CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

VICE CHAIRMAN JIM SAXTON

PRESS RELEASE

For Immediate Release
March 6, 2000

Press Release #106-83
Contact: Christopher Frenze
Chief Economist to the V.C.
(202) 225-3923

KEY IMF REFORM RECOMMENDED BY UNANIMOUS VOTE

– IFI Advisory Commission Supports IMF Reform –

WASHINGTON, D.C. – A unanimous vote of a blue ribbon commission in support of a critical reform of the International Monetary Fund (IMF) was welcomed today by Vice Chairman Jim Saxton of the Joint Economic Committee (JEC). The International Financial Institution Advisory Commission (IFIAC) has voted unanimously in support of reform to restrict IMF lending to short-term liquidity loans, and ending longer-term lending for other purposes. Saxton had already introduced legislation, the *IMF Reform Act of 2000*, designed to achieve this lending reform, along with several other important IMF reforms.

"The latest news from this Commission is very encouraging news to advocates of IMF reform," Saxton said. "This unanimous bipartisan vote supports a critical lending reform that would direct the IMF to short-term liquidity lending, which is the IMF's proper role. The IMF's mission creep into the development and structural lending that has led to so many problems would be ended.

"This Commission vote is consistent with the research findings of the Joint Economic Committee in recent years. The focus on short-term lending would allow the IMF to focus on the one function it could potentially perform reasonably well. The longer-term lending is a major distraction that undermines the IMF's ability to perform its core function to the best of its ability. This lending also deepens moral hazard problems.

"The longer-term IMF loans have, to a significant extent, transformed the IMF into another development bank. This IMF lending duplicates activities that are more appropriately conducted by the World Bank. The World Bank is also in urgent need of reform, and we do not need another bank of this kind that resembles many of its activities.

"The longer-term IMF lending also reduces the liquidity of the IMF. The longer the term of the loan, the longer it takes for the loan payments to return to the IMF. The outstanding longer-term IMF loans lessen the amount of liquid resources the IMF has on hand for emergency lending. Moreover, if the IMF were to end longer-term lending and focus on its core mission of short-term liquidity lending, it would not need constant injections of new capital through quota increases.

"If the IMF were to make only short-term loans in liquidity crises, it would also reduce the potential for misuse of IMF funds. Short-term loans granted for one particular purpose would be easier to monitor than are the current development loans often made by the IMF. The reduction in potential corruption in countries with weak public integrity standards would be a major benefit of this reform. The IMF's traditional 'hear no evil, see no evil' approach has been very ineffective in this regard. I look forward to examining the full report once it is made available this Wednesday," Saxton concluded.

For more information on the IMF and international economics, please visit our website at www.house.gov/jec.

###