis could exceed $50 trillion, which is more than global GDP.

The G7 economies, which compose roughly half of global GDP, are experiencing the first synchronized recession in the post-war era. The U.S. economy will likely continue to contract during the current year, even with a sizeable stimulus in place and the Euro-region will contract by 4%. Germany, the world's fourth largest economy and top global exporter, will likely suffer its worst economic performance in its modern history. The UK economy is forecasted to shrink the most since 1946 and Japan is in the midst of a severe and protracted contraction, with exports plummeting by the largest amount in 60 years. In short, the economies of the developed world have ground to a halt and the one-two punch of this extraordinary financial crisis and a deep synchronized global contraction means that a return to sustained, trend growth is possibly years away.

The emerging market economies are mirroring this phenomenon. China, now the world's third largest economy and along with the U.S. one of the key drivers of growth during the recent expansion, is experiencing economic challenges not seen since the Asia Financial crisis a decade ago. China's growth has slowed from a blistering 13% pace in 2007 to a relatively languid 7% this year, and China is regarded as one of the top global performers. Asia region-wide is suffering, disproving the oft-repeated mantra of the past few years that the region had "decoupled" from the U.S., insulating it from possible weaknesses and shocks from outside the region. For example, Korea's fourth quarter 2008 GDP growth collapsed a staggering -21 percent (annualized quarter over quarter), and Singapore an equally stunning -17 percent, the biggest drop on record. Further, India will likely suffer a growth rate this year that's at best just half the pace of last year. Finally, growth will actually decline in Central and Eastern Europe, Central Asia and Latin America and Caribbean.

The world's principal commodities producers, who just a year ago were in an enviable position of benefiting from stratospheric price levels, have been whipsawed by a freefall in prices. With oil prices plummeting by roughly $100 a barrel, from a record $147 in July of 2008, and despite a recent recovery, the oil producers are under financial and fiscal stress. Russia experienced a substantial outflow of capital, a collapsing Ruble, a sizable loss of official reserves and a large swing in its external position from positive to negative. The GCC economies are facing the toughest conditions in decades with many of the economies suffering budget deficits and slumping activity. The non-oil commodities producers, such

as copper exporters Chile and Zambia and iron ore producers Brazil and Australia are also experiencing weak demand and flat exports.

The credit crunch is slamming the already highly weakened emerging market economies (EMs). During the 2002 to 2008 expansion, emerging markets boomed, experiencing a solid average annual growth rate of 7%. During this time, many implemented sound polices, such as reducing deficits, reducing foreign exchange denominated debt, accumulating reserves and moving to flexible exchange rates. Such policies and good economic performance created a fertile environment to attract capital, and many of the EMs did attract capital, especially the corporate sector. JP Morgan notes that emerging market corporates borrowed (direct and syndicated lending) over $1.3 trillion for the three year period of 2006 -2008. These corporate borrowers will need to rollover roughly tens of billions dollars of debt during this current calendar year, which will prove incredibly difficult to accomplish.

In addition to portfolio flows, Emerging Markets and developing economies are also suffering from a drop off in foreign direct investment. The World Bank, in its latest Global Development Finance Report, predicts that FDI into the developing economies will slump by a whopping $180 billion or 31% in 2009, following on a 10% decline last year. Given that FDI accounts for 40% of total flows to the developing world, such a substantial decline will further depress growth and weigh on the value of EM currencies.

The Impact on Low-Income Countries

Even during the recent boom years, extreme poverty was prevalent in the low-income countries. More than a billion people live on a less than a dollar a day. More than three-quarters of a billion are malnourished -- about a fifth of them children. In fact, every day 25,000 children die from a variety of maladies, many of which are preventable, and some estimate that the current crisis will increase childhood deaths by 200,000 to 400,000 this year alone and hundreds of thousands more over the next few years.

According to the World Bank almost 40% of the 107 developing countries are highly exposed to the crisis and the rest are modestly exposed. It's not just the loss of export markets, the sharp drop in capital flows and collapsing commodity prices, but many low-income countries will *also* suffer from a loss of critical remittances ($300 billion to $400 billion annually) and foreign assistance, which will fall in volume and as a share of GDP. Further, the IMF estimates that an adverse balance of payments shock for 38 low-income countries will amount to about $165 billion but under a "worse case" scenario could hit $216 billion. All these factors will slash developing countries' growth to just 2.1% this year, a three percentage point decline from last year and will hit some regions very hard. For example, economic growth in Africa this year will plummet to just a third of pre-crisis estimates (2.1% versus 6.4%), likely producing devastating and long-term consequences for the continent. The impact is expected to even prove more devastating in the 35 countries classified as "fragile states" by the World Bank -- 25 of which are in Africa.

The human impact will be painful. As many as 55 to 90 million people will be trapped in extreme poverty this year alone as economic conditions slow, this is on top of the 150 million people pushed into poverty because of soaring food and fuel prices. The number of chronically hungry people is expected to climb to over 1 billion this year. These trends will place an enormous strain on

development organizations and budgets and make it all the more difficult to meet the Millennium Development Goals of overcoming poverty by 2015.

The Global Community Responds

The world's policymakers have responded with imagination and alacrity, implementing polices well outside the conventional textbook suggested options and instruments. Central banks have slashed interest rates to historic levels and moved to employ their balance sheets in ways and magnitudes unimaginable just a year ago in an effort to re-liquefy financial markets, unfreeze credit channels and address concerns of financial counter-party risk. The world's principal central bankers should be applauded for these efforts and for their willingness to undertake extraordinary action to combat this crisis. Officials worldwide have also turned to fiscal policy, with most of the major economies having enacted or currently enacting sizable spending and tax cut programs. Additional fiscal stimulus focused on domestic consumption would be most welcome and should occur in those countries with large or growing savings rates and moderate to low debt to GDP levels (i.e., those with the capacity to enlarge their deficits).

Leaders from the G-20 economies gathered for the second time in just six months in London on April 2nd amidst "the greatest challenge to the world economy in modern times" and collectively endorsed the actions taken by monetary and fiscal authorities. Specifically, the G-20 leaders agreed to restore confidence, growth and jobs; repair the financial system and restore lending; strengthen financial regulation; promote global trade and reject protectionism; build a green and sustainable recovery; and, fund and reform our international financial institutions to overcome this crisis and prevent future ones. All of these efforts, working in concert with bilateral programs, other multilateral efforts and NGOs, will help minimize the negative impact of this crisis. Central to this effort, though, is a newly energized, sufficiently resourced, more relevant and legitimate International Monetary Fund.

A Revamped IMF Responds

This crisis has thrust the International Monetary Fund back into a central and prominent role of promoting macroeconomic stability among its member states. The Fund responded quickly and comprehensively, creating a new program to insure good performers against liquidity short-falls and over-hauling many long-established, conventional programs to meet the needs of this crisis and to respond to criticism of past actions. More specifically, the IMF created a new Flexible Line of Credit (FCL) for countries that pre-qualify via a rigorous set of criteria centered on strong fundamentals, policies and track records of implementation. Thus far, Poland ($20.6b), Mexico ($47b) and Columbia ($10.5b) have been approved for the FCL and several other good performers are likely in the pipeline for future approval.

The Fund also enhanced its traditional Stand-by Arrangements (SBA) for members who may not qualify for the FCL, doubling access limits and simplifying cost and maturity structures. Over the past several months, the Fund has extended tens of billions in financing to such countries as Pakistan ($7.6b), Hungary ($15.7b), Ukraine ($16.4b), Iceland ($2.1b) and Latvia ($2.34b) to stabilize their fragile economies and minimize possible social strife and political instability.

