**THE IMF AND THE BRAZILIAN ECONOMY:
PARTNERS OR CORDIAL ENEMIES?**

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"Blaming victims is an appealing evasion of responsibility, especially when the victims are far from virtuous. But when sins are as heterogeneous as those of Latin American regimes of 1980, one wonders how well the exemplary mass punishment fits the alleged individual crime."

Carlos F. Diaz-Alejandro (1984)

Introduction

It is difficult to paint a clear picture of the heated debate concerning the role of the International Monetary Fund (IMF) toward its member countries and the financial community. However, it is possible to paint an impressionistic picture of the controversial influence of the IMF in Brazil, especially when the population, once again, is experiencing not only the benefits but also the painful side effects from the most recent stand-by agreement signed with that institution on November 13, 1998. With regards to what the international financial community sees as the worst *sin* attributed to the Brazilian economy, perhaps the statement made a decade and a half ago by Professor Diaz-Alejandro of Yale University is not completely off the mark.[1] In that case, it is in fact necessary and urgent to discuss the present and future roles of the IMF.

As early as 1982, faculty members from the Economics Department at the Rio de Janeiro Pontifical Catholic University [Pontifícia Universidade Católica do Rio de Janeiro (PUC-RJ] pointed out alternatives to the traditional IMF prescription to spare the national economy from the corrosive effects of the international crisis.[2] Many of these economists are, or were, among the designers and enforcers of the economic policies now in effect, including Pedro Malan.[3] However, as far as the policies inspired by the IMF are concerned, some of these economists have forgotten what they defended in the past and, in this way, may repeat what they criticized before they had the opportunity to govern us.[4]

Malan's view – the current Minister of the Treasury - for example, was that "(…) the credibility of the government with the Brazilian society must not be less than the credibility it tirelessly seeks with the international financial community".[5] There is no better way to describe the emblematic concept of national sovereignty, without which it makes no sense to speak of country, nation, or citizenship.

What is the macroeconomic logic behind the adjustment programs *suggested* by the IMF, which was once criticized by the faculty of PUC but is now supported by a government that is made up of a few of these former critics? Should the role of the IMF continue to be that of *smoothing out* liquidity squeezes (balance of payments) and exchange rate fluctuations in member countries? Or should the IMF be transformed into a *lender of last resort*, within a new structure of the international financial system? Should the Fund prevent crises or manage them? Should it play a direct role in the development policies of its member countries, or should it simply interact with the World Bank and the private capital market? The adequacy of the diagnosis and the effectiveness of the *suggestions* made by the IMF to heal the fiscal and external accounts, and thus stabilize the economy of the assisted countries have not always worked as expected. Therefore, it is indeed advisable to contrast the orthodox diagnosis and therapy associated with the IMF with unorthodox alternative proposals, which favor economic growth, in order to solve the still frequent payment crises, including in Brazil.

There is a consensus about the urgent need to reconsider the course of the IMF as well as strong pressure for more democratic control within the institution, which was created after the Second World War at the Bretton Woods Conference, during which the institutional framework of the international financial system now in effect was developed. By the

[1] Diaz-Alejandro, Carlos F. "Latin American debt: I don't think we are in Kansas anymore". Brookings Papers on Economic Activity. Washington: Brookings Institution, number 2, 1984.

[2] (a) *Dívida externa, recessão e ajuste estrutural: o Brasil diante da crise*. Persio Arida (org.). São Paulo: Paz e Terra, 1982). (b) "Alternativas para enfrentar a crise". Marcelo Lara Resende. Ciência Hoje (Year 1, no. 6), May/June 1983.

[3] André Lara Resende, Edmar Bacha, Eduardo Modiano, Francisco Lopes, José Márcio Camargo, Persio Arida, Regis Bonelli, and Winston Fritsch.

[4] "Ponto de ruptura", Marcelo Lara Resende. Ciência Hoje (vol. 25, no. 149), May 1999.

