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JOINT ECONOMIC COMMITTEE

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STATEMENT OF CHAIRMAN JIM SAXTON JOINT ECONOMIC COMMITTEE

IMF Reform: Proposals to Stabilize the International Economy

A JEC hearing conducted October 7, 1998

I am pleased to welcome the witnesses before the Joint Economic Committee (JEC) this morning. We are fortunate to have two experts on international finance testifying on reform of the International Monetary Fund (IMF) today. We look forward to a serious analysis and provocative exchange of views on this critically important topic regarding the international financial system.

In recent months calls for IMF reform have come from the American, British, French, and Italian governments, as well as from many others. Much of the discussion of IMF reform and the new international financial architecture is very general and abstract, and sometimes it is difficult to know exactly what is actually being proposed. This morning, in contrast, we will be discussing some very specific and comprehensive proposals for reform of the IMF.

This is the fourth in a series of JEC hearings on the IMF and international economic policy held this year. The issues related to IMF reform are difficult, and ones upon which reasonable people can disagree. As fundamental reform of the IMF has emerged as a major issue, it is important for policy makers to begin to explore alternative proposals.

Last week, the Shadow Financial Regulatory Committee, a nonpartisan group of financial experts, released a set of IMF reform proposals designed to contain moral hazard, restrict subsidized lending, improve IMF transparency and accountability, and improve the evaluation of IMF performance. This general approach is consistent with my much more limited near-term reform proposal for the IMF, and resembles in many respects a proposal before us today.

In brief, one of the proposals presented today by Professor Charles Calomiris first establishes capital standards to protect the soundness of the domestic banking system. His reform of the IMF would, among other things:

- Require adoption of capital standards in the domestic banking system as a requirement for IMF membership.
- End the IMF's current standard practice of lending at subsidized, below market interest rates. Instead, interest rates would be set somewhat above market levels to discourage abuse.
- Require that IMF loans be collateralized by borrowers offering securities as backing for loans.
- Require that IMF loans provide for liquidity assistance, and therefore be limited in maturity to several months.
- Dispense with the often counterproductive loan conditions since borrowers are essentially pre-qualified.

These reform ideas are all designed to restructure the IMF as an institution focused on providing liquidity to illiquid governments. I welcome this proposal by Professor Charles Calomiris, and equally the testimony offered today by Governor Jacob Frenkel.

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