The Fund is also responding to the plight of low-income countries with three tools: lending, technical assistance and surveillance. The Fund provides concessional financial assistance for countries experiencing protracted balance of payments problems through the Poverty Reduction and Growth Facility (PRGF) and, for temporary needs, through the Exogenous Shocks Facility (ESF). The IMF has approved a doubling of access limits under these facilities and, as of late last year, 78 low-income countries were eligible for PRGF assistance. Further, the IMF doubled concessional financing to low-income countries over the past year though 23 new financing arrangements and via 12 existing ones. New Fund lending to Sub-Saharan Africa has topped $1.5 billion. The Fund is committed to tripling concessional financing over the next two years, totaling $6 billion, along with $19 billion allocated with the issuance of the $250 billion of Special Drawing Rights.

The Fund also provides assistance for post-conflict countries and emergency relief for natural disasters. Some countries are eligible for the Heavily Indebted Poor Countries (HIPC) initiative and the Multilateral Debt Relief Initiative (MDRI). As a result some 37 low-income countries have experienced over $115 billion of debt relief, with the vast majority of this relief occurring in sub-Saharan Africa. The Fund is also streamlining conditionality to focus on core objectives and to preserve or increase necessary social and safety-net programs. Further, the IMF provides assistance and training to help member countries strengthen the capacity of their institutions and officials to manage their economic and financial policies. The Policy Support Instrument (PSI) provides a path for graduation from serial borrowing programs while offering the policy advice that some countries need. Finally, the IMF also provides a surveillance function to help countries establish economic frameworks that support sustained high growth and poverty reduction, help countries identify and mange risks and vulnerabilities and strengthen institutions and policies that underpin sound macroeconomic management.

To ensure that the Fund has the sufficient resources to meet the needs of this crisis, the G-20 pledged to triple resources available to the Fund to $750b via $500b in direct or contingent funding and a $250b increase in Special Drawing Rights (SDRs). These resources, along with the revamped, more relevant program profile of the Fund, are two key components to ensuring the Fund's success and therefore the stability of the global economy. The third component is to ensure that the Fund has the legitimacy to act on behalf of the global community. To achieve this, the Fund's governing structure needs to change to reflect the changes that have occurred in the global economy. Namely, the EM's need greater voice.

The IMF reform process actually began well before the onset of this crisis. In the spring of 2008 the IMF shareholders agreed to a comprehensive reform package. The Bush Administration submitted this package to the Congress in November of last year. The package includes such changes as a quota increase of $7.5 billion, re-balancing of voting rights, and flexibility in how the Fund manages its investment portfolio and proposes a sale of a small percentage (about 12.9 million ounces or $11.6 billion) of its gold holdings. The Obama Administration is proposing to modify this proposal consistent with the G-20 agreement, namely by expanding the Fund's contingent credit line via the New Arrangement to Borrow (NAB) from $50 billion by up to $500 billion, of which the U.S. would contribute $100 billion, and by expanding the NAB membership. The current Administration also proposes providing additional support for the poorest countries and an amendment to permit a special one-time allocation of Special Drawing Rights ($250 billion) to increase global liquidity and financial stability. I would urge the Congress to approve this package – a product of the current and previous Administration – as soon as possible to ensure that the IMF has the *legitimacy*, *stature* and *resources* to serve its critical role in global macro-economic stability.

Even with Congressional approval and the extensive changes to Fund programs and focus, the IMF will have to remain nimble, innovative and flexible to changing conditions. It will also need to ensure that it does not sow the seeds of future problems by excessive lending that is beyond what countries need or have the capacity to service. Over the last few years, the Fund has made progress in overcoming unhealthy reliance on lending and "prolonged" support for low-income economies. It's important that low-income countries maintain a sustainable debt profile and avoid returning to serial IMF programs and re-accumulation of debt to the Fund or other creditors. Finally, the Fund should stick to its core competencies of fiscal, monetary, financial sector and exchange rate policies and structural reforms directly relevant to macro-economic stability. With every organization there is mission creep, but the Fund should continue to resist the temptation to expand beyond its core competencies.

The IMF will also have to address several significant and complex policy challenges in the concluding stages of this crisis and the accompanying withdrawal of global monetary and fiscal stimulus. This includes: the optimal mix between monetary and fiscal stimulus withdrawal, coordination on the same among the key economies, reducing East Asia and core Europe's reliance on exports, reducing large and persistent external imbalances and addressing exchange rate policy where half the world is pegged to the dollar and half is not.

The World Bank Responds as well

The World Bank is also responding to this crisis, calling on developing countries to pledge 0.7% of their stimulus packages to a global vulnerability fund to help the developing world. The Bank Group has also set up a new facility to speed $2 billion from the IDA 15 Fund to help the poorest. The main priorities are: safety net programs to protect the most vulnerable; maintain investments in infrastructure ($55 billion); bolster distressed banking systems; fund agriculture programs ($12 billion) to ensure food security and safety; and, support for SMEs and microfinance. The Bank Group via the International Finance Corporation is doubling its Global Trade Finance Program to $2 billion over three years and a putting in place a new Global Trade Liquidity Program (GTLP) to mobilize $5 billion to support $50 billion in trade over a three year period. A new $500 million Microfinance Enhancement Facility will provide refinancing to microfinance institutions in up to 40 of the World's poorest countries, reaching 60 million low-income borrowers. Finally, the Bank plans to use the IBRD's balance sheet to increase lending by up to $100 billion over the next three years.

The Principles behind the Washington Consensus are worth Saving

While the Washington Consensus label or brand has been so maligned that it's beyond repair, the underlying concepts or principles of the Washington Consensus are worthy of our continued support. The concept and name of the Washington Consensus first originated a decade ago by economist John Williamson to describe the general advice emanating from the IMF, World Bank and U.S. Treasury Department at that time. This advice included fiscal discipline; redirection of public spending towards pro-growth, pro-poor services and programs; tax reform; market determined interest rates; competitive exchange rates; trade and FDI liberalization; privatization of state-run enterprises;

deregulation except that justified for safety, environmental and consumer protection and consistent with prudent oversight of financial institutions; and, protection of property rights.

Both adherents and detractors should be cautious and refrain from zealously employing these principles in an overly rigid, orthodox and ideological manner. They are neither all inclusive nor sufficient for success. They are simply directionally smart policies to achieve macro-economic stability and to remove distortions in an effort to achieve a more efficient allocation of resources. Unfortunately, the current financial and economic crisis has created an opportunity for detractors to renew their criticism, declaring once and for all its demise. But, these policy concepts did not cause the current crisis and may have proven instrumental in insulating many emerging markets from suffering a more acute impact. In fact, the lack of fiscal discipline, exchange rate flexibility and prudent financial oversight contributed to the crisis. The key now is to move beyond the label, learn from the current crisis and fashion a new consensus that countries can use as a guide to achieve maximum sustainable and stable growth and prosperity that is shared widely within an economy while ensuring that the most vulnerable are protected.

Why the U.S. should support the G-20 and Multilateral Institutions Response

I strongly endorse the policy agenda and changes that the G-20 has proposed and are implementing and would strongly urge this Committee and the Congress generally to support them as well. The reasons are numerous. A few are as follows:

Help countries that help themselves. The US should champion developing countries' pursuit of sound macro-economic policies, governance and social reforms that are drivers of economic growth and prosperity. These efforts are now at risk due to the events outside their own making and control. We should reward and re-enforce good, responsible behavior and help insure against unforeseen events and systematic failures.

Fragile nations present a significant threat to US security. Failed states and extreme poverty breed unrest and instability and create the types of conditions that allow dictators, extremists and terrorist to thrive. In short, it is in our national security interest to ensure that financial and economic crises don't destabilize fragile states, which might prompt either internal or external forces, possibly hostile to U.S. interests, to attempt to gain power and influence. Many of the recent recipients of IMF support (e.g., Mexico, Colombia, Poland, Ukraine, and Pakistan) are key allies and/or critical actors in the success of achieving our foreign policy and national security objectives.