[5] "Recessão e negociação". Pedro Malan, pg. 116.

way, this international framework also needs a structural reform. Since many questions about the IMF have been raised by countries all over the world, it is no longer easy to dismiss such criticism as circumstantial or temporary, or to label it as politically and ideologically motivated. In order to understand Diaz-Alejandro's proposal and to put into context speculations about the course of a new IMF, it is necessary to make a better analysis of conditions around the world which brought about, or aggravated, the recurring payment crises, especially in Latin America. For, essentially, the crises that continue to jolt developing countries are not very different, for example, from the crisis that plagued them in 1982. Therefore, it is necessary to reevaluate not only the usual diagnosis (high fiscal and commercial deficits due mostly to wasteful governments given to excessive interventionism) but also the recessive therapy generally associated with the IMF.

The crisis in context

The scarcity of capital in less developed countries vis-à-vis its abundance in developed nations, in spite of the financial risks, makes foreign debt a useful tool to shore up economic growth, as long as it is well managed. However, the composition of capital flow from developed to less developed countries has changed since the nineteen-seventies. Financial capital has increased to the detriment of direct investments; although in Brazil, for example, in the last few years, the amount of direct investment has been growing significantly: roughly US$ 30 billion just in 1999. This new composition of capital flow has increased the dependence on foreign money and the obligations towards debt service in debtor countries. Consequently, it also increased the vulnerability of the system to exogenous shocks, especially after the advent of globalization, which facilitated the international movement of short-term capital.

The first and second oil crises in 1973/74 and 1979/80, the worldwide recession, and the high interest rates confirmed in practice what was feared in theory. The evidence that the international financial system was in jeopardy (1980/81) became clear when the problem of foreign debt manifested itself globally in 1982 with more than thirty heterogeneous countries having difficulty in honoring their debts. By allowing the expansion of international loans, the recycling of petrodollars made possible the survival of the system after the first oil crisis, but it was not able to guarantee the flow of resources necessary to stave off subsequent shocks. Even during that time, analysts had different opinions about the nature of the crisis. Some diagnosed the problem as severe (solvency) and argued that the crisis could not be resolved by traditional methods and required measures to *alleviate* debtor countries. Other analysts diagnosed the problem as temporary (liquidity) and discouraged radical measures as they considered small the debt risk for the international financial system.

The fact is that he financial emergencies observed since 1982 were not permanently resolved by the *remedial packages*, especially when the recessive and cumulative effects of the *conditionalities* associated with such packages are taken into consideration, for they are, in fact, a further drain on fragile and tumultuous countries. Although fiscal virtue is not their forte, there is indication that some debtor countries, including Brazil, by submitting themselves without criticism to conditions that are not always efficient, or by trying to satisfy the rigid performance criteria that come as part of agreements with the IMF, are also paying for the crimes of others. Innocent victims? When contrasting the effort towards settling accounts to the difficult situation in some Latin American countries, Diaz-Alejandro's words seem plausible. For when a crisis emerges, the creditors, shielded by the IMF, force debtor countries into taking drastic monetary and fiscal measures, regardless of the actual degree of responsibility these countries bear in generating the crisis, or of the painful side effects that such measures have for society.[6]

The violent nature of these measures hurts the economies in question, since their well-intentioned efforts fail to restore the trust of

[6] "*When crisis hit, the IMF and other lenders give highest priority to restoration of credibility and confidence in the currency under attack. They require the victim country to take drastic restrictive monetary and fiscal measures, whether or not irresponsibility in these policies brought on the crisis. Since these measures damage the economy, business, and banks, they may not restore confidence. Lenders of last resort are essential and should concentrate above all on replenishing liquidity.*" James Tobin, Annual World Bank Conference of Development Economics (1998).

the creditors themselves, who, almost always with the pragmatic agreement of the governments involved, force these economies into an often self-destructive behavior. The frequent economic, social, and political disturbances in Latin America suggest that the region may eventually lose even its *surgical condition* without which the appropriate and, in fact, necessary macroeconomic adjustment becomes impossible. Therefore, it does indeed make sense to reconsider the role and performance of the IMF, including in Brazil.

