

Reform IMF first

OPPOSING VIEW Lack of accountability among fund's major problems.

By Jim Saxton

The U.S. House of Representatives wisely voted on Sept. 17 to reject the Clinton administration's demands for immediate approval of a \$14.5 billion taxpayer contribution, or quota increase, for the International Monetary Fund (IMF). Differences between the House and Senate IMF appropriations will be negotiated later this week.

The IMF is a powerful, arrogant and often counterproductive bureaucracy whose operations are cloaked in secrecy. The failed program in Russia and the turmoil it triggered in international financial markets provide the most recent reasons for alarm about the destabilizing effects of the IMF on the international economy.

And the IMF has more resources than IMF and U.S. Treasury officials have acknowledged. That was confirmed by a recent General Accounting Office report provided at the request of the Joint Economic Committee.

Even after subtracting the full amount of the IMF's more recent loan to Russia, the IMF holds \$39 billion in usable contributions and \$32 billion in gold, and it had another \$15 billion in its "general agreements to borrow"

credit line — a total of \$86 billion. The IMF can also borrow from private financial markets; \$60 billion is within historic guidelines.

In addition, there are five key problems with the IMF's operations:

▶ IMF bailouts of countries encourage risky lending behavior, which is known as "moral hazard."

▶ Subsidized interest rates, currently under 5%, encourage economic inefficiency and exacerbate the moral-hazard problem.

▶ The IMF is a closed and secretive organization that operates in a manner inconsistent with U.S. performance and accountability standards. Greater transparency, or openness, must be implemented.

▶ Taxpayer funds are used directly and indirectly to subsidize bailouts that promote perverse incentives leading to more vulnerable financial systems.

▶ And the IMF frequently imposes inappropriate conditions on countries that request its assistance. In Indonesia, for instance, the IMF called for the end of food and fuel subsidies at a time when millions of people could no longer afford the necessities of life.

Fundamental and comprehensive reform of the IMF is urgently needed. An unreformed IMF doesn't deserve an additional dime.

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