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Written Testimony before the House Committee on Appropriations
Subcommittee on State, Foreign Operations, and Related Programs
on the Fiscal Year 2014 International Programs Budget Request
Treasury Secretary Jacob J. Lew
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Introduction

Chairwoman Granger, Ranking Member Lowey, and Members of the Committee, thank you for the opportunity to discuss the President's Fiscal Year 2014 Budget Request for the Department of the Treasury's International Programs.

With your bipartisan support, U.S. leadership today in the multilateral development banks (MDBs) remains strong. Investments in multilateral institutions are a cost-effective way to promote our national security, support the next generation of export markets, and address key global challenges such as environmental degradation and food insecurity, while fostering private sector development and entrepreneurship.

The United States economy has made substantial progress toward recovering from the worst financial crisis since the Great Depression. But more must be done to help create jobs and accelerate growth. At the same time, we have more work to do to get our fiscal house in order.

The President has put forward a balanced plan to confront our economic and fiscal challenges, and our support for the international financial institutions goes hand in hand with that comprehensive strategy. For one, investments in these institutions will help create jobs and strengthen businesses in the United States because the International Monetary Fund and the multilateral development banks support a strong and vibrant global economy. They do this by opening up markets and creating a level playing field for American businesses. At the same time, our investments in the international financial institutions come at a low cost to taxpayers and are consistent with the President’s plan to reduce our deficits. The fact is, support for the international financial institutions is one of the most cost-effective ways to confront our economic challenges at a time of constrained resources.

Our request in FY2014 of $2.9 billion primarily includes previously authorized multi-year MDB commitments for capital increases and replenishments, and it is largely based on bipartisan actions taken by members of this committee and Congress.

Our new request seeks Congressional approval of the IMF quota and governance reform. At the Seoul Summit in 2010, we secured U.S. objectives for the reform: preserving the U.S. veto without increasing the U.S. commitment to the IMF by one new dollar. We are seeking legislation that represents no new financial commitment to the IMF but rather an increase in the U.S. quota and an equivalent decrease in the U.S. participation in the NAB. This legislation will also allow us to accept an amendment to the IMF Articles of Agreement facilitating changes in the composition of the IMF Executive Board that preserves the U.S. board seat. These actions are necessary to maintain strong U.S. leadership and influence in the IMF, and to restore the IMF's core capital structure.

As someone who cares deeply about the sound management of America's public finances, I strongly support continued U.S. investment in the IMF. Our investment is safe and smart, and it is secured by the IMF's rock solid balance sheet in which total assets exceed total credit outstanding.

When we provide resources to the IMF, the United States simultaneously receives an equal, offsetting claim in the form of an increase in the U.S. reserve position in the IMF. The U.S. reserve position is an interest-bearing and liquid asset, held as part of U.S. international reserves and available to the United States on demand.

Let me elaborate on how stronger U.S. leadership in the international financial institutions is vital for America.

Protecting our recovery and promoting our economic interests

The IMF, the World Bank, and the regional development banks are important tools for advancing the U.S. economic agenda through the preservation of global financial stability and the opening and expansion of emerging markets.

Since the end of World War II, whenever there has been an international crisis that has threatened the U.S. economy, the IMF has acted as the first responder. The IMF helped Europe and Japan achieve sustained growth in the post-war period. It helped the United Kingdom and Italy overcome their crises in the 1970s; Latin America resolve its debt crisis of the 1980s; Eastern Europe and the former Soviet Union rebuild their economies in the 1990s; and was central to the response to the Asian and emerging market crisis in the late 1990s and early 2000s. Since 2008, the IMF has played a forceful role in helping mitigate the impact of the global crisis on its member countries and prevent contagion.

These actions abroad help us here at home. When financial instability occurs in many places around the globe, such as in Europe, it creates headwinds for our economy. For example, external instability can result in volatility in U.S. financial markets, hurting American household savings and 401K retirement accounts. Without IMF support, more countries would experience even larger financial stresses, and the U.S. economy would suffer through reduced demand for U.S. exports and lower foreign investment in the United States, threatening millions of jobs. U.S. exports account for 14 percent of U.S. GDP, and American export industries provide more than 10 million jobs to American workers. Foreign Direct Investment supports 2 million manufacturing jobs, and over the last 10 years, majority-owned U.S. affiliates of foreign companies have employed between 5-6 million workers.

