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The Effect of the International Monetary Fund Bailout on Emerging Growth Countries

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Justice without strength is helpless
strength without justice is tyrannical . . .
Unable to make what is just strong,
we have made what is strong just.[1]

I. INTRODUCTION

Amid the advent of a new millennium, the time has come to reassess the caveat of the code of international economic conduct promulgated by the creation of the International Monetary Fund (IMF) at the Bretton Woods Conference in 1944.[2] Prior to World War II, there was no international monetary system in existence.[3] Indeed, the epiphany that an international monetary system could make possible a "globally peaceful and relatively harmonious evolution of the world economy"[4] was an ideology conceived of only amongst those enveloped in certain intellectual and political colloquial circles. Recognizing that economic instability contributed to the Great Depression and World War II, the IMF was intended to act as a guardian for the international monetary system.[5] In that capacity, the IMF expended credit (with a repayment period of three to five

1. Pascal Pansies, *reprinted in* THE UNIQUE NATURE OF THE RESPONSIBILITIES OF THE IMF, INTRODUCTION (1670), *available at* http://www.imf.org/external/pubs/ft/pam46/pam46int.htm [hereinafter RESPONSIBILITIES OF THE IMF] (last visited Sept. 2, 1999). It is worth noting that the IMF chose this quotation as its introductory cavalcade. One might ponder whether, in so doing, the quote may be interpreted as begging a question for which the IMF (among others) has no ready answer.

2. *See* ARTICLES OF AGREEMENT OF THE INTERNATIONAL MONETARY FUND, *at* http://www.imf.org [hereinafter *Articles of Agreement*] (last visited Sept. 2, 1999). *See also* THE INTERNATIONAL MONETARY FUND 1945-1965, TWENTY YEARS OF INTERNATIONAL MONETARY COOPERATION, VOLUME III: DOCUMENTS (J. Keith Horsefield ed. 1960) [hereinafter THE IMF].

3. *See* THE IMF, *supra* note 2, at 3.

4. *See* RESPONSIBILITIES OF THE IMF, *supra* note 1.

5. Jacques J. Polak, *The World Bank and the International Monetary Fund: A Changing Relationship, in* BROOKINGS OCCASIONAL PAPERS 1 (The Brookings Institution eds. 1994) [hereinafter WORLD BANK].

years) to countries experiencing payment difficulties caused either by their own making or by a recession in the world economy in an attempt to ensure world-wide peace by averting global instability.[6] However, critics charge that recent IMF measures, including the IMF's support of the Suharto government, heightened the Asian crisis by allowing sweetheart business arrangements to exist in Indonesia.[7] Moreover, critics claim that IMF funds earmarked for Russia were siphoned to the Bank of New York in an elaborate money laundering scheme.[8] The critics contend that other IMF practices serve as an exercise in obsolescence culminated primarily by the IMF bailouts[9] to emerging growth countries.[10] Further, critics claim that the IMF, in lieu of being a catalyst for economic improvement, denies emerging growth countries the opportunity to become self-sufficient, or otherwise correct their economic maladjustments.[11] This Note contends that the critics are wrong: Today's global economy dictates the very measures instituted, implemented, and utilized by the IMF. Moreover, this Note disputes cries calling for the bifurcation or demise of the IMF[12] because such measures negate the goals of the IMF and are counter-productive to ensuring stabilization and solvency in emerging growth countries. This Note argues that the IMF's pliability in dealing with emerging-growth countries satisfies the economic needs of such countries. Indeed, the IMF remains a vital requirement to continued global market expansion as "major countries are affected by each others' economic conditions more so now than in the past."[13] This Note main-

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6. *See id.* at 2.

7. *The IMF Replies, Letter to the Editor,* WASH. POST, Dec. 30, 1998 *at* http://www.imf.org/external/np/vc/1998/123098/HTM. (last visited Nov. 4, 1999). *See also Indonesian Experience,* IMF Surv., May 22, 2000; *Indonesia: The Jitters Return,* THE ECONOMIST, May 20, 2000, at 52.

8. *The Next Russian Bail Out,* THE ECONOMIST, Aug. 15, 1998, at 60.

9. In the context of this Note, bailouts include Stand-By arrangements, extended arrangements, contingency and contemporary arrangements, including, but not limited to, special drawing rights ("SDRs") and other types of IMF financial assistance expended by the IMF to member countries for which the IMF has been unable to collect.

10. Doug Bandow, *Endless Aid, Endless Bailouts,* WASH. TIMES, Oct. 16, 1998, at C-1.

11. *Id. But see,* Stanley Fischer, *The Asian Crisis: A View from the IMF,* Address (Jan. 28, 1998) *at* http://www.imf.org/external/np/speeches/1998/012298.htm.

12. *See* Bandow, *supra* note 10.

13. THE BRETTON WOODS COMMISSION, BRETTON WOODS: LOOKING TO THE

tains that the IMF, in addition to helping balance an integrated world economy, strengthens the international community by its succinct understanding of the different perceptual, social, and cultural norms unique to each country. In so doing, the IMF satisfies the Kantian philosophy of doing that which is "just" for its own sake.[14] Although "the poor [are] most vulnerable to recessions . . . [and] are most severely affected when governments reduce expenditures to meet budget constraints by cutting . . . [jobs] and social services,"[15] the IMF's invaluable assistance may well be viewed in psychological terms acting as a reinforcer of self worth to individuals.[16]

Part Two of this Note will present an overview of the IMF, as well as explore the historical memories of the political, economic, and social turbulence that served as the impetus for the Bretton Woods Conference,[17] culminating in a consensus designed to deal with helping countries set their economies on paths of sustained and sound development and growth.[18] Part Three asserts that the IMF is, and will continue to be, a stable foundation of sustainable economic growth in the international community, and will discuss the effects of the bailouts by the IMF in each of Brazil, Indonesia, and the Russian Federation. Part Four of this Note will summarize and concentrate on the viability of the IMF's existence if the dichotomy between the critics of the IMF vís-a-vís the consequences achieved to date are not soon rectified.

FUTURE, COMMISSION REPORT, STAFF REVIEW, BACKGROUND PAPERS 4 (1994) [hereinafter BWC]. Today, it is not unusual for the financial and monetary conditions of one nation to have an immediate repercussion on other nations. This causes an increase in financial market volume and volatility.

14. *See* IMMANUEL KANT, CRITIQUE OF PURE REASON, 1781. *See also* SHARON S. BREHM & SAUL M. KASSIN, SOCIAL PSYCHOLOGY (Houghton Mifflin Co. ed. 1996) [hereinafter SOCIAL PSYCHOLOGY].

15. *See* BWC, *supra* note 13, at A-3.

16. *See* SOCIAL PSYCHOLOGY, *supra* note 14, at 515.

17. *See* RESPONSIBILITIES OF THE IMF, *supra* note 1. *See also* DAVID BRODY, WORKERS IN INDUSTRIAL AMERICA, ESSAYS ON THE TWENTIETH CENTURY STRUGGLE 50 (Oxford University Press 2d ed. 1993). Across America, "[e]ven the most skeptical devotees of the old dog-eat-dog theory of business competition . . . are being gradually persuaded from the sheer, cold pressure of the facts that . . . war doesn't pay in this complicated world of ours." *Id.* This author posits that a necessary precursor to peace is economic stability achieved by the eradication of poverty through gainful employment.

18. *See* RESPONSIBILITIES OF THE IMF, *supra* note 1.

II. BACKGROUND/HISTORY OF THE IMF

A. Creation

Prior to World War II, there was no international monetary system in existence.[19] Indeed, the epiphany that an international monetary system could make possible a "globally peaceful and relatively harmonious evolution of the world economy"[20] were idealogies conceived of only amongst those enveloped in certain intellectual and political colloquial circles; including noted British economist, John Keynes.[21] In the early 1930s, Keynes unveiled a plan for an International Currency Union designed to ameliorate then current conditions in the international arena (the "Keynes Plan").[22] The Keynes Plan was "based on international bank-money . . . fixed (but not unalterably) in terms of gold and accepted as the equivalent of gold by the British . . . and the United States and all members of the Union for the purpose of settling international balances."[23] Albeit not embraced at that time, several of the ideas promulgated in the Keynes Plan were later modified in part and incorporated in the Joint Statement by Experts on the Establishment of an International Monetary Fund[24] (the "Joint Statement"). Released soon after meetings were held between Keynes and Washington officials in September-October, 1943,[25] the Joint Statement was proffered as an anodyne to nations battling "decades of beggar-thy-neighbor foreign exchange and trade restrictions and competitive devaluations culminating in global depression and armed conflict."[26] Among the modifications to the Keynes Plan were alternative technical setups, resulting in differences in the way balances or run overdrafts were posted, allusions to the introduction of a new international unit, as well as a more elastic provision for ex-

19. *See* THE IMF, *supra* note 2, at 4.
20. *See* RESPONSIBILITIES OF THE IMF, *supra* note 1.
21. *See* THE IMF, *supra* note 2, at 128.
22. *See id.* at 3.
23. *Id.*
24. *Id.* at 128.
25. *Id.*
26. *Id.* at 4.