The IMF diagnosis

The public debt as a proportion of the gross national product (GNP) is increasing in most of the world. In developed countries the debt is mostly domestic. In developing countries and in former socialist countries the greater portion of the debt is foreign and its extraordinary growth is attributed to an inadequate fiscal policy. The reasoning is that the pressures that stimulate the increase in spending do not foster the simultaneous increase of taxes necessary to finance them. The imbalance between revenue and expenditure is financed through monetary expansion and domestic and foreign loans. According to the IMF, this adjustment policy results in the acceleration of inflation. Initially, because inflation is unexpected, a temporary drop in real interest rates results in an equally temporary reduction of the ratio of debt to GNP. This gives governments the illusion that it is possible to continue to expand the debt without problems. However, experience has demonstrated that the economic agents end up adapting themselves to the inflationary context. As a last resort, such policies raise inflationary expectations and, through the reaction of the monetary authorities, raise the real interest rate which, in turn, distorts the allocation of resources, hurts economic growth, and increases unemployment - the greatest evil in any economy.

Excessive public debt has domestic as well as international consequences. In the first case, the main result is that an increasing portion of national savings is used to finance chronic fiscal deficits, to the detriment of healthier private enterprises, a phenomenon known as *crowding out*. In the second case, uncontrolled growth of public debt increases the risk of an abrupt retraction by the international financial market as in 1982 and 1997, since cautious agents look to reduce their exposure (their commitment to assets) in heavily indebted and potentially problematic countries.

The IMF recognizes that an expansionist fiscal policy can have beneficial effects for economic performance for a period of time, especially in a recessive environment. However, the Fund also believes that fiscal deficits hurt economic performance because they bring about an increase in public debt, negatively affect expectations, and reduce investments, making sustainable economic growth inviable. In the presence of high fiscal deficits of structural origin (not due to cyclical movements of the economy), of high real interest rates, and of low economic growth rate, the problem becomes chronic. Deficits become cumulative and increase the public debt in relation to the GNP. Brazil's public debt, for example, hovers today in the vicinity of 50% of the GNP. In the absence of measures to revert the vicious circle, economic, social, and political stability in the countries involved is at risk, and that diminishes the trust of pragmatic creditors, both domestically and abroad. At best, they start charging more, and, at worst, denying the necessary resources to shore up development where the risk is high or increasing. From this point on, the path and the time to reach an acute payment crisis are short. A public debt that will not stop growing coupled with high real interest rates is an explosive combination. Brazil's recent experience shows that such a situation makes interest payments the one element of public expenditure that grows the most.[7]

In spite of the IMF's usually sensible macro-economics, after a certain point, the severity of the problem makes any additional effort to adjust the economy based solely on orthodox methods useless. From then on, the obstinate

[7] "(...) the federal, internal public debt in the form of securities continues growing, as much in absolute as in relative values. By the end of last December, it was equal to R$415 billion, having jumped to R$439 billion by the end of March, with a growth exceeding in 5,8% that of the GNP for the same period. As for dollar figures, 1995 began with a debt of 75 billion dollars against international reserves of 36 billion dollars. In March of this year, the debt was already R$251 billion against reserves of R$39 billion" (sic).
Free translation from "Culpa apenas dos juros?", Cláudio Haddad, *Valor Econômico*, July 7, 8, and 9, 2000.

attempt, year after year, to generate larger and larger primary budget surpluses (interest payments excluded) is counterproductive. Its deflationary effect towards the economic environment (businesses) paradoxically does not make viable the trust (first domestically, then abroad) in the country in question. That being the case, to insist on the painful adjustment inspired by the IMF becomes like shooting oneself in the foot. Therefore, under certain circumstances, besides being technically questionable and politically unsustainable, as the faculty at PUC once argued, the macroeconomic strategy suggested by the IMF becomes ineffective and particularly undesirable in countries like Brazil due to the damaging effect which the autophagic vicious circle exerts on an already unjust distribution of national wealth, one of the world's worst.