U.S. influence—bilaterally and leveraged through the IMF--was critical in encouraging Europe to build a firewall and deliver the lion's share of the financing to stabilize the euro area crisis.

Congress provided critical leadership at the height of the global crisis in 2009 by approving the Administration's request for an increase in U.S. participation in the New Arrangements to Borrow (NAB) which enabled the United States to leverage an additional $400 billion for the NAB from other countries. Even at a reduced size, the NAB will continue to be an important crisis backstop for the Fund when quotas get low.

Complementing the IMF's work, the MDBs are focused on long-term, sustainable development and poverty reduction. Since the institutions were created, the MDBs have helped nurture emerging economies that have become key export markets for the United States. MDB financing and policy assistance have reduced trade barriers, improved private sector development, increased educational access, built infrastructure, and promoted open markets. In countries like South Korea and India, we have seen how MDB engagement helped lay the groundwork for the sustainable and inclusive growth that has driven rapid increases in U.S. exports. Thanks to bipartisan support for the General Capital Increases and replenishments, U.S. leadership at the World Bank and regional development banks is strong, and these institutions are making vital investments, and promoting key reforms to strengthen global growth.

The MDBs are also leaders in global standard setting. They have strong social and environmental safeguards, which we are committed to protecting and updating. They help foster a more level playing field for firms competing for MDB business opportunities by requiring the use of fair and transparent procurement rules. They promote policy reforms to create more business-friendly environments, including global benchmarking or rating through the World Bank "*Doing Business*" rankings.

Strengthening our national security

Both the IMF and the MDBs are important partners as we seek to strengthen our national security in a fast-changing world. These institutions amplify U.S. strategic interests and their work on the ground helps prevent and mitigate the economic conditions that foster instability, extremism, and violence. They are leaders in promoting fiscal reform, job creation, and economic growth in fragile and conflict-affected states, which are home to approximately 1.5 billion people.

The IMF is now working to help bring about economic stability in the Middle East – in Egypt, Jordan, Morocco, Tunisia, and Yemen – by providing critical policy advice and financial support to help secure the political gains of the Arab Spring. Avoiding a financial crisis during this delicate period of political transition will help these countries avoid more destabilizing political upheavals. The World Bank and the African Development Bank are helping Jordan reduce energy subsidies and find more effective ways to support the poorest population. They are also pioneering new ways to promote job creation for young women in the private sector.

The United States has been pushing for enhanced IMF support of low income countries; all this support has come at no cost to the UnitedStates. We persuaded the IMF to use the $3.8 billion it earned in windfall profits from gold sales to support projects in the world's poorest countries. In 2009, the IMF agreed to more than double the resources available to low income countries by as much as $17 billion through 2014, and just recently, with strong U.S. backing, the IMF extended zero percent interest rates for all concessional lending another two years through 2014. And in response to U.S. requests, the IMF eliminated Haiti's entire outstanding debt to the Fund following its devastating earthquake. The United States has also forcefully advocated for the IMF to protect and support spending for poor people in its low income country lending arrangements.

U.S. military leaders have consistently praised the MDBs for containing emerging threats by alleviating poverty and spurring broad-based, private-sector led economic growth. In frontline states like Afghanistan, the World Bank and the Asian Development Bank have helped support not only critical large infrastructure projects but also vital improvements in areas like primary education. For example, MDB assistance has led to a dramatic rise in school enrollment, with the number of students enrolled in school growing from fewer than 1 million in 2001 to 7.1 million today. For girls, the increase has gone from fewer than 200,000 to 2.7 million. Closer to home, the Inter-American Development Bank (IDB) is supporting important work on security and safety for citizens in Central America. In El Salvador, for instance, a loan from the IDB will support a youth violence prevention program that will benefit roughly 10,000 young adults in 30 municipalities.

Successful development also depends on good governance and a well-functioning state. For the last 20 years, Treasury's Office of Technical Assistance (OTA) has provided advice and training to government officials in developing countries so they can build effective public financial institutions. OTA helps countries improve government operations across several areas, including planning and executing budgets, managing debt, collecting revenue, developing sound banking systems, and combating corruption. Right now, OTA is working in Latin America, Africa, and Asia, and it is offering services in countries that are recovering from war and economic disasters, including Iraq, Afghanistan, Pakistan, and Haiti.