change rates and for subsequent modifications in the rates initially established.[27]

B. Purpose

On July 22, 1944, the United Nations Monetary and Financial Conference released the "Articles of Agreement of the International Monetary Fund" ("Articles of Agreement").[28] The Articles of Agreement stated that the purposes of the IMF would be:

> (i) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.
> (ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.
> (iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.
> (iv) To assist in the establishment of a multilateral system of payments in respect of current transactions and in the elimination of foreign exchange restrictions which hamper the growth of world trade.
> (v) To give confidence to members by making the Fund's resources available to them under adequate safeguards, thus providing them with the opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.
> (vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.
> The Fund shall be guided in all its decisions by the purposes set forth in this Article.[29]

The IMF, designed to serve as the center of the postwar international monetary system, was envisioned as a system

27. *See* THE IMF, *supra* note 2, at 129.
28. *See* ARTICLES OF AGREEMENT, *supra* note 2.
29. *Id.*

based on fixed exchange rates, with rates allowed to be changed only in instances where the rates had become unsustainable.[30] In addition, membership in the IMF entailed certain rights (including access to credit) and obligations (observance of the agreed rules on exchange rates and currency restrictions).[31] Further, a condition precedent to membership in the World Bank was posited on demonstration that a country was a member of the IMF.[32] In other words, the IMF acted as the guardian for the international monetary system and served to help countries experiencing payment difficulties stick to the rules of the IMF system "whether the difficulties were of their own making . . . policy slippages . . . or, by a recession in the world economy."[33] Member countries were expected to repay any credit expended by the IMF within a three- to five-year period.[34] The IMF served as a beacon for short-term economic relief[35] and provided financial resources to help member countries during periods of adjustment when extreme balance of payments difficulties arose in an attempt to "maintain the Bretton Woods par value system of fixed, but adjustable, exchange rates."[36] In addition, the IMF served as a solace to allay the enormous suffering caused by the social turbulence of the 1930s through efforts designed to prevent the recurrence of such episodes.[37] From its inception until roughly the early 1960s, the IMF's par value system allowed it to be "accepted as the referee of the system . . . [and] the U.S. dollar, whose convertibility into gold was guaranteed by the United States, [thereafter] became the main reserve currency in the world."[38]

C. History

The veracity of the IMF's historical role is most notably evidenced by the emergence of the Vietnam War and Johnson's

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30. *See* WORLD BANK, *supra* note 5, at 2.
31. *See* ARTICLES OF AGREEMENT, *supra* note 2.
32. *Id.*
33. *Id.*
34. *Id.*
35. *Id.*
36. *See* BWC, *supra* note 13, at A-3.
37. *See* RESPONSIBILITIES OF THE IMF, *supra* note 1. Note that reflection must be given to both the economic and social/psychological impact of such economic measures.
38. *See* BWC, *supra* note 13, at B-10.

Great Society programs.[39] "History conveys that it is only after severe crisis and widespread conflicts that fertile grounds are found for the gathering on international consensus on norms of behavior to their re-emergence."[40] Inflationary financing began straining the U.S. dollar during the 1960s, and, as inflation grew, the value of the U.S. dollar dropped.[41] At the same time, other countries were able to "adjust the value of . . . [their] currency against the U.S. dollar when the need arose . . . [but] there was no . . . way for the [U.S.] dollar to adjust its value vis-a-vis gold and the other major currencies of the world."[42] However, the IMF, in compliance with the terms of its Articles of Agreement to promote, facilitate and give confidence to its members,[43] adjusted to the turbulent tide.[44]

In 1969, the Articles of Agreement were amended and the IMF was allowed to add its own money, called special drawing rights (SDRs), to the existing stock of gold and dollars.[45] SDRs thus alleviated U.S. difficulties arising from the fact that there was no politically correct way for the U.S. dollar to adjust its value vís-a-vís gold and the other major currencies of the world.[46] During the same period, "Western Europe and Japan became strong competitors in global markets . . . [and the] United States slipped from being the world's largest creditor nation to being its largest debtor."[47] Indeed, due to international trade imbalance, instability of the dollar and large U.S. fiscal deficit, continued global stability and growth were threatened.[48] This scenario conflicted greatly with the U.S. commentary of Questions and Answers issued by the U.S. Treasury which explained the view of the U.S. on the Articles

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39. *Id.*
40. *See* RESPONSIBILITIES OF THE IMF, *supra* note 1.
41. See BWC, *supra* note 13, at 8.
42. *Id.*
43. *See* THE IMF, *supra* note 2, at 187.
44. *See* BWC, *supra* note 13, at B-10.
45. *Id.* at 2.
46. *Id.* at 8. "A member's quota in the IMF determines, in particular, the amount of its subscription, its voting weight, its access to IMF financing, and its allocation of SDRs." Russian Federation Accepts Article VIII Obligations, Press Release No. 96/29, *available at* http://www.imf.org/external/np/sec/pr/1996/PR9629.HTM (last visited Nov. 5, 1999).
47. THE INTERNATIONAL MONETARY FUND IN A MULTIPOLAR WORLD: PULLING TOGETHER 5 (Richard E. Feinberg et al. eds., 1989).
48. *Id.*

of Agreement.[49] In particular, the U.S. view was that the IMF was "not designed to provide resources for relief, nor . . . to provide capital for reconstruction."[50] Instead, the U.S. commentary stressed that the primary objective of economic policy must be the maintenance of a high level of employment and real income,[51] reiterating the aims set forth in the Joint Statement on the International Monetary Fund. By 1971, the "window for dollar convertibility into gold was closed."[52]

Although the IMF's primary objective was to provide economic relief, reality suggests that the effects were two-fold. Higher employment and income levels may have a significant bearing on an individual's psychological well-being.[53] Since a precursor to employment is often a "compatibility" factor, companies tend to employ those whom they view as compatible.[54] Individuals who feel that they are "liked" tend to have higher self-esteem, and are often viewed as "compatible" to a companies' needs.[55] Coupled with higher employment and income, an individual tends to have a higher self-esteem, thus fostering less chance of serious social turbulence in society.[56] Given these circumstances, it is no surprise that by adapting to changes in the system of payments arrangements, as well as rules and policy adjustments, the IMF has continued to reinvent itself and remain successful by focusing on macroeconomic stabilization and structural adjustment reforms to ameliorate social concerns such as "rising unemployment, malnutrition and social marginalization."[57] In turn, with balanced and flexible fiscal policies, countries were able to stabilize exchange

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49. *See U.S. Commentary, Questions and Answers on the International Monetary Fund, reprinted in* THE INTERNATIONAL MONETARY FUND VOL. III: DOCUMENTS 136 (J. Keith Horshfield ed., 1969).

50. *Id.* at 139.

51. *See* JOINT STATEMENT ON THE INTERNATIONAL MONETARY FUND, *available at* http://www.imf.org (last visited Sept. 2, 1999).

52. *See* BWC, *supra* note 13, at B-10.

53. *See* SOCIAL PSYCHOLOGY, *supra* note 14.

54. *Id.* Intuitively, as well as on a practical level, it makes no sense for a company to hire employees who are difficult and unlikeable if the company wishes to increase productivity.

55. *Id.*

56. *Id. See also Indonesia: The Jitters Return,* THE ECONOMIST, May 20, 2000, at 52; *A Cautious Comeback for Brazil's Cardoso,* THE ECONOMIST, Feb. 12, 2000, at 33.

57. *See Social Dimensions of the IMF's Policy Dialogue,* (Mar. 1999), *at* http://www.imf.org/external/np/exr/facts/social.htm [hereinafter *Policy Dialogue*].

rates and pursue domestic growth and price stability.[58] Hence, approximately twenty-five years after the IMF's goal to regulate "rules of conduct governing exchange rates and international payments,"[59] by the 1970s such ideas, originally couched in idealistic terms, were notably visible by the fact that major industrial countries abandoned the par value system. However, the IMF faced a serious crisis of purpose as its original core mission of stabilizing the international monetary system virtually disappeared.[60]

Technological advancements in communications and computers of the 1980s, as well as deregulation and various financial innovations, resulted in an increase in the globalization of capital markets culminating with the debt crisis of the 1980s.[61] The IMF recognized the need for adjustments in banking standards soon after some of the poorest and most heavily indebted developing countries fell in arrears on payments. By 1988, the Basle Capital Accord, responsible for establishing international capital standards for banks, was created.[62] In the 1990s, the IMF played a major role in formulating a smooth transformation of former communist countries to capital markets.[63] In each specified instance, the IMF response of devoting greater attention to these issues complied with the terms of its Articles of Agreement.[64]

This Note posits that the IMF's bailouts remain economically feasible, socially commendable and environmentally sound solutions, notably by the fact that the IMF has devoted additional resources to bear in its program design.[65] Both a historical and present-day examination of the IMF's role support the assertion that the institution's adaption to ever-changing circumstances remains a pragmatic and valuable approach to continued success in the international arena. In dealing with developing and transforming economies, policies implemented by the IMF are, by and large, appropriate as discussed in greater depth in Part III of this Note. As explained below, in

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58. *See* BWC, *supra* note 13, at A-3.
59. *Id.*
60. *See* WORLD BANK, *supra* note 5, at A-6.
61. *Id.* at B-4.
62. *See* WORLD BANK, *supra* note 5.
63. See BWC, *supra* note 13, at A-3.
64. *Id.*
65. *Id.* at B-10.

its dealings with emerging growth countries, the IMF will continue to enhance its value to all of its members, and to the world economy as a whole.[66]

III. EXAMPLES OF THE EFFECT OF THE IMF BAILOUT IN EMERGING GROWTH COUNTRIES

An examination of declining economies rescue packages implemented in the form of bailouts by the IMF in the Brazilian, Indonesian,and Russian markets will be examined in this Note.[67] Specifically, such examination reveals that recessions have been averted, a marked effect on rising interest rates has been noted,and an anodyne for the currency crisis in such markets has been, or soon will be, achieved.

