Revista de Economia Política, vol. 19, nº 2 (74), abril-junho/1999

A Turning Point in the Debt Crisis: Brazil, the US Treasury and the World Bank

LUIZ CARLOS BRESSER PEREIRA*

This paper is an account of the Brazilian 1987 negotiation of the debt crisis, that represented a turning point in the history of this world financial crisis. When the author assumed the Finance Ministry of Brazil, in April 1997, the country was in moratorium. The minister, after consulting international bankers, economists and state officials, prepared a proposal for solving the problem that was based in two key ideas: the securitization of the debt with a discount, and the relative delinkage between IMF and the commercial banks in the negotiations. In September 1997 the proposal received from the Secretary of the Treasury, James Baker, a public "non starter" answer, but, given the interest it immediately arose in the international financial community, eighteen months later the Brady Plan, that established the parameters for solving the debt crisis, had as core proposals these two ideas.

The year 1987 was a turning point in the history of the debt crisis that fell as a thunder over Latin America in the 1980s. Brazil had an important role in the change that took place in this year. In this paper I will present Brazil's strategy at that moment — a strategy whose main features were adopted by the Brady Plan, which eventually solved the crisis, eighteen months later.[1] In this account I will give special attention to the role the US Treasury, represented by Secretary Baker, and the World Bank played.

The debt crisis represented throughout the 1980s a central challenge for the world economy. In the early years, it was viewed as a liquidity problem. Since 1987, however, the creditor countries start understanding that the muddling through approach to the debt problem had failed or was exhausted, and that new initiatives were required. At that moment I, as finance minister of Brazil, had the opportunity to perform a special role, calling attention to new ideas. In this process I interacted in several ways with the US Treasury and the multilateral agencies, particularly the International Monetary Fund and the World Bank. The role of the US Treasury, protecting its own banks, and IMF's role as the guardian of the international monetary system and, so, as the representative of the large commercial banks, were unambiguous, while the World Bank,

* Brazil Science and Technology Minister

[1] The Brady Plan received its name from Nicholas Brady, that succeed James Baker as secretary of the US Treasury in 1989, when the Bush succeeded Reagan in the American presidency.

whose mission was to promote economic growth, had suddenly fallen between two fires. In this event the conflicting interests of the debtor countries with the creditor countries towered above the mutual interests. The creditor countries and particularly their commercial banks stopped rolling over the debt and expected to collect what they have disbursed plus interests — or to roll-over it again in a safe way —, whereas the highly indebted countries demanded long term consolidation and effective reduction of a debt that had turned too high to be regularly paid. Constrained to choose between one and the other side, the Bank had no other alternative but essentially to opt for the creditors. This was not consensual within the Bank. The resistance of the staff, including its high rank, was strong, but the will of the main stockholders prevailed.

The debtor countries needed urgent macroeconomic adjustment, since the debt crisis was essentially a fiscal crisis. Fiscal adjustment had to be done any way, independently of the size and the speed of the debt reduction and consolidation. The Bank pressed for the required adjustment and structural reforms that responded both to the interests of the debtor and the creditor countries. Yet, it was much less effective in promoting the reduction and consolidation of the debt, that conveyed more specifically the demands of the developing countries, and would be part of its mission as a development bank.

In this paper I will tell the story of a crucial moment in the debt crisis. I will describe my personal experience, particularly in 1987, when, as finance minister of Brazil, I made a proposal for the solution of the foreign debt, that elicited wide debate and was eventually adopted in the Brady Plan (1989), that was instrumental in ending — although not solving — the debt crisis. I will refrain from a more broad interpretation that will only be delineated in section 6.[2] My focus will not be the World Bank, but I will give to it a particular attention, as it tried to be helpful in intermediating between the debtor and the creditor countries.

1. THE SEARCH FOR A NEW STRATEGY

In 1987 the second phase of the debt crisis, represented by the 1985 Baker Plan, proved definitively ineffective. The Brazilian moratorium, in February 1987, was a major factor pointing in this direction. The first phase, led by Paul Volker and de la Rosière — the liquidity approach —, was dominant between 1982 and 1985. In this last year, with the Baker Plan, the second phase started: adjustment and structural reforms (with growth) should be coupled with additional financing. It was precisely in 1987 that it became clear that this strategy was ineffective. The commercial banks were not willing to provide the additional finance that was essential to the plan. On the other hand, it was becoming increasingly clear that a debt relief program would be an essential part of any real solution to the crisis. The creditor governments, under Washington leadership, and the banks were becoming ready for a third phase: the "securitization or debt reduction phase", which started that year with the Brazilian proposal and culminated in the Brady Plan in early 1989.

As finance minister of Brazil, between April and December 1987, my team and

[2] For a global evaluation of the debt crisis see Devlin and Ffrench-Davies (1995).

I had a say in the definition of this third phase. We developed a strategy in relation to the foreign debt based on two ideas that were innovative at that moment: the reduction of the debt through securitization and the relative delinkage between the multilateral institutions and the commercial banks in the debt negotiations. This strategy was not able to solve the Brazilian debt in 1987, but helped to change Washington strategy in relation to the debt, that at that moment faced a stalemate.

When I assumed the Finance Ministry, in April 29 1987, Brazil was under moratorium and the country faced a deep economic and political crisis — the outcome of the failure of the Cruzado Plan. The Cruzado Plan had counted with a stupendous political support. Nevertheless, it failed because it was not accompanied by the required fiscal adjustment. It was a well designed stabilization plan — based on the theory of inertial inflation that the Latin American economists had recently developed — but it had been poorly implemented. As a matter of fact, it was administered in a populist way. Brazil, one year before, had just completed the transition to democracy. The political and economic euphoria was enormous. All economic problems were attributed to the "orthodox" economic policies adopted by the military regime since 1981 — policies that produced recession but failed to control inflation. Before that, in the 1970s, the military regime was involved in conservative but national-developmentalist policies, that led the country to the debt crisis. When, late 1981, the commercial banks threatened to stop rolling over the foreign debt, the administration had no other alternative but to engage in orthodox stabilization programs: in 1982, under the control of the Brazilian authorities, and in 1983, IMF sponsored. The IMF program were able to balance the current account, as it involved a real devaluation of the local currency, but the rate of inflation, that was around 100 percent in 1981, changed to 200 percent a year in 1983 and remained in this level in 1984 and 1985, in spite of the orthodox fiscal and monetary policies then implemented.

With the transition to democracy, the elected vice-president, Mr. José Sarney, took office as president, in March 1985, given the sudden death of the elected president, Tancredo Neves. Populist and national-developmentalist policies, that had been relatively successful between the 1930s and the 1950s in promoting industrialization, but got discredit in the early 1960s, when an economic and financial crisis broke up, were now again in the rise. The military regime that emerged from the 1964 coup, was able, in the late 1960s, to stabilize prices and adjust the budget. The macroeconomic balance so achieved permitted the 1967-1974 "miracle". Yet, in the 1970s the military made their come-back to national-developmentalism and economic populism. They adopted a state-led import substitution strategy. Now, instead of concentrating industrial policy in light industry, heavy and capital-goods industries should be protected and substitute imports. To finance this second phase of the import substitution strategy, foreign finance was abundant in the 1970s. Yet, as could be expected, serious distortions were imbedded in statist and protectionist policy. A fiscal crisis of the state was in its way.

This crisis became apparent in the late 1970s. Yet, 1986 Cruzado Plan ignored the fiscal crisis of the state. It assumed that inflation had only inertial causes. That some budget deficit was acceptable, given a slack aggregate demand. That income distribution, that had been concentrated during the military regime, could now be easily deconcentrated, while stabilization was achieved. The Brazilian society, including its best economists, was unaware that a serious fiscal crisis of the state had developed. On the contrary, their optimism permitted one of the best Brazilian economists (Castro and Souza, 1985) to write a successful book called *Brazil in forced march to development*. The Cruzado Plan reflected this naive optimism. When it failed, in the end of 1986, it did in a noisy way. Macroeconomic unbalances suddenly became apparent. While the economy was falling in recession, after the artificial expansion of the Cruzado, inflation exploded, real wages went down almost 30 percent between November 1986 and June 1987, the rate of bankruptcies broke all previous records, international reserves were dramatically reduced, and an aggressive moratorium of the foreign debt was adopted. In the aftermath of this acute economic and financial crisis I took office as finance minister in April 1987.

I was invited to the ministry for my experience in the government of the State of São Paulo and my active participation in PMDB (Partido do Movimento Democrático Brasileiro), the political party that had led the transition of Brazil to democracy two years earlier. Although I was critical of the populist and nationalist views that dominated Brazilian politics at that moment, this did not mean that I had adhered to economic orthodoxy. In the early 1980s I had an active participation in the formulation of the neo-structuralist theory of inertial or chronic inflation, that diverges from mainstream economics, as (1) it views this type of inflation as autonomous from demand, i.e., consistent with recession, as (2) it views the money supply as passive or endogenous, and as (3) it relates present inflation with the phased process of price and wage increases and with the distributive conflict between economic agents.[3] But it was clear to me that the Brazilian economy urgently needed fiscal discipline and market oriented reforms. These reforms were particularly necessary because the state faced a double crisis: a crisis of its mode of intervention (the import substitution strategy) and a fiscal crisis.

In the morning of April 29, when I was preparing my acceptance speech to the ministry at Carlton Hotel, in Brasilia, I received the visit of the leaving Country Division Chief for Brazil at the Bank, Roberto Gonzalez Cofiño. Significatively it was my first meeting as finance minister. I was not known in Washington. Thus, I remember Cofiño's agreeable surprise when I told him that Brazil needed an urgent fiscal adjustment and the elimination of all subsidies permitting the recovery of the saving capacity of the state, a positive internal interest rate, a new stabilization program combining orthodox and heterodox policies that were able to neutralize inertia, the regularization of the foreign debt payments after a feasible agreement with the Banks, and an export led development strategy. These ideas, plus trade liberalization and privatization, routed my action in the Finance Ministry. They were the source of continuous conflict with my party, the political staff of the President, and also the Brazilian businessmen, when I made clear that fiscal adjustment involved increasing taxes, besides reducing state expenditures. My decision to leave the government seven months later derived from the lack of political support for a tax reform and for a program of fiscal adjustment that involved the elimination of several departments or sections of the state apparatus.[4]

[3] Our main findings are in Bresser Pereira and Nakano (1984). For a survey of this theory see Bresser Pereira (1996b).