Leveraging our leadership for greater impact and reforms

At a time when government must do more with less, Treasury is determined to use our resources as efficiently as possible. The multilateral institutions are highly effective at multiplying the impact of taxpayer dollars. With just a five percent share of the Function 150 under $3 billion, Treasury's international development investments will make possible nearly $100 billion in MDB commitments in 2014 alone. This support will reach poor people in urban slums, rural villages, and small cities around the world. When it comes to global challenges such as food security, the environment, gender imbalances, and historic changes in the Middle East, we continue to demonstrate how much the world depends on strong U.S. leadership to confront these issues.

On food security, the Global Agriculture and Food Security Program has made significant progress to combat the problem in a short time. It has mobilized more than $1.2 billion in pledges and contributions from nine governments and the Bill and Melinda Gates Foundation. It is a compelling example of how the United States can internationalize the burden of dealing with pressing global problems. Our contributions will be matched two for one. Already, the fund has awarded nearly $700 million in investments in 18 countries, and in many cases, countries receiving these funds are putting their own resources into use to support programs that generate innovative and enduring increases in agricultural productivity.

On environmental challenges, U.S. investments in the Clean Technology Fund and other environmental trust funds play an important economic role. Treasury's programs help create open, fair, and well-functioning markets for technologies such as wind, solar, and geothermal energy in which American businesses can compete and win. Here, too, our contributions bring in other donors – between $4 and $5 for every $1 that the U.S. contributes. These programs also help to spur additional investments by the MDBs, government, and private sector investors, making the U.S. contribution go even further

For women, opportunities still lag behind men in too many areas—including getting an education, finding a job, and running for elected office. Yet the facts are clear: limiting the potential of women will limit a country's economic growth. No society can reach its full productive potential if half the population does not have full education and employment opportunities. Empirical studies have shown that, within the household, women invest more in their children—in the health and education of future generations. The MDBs are working to lift obstacles for women by ensuring programs will be designed to explicitly support women and girls when possible.

Working alongside our G-8 and Gulf partners, we have started a new fund based at the World Bank to provide technical assistance to support reforms in the Arab transition economies. These reforms include improving service delivery, increasing government transparency, establishing the fair rule of law, and reducing subsidies. And they are necessary for countries to build a more inclusive economy and a democratic state.

Treasury has always used its support of the international institutions to foster change. For this reason, before making new commitments to the MDBs, Treasury consults with Congress, NGO, labor and business stakeholders on reforms to improve financial effectiveness, promote a fair playing field across the world, increase transparency, open procurement and enhance the impact of our investments.

Over the last year, Treasury has continued to push the MDBs to implement reforms. At the urging of the U.S., all of the institutions are taking a much more prudent approach to major budgetary and financial management. Decisions affecting long-term financial viability are now being thoroughly evaluated and the necessary trade-offs are being considered. In addition, the MDBs have continued to implement new disclosure policies, providing more access than ever before to policies, decisions, and operations. This level of transparency increases accountability and improves outcomes. Finally, each of the MDBs has independent offices that objectively evaluate performance and effectiveness. These assessments, which are made public, give both the institutions and those who support the institutions the kind of information that improves operations and increases results.

Acting now to safeguard our leadership

Just as Congress is acting to preserve our leadership at the MDBs by supporting General Capital Increases, we must do the same for the IMF.

At the end of 2010, G-20 Leaders and the IMF membership committed to implement the quota and governance reforms by October 2012. The vast majority of the IMF membership has now acted, and only U.S. approval is necessary for these important reforms to go into effect. As emerging economies play a bigger role in these international financial institutions and seek greater influence, it is critical that the U.S. maintains its strong position of leadership.
It is important to bear in mind that the U.S. is the only country with a veto, allowing us to shape major IMF governance and resource decisions.

The IMF reforms are a win-win for the United States. Honoring our commitments will preserve our leadership position and veto power, and allow us to continue to promote U.S. values and interests around the world without any new U.S. financial commitment to the IMF.

Similarly, meeting our commitments to the MDBs is a cornerstone of U.S. credibility and leadership. The partnership we have with the multilateral development banks has endured across years and across parties because these institutions have continually proven their worth. They are vital for addressing the challenges of the moment and will be integral for responding to dangers that lie beyond the horizon. These institutions provide unparalleled returns: for capital increases once every 15 to 20 years, the MDBs stretch the impact of our dollars around the world, toward every global challenge, and through time. No other institutions so effectively leverage our limited resources in service of our national and global interests, and given the pressure all of us are under to do more with less, this is something we cannot take for granted.