US prosperity is intertwined with developing nations. We live and work in the most integrated, globalized economy in human history. As we have learned during this crisis, events – disruptions -- in one part of the system can quickly impact other parts, often in a cascading fashion, and the oft-touted concept of "de-coupling" has now been discredited. Furthermore, the future of the U.S. economy will increasingly depend on the developing world. Since 2004, U.S. exports to developing/emerging market economies have grown 60%, which is three times the pace to the more mature markets in the developed economies. Also, 95% of the world's population – all potential consumers of our goods and services -- reside outside the U.S and 98% of population growth between now and mid-century will occur in the developing regions. Finally, according to the IMF, non-advanced economies will account for 70% of economic growth over the next five years. In short, the future of U.S. economic growth and

prosperity is dependent on economic growth and stability outside our borders, and increasingly dependent on emerging and developing economies.

Reward institutional reforms. The IMF has undertaken the most sweeping reforms in over a quarter century -- maybe since its inception -- in an effort to adapt to the changes that have occurred in the global economy and financial markets. The Fund's new and revamped programs are much more relevant to the way in which the global economy functions and are designed to address specific markets and challenges, including low-income countries. The Fund now needs the resources to ensure that these programs are sufficiently funded to weather this and future financial and economic crises with minimal damage to the global economy and the most vulnerable. The Fund, working with the G-20 and key shareholders, is also attempting to revamp its governing structure to also reflect the changes that have occurred in the global economy. Giving emerging market and developing economies representation and voice commensurate with their role in global economic activity will give the IMF the legitimacy it needs to strengthen its surveillance role and to address critical policy issues, such a foreign exchange misalignment and reserve accumulation.

US leadership and responsibility at an historic time. The global community is watching closely to detect a U.S. hesitancy or lack of will to lead through the crisis. The descent of U.S. power, authority, values and influence is an oft-discussed, much-written-about topic these days. This is especially true given that the crisis originated in the U.S. and is in no small measure a product of U.S. policies, behaviors and regulatory failures. Other countries have added to and exacerbated this crisis but we bear the brunt of responsibility. If we fail to lead, if we turn inward as we have at other times in history, others will seek to exploit this and fill the perceived vacuum, likely with policies, principles and ideals different and potentially hostile to the U.S. It is our duty to lead and in our interest to do so.

Conclusion

We are in the midst of the most extraordinary economic challenge of our times where no part of the global economy -- from Norway to Nigeria to New Zealand -- is immune. The G-20 has laid out a sound, comprehensive response to stabilize economic and financial conditions, quickly restore growth and ensure that this kind of crisis does not occur again. We must also ensure that the world's poor and most vulnerable do not suffer greatly in this crisis. I strongly endorse the G-20 effort, including specific proposals centered on support for and reform of the International Monetary Fund. Macroeconomic stability is a necessary component to the G-20 achieving its stated objectives. Further, mounting budget deficits and overwhelming domestic priorities will likely strain our and the developed world's capacity to meet, let alone exceed, development assistance pledges. This is no time to short-change our commitments. I support the President's proposed increase of foreign and development assistance funding and I urge the Congress to do so as well.

Implications of the G20 Leaders Summit for Low Income Countries and the Global Economy

Testimony to the House Financial Services Subcommittee on International Monetary Policy and Trade

Amar Bhattacharya
Director, G24 Secretariat
May 13, 2009

Thank you for the opportunity to testify to this Subcommittee. Representing the G24, I am particularly grateful given the importance of the topic for the emerging markets and the developing countries of the world.

Although the crisis originated in mature markets, and although emerging markets and developing countries were not directly exposed to the toxic assets that have affected financial institutions in many advanced countries, the crisis is having a deep and in many ways disproportionate impact on developing countries through various channels including sharply contracting exports, declining remittances, falling prices of commodity prices and a massive withdrawal of private capital flows. A few emerging markets have been severely hit by the global credit crunch, but most emerging markets and developing countries have been able to withstand the immediate financial aftershocks of this crisis. Indeed the relative calm in emerging markets has been a positive and sharply contrasting feature compared to the past. The cost to developing countries instead has come in the form of sharp declines in growth, rising unemployment—possibly by as much as 50 million in 2009—and increases in poverty and deprivation. Moreover it is likely that developing countries will see longer lasting effects and remain more vulnerable in the face of a further or more protracted downturn.

Despite significant improvements in policies across the developing world and the build-up of better cushions over the past decade, most developing countries do not have the leeway to withstand severe liquidity pressures or undertake the kind of countercyclical measures that the G20 agreed was needed as part of the collective response to the crisis. In recognition of the constraints faced by emerging markets and developing countries, the G20 leaders committed to a range of measures to bolster the international financial institutions so that they could greatly expand their support to emerging markets and developing countries. These proposed measures were more ambitious in some respects than others, but their overall thrust was laudable and the immediate challenge is turning the commitments made into concrete and expeditious actions.

Before I elaborate on the specific areas where action is now needed, let me underline four reasons why support for emerging markets and developing countries at this juncture is in the global collective interest and in the interest of the United States. First, support from the

international financial institutions and especially the IMF can help ensure that the crisis is contained, and that there are no further adverse threats to the restoration of confidence at an extremely fragile and uncertain time for the global economy. Second, it is important to keep in mind that emerging markets and developing countries accounted for more than 75 percent of global growth and almost 50 percent of the increase in import demand before the crisis. Economic recovery in these countries is therefore critical to global growth and to the growth of US exports that in turn must be a bulwark for US recovery. Third, we cannot forget about the plight of the poorest countries not just because of the moral imperative but because how important economic and social progress in these countries is to peace and security all over the world. And, finally, the financing that the G20 is proposing to mobilize and channel through the international financial institutions does not for the most part entail a major burden on the tax payers of the developed world. Most of the financing would be precautionary or in the form of loans, and not requiring large fiscal outlays in the advanced countries including the US.

In terms of the specific actions proposed by the G20, the most ambitious is the trebling in the resources of the IMF initially through a significant expansion in the New Arrangements to Borrow. Since the outset of the crisis the IMF has committed more than $147 billion in GRA financing, including precautionary financing, to 20 countries which is almost 60 percent of the IMF's available resources excluding the Japanese bilateral loan. Given that many other countries are in active discussions with the IMF on financing arrangements and given the large downside risks that still remain in the global economy, an early agreement and implementation of a new and more flexible New Arrangements to Borrow is absolutely critical for not only emerging markets but for global financial stability. Such an agreement must, however, be seen as only a bridge to a permanent increase in the IMF's resources through a general quota increase which in turn must be linked to a realignment of quotas away from Europe to emerging markets and the developing world. We welcome the clear position that the US has expressed in this regard, and would urge that this position continue to be stressed in whatever arrangements are agreed upon. We also believe that it will be important to implement the IMF's new lending and conditionality framework in an evenhanded way, recognizing in particular the exogenous nature of the crisis. We also believe that a new SDR allocation of $250 billion will help boost liquidity and reserves at a time when both are much needed, especially for the more vulnerable as well as the poorest countries.

While the IMF is the firewall against immediate and potential liquidity threats, the World Bank and the regional development banks have a critical role to play in this crisis in meeting financing needs across a wide array of countries in supporting countercyclical policies including for social safety nets, sustaining investments including for infrastructure, trade finance and bank recapitalization. Given the scale of these financing needs, and given the magnitude of the withdrawal in private finance, the proposed increases in MDB financing, of around $100 billion over the next two years, appears if anything quite modest. Bolstering the capital of the World Bank, including IFC, and of the regional development banks is therefore critical not only in ensuring that they can respond adequately to the crisis but that they can provide the long-term development financing needed in the aftermath of the

crisis and the financing needed for global public goods including the looming challenge of climate change. We believe that it is absolutely imperative that this major expansion in the role of the multilateral development banks go hand in hand with improvements in their policies and governance. But this does not mean yet new conditions imposed by the Bank or the shareholders of the North, either as conditions for capital increases or in the way the Banks do business. The aim must be to place accountability for results and good governance squarely with the countries and their governments, and to rely much more on country systems and ex post reviews and sanctions.

