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JOINT ECONOMIC COMMITTEE

VICE CHAIRMAN JIM SAXTON

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IMF REFORM EFFORT JOINED BY TREASURY – But IMF Interest Subsidies Remain Controversial –

WASHINGTON, D.C. – The U.S. Treasury's acceptance of several principles long advanced by IMF reform advocates is encouraging, but pervasive IMF credit subsidies must remain a central target of reform, Vice Chairman Jim Saxton of the Joint Economic Committee (JEC) said today. Treasury Secretary Larry Summers now supports refocusing the IMF on emergency lending and away from development lending, reiterating a point made repeatedly by Saxton and others over the last two years.

"Secretary Summers' recognition that the status quo at the IMF is ripe for reform is encouraging," Saxton said. "Some of us might even venture to say that IMF reform is long overdue. However, the significant point is that a broad intellectual consensus on reform is crystallizing on at least several key points.

"The IMF's drift toward development lending is undesirable for several reasons. As I noted last year, it ties up funds and distracts attention from the IMF's proper role as an emergency lender in foreign exchange crises. The IMF's development lending entails inefficient credit subsidies and duplicates many of the activities of the World Bank. It has not been authorized or supported by Congress and seems especially vulnerable to potential corruption, as documented in a JEC study released only yesterday.

"Our research has found that over the last thirty years IMF loans have gone from being borrowed mostly by advanced countries to being borrowed entirely by developing countries. Other findings include the fact that the U.S. supplies 26 percent of usable IMF contributions, while most IMF members supply little or no usable contributions. Thus, the Administration and Congress certainly are in a strong position to insist on necessary IMF reforms.

"However, I am disappointed that the Administration does not clearly propose to end pervasive IMF interest subsidies. The IMF currently extends credit to high-risk borrowers at interest rates of about 4 percent, clearly far below market levels available to these borrowers. These interest subsidies are central to IMF financial operations and must be ended. The interest subsidies are economically inefficient, amplify moral hazard, invite potential corruption, and are ultimately counterproductive.

"My 1998 IMF reform legislation proposed an end to these IMF interest subsidies, and this alone would have discouraged most, if not all, of IMF development lending, as intended. However, the compromise version of my bill that became law was watered down somewhat at the insistence of the Treasury so that it would not apply to development and certain other lending. I am convinced that an end of IMF interest subsidies must remain a central objective of IMF reform. The Administration does now recognize the need for more rational IMF interest rates, but would permit much of the IMF credit subsidies to remain.

"IMF reform should include four main elements: ending IMF credit subsidies; reducing IMF loan maturities to under one year; ending IMF development lending; and providing IMF credit only for foreign exchange emergencies to pre-qualified borrowers. The Administration deserves credit for advocating some elements of IMF reform, but falls short of eliminating the inefficient credit subsidies central to the IMF's current operations. In any case, I look forward to a healthy and open debate on these issues in the next session of Congress," Saxton said.

For more information on the IMF and international economic policy, please visit our website at www.house.gov/jec.

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