The IMF solution

The not always effective solution proposed by the IMF is simple and painful: in order to reduce the fiscal deficit and to contain the explosion of public debt, it is necessary to increase taxes or to reduce non-financial expenses and, in this manner, compensate for the snowballing increase of interest-bearing expenses - the untouchable debt service. In spite of the political difficulty, the IMF warns that postponing the implementation of such measures would aggravate the problem. The traditional way out, through monetization of the deficit and of the public debt, is impossible over a longer period in an economy with an inflationary tradition which is, as a consequence, predictably indexed, formally or informally. If it is necessary to adjust the economy, full indexation, in order to preserve the real revenue from all economic agents, is impossible: It is a matter of distributive incompatibility. For the IMF, the difficulties in debtor countries are a result of the excessive absorption of real resources from abroad. That is, they result from the excess aggregate expenditure in relation to the domestic product in real terms. The problem is that these countries insist on spending more than they have. The excess expenditure is attributed to high government spending, as if these were always superfluous and compressible *ad nutum*.

Revisiting the crises

Since it is possible, now and then, to find alternative explanations for the payment crises, it is also reasonable to technically question the diagnosis and the measures proposed by the IMF. It would do well to remember that, in part, the chagrin experienced by Brazil, or by other debtor, non oil exporting countries, for instance, was aggravated by the abrupt deterioration in the terms of trade that took place in 1973/74 and 1979/80. And that, without mentioning the harmful impact on the respective balance of payments caused by the increase of international interest rates driven by the upward movement of the basic rate in the United States, which reached about 20% a year in the late seventies and early eighties.

A recent example of the inappropriate action by the IMF is the case in Japan. When the speculative bubble burst, the unfounded euphoria of the real estate market was followed by recession, having implications for Japan's economy, or for the region as a whole, which are not yet resolved. In fact, only recently did Asia begin to emerge from the poorly administrated problem that culminated in the crisis of 1997, with repercussions throughout the world, especially in Brazil. Essentially, the Asian crisis was also a result of the imprudent and abrupt slowing down of the regional driving engine: Japan. Today, the consensus is that the restrictive action taken by the IMF, based on a faulty diagnosis, aggravated the problem. The IMF induced Asian countries to reduce demand, when it was necessary to increase it. Something that symptomatically went unnoticed by its technicians.

An inadequate strategy

Faced with the impossibility of obtaining *relief* from high foreign debt (which, generally, is indexed just as domestic debt), countries like Brazil found themselves obligated to go from net importers to net exporters of real resources. At that point, it became necessary to effecttively adjust the economy. The transition is painful, particularly because the transfer of real resources abroad has to be absorbed internally, through the reduction of aggregate expenditure (consumption, investments, and government spending). The problem is a difficult one, since no country or segment of society willingly absorbs losses. And it is not easy to choose and to comfort the inevitable losers, since everything has its breaking point, including fiscal and monetary restraint. [8]

The known IMF prescription attempts to force an indebted economy to reduce expenditure, especially through the reduction of the public deficit, in order to obtain the real resources necessary to eliminate, or minimize, the deficit in the current account of the balance of payments. Such policy is not decided upon democratically and mainly reflects the interests of the developed world, especially those of the IMF's biggest shareholder - The United States. In practice, the IMF tries to ensure that commitments with the international financial system are honored according to contracts. In so doing, beyond the waste imposed on assisted countries (the unemployment of machines, people, and natural resources), this understandable, albeit not always adequate strategy, is particularly harmful in a global crisis scenario. When recessive measures are imposed simultaneously and repeatedly on so many debtor countries, they do not bring about a permanent solution if the crisis is nearly generalized, as was the case in the eighties. In this case, such measures are also apt to jeopardize the good operation of the international financial system itself. When their effects are evaluated in the context of a global, general equilibrium model, it is clear that, by reducing its imports, each country in difficulty also reduces the exports of at least one of its commercial partners. Persisting with such strategy would make it difficult to break the vicious circle.

