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IMF Secrecy and Inefficiency Examined in New JEC Study

-- Conclusions Drive New IMF Legislation --

WASHINGTON, DC -- A new **Joint Economic Committee (JEC)** study concludes that meaningful International Monetary Fund (IMF) reform requires public disclosure of IMF documents and decisions, and an end to IMF interest rate subsidies. The study and a recent JEC hearing also provide a basis for the ***IMF Transparency and Efficiency Act***, introduced by **JEC Chairman Jim Saxton (R-NJ)**, Majority Leader Dick Armey (R-TX), and Congressman Tom Campbell (R-CA). The study, ***IMF Financing: A Review of the Issues***, explores the economic problems posed by a significant expansion of the IMF.

"The new JEC study identifies the economic problems posed by a significant expansion of an unreformed IMF," Saxton said. "In recent years, IMF secrecy has veiled an important shift in IMF lending from liquidity assistance to insolvency lending. In a nutshell, increased IMF lending to insolvent entities at subsidized interest rates encourages excessive risk-taking by investors. According to expert testimony before the JEC, this added incentive for risk-taking subsidizes future insolvency and may actually encourage financial instability. IMF secrecy and loan subsidies must be reformed. With loans at under 5 percent, no wonder the Treasury and IMF expect rapid IMF growth in coming years."

The study identifies five main problems with current IMF operations:

Moral hazard: IMF bailouts encourage investors to assume additional risk in pursuit of extra-normal returns in the expectation that losses may be absorbed by the IMF.

Loan subsidies: Subsidized interest rates encourage economic inefficiency and exacerbate the moral hazard problem.

Transparency: The IMF is a closed and secretive organization that operates in a manner inconsistent with openness as well as U.S. performance and accountability standards.

Exposure of taxpayer funds: U.S. government funds are used directly and indirectly in subsidized bailouts that promote perverse incentives leading to a more vulnerable financial system.

Inappropriate Conditions: Counterproductive policies that undermine economic performance are sometimes imposed by the IMF as loan conditions.

The study, a recent JEC hearing, and other JEC research form the basis for the newly introduced IMF legislation. The bill would require real transparency by requiring the release of meeting minutes, loan and associated documents, and staff analysis of the IMF programs. The bill would also establish an advisory board to review IMF objectives, operations, and research. This board is envisioned in part as a transmission belt to provide both input to the IMF and a forum for review of IMF activities, rather than as a vehicle for political or special interest advocacy.

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