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(CREATED PURSUANT TO SEC. 5(a) OF PUBLIC LAW 304, 78TH CONGRESS)

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May 22, 1998

The Honorable Robert E. Rubin
Secretary of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Secretary Rubin,

In your recent testimony before the House Agriculture Committee you noted the U.S. interest in a stable and prosperous Asia. While we agree that an economic recovery in Asia is strongly in our economic, diplomatic and national security interests, we take strong exception to your unqualified endorsement of the role of the International Monetary Fund (IMF). Furthermore, we reject your argument that the maintenance of U.S. world leadership precludes serious and thorough examination of IMF operations and the need for IMF reform. The IMF's promotion of moral hazard through subsidized lending is not an issue of U.S. leadership, it is simply a question of whether current U.S. international economic policy is leading in the right direction.

Some of our concerns about IMF conditions are similar to those appearing in a study for the Japanese Ministry of Finance released on May 19, and also those expressed by Professor Martin Feldstein in recent articles in the *Financial Times* and *Foreign Affairs*. We also agree with Bundesbank head Hans Tietmeyer when he said, "The IMF should re-evaluate its policies and should question itself on how far its policy generates moral hazard."

According to the Japanese study, the conditions imposed by the IMF are too inflexible and should better take into account economic and social constraints. Both the Japanese study and Feldstein have suggested that IMF structural reforms be separated from the more immediate issues of resolving financial crises. We are concerned because the IMF's emphasis on structural reforms can potentially undermine attempts to resolve short-term financial problems. Tax increases, mandated price increases, and financial regulation have produced counterproductive effects in many cases. For example, the IMF's own staff concluded that an IMF condition inadvertently caused a bank run with effects that spilled over into other neighboring financial markets.

In the case of Indonesia, it is clear that the origins of the economic crisis are mostly the responsibility of the Indonesian government. However, the IMF mandated reforms involving price increases in basic commodities are widely seen as sparking rioting and violence. According to the *Wall Street Journal*, the IMF program "contributed to the turmoil now wracking the world's fourth most-populous nation... The IMF program failed to stabilize the Indonesian economy, its stated purpose." The IMF program also failed to prevent the further depreciation of the Indonesian currency.

Though one result has been the resignation of former President Suharto, another result has been the terrorization of the Chinese Christians who are central to the operation of the Indonesian economy. Much of the violence against the Chinese Christian community was encouraged by an Islamic fundamentalist leader of the reform movement who espouses anti-Semitic and anti-Christian views. The IMF price increases were used by such forces to launch riots and violence against a group essential to Indonesian economic prospects. It appears that grave and lasting damage has been done to the outlook for Indonesian economic recovery. In sum, a bad situation has been made even worse.

As you know, there are similar concerns about the effects of structural reforms in Korea. It would seem to us that the IMF would better focused on resolving short-term financial problems without engaging in excessively intrusive and potentially counterproductive long-term reforms in the context of a crisis. Risks of political and social instability amidst a financial crisis can only make things worse.

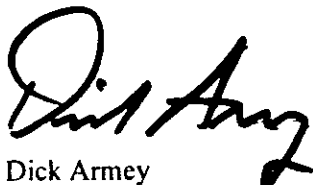
It has been established that the IMF has enough funds to complete the Asian bailouts. It is also clear that the U.S. and IMF rebuffed the offers of help from other Asian countries last fall, so that larger than necessary demands were made on IMF resources. We believe that by working more closely and cooperatively with other countries in the region, less intrusive, more successful, and less costly solutions to the Asian crisis could have been implemented. Furthermore, for its future needs, the IMF has a number of alternatives to government contributions, including the issuance of securities in the financial markets, as the World Bank has done for many years. The stabilization of Asia does not require excessively intrusive IMF conditions or a huge new influx of funds generating moral hazard dangers in the future.

As Congress moves forward to consider these and other issues related to the IMF appropriation, we would again ask that the IMF staff reviews on IMF programs in Thailand, Korea, and Indonesia be publicly released. The public release of these IMF staff reviews will enable Congress, the public and private experts to better understand IMF conditions, their implementation, and their results. In addition, public release of the IMF budget would also facilitate policy analysis and accountability. Such steps towards transparency would help resolve many unanswered questions about the IMF and the way it operates.

If your staff has any questions regarding this request they may contact Christopher Frenze, Executive Director of the Joint Economic Committee, who may be reached at 202/225-3923.

Thank you for your attention to our request.

Sincerely,



Dick Armey
House Majority Leader



Jim Saxton
Chairman
Joint Economic Committee