



CONGRESS OF THE UNITED STATES

# JOINT ECONOMIC COMMITTEE

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## PRESS RELEASE

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### ARMEY AND SAXTON REFUTE RUBIN'S CASE FOR IMF EXPANSION

WASHINGTON, D.C. -- House Majority Leader Dick Arney (R-Texas) and Joint Economic Chairman (JEC) Jim Saxton (R-N.J.) rejected Treasury Secretary Robert Rubin's argument for expansion of the International Monetary Fund (IMF). In a letter made public today, Arney and Saxton emphasized important moral hazard problems posed by the IMF as well as the failure of its program to stabilize the Indonesian economy.

"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," Arney and Saxton write. "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."

As Arney and Saxton have pointed out many times, the standard IMF interest rate, currently about 4.5 percent, is a subsidized interest rate that only aggravates the moral hazard problem. Not only are investors encouraged to assume excessive risks, but the resulting bailouts at those interest rates are heavily subsidized as well. Arney and Saxton also write that, "We 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.'"

The Arney-Saxton letter takes note of counterproductive conditions often imposed by IMF loans. "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-imposed condition inadvertently caused a bank run with effects that spilled over into other neighboring financial markets," they write.

The letter mentions a recent *Wall Street Journal* story that stated the IMF program contributed to the turmoil wracking the world's fourth most-populous nation. The IMF program failed to stabilize the Indonesian economy, the *Journal* story reported.

The Arney-Saxton letter concludes with a request for the release of internal IMF documents evaluating its programs in Indonesia, Korea, and Thailand. They also call for the release of the secret IMF operational budget.

To arrange interviews with Saxton on his letter or other IMF issues, contact Gary Gallant at (202) 225-4765. In addition, former **Secretary of State George Shultz's** testimony before the JEC on May 5, 1998, is now available from the JEC publications office by contacting (202) 224-5171.

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