[4] A report of my time as finance minister can be found in the testimony I gave to the Instituto Universitário de Pesquisas do Rio de Janeiro, IUPERJ, "Contra a corrente: a experiência no Ministério da Fazenda" (Bresser Pereira, 1988). See also, in English, Bresser Pereira (1993).

When I assumed the Ministry, it was clear to me that the transference of real resources to the creditor countries involved in the debt crisis was a major cause of the high inflation rates, of the reduction of public and total savings, and of the dramatic reduction in the growth rate of the Brazilian economy in the 1980s.[5] It was clear, also, that Brazil could not remain under the moratorium that my predecessor, Dilson Funaro, had decided in February of that year, given the depletion of Brazil's international reserves. An agreement with the commercial banks and with the Fund was urgent. But I wanted an agreement that, although implying domestic sacrifices, was minimally consistent with price stability and the resumption of the rate of growth. The Baker Plan, with the "menu approach" and the pledge of additional financing that did not materialize, seemed insufficient to me, but, at that moment, I did not see other alternative. Schemes of debt reduction or debt relief, although starting to be discussed, were not viewed by the international financial establishment as possible alternative at that time.

I needed a stabilization plan immediately: a short run stabilization plan, that stopped inflation that was exploding after the failure of the Cruzado Plan,[6] and a medium run stabilization plan, that presented an assessment of the Brazilian crisis and the basic policies that would orient my action.

The short run stabilization program was an emergency freeze coupled with some fiscal adjustment measures, that came to be called the Bresser Plan.[7] As an emergency policy, the freeze was short-lived, we did not deindexate the economy, nor undertake a monetary reform, nor used the exchange rate as a nominal anchor. We used conversion tables to neutralize inertia, but we knew that relative prices were extremely unbalanced in the moment of the price freeze, making the conversion of the prices to a virtual point of equilibrium relatively ineffective because insufficient. Our objective was not to stabilize the economy in a sustained way, but to stop the explosion of the inflationary process. My forecast was that inflation six months later would be around 10 percent a month, due to the insufficient fiscal adjustment that was feasible at that moment,[8] and the unbalances in relative prices at the moment of the freeze, requiring a second and definitive stabilization plan some months later.[9] The Bresser Plan became effective in June and was able to normalize the economy, i.e., to allow for a minimum macroeconomic balance, for a stop in the vertical decline of real wages coupled with the explosion of inflation rates, to cope with record bankruptcies of the small and medium sized enterprises that had borrowed and invested in the Plan Cruzado euphoria, to recover for the government a minimum level of control over the economy. But,

[5] Negative transfers could also have opposite deflationary consequences, as they required from the highly indebted countries tight fiscal policies. But the fact is that inflationary component tied to the exchange rate devaluations clearly dominated not only in Brazil but also in all other countries.

[6] Inflation rose from around 2 percent in November 1986 to 26 a month percent in June 1987.

[7] For a comparison of the Bresser Plan with the Cruzado Plan see Bresser Pereira (1990). For an analysis of the 12 failed stabilization plans that, between 1979 and 1992, preceded the Real Plan (1994), see Bresser Pereira (1996a).

[8] In 19987 we still lived populist times in Brazil. Public opinion was not aware of the exhaustion of the national-developmentalist strategy. Thus, the political support for fiscal adjustment was minimum if any.

[9] Obviously I did not tell the press or anybody else this prediction. It was just shared by myself and the two economists that more directly collaborated with me in the definition of the plan: Yoshiaki Nakano and Francisco Lopes.

as expected, the plan was not able to solve the fiscal crisis or to fully neutralize the inertial component of inflation. The rate of inflation, after going down from 26 to around 6 percent a month, increased in the next months at slightly higher rate than expected. In December it reached 14 percent instead of the expected 10 percent.[10]

The Bresser Plan was the "heterodox" part of the stabilization program — heterodox just in the sense that it used an unusual strategy to neutralize a new economic phenomenon: inflationary inertia. The medium run stabilization plan — the Macroeconomic Control Plan — was the orthodox part of the overall program. It was prepared by my staff between May and early July. It included a macroeconomic model of the Brazilian economy, and was supposed to reproduce, in our own terms, a letter of intention to the IMF. It should also define the parameters of the negotiations of the foreign debt, establishing our capacity to pay. My guidelines to the excellent staff of economists that wrote it were quite clear. These guidelines had been advanced in a paper that I had presented to a seminar at Cambridge University, on April 5, twenty four days before taking office (Bresser Pereira, 1987). The diagnosis should emphasize the fiscal crisis of the state: the fact that the budged deficit was high; that public savings which used to be highly positive in the 1970s were turning negative, requiring budget deficits to finance public investments; that the public foreign debt was excessively high; and that the internal public debt was dangerously increasing.

I wanted the Macroeconomic Control Plan to resemble, as much as possible, a letter of intention written to the IMF. These letters, usually written by the staff of the Fund and signed by the local authorities, define some strategic targets (the nominal, the primary and the operational budget deficits, the domestic net credit growth, the variations in the basic monetary aggregates etc.). I had no political possibility of signing an agreement with the Fund at that moment. The conflicts with the Fund, due to its one side position on the debt crisis, and the failure of the 1983 IMF sponsored stabilization program, had been potentialized by populist views that dominated Brazil after the transition to democracy was completed in 1985.[11] But I knew that a stabilization plan could not substantially diverge from the basic recommendation of the Fund. Besides, I needed a plan that could be understood by Washington and New York — by multilateral institutions and the American government, and by the commercial banks —, that I planned to visit at the moment the plan was completed.

In this first trip to Washington I would start negotiating the foreign debt. Thus I also needed a plan that would define the paying capacity of Brazil. For that my staff used a macroeconomic simulation model for Brazil, that became a constitutive part of the plan. Given some parameters, the model would define how much Brazil could pay. I proposed to my staff two basic debt parameters: first, Brazil would limit its negative cash-flow with the commercial banks, refinancing 60 percent of the interests

[10] The 6 percent "inflationary residuum" after the freeze showed that relative prices were highly unbalanced at the moment of the stabilization plan. I knew that, besides an effective fiscal adjustment, the other condition for a successful heterodox program was to have relative prices reasonably balanced at the moment of the freeze. That is why I expected a 10 percent rate of inflation in December.

[11] I discussed the populist character of the period in a recent paper, "Stabilization in an adverse environment", where I describe the attempt my team and I developed to control inflation in 1987 (Bresser Pereira, 1993).

due each semester on the long term debt and paying net to the banks 40 percent of the interest, while fully refinancing the principal;[12] second, with the multilateral institutions and the Paris Club, Brazil would maintain an even cash flow: interest plus amortization would equal new disbursements. For the multilateral and official loans the even cash-flow assumption seemed fair, given the interest of the creditors' governments to solve the crisis. I proposed also a growth parameter: 5 percent of the GDP, less than the historical 7 percent. The model had its own parameters — the savings function, including public savings, the tax burden, consumption function, the investment function, the internal and the foreign debt, the level of international reserves etc. —, which, up to a certain extent, could also be considered as variables.

Running the model my staff came to the conclusion that the two debt parameters and the growth objective were feasible, but implied an increase in total savings. Since the fall in savings was due to the decrease of public savings, these ones should be recovered. In order to increase public savings, it was necessary a substantial increase in taxation and a reduction of state expenditures. The objective was to reduce the operational public deficit to 3.5 percent in 1987; 2 percent in 1988 and 0 in 1989. In this way public savings would be recovered. The alternative would be to increase private savings, reducing wages and consumption. Yet, there was no way to easily do that. Private savings are a behavior parameter that is difficult to influence. The recovery of public savings was more feasible. Consumers would have a burden, particularly the middle class. I needed a 5 percent of GDP increase in savings in the next years to balance the budget and grow around 5 percent a year. I was not happy. The target was too tight. The burden sharing between the foreign creditors and Brazil did not seem to be fair.

The required increase in taxes or the reduction of public expenditures would be smaller if creditors accept a reasonable reduction of the debt. The responsibility for the foreign debt crisis should also be shared by the creditors. Karin Lissakers, who made a deep study of the relations between commercial banks and the borrowers before and during the 1980s debt crisis, is very clear on this subject. The conventional wisdom is that commercial banks should not get involved in sovereign credit. But in their search for profits they did this in the past, repeated it in the 1970s and "the competitive drive of the larger commercial banks will lead to a resumption of significant lending (to the developing countries), probably before the end of this century... Lending to developing countries in the 1970s was far more profitable than has been generally recognized". Many countries borrowed to finance populist projects, all borrowed excessively. But "rather than responding like a 'rational' market and either curtailing credit or raising the price to such borrowers, the banking markets behaved perversely, rewarding weak borrowers with increased credit at lower prices". And Lissakers concludes: "The willingness of the market to lend, not the borrower's ability to pay, became the accepted measure of credit-worthiness" (1991: 2-12).

But I also knew that in economic and political questions the moral aspect has a minor importance. The problem was not to define who was guilty for the debt crisis, but how Brazil could realistically face and survive it. With this objective I was not

[12] Although the banks did not speak of "refinancing of interests" but of "new money", they showed some disposition to finance between one third and half of the interests. I was asking just a little more.

due each semester on the long term debt and paying net to the banks 40 percent of the interest, while fully refinancing the principal;[12] second, with the multilateral institutions and the Paris Club, Brazil would maintain an even cash flow: interest plus amortization would equal new disbursements. For the multilateral and official loans the even cash-flow assumption seemed fair, given the interest of the creditors' governments to solve the crisis. I proposed also a growth parameter: 5 percent of the GDP, less than the historical 7 percent. The model had its own parameters — the savings function, including public savings, the tax burden, consumption function, the investment function, the internal and the foreign debt, the level of international reserves etc. —, which, up to a certain extent, could also be considered as variables.