Finally, let me close by noting that the aspect in which the G20 was perhaps able to produce the least ambitious results was on the support for the poorest countries. Although the poorest countries were not hit as visibly by the financial market spillovers, the ultimate impact of the shocks is more adverse given their limited capacity to withstand the shocks. The crisis has resulted in a financing shortfall in the range of $35-$50 billion for the poorest countries. At the London Summit, the G20 committed to use additional resources from agreed gold sales and any other surplus income to provide $6 billion in additional concessional resources from the IMF over the next 2 to 3 years. The use of gold sales remains contentious but the key is the political commitment to augment the concessional resources of the IMF. Even more important is the need to augment and bring forward the replenishment of the concessional arms of the multilateral development banks, especially IDA. A frontloading of IDA resources alone will simply not produce the scale or certitude of concessional resources that is needed. In the scale of the numbers that are now being expended, the amounts of resources that we are talking about for the poorest countries are extremely modest. At a time when many poor countries had begun to lay the foundations for sustained growth and make more meaningful headway on poverty and other development goals, it would be a real tragedy if the poorest countries fell through the global safety net.

Let me end on a note of optimism. Even though many would have liked to have seen even bolder actions out of the London Summit, the G20 raised the bar on the response to the crisis and the role that the international institutions can play in a way that few would have considered feasible even a few weeks before the crisis. But those commitments will remain hollow unless there is determined follow through in governments and legislatures across the world. The leadership of the US, and of the US Congress, in the timely and ambitious implementation of commitments can pave the way for a new era of international cooperation and for reinvigorating the legitimacy and effectiveness of the international financial institutions at a challenging time for us all.

Thank you.

Implications of the G20 Leaders Summit for Low Income Countries and the Global Economy

Testimony for the House Financial Services Subcommittee on International Monetary Policy and Trade

Nancy Birdsall
President, Center for Global Development

May 13, 2009

Thank you Chairman Meeks, Ranking Member Miller and other members of the subcommittee. I appreciate the opportunity to appear before the subcommittee today to talk about the implications of the G20 Summit for low-income countries and the global economy.

I. Introduction

The twenty-first century is bringing tectonic shifts in the world's political and economic landscape. Today's global challenges—disease, human and food insecurity, climate change, and financial crises—do not respect borders; they threaten security globally and at home. Trade, remittances, and private investment tie rich and poor countries together, creating shared opportunities for prosperity in plentiful times, but also the potential for shared instability and strain, as in our current global economic downturn.

The U.S. cannot hide from these problems within our borders. We are still the global leader, and the world still looks to us for leadership despite out recent financial excesses. But we cannot manage what are fundamentally global challenges alone or even with one or two allies or economic partners. We have to engage actively in cooperative institutions designed to help member countries manage global challenges through effective collective action.

In the global village we have constructed, we live in the center in what is still the biggest house. We started a fire at the center that has spread quickly and puts others in grave danger. We have a responsibility to help – indeed to lead in raising resources to fight the fire and limit its damages not only close to home but further afield among our smaller, poorer neighbors.

An urgent current challenge is to ensure developing countries can cope with the global economic crisis – avoiding setbacks that would undermine the fight against poverty and disease worldwide, and shoring up their fiscal capacity to participate in global demand stimulus.

In this spirit, I am pleased to be here today to offer my perspective on the steps the new administration and G20 leaders at the London Summit have taken to do more to help developing countries, including the poorest among them, to cope with the crisis. The summit leaders proposed a major increase in resources at the International Monetary Fund (IMF), and my remarks will focus primarily on the position the United States ought to take on that issue and on related proposals for reform and strengthening of the IMF. I will make four broad points:

- **We (Americans) need the IMF.**
- **The Congress should agree to the administration's request for the U.S. to shore up an IMF borrowing facility with a $100 billion loan.**
- **The Congress should endorse the sale of IMF gold, and should provide guidance but not strictures to the administration on the use of the income.**
- **The United States should take stronger leadership and initiative in securing serious reforms of governance at the IMF.**

II. We (Americans) need the IMF

One need look no further than today's global economic crisis to see the promise and peril that increased global integration affords rich and poor countries alike. While this increased global integration has made the challenge of reducing global poverty and inequality more achievable than ever, we also know that the repercussions of financial crises can quickly undermine these efforts all around the globe.

In February 1945, President Franklin D. Roosevelt told Congress that the IMF "spells the difference between a world caught again in the maelstrom of panic and economic warfare …or a world in which the members strive for a better life through mutual trust, cooperation and assistance." Rapid globalization since then has only intensified our need for an institution like the IMF.

There are two reasons why the U.S. should support the IMF right now.

- First: The U.S. recovery from the economic crisis depends not only on our own stimulus package, fiscal and monetary policy and credit and related programs to sustain domestic demand, but on sustaining demand abroad, including in emerging markets and developing countries.

- Second: U.S. prosperity and in the broad sense U.S. security beyond the crisis rely on the open, rules-based international economic order created under our leadership at the end of World War II. The IMF plays a key role in that order, and that order in turn

supports the safer, more prosperous and more humane global community Americans want beyond as well as within our borders.

1. Ensuring our economic recovery

In economic terms, emerging market and developing economies have driven much of recent world growth. In 2008, U.S. growth relied almost completely on our exports—about one-third of which went to China, India, Brazil, Mexico and other emerging markets. An estimated 10 percent of U.S. jobs—about 12 million—depends directly on these exports. Now those markets are experiencing dramatic withdrawals of capital and drying up of credit, including trade finance. Remittances are declining as immigrants return home. As commodity prices and exports decline, most developing countries can expect big shortfalls in fiscal revenue this year, meaning that they will not be able to fund the costs of teachers and health workers, let alone their existing bare-bones safety nets.

Helping emerging and developing countries to cope is in our national interest. President Obama explained in his letter to congressional leaders about the G20 commitments that lower global growth, as in the Asian financial crisis, will cause U.S. growth, jobs, and exports to fall more sharply. Collapsing economies overseas will exacerbate the contracting economy at home. Stimulating the global economy is vital for our domestic recovery.

2. Beyond the crisis: a safer and more humane global community

Continued economic growth in the developing world is not only good for our economic recovery. Economic growth in the developing world reduces the risks of social and political unrest abroad and shores up countries' own efforts to help their own people escape poverty. It also strengthens governments' ability in low-income regions to participate in international programs to reduce drug and sex trafficking and global disease surveillance. (Consider how fortunate the U.S. is that its neighbor Mexico handled quickly and effectively the outbreak of the recent influenza virus.) That in turn promises a more stable and secure world over the medium term, as well as the better world most Americans seek in the interests of our shared humanity.

Now economic growth abroad is threatened by what began as a financial crisis in the U.S. Most of the more than five billion innocent victims of this crisis live in developing countries with limited resources for stimulus packages, let alone for food stamps and unemployment insurance. This is true even in the many developing countries that have had responsible government and economic management for some two decades.

In sub-Saharan Africa, for example, where the number of democracies has risen from just three in 1989 to 20 today, governments are increasingly committed to sensible macroeconomic management and effective health and schooling programs. They have achieved faster economic growth, continued reduction in poverty rates and improvements in social indicators. But they are not in a position to borrow to support countercyclical fiscal spending, the poorer among them face likely declines in bilateral aid, private capital has withdrawn (in a flight to the relatively safe haven of U.S. treasuries) and their governments cannot borrow on dried-up private capital markets. For the poorer countries especially, external resources are critical to avoid extensive

human suffering. The International Labor Organization predicted earlier this year that as many as 50 million jobs will be lost in the developing world (and that estimate has probably risen with a reported 20 million jobs lost in China export industries alone). The World Bank is projecting zero growth in per-capita income in Africa.

