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VICE CHAIRMAN JIM SAXTON

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IMF AND WORLD BANK REFORM HEARING
OPENING STATEMENT OF VICE CHAIRMAN JIM SAXTON

WASHINGTON, D.C. – It is a pleasure to welcome Dr. Meltzer and our other witnesses before the Committee this morning. Dr. Meltzer served as Chairman of the International Financial Institution Advisory Commission, and the other members of the panel were also associated with this Commission. I would like to compliment you for taking the time and effort to grapple with some of the most complex and challenging issues in economic policy, and producing such an excellent report. Today we plan to focus on the substantive economic and financial issues related to the International Monetary Fund (IMF) and World Bank, and how they relate to proposals for reform.

As one who has been involved in issues related to reform of the IMF for several years, I am encouraged by the emerging consensus that has developed on basic principles. The principles stating that the IMF should provide more transparency, focus on short-term crisis lending, scale-back IMF development lending, and end deep IMF interest subsidies, now enjoy broad support. There is significant agreement on a range of other issues as well.

The main question remaining is how to consistently apply these concepts of IMF reform. Tactical differences in the application of these principles should not be permitted to distract attention from how much consensus has been achieved on basic principles of IMF reform.

For example, recently Secretary Summers has called on the IMF to focus on crisis lending, de-emphasize development lending, and raise at least some IMF interest rates. This is very encouraging to those of us in Congress who have supported these objectives for quite some time, and thus welcomed Summers' embrace of IMF reform. As news reports noted at the time, Summers seemed to borrow heavily from Congressional critics of the IMF and from the expected recommendations of the Meltzer Commission.

Our perspective here at the JEC has focused on transparency and the finances of the IMF. These two issues are closely related, and have important implications for Congress. As a former IMF research director recently said, "the Fund's jerry-built structure of financial provisions has meant that almost nobody outside, and indeed, few inside, the Fund understand how the organization works…"

However, the IMF is a publicly financed institution in which the U.S. has a prominent financial and policy making role. Congress has an important responsibility to monitor how effectively taxpayer funds are being used and ensure that adequate safeguards are in place. Obviously, this lack of IMF transparency undermines Congress' ability to carry out this oversight responsibility. We have finally managed to decipher and decode the IMF's accounts, but IMF finances really are not understandable and do not comply with the transparency standards the IMF imposes on others.

Our Committee findings show that the base of IMF financial support is much narrower than officially portrayed, with the U.S. contributing 26 percent of usable resources, and the G-10 contributing 77 percent. Over half the IMF membership contributes virtually no usable funds. Furthermore, in one recent period, 70 percent of IMF credit was owed by just five borrowers. Russia and Indonesia together accounted for one-third of outstanding credit. IMF interest rates are currently about 4.7 percent, far below the market rates available to IMF borrowers, and below the rates available to the most creditworthy nations such as the U.S.

Two years ago the JEC also found that there were no effective safeguards or accounting controls in place to monitor IMF loan disbursements. Billions of dollars would be disbursed by the IMF with no effective accounting controls in place to enable the IMF to verify information and ensure that funds were properly used. Given the rather low public integrity standards in place among many IMF borrowers, this cavalier approach fails to take into account the fiduciary responsibility of the Fund to member countries and their taxpayers. After repeated public embarrassments, and my introduction of legislation mandating IMF accounting controls, it is good to see the IMF finally taking long overdue steps to address some of these issues.

Although most of our research at the Committee has focused on the IMF, reform of the World Bank is also needed. The overlap of IMF and World Bank development activities is acknowledged by each agency, but is apparently not viewed as a problem. Not only is the IMF involved in many development activities, but the World Bank has participated in bailouts during economic crises.

A clear distinction between the different missions of the IMF and World Bank is urgently needed, and this problem also is addressed in the Meltzer Commission report. The World Bank should focus its efforts on helping the poorest in nations that have no alternative sources of funds, and should do so mostly through grants, not loans, as the Commission recommends. We should reduce the burden of debt on the poorest nations, not perpetuate this problem with more lending from the IMF and World Bank.

The Congressional agenda for reform of the IMF and the World Bank is as ambitious as it is compelling. However, in the case of the IMF, the Congress has provided over one-quarter of the usable resources, more than the three next largest contributors combined. Over time, a continual assertion of Congressional pressure can make a tremendous difference, and this is the intent of the *IMF Reform Act* I have recently introduced. Congress is in debt to Chairman Meltzer and the Commission for providing an excellent blueprint for reform of the IMF and World Bank.

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