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CHAIRMAN JIM SAXTON

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PROPOSAL FOR NEW APPROACH TO IMF RESCUES RELEASED

--Financial Assistance Without Bailouts Would Curb Moral Hazard Problem--

WASHINGTON, D.C. – A new policy framework for the International Monetary Fund (IMF) to provide assistance in financial crises without bailing out private sector investors will be released May 10 by Majority Leader Dick Armey and Chairman Jim Saxton of the Joint Economic Committee (JEC). The proposal was designed by Adam Lerrick and Allan H. Meltzer, both of whom were previously associated with the Meltzer Commission.

In essence, the proposal provides a means for the IMF to stabilize conditions in a financial crisis by being prepared to purchase "all debt of a crisis government [owed] to the private sector at a support price significantly below its expected restructured value." This would protect the financial system from possible contagion, reduce the debt burden, forestall potential panic, and shift losses and risk from taxpayers to the private sector investors that have made mistaken decisions.

"This new proposal will frame much of the debate over IMF reform now and in the foreseeable future. We need to limit the exposure of taxpayer money in the IMF, curtail bailouts, and shift the costs towards those who have made investment mistakes," Majority Leader Armey said.

"This new policy framework comes at a time when a fundamental rethinking of the role of the IMF is well underway," Chairman Saxton said. "No longer will policy makers be forced to consider the polar alternatives of doing nothing on the one hand, and massive IMF bailouts on the other. This proposal provides a middle way that could provide assistance to countries in crisis and contain potential financial instability, while preventing massive bailouts of private sector investors, thereby curbing moral hazard.

"I believe that this new proposal will become the basis for a new approach to promoting international financial stability. The basic problem with the current IMF approach is that it leads to an escalation of expectations on the part of those who would benefit from IMF bailouts. It is true that the root causes of financial crises are usually found in weaknesses in domestic monetary and financial policies and institutions. However, the upward spiral of financial instability we have seen in recent years also is related to an increasing expectation of bailouts based on an expanding moral hazard problem. As a result, IMF bailouts actually have long-term destabilizing effects on the international financial system.

"Congressional efforts to mandate higher IMF interest rates and other reforms to limit moral hazard certainly are needed, but may not go far enough in all circumstances. In situations where a debt restructuring is necessary, the only realistic alternative to bailing out private investors is to write down the debt in an orderly way by providing an 'official floor of support' under the value of the affected debt. I plan to incorporate this new policy framework into IMF reform legislation that will be introduced in the near future. I would also like to thank Allan Meltzer and Adam Lerrick for advising us of this exciting new policy approach," Saxton concluded.

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

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