The United States, as the catalyst for this crisis, has a particular responsibility to help poor countries cope with the fallout. Though in the major developing countries there is as yet no sign of rejection of our market-based and democratic model, it is not surprising that their leaders and their peoples look to us for leadership in helping those with fewer resources to cope. Were we to walk away from that leadership, a backlash of anger at the United States and opposition to U.S. values, institutions, investment and trade could develop; certainly the leaders of Venezuela, Iran and even Russia might exploit the situation in ways against our interests.

3. The role of the global financial institutions

To return to the metaphor I used at the start of my testimony, I'd like you to think of the IMF as the fire brigade in our global village. That is the approach that the G20 leaders took. They resolved to rapidly increase the fire brigade's resources to minimize the risks of the financial fire spreading worldwide and damaging everyone – and strengthen its capacity to participate in a more effective regulatory regime within and across countries to minimize the likelihood of future fires.

They also acknowledged the importance of the work of the World Bank and the other multilateral banks in supporting continued and compensatory spending in affected countries on social safety net programs and infrastructure and other investments to speed recovery.

The distinction between the roles of the two institutions—including in the absence of crisis—is relevant for the use by the IMF of the income from the proposed sale of some of its gold. The World Bank's purpose is to help developing countries reduce poverty and increase growth by providing low-cost financing and technical assistance for investments with medium-term benefits, in health, education, public administration, agriculture, and so on. The IMF's mission is to help countries manage balance of payments and related macroeconomic and exchange rate problems, both in the case of individual countries needing to adjust and in the interests of minimizing global systemic financial instability. The IMF does this through surveillance of members' macroeconomic and financial policies, accompanying advice and, where necessary, short-term lending.

When there are no fires, the fire brigade may seem irrelevant. But we know that fires happen and when they do, every resident in the village relies on the fire brigade to put out individual fires before they can spread and endanger everybody. The IMF, like the fire brigade, requires sufficient resources to fight fires and take all possible steps to prevent them from happening in the future. (In contrast, the World Bank is more akin to the community development guy in the mayor's office that encourages investment in difficult neighborhoods.)

III. The U.S. should agree to a loan of $100 billion to the IMF

Leaders from more than 20 major nations resolved at the April G20 London Summit communiqué to make available an additional $1 trillion through the IMF and other institutions to help developing countries cope with the global financial crisis.[1] The Obama administration played a key role in getting the ball rolling in March when Treasury Secretary Timothy Geithner urged that IMF member countries agree to a $500 billion increase in the amount the IMF can borrow from members through the New-Arrangements to Borrow (NAB) emergency financing mechanism and indicated he would seek $100 billion from the United States.

President Obama has asked Congress to include provision for the $100 billion loan in legislation as early as possible and I urge this subcommittee to support that request. The U.S. contribution will help ensure other announced contributions: $100 billion from the Europeans, another $100 billion from Japan (additional to $100 billion announced prior to the London Summit, see http://www.imf.org/external/pubs/ft/survey/so/2009/NEW021309A.htm), and smaller contributions from Canada, Saudi Arabia, and others. The "contribution" from the U.S. would have no effect on the U.S. budget; when the U.S. contributes to the NAB, Treasury receives an interest-bearing account at the fund in return, so the net effect on the federal budget is zero.

The G20 leaders also agreed to IMF issuing $250 billion in new Special Drawing Rights (SDRs— an IMF asset based on a basket of key currencies against which member countries can borrow). Issuing new SDRs is the equivalent of creating additional international liquidity for IMF member countries, a reasonable idea when many credit-worthy sovereigns have poor access to credit, exacerbating the downturn and increasing the risks of global deflation. An allocation of $250 billion is permitted under U.S. law following a 90-day period of consultation with Congress; I understand Treasury informed Congress on April 13. SDRs are allocated to countries in line with their current "quota shares" in the IMF. While just 32 percent of the $250 billion ($80 billion) would go developing countries, about $11 billion would go immediately without discussion or conditions to low-income countries (corresponding to the 4.5 percent of IMF quotas they have). **I support the idea of an additional $250 billion of SDRs being created and called for this before the London G20 summit. Today, I urge the Congress to endorse heartily this move.**

[1] I proposed that $1 trillion could and should be made available in mid-February (How to Unlock the $1 Trillion that Developing Countries Urgently Need to Cope with the Crisis), primarily by exploiting then-current resources but also by channeling reasonable amounts of additional resources from the U.S., Europe, and China and other surplus reserve countries through the IMF and multilateral development banks.

IV. The Congress should endorse the sale of IMF gold for two purposes[2]

President Obama has also requested congressional approval for the sale of a limited amount of the IMF's gold reserves, for two purposes: to support an endowment at the Fund, explained below, and to increase the Fund's resources for concessional lending to low-income countries. **I urge the committee to recommend approval of the gold sales request and provide guidance to the Treasury for its discussions with other IMF members on the allocation of the sales revenue between the two purposes.**

In 2008, the IMF board agreed, subject to approval by its members, to the sale of a small amount of its gold to finance an endowment account, the annual returns to which would be available to support the administrative costs of two key public goods the IMF provides: periodic surveillance of countries' macroeconomic and financial situations, and capacity building. Effective surveillance is a core IMF duty and no more so than now, when the IMF is assessing whether the macroeconomic and financial sector policies of its members are adequate given the crisis. The surveillance function can be thought as equivalent to the fire brigade checking to see if fire alarms are working and buildings are up to code. A strengthened IMF surveillance function would not only help individual countries to avoid big mistakes and but also identify—*before a crisis strikes*—systemic risks to global financial stability.

For this to work, dedicated funding for an independent surveillance must be provided on an ongoing basis, not only in times of crisis. In the past the surveillance and capacity building functions have been supported by income from the IMF's loans. But the ability of the IMF to carry out these key functions should not be a function of member countries' needs to borrow (which ideally will return to being relatively limited) nor on the cost of borrowing, which should be as stable and predictable for borrowers as credit markets allow.

The sale had been recommended as one of several options to finance IMF administrative expenses in a 2007 report (the Crockett report). At then-current prices the sale would have yielded about $6 billion in income for an endowment fund – covering a good portion of the target amount sought.[3] It would have generated annual income on the order of about $200 million (SDR 130 million), an amount that today would cover about 20 percent of current annual administrative expenses.

Since the 2007 Crockett report the price of gold has increased, so the revenue could be greater than originally expected. At the April summit the G20 leaders recognized that revenue from IMF gold sales, in addition to funding an endowment, could help to "provide additional concessional and flexible finance of $6 billion for the poorest countries over the next 2 to 3 years." If the gold is eventually sold at today's price of about $900 an ounce, the revenue, allowing for a reasonable

[2] I made changes to this section in the afternoon of May 12, prior to the hearing but after the posting of my original written statement. The changes reflect information provided by IMF staff on the target amount for the endowment fund ($11 billion), and of the target annual income from it ($300 million). These figures are possibly included in the Board document reflecting Board agreement in April 2008 to fund the endowment solely from the sale of gold, which was possible given the higher price in 2008 compared to 2007. The Board document has not been made public.

[3] See footnote 1 regarding the target amount. All these figures are rough estimates at best, in the interest of providing the subcommittee with some feel for the revenue the gold sales might raise.

amount going back to fund IMF reserves, would be sufficient to cover the originally envisioned endowment while also providing additional resources for concessional lending to low-income countries. The exact amount available for additional concessional lending depends on the price of gold at the time of sale, and the allocation for the endowment already agreed by the IMF Board.[4]

I suggest the Congress support use of revenue from gold sales to provide additional resources to low-income countries consistent with ensuring adequate permanent funding of the endowment. Congress should urge the Treasury to secure as much as possible for such lending, while leaving the final numbers and allocation for Treasury to negotiate with other IMF members.