Running the model my staff came to the conclusion that the two debt parameters and the growth objective were feasible, but implied an increase in total savings. Since the fall in savings was due to the decrease of public savings, these ones should be recovered. In order to increase public savings, it was necessary a substantial increase in taxation and a reduction of state expenditures. The objective was to reduce the operational public deficit to 3.5 percent in 1987; 2 percent in 1988 and 0 in 1989. In this way public savings would be recovered. The alternative would be to increase private savings, reducing wages and consumption. Yet, there was no way to easily do that. Private savings are a behavior parameter that is difficult to influence. The recovery of public savings was more feasible. Consumers would have a burden, particularly the middle class. I needed a 5 percent of GDP increase in savings in the next years to balance the budget and grow around 5 percent a year. I was not happy. The target was too tight. The burden sharing between the foreign creditors and Brazil did not seem to be fair.

The required increase in taxes or the reduction of public expenditures would be smaller if creditors accept a reasonable reduction of the debt. The responsibility for the foreign debt crisis should also be shared by the creditors. Karin Lissakers, who made a deep study of the relations between commercial banks and the borrowers before and during the 1980s debt crisis, is very clear on this subject. The conventional wisdom is that commercial banks should not get involved in sovereign credit. But in their search for profits they did this in the past, repeated it in the 1970s and "the competitive drive of the larger commercial banks will lead to a resumption of significant lending (to the developing countries), probably before the end of this century... Lending to developing countries in the 1970s was far more profitable than has been generally recognized". Many countries borrowed to finance populist projects, all borrowed excessively. But "rather than responding like a 'rational' market and either curtailing credit or raising the price to such borrowers, the banking markets behaved perversely, rewarding weak borrowers with increased credit at lower prices". And Lissakers concludes: "The willingness of the market to lend, not the borrower's ability to pay, became the accepted measure of credit-worthiness" (1991: 2-12).

But I also knew that in economic and political questions the moral aspect has a minor importance. The problem was not to define who was guilty for the debt crisis, but how Brazil could realistically face and survive it. With this objective I was not

[12] Although the banks did not speak of "refinancing of interests" but of "new money", they showed some disposition to finance between one third and half of the interests. I was asking just a little more.

viewing other alternative but to ask for additional finance. For "new money" as the bankers used to say. It was very clear to me that the highly indebted countries were not facing a liquidity problem, as the commercial banks, the creditor governments and the multilateral institutions affirmed. That the hope of recovering credit-worthiness in the short run, that the banks insistently suggested, was meaningless. That the practice of the European banks of creating reserves against their sovereign Third World credits should not be resisted but stimulated. It made patent Brazil's loss of credit, but it also acknowledged the seriousness of the debt crisis. It was for that reason that, when, in May 20, the new Chairman of Citibank, John Reed, decided to increase loan-loss reserves by $3 billion, and send envoys to each finance minister in Latin America with the mission of tranquilizing them, I surprised his representative in Brazil with my response: "I don't receive this information as negative but positive. The American banks are at last recognizing that the debtor countries are unable to pay all their foreign debt. Maybe now innovative solutions will appear".

"New money" — the conventional response to the debt crisis — was not an innovative solution. It was just partial financing of interests. The costs of this alternative were high to Brazil. But the other possible alternative that I could see was some kind of "agreed default", that Anatole Kaletsky had discussed in an influential book recently published (1985). Yet, neither financial markets nor Brazil were prepared for it. A third alternative was debt reduction. But I was not informed, at that moment, that debt relief mechanisms were already being thought in the creditor countries.

In order to recover foreign and domestic confidence on the part of businessmen the essential thing for Brazil was to suspend the moratorium of the foreign debt, and to regularize its foreign payments. Yet, I would only suspend the moratorium if I came to a feasible solution for the Brazilian debt problem. The Macroeconomic Control Plan demonstrated that 60 percent financing of the interests due to commercial banks plus and even cash-flow with the multilateral institutions and the Paris Club, were consistent in macroeconomic terms although costly with price stabilization and some growth. Thus I submitted the Plan to the President and to the National Council of Development, I published it in Portuguese and had it rapidly translated and published in English. This plan defined the macroeconomic policies I would follow. It was our letter of intentions, our stabilization program that also defined our ability to pay the foreign debt. It would be the basic document in my first visit to the United States as finance minister.

Meanwhile I was discussing with Edwin Yeo — a mysterious representative of Paul Volker and Michael Camdessus, whom the Latin American finance ministers called "the carrier-pigeon" or just "the pigeon" — a strategy to have a Brazilian stabilization program adopted by the Fund. The domestic resistance to this move was, at that moment, enormous. As to the Bank, it was, at that time, being restructured. The staff that used to work with Brazil was being changed. This fact virtually paralyzed the institution in that year. After consulting with the Executive Director of the Bank for Brazil, Pedro Malan, who called me as soon as he was informed of the changes, I gave my agreement to the new director for Latin America, Shaid Hussain, and the new director for Brazil, Armeane Choksi. Of Choksi I would become a personal friend. With both and the staff of the Bank working in Brazil I would have excellent relations.

2. THE ORIGINS OF AN UNCONVENTIONAL PROPOSAL

In mid July 1987, two months and a half after taking office, I finally traveled to Washington, with my Macroeconomic Control Plan. My second appointment, after a complimentary visit to the Interamerican Development Bank, was to Senator Bill Bradley. In the way to his office Marcílio Marques Moreira, the Brazilian ambassador in Washington, told me that two resolutions had already been approved in the Congress, one in the Senate, the other in the House, asking for some form of "debt relief". I was very surprised. I asked Marcílio to repeat, since I, as practically all Brazilians, had never heard that expression. Marcílio repeated, informed that this was an issue already well discussed in the creditor countries. It was for me a revelation, that I immediately connected with the talks about "securitization of the debt" I had had with some bankers and economists in the last two months. And I became convinced that something should be done in this direction. The climate in the creditor countries was favorable to new ideas. I was not acquainted with the "two-level bargaining game", in which each player is supposed to play with two constituencies (Lehman and McCoy, 1992), but it was clear to me that my two relevant constituencies were businessmen and politicians in Brazil and governments and multilateral institutions in developed countries. My message should reach and be understood by both. My adversaries — not my enemies — were the commercial banks.

I told Bradley that I would act in this direction, since the climate in the creditor countries was favorable, but he doubted. He was used to receive Latin American finance ministers who said a lot of bold things when visiting him, but after followed conventional lines. I told him that with me things would be different. That evening I had a secret dinner with Michael Camdessus, that Edwin Yeo had arranged at my request. I told Camdessus that I was decided to sign an agreement with the Fund, but I was not happy with the conventional debt proposal that I was preparing. And for the first time I delineated my own proposal, the idea of securitizing part of the debt. Camdessus agreed that the real solution had to come from something like that, but he also said that "Washington is not yet mature" for this kind of solution regarding the debt. I had to agree. But it seemed to me that the maturation process was under way. Perhaps a big debtor country like Brazil could give its contribution to its completion.

One of my visits in Washington was to Barber Conable. At his side was Moeen Qureshi, who later would become a friend. Washington was strongly committed to convince Brazil to regularize its payments, to end the Brazilian moratorium. So was I. But to do that I needed a global negotiation of the Brazilian debt, including a partial reduction of the debt due to the commercial banks. I would only close the moratorium after having secured a feasible debt negotiation, in agreement with the Macroeconomic Control Plan. In my interview with the President of the Bank I also proposed that he should help Brazil to securitize part of its debt with the commercial banks. On the other hand, I stressed that a condition for the macroeconomic consistency of the Brazilian debt proposal would be that the cash flow of the Bank and other multilateral and official institutions with Brazil be even. The Bank's net transferences to Brazil had just turned negative that year.[13] Conable was very warm. He is a very nice man.

[13] The economic analysis of Brazil's relations with the Bank is extensively analyzed in Gonzalez et al. (1990) and Araújo (1991). Araújo includes an interesting analysis on the costs of the Bank's loans to Brazil.

But when I insisted on the non-negative cash flow request, he suggested that this was not his decision; it depended on the Bank's stockholders. At that moment it became clear to me the role of the Bank in the foreign debt. As the Fund, the Bank was ready to help, but it was essentially a representative of the creditor countries, particularly of the American government, its major stockholder. Conable, as all other former World Bank's presidents, was in some way a delegate of the American government.

As a matter of fact, the Fund and the Bank were part of an informal but quite cohesive power system organized to manage the debt crisis. This debt power system was headed by the Treasury and the Fed (that was stronger in Paul Volker's times). It had as two basic arms or executive institutions, the Fund and the Bank. The other finance ministers of the G-7 and the 20 chairmen of the larger international commercial banks were informal consultants to the system. Its participants met formal and informally in many occasion. Its more informal part — the 20 (or around 20) chairmen of the more prestigious international banks — did not participate in formal meetings, but were always consulting and being consulted, besides participating in cocktails, banquets, where policies could be discussed and diffused. I knew that this was a strong power system. But it was clear to me that this people were perplexed, divided among themselves, as they did not have a satisfactory answer to the debt crisis. New ideas, in a moment like that, could help. Certainly they would be heard.

Back to Brazil, I started to prepare my proposal, helped by Fernão Bracher, the Brazilian chief negotiator, by Yoshiaki Nakano, my closest fellow economist, and by many others. Fernão Bracher is a banker. He had been the governor of the Central Bank of Brazil with Funaro, and left before Funaro because insisted in having real positive interest rates, while the politicians in the two governing parties (PMDB and PFL) asked for a reduction of the interest rate. He is a very special friend of mine. I wanted him again as governor of the Central Bank, but Sarney only accepted his name as chief negotiator of the debt two months after I had taken office. Yoshiaki Nakano was a student in Getúlio Vargas Foundation and is my long time intellectual associate. Among other things we had written together a collection of papers on inertial inflation that, together with the papers published by a group of excellent economists in Rio de Janeiro's PUC (Pontifícia Universidade Católica) founded the neo-structuralist theory of inertial inflation in Brazil.[14] Helping me to define a strategy on the foreign debt I also had in my team Fernando Milliet, the governor of Central Bank, that had been vice-chairman when I was the Chairman of the Bank of the State of São Paulo (1982-84). Two state officials, Carlos Eduardo de Freitas and Antônio Pádua Seixas, both with long experience in debt negotiations and international banking practices, also belonged to the group. Less permanently but not less effectively I counted with the support of two bright MIT economists, André Lara Resende and Pérsio Arida. André was the first person to refer the expression "securitization". And I counted with some friends with large entrepreneurial experience, particularly Sylvio Bresser Pereira, my brother, Abílio

[14] After two basic papers, published in 1981 and 1983, we published together a collection of essays, *Inflação e Recessão* (1984), later translated to English (1987). In PUC the economists that participated more directly from the formulation of the theory were Pérsio Arida, André Lara Resende, Edmar Bacha, Francisco L. Lopes e Roberto Modiano. The real precursor of the inertial inflation paradigm — a paradigm that today is widely accepted and was partially coopted by mainstream economics — must be found in a seminal book by Felipe Pazos (1972).

