

United States Senate

April 12, 2021

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

Dear Secretary Yellen:

I write to you today regarding your recent announcement that the Treasury will be proceeding with the Biden administration's recommendation for a \$650 billion Special Drawing Rights (SDR) allocation by the International Monetary Fund. I am concerned that an SDR allocation will not support low-income countries and instead will support dictators, China, and other adversaries, all while burdening the American taxpayer. Xi Jinping, Vladimir Putin, Hassan Rouhani, Bashar al-Assad, Nicolás Maduro, and the Burmese generals are all lined up to get hundreds of millions and, in some cases, billions from the Treasury Department.

Under the proposed SDR allocation, the G20 countries—the largest economies in the world—would receive the bulk of the funds, totaling \$426 billion. An additional 31 rich and middle-income nations that already have easy access to affordable market financing would receive \$126 billion. The Treasury's statement details that only \$21 billion—or 3%—of the \$650 billion SDR allocation would flow to the low-income countries this action is intended to help. More money would go directly to China alone than to all the low-income countries combined. An SDR allocation is a convoluted mechanism for providing foreign aid to poor countries and will mainly cushion the coffers of governments that don't need aid.

Additionally, I am deeply concerned that this allocation will benefit hostile governments and our adversaries. Under the proposal, Iran, a country heavily sanctioned by the United States for its illicit nuclear activity, would receive \$3.5 billion in aid. China would receive \$22 billion in aid. Russia will get \$18 billion; Venezuela, \$8 billion; Syria, \$900 million; Myanmar, \$800 million; Belarus, \$1.2 billion; Nicaragua, \$400 million; and Zimbabwe, \$1.1 billion. Despite claims that the U.S. can refuse to buy SDRs from dictators, this type of blanket allocation will allow any dictator whose country receives SDRs to exchange them for hard currencies by simply channeling the exchange through a third country.

This money will not just appear out of thin air. The United States will have to borrow the money to lend it out to these countries. In other words, America will have to borrow from Peter at home to pay Paul overseas: American workers and families will be on the hook for making up the difference between the interest rate the United States would have to pay to borrow this money by issuing perpetual bonds.

Meanwhile, the Treasury will give foreign countries a highly subsidized government interest rate of 0.05 percent on these perpetual loans. Interest payments for these loans aren't a wash for the taxpayers. Indeed, the loans come with a high risk of the receivers not repaying them, in large part because the countries have no obligation or deadline to pay these SDR loans back. There also is nothing preventing a country from redeeming SDRs at this highly subsidized rate and then turning that cash around to reinvest in the 10-year Treasury bond with payouts around 1.7%.

During the Senate Banking Hearing on March 24, you recognized that this allocation comes at a cost to the U.S. taxpayer. Before moving forward, then, Congress must approve any spending of taxpayer funds, including this proposed allocation. Advancing an SDR allocation in the way you have proposed makes an end-run around Congress to distribute foreign aid without accountability and against sound economic principles.

In light of this, I encourage you to halt your pursuit of this ineffective foreign aid. Furthermore, I would like to invite you to meet with me in person to further discuss this matter. Thank you for your time, and I look forward to our discussion.

Sincerely,

A handwritten signature in blue ink that reads "John Kennedy". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

John Kennedy
U.S. Senator