Regarding the hoped-for additional resources for IMF support to low-income countries I would like to emphasize several points.

First, **these resources should be used to assist low-income countries for the same reasons and fundamentally under the same rules as when the IMF assists middle-income countries**. This means offering relatively short-maturity loans to help countries manage balance of payments and capital account problems, and possibly for bank recapitalization and short-term financing of countercyclical spending to sustain social programs. Such short-maturity lending is the proper remit of the IMF and stands in contrast to its Poverty Reduction and Growth Facility, the PRGF, which over the past two decades has made loans with longer maturities for structural and medium-term development goals.

Why this distinction? In my view, the development-focused PRGF lending has distracted the IMF from its core macroeconomic and financial sector work in low-income countries, leading it to devote scarce time and managerial talent to programs where the World Bank's expertise and facilities would have been more effective and appropriate. Worse, the IMF's PRGF lending inadvertently exacerbated the problem of unsustainable debt in many poor countries.

Second, while **the reasons and rules for an IMF loan to low-income and middle-income countries should be the same, the low-income countries should pay less**. The $6 billion the G20 proposed, including money from the sale of gold, should be used to ensure those costs are no greater than those charged by the IDA facility at the World Bank, and should if possible include outright grants for the poorest among the low-income countries (e.g. those with annual per capita income at $500 or less). These more attractive terms are necessary to minimize the

[4] Congressman Barney Frank, has said that he supports congressional authorization of IMF gold on the condition that $4 billion of the proceeds goes to poor countries. My original written testimony earlier suggested that the additional resources from the IMF Board-approved gold sale could amount to $4 billion, the amount included in Congressman Barney Frank's statement. However IMF staff inform me that it is not clear that this much would be available over and above the amount the IMF Board designated for the endowment, given that the Board did not approve use of other possible sources of income for the endowment, and possibly given assumptions or decisions about the amount of revenue from the sale to be returned to reserves. For the Congress to designate a specific amount at this stage would probably require a renegotiation with all 185 IMF members of the gold sale arrangement, which would unduly delay the process and the access to any additional resources for low-income countries from gold sales.

risk that poor countries will accumulate unsustainable debt in trying to cope with the effects of an external shock for which they have no responsibility.

Third, the **Congress should instruct the Treasury to urge the IMF to provide loans and grants to low-income countries with less conditionality than usual for the next two years, given that their dire straits are the result of a global systemic crisis rather than shortcomings in their own economic policies.** This is not to suggest that conditionality is always wrong. In normal times the conditions attached to an IMF loan may be a crucial catalyst for politically difficult reforms, such as reducing a runaway fiscal deficit. Even so, in recent years the IMF has recognized the limits of excessively detailed conditionality and has streamlined conditions. Similarly, the IMF recently introduced a Flexible Credit Line (FCL) that middle-income countries with solid macroeconomic track records can tap with no questions asked. These no-hassle loans should now also be offered to low-income countries with similarly sound track records on macroeconomic policy and overall management of government resources. For the reasons I explained above, however, the low-income countries should be charged substantially less.

Finally, the IMF should be asked to assess the logic of using some of the additional resources for low-income countries for precautionary facilities like the FCL for middle-income countries (under which eligible countries are approved for access to future credit if and when needed at no cost until and unless they draw down). This and other insurance and risk management products (including a moratorium on any debt service in the event of external shocks, as I have proposed to this committee in the past[5]), might increase confidence of local and foreign investors and help restore credit in some countries; as in the case of home insurance against fire, it would also provide an incentive for countries to take steps to minimize their own exposure while helping them avoid repeated rounds of new debt when they are hurt by a fire started elsewhere.

To summarize, I believe Congress should authorize IMF gold sales for the two purposes, and provide guidance to Treasury along the following lines: to ensure the proposed endowment is adequately funded and to support allocation of additional gold sale revenue for financing stand-by style loans on highly concessional terms, and grants to the very poorest countries, over the next two years. In addition the Treasury should encourage development of precautionary lending, such as the Flexible Credit Line, and other risk management facilities for the low-income countries. The Treasury should make appropriate decisions on a case-by-case basis, within broad guidelines set by the Congress.

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[5] See my testimony on the Jubilee Act before the Senate Foreign Affairs Committee, April 24, 2008. Available online at http://www.cgdev.org/content/opinion/detail/15880/ . Also see page 39 of CGD's first book, *Delivering on Debt Relief: From IMF Gold to a New Aid Architecture* by Nancy Birdsall and John Williamson, a senior fellow at the International Institute for International Economics, which helped frame the discussions on the future of the Heavily Indebted Poor Countries Initiative and how it is financed (see http://www.cgdev.org/content/publications/detail/2922/).

V. Congress should push for faster and further governance reform of the IMF

The global financial crisis requires a global response not unlike what the IMF was designed to do after World War II. But while the economic weight of countries has shifted dramatically since the 1940s, IMF decision-making rules have remained largely unchanged. These out-dated mid-twentieth century governance arrangements are inadequate to provide the legitimacy that is crucial if the IMF is to be effective in addressing the current crisis and averting future global financial disruptions.

As I explained earlier, no one stands to gain more from a legitimate and effective IMF than the U.S. and strengthening the IMF's role in supporting global economic recovery is essential to our own financial recovery. We also know that economic and financial instability threaten political stability and international security. The IMF's ability to help developing countries cope with the economic crisis is therefore critical to restoring economic and political stability globally and at home. It is in our direct national security and economic interests to make the IMF a more credible and effective global financial institution. This is only possible if major emerging market countries have a much larger role in both IMF decision-making *and* in providing financial resources. The G20 leaders recognized at the summit in April and their call for additional resources for the IMF is twinned, smartly, with calls for governance reform.

The IMF Board last year approved a proposal for revision of IMF quotas (voting weights that determine contributions to IMF resources and access to IMF financing) to begin increasing the quotas of several underrepresented emerging markets. The reform requires congressional approval and the Obama administration has asked for that approval. The proposed changes are very modest (e.g. China's voting share would increase from 3.7 to 5.6 percent); they are sometimes called "a mouse" compared to the extent of reforms needed.

Despite these shortcomings, **I believe that Congress should now endorse the proposed 2008 governance reforms as a first step, a down-payment, towards broader governance reform.** The G20 called for the next review of IMF quota reforms to be completed by January 2011; an IMF internal report moves this forward to 2010. The U.S. should support an accelerated review process and urge further changes, which can in turn push the Europeans towards accepting deeper reforms—including the important step of reducing the number of board chairs they currently occupy.[6]

Congress can help by urging the administration and Treasury to actively support governance reforms to make the IMF more legitimate and effective. Steps that the IMF could take to increase its legitimacy and effectiveness include:

- **Adjustment in the rule that governs the share of votes required for major IMF decisions.** The U.S. currently holds nearly 17 percent of IMF quota shares. Because major decisions require *85 percent approval by weighted votes from all members*, whether or not they vote, situations arise where the U.S. can block a decision merely by abstaining. By changing the approval requirement to *85 percent of all weighted votes*

[6] As recommended in the Trevor Manuel report: http://www.imf.org/external/np/omd/2009/govref/032409.pdf.

cast, the IMF could boost the voice and power of smaller share holders. The U.S. would retain the ability to exercise a *de facto* veto by voting *against* a decision when necessary. But the U.S. could also chose to abstain and quietly let some things go through. This seemingly minor change would provide greater voice for major emerging economies, which is critical for strengthening the institution's relevance, legitimacy and effectiveness.