Diniz, Roberto Giannetti da Fonseca and Roberto D'Utra Vaz. In a later phase I also asked technical help from two international investment banks — First Boston and S.G. Warburg — particularly for the securitization deal.[15]

I decided that Brazil should present to the commercial banks and Washington a partially unconventional proposal. The ideal would be a fully unconventional proposal, based on full securitization of the debt and the delinkage of IMF and the banks in the negotiation process. Yet, it would be necessary the existence of a debt facility created in Washington and a debt reduction program through securitization that this agency would manage in behalf of the Treasury and G-7. At those time ideas like that could be the subject of a speech, but could not be the core of a concrete Brazilian proposal to the banks.

I did not invent securitization. It is an old practice in financial markets. Securitization means, simply, transformation of old debts into new ones, into securities, that would have a longer maturity and a discount or a reduced rate of interest in relation to the market rates. It is a form of debt relief. But a financial form, that permits the bank to easily trade the new securities. Securitization was the way Felix Rohatyn solved the debt crisis of the city of New York in the 1970s. When the Third World debt crisis broke up in 1982, Rohatyn (1983) and Peter Kenen (1983) made proposals in this direction. Yet, these proposals had been forgotten. Since 1985 the official "solution" for the debt crisis was the Baker Plan — an attempt to combine new finance with adjustment and structural reforms. In this way the highly indebted countries would resume growth. The "menu approach" was part of the Baker Plan. The debtor countries and the commercial banks should define a menu of alternatives to fit individual characteristics of each country.

In 1987 it was clear that the Baker Plan had failed. The banks refused to provide additional finance. Some countries, like Mexico, were starting structural reforms. I, for instance, worked in the preparation of trade liberalization, fully restructuring the customs system. But this was a medium term process. Countries were not resuming growth. A growing number of countries were falling in arrears. Thus, I decided that it was time to innovate: in the Brazilian proposal the securitization idea would be present. Part of the Brazilian debt would have to be transformed into new securities with a discount.

The other key idea of the proposal was the relative delinkage between IMF, World Bank and the commercial banks. I wanted to negotiate separately with these institutions. I did not want that the negotiations with the banks depended on a stand-by agreement with the Fund. Nor seemed reasonable to me that a negotiation already concluded with the banks would be suspended if Brazil were not able to meet a monetary or a fiscal target agreed with the Fund. That we depended on a waiver of the Fund to continue to be financed by it, seemed reasonable. But to depend on same waiver to keep going the negotiations with the banks seemed absurd. I understood quite well that it was a power system. A strategy to increase the conditionality power of the Fund. And a kind of guarantee for the banks. But, as I said to Baker in a meeting, this system was too rigid, it implied too much power, it made negotiations almost impossible.

[15] The two banks produced a joint memorandum regarding "Partial Securitization of Bank Debt", dated November 16, 1987.

Thus, the Brazilian proposal would be in part conventional, asking for 60 percent finance of interest due to the commercial banks, provided that the official financial institutions committed themselves with an even cash flow with Brazil. And in part unconventional, asking that 20 percent of the debt be compulsorily transformed into securities according to an agreed discount and that the negotiations with the banks would be independent from the negotiations with IMF and the World Bank.

The domestic resistance to the unconventional proposal I was preparing soon arrived. First, I faced some difficulty to convince my own staff. They agreed with the idea, but thought it dangerous. It could elicit a strong reaction from the creditors. They needed new ideas, but were not fully prepared to hear them. I remember very well Edwin Yeo telling in his second visit to me that "after Funaro's moratorium Washington concluded that he could not remain at the finance minister of Brazil". It was a clear threat. I was being remembered that Washington and the commercial banks were politically powerful. My staff was also aware of this fact. Besides, Brazilian elites were not prepared to confront the creditor countries. Often these elites feel more solidarity with the international capitalism system to which they in some way belong, than to the national interest. Yet, the internal debate with my staff ended when I said, somewhat dramatically: "I am in the Finance Ministry to solve the problems, even at the risk of losing my job. I am ready to compromise, but only on minor things, not on the essential ones. For Brazil the essential is to obtain a reduction of its foreign debt".

Much more serious was the resistance the President' staff posed. An able diplomat, Rubens Ricúpero was the International Adviser of the President. He obtained the support of Marcílio Marques Moreira, the Brazilian ambassador in Washington, and Jorge Murad, the conservative son-in-law of the President, and developed the following argument against an unconventional debt proposal: the Sarney administration already faced domestically an economic and a political crisis; it was not advisable to risk an international crisis. Thus, Brazil should make a conventional proposal to the banks. I argued that the risk was not so great, since the proposal that was being prepared was unconventional but moderate, and since there was an increasing conviction in the creditor countries that the Baker Plan had failed to solve the debt crisis. Besides, I added, some risk was part of the game when the national interest was involved. After a difficult debate — part of which took place during Sarney's visit to Mexico in August, where I was surprised with the presence of Marcílio Marques Moreira, besides Ricúpero and Murad, the three determined to defeat my proposal, — the President accepted my proposal.

3. BAKER'S "NON STARTER"

The strongest resistance, however, would come from the commercial banks and the U.S. Treasury. At the end of August I received a call from Secretary James Baker. He was informed that I was preparing a non-conventional debt proposal, consulting with First Boston and S.G. Warburg investment banks, and asked me to visit him. An invitation from the U.S. Secretary of the Treasury to a Latin American finance minister is an order. I said I would visit him on September 8, after having participated in a conference on the debt crisis that a group of congressmen, among which senator Bill

Bradley, had organized in Vienna in the first days of September ("The U.S. Congressional Summit").

My plan for this conference was to present my ideas on securitization of the debt and on the creation of a debt facility that would guarantee the new bonds. In Vienna did not intend to speak about the Brazilian proposal, which was scheduled to be presented to the commercial banks in New York on September 25. In fact, my Vienna speech limited itself to that basic agenda.[16] In terms of innovation, it was already a lot. That was the first time a finance minister formally proposed debt reduction and offered the financial mechanism to it: securitization. My speech in Vienna had a world wide press coverage.

Yet, the specific content of the Brazilian proposal to the banks leaked to the press. And leaked in a mistaken and exaggerated way. The proposal involved a discount of 50 percent on 20 percent of the debt, but the press was wrongly informed that it was 50 percent of the total debt to the commercial banks that Brazil would ask to be compulsorily securitized as a condition to suspend the moratorium. This brought about a strong reaction from the banks, that the press, particularly The Wall Street Journal, conveyed in a biased way in early September. Even Financial Times interpreted the Brazilian proposal wrong. In its September 10 edition, just after my visit to Baker, it published: "The U.S. Treasury's rapid heading off of Brazil radical plan to convert half its bank debt into securities..."

Thus, when I arrived in Washington for my meeting with Baker, the climate was, to say the least, not favorable. The Secretary of the Treasury was clearly under pressure from the banks and the press. The impression was that a finance minister from a developing country was challenging the banks and the Washington establishment, by taking initiatives that only the US Treasury possibly could take. This was politically disastrous. The banks, poorly informed, were clearly pushing this interpretation in order to create a conflict between Baker and me. I was well aware of this problem. The leakage of the Brazilian proposal through the press in a distorted way had been unlucky. But I hoped to have a good conversation with Baker anyway. And indeed, I had.

James Baker is an earnest and straightforward person. He used to divide the interviews with finance ministers in two parts: the first part, a private talk; the second, a debate with the presence of the ministers and the respective staffs. The meeting was in the morning. In the first part, he asked about my proposal. I said that it had two parts: a conventional and a non-conventional. The conventional part implied 60 percent financing of the payments due to the commercial banks and 100 percent financing of the payments to the multilateral institutions and the Paris Club. The less conventional part had two aspects: first, the securitization of 20 percent of the debt to the commercial banks, with a discount of around 50 percent, and, second, the delinkage of the Fund from the commercial banks, so that the negotiations could proceed in a relatively independent way.

Baker said that he did not agree with 20 percent obligatory securitization. I believe he even used the expression "this is a non starter", but in a polite and passing way. My proposal, indeed, asked that all banks accepted securitization, that would be

[16] This speech was only published in Portuguese, in my book *A Crise do Estado* (1991).

compulsory (a required part of the debt agreement) although limited to a small part of the debt: 20 percent. I knew that some compromise on my part was necessary. The press had made too much fuss around the Brazilian proposal. A managed and limited retreat was convenient. I asked if he would agree with a voluntary securitization scheme and with the delinkage idea.[17] Baker immediately agreed. When Baker and I went to the larger meeting with both staffs, I was happy, feeling that my gains had been bigger than the concessions I had made.

While we were sitting, Baker made a joke. "I heard that yesterday you have been visiting senators and the House. That is good, but don't be misled. The power is here". In the hours ahead he would demonstrate that.[18]

In the larger meeting, David Mulford, the Assistant Secretary of the Treasury for International Affairs, and Charles Dallara, the Executive Director for the United States at the IMF, strongly resisted to the securitization and particularly to the delinkage idea. They argued that since the debt crisis broke out the linkage between the multilateral institutions and the commercial banks was an essential feature of the negotiations. I agreed, but underlined that this was why the negotiations were so difficult and the outcomes so unsatisfactory to debtor and creditor countries. I was not trying to destroy the system that had been established in Washington to manage the debt crisis, but I thought that some flexibility in this system was essential. Besides, I insisted that I had already come to an agreement with Baker.

