



CONGRESS OF THE UNITED STATES

# JOINT ECONOMIC COMMITTEE

VICE CHAIRMAN JIM SAXTON

## PRESS RELEASE

For Immediate Release  
June 2, 2003

### IMF SHOULD LIMIT BAILOUTS AND FOCUS ON DEBT RESTRUCTURING THROUGH COLLECTIVE ACTION CLAUSES

Press Release #108-34  
Contact: Christopher Frenze  
Chief Economist to the V.C.  
(202) 225-3923  
Stephen Thompson  
Radio & T.V.  
(202) 225-4765

**WASHINGTON, D.C.** – With the outlook for expanded donor funding dim and its own debt restructuring plan essentially dead, the International Monetary Fund (IMF) could play a constructive role by promoting collective action clauses in bonds offered by sovereign borrowers, Vice Chairman Jim Saxton said today. Saxton made his remarks in connection with the release of a study from the Gailliot Center for Public Policy of Carnegie Mellon University, *A Simple Means to Defuse Sovereign Default*, by Adam Lerrick.

Collective action clauses make it possible to write down debt with the agreement of a supermajority of creditors, instead of by unanimous consent, as is now common. For example, perhaps only 75 percent of creditors, instead of 100 percent, could agree on binding terms to restructure debt owed by a borrowing country. Such clauses would sharply reduce the tendency of the IMF to provide huge bailouts for governments seeking to avert default, and their creditors. Such IMF bailouts encourage moral hazard, risk taxpayer money, and rely on inefficient and counterproductive IMF interest subsidies to borrowing governments in the form of artificially low interest rates.

“The IMF is not going to be able to increase its taxpayer-funded contribution base in the foreseeable future, and the support for huge IMF bailouts is very low,” Saxton said. “Debt restructuring offers the potential for a constructive role for the IMF in encouraging the use of collective action clauses. The key is to limit the ability of holdouts and free riders to leverage their position and exact maximum private benefit for themselves at public expense.

“If investors pursue extra-normal returns by investing in unusually risky loans, they, not the taxpayers, should bear that risk. The huge IMF bailouts over the last several years have greatly worsened moral hazard, and encouraged dangerous levels of risky lending. The resulting debt bomb must be defused by limiting IMF bailouts and focusing the IMF on a better way of averting sudden financial crises. IMF encouragement of collective action clauses provide a way to restructure sovereign debt at minimum taxpayer expense,” Saxton concluded.

For more information on international economic policy, please visit our website at  
[www.house.gov/jec](http://www.house.gov/jec).

###