



CONGRESS OF THE UNITED STATES

CONGRESSMAN JIM SAXTON

PRESS RELEASE

For Immediate Release
January 13, 1999

Press Release #106-2
Contact: Daniel Guido
(202) 226-0603

IMF/TREASURY STRATEGY IN BRAZIL FAILS TO AVERT DEVALUATION

-- Crisis Underlines Need for Fundamental IMF Reform --

WASHINGTON, D.C. – The resumption of the financial crisis in Brazil originally sparked by the failure of the International Monetary Fund (IMF) program in Russia raises new questions about the IMF's strategy in Brazil as well, **Congressman Jim Saxton** said today. The exposure of U.S. taxpayer money in IMF-designed bailouts, such as Brazil, is another issue requiring explanation, Saxton said.

"The Brazilian bailout, as undertaken by the IMF and the U.S. Department of the Treasury, was widely viewed as a crucial test of the effectiveness and credibility of these agencies in the wake of the failed Russian IMF bailout," Saxton said. It appears, however, that the vaunted preemption strategy has failed to stabilize the financial situation. Instead of preemptively averting a crisis, it appears that providing a front-loaded bailout has not been any more successful than the previous strategy.

"The failure of the bailout to stabilize the Brazilian situation underscores the central problem, which is the bailout approach itself and its attendant moral hazard problems. As I have stated, fundamental reform of the IMF is urgently needed before too much additional damage occurs. Although the Administration paid lip service to deep IMF reform while asking for more IMF funding last year, no serious effort furthering IMF reform is visible at Treasury or elsewhere."

"Last October I chaired a **Joint Economic Committee (JEC)** hearing in which a comprehensive plan for restructuring the IMF was presented by Professor Charles Calomiris and discussed by a former research director of the IMF," Saxton said. "Professor Calomiris' ideas have stimulated broad debate and require the attention of decision-makers engaged in international economic policy. The time has come for the Administration to move from vague and general abstractions to concrete proposals for comprehensive reform of the IMF. The current bailout strategy all too often is a costly, counterproductive failure."

"Although the Treasury likes to pretend there is no U.S. taxpayer cost, U.S. taxpayer money provides 27 percent of IMF resources, and is exposed in IMF loans and heavy interest rate subsidies," Saxton said. "It's obvious the interest rates charged on the Brazilian loans were subsidized, and did not fully comply with the recent Congressional interest rate reforms that require an adjustment for risk to approximate market interest rates."

For more information on IMF reforms, visit the JEC website at <http://www.house.gov/jec>.

###