In spite of the unconformity of his staff, Baker maintained his word. Yet, a few hours later I would pay for the imprudence of having challenged the Washington bureaucracy.

At the end of the meeting Baker asked who would talk to the press. I said I could do that, since the journalists were waiting at the entrance of the Treasury building. Baker felt that this was a good solution. I met the journalists in the lobby and told them, in a very earnest and frank way, the outcome of the meeting. I spoke first in English and then in Portuguese. Essentially I said that I was pleased with the conversations, that I had made a small retreat, accepting that the securitization were voluntary instead of compulsory for the banks, but that, as a trade-off, Baker had accepted the voluntary securitization idea and the relative delinkage between the multilateral institutions and the banks.

One hour later, when I was having lunch at the Brazilian embassy, I received information that Baker was unhappy because Reuters had reported, based on my words, that he had fully accepted the Brazilian ideas on the debt. I felt the danger. The press could not give this interpretation to my words. I had been clear about the agreement I and Baker had reached. So, I immediately called Baker, said that my report to the press had been faithful to the meeting, but that I was ready to make it more clear, calling back Reuters. Baker answered that this was not necessary since he had already issued

[17] The term "voluntary" securitization is a bit ambiguous. The commercial banks preferred leaving things as they were. But the banks recognized that this was impossible. Thus, they came to adopt the expression and the idea, to avoid the alternative, "compulsory" securitization, i.e., securitization that would be compulsory to the banks as an outcome of the negotiations.

[18] This significative episode war recently revoked by Rubens Barbosa, which was my Secretary for International Affairs.

a note to the press. I believed that Baker had made a faithful report of our agreement in his note and felt relieved.

That afternoon, after a short visit to the Fed, I flew back to Brazil. Next morning, landing at the Rio de Janeiro airport, I read the Brazilian newspapers with surprise and indignation. Baker's note to the press, which had been obviously suggested by his unconformed staff, was short and aggressive. It was a note of a hegemonic power. It said that the Brazilian proposal on the debt was "a non starter" and nothing else. It did not mention that he had accepted two radical changes of policy, that eighteen months later would be the basis of the Brady Plan: voluntary securitization of the debt and relative delinkage of the multilateral institution and the commercial banks in the negotiations. The only part of the Brazilian proposal that he did not accept was the required securitization of 20 percent of the debt to the banks.

A note like that, coming from the U.S. Secretary of the Treasury, was a political disaster for me. In the next two weeks, while I was preparing myself to return to the United States to present the Brazilian proposal to the banks and to participate in the IMF-World Bank Annual Meeting in Washington, I faced a domestic crisis. The most serious crisis I had faced since I had taken office four months before. I knew that my ideas on the debt were quite reasonable. That they did not confront the national interest of the United States or the creditor countries. They were not detrimental to the banks, although I could understand that they feared innovations that implied some debt reduction. It was clear to the political and economic elites in the creditor countries that the muddling through approach had failed, that some kind of debt relief had to be considered. Nobody had officially proposed that, but the idea was not new. Why, then, such aggressive behavior? Was it because the United States administration could not accept that an unknown finance minister from a debtor country changed the agenda on the debt crisis? Because, even if the press had given an accurate report of the meeting, this would represent a defeat for the Treasury? Because the commercial banks were pressing? Because the press, particularly The Wall Street Journal, had created a climate of conflict between Brazil and the creditors countries that — a conflict that had to end with a clear victory of the stronger part? Because Reuters had indeed reported wrongly?

At that I did not check this last hypothesis. I assumed that some misunderstanding had taken place on the part of Reuters. Yet, three months later, after leaving the Finance Ministry of Brazil, I gave a long interview to the Brazilian magazine Isto É, telling in detail the "non starter" story.[19] I immediately received a phone call from Reuters representative in Brazil, saying that his company had not made a wrong report on the meeting. He sent me the report that was short but fully faithful to the meeting. It informed what Baker had accepted and what he had not accepted of the Brazilian proposal.

In the two weeks that followed Baker's note I had to face an domestic crisis, that was triggered by the "non starter" and augmented by the ideological dependency of the Brazilian press and the Brazilian elites to the United States. A developing country is a dependent country not only in economic and political terms, but also in cultural terms. Our culture and our ideology are imported ones. In some moments, Brazilians are very nationalist. The import substitution strategy was a nationalist industrializa-

[19] *IstoÉ-Senhor*, January 5, 1988. This and the other significative interviews to the press were put together in a book edited by Sardenberg (1989).

tion strategy. But in others we seem to believe that the whole truth is in the North. We recognize the superiority of the American or European culture, and accept them uncritically. We may admit that the national interest of Brazil often does not coincide with the national interest of the developed countries, but we fear conflict, we prefer accommodation, if not subordination. Thus, when Baker said that the Brazilian proposal was a non-starter, the Brazilian press did not ask who was right. It only underlined the Brazilian defeat, the Brazilian humiliation.

I had to counter attack, besides finishing the preparation of Brazil's proposal to the creditors. I invited the most influential Brazilian businessmen to a meeting, where I made a report of the debt negotiations, said that the Brazilian proposal would be partially not conventional and that for this reason an agreement with the banks would take some time. Thus, I was asking for their support. The delay in concluding the negotiations would have as a trade-off a better deal for Brazil. I got the support I was asking. Roberto Giannetti da Fonseca had an important role in this outcome. In the eve of my new trip to the United States, a supportive statement signed by the leading Brazilian businessmen was published in Folha de S. Paulo.

From abroad the only support I received was a short interview of the then finance minister of Japan (later prime minister, and later on, again finance minister) Kiichi Myiasawa, that, in a speech in a small town in Japan, reported in Gazeta Mercantil, said that my proposal seemed "attractive" to him. I tried to contact him in Japan and later in Washington, but it was impossible. Yet Myiasawa did not forget the idea. To the dismay of the American representation, that did not want to lose the initiative to Japan, he presented his own version of it one year later, in the Toronto Annual Meeting of IMF/World Bank.

4. THE IMF/WORLD BANK ANNUAL MEETING

I arrived in New York on September 24, to participate in the first G-3 meeting — the group formed by the finance ministers of Argentina, Brazil and Mexico to regularly consult on the debt crisis. I had made the proposal of organizing this group during the August visit to Mexico. If the creditor countries could have a G-7, why we could not have a G-3? I offered this idea to President Sarney and President de la Madrid and to the respective finance and foreign ministers. The group would limit itself to the debt problem, and would be formed by the three finance ministers. The two presidents accepted the idea. Gustavo Petricioli, the finance minister of Mexico — and I immediately called Juan Sourrouille, economy minister of Argentina. Sourrouille also liked the idea, consulted President Alfonsin, and the group was formed. The first meeting would take place in New York, on the eve of the IMF/World Bank annual meeting.[20]

[20] The first meeting in New York, in September 1997, was excellent. There was no intention of forming a cartel, but the dissatisfaction of the three countries with the current solutions to the debt crisis was manifest. We had a second meeting in Washington a few days later. The third meeting was scheduled for Mexico, in the end of November, profiting the meeting of eight Latin American presidents in Acapulco. This meeting never happened. The Mexicans demonstrated clearly their disinterest. Besides, Petricioli was deeply involved in coming to an agreement with workers and businessmen that, in December, would end an 180 percent inflation with a heterodox price freeze.

When I arrived in New York, the first journalist I met was the correspondent of O Estado de S. Paulo, Moisés Rabinovitch. I met him in the street, but he had time to say: "By gosh, Minister, everything changed in this country in the last two weeks. Everybody is discussing securitization".

I was surprised, but not much. I had only proposed the securitization because I was convinced that there was room for the idea among the creditors. This interest was now confirmed. Indeed, securitization had become "the talk of the town" among bankers, government officials and multilateral institution representatives. And the attitude was positive. The banks were seeing a possibility of new financial transactions. The officials, a way out of the stalemate. The "non starter" had turned into a "starter".

In Washington the first person who conveyed the new mood was Armeane Choksi, the Brazil's department director at the World Bank. I met him when I was entering the IMF building; in an enthusiastic and warm way he said: "Bresser, your ideas are coming true. You just opened the third phase of the debt crisis". Indeed, after Volker's and de la Rosière's "liquidity approach" (1983-1985), and Baker's "adjustment and structural reforms with financing and growth approach" (1985-1987), at that moment was beginning the "securitization or debt reduction approach", that would become victorious in the Brady Plan (February 1989). 1988 would see the proposals of a global solution of the debt with the creation of a debt facility and the securitization of the total debt.[21] It would see the meeting of experts promoted by the United Nations that resulted in a strong position in favor of debt reduction coming from the General Secretary Perez de Cuellar. It would see Myiasawa's proposal at the Toronto Annual Meeting.

Finally, in the beginning of Bush administration, the Brady Plan, although modest if compared with the proposed global solution, became Washington's official approach to the debt crisis. This plan, supported by the US Treasury and the G-7, had as its corner-stones the voluntary (but managed) securitization of the debt and the relative delinkage between the multilateral institutions and the commercial banks — exactly the two initiatives that had triggered the "non starter" from Baker.[22]

The 1987 IMF/World Bank Annual Meeting was the best moment of my short time in the Finance Ministry of Brazil. The organizers of the meeting have a public relations concern. Thus, when I arrived to Washington they told me that they were deliberately placing my speech in the Interim Committee and in the General Assembly just after or just before Baker's speech. We were supposed to confront each other in the benefit of the audience. Actually, we did not, or, if we did, it was in a very polite way. I had a new meeting with Baker. My condition was that the meeting would not take place in the Treasury but in the IMF building. In the beginning it was a tense meeting, but Baker reaffirmed his disposition to back the voluntary securitization and the delinkage idea. The "non starter" was forgotten, and he indeed gave me some support in my interviews with the finance ministers of the G-7, from whom I asked for

[21] Among these proposals I would underline Arjun Sengupata's, the Director for India (1988) at the IMF, and James Robinson III's, chairman of the American Express Bank (1988), besides Jeffrey Sachs' proposal (1988).