Orthodox IMF, unorthodox solution

How is one to break the Gordian knot which, further tightened by the conditions imposed by agreements with the IMF, has been paralyzing developing countries for a long time, including Brazil's cyclothymic and still vulnerable economy? By the way, an economy that, with respect to economic growth, has just lived through the end of a second partially wasted, if not completely lost, decade - that of the nineties. It is necessary to advise against easy or immediate solutions. They are nothing but panaceas. The true solution (medium- or long-term) requires unorthodox attitudes, which will permit molding the productive structure to the new relative prices, as well as to other current conditions in the changing international market. The paradigm changed and continues to change rapidly. The IMF also needs to modernize itself in order to become, among other things, a true lender of last resort. As such, it should concentrate its efforts on restoring the liquidity of member countries. Besides, the Fund should start recognizing and taking into account particularities of countries as well as the internal and external circumstances which condition economic policy, especially after the irreversible globalization.

The definitive solution for the crisis in Brazil (or in other indebted countries), besides not being unique, is viable only over a long period, as long as it is pursued through measures that are different from the *ad hoc* steps (more emergency-minded than structural) which have been implemented by implicit or explicit pressure from the IMF. Such measures are always imposed at particularly acute moments in the recurrent payment crises, when it is no longer possible to contest them. The popular perception, headed by opposition parties, unions, and Brazil's National Confederation of Bishops (CNBB), for example, is that the IMF's basic macroeconomic orientation does not always make sense over a longer period. Frequently, besides not helping to structurally balance finances and, in this way, permanently stabilize the economies of assisted countries, the therapy imposes a very high social cost, which, however, is seen as useless, from a Pavlovian standpoint. This cost is evidenced by the low rate of economic growth, by the high unemployment rates (open or disguised), and by the growing scarcity of resources, even for urgent social spending.

In fact, this seems to have been the logic that permeated the conclusions reached at the conference that took place at PUC in 1982, which was unanimously supported by participants and summarized by Persio Arida, the organizer of the compiled works. In Arida's words: "First, recession as a strategy is inadequate, not only in promoting the country's adjustment to the restrictions imposed by the difficulty in obtaining foreign

[8] "A ruptura no mercado internacional de crédito", André Lara Resende, pg. 41.

currency loans, but also in reducing the public deficit. Second, it is necessary to overcome the naive terms of the political dilemma of austerity versus renegotiation through a careful evaluation of the costs and benefits of each alternative when faced with international scenarios with any degree of plausibility. Third, it is of pressing importance to maintain the public investment rate and to stimulate private investment through planning policies that are not short-sighted, which will permit the realigning of the country's productive structure. Fourth, successful external adjustment presupposes internal adjustments in the form of changes in the fiscal parameters and in relative prices compatible with the search for distributive equity."[9]

Therefore, for some time, the Brazilian people have suspected that, instead of indiscriminately cutting public expenditure, including investments, as proposed by the IMF and is being done by the government, the country should be investing in recycling its industrial facilities and in its citizens, both paralyzed by an economic policy that, in some respects, is in fact self-destructive and denationalizing. Recently, the perception by an expressive segment of the population, including one or other member of the government, is that such policy, although successful up to now in controlling inflation, has failed so far with regards to development, perhaps for being excessively based on standardized *suggestions* by a biased IMF. In the final analysis, the inexorable conclusion is that there is no possible long lasting solution for the recurrent payment difficulties, including the present one, outside of economic growth at rates more compatible with the needs of the country. Rates which are determined by the country's stage of development and, above all, which are able to eliminate the cruel imbalance observed in the Brazilian job market.

