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May 27, 2010

The Honorable David Obey  
Chairman  
House Appropriations Committee  
H-218 U.S. Capitol  
Washington, DC 20515

Dear Chairman Obey:

We write to express our concern over legislation that would break America's commitment to provide temporary financial support to the IMF in times of crisis. The legislation is very untimely and perhaps even dangerous; it is a breach of international agreements upon which the United States itself very much depends; and it is based on the fallacious notion that US taxpayers will incur new costs.

As you know, the United States led the effort to forge international agreements in which leading governments have committed to lend supplementary funds to the IMF if needed to avert a global crisis. The IMF can lend these funds to beleaguered countries in return for fiscal and budgetary reforms designed to help them return to stability. When this happens the entire global system benefits with renewed trade and investment and financial stability.

This legislation is untimely because the global system remains in a period of substantial financial weakness. In the last few weeks, the loss of confidence among market participants has become palpable. Among other fears, investors worry that impacted governments will not summon the political will to adopt austerity measures, and they worry that surplus countries might back away from providing those countries with critically important financial assistance. Shaken confidence in the last few weeks has led to a sharp drop in the value of the Euro; a plunge in the world's equity markets; and a growing threat of double dip recession here in the United States.

At the precise moment that markets are on alert for signs of wavering commitment, this initiative could provoke a worrisome reaction, if it were to appear that the United States was turning its back on the global financial system at the moment it was being tested.

Moreover, the legislation is based on the false premise that American taxpayers might lose money through the continuation of our relationship with the IMF. In fact, the United States has never lost any money on any transactions with the IMF. Loans from the Fund are always repaid because otherwise countries have no recourse to renewed finance and trade.

Ironically, the only real threat to the US taxpayers would come from a repudiation of our commitments to the IMF. If IMF cannot do its job and countries begin defaulting, the impact on the United States could be far reaching, threatening the fragile economic recovery and perhaps even necessitating massive new government spending to right things again.

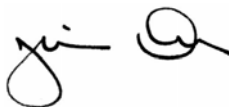
At a more technical level, the bill's triggering threshold seems arbitrary and is not a meaningful reflection of a country's intrinsic economic health. The bill seeks to block US support for any IMF rescue program to any European country with a debt-to-GDP ratio above 60%. But, consider the United States: at the end of 2009 the US debt-to-GDP ratio was 52.9%. Note, however, that when the government's unfunded liabilities are included (Social Security, Medicare and Medicaid and new health care legislation), the US ratio quickly surpasses the 60% benchmark.

In our view this is the absolute wrong time for a Congressional 'vote of no confidence' in the International Monetary Fund. The risks of provoking a deeper crisis are not trivial, and the impact of that on average Americans would be more lost jobs and further declines in battered investments.

We would urge the Congress to continue its longstanding, bipartisan support for the IMF for the good of the global system and for America's own self interest.

Respectfully yours,

Sincerely,

A handwritten signature in black ink, appearing to read 'James C. Orr', with a stylized flourish at the end.

James C. Orr  
Executive Director

*On Behalf of the Members of the Bretton Woods Committee*