- **Double-majority voting.** Double majority voting—that is, requiring a majority of weighted votes (country shares) *and* a majority of individuals countries on a one-country, one-vote basis—would be akin to the U.S. bicameral legislative arrangement in which small and large states have equal representation in the Senate while the House of Representatives is weighted by population. The IMF could start double majority voting on select issues such as future elections of the heads of the institution. Double majority voting is not pie-in-the-sky; it is now the rule at three regional multilateral banks: the Inter-American Development Bank, Asian Development Bank and African Development Bank. (See Double Majorities at the World Bank and IMF—for Legitimacy and Effectiveness http://blogs.cgdev.org/non-commission/2009/03/19/double-majorities-at-the-world-bank-and-imf%e2%80%94for-legitimacy-and-effectiveness/).

- **Formalize the G20 leaders' agreement on open, merit-based selection of the head of the IMF (and the World Bank), with a clear understanding that the process should proceed without regard for nationality.** Traditionally the IMF has been headed by a European, and the World Bank by an American. The institutions should resist these traditional practices and ensure there is an open, merit-based system that would allow for non-U.S./European leadership.

- **Modernize board arrangements to cut costs and reduce meddling in day-to-day IMF decisions.** Current arrangements for a full-time resident board are outmoded in an age defined by rapid, cheap air travel and instantaneous zero-cost communications. Administrative costs and micro-management of IMF decisions by the board can be greatly reduced by shifting to a part-time resident board, with the members composed of the senior economic counselors at countries' Washington D.C. embassies assigned for one day a week or one week a month to IMF business.

VI. Conclusion

In a an increasingly interdependent world, economic growth, improved well-being and good political relations with developing countries—where five of six people in the world live—are fundamental to sustaining and increasing the economic opportunities Americans enjoy and to reducing the threats we face—in an manner not heretofore seen in U.S. history. In this context, shared institutions matter more, and a better approach to organizing and supporting these institutions can have high returns for the goals and interests of the United States and the global community in which we live.

The challenge is to use America's still substantial influence to reform international institutions into effective organizations for collective, global problem solving. The G20 members, with substantial leadership from the U.S, have taken the first steps towards strengthening the IMF's ability to provide the global public good of financial stability for all. I hope that the Congress and the administration continue to support strong U.S. leadership on these issues and believe that we and our fellow global citizens stand to benefit greatly from these steps towards a better, more stable world.

To do so the IMF will need two things: significantly more resources and robust reform of its decision making rules. These elements are inextricably linked. Marshalling more resources and using them wisely depends on improving the legitimacy and effectiveness, which are weak because developing countries, whose governments and peoples are the main objects and beneficiaries of IMF activities, are poorly represented in its governance structure.

Tackling resource and governance issues at the IMF will reap rewards for rich and poor countries alike. Strengthening the IMF's role as a legitimate and effective institution will help it respond to the current financial crisis and provide early warning and surveillance data to prevent such crises in the future. While many blame the U.S. for the current crisis, we can and should leverage our leadership and resources through global institutions like the IMF to respond to the current crisis, help restore the U.S. image in the world as a global partner, protect our shared economy, and promote our common security.

Testimony submitted to the House Committee on Financial Services, Subcommittee on International Monetary Policy and Trade, hearing on "Implications of the G-20 Leaders Summit for Low Income Countries and the Global Economy," May 13, 2009 (embargoed until 10am).

Submitted by Simon Johnson, Ronald Kurtz Professor of Entrepreneurship, MIT Sloan School of Management; Senior Fellow, Peterson Institute for International Economics; and co-founder of http://BaselineScenario.com.[1]

Main points

1. Low income countries have been severely affected by the global economic downturn. Many of the worst consequences, including on the poorest people, have yet to be felt.
2. In that context, by contributing to the stabilization of the world's financial system, the G-20 summit had a positive effect. However, it left open a large number of important issues, some of which call for immediate congressional attention.
3. First and foremost, low income countries need to receive considerable additional resources in order to weather the crisis. This crisis is not of their making and, prior to this shock, poorer countries were making considerable progress along the lines of implementing exactly the policies advised by richer countries and the International Monetary Fund (IMF).
4. The IMF has adapted its standard forms of conditionality to current circumstances. The goal of protecting core social spending is commendable and long overdue, and the implementation in recent East European and Pakistan programs is encouraging. However, the retreat from structural conditionality has probably gone too far and needs to be reappraised; the weaknesses of low income countries arise from and are manifest in disproportionate power of key individuals or sectors, and this needs to be addressed in a transparent manner wherever the IMF is engaged. In situations where such issues have been taken on board – as with transparency for extractive industries – the reception among civil society has been very positive.
5. The potential US legislative package (including IMF gold sales, its new income model, and $100 billion for the New Arrangements to Borrow) is worth serious consideration but also needs careful congressional review. The $250bn issue of Special Drawing Rights is a bold move which, while it involves some risks, is well worth taking – hopefully, this will be regarded as a pilot project for potentially larger increases in resources for troubled countries, on an "as needed" basis.
6. The G20 called for $6 billion of additional concessional resources from the Fund over the next 2-3 years for Low Income Countries, including some vague phrasing on money from gold sales. So far, the gold piece of this puzzle remains stalled at the level of the IMF's executive board. More transparency around board discussions on this and other items would reveal who is holding up change and for what reason.
7. Providing additional resources to low income is a very good idea, and increasing the resource flow from and through the IMF is timely and appropriate. If these resources can come from

[1] This testimony draws on joint work with James Kwak and Peter Boone. Our updates and detailed policy assessments are available daily at http://BaselineScenario.com.

"extra" proceeds from gold sales, that would be an attractive solution – particularly as the income model needs some adjustment in the light of (a) the increase in Fund lending over the past 12 months, and (b) the introduction of the Flexible Credit Line, which offers the promise of Fund revenue even during quiet times for the global economy. However, it is too early to determine how profoundly the Fund's income model will be affected by this crisis and how the world responds.

8. As long as the Fund lends at concessional rates to low income countries (and the relevant, Poverty Reduction and Growth Facility interest rate is only 0.5% per year currently), loans may be attractive relative to grants – the key issue is the resource flow that is available, i.e., does lending allow more transfers in a meaningful and sustainable manner. Avoiding unsustainable debt burdens is of course of paramount importance.
9. Most important, we should take all available actions to shore up low income country defenses against this crisis. We should also guard against any form of complacency.
10. For that reason, it is most important that the IMF be authorized to restore its budget to its early 2008 level (i.e., before the 15-20% across the board cuts were implemented). Cutting the budget and letting go some of the most experienced IMF staff was the unfortunate result of gross macroeconomic negligence at the level of leading industrialized countries, including the US and its G7 partners. At the same time as the IMF was warning, clearly and firmly, that a global crisis was developing, major shareholders pushed through budget cuts that resulted in some of the IMF's best people leaving the organization.
11. Undoing the budget cuts would be embarrassing to leading European countries, but it should fine support from the Obama Administration – after all, it was their idea to make increasing IMF resources a central issue at the recent G20 summit. The IMF simply does not currently have sufficient skilled staff to undertake all the important tasks it has been asked to handle.
12. The G20 summit effectively agreed to end the European monopoly on the position of Managing Director at the IMF. Since the summit, there has been some indication of backsliding on this issue, but assuming that European countries can be kept to their commitments, this would be a major step in the right direction. Given that the next leadership change is likely to take place in a little over a year, identifying and supporting sensible candidates from emerging markets would be most constructive. If an Indian or a Brazilian, for example, could be brought in as Managing Director, that has the potential to greatly expedite the rebuilding of the IMF's legitimacy and its engagement throughout the developing world.
13. Unfortunately, IMF credibility has been somewhat damaged by its inability to follow through on exchange rate surveillance, particularly with regard to China. While there seems to be a movement towards implicit agreement among leading countries, in and around the G20, to take this issue of the table, that would be a serious mistake. Countries must not think that competitive devaluation (or even sustaining accidental undervaluation) is a sensible or attractive policy. This will lead to greater global imbalances and potential instability, as some countries compete to get current account surpluses and other countries – willingly or not – run deficits.
14. Unless and until countries are assured that there is an effective international lender of last resort, they will be tempted to try to accumulate large amounts of reserves. This creates problems for reserve currency countries (e.g., the United States) as well as for the global system as a whole. We need an international system that can handle these issues and prevent

them from becoming destabilizing. The IMF should be given another chance to show that it can help run the global system in a constructive fashion. This is of paramount importance for the United States and for everyone who wants to participate in an open international trading system – particularly low income countries, which have few other opportunities to grow and which remain highly vulnerable to shocks of all kinds.