Once again, in the words of the former researcher of the Research Institute of Applied Economics (IPEA) and professor at PUC, Pedro Malan: "It should be noted that growth rates of the product below 6% would be unlikely to decrease the absorption of flow, estimated at one and a half million people who, every year, join the country's '*economically active population'*." [10] With regards to employment levels, if this was the situation in 1982/83, imagine how much worse it has become since then, after two decades of product growth rates being, on average, way below the line sensibly established by the Minister of the Treasury. The dissatisfaction with the orthodox methods is not totally unreasonable. As a matter of fact, the economic programs suggested by the IMF do not give priority to investments and to the preservation of the employment level (the economic development), in spite of the sacrifice repeatedly imposed on the population of assisted countries. In Brazil, for example, the unemployment rate has been reaching record levels, not to mention the underemployment or the growing *informalization* of the economy. The inevitable consequence is that, for nearly two decades now, the mediocre performance of the economy does not allow the absorption of citizens who want, and need, to work.

The resources that are saved domestically through painful primary budget surpluses, or obtained abroad in the form of costly new loans, are used almost exclusively to serve domestic and foreign debts. Even so, these debts do not stop growing. And, as long as new investments are not realized in adequate dimension and in due time, the industrial facilities in Brazil are less and less prepared to compete in the changing and increasingly more aggressive international scenario. Similarly, the difficulties met by increasingly insecure citizens are perceptible. Faced with scarcity of social investment resources, they are at a growing disadvantage in relation to their competitors in developed countries regarding factors that, over a long period, determine productive capability, competitiveness, and the well-being of the people: health, education, and good quality employment for all.

A new pattern?

Also in Brazil, in spite of the understandable and, in some ways, justified optimism of the official discourse (inflation has been under control since mid 1994), the traditional IMF

[9] Free translation from the original "Introdução", Pérsio Arida, pgs. 11-12.

[10] Free translation from the original "Recessão e renegociação", Pedro Malan, pg. 107.

prescription (fiscal and monetary restraint, liberation of the markets, and privatization) is no longer accepted without reservation. After the increasingly frequent, heterogeneous, and severe financial crises observed in the last decade (Asia, Russia and Brazil), the perception is that the model based only on the *Washington consensus* is not a panacea. It is no longer possible, for example, to ignore the growing instability caused by the increase of short-term capital flow in a globalized and computerized world. The vulnerability of countries, especially of economically unstable countries, increases when financial markets are less regulated and more open. Also for that reason, grows the plea for a new global financial architecture - a new paradigm -, including for the IMF. It is only a matter of deciding the form and rhythm which will characterize the indispensable changes in the framework that was set up over half a century ago.

The Meltzer Report and others

The architecture of the international financial system is being increasingly questioned both by the left and the right.[11]. Professor Joseph Stiglitz, former World Bank Chief Economist and potential winner of the Nobel Prize, for example, recently attacked the IMF. According to Stiglitz, the Fund is an institution which frequently diagnoses poorly and imposes wrong macroeconomic adjustment programs on countries that it assists. This is done in a manner that is little transparent and not much according to the implicit or explicit interests of these countries, but rather mainly according to the interests of the United States Treasury Department. [12]

Another recent criticism of the IMF stemmed from an evaluation requested by the United States National Congress from a group of experts. The result was a conservative proposal to cut down on the size and attributions of the IMF and of the World Bank. The so-called Meltzer Report, as it is known, suggests that the IMF merely be a kind of World Central Bank - a selective lender of last resort to provide liquidity to pre-qualified and solvent economies during turbulent, vulnerable periods, when financial panic could arise. Only in the cases of systemic crises, and to avoid a greater evil, would the IMF indiscriminately lend resources to member countries. Others, even more radically, propose the extinction of the IMF, as well as of other important international financial institutions. That is what George Schultz, for example, did in an article written with William E. Simon and Walther B. Wriston. [13]

Democracy and development at the IMF?