[22] In mid 1992, referring to this episode, Baker, then heading the Department of State, said to the press that he lamented it.

support to my proposal and particularly to the securitization and delinkage ideas.[23] Under pressure from his staff and for political reasons — the reasons of the hegemonic state — he had not played fair with me in the "non starter" episode, but after this he kept his commitments.

In the annual meeting the Bank's role as a part of the power system that implemented policies essentially defined by the Treasury was confirmed. Moeen Qureshi, executive vice-president of the Bank, played a particularly important role.[24] He was supportive of Brazil while faithful to his institution and its main shareholders. In a very elegant way he was able to make clear Washington desires and moods and to suggest a way to meet them that would be consistent with Brazil's interests. He was very helpful to me. He was convinced, as most World Bank officials were, that Brazil needed a substantial debt reduction, but he was well aware of the political limitations involved. Ten months later, in a consultation organized by United Nations' General Secretary Perez de Cuellar to help United Nations to define its position on the debt crisis, Qureshi declared quite earnestly that the best alternative was the securitization of the debt as I had proposed, but that Washington had not yet reached an agreement on the subject. He almost repeated Camdessus' July 1987 words.

Yet, nor Choksi, nor Qureshi, nor the many Bank officials that committed to the highly indebted countries were able to do much for them. Interests of developed and developing countries are often shared ones. If not, the Bank would only have charitable reasons to exist. But in the debt crisis episode there was a clear national interest conflict between the creditor countries (that defined as their national interest to protect their commercial banks) and the debtor countries. The Bank rested essentially with the former, with its main shareholders.[25]

5. THE BANK AND THE DEBT

The role the Bank was playing in the debt crisis became clear to me in the Annual Meeting. My meetings with Qureshi were particularly illustrative of the contradictions the Bank faced. The contradictory performance may be explained by its dependence on its major shareholders. Secondarily it responded to the ideological change that took place within the Bank in the early 1980s. The conservative, neo-liberal wave that swept departments of economics of the American Universities since early 1970s and led development economics to a crisis (Hirschman, 1979), was also the main factor behind the ideological transformation within the Bank.[26] The presence of a conservative president in the White House enhanced this change.

[23] In the Annual Meeting I spoke with the finance ministers of France, England and Spain, and with the vice-ministers of Germany and Japan. Due this conversations and Baker's support the final *communiqué* of the Interim Committee was quite satisfactory for my thesis.

[24] Qureshi was later on, after leaving the Bank, prime-minister of Pakistan for a few months, called to solve a political crisis in his country.

[25] As Catherine Gwin writes in another essay in this volume, "the United States has viewed the Bank as an instrument of foreign policy to be used in support of specific U.S. aims and objectives" (1992: 1).

[26] In another paper (Bresser Pereira, 1995), I called this transformation "World Bank's identity crisis".

With the victory of Ronald Reagan in the 1980 presidential elections, the Bank came under increasing pressure from its major stockholder.[27] First, as observes Karin Lissakers (1991: 16), an "ideological purge" was achieved within the American government; the Bretton Woods institutions came second. Given its earlier commitments to development economics, the Bank — or rather its staff — was viewed by the American government as suspect of "liberal", statist or even leftist views. The role of the Bank as a provider of financing for strategic infrastructure projects was challenged. The view that the Bank had lost its *raison d'être*, unless it changed its strategies, unless it was part of the US drive for market oriented reforms in the developing countries, became dominant within the American establishment.

It was in this unfavorable climate that the debt crisis broke out in 1982. The role the developing countries expected from the Bank was a positive one. Whereas the Fund was viewed as a tool of the commercial banks, or, more broadly, of the international financial community, the Bank was supposed to hold a basic allegiance to the highly indebted countries, since its commitment was supposed to be with development, not with balance of payment adjustment. Yet, soon it became clear that the Bank and the Fund were the two basic instruments that creditor countries used to manage the debt crisis and protect their commercial banks.[28]

The very existence of the World Bank is based on the realist assumption that there are common interests between the developed and the developing countries. The debt crisis, however, was defined by conflict of interests between the debtor and the creditor countries. The conflicting aspects of the crisis clearly surmounted the common interests in this case. It is not a question of imperialism or not. The imperialist ideas to explain underdevelopment lost definitely ground in the 1970s, when the Latin American new dependency theory became dominant among the moderate left in Latin America and among the liberals or social democrats in the First World. Only the traditional or communist left and radical nationalists remained faithful to imperialist interpretation of underdevelopment.[29] Yet, even for the ones that essentially believe in the "mutual-benefit claim" (Hirschman, 1979), that was adopted by development economics, it is clear the conflict in the case of the debt crisis: the creditor countries wanted the interests on the debt to be paid, the debtors, unable to pay them, needed to cancel part of the principal. The Bank, that was created on the assumption of the mutual-benefits, but that has as its main objective to promote growth in the developing countries,

[27] Writing in this moment, Cheryl Payer notes: "The crisis relations with the U.S. government is overt: the accession of Ronald Reagan to the presidency meant that for the first time in its history, the support of the U.S. executive branch to continued expansion of the World Bank is in question" (1982: 44). Robert Gilpin is still clearer: "Some conservative in the developed countries have regarded the World Bank and the IMF (sic) as purveyors of socialism and dispensers of wealth to profligate countries living beyond their means. This was certainly the view of the Reagan Administration until it realized that it needed the IMF to save the American banking system, then threatened by the debt crisis" (1987: 313). Soon after the Reagan Administration realized that the World Bank, although less trustworthy, could perform a similar role.

[28] *The Economist*, in a long survey of the Bank (September 27, 1986: 4) wrote: "The 1980s have so far proved an unhappy chapter in the history of the World Bank. The Bank failed to anticipate the debt crisis that erupted in 1982. Four years on, it is still trying to work out its response".

[29] The "new dependency theory", whose basic works is Cardoso and Faletto's book (1969), should be clearly distinguished from the "old dependency theory" or "imperialist theory" of development, based in Lenin. See Cardoso (1977) and Bresser Pereira (1982).

was trapped in a contradiction. It tried at its best to find solutions that were mutually beneficial, but when this alternative was not feasible, it positioned with the creditors.

The creditor governments informally organized a power system to manage the debt crisis, that had, at the top, the Treasury and the Federal Reserve Bank; as consulting groups, the finance ministers of the G-7 and the chairmen (around 20) of the major commercial banks; and as executive agencies, the Fund and the Bank. The Fund directly charged with the task of negotiating with the debtor governments, the Bank performing a complementary and intermediary role in the negotiations.

Some believe that the Bank, in adopting this role, lost an opportunity to perform its genuine role as a development bank. According to this view, the Bank "failed" in not adopting a more active role in the search for solutions for the debt crisis, in not advocating debt relief since the beginning. Feinberg, for instance, says that "the Bank took a back seat to the IMF, not sufficiently anticipating that severe austerity would de-fund the investment projects that were the Bank's stocks in trade as well as play havoc with nations' development plans" (1986: 7). As a matter of fact, given the pressures the Bank was suffering, the debt crisis represented an opportunity for the Bank to change from an institution that primarily finances and promotes development to an institution that imposes conditionality, that constrains developing countries to follow the economic directives that Washington believes suitable to their economic growth.

The priority for the creditor governments was to protect their banks, and, more broadly, the health of international financial system. While the Fund remained responsible for fiscal and balance of payments adjustment, the Bank was made accountable for "structural reforms". In this way, the Bank assumed a new role that the governments of the creditor countries believed essential: to promote privatization, liberalization and financial reform. Feinberg (1986: 12) observes that, by doing that, "the Bank is in danger of becoming like the IMF — pushing simplistic, standardized formulas that slight the particular history, culture, and politics of individual nations". Indeed this happened. Although the original objectives of structural adjustment loans were not to serve as a tool to impose standard neo-liberal reforms on the developing countries, but "to support — by means of series of (possibly three or four) discrete lending operations over a period of approximately five years — measures specifically designed to strengthen countries' balances of payments over the medium range" (Stern, 1983: 92), the final outcome was that one. The emphasis on macroeconomic stabilization turned into getting the prices right and reducing all forms of state intervention. In the mix within the Bank's own staff a new dominance emerged of units and analysts focused on macroeconomic management. But, as a trade-off, the Bank, as a bureaucratic organization that strives for survival and growth, recovered its prestige among Washington authorities, a prestige that was essential for the accomplishment of its basic organizational objectives.[30]

[30] *The Economist*, in a second survey of the Bank and the Fund (October 12, 1991: 4), remarked: "Their (the Bank's and the Fund's) role in the world economy remains as central today as the Bretton Woods architects intended. This is partly because they have proved extremely adaptable — and partly too, no doubt, because international bureaucracies are even harder to shut down than they are to set up".

6. THE NEGOTIATIONS WITH THE COMMERCIAL BANKS

I left World Bank/IMF Annual Meeting with a sense of personal contentment. But I knew that in the months ahead, my friend Fernão Bracher, the chief Brazilian negotiator (and a former Central Bank governor), and I would have a hard time with the commercial banks. Fernão Bracher and Fernando Milliet de Oliveira, the governor of the Central Bank, had presented the Brazilian proposal in New York, on September 25. It was a written proposal, although Bracher insisted it were not. I wanted to formalize my earnest intention to end the moratorium, but I also wanted to make clear my conditions for that. Bracher argued that bankers do not reason or negotiate in these terms, but I insisted. Brazil was not making an inflexible proposal, but establishing the terms of reference for the agreement with the banks.[31] According to what I had agreed with Baker, the proposal had a conventional and a non-conventional part. The conventional part was "new money", actually, refinancing of interest; the non-conventional, voluntary securitization and the delinkage. The banks, whereas knowing that time for a change in the negotiation pattern had come, were uneasy about how to behave. They were interested in the securitization scheme, but were insecure about it. As to the delinkage, they were decidedly against it. They did not want to negotiate by themselves, without the full backing of IMF. It was clear that the negotiations would take time. The 60 percent "new money" was also a problem. They obviously wanted to disburse less.

