United States Senate
WASHINGTON, DC 20510

March 24, 2021

The Honorable Janet Yellen
Secretary of the Treasury
Department of the Treasury
1500 Pennsylvania Ave. NW
Washington, DC 20220

Dear Secretary Yellen:

We are deeply concerned by your support for a proposal to have the International Monetary Fund (IMF) allocate new Special Drawing Rights (SDRs), without congressional approval, to purportedly help poor countries respond to the COVID-19 pandemic. As you are aware, SDRs are backed by IMF member countries' fiat currencies, the largest component being the American dollar. The proposed allocation of SDRs would be inappropriate, ineffective, and a wasteful use of taxpayer dollars that would end up benefiting repressive regimes and state-sponsors of terrorism. We strongly urge you to abandon your support for this proposal.

Under the IMF's own rules, general allocations of SDRs should only occur when necessary to meet a long-term global need for reserve assets. Currently, there is no such need. While some poor countries may have a need for foreign aid, SDR allocations are not meant to be used as a back door for providing such aid. The IMF has other more suitable tools for aiding poor countries. The United States does as well. But in our system of government, the decision to provide foreign aid is properly made by Congress through the appropriations process, not by unilateral executive action.

Not only would such an SDR allocation be inappropriate under the IMF's rules, but some have reportedly suggested that the administration structure a $1 trillion allocation in a way to avoid the legal requirement to obtain congressional approval for such an allocation. Under federal law, Congress must approve SDR allocations unless the U.S. share of an allocation falls below a certain threshold amount over a five-year period. A $1 trillion allocation in 2021 would require congressional approval under this standard. But splitting this allocation in two—with $500 billion allocated in 2021 and $500 billion allocated in 2022—would not. We sincerely hope that the administration would not resort to such tactics to circumvent congressional approval.

Even if an allocation of SDRs were appropriate—which it is not—it is an ineffective method of providing foreign aid to low-income countries. As you noted just last year, "in such an allocation, all [IMF] members receive SDRs based on their IMF quotas, so a large share of the money goes to developed countries like the United States."[1] In fact, over two-thirds of any allocation would go to G20 countries, which do not need assistance, and less than ten percent would reach poor countries. There is no rational economic justification for such a poorly targeted distribution of aid.

[1] David Wessel, *COVID-19 and the economy: Your questions, our answers*, Brookings Institution (Apr. 1, 2020), https://www.brookings.edu/blog/up-front/2020/04/01/covid-19-and-the-economy/.

An allocation would also directly benefit repressive regimes around the world, including U.S. adversaries and state-sponsors of terrorism, since all IMF members would receive SDRs. That means billions of dollars' worth of SDRs would go to China, Russia, Iran, Venezuela, and Syria. These countries would be entitled to exchange their SDRs for hard currency, such as U.S. dollars or Euros, and use them for any purpose whatsoever. There are no strings attached or conditions placed on their use of these funds.

This inappropriate distribution of foreign aid does not come without costs. To the contrary, it comes at a permanent cost to the U.S. taxpayer. IMF members can demand that a fellow member nation exchange SDRs for hard currency. Ultimately, SDRs can be redeemed from the U.S. government by foreign countries for dollars in the form of "loans" that do not have to be repaid. These dollars come from the U.S. government, which would need to issue debt to obtain sufficient dollars to meet an SDR demand. That debt will need to be repaid by current and future taxpayers.

For all of these reasons, we strongly urge you to abandon your support for an allocation of SDRs.

Sincerely,

Pat Toomey
Ranking Member
U.S. Senate Committee on Banking, Housing, and Urban Affairs

James E. Risch
Ranking Member
U.S. Senate Committee on Foreign Relations

John Kennedy
Ranking Member, Subcommittee on Economic Policy
U.S. Senate Committee on Banking, Housing, and Urban Affairs

Bill Hagerty
Ranking Member, Subcommittee on State Department and USAID Management, International Operations, and Bilateral International Development
U.S. Senate Committee on Foreign Relations