The paper is a policy-paper, advocating a new type of insurance for syndicated sovereign borrowing. The authors suggest that the IMF initiate an insurance-type policy for sovereign lending that will be bought by the lenders. To create the right incentives, the authors argue that this insurance needs to be subsidized by the IMF, and that an efficient way to do so would be to allow banking groups to become IMF members (with access to quotas similar to current sovereign members). The article's suggestion is intriguing; however, it ignores the political economy of the IMF at its peril.

There may be two justifications to ignoring political realities. Either the authors think these political realities are an insignificant barrier to their proposal; or they think these barriers can be easily overcome. I disagree with both of these. The IMF is first and foremost a political organization controlled by its directors who represent the member countries' governments. Even much smaller modifications to its charter or its structure have failed because of the objections of specific interest groups. One cannot ignore these difficulties, nor can one assume that these can be overcome easily. The idea, prevalent among some economists, that this is a just a failure of the 'political will,' is equivalent to the equally infuriating idea that 'economies do not grow because they lack the economic will to do so'.

In a way, the authors suggest enabling the IMF to provide insurance that is very similar to the unprecedented and very controversial recent guarantees provided by the US Federal Reserve and other central banks (notably the Bank of England) to some corporate lending. These policies are controversial in a national setting since they potentially involve large transfer of resources from the government to the private sector under some scenarios. The opposition to an international version of such a scheme would surly dwarf any current objections. Neither the US Congress, nor the EU, nor most developing countries (especially the G20) would agree to such a potential transfer of resources under any condition.

Other drawbacks of the paper: (1) there is heated debate about whether IMF-generated moral hazard in international lending is indeed economically relevant (and not only a theoretical possibility). This literature should have been discussed. (2) there is a trend decline in the relative importance of syndicated bank sovereign borrowing as a form of government financing. As such, the proposal may have a much smaller impact than the authors intend.

- Sachs (1997) is referenced but is not mentioned in the reference list.
- Figure 2, the number cited should be cited in perspective to other losses during the crisis.