The Treasury immediately asked for an interim agreement and the suspension of the moratorium. Baker called me personally to ask this. I made it very clear that I would just suspend the moratorium with a definitive agreement with the banks. As to the interim agreement, I resisted for some time, but Baker's pressure was strong. He called me from Washington several times. They had a threat: in October 26 the ICERC — a commission formed by U.S. government agencies to regularly assess country risk — would meet and, since Brazil was in arrears for more than six months, there would be no other alternative but to classify Brazil.[32] The classification, according to the Treasury's interpretation, would further make the negotiations with the banks impracticable. I doubted that this last threat was realistic, but I was not sure. What was clear was the pressure from Washington. Later it was demonstrated that the classification of Brazil by the ICERC would not prevent negotiations. After I left the government, Brazil's debt was classified, but the negotiations continued. Anyway, Bracher and I believed that, at that moment, it was essential to demonstrate our sincere interest to come to an agreement with the banks, clearly signaling our intention to end of the moratorium. Thus, we agreed to sign an interim agreement with the banks.

The agreement, signed in November, meant a payment of US$ 500 million to the banks, and established a deadline for the signature of the term sheet: January 29, 1988. I wanted December 30, but the banks strongly pressed as much for a delay. If before

[31] This proposal as well as my speeches in the Interim Committee and in the General Assembly of the IMF/World Bank annual meeting were published in the Finance Ministry of Brazil brochure, *A Proposal for Negotiating the Foreign Debt* (1987).

[32] ICERC — Interagency Country Exposure Committee, formed by the Treasury, the Federal Reserve, the Federal Deposit Insurance Corporation and the Controller of the Currency.

that date the "term sheet" was signed, the moratorium would be suspended, and an additional US$ 2.5 billion would be paid to the banks. If not, the moratorium would be reaffirmed, and Brazil would have no other alternative but to decide according to his own terms how much and when to pay the banks. This last part was not written in the agreement, but was how I understood it. Brazil would start unilaterally paying around one third of the interests.

In the interim agreement there was a commitment on the part of the banks that they would accept securitization as an integral part of the agreement, and also that the negotiations would proceed independently of the agreement Brazil had intention to sign with IMF. This was the delinkage aspect. Brazil committed itself to sign a stabilization program with IMF, but the negotiations with the banks would not depend on Brazil's meeting all the targets defined in the agreement.

The interim agreement was negatively received in Brazil. I had a tempest inside my own party, the PMDB. Some that I respect, like Pimenta da Veiga, did not accept my arguments. Most understood that I was suspending the moratorium, which was not true. The idea of signing a new letter of intention to the IMF was also not accepted. Yet, I counted with the strong support of some politicians, particularly from Ulysses Guimarães and Fernando Henrique Cardoso. President Sarney gave me private support, but in public he passed the idea that the responsibility for the agreement was only mine.

Anyway, I proceeded with the negotiations. I asked Pedro Malan, who had a good experience with the debt crisis as Executive Director for Brazil at the Bank, to help Bracher in the economic aspects of the negotiation.[33] On the other hand, I decided to run the macroeconomic model again, with the new parameters that were emerging from the negotiations. Now the fiscal constraint to an agreement with the banks, that had already emerged as the crucial variable in the first version of the plan, appeared as the major constraint. In 1990 this criterion would be called by the Collor administration, in the foreign debt negotiations, "the internal capacity to pay criterion". At that moment, the officials of the Bank, who were involved in a macroeconomic assessment of Brazil, were asked to testimony in New York about Brazil's capacity to pay. They were divided, because they supported the Brazilian policies, having only minor critiques,[34] but for political reasons they could not side with Brazil in the negotiations. They also had to press Brazil to an agreement as conventional as possible. Only after the Brady Plan (February 1989) the Bank would be able to change its policy.

The World Bank economists were studying carefully the macroeconomic situation of the country. Thus, they were able of informing the commercial banks. At that time Choksi told me that his team was planning to write a macroeconomic assessment of Brazil, but that it was not clear if they would do it or not. And, if they did, they probably would not publish it. Obviously he was referring to the Bank's

[33] In 1992-93 Malan, as head of the Brazilian negotiation team, would finally conclude an agreement with the commercial banks, in the lines of the Brady Plan. Before Brazil, Mexico, Costa Rica, Venezuela, Philippines and Argentina did the same.
[34] See The World Banks report nº 7057-BR, *Brazil: an Assessment of the Current Macroeconomic Situation*, December 1987.

difficulties with the Fund. I strongly stimulate him to write and publish. I said: "You should publish the report with the red cover, not with the gray one, so that everybody has access to it. Multilateral institutions use and abuse of secrecy. They are concerned in not imposing on the developing countries, so they use restricted documents. What we really need is a public macroeconomic assessment. We may disagree. You may be right or wrong, but this is irrelevant. The important is to make clear to everybody what, according to the Bank, went right or wrong with economic policy in Brazil. This will help me, even if you make restrictions to my policies. You, in Washington, are often wrong about what is the best economic policy to Brazil. But it is from this type of debate, rather than from secret reports and strict conditionality, that the Bank will be able to help us".

Choksi, somewhat surprised, liked what he heard from me, and went on with the idea of writing and publishing a World Bank report, The Macroeconomic Assessment of Brazil — 1987, that, since then, became a regular report. After that, Choksi several times remembered this fact, saying that this was a historical fact, because it was the first time the World Bank made a formal macroeconomic assessment of a country.

Yet, my suggestion of publishing it in the red color — so as to be available to everybody interested — was not accepted. In a contradictory way, the World Bank, as other multilateral organizations, is always extremely concerned in not interfering in the internal affairs of the countries, although its job is precisely to interfere through conditionality and through information to the Washington authorities. Since the multilateral institutions interfere, it would be more democratic and more effective if the interference were open, transparent. In most occasions this interference would be a help. Formal conditionality may work very well, when the domestic authorities are willing to follow the targets. On the other hand, besides imposing conditionality the Bank exercises counseling. Bank official today likes to view the World Bank as a service or a knowledge institution. Thus the policy recommendations that would be part of the macroeconomic assessment should be public, transparent.

The testimony of the Bank economists in the negotiations with the commercial banks did not help nor hinder the negotiations. They could not strongly support the Brazilian proposal, although they obviously saw it with sympathy. The negotiations with the banks continued slowly. Soon Bracher and I realized that the January 29 deadline would not be met. The commercial banks were confused, not knowing how to behave. The highly indebted countries were clearly unable to fully pay interest, and the banks were not ready to increase their commitments with them. A general policy coming from the Treasury and the multilateral institutions was clearly lacking.

Yet, Brazil could not and would not rest on dependent on the banks indefinitely. As expected, inflation rates were accelerating. In November they were already above 10 percent — the figure that in June we had projected for December. I had to prepare a new stabilization plan, including a new heterodox shock. But this shock could not be an emergency stabilization program, as the Bresser Plan had been.

At the end of November, while my team and I prepared a fiscal adjustment plan, that, together with the agreement on the foreign debt, would be the two basic conditions for the new stabilization program, I made a new visit to Mexico, now to participate with President Sarney of a meeting of eight Latin American presidents in Acapulco. The foreign debt was the major issue in the meeting. I had little opportunity to talk with Mexico's finance minister, Gustavo Petricioli, since he was deeply involved in the negotiations with the unions that, a few days later, would lead to the heterodox stabilization plan, involving a price and wage freeze and a exchange rate anchor, that coupled with fiscal adjustment and trade reform, stabilized Mexican inflation since then. At that moment, given Salina's policy of approximation with the United States, the G-3, created three months before, was already dying.

Yet, I had an important conversation with the other member of the G-3, Juan Sourrouille, Argentina's finance minister. In this meeting we agreed that we would wait till the beginning of next February. If the two countries did not reach a reasonable agreement with the banks until then, we would decide in a coordinated way an Argentinean moratorium and Brazil's unilateral decision to start paying around one third of interests due to commercial banks. We were not creating a debtor's cartel, that is not feasible, but defining a minimum coordination level for our policies.

But I would not have opportunity to test these ideas and strategies about the foreign debt. For lack of political support for my stabilization program, particularly for a comprehensive fiscal adjustment program, involving critical expenditure cuts and a tax reform, I resigned less than three weeks after the Acapulco meeting.

7. STABILIZATION AND THE DECISION TO RESIGN

Stabilization, not the foreign debt, was my first and main concern in the seven months and a half I remained as finance minister of Brazil. Stabilization started with the Bresser Plan, in June 12. But this was strictly an emergency plan. My team and I did not expect that inflation would be effectively controlled with a plan that had as tools just a short term price freeze coupled with the conversion mechanism to neutralize inflationary inertia, and some fiscal adjustment measures. What was required to stabilize the Brazilian economy was a radical fiscal adjustment, coupled with a clear-cut solution for the foreign debt problem, and with a new and short term price freeze neutralizing inertia.

I started to define the new and hopefully definitive stabilization plan in early October, after my return from the IMF/World Bank annual meeting. The new stabilization plan was scheduled for the first months of 1988. It would have to be well prepared and based on a minimum social agreement on prices and wages. First, relative prices should be well relatively in equilibrium, so that in the day of the plan neither a maxi-devaluation nor large increases in public prices ("tarifaços") would be required. The only desiquilibrium in relative prices allowed should be the moving desiquilibria originated in staggered price increases, that characterized inertial inflation. According to the neo-structuralist theory of inertial or chronic inflation, a stabilization plan involving a "tarifaço" and a sharp devaluation of the local currency is condemned in advance. When inflation is high and inertial or indexed, the inflationary process is a process of moving equilibria and desiquilibria in relative prices, as prices are corrected according to past inflation in a phased or staggered way. While in hyperinflation prices are corrected every day if not every hour, in informally indexed inflation prices are corrected every month, after the publication of the price indexes. Thus, in order to coordinate expectations and stop this staggered process, just a nominal anchor will not be enough: a price freeze coupled with a mechanism of neutralizing inertia, and a social agreement are required.[35]

Second, a fiscal adjustment should precede the plan. Heterodox policies, i.e., incomes policies that directly affect prices and wages, are required in high inflation that did not reach full hyperinflation,[36] but these policies have necessarily a limited scope. They don't replace but complement orthodox fiscal and monetary policies.

