MEMORANDUM

To: Members of the Committee on Financial Services

From: FSC Majority Staff

Date: June 12, 2015

Subject: June 17, 2015, MPT Subcommittee Hearing Entitled "The Impact of the International Monetary Fund: Economic Stability or Moral Hazard?"

The Monetary Policy Subcommittee will hold a hearing entitled "The Impact of the International Monetary Fund: Economic Stability or Moral Hazard?" at 2:00 p.m. on Wednesday, June 17, 2015, in room 2128 of the Rayburn House Office Building. This will be a one-panel hearing with the following invited witnesses:

- Clay Lowery, Vice President, Rock Creek Global Advisors
- John Taylor, Mary and Robert Raymond Professor of Economics, Stanford University
- Meg Lundsager, Public Policy Fellow, Woodrow Wilson International Center for Scholars

Overview of the International Monetary Fund

The International Monetary Fund (IMF) is designed to promote international macroeconomic stability. The IMF traces its roots to the July 1944 meeting at Bretton Woods, New Hampshire, where representatives from 45 nations gathered to discuss the postwar recovery of Europe and to create international institutions to resolve some of the economic problems—such as protectionist trade policies and unstable exchange rates—that hobbled the international economy between the two world wars. Two other international organizations also trace their origins to the Bretton Woods conference: the World Bank, whose mission is poverty reduction and economic development, and the World Trade Organization, which seeks to liberalize international trade and oversees the rules governing the international trade system. The IMF came into formal existence in 1945, and has grown to near-global membership of 188 countries today.

As the global financial system has evolved over the decades, so has the IMF. Until the early 1970s, the IMF's primary purpose was to manage the system of fixed exchange rates agreed to at Bretton Woods. The U.S. dollar was fixed to gold at $35 per ounce and all other member countries' currencies were fixed to the dollar at different rates. The IMF monitored the macroeconomic and exchange rate policies of its member countries, and helped them weather economic crises by providing short-term loans. The global system of fixed exchange rates abruptly ended in 1973, when the United States went off the gold standard and floated its currency. After a period of instability, the modern system of floating exchange rates came into effect. The IMF adapted to the new system by promoting stable exchange rates while continuing to provide temporary financing to countries affected by economic crises.

Today, the IMF's operations can be grouped into three categories: surveillance, lending, and technical assistance:

- Surveillance: The IMF monitors the economic and financial policies of its member countries to identify possible risks to financial stability and to offer advice on policy adjustments.

- Lending: The IMF lends to countries facing balance-of-payments problems, which generally means they are having trouble paying for imports or servicing their debt. The IMF provides temporary financial assistance intended to help these countries stabilize their economies while implementing economic reforms. The IMF disburses its loans in phases ("tranches") after verifying that specified economic conditions and reforms have been met ("conditionality").

- Technical Assistance: The IMF provides technical assistance and training intended to help its member countries strengthen their capacity to design and implement effective policies. The IMF provides technical assistance in monetary and financial policies; fiscal policy and management; statistical data compilation; and economic and financial legislation.

The IMF has not been without controversy, and increased attention on its activities since the global financial crisis of 2008-2009 and subsequent Eurozone crises have revived long- standing debates about the institution's role in the global economy. Some analysts argue that with the end of fixed exchange rates, the IMF is no longer needed and it should be abolished. Others contend that the IMF is still vital, but needs to be restructured and refocused. Still others suggest that new functions should be added to the IMF and its role in the international monetary system should be expanded.