A. Brazil

In January of 1946, Brazil pledged membership to the IMF.[68] Until the mid-1960s, the IMF provided credit to Brazil on the condition that necessary adjustments in the macroeconomics policies be made to restore balance of payments equilibrium quickly; and Brazil complied with such conditions.[69] During the 1970s and 1980s, Brazil fought an unending battle with the instability of its *real* currency, high inflation, and

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66. *Id.* at A-3.

67. *What Did It Get Us?*, Editorial WALL ST. J., Jan. 20, 1999, at C-1. "Rescue package" is synonymous to "bailouts" by the IMF in emerging growth countries.

68. According to the Treasurer's Department, Accounts and Financial Reports Division of the IMF, as of November 30, 2000, Brazil's General Resources Account is as follows:

	SDR Million	*% Quota*
General Resources Account		
Quota	3,036.10	100.00
Fund holdings of currency	4,393.57	144.7
SDR Department		
Net cumulative allocation	358.67	100.0
Holdings	1.64	0.5
Outstanding Purchases and Loans		
Stand-by arrangements	1,356.75	44.7

available at http://www.imf.org/np/tre/tad/exfund2.cmf?/memberKey=90 (last visited Dec. 27, 2000).

69. *Brazil: Work Cut Out*, THE ECONOMIST, May 22, 1999, at 37 [hereinafter BRAZIL].

unemployment rate.[70] Today, due to the measures instituted by the IMF, the *real* is again stable, public finances are improving, and interest rates are down.[71]

In December 1998, the IMF Stand-By Arrangement provided Brazil with a loan of SDR 13 billion (U.S. $18.1 billion)[72] and proposed a structural reform agenda, including changes to Brazil's then current social security program, budgetary procedures, and its tax policy.[73] A substantial privatization program also was implemented.[74] On January 15, 1999, the Brazilian government decided to float the *real*.[75] The move to such a flexible exchange rate led to "a sustained acceleration of inflation and inflationary expectations."[76] Indeed, during the following five weeks while Brazil and the IMF hammered out an accord for a new agreement, which would allow Brazil to obtain approximately $9 billion in IMF assistance, Brazil's *real* recovered to its highest level against the dollar in five weeks.[77] Recent IMF estimates revealed that Brazilian GDP averaged approximately four percent at the end of 2000, while the tight holding of fiscal and monetary policies held inflation down.[78] In addition, recession is expected to defer to a sustainable recovery and year 2000 estimates by the IMF for the Brazilian economy forecast growth of up to four percent with inflation falling to approximately 6.5 percent.[79] However, these forecasts are contingent upon Brazil's ability to maintain policy discipline in such a way that investors will have a renewed confidence to again revisit the option of investing in Brazil. Current IMF projections show a possibility of

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70. *Id.*

71. *Id.*

72. *IMF Approves SDR 13 Billion Stand-By Credit for Brazil; Activates NAB* (Dec. 2, 1998), *at* http://www.imf.org/external/np/sec/pr/1998/PR9859.htm.

73. *IMF Approves Credit Disbursement to Brazil,* (Mar. 30, 1999), *at* http://www.imf.org/external/np/sec/nb/1999/NB9914.htm.

74. *Id.* Privatization programs approved by the IMF included reforming civil service, tax policy, budgetary procedures, and social security. *Id.*

75. *Brazil Memorandum of Economic Policies, at* http://www.imf.org/external/np/loi/1999/080299.HTM [hereinafter BRAZIL MEMORANDUM OF ECONOMIC POLICIES] (last visited Nov. 4, 1999). The *real* is the Brazilian unit of currency.

76. *Id.*

77. *Id.*

78. *IMF Completes Brazil Sixth Review, at* http://www.imf.org/external/np/sec/nb/2000/nb00108.htm (last visited Jan. 24, 2001).

79. *Id.*

currency stabilization at 1.7 *reals* to the dollar by the end of year 2000.[80] In the interim, nominal interest rates are expected to fall from their current 45 percent to 28.8 percent.[81] But, without the IMF's continued pragmatic support and guidance, such stability remains doubtful.

In March 1999, Brazil proposed, through a Memorandum of Economic Policies, a formal inflation targeting framework for monetary policy scheduled to commence in July 1999.[82] At the end of June 1999, inflation in consumer prices was projected (measured by an increase in the national IPCA price index) as follows: "8 percent in 1999, 6 percent in 2000 and 4 percent in 2001."[83] The BCB (Central Bank of Brazil) is responsible for conducting monetary policies in such a way as to meet responsibly these goals by, among other measures, preparing quarterly inflation reports that will base forecasts on a wide range of indicators, including an ongoing survey of market expectations.[84] The policy framework implemented, together with higher interest rates, accounted for a rapid decline in the monthly rate of inflation and permitted "an early correction of the exchange rate overshoot."[85] Moreover, the current downward spiral of interest rates remains only slightly above projections and may be regarded as "an appropriate real interest rate in the present macroeconomic conditions;"[86] a sign that the financial initiatives implemented by the IMF are on track. Indeed, since the devaluation of the *real*, the Brazilian economy has had two successive quarters of growth with 1999 year end inflation closely matching the official target range of six-to-ten percent.[87] Further, 2000 year end estimates predicting

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80. *Id. See also* Arminio Fraga, *Monetary Policy During the Transition to a Floating Exchange Rate: Brazil's Recent Experience,* FINANCE & DEVELOPMENT, Mar. 2000, No. 1, *at* http://www.imf.org/external/pubs/fandd/2000/03/fraga.htm.

81. *Id.* To facilitate the fall in interest rates, the Brazilian Government has emphasized a willingness dedicated to the current rate regime, as well the continuation of ongoing structural reform efforts in the social security system, tax system, budgetary system, and labor markets among others. *See Joint Statement of Understanding by the Brazilian Authorities and the IMF Management, at* http://www.imf.org/external/np/sec/nb/1998/NB9836A.HTM (last visited Sept. 2, 1999). Moreover, the IMF fully supports such policies. *Id.*

82. *See* BRAZIL MEMORANDUM OF ECONOMIC POLICIES, *supra* note 75.

83. *Id.*

84. *Id.*

85. *Id.*

86. *Id.*

87. *Brazil's Unsteady Recovery,* THE ECONOMIST, Aug. 23, 1999, at 89.

that inflation would meet a target of four-to-eight percent inflation achieved their stated goal.[88]

To assure the overall program implemented by the IMF, in April of 1999, Brazil submitted to its Congress the Fiscal Responsibility Law, which is expected to be ratified shortly.[89] Proposals in the bill include the prohibition of financing current spending of one level of government by another.[90] The bill also prohibits the use of borrowed resources to finance current spending (the so-called "Golden Rule"),[91] and requires that limits be set on indebtedness, notably with federal, state, and municipal government personnel.[92]

Nevertheless, it should be noted that the danger of spiraling inflation prompting a possible return to automatically adjusting prices and wages against past inflation cannot be denied *a priori*.[93] Indeed, while Brazil remains somewhat vulnerable to shocks in international financial markets, the strengthening of domestic economic policies, and the shift to a floating exchange rate regime, have reduced significantly the vulnerability involved, and, absent a major shock, such vulnerability is improbable at present.[94] So long as the IMF is allowed to continue on its present course, "net capital inflows to Brazil [which] are projected to exceed current account financing needs by a modest margin in the second half of 1999, leading to an operable balance of payments surplus of around U.S. $3 billion during that period"[95] are attainable objectives. In particular, growing foreign direct investment (FDI) should

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88. *The Americas: Progress and Pitfalls in Brazil's Public Finances*, THE ECONOMIST, May 6, 2000, at 37. *See also IMF Concludes Article IV Consultation With Board*, *at* http://www.imf.org/external/np/sec/pn/2000/pn0094.htm (last visited Jan. 24, 2001).

89. *See* BRAZIL MEMORANDUM OF ECONOMIC POLICIES, *supra* note 75.