Third, I had to have very clear to the Brazilian economy the international commitments of Brazil in terms of its foreign debt. In broad terms we were able to pay around one third of the interest due and none of the amortization. If an agreement with the banks were not reached in this direction, Brazil would have to start paying unilaterally according to this rule. To maintain indefinitely the moratorium was unfeasible and damaging.

President Sarney was informed and agreed on the need of a new stabilization plan for the beginning of the year. Actually I had been preparing this second plan from the moment I implemented the first one. Relative prices were basically balanced. Practically all price controls had been eliminated three months after the freeze. As to the prices charged by public utilities, that are by definition government controlled, I had consistently increased them above inflation in order to avoid the need of a new "tarifaço" (a big increase in prices) in the day of the new plan. The exchange rate, after two real devaluations in the first days in office, had been kept in the right level. Wages were being indexed on a monthly basis, making easier a new freeze.[37] As to the foreign debt, Sarney agreed that, if we did not come to an agreement with the banks up to January 29, Brazil would have to decide how much to pay, and make its plans and budgets according to this decision. He also agreed that a fiscal adjustment plan was necessary and urgent, but it was in this area that he eventually withdraws his support in December, leading me to the decision to resign.

The new stabilization plan and the coordination of actions between Brazil and Argentina aborted with my resignation from the Finance Ministry, due to the lack of support for the fiscal adjustment plan I proposed. Since my return from Washington by the end of September, I had defined as my absolute priority a fiscal adjustment plan, involving a sizable reduction of expenditures and subsidies, and a tax reform increasing the tax burden and making it more progressive. I worked incessantly in this project for two months. Always maintaining President Sarney informed about the progresses my team and I were making in the definition of the plan. Yet, when the plan was ready, at the third week of December, and I presented it to the President, I did not get his support.

[35] The Real Plan, that in 1994 stabilized the Brazilian economy, instead of using a price freeze to neutralize inertia, it adopted a more innovative and more market friendly alternative, devised by Lara Resende and Arida (1984): the conversion of all prices to a indexed money, followed by a monetary reform transforming the indexed money in the new national currency, the Real. The theory behind, however, was the same I intended to use: the theory of inertial inflation.

[36] In open hyperinflation the asynchrony or the phased character of price increases, that characterizes high inertial inflations, ends. The economy becomes dollarized. Thus, to stabilize it is enough to promote a credible fiscal adjustment and to have sufficient international reserves to transform the exchange rate in a nominal anchor.

[37] When, in high and inertial inflation, wages are indexed monthly, it is enough to decide the freeze in the middle of the month to have the nominal wages equal to the average real wages.

Why President Sarney was not able to provide the support I was asking for? For several reasons. First, because in 1987 the dominant views on economic policy were still populist. The Cruzado Plan was no accident. It was not only President Sarney that was not prepared for an effective fiscal adjustment in Brazil. Brazilian society and the Brazilian congress were not either. National developmentalism — a close relative to economic populism — had been successful in promoting economic growth between the 1930s and the 1950s. The military were not orthodox. In many occasions, particularly in the 1970s, they adopted populist and nationalist policies. But since 1981 they had been engaged in orthodox economic policies, whose short term costs were high. They were able to stabilize the balance of payments but not prices. Thus, it was a natural move for the democratic opposition, in its endeavor to overthrow the military, to attribute all evils of the orthodox policies. The general idea was a return to the good old days of development and democracy.

Second, because businessmen were not yet convinced of the seriousness of the economic crisis. When, at that time, I said — as I insistently did — that basic reason for the high inflation was a fiscal crisis of the state, they did not understand. Thus, the idea of paying higher and more progressive taxes was strongly resisted. When, in December, I presented my tax reform, the business associations of São Paulo signed a *communiqué* protesting.

Third, President Sarney was deeply involved in getting support from the Congress to stay five years instead of four in the Presidency. To obtain it, he needed to please the "Centrão" — the populist and conservative group in Congress that was formed in the last quarter of 1987 to give him political support.

Fourth, because a conservative group in the staff of the President, led by Jorge Murad, already mentioned, Saulo Ramos, the general attorney, and Antonio Carlos Magalhães, a powerful politician from Bahia, was unhappy with my policies, that did not respond either to their political interests or to their views on how the economy should be monitored and inflation defeated, wanted me out of government, and pressed the President not to accept my fiscal adjustment plan.

The president hesitated, but finally bowed to this group, while he insisted that I should remain in office. Yet, I had no other alternative but to resign. I was not in office just to exercise political power. The president asked me to stay, saying that "next year" he would approve the expenditure reductions and the tax reform I was proposing, but that assurance made little sense to me. Why next year, if he could approve the plan that year? Actually the president had no real intention — or no real political possibility — to adopt the fiscal adjustment policies I was proposing. I remained firm in my decision to resign. A tense and fascinating period as finance minister of Brazil was over. I had been able to change the agenda of the country in relation to the need of a fiscal adjustment, but Brazil would still wait six years and half to reach stabilization. Its debt problem was still to be solved, but the Brazilian proposal would remain as a turning point in the debt crisis.

REFERENCES

ARAÚJO, A.B. (1991). *O governo brasileiro, o BIRD e o BID: cooperação e conflito.* Brasília: Instituto de Pesquisa Econômica Aplicada, IPEA.

BRESSER PEREIRA, L.C. (1982). "Six interpretations on the Brazilian social formation", *Latin American Perspectives* 11(1), winter, 1984. Originally published in Portuguese.

__________. (1987). "Changing patterns of financing investment in Brazil", *Bulletin of Latin American Research* (University of Glasgow), 7(2).

__________. (1988). "Contra a corrente: a experiência no Ministério da Fazenda", *Revista Brasileira de Ciências Sociais,* nº 19, July 1992. Testimony to the Instituto Universitário de Pesquisas do Rio de Janeiro (presented in September 1988 and revised in 1991).

__________. (1990). "Brazil's inflation and the Cruzado Plan, 1985-1988". In FALK, P.S. (ed.). *Inflation: are we next? Hyperinflation and solutions in Argentina, Brazil and Israel.* Boulder: Lynne Rienner.

__________. (1991). *A crise do Estado.* São Paulo: Editora Nobel.

__________. (1993). "Brazil". In WILLIAMSON, J. (ed.). *The political economy of policy reform.* Washington: Institute for International Economics. Paper presented to a conference in the Institute for International Economics, Washington, January 14-16, 1993, with the title: "Stabilization in an adverse environment: the 1987 Brazilian experience".

__________. (1995). "Development economics and the World Bank's identity crisis", *Journal of International Political Economy* 2(2). Essay originally prepared (but not accepted) for the World Bank History Project, The Brookings Institution, November 1993.

__________. (1996a). *Economic crisis and the State reform in Brazil.* Boulder, Co: Lynne Rienner Publishers.

__________. (1996b). "A inflação decifrada", *Revista de Economia Política,* 16(4), October.

__________ & NAKANO, Y. (1984). *The theory of inertial inflation.* Boulder: Lynne Rienner Publishers, 1987 (1st Brazilian edition, 1984).

ECONOMIST, The (1986). "The World Bank". Special survey. September 27.

__________. (1991). "The IMF and the World Bank". Special survey. October 12.

DEVLIN, R. & FFRENCH-DAVIS, R. (1995). "The great Latin American debt crisis: a decade of asymmetric adjustment", *Revista de Economia Política,* 15(3), July.

GONZALEZ, M. et al. (1990). *O Brasil e o Banco Mundial: um diagnóstico das relações econômicas.* Brasília: Instituto de Pesquisa Econômica Aplicada, IPEA.

GWIN, C. (1992). "The U.S. perspective on the World Bank". Preliminary version of a paper belonging to The Brookings Institution, World Bank History Project. Presented in a seminar in Washington, at Brookings Institution, April.

FEINBERG, R.E. (1986). "An open letter to the World Bank's new president". In FEINBERG (ed.). *Between two worlds: the World Bank's next decade.* Washington: Overseas Development Council.

FINANCE MINISTRY OF BRAZIL (1987). *A proposal for negotiating the foreign debt,* leaflet nº 3. Brasília: Finance Ministry of Brazil.

HIRSCHMAN, A. (1981). "The rise and decline of development economics". In *Essays in trespassing*. Cambridge: Cambridge University Press. Paper originally presented in 1979.

LEHMAN, H. & MCCOY, J. (1992). "The dynamics of the two-level bargaining game", *World Politics*, nº 44, July.

PAYER, C. (1982). *The World Bank: a critical analysis*. New York: Monthly Review Press.

PAZOS, Felipe (1972). *Chronic inflation in Latin America*. New York: Praeger Publishers.

LARA RESENDE, A. & ARIDA, P. (1984). "Inertial inflation and monetary reform". In WILLIAMSON, John (ed.) (1985). *Inflation and indexation: Argentina, Brazil and Israel*. Washington: Institute for International Economics. Originally presented in a seminar in Washington, November.

ROBINSON III, J.D. (1988). "A comprehensive agenda for an Institute of International Debt and Development". *The AMEX Bank Review*, nº 13, March.

SACHS, Jeffrey (1987). "Trade and exchange rate policies in growth-oriented adjustment programs". In CORBO, V., GODSTEIN, M. & KHAN, M. (eds.). *Growth-oriented adjustment programs*. Washington: International Monetary Fund and The World Bank.

__________. (1988). "Conditionality, debt relief and the debt crisis of the developing countries". Boston, January.

SARDEMBERG, C.A. (1989). *Jogo aberto: entrevistas com Bresser Pereira*. São Paulo: Brasiliense.

SENGUPTA, A.K. (1988). "A proposal for a debt adjustment facility". Washington: International Monetary Fund. Paper presented to the Executive Board Seminar 88/3, February 9.

STERN, E. (1983). "World Bank financing of structural adjustment". In WILLIAMSON, J. (ed.).

WORLD BANK (1987). *Brazil: an assessment of the current macroeconomic situation*. Washington: The World Bank, report nº 7057-BR, December.