The remainder of this testimony provides background on the current global economic situation and its most likely development over the next 12-24 months. This will be a primary driver of outcomes in low income countries.

Global Economic Outlook

The global economy remains weak across the board, although the fall in global output may now be bottoming out. Some forecasters are beginning to recognize that growth in 2010 is not a foregone conclusion. The OECD, for example, now forecasts contraction of 4.3% in 2009 for the OECD area as a whole - and 0.1% contraction in 2010. This is broadly with an "L-shaped" recovery view.

Even that forecast, however, expects quarter-over-quarter growth rates to be positive beginning in Q1 2010. (This is not a contradiction: if growth is sharply negative in early 2009, then quarterly rates can be positive throughout 2010, without total output for 2010 reaching average 2009 levels.) While most forecasters expect positive growth in most parts of the world in 2010, those forecasts seem to reflect expected reversion to the mean rather than any identified mechanism for economic recovery. The underlying assumption is that at some point economic weakness becomes its own cure, as falling prices finally prompt consumers to consume and businesses to invest. But given the unprecedented nature of the current situation, it seems by no means certain that that assumption will hold. In particular, with demand low around the globe, the typical mechanism by which an isolated country in recession can recover - exports - cannot work for everyone.

U.S. Outlook

Like the global economy, the U.S. economy only looks worse than it did two months ago, with some financial market stabilization but no definite indicators of an incipient recovery. The underlying causes of economic weakness are largely unchanged and widely known:

- De-leveraging by consumers (paying down debt, voluntarily or involuntarily), leading to reduced consumption and increased saving
- De-leveraging by companies, leading to reduced investment
- Reduced supply as well as demand for credit, constraining even those who want to borrow and spend
- Continuing falls in real estate prices

This combination of reduced spending and reduced credit has sharply depressed aggregate demand, creating a classic vicious cycle where reduced demand leads to reduced economic

activity which leads to reduced spending power via increased unemployment and reduced corporate profits. In addition, concerns about financial system solvency are constraining the ability of financial institutions to supply the credit needed by the economy. There will likely be a rolling wave of defaults and debt restructurings in the US and around the world over the next couple of years; this is hard to avoid and constitutes a major reason why the recovery will be slow compared with previous recessions.

On balance, we believe that the Obama administration and Fed Chairman Bernanke are making every effort to combat the financial and economic crisis. However, some aspects of the response, most notably the fiscal stimulus, have been underpowered. And a combination of ideological and political constraints has hampered the administration's efforts to rescue the banking system. For these reasons, we still do not see the mechanism that will cause the economy to turn around.

In this context, we interpret the recent stock market rally as indicating that the economic decline is slowing; it does not necessarily denote that rapid recovery is just around the corner.

International Issues

The lead-up to the recent G20 summit exposed some of the tensions between the U.S. (and the U.K.) and Europe when it comes to economic policy. To generalize, Europe (led by Germany and France) favors less fiscal stimulus spending, more fiscal discipline, and lower inflation risk; the U.S. favors more stimulus and more expansionary monetary policy, at the risk of higher inflation.

We favor the U.S. position, for a simple reason. Not only is the current global recession very severe, but it is unlike any we have seen before, and therefore we cannot rely on historical patterns to tell us when and how the recession will end. In that context, and with unemployment climbing virtually everywhere, it makes sense to do more rather than less to turn the economy around. The European position is that their more advanced social welfare systems will both limit human misery and provide an automatic fiscal stimulus, both of which are true. However, European economies are just as vulnerable as ours to a prolonged period of deflationary stagnation - a risk that, unlike Ben Bernanke, they seem willing to take.

Given this divide in opinion, there was no chance for a meaningful resolution at the G20 summit. However, the G20 did have some notable achievements. First, increasing funding for the IMF to $1 trillion gave it the capacity to actually bail out multiple mid-size economies, which may become necessary as the recession progresses. Second, by eliminating Europe's de facto control over the IMF (and the U.S.'s de facto control over the World Bank), the summit gave other members of the G20 more of a stake in helping develop and support concerted international solutions to the economic crisis. While this could take months or years to pay off, it is an important first step.

Further coverage of the crisis and policy proposals (a partial index, with links)
Background material
Financial Crisis for Beginners primer, includes material on "bad banks" and the Swedish approach to cleaning up the banking system: http://baselinescenario.com/financial-crisis-for-beginners/

Deeper causes of the crisis, an ongoing series: http://baselinescenario.com/category/causes/

Previous editions of Baseline Scenario:

- September, 2008 (first edition): http://baselinescenario.com/2008/09/29/the-baseline-scenario-first-edition/
- October 2008, 2nd edition: http://baselinescenario.com/2008/10/06/the-baseline-scenario-2nd-edition/
- Mid-October: http://baselinescenario.com/2008/10/13/baseline-scenario-101308-analysis/ and http://baselinescenario.com/2008/10/13/baseline-scenario-101308-policy/
- Late October: http://baselinescenario.com/2008/10/19/baseline-scenario-102008/
- November: http://baselinescenario.com/2008/11/10/baseline-scenario-111008/
- December: http://baselinescenario.com/2008/12/15/baseline-scenario-121508/
- February: http://baselinescenario.com/2009/02/08/baseline-scenario-2909/
- April (post-G20 summit): http://baselinescenario.com/2009/04/07/baseline-scenario-april-7-2009/

More on Europe
The European crisis, why the Europeans are not coping, and what to do about it
http://baselinescenario.com/2009/02/22/the-choice-save-europe-now-or-later/
http://baselinescenario.com/2009/01/05/eurozone-hard-pressed-2-fiscal-solution-deferred/

Our original European stabilization fund proposal:
http://baselinescenario.com/2008/10/24/eurozone-default-risk/

More on current US and global topics
Strategies for bank recapitalization
- Economic ideas: http://baselinescenario.com/2009/01/27/to-save-the-banks-we-must-stand-up-to-the-bankers/
- Guide to evaluating official announcements: http://baselinescenario.com/2009/02/07/ten-questions-for-secretary-geithner/

Global fiscal stimulus: http://baselinescenario.com/2009/01/21/global-fiscal-stimulus-should-it-be-an-obama-priority/

Citigroup bailout (the second round): http://baselinescenario.com/2008/11/27/international-implications-of-the-citigroup-bailout/ and http://baselinescenario.com/2008/11/24/citigroup-bailout-weak-arbitrary-incomprehensible/

Policy recommendations from October/November 2008
"The Next World War? It Could Be Financial" (October 11, 2008):
http://baselinescenario.com/2008/10/12/next-up-emerging-markets/

Pressure on emerging markets (October 12, 2008): http://baselinescenario.com/2008/10/12/next-up-emerging-markets/

Pressure on the Eurozone (October 24, 2008): http://baselinescenario.com/2008/10/24/Eurozone-default-risk/

Testimony to Joint Economic Committee (October 30, 2008):
http://baselinescenario.com/2008/10/30/testimony-before-joint-economic-committee-today/

Bank recapitalization options (November 25, 2008):
http://baselinescenario.com/2008/11/25/bank-recapitalization-options-and-recommendation-after-citigroup-bailout/

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