90. *Id.*

91. *Id.*

92. *Id.*

93. Decreasing inflation, limits on current indebtedness monitored by the Bank of Brazil, devaluation and floatation of the *real* coupled with the Brazilian Fiscal Responsibility Law are material factors that decrease Brazil's susceptibility to losing its current balance. However, foreign capital inflows into Brazil may dissipate due to other factors. In order to present a circumspect picture of the current situation, such a possibility, although unlikely, must be recognized and noted.

94. The probability that Brazil will not succumb to a return of spiraling inflation is conditioned on the supposition that foreign capital inflows will not dissipate.

95. *See* BRAZIL MEMORANDUM OF ECONOMIC POLICIES, *supra* note 75.

keep up the "strong pace"[96] attributable to sound IMF financial policies and assistance.[97]

During the first two quarters of 1999, the Brazilian economy performed "significantly better than projected in the revised [IMF] Fund-supported program of the Brazilian government."[98] In 2000, inflation performance remained above average, with the GDP averaging at approximately four percent.[99] These developments contributed to a decline in Brazil's nominal interest rates from 26.3 percent in 1999 to projections at 17.6 percent in 2000.[100] However, the recovery of international oil prices threatened the Brazilian economy with a substantial revenue shortfall.[101] To compensate, in 1999, Brazil increased prices on average by 18 percent, and conforming changes will continue to reflect the fluctuating exchange rate and international oil prices.[102] While external trade developments have operated less favorably than projected, with the trade balance continuing to reflect a small deficit in the first five months of 1999 due to export volumes, a less steep decline in import values has been since noted.[103] Such programs will continue to receive priority in the allocation of budgetary resources during the plan period.[104] Brazil intends to engage in partnerships with multilateral development banks and private sector investors through leveraged finance programs.[105]

On November 27, 2000, the IMF Executive Board ("Board")

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96. *Id.*

97. *IMF Completes Brazil Fifth Review*, *at* http://www.imf.org/external/np/xec/nb/2000/NB00.33.htm. *See also Brazilian Memorandum of Economic Policies: A Memorandum of Understanding*, Apr. 20, 2000, *at* http://www.imp.org/external/NP/LI/2000/bra/01/INDEXHT.

98. *IMF Completes Brazil Review and Approves Next Credit Tranche*, News Brief No. 99/45, *at* http://www.imf.org/external/np/sec/nb/1999/NB9945.htm (last visited Sept. 2, 1999) [hereinafter IMF BRAZIL REVIEW].

99. *IMF Concludes Article IV Consultation with Brazil*, PIN No. 00/94, Dec. 22, 2000, *at* http://www.imf.org/external/np/sec/pn/2000/pn0094.htm [hereinafter IMF CONSULTATION].

100. *Id.*

101. *See id.*

102. *Id.*

103. *Id.*

104. *See* IMF BRAZIL REVIEW, *supra* note 98. Indeed, the IMF's Executive Board opines that the floating exchange rate regime has served Brazil well thus far, and, with the continuation of appropriate macroeconomic policies and structural reform, Brazil will "contribute to a significant and sustained improvement in the current account of the balance of payments in the period ahead." *Id.*

105. *See* BRAZIL MEMORANDUM OF ECONOMIC POLICIES, *supra* note 75.

concluded its Article IV consultation and a sixth review of Brazil's Stand-By Arrangement.[106] The Board was satisfied with the recent developments, particularly in the areas of stabilizing economic recovery and low inflation.[107] In addition, the pass-through of depreciation to prices has been relatively modest so far, and consumer price inflation has remained in line with the government's target and has remained subdued.[108] For the 1999 fiscal year, real GDP declined by one percent or less, with consumer price inflation containment at approximately eight percent.[109] Recently, the IMF Board commended the Brazilian authorities for their commitment to the policies supported by the arrangement with the IMF, exemplified by the achievement of a primary fiscal surplus by the consolidated public sector "equivalent to at least 3.1 percent of GDP in 1999,"[110] and for meeting inflationary targets in accord with a firm monetary policy.[111] With the assistance of the IMF, "Brazil has achieved a commendable economic record."[112] Inflation has been reduced from over 2000 percent in 1994, to less than five percent in 1998, and Brazil has undertaken structural reforms, especially in trade liberalization and privatization of state enterprises.[113]

One barrier remains to optimal success in Brazil: unemployment. Although a present-day rise in unemployment has been noted since 1997,[114] the official projected unemployment

106. *See* IMF CONSULTATION, *supra* note 99.

107. *See IMF Completes Brazil Sixth Review, at* http://www.imf.org/external/np/sec/nb/2000/nb00108.htm (last visited Dec. 27, 2000).

108. *Id.*

109. *IMF Completes Brazil Review and Approves Next Credit Tranche,* News Brief No. 99/45, *at* http://www.imf.org/external/np/loi/1999/080299.HTM (last visited Nov. 5, 1999).

110. *Id.*

111. *Id.*

112. Michael Mussa, *The IMF: Doctor, Savior — or Wastrel: A Letter to the Editor*, BUS. W., Dec. 28, 1998, *available at* http://www.imf.org/external/np/vc//1998/122898A.HTM. Mr. Mussa is Director of the IMF's Research Department.

113. *Id.*

114. *See* BRAZIL, *supra* note 69, at 37. However, it should be noted that DIEESE, a Brazilian union-backed research group has an unofficial estimate: Almost 20 percent of the workforce in San Paulo (approximately 1.7 million people) are not fully employed. San Paulo, in particular, has been especially hard hit, with 560,000 industrial jobs lost since 1994. To illustrate the conditions, 50,000 applicants showed up to apply for jobs sweeping the streets of San Paulo which pays only 136 *reals* (U.S. $81) per month. *Id.*

rate for 2000 was 7.4 percent.[115] This rise in unemployment is due primarily to advancements in technology. Acknowledging that while "many economic changes that are in themselves good for Brazil are likely to mean more job cuts,"[116] Pedro Malan, Finance Minister of Brazil, recently enunciated, "only continuing stability can produce the kind of sustained, long-term economic development needed to create enough jobs and get the unemployed back to work on a permanent basis."[117] Not only is the social crisis and instability caused by rising unemployment well understood by the IMF, this Note contends that the funding provided by the IMF is a necessary ingredient for Brazil's government to continue to provide job creation programs. Without such programs, there may be nothing to "ensure that the [current] jobless are still alive to enjoy the fruits of stability when they eventually mature."[118]

B. Indonesia

In February of 1967, Indonesia became a member of the IMF,[119] and during the ensuing 25 years Indonesia enjoyed a

115. *See supra* note 88.

116. *See* BRAZIL MEMORANDUM OF ECONOMIC POLICIES, *supra* note 75. The negative effect of job cuts is social instability. It is interesting to note that Sigmund Freud viewed aggression toward others to be "a momentary victory for the life instinct, not death instinct. In aggression, the force of the death instinct is deflected outward at others rather than aimed inward toward the original target of the self." *See* SOCIAL PSYCHOLOGY, *supra* note 14, at 290. Thus, it may be argued that social turbulence is equivocal to a survival instinct. Moreover, without economic growth it is difficult for countries to promote change elsewhere in the world. For example, when "unemployment is stubbornly high, electorates are less charitable about helping the rest of the world, even if it is in their . . . self-interest to do so." *See* BWC, *supra* note 13, at B-4.

117. *Id.*

118. *Id.*

119. According to the Treasurer's Department, Accounts and Financial Reports Division of the IMF, as of November 30, 2000, Indonesia's General Resources Account is as follows:

	SDR Million	*% Quota*
General Resources Account		
Quota	2,079.30	100.00
Fund holdings of currency	10,251.80	493.0
Reserve position in Fund	145.47	7.0
SDR Department		
Net cumulative allocation	238.96	100.0
Holdings	24.50	10.3
Outstanding Purchases and Loans		
Stand-by arrangements	3,669.12	176.5

period of sustained economic progress, a tripling of its income per capita, and a sharp decline in the number of people living in poverty.[120] However, in 1997, Thailand's *baht*[121] was floated, causing severe pressure on the *rupiah*, the Indonesian currency.[122] By August of 1997, Indonesia announced that it would "abolish its exchange rate intervention band and allow the *rupiah* to float,"[123] partly in response to turbulence in regional currency markets.[124] Anxious to address its financial difficulties, on October 31, 1997, the government of Indonesia submitted a Letter of Intent to the IMF outlining programs that they intended to implement in order to overcome their current financial difficulties.[125] To do so, Indonesia requested a three-year Stand-By Arrangement from the IMF "in an amount equivalent to SDR 7.3 billion or 590 percent of quota."[126] Plagued by insolvent and debt-ridden banks, it was Indonesia's desire to overcome certain "structural rigidities in the economy."[127]

On November 5, 1997, the IMF approved a stand-by credit for Indonesia, authorizing drawings of up to SDR 7.338 billion (about U.S. $10.14 billion) to support Indonesia's macroeconomic stabilization and structural reform program.[128] In granting the request, the IMF employed accelerated procedures established under the Emergency Financing Mechanism (EFM), adopted in 1995.[129] The EFM allows the IMF the ability to respond swiftly to support a member country which faces

Extended arrangements	4,648.85	223.6

available at http:www.imf.org/np/tre/tad/exfund2.cfm (last visited Dec. 27, 2000) .

