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JOINT ECONOMIC COMMITTEE

CHAIRMAN JIM SAXTON

PRESS RELEASE

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STATEMENT OF CHAIRMAN JIM SAXTON REFORM OF THE INTERNATIONAL MONETARY FUND AND WORLD BANK

It is a pleasure to welcome Under Secretary of the Treasury John Taylor before the Joint Economic Committee this morning. Dr. Taylor enjoys a fine reputation as a distinguished academic economist from Stanford University, and has previously served as a member of the Council of Economic Advisers and held a number of other government positions. In his current position, Dr. Taylor deals with some of the most challenging issues of international economic policy.

A number of these issues relate to proposals for reform of the International Monetary Fund (IMF), an issue I have been involved in since the debate over the 1998 IMF quota increase legislation. In preparation for the 1998 debate, the JEC conducted an extensive research program on the IMF, resulting in a series of studies and hearings. This research concluded that the IMF was not financially transparent, it provided below market subsidized interest rates, and promoted moral hazard.

In addition, we found that IMF mission creep was reflected in its drift into lending for development and structural reform, often involving longer loan maturities or rollovers of existing loans. Committee research also found there was a lack of IMF accounting controls and lending safeguards that could result in misuse of taxpayer money. A number of other findings involved the IMF's heavy reliance on the G10 for resources, and the lack of meaningful financial support for the IMF by most of its members.

This research led to the introduction of the *IMF Transparency and Efficiency Act*, a version of which later became law as conditions attached to the IMF appropriation. This reform mandated much more IMF transparency and the use of risk adjusted interest rates in IMF bailouts. In the last few years, IMF operations have become more transparent, although its financial statements still lack transparency. Although the IMF has made some limited progress in the area of financial transparency, a former IMF research director has also noted "the need to improve the financial structure of the Fund in terms of transparency, efficiency and equity."

I would also like to note the President's Council of Economic Advisers' (CEA) statements endorsing reform of the International Monetary Fund (IMF). According to the recent CEA report, IMF liquidity loan "programs would appropriately involve short-term lending at penalty interest rates, to encourage and facilitate the borrower's quick return to private capital markets." This is very consistent with the findings of the Meltzer Commission as well as the Congressional mandates for IMF reform developed by this committee in 1998. A version of these transparency and lending reforms became law in 1998 as conditions attached to the IMF quota increase legislation. Thus Congressional actions already taken strongly support the Administration's position on needed reform of IMF lending programs.

The Administration's support for substantial grant financing of some World Bank activities is also very significant. This reform would offer the best approach to improving living standards and reducing poverty in the world's poorest nations. The traditional World Bank/IMF approach of saddling poor countries with loans they often cannot repay has failed. Moreover, the high failure rate of World Bank projects reflects a waste of resources that could have better been used to alleviate poverty.

In conclusion, we now have an Administration that is serious about needed reforms of the IMF and World Bank. Although change in these institutions will not occur overnight, consistent and steady advocacy of responsible reform will produce results that will limit moral hazard, curb international financial instability, and reduce the waste of resources to the benefit of many millions of people around the world.

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