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1726 M STREET, N.W., SUITE 200
WASHINGTON, D.C. 20036

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TELEPHONE (202) 331-1616

FAX (202) 785-9423

EMAIL info@brettonwoods.org

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June 22, 2011

The Honorable John Kerry
Chairman
Senate Foreign Relations Committee
218 Russell Senate Office Building
Second Floor
Washington D.C. 20510

Dear Chairman Kerry:

We write to express our concern over a possible amendment that would break America's commitment to provide supplementary financial support to the International Monetary Fund (IMF) under the New Arrangements to Borrow (NAB) in times of crisis. The amendment is very untimely and perhaps even dangerous; it is a breach of international agreements upon which the United States (U.S.) itself very much depends; and it is based on the fallacious notion that U.S. taxpayers will incur new costs.

Amid persistent global economic uncertainty and prevailing downside risks, it is critical to retain the U.S.' pledge to the NAB to provide the IMF with a backstop for additional resources in the event it falls short of its main source of financing derived from member countries' resources (quota subscriptions). 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.

While it was agreed in 2010 under the IMF governance reforms that quotas will be doubled, thus increasing the IMF's principal financial resources by 100 percent to about \$755.7 billion, this will not take effect until October 2012. Therefore, it is vital that the NAB remains intact as the facility of first and principal recourse to supplement the IMF's main resources by up to about \$586 billion, particularly as the fragile global recovery is continuously threatened by high unemployment and sovereign debt problems, as well as fears of the turmoil spreading beyond the European periphery becoming more palpable.

The argument that a U.S. withdrawal from the arrangement will save American taxpayers from losing money is also based on a false premise. 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. Moreover, the NAB remains an important tool to inject and maintain confidence among member countries, including the U.S., that the IMF has adequate supplementary resources to call upon should there be a need. The security from the pledges under the NAB can also be said to prevent a premature scramble for financing by countries for the Fund's principal resources during crisis periods.

There is also fair burden-sharing in the size of pledges to the NAB among participating members, both in terms of per capita income and absolute economic size of countries. Of the total pledge of up to \$586 billion available, the U.S.' share is just shy of 19%, with Japan committing about the same percentage and the collective European countries pledging much more than 20%. Many emerging market economies are also participants of the NAB, with countries like China pledging to provide over 8% of the total supplementary resources that can be made available.

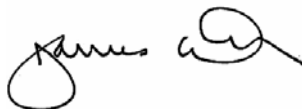
Against this backdrop of fair burden-sharing, U.S. withdrawal from the NAB will not only dilute our consistent lead effort to forge international agreements in which partner governments commit supplementary funds to the IMF if needed to avert a global crisis. But it may also impact other countries' commitment to the arrangement itself – risking similar moves to withdraw. 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 U.S. was turning its back on the global financial system at the moment it was being tested.

In summary, in our view this is the absolute wrong time for a withdrawal by the U.S. from the NAB. The risks of provoking a renewed crisis are not trivial during a time of slow and stuttering recovery, and the impact of that on average Americans would be more lost jobs and further declines in battered investments. Ironically, the only real threat to the U.S. taxpayers would come from a repudiation of our commitments to the IMF under the NAB. 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.

We would urge the Senate to continue its longstanding, bipartisan support for the IMF's NAB 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
Secretary

On Behalf of the Members of the Bretton Woods Committee