CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

CHAIRMAN JIM SAXTON

PRESS RELEASE

For Immediate Release
March 8, 2001

Press Release #107-10
Contact: Christopher Frenze
Executive Director
(202) 225-3923

HEARING: IMF AND WORLD BANK REFORM

-- Opening Statement of Chairman Jim Saxton --

I would like to welcome Dr. Meltzer and fellow witnesses before the Committee this morning. Dr. Meltzer served as Chairman of the International Financial Institution Advisory Commission, and the other witnesses before us were also associated with the Commission as well. I would like to take this opportunity to compliment Dr. Meltzer and the Commission once again for their fine work addressing some of the most difficult issues in current economic policy.

Recently *The Economist* magazine commended the Commission's report, noting that it "commanded support across the ideological spectrum." Over the last few years, there has been a remarkable shift in informed opinion regarding reform of the IMF and the World Bank, and the Meltzer Commission has played a central role in bringing this about. In retrospect, it is clear that the debate over the IMF appropriation a few years ago led to a much-needed examination of the role of the IMF and World Bank.

In 1998, the proposed quota increase for the International Monetary Fund (IMF) sparked a major debate over the reform of this institution in Congress. In the same year, this Committee held several hearings and issued a number of studies on various IMF reforms. This research identified a number of key problems with the IMF, including a lack of transparency and excessive interest subsidies on loans that exacerbated moral hazard problems.

The lack of financial transparency also hindered Congressional and public understanding of how U.S. contributions are used. Recently a former IMF research director validated these findings and said, "the Fund's jerry-built structure of financial provisions has meant that almost nobody outside, and indeed, few inside, the Fund understand how the organization works…" Penetrating this obscurity required an extensive financial analysis of the Fund, supplemented with financial and other data requested from the General Accounting Office (GAO) and made public through committee hearings.

The lack of IMF financial transparency is a problem in itself, but also reflects a virtually unintelligible and archaic presentation of the IMF financial statements. To provide just one example, the IMF is a huge lending institution that does not classify most of its loans as loans. This lack of transparency also obscures the fact that most IMF funds used in operations come from a relatively small number of members, and that most members do not provide such support.

It was also found that IMF loans exceeded prudent limits, had excessive maturities, and were not subject to adequate accounting controls and loan safeguards. In addition, an IMF drift into development lending was noted as a serious concern and a reflection of IMF "mission creep." It was also concluded that IMF borrowing in capital markets was quite feasible and would be superior to continual quota increases.

Some of these research findings were later incorporated in legislation, including the *IMF Transparency and Efficiency Act*. In 1998 a version of this legislation became law, mandating increased IMF transparency and a reduction of IMF loans subsidies as a condition of the quota increase. Although some steps towards transparency have been made, it does not appear that the IMF has complied with the interest rate reforms. This is most unfortunate, since it was hoped that these higher interest rates might encourage other needed reforms, such as shorter loan maturities and tighter loan caps. However, under Congressional pressure, including proposed legislation, the IMF did finally adopt some basic accounting controls and loan safeguards last summer, but their effectiveness remains to be seen. In short, while some limited progress has been made, much more remains to be done.

The report of the Meltzer Commission last year provided a much-needed analysis of IMF activities and their impact in recent financial crises. Its recommendations with regard to the IMF as well as the World Bank and development banks have framed the discussion about reform of these institutions ever since the report was issued. Policy changes recommended for the IMF include borrower preconditions, higher interest rates, short maturities, renewed focus on liquidity lending, and increased transparency. A recent change in the IMF balance sheet increasing its transparency somewhat apparently was inspired by a recommendation of the Meltzer Commission. The Commission's proposal for grant financing of World Bank activities has also been well received. The members of the Commission should be very pleased with the powerful impact of their work, and the Congress is in your debt for your contribution to sound economic policy.

###