An Unreformed IMF Doesn't Deserve a Dime

By Jim Saxton

Last Thursday the House of Representatives rejected the Clinton administration's demand for an $18 billion taxpayer contribution to the International Monetary Fund's capital base. Instead it approved an allocation of $3.4 billion. The Senate, however, approved the administration's request. When members of Congress meet in the coming weeks to reconcile the two bills, they should stand firm against the pressures of the administration and various special interest groups, which are demanding the $18 billion without meaningful IMF reforms.

Surrendering to IMF demands could spell trouble for markets world-wide. Contrary to the claims of the U.S. Treasury and the IMF's own top officials, the fund is far from destitute. It does not need more money. It needs drastic reform, to make reasonable use of the billions it's already got. The IMF is a powerful, arrogant, and often counterproductive bureaucracy whose operations are cloaked in excessive secrecy. The failed program in Russia and the turmoil it triggered in international financial markets are only the most recent reasons for concern about the destabilizing effects of the IMF on the international economy.

Members of Congress have a responsibility to evaluate how taxpayer money is used. IMF secrecy hampers our ability to make such judgments. The fund even treats its operational budgets as classified information. Keeping such material from the public view means that Congress has no way to consult with independent experts about IMF operations and spending. We do know, however, the IMF is far richer than the destitution implied by Treasury officials, or the $5 billion to $9 billion in remaining usable resources claimed by IMF Deputy Director Stanley Fischer.

Recently the General Accounting Office provided the Joint Economic Committee with a review of IMF resources. Even after subtracting the full amount of the Russian loan, the IMF holds $39 billion in usable contributions and $32 billion in gold, along with $15 billion in its General Arrangements to Borrow credit line. Thus, the IMF has access to about $86 billion in capital.

Also, the IMF has the authority to borrow considerable sums directly from private financial markets; $60 billion is well within historic guidelines. The IMF is not helpless to address its liquidity needs. It can sell bonds to raise money and provide usable resources for operations.

Stanley Fischer

Insofar as the IMF does suffer liquidity problems, they are due to a classic form of mismanagement. The IMF has evolved from an institution with liquid assets and liabilities to one in which assets have become longer-term, while liabilities remain short-term. As the IMF engages in more long-term structural and development lending, its assets and liabilities will continue to be mismatched, and it will also have fewer available resources when inevitable liquidity crises do arise. With total usable resources of $130 billion and an ability to borrow even more, the IMF would have plenty for emergencies if it stopped trying to micromanage the planet and reserved its funds exclusively for emergency lending.

Meanwhile, there are five key *economic* problems with the IMF's operations:

- The near certainty of IMF bailouts of countries around the world encourages risky lending behavior. As expectations of bailouts become well established, lenders alter their behavior and adopt riskier lending strategies. This is known as "moral hazard."
- Subsidized interest rates encourage economic inefficiency and exacerbate the moral hazard problem. The standard interest rate charged by the IMF for its bailout loans, currently under 4.5%, simultaneously encourages unsound lending practices and promotes high-risk investments.
- There is an urgent need for more openness. The IMF is a closed and secretive organization, run in a manner inconsistent with U.S. performance and accountability standards.
- The fund is costly to the U.S. taxpayer. Government funds are used directly and indirectly to subsidize bailouts that promote perverse incentives leading to more vulnerable financial systems.
- The IMF frequently imposes inappropriate conditions on countries that request its assistance—undermining rather than helping the target economies. 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. These conditions sparked riots and violence that caused long term damage to the prospect of economic recovery.

Without reforms, increased IMF lending to insolvent entities at subsidized interest rates encourages excessive risk-taking by investors. This added incentive for risk-taking invites future insolvency and may actually encourage financial instability. With the IMF lending to some of the world's riskiest economies at the outrageously low rate of under 5%, it is not surprising that the U.S. Treasury and the IMF expect increased calls for IMF intervention in coming years.

I have proposed legislation that calls for real IMF openness and efficiency by requiring the release of meeting minutes, loan and associated documents, and staff analyses of the IMF programs. The IMF must open its books, let the market determine lending interest rates, rescind its calls for higher taxes and better safeguard U.S. taxpayer money. Until it does so, the best thing Congress can do for world prosperity is refuse to increase the IMF budget by a single dime.

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