120. *See IMF Concludes Article IV Consultation with Indonesia,* PIN No. 99/33 *at* http://www.imf.org./external/np/sec/pn/1999/PN9933.htm (last visited Nov. 4, 1999) [hereinafter *IMF Indonesian Consultation*].

121. The *baht* is Thailand's unit of currency.

122. *See Indonesia Letter of Intent,* (Oct. 31, 1997), *at* http://www.imf.org./ external/np/loi/103197.HTM (last visited Nov. 4, 1999) [hereinafter INDONESIA LETTER OF INTENT].

123. *See IMF Welcomes Indonesia's Exchange Rate Action,* News Brief No. 97/18, *at* http://www.imf.org./external/np/sec/nb/1997/NB9718.htm (last visited Nov. 4, 1999).

124. *Id.*

125. *See* INDONESIA LETTER OF INTENT, *supra* note 122.

126. *Id.*

127. *Id.*

128. *Id.*

129. *Id.*

an external financial crisis by providing financial assistance to support a strong economic adjustment program.[130]

By January of 1998, however, the *rupiah* had depreciated significantly and IMF representatives went to Indonesia to access economic and market developments by negotiating acceleration of needed reforms already agreed to under the IMF-supported program.[131] U.S. Secretary of Defense, William S. Cohen, also attended the meeting, and on January 14, 1998, he reaffirmed the U.S. position that "Indonesia's participation in the United Nations' peace-keeping missions has made it a force for peace in the world. In addition, Indonesia plays a key role in maintaining regional stability."[132] Whether less reliance on Indonesia's peace-keeping ability, with an increased focus on Indonesia's financial situation, may have averted the spark which ignited the present day crisis in East Timor remains a vexing question.

On January 16, 1998, IMF Managing Director Michel Camdessus announced that Indonesia and the IMF had reached agreement on a strengthened and reinforced economic program.[133] New budgetary actions designed to avoid undue fiscal deterioration and contraction that would further depress economic activity were implemented, including canceling twelve scheduled Indonesian infrastructure projects and limiting public spending to vital items.[134] Moreover, the fears raised that Indonesia's raising of fuel prices[135] might lead to riots and detrimentally affect the poor were offset by the reality that gasoline was used by mostly high income people, and that kerosene (the cooking fuel of the poor) only had a 25 percent price increase.[136]

On May 4, 1998, the IMF Board released its first review of Indonesia's Economic Program. The Board supported a pro-

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130. *Id.*

131. *See Indonesia and IMF Reach Agreement on Economic Reforms: Debate in U.S. Shifts to IMF Funding*, *at* http://www.foreignaffairs.org/envoy/documents/v9n2_economic_crisis.html (last visited Sept. 2, 1999).

132. *Id.*

133. *See Statement by the Managing Director on the IMF Program with Indonesia*, News Brief No. 98/2, *at* http://www.imf.org/external/np/sec/1998/NB9802.htm (last visited Nov. 4, 1999).

134. *Id.*

135. Fortunately, mounted concerns that riots would erupt after an almost overnight 70 percent increase on the price of gasoline were for naught. *Id.*

136. *Id.*

gram designed to implement rigorously the strengthening of monetary policies, and "also emphasized the importance they attached to those provisions of the program, including subsidies, which are designed to soften the impact of the economic crisis on the poorer people in Indonesia."[137] Following such approval, the IMF approved the release of disbursement of SDR 733.8 million (about U.S. $989.4 million).[138] However, by September of 1998, the inflation rate was 82 percent, the *rupiah* depreciated approximately 75 percent, and one-month interest rates were approaching 64 percent.[139] Ignoring satirical utterances by economists that Indonesia suffered from the "worst case of Asian flu,"[140] the IMF remained dedicated to the Indonesian community by its continued assistance.

The guidance and assistance provided by the IMF proved a success. By August of 1999, inflation fell below six percent, the *rupiah* gained strength, and one-month interest rates dropped to below 13 percent.[141] These results provide the valuable lesson that political stability and reform momentum often go hand in hand. The IMF and Indonesia worked together in an attempt to eliminate the sweetheart business arrangements that distorted Indonesia's real economy while keeping a safety net on targeted social subsidies in order to reach millions of needy families.[142]

Cognizant that a weak banking system caused by government subsidies can destroy an entire economy, the IMF expressed approval when the Indonesian Bank Restructuring Agency's ("IBRA") response to the Asian banking crisis resulted in a restructuring of their banking structure.[143] No longer able to walk away, bank owners are being held responsible for their failures, and are subject to losing not only personal equity stakes, but the owners also will have to surrender personal

137. *Id.*

138. Press Release No. 22, 1 (Sept. 28-30, 1999) (on file with IMF), Boards of Governors - 1999 Annual Meetings, Washington D.C. Statement by the Hon. Boediono, Alternate Governor of the Bank for Indonesia, International Monetary Fund [hereinafter BOARDS OF GOVERNORS].

139. *Id.*

140. *Indonesia: Fire-Sale Brigade*, THE ECONOMIST, Nov. 14, 1998, at 81 [hereinafter FIRE SALE].

141. *See* BOARDS OF GOVERNORS, *supra* note 138.

142. *Id.*

143. *See* FIRE SALE, *supra* note 140, at 81.

assets to "plug the holes in their bank."[144] Indeed, the IMF "has come to the conclusion that at the height of a crisis, the granting of blanket guarantees on deposits and credits can be a necessary step whose advantages outweigh the disadvantages."[145] Further, the IMF acknowledges that bank restructuring is a complex, costly, and time-consuming process and that the traditional focus on macroeconomic policies always may not be sufficient in the face of deep-seated banking problems.[146]

By March of 1999, the IMF extended SDR 714 million (U.S. $1 billion) to Indonesia.[147] As discussed, the IMF was notably impressed by the advances in bank restructuring; a foundational mechanism crucial to almost any eventual economic recovery. However, the IMF recognized that the political uncertainty and civil unrest existing in Indonesia had not been ameliorated yet.[148] Today, the IMF continues to remain optimistic about the macroeconomic gains achieved over the past year such as lower inflation, falling interest rates, and a relatively stable *rupiah*, together with the integration of a new government in Indonesia.[149] While political unrest in Indonesia temporarily has halted the IMF mission, IMF officials have indicated an intention to return when "the right conditions exist."[150] With such noble aspirations, it is no surprise that the IMF will continue to be a vital part of Indonesia's recovery.

144. *Id.*

145. Stefan Ingves, *Lessons of Bank Restructuring from the Asian Crisis, A Commentary*, STRAITS TIMES (Singapore), *at* http://www.imf.org/external/np/vc/1999/093099.htm (last visited Nov. 4, 1999).

146. *Id.*

147. *IMF Completes Review, Augments the Program by US $1 Billion and Approves US$460 Million Credit Tranche for Indonesia*, News Brief No. 99/13, *at* http://www.imf.org/external/np/sec/nb/1999/NB9913.htm (last visited Nov. 4, 1999).

148. *See* BOARDS OF GOVERNORS, *supra* note 138.

149. William Murray, *The Situation in Indonesia and the IMF: A Comment*, *at* http://www.imf.org/external/np/vc/1999/091699.htm (last visited Oct. 8,1999).

150. *Id.* Undoubtedly, the keys "right conditions" require "regaining market confidence . . . to make steady and visible progress in program implementation and to maintain clarity about the authorities' intentions and commitments. Critical priorities are the restoration of a sound banking system and resolution of the overhang of corporate debt, to be achieved amid conditions of improved governance." *IMF Completes First Review of Indonesia Under Its Extended Arrangement*, *at* http://www.imf.org/external/np/sec/nb/2000/nb0038.htm (last visited July 14, 2000).

C. Russian Federation

In June of 1992, the Russian Federation became a member of the IMF.[151] The IMF helped Russia to stabilize and reform its economy and to obtain sustainable growth in output and living standards."[152] Albeit not an easy ride, the IMF program attempted to reduce inflation by a tight credit policy designed to stabilize the *ruble*, reduce the fiscal deficit by requiring large cuts in real expenditure, expand liberalization and structural reform programs to reduce dispersion of import duties, and increase privatization.[153] An increase in energy taxation, coupled with the elimination of most foreign trade exceptions under a monthly review of the IMF's board, allowed Russia to become eligible to draw upon the IMF for assistance.[154] Moreover, the Central Bank of Russia tightened monetary policy, resulting in declining inflation and an increase in official reserves.[155]

In April 1995, the IMF approved a 12 month stand-by credit of up to SDR 4,313.1 million (approximately U.S. $6,304 million) which was to help stabilize the economy and assist the

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151. According to the Treasurer's Department, Accounts and Financial Reports Division of the IMF, as of November 30, 2000, the Russian Federation's General Resources Account is as follows:

	SDR Million	*% Quota*
General Resources Account		
Quota	5,945.40	100.00
Fund holdings of currency	14,986.10	252.1
Outstanding Purchases and Loans		
Stand-by arrangements	651.14	11.0
Extended arrangements	5,065.76	85.2
Contingency and Compensatory	2,156.55	36.3
Systematic Transformation	1,168.13	19.6

available at http://www.imf.org/external/np/tre/exfund2.cfm (last visited Dec. 27, 2000).

