



CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

CONGRESSMAN JIM SAXTON

PRESS RELEASE

For Immediate Release
February 17, 1999

Press Release #106-11
Contact: Daniel Guido
(202) 226-0603

CURRENT IMF CANNOT BE INTERNATIONAL LENDER OF LAST RESORT

WASHINGTON, D.C. – The International Monetary Fund (IMF) cannot be a true lender of last resort (LOLR), according to a new study released today by **Congressman Jim Saxton**. Saxton will be **Vice-Chairman of the Joint Economic Committee** in the 106th Congress. According to the study, the IMF cannot function as a genuine LOLR because it can neither create reserves, nor make decisions quickly enough; also, it is not transparent enough to qualify as a true LOLR. The study, *An International Lender of Last Resort, the IMF, and the Federal Reserve*, is by former Federal Reserve economist Dr. Robert Keleher.

“This study demonstrates that proposals to transform the IMF into an international central bank are unrealistic and unnecessary,” Saxton said. “The IMF can’t create money or bank reserves, so it cannot function effectively as a real lender of last resort. The prospects for any proposal to transform the IMF into an international central bank are not very favorable. Instead of expanding the functions and scope of the IMF, the best course for reform is to focus the IMF on a clear and specific mandate. The IMF already tries to do too much, and the results in Indonesia, Russia, and Brazil suggest its policies often are not successful.

“If there is going to be an IMF, it should be focused on providing short-term credit to pre-approved borrowers who have maintained sound banking and financial policies. Furthermore, although the IMF cannot be a true LOLR, it should stop subsidizing its loan rates by charging true market rates. Although the recent Congressional reforms of the IMF took an important step in this direction, much more remains to be done. The moral hazard and interest rate subsidies provided by the IMF continue to undermine the stability of the international financial markets.

“At a JEC hearing last October, Professor Charles Calomiris presented his plan to fundamentally reform the IMF, a plan which I have endorsed in most of its basic elements. Calomiris and Professor Alan Meltzer, among others, have thought through and presented the issues of reforming the IMF and the international financial architecture in much greater detail than has the Administration. I am confident the new commission to examine these issues will give fundamental IMF reform the serious consideration it deserves.

“As the new JEC study points out, the Federal Reserve can serve as an international lender of last resort. This is part of the reason last fall that I called on the Fed to cut interest rates before its September and November FOMC meetings, and in addition called for an inter-meeting interest rate cut. By taking appropriate actions at the right time, the Fed demonstrated it could stem deflation fears, and thus stabilize international and U.S. financial markets. Though the IMF bailouts in Russia and Brazil failed to achieve their objectives, the actions of the Federal Reserve worked to contain the damage.”

For more information on the IMF and the Federal Reserve, visit the JEC website at www.house.gov/jec.

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