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JOINT ECONOMIC COMMITTEE

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IMF Bailouts Attacked by European Central Bankers **-- Saxton Welcomes European Initiative --**

WASHINGTON, DC -- The vocal opposition of European central bankers to recent IMF bailouts was hailed today by **Joint Economic Committee (JEC) Chairman Jim Saxton (R-NJ)**. According to the March 23, 1998, edition of the *Financial Times*, during the past weekend the European central bankers "attacked the bail-out practices of the International Monetary Fund" (IMF) and will propose changes to IMF procedures next month.

Chairman Saxton's statement follows:

"The criticism of the IMF by the European central banks is right on target. IMF critics in the United States and abroad agree that IMF bailouts could encourage reckless financial practices. The bottom line is that the IMF is on a course that could destabilize financial markets and lead to more crises in the future. The proposals to be offered by the European central banks next month will be of great interest of those in Congress seeking to reform the IMF. The European central banks should be credited with drawing attention to a critical problem with IMF practices."

According to the *Financial Times*, German central bank chief Hans Tietmeyer said: "The IMF should re-evaluate its policies and should question itself on how far its policy generates moral hazard." Moral hazard, Saxton explained, results when IMF bailouts encourage investors to assume additional risk in pursuit of extra-normal returns in the expectation that the IMF may absorb losses.

Moral hazard issues dominated a recent JEC hearing on the IMF. The fact that moral hazard is exacerbated by subsidized IMF interest rates on loans was also examined at the hearing. A subsequent JEC study, [IMF Financing: A Review of the Issues](#), examines these and other topics related to the IMF.

Copies of the [JEC study and testimony from the hearing](#) are available from the JEC by calling (202) 224-5171 or at its website at www.house.gov/jec/.

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