152. Michel Camdessus, *Russia's Transformation Efforts at a Turning Point*, Address (Mar. 29, 1995) *at* http://www.imf.org/external/np/sec/mds/1995/MDS9505.htm [hereinafter RUSSIA'S TRANSFORMATION].

153. *Id. See also Camdessus Says Russia's 1995 Economic Program Will Stabilize Economy and Accelerate Structural Reform*, News Brief 95/11, *at* http://www.imf.org.external/np/sec/nb/1995/NB9511.htm (last visited Sept. 2, 1999). Much optimism existed for this proposal. Indeed, as Mr. Camdessus stated, "this is a strong program, which if fully implemented, will achieve macroeconomic stabilization and accelerate structural reform in Russia." *Id.*

154. *Id.*

155. *IMF Approves Stand-By Credit for Russia, at* http://www.imf.org/external/np/sec/pr/1995/PR9521.htm (last visited Nov. 5, 1999).

reform program of the Russian Federation.[156] The measures included the introduction of an exchange rate band regime where the *ruble* was rated against the U.S. dollar and limited to a specific range to ensure the "convertibility of the *ruble* under the existing liberal foreign exchange system."[157]

In March 1996, the IMF rendered assistance to the Russian Federation's economic strategy by way of an Extended Fund Facility (EFF) and provided for SDR 6,901 million (approximately U.S. $10,087 million) in assistance.[158] By June, the Russian Federation accepted the obligations promulgated under Article VIII of the IMF Articles of Agreement, joining 115 other member countries already subscribed under Article VIII.[159] Article VIII provides that member countries must "refrain from imposing restrictions on the making of payments and transfers for current international transactions or from engaging in discriminatory currency arrangements or multiple currency practices without IMF approval."[160]

By April of 1997, inflation was down and the exchange rate had stabilized in the Russian Federation.[161] At that time, Michel Camdessus, the Managing Director of the IMF, elucidated three major problems that needed to be addressed before the Russian Federation mission could be classified a success: "growth, the non-payment of taxes and corruption."[162] Nevertheless, by year-end, a minuscule growth in the economy was apparent and the balance of payments had a surplus, albeit a major failure of macroeconomic policy was evident by central government revenue shortfalls.[163] For ex-

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156. *See id.*

157. *IMF Management Welcomes Economic Progress Made by Russia; Exchange Rate Action Designed to Support Program,* News Brief No. 95/17, *at* http://www.imf.org/external/np/sec/nb/1995/NB9517.htm (last visited Nov. 4, 1999).

158. *IMF Approves Three-Year EFF Credit for the Russian Federation, at* http://www.imf.org/external/np/sec/pr/1996/pr9613.htm (last visited Apr. 4, 2001).

159. *Russian Federation Accepts Article VIII Obligations,* Press Release No. 96/29, *at* http://www.imf.org/external/np/sec/pr/1996/PR9629.htm (last visited Nov. 4, 1999).

160. *Id.*

161. *Camdessus Praises Russian Stabilization; Outlines Next Steps,* News Brief No. 97/5, *at* http://www.imf.org/external/np/sec/nb/1997/NB9705.HTM [hereinafter CAMDESSUS] (last visited Sept. 2, 1999).

162. *Id.*

163. Stanley Fischer, *The Russian Economy at the Start of 1998, at* http://www.imf.org/external/np/speeches/998/010998.htm [hereinafter FISCHER] (last visited Nov. 4, 1999).

ample, in order to enforce tax obligations, Russia established the Emergency Tax Commission[164] because it could not meet its obligation to pay wages; pensions, or provide basic public services.[165] Sadly, (and almost epigrammatical in nature) Russia's transformation from a communist approach to one embracing democracy did not achieve the capitalist aims of democracy.[166]

By April of 1998, the Russian economy "passed from the brink of hyperinflation to single-digit inflation; from substantial isolation to substantial integration in global markets; from the demise of central planning to the rise of a dynamic private sector; and from output collapse to a long-awaited renewal of output growth."[167] By May of 1998, the Russian government reduced its federal government budget by five percent of GDP.[168] This action allowed the IMF to consider the seventh quarterly review under the EEF, which would release a tranche of U.S. $670 million to the Russian Federation.[169] In July of 1998, the IMF and the Russian Federation had reached an agreement whereby a new economic program was proposed, including structural reforms such as measures designed to increase the tax system.[170] Russia acknowledged that it had to strengthen its policies by "(i) a radical tightening of the federal budget . . . (ii) the bolstering of international reserves of the Central Bank of Russia (CBR) through the access to substantial foreign financing; and (iii) the lengthening of debt maturity to reduce the vulnerability arising from the short-term structure of domestic debt."[171] Shortly thereafter, the

164. Michel Camdessus, *Russia and the IMF: Meeting the Challenges of an Emerging Market and Transition Economy (Address)*, *at* http://www.imf.org/external/np/speeches/1998/040198.htm (last visited Nov. 4, 1999).

165. *Id.*

166. *See* FISCHER, *supra* note 163.

167. *See* CAMDESSUS, *supra* note 161.

168. *IMF Welcomes Russian Government's Statement on Fiscal Measures; Management to Recommend Completion of Review Under Russia's EFF Program*, News Brief No. 98/15, *at* http://www.imf.org/external/np/sec/nb/1998/NB9815.htm (last visited Nov. 4, 1999).

169. *Id.*

170. *Russia and the IMF: Meeting the Challenges of an Emerging Market and Camdessus says IMF Board to Consider Strengthened Program Supported by Substantial Increase in Financing for Russia*, News Brief No. 98/24, *at* http://www.imf.org/external/np/sec/1998/NB9824.htm (last visited Nov. 4, 1999).

171. *Memorandum of the Government of the Russian Federation and the Central Bank of the Russian Federation on Economic and Financial Stabilization Policies*,

IMF approved the Russian Federation's request for financing and augmented SDR 8.5 billion (approximately U.S. $11.2 billion) in assistance.[172] In return, the Russian Federation agreed to an economic package consisting of reducing the federal budget deficit by increased tax collection, exchange of Treasury Bills, and strengthening structural measures.[173]

The assistance provided by the IMF was intended to serve as "a solid basis for a fundamental improvement in Russia's fiscal position and a revitalization of structural reforms."[174] In late July of 1998, however, Russia unexpectedly canceled three planned debt auctions.[175] Following the discovery that Russia's central bank's reserves were losing approximately U.S. $1 billion per week,[176] Russia was categorized as a "financial outcast."[177] Russia appeared to live up to its newfound reputation as it defaulted on $40 billion of *ruble* bonds, together with its apparent inability to repay approximately $4.8 billion due to the IMF and World Bank.[178]

In July of 1999, however, the IMF approved a 17-month Stand-By credit for Russia equivalent to SDR 3.3 billion (approximately U.S. $4.5 billion) to continue Russia's 1999-2000 economic program.[179] At that time, it was recognized that Russia's economic program was to focus on fiscal adjustment and acceleration of structural reforms.[180] Presently, the fiscal program targets a primary surplus at the level of the federal government of two percent of GDP in 1999, with an inflation rate of 50 percent in 1999 compared to 84.5 percent in 1998,

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at http://www.imf.org/external/np/loi/071698.htm (last visited Nov. 4, 1999).

172. *IMF Approves Augmentation of Russia Extended Arrangement and Credit under CCFF; Activates GAB,* Press Release No. 98/31, *at* http://www.imf.org/ external/np/sec/pr/1998/PR9831.htm (last visited Nov. 4, 1999). The financing included a draw made under the Compensatory and Contingency Financing Facility (CCFF) to absolve an export shortfall caused by lower prices of crude oil during 1998.

173. *Id.*

174. *IMF Management Welcomes Executive Board Support for Russia,* News Brief No. 98/26, *at* http://www.imf.org/external/np/sec/nb/1998/NB9826.htm (last visited Nov. 4, 1999).

175. *The Next Russian Bail Out,* THE ECONOMIST, Aug. 15, 1998, at 60.

176. *Id.*

177. *Russia in Default: Money Can't Buy Me Love,* THE ECONOMIST, Feb. 6, 1999, at 23.

178. *Id.*

179. *IMF Approves Stand-By Credit for Russia,* Press Release No. 99/35, *at* http://www.imf.org/external/np/sec/pr/1998/PR9831.htm (last visited Nov. 4, 1999).