It is known that the IMF is not a democratic institution. The Managing Director of the IMF is chosen by the house executive committee, where the decision criterion is closer to *one dollar, one vote* than to *one person, one vote*. The voting power is distributed according to each country's quotas, which in turn reflect the country's size. The group formed by developing countries and former communist countries hold 40% of the votes. The remaining 60% go to developed countries.[14] These developed countries control the institution's philosophy and operation, which, in practice, have been used to submit the developing countries (debtors) to the specific interest of the developed world (creditor). This situation seems inadequate in a multilateral institution, where the model should approach that of an arrangement by which each country would have the right to one vote. For, it is necessary that the *burden of economic adjustment* be democratically shared in a more equitable way among unbalanced countries, whether they are deficit (debtor) or surplus (creditor) countries.

It is also desirable that the IMF be transformed into a true lender of last resort. To that end, contrary to what is suggested by the Meltzer Report or the proposal headed by Schultz, the Fund would need a lot more resources. That being the case, on the one hand, the IMF must be strengthened in order to carry out its objective in helping member countries to survive during temporary liquidity crises (short-term). On the other hand, the IMF was not created to be, nor

[11] "The international financial system: a new architecture?", Marcílio Marques Moreira, DIMAC/IPEA seminars, number 23, July 2000.
[12] "What I learned at the world economic crisis. The Insider". Joseph Stigilitz, mimeo., 2000.

[13] Who needs the IMF?". *Wall Street Journal*, 02/03/2000.
[14] "Chega de negociações de bastidores" (translated from the Financial Times), Jeffrey Sachs, Gazeta Mercantil, 11/18/1999.

should it be transformed, even if indirectly, into an institution in charge of shaping the economic structure of member countries through biased manipulation of conditionalities or performance criteria. This would be a dysfunction, for the IMF was not created for the purpose of *orienting* development strategies (long-term) of these countries. Within certain limits, that is the purpose of the World Bank

Conclusion and reservations

In spite of the noisy populist rhetoric, there is no interest in the demoralization or extinction of the IMF. There is, rather, firm intention to improve the relationship of all member countries with the institution, although emphasizing the urgent need to reform it. The perception is that the IMF is an indispensable institution both in rescuing countries in temporary difficulty as well as in guaranteeing the good operation of the international financial system. However, opposition parties and many non-governmental organizations naturally reverberate the growing and understandable popular perception that the IMF needs to be rethought, restructured, and re-dimensioned. It is believed that only in this way, particularly in a globalized environment, the institution will be able to serve the real and heterogeneous interests of all member countries (the greater part of them debtors) and not the specific interests of developed and powerful countries (creditors) like the United States.

Like in other emerging countries, the Brazilian government, supported by the legitimate and symptomatic popular pressure, needs to act to help hasten the reforms which will make it possible for institutions like the IMF to survive and to better treat both domestic financial systems as well as independent currencies. In this respect, it is befitting to reflect on the words of Professor James Tobin of Yale University at the Annual World Bank Conference of Development Economics: “The presumption that currency crises are just the fault of the victims is still all too prevalent among the statesmen of world finance and, of course, among media pundits”. The laureate professor went on to say“. Effective internationalization is not unmitigated laissez faire. Let us encourage them [emerging countries] to build good national financial systems, not just open their doors ever wider.”[15]

Finally, in the past, the Brazilian government signed but failed to comply with many *letters of intention* with the IMF. On the other hand, the present government seems to want to fulfill, at any cost, its commitment (the goals) with the important, albeit in some respects, admittedly *aged* institution. They are both extreme postures. Alternatively, a mature relationship, of true partnership, between the IMF and Brazil, presupposes the ability of the Brazilian government to negotiate, and of the Fund, to accept, not only emergency loans, but, above all, conditionalities and performance criteria that recognize the legitimate long-term objectives of a democratic and sovereign country of undeniable importance in the international community. The IMF and Brazil are partners, even though, at times, they are partners in conflict. It is better to have it this way, for it would be worse if they were enemies, even if cordial enemies feigning a honeymoon in Prague.

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[15] *“Financial globalization: can national currencies survive*?”. Washington, 1998.

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