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JOINT ECONOMIC COMMITTEE

CHAIRMAN JIM SAXTON

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

I am pleased to welcome the panel of witnesses before us today. The members of the panel were all associated with the Meltzer Commission, and I would like to thank you for your service, and assure you that the commission's influence on international economic policy has been positive and profound.

In recent years a number of issues have been identified related to proposals for reform of the International Monetary Fund (IMF). The evidence shows that the IMF was not financially transparent, it provided below-market subsidized interest rates, and promoted moral hazard.

In addition, 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. Moreover, 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.

In the last few years, the IMF has made some limited progress in the area of financial transparency. However, a former IMF research director has also recently noted "the need to improve the financial structure of the Fund in terms of transparency, efficiency and equity." The basic problem here is that the IMF is saddled with an archaic accounting framework rooted in an economic and institutional environment that no longer exists. For example, the official IMF financial statements still present IMF loans as "currency purchases," instead of loans. Furthermore, the workings of the SDR department remain as murky as ever. In addition, the minutes of Executive Board meetings are still classified for 20 years.

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 that are currently in law.

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 been better used to alleviate poverty.

Unfortunately, the defenders of the World Bank status quo are resisting the Administration's grants proposal. Ever since the idea of grants was first proposed, the World Bank's own evaluations of its performance have shown sudden improvement. However, we all realize that without truly independent review, performance can be misrepresented. An independent review of World Bank performance is urgently needed.

The Bush Administration has shown that it is serious about needed reforms of the IMF and World Bank. The work of the Meltzer Commission has been essential to this improvement in international economic policy The recommendations of the Commission have led to U.S. government proposals to 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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