180. *Id.*

net international reserves increasing by U.S. $2.2 billion, and real GDP declining by two percent in 1999.[181] While a money laundering scheme allegedly siphoned money to the Bank of New York from the Central Bank of Russia, there is no evidence that any funds received from the IMF were diverted.[182] Perchance a coincidence, (or perhaps just to be on the safe side), the July 1999 $4.5 billion relief program to Russia is held in an account at the IMF and is used only for Russia's debt service.[183]

It is clear that the current crisis necessitates the IMF's continued guidance. The IMF will continue to regulate and review Russia's compliance, with the authority to suspend payments if commitments made by the Russian Federation are not fulfilled.[184] Although the Russian Federation economy is moving slower than anticipated, it is progressing towards an open, market-oriented system which the IMF can best monitor under strict conditions. Under the auspices of the IMF, the risk that investors associate with keeping money in Russia slowly will dissipate, so that Russia might achieve macroeconomic stability, making it a more favorable climate for foreign investment.[185]

IV. PROPOSALS

This Note contends that the IMF is a vital organ to lasting global market expansion. While not a panacea for all of the problems presently affecting emerging growth countries, the IMF's presence helps balance social and financial concerns that result from an integrated world economy. The proposals discussed below enhance the existing measures implemented by the IMF and warrant circumspect consideration so that the IMF may continue to traverse on its present course.

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181. *Id.*

182. Michel Camdessus, *A Commentary, Russia: Long Climb Out of a Black Hole*, WASH. POST, *at* http://www.imf.org/external/np/vc/1999/0131399A.htm (last visited Nov. 4, 1999).

183. *Facts About IMF Lending to Russia*, *at* http://www.imf.org/external/np/vc/1999/091399.htm (last visited Nov. 4, 1999).

184. *Id.*

185. *See supra* note 182. *See also IMF Concludes Article IV Consultation with the Russian Federation*, PIN No. 00/83, Nov. 9, 2000, *at* http://www.imf.org/ external/np/sec/pn/2000/pn0083.htm.

A. Strengthen Macroeconomic Stabilization Policies

The IMF must strengthen its macroeconomic stabilization policies. As the world economy becomes more integrated, financial systems become more global and major countries are affecting each others' economy more so now than at any time in the past.[186] Further, such economic conditions appear to have an immediate impact on another country's economy, especially when an increase of financial market volume and volatility takes place. Balanced yet flexible international fiscal policies are necessary and will allow a country to stabilize exchange rates as it pursues domestic growth and price stability.[187] However, in today's inter-dependent world, it is crucial that no sharp distinction exists in the intercourse between international and domestic policies. In so doing, this Note posits that the established understanding that extant rules governing the relationships amongst countries to strengthen fiscal and monetary policies must continue in order to achieve greater overall macroeconomic convergence. For example, major industrial countries should set in place explicit and firm commitments to the IMF to focus on international currencies such as the Euro, the dollar, and the yen to stabilize market expectations. Such measures will allow countries to stay clear of excessive exchange rate misalignments and volatility.[188] In addition, definite rules for exchange rate adjustments must be implemented to ensure long-term flexibility among currencies. These macroeconomic stabilization reforms will allow the IMF to ameliorate social concerns such as "rising unemployment, malnutrition and social marginalization."[189]

It is imperative to note that more than just the coordination of monetary policy and currency intervention among the major industrial countries is necessary to achieve such goals. For example, the nub of the problem in the international debt crisis of 1982 lay with the major industrial countries.[190] In-

186. Indeed, such measures served as the epiphany for the birth of the G-7. Formed in 1975, the G-7 is a group of seven major industrial countries (hence G-7) represented by finance ministers who met to discuss joint proposals in an informal forum. *See supra* note 13, at A-3.

187. *Id.*

188. *Id.*

189. *Social Dimensions of the IMF's Policy Dialogue*, *at* http://www.imf.org/external/np/exr/facts/social.htm (last visited Sept. 2, 1999).

190. *Id.*

deed, as poorer developing countries turned to the IMF for assistance on an expanded scale, central banks of industrialized countries responded by sharply tightening monetary policy which simultaneously slowed the growth rate of export markets for heavily indebted developing countries while raising the cost of their floating rate debt servicing obligations.[191] Nevertheless, the IMF's assistance proved invaluable.[192] Focusing on the problems of the poorest heavily indebted developing countries in arrears, the IMF recognized that the needed adjustments were of a more fundamental kind than it had confronted previously.[193] The IMF revamped its programs and loosened financing contingencies and banks faced pressure to ease their rigid terms. For the first time, debt buy-backs in the secondary market were allowed with refinancing proceeds.[194] The IMF's continued flexibility in its dealings will allow developing countries to influence choices of exchange rate regimes.[195]

Commencing in the 1980s, the world's financial system rapidly evolved due to technological developments in communications and computers.[196] As a result, it became apparent during the 1980s that the United States could no longer continue to dominate the world economy, and Japan emerged as the largest exporter of capital in the world, holding title to the second largest industrial economy. Concurrently, Asian competition in Europe accelerated the momentum towards integration, resulting in a period of prolonged European exchange rate stability and eventually, with the assistance of policy consultations in conjunction with the IMF, the implementation of the Maastricht Treaty on European Union.[197] This example of IMF macroeconomic policy consultation or "surveillance" serves as a prototype for the continued success of IMF policy consultations.

Recently, critics have claimed that IMF bailouts encourage

191. *Id.*
192. *Id.*
193. *See* BWC, *supra* note 13, at A-3.
194. *Id.*
195. *See e.g., Press Conference on Exchange Rate Regimes in an Increasingly Integrated World Economy, at* http://www.imf.org/external/np/tr/TR000414.htm (last visited July 14, 2000).
196. *See* THE MAASTRICHT TREATY ON EUROPEAN UNION.
197. *Id.*

countries to indulge in risky lending practices, and have condemned the IMF for not carefully monitoring allocations designated for specified transactions.[198] Most notably, the possible diversion of approximately $200 million of IMF loans to Russia, without an extensive audit, was a central focus of criticism.[199] In reality, however, the IMF has neither the authority to audit such transactions, nor the responsibility to do so. This Note proposes that the IMF's role be expanded to oversee such matters in order to avert future allegations of improprieties regarding possible diversion of funds.

B. Expand Structural Adjustment Reforms

The IMF must expand its structural adjustment reforms and continue to explore new mechanisms to ensure that emerging growth countries may continue on their path to self-sufficiency. One financial device that may be expanded is the IMF's Enhanced Structural Adjustment Facility ("ESAF") which provides low-interest loans to poor countries.[200] However, observers have criticized ESAF programs for failing to meet objectives of growth, emphasizing short-run stabilization over poverty reduction, failing to ameliorate poverty conditions under ESAF, as well as causing the reduction in the availability of social services.[201] Two extensive reviews commissioned by the IMF failed to ascertain the veracity of these claims, thus exonerating the IMF.[202] This Note contends that such unsubstantiated claims negate the present attempts made by the IMF to resolve present day issues. Indeed, prior to ESAF implementation, there was a period of declining per capita income. But through the mid-1990s, countries benefitting from ESAF have increased real per capita growth, attributed greatly to strengthened macroeconomic and structural policies provided by the IMF.[203] ESAF's success also can be measured by several social indicators. To elucidate, infant mortality in emerging

198. Jim Saxton, *An Unreformed IMF Doesn't Deserve a Dime*, WALL ST. J., Sept. 22, 1998, at B-4.

199. Bob Davis, *IMF Doesn't Watch Fund Disbursement*, WALL ST. J., Aug. 24, 1999, at C-1.

200. *Id.*

201. *Enhanced Structural Adjustment Facility (ESAF): Is it Working?*, *at* http://www.imf.org/external/pubs/ft/esaf/exr/index.htm (last visited Oct. 8, 1999).

202. *Id.*

203. *See* RESPONSIBILITIES OF THE IMF, *supra* note 2.

growth countries has declined by 1.3 percent a year, access to safe water has increased by 6 percent a year, health care availability has increased by 11 percent, and primary school enrollment has increased by 1 percent.[204] Therefore, it may be appropriate to surmise that IMF policies which encourage stable and predictable environments through free and open markets are vital to global financial prosperity and the palliation of social concerns.

Critics also wrongly condemn the IMF by claiming that ESAF programs escalate poverty when the available data points to the contrary.[205] High inflation, which is tantamount to a tax on the poor, virtually has been eliminated since ESAF has been put into practice.[206] In addition, increased output growth has caused poverty rates to decline by 20 percent in countries utilizing ESAF policies.[207] The IMF continues to unearth potential problems, adding countermeasures into programs to protect the poor.[208] Observers also have claimed that the IMF does not provide an "adequate policy environment"[209] for program negotiations. To ensure that ESAF countries fully are cognizant of the duties that await, the IMF fostered several initiatives including expansion of program negotiations to ensure that those charged with implementation can fulfill their goals.[210] In addition, the IMF staff is now involving business and labor groups in program negotiations with the expectation that political liberalization will continue to be fostered.[211] This Note proposes that such measures, if continued, will lead to greater government accountability from countries receiving IMF funding.

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204. *See supra* note 199.

205. *Id.*

206. *Id.*

207. *Id.*

208. For example, full implementation of a 12% price increase on petroleum products was delayed in order to "finalize measures to protect the poor." *See, e.g.*, *Memorandum of Economic and Financial Policies: Government of Indonesia and Bank Indonesia*, *at* http://www.imf.org/external/np/loi/2000/idi/02/index.htm. (last visited July 14, 2000).

209. *Id.* Adequate policy environment, otherwise known as conditionality, "refers to conditions of economic policy a lender stipulates as a basis for concluding a loan arrangement and for allowing subsequent drawings under such an arrangement." *See* WORLD BANK, *supra* note 5, at 14.

210. *Id.*

211. *Id.*

To the critics' dismay, despite their claims that poverty reduction is not eradicated by the IMF's emphasis on short-run stabilization, the evidence points to the contrary. For example, by reducing large fiscal deficits and inflation, while promoting sound social spending and public investment programs, several countries have stabilized their economies and now expect long-term growth.[212] Observers also claim that ESAF programs hurt the poor by cutting budget deficits resulting in a decrease in education and health spending.[213] Nothing could be further from the truth. In reality, the ESAF programs are not impotent. Rather, the programs target health and education spending, with an average 4.5 percent yearly increase in real per capita terms while participating in ESAF sponsored programs.[214] Moreover, a decrease in infant mortality has been noted, while school enrollment, literacy, and life expectancy have been rising.[215] Acknowledging the fact that greater inroads and faster growth in closing the gap in living standards in order to alleviate poverty must be implemented, the IMF has embraced proposals seeking to improve its performance by: Cutting red tape; tackling corruption; improving the efficiency of government; increasing social investment (health and education), as well as monitoring investment in the infrastructure.[216]

Cognizant of the fact that further improvements are necessary to reduce spending in non-productive areas, the IMF, in collaboration with the World Bank, is working to improve social programs which will benefit individuals, most notably the needy, who are affected by adjustment policies.[217] In early 1999, the IMF joined with the World Bank to review the Initia-

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212. *See supra* note 201. The IMF supports short run stabilization measures such as budget cutting and inflation reduction, in conjunction with other objectives including poverty reduction and social spending in order to promote long-term growth. Indeed, the IMF contends that the evidence "is now overwhelming that high inflation and large fiscal deficits are inimical to sustainable growth and poverty reduction." *Id.* Further in countries with ESAF programs (recent examples include Uganda, Bolivia, Benin, Nicaragua, Rwanda and Mozambique), the use of greater aid to promote social spending and public investments have accommodated stable budget deficits. *Id.*

213. *Id.*

214. *Id.*

215. *Id.*

216. *Id.*

217. *See* WORLD BANK, *supra* note 5.

tive for Heavily Indebted Poor Countries (HIPCs) in order to continue implementing social and economic reforms.[218] The HIPC Initiative promulgated by the IMF is an important part of broader efforts to a strategy of poverty reduction.[219] A joint venture, with assistance provided by the IMF and World Bank, the initiative provides a plan to reduce poverty in emerging growth countries in the issuance of a Poverty Reduction Strategy Paper (PRSP).[220] This paper proposes that PRSP recommendations will help make poverty reduction a central objective by its articulation of policies relating to social and anti-poverty measures.[221] Further, the IMF recognizes that additional policies specifically aimed at eradicating poverty must be implemented.[222] In that context, the IMF and the World Bank recently solicited comments through the IMF Web site, and conducted worldwide consultative meetings with serious consideration being devoted to the input received.[223]

C. Social Programs

The IMF must continue to explore innovative approaches to address social concerns if emerging growth countries are to become and remain self-sufficient. At present, some critics claim that current IMF practices are merely an exercise in obsolescence because such practices often deprive emerging growth countries from becoming self-sufficient.[224] However, the viability of the IMF's continued existence remains at risk as the dichotomy between those deprecating the IMF vís-a-vís the effects achieved to date continues. Indeed, the IMF's role of coordinating macroeconomic policies and developing and implementing monetary reforms is an integral part of addressing social concerns that include the dissipation of social turbu-

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218. *Proposals to Strengthen the Initiative for the Heavily Indebted Poor Countries (HIPCs), at* http:www.imf.org/external/np/hipc/proposal.htm (last visited Oct. 8,1999).

219. *Id.*

220. *Id.*

221. *Id.*

222. *Overview: Transforming the Enhanced Structural Adjustment Facility (ESAF) and the Debt Initiative for the Heavily Indebted Poor Countries, at* http:www.imf.org/external/np/esafhipc/1999/index/htm (last visited Oct. 8, 1999).

223. *Id.*

224. *See supra* note 10.

lence.[225] For example, after several decades of outstanding economic performance, weakness in governance and poor financial sector supervision in the Asian markets resulted in borrowings of unhedged, short-term international capital, culminating in the Asian financial crisis in 1997.[226] The IMF launched various economic programs, including, in July 1998, the infusion of U.S. $1.3 billion of IMF funds to implement structural reforms in the Asian economy's growth, with an eye towards reforming existing monopolies and trade barriers.[227] These measures have had a marked effect and have resurrected the Asian markets.[228] While the current political instability and social disturbances in Indonesia have hindered the progress made to date, the IMF's role will seek to ensure these drawbacks are temporary.[229]

Attacking the IMF's use of its resources in bailouts, including tapping into its credit line, critics proffer that countries will not follow sound financial policies, confident that the IMF will provide a bailout resulting in the IMF's inability to assist if another bailout is needed elsewhere.[230] This claim has been disputed by Stanley Fischer, First Deputy Managing Director of the IMF, who states, "the notion that the availability of IMF programs encourages reckless behavior by countries is far-fetched: no country would deliberately court such a crisis even if it thought international assistance would be forthcoming. The economic, financial, social and political pain is simply too great; nor do countries show any great desire to enter IMF programs unless they absolutely have to."[231]

Focusing on macroeconomic stabilization and structural

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225. *Id.*

226. *The IMF's Response to the Asian Crisis, at* http://www.imf.org/External/np/exr/facts/asis.htm (last visited Sept. 2, 1999).

227. *Id.*

228. *Id.*

229. *Id.*

230. Bob Davis, *IMF Lacked Cash to Stem Ruble's Latest Plunge, Casting Doubts on More Bailouts, Agency Tactics*, WALL ST. J., Aug. 19, 1998 at C-14. Critics also charge that the World Bank projects "are being implemented in an administrative culture which is not just tolerant of collusion and diversion of funds, but which blatantly expects civil servants to supplement their incomes by such means." *See* Glenn R. Simpson, *World Bank Memo Depicts Diverted Funds, Corruption in Jakarta*, WALL ST. J., Aug. 19, 1998, at C-16.

231. Stanley Fischer, *Asian Crisis: A View from the IMF, available at* http://www.imf.org/external/np/speeches/1998/012298.htm (last visited Nov. 5, 1999).

adjustment reforms allows the IMF to ameliorate social concerns such as "rising unemployment, malnutrition and social marginalization."[232] In addition, by its promotion of a stable system of exchange rates which promote the balanced growth of international trade, the IMF contributes to sustainable economic and human development. To illustrate, since the late 1970s, the IMF has included more open policy making decisions in order to develop a more circumspect relationship with emerging growth countries.[233] Further, IMF measures of cash compensation (instead of generalized subsidies) and targeted subsidies protect the poor from rising prices on basic food items while providing severance pay and retraining for unemployed workers, as well as adoption of permanent social security arrangements and improved distribution of medicines and other essentials.[234]

To achieve goals of economic stability while promoting self-determination and self-sufficiency, the IMF proposes a reduction of nonproductive spending, including military funding in emerging growth countries.[235] To illustrate, between 1990 and 1996, the IMF's programs allowed social outlays to grow by 1.2 percent on average while military expenditures were decreased by an average of 3.1 percent during the same period.[236] In collaboration with the World Bank, the IMF was able to increase social programs (including education and health care) while implementing programs evaluating poverty and establishing minimum pensions by using funds originally earmarked for military spending.[237]

V. CONCLUSION

Through policies addressing social concerns, with an integrated world economy and a financial global system, the central role of the IMF in coordinating macroeconomic policies and

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232. *See Policy Dialogue*, *supra* note 57.

233. *Id.*

234. *Id.*

235. *Id.* It is interesting to reflect from a psychological standpoint whether a streamlined military might lead to a reduction in aggression as individuals focus toward the original target of self. *See supra* note 14, at 290.

236. *Id.* As earlier alluded, business is aware of the fact that "war doesn't pay in this complicated world." *See* DAVID BRODY, WORKERS IN INDUSTRIAL AMERICA, ESSAYS ON THE TWENTIETH CENTURY STRUGGLE 50 (1993).

237. *See supra* note 57.

in developing and implementing monetary reforms in developing countries is imperative in light of today's turbulent conditions. Although the world economy is now at a critical juncture, it is important to realize that the IMF is not and cannot be expected to be a panacea for all of the problems facing emerging growth countries. However, the IMF should be commended for the measures implemented thus far, including the innovations designed to reduce poverty. Undoubtedly, the macroeconomic stability achieved will serve both human interest measures while simultaneously creating a favorable climate for future foreign investment. Hopefully, the IMF, together with other world organizations dedicated to the implementation of social and economic policies, will one day allow Pascal's epigram to conclude that we have finally made "that which is just strong."[238]

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238. *See supra* note 1.

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