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INSTABILITY IN LATIN AMERICA: UNITED STATES POLICY AND THE ROLE OF THE INTERNATIONAL COMMUNITY

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE AND FINANCE

OF THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

UNITED STATES SENATE

ONE HUNDRED SEVENTH CONGRESS

SECOND SESSION

ON

UNITED STATES POLICY AND THE ROLE OF THE INTERNATIONAL FINANCIAL COMMUNITY CONCERNING ECONOMIC INSTABILITY IN LATIN AMERICA, PROSPECTS FOR ECONOMIC AND PRODUCTIVITY GROWTH, AND THE INTERNATIONAL MONETARY FUND

OCTOBER 16, 2002

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(III)
Senator BAYH. There is enough institutional holding, though, that you could still get a super-majority sufficient to move forward under these clauses?

Mr. TAYLOR. Yes, we believe there is.

Senator BAYH. Okay. My last comment. First of all, thank you for your time, Mr. Secretary.

Mr. TAYLOR. Sure.

Senator BAYH. You have been very generous. I would simply say, and I think you have outlined that this is your desire as well, let us pick a policy and stick with it. Make it as transparent as we can, with as much objective criteria as we can. I think that lowers the uncertainty and reduces both the risk of contagion and moral hazard. That really was the purpose behind the hearing today. So, I urge you in that effort and look forward to continuing our work together.

Mr. TAYLOR. Thank you very much, Mr. Chairman. I appreciate your last remark particularly.

Senator BAYH. Thank you.

[Pause.]

Thank you very much, gentlemen, for your patience. The first panel took a little bit longer. We had a lot of ground to cover.

Why don't we just move from your vantage point from the right to the left, starting with you, Mr. Tarullo, then to Dr. Mussa, and finally, Mr. Otteman.

By the way, Dr. Mussa, I indicated before you arrived, I got a good chuckle about reading about your cat last night.

[Laughter.]

I thought there were definitely some analogies to be drawn there. It is not often that I get a chuckle out of testimony before the panel, but it was welcome. Thank you.

Mr. Tarullo, let us begin with you. I think, as he suggested, the Chairman did a good job of drawing upon some of your comments in his questioning. And so, given the hour, please go ahead.

STATEMENT OF DANIEL K. TARULLO
PROFESSOR OF LAW
GEORGETOWN UNIVERSITY LAW CENTER

Mr. TARULLO. Thank you, Mr. Chairman. Let me say just a couple of things, because Senator Sarbanes did point to one issue I wanted to raise.

The another point I wanted to make, which I will state briefly here, is what is really at stake in the issues implicated in this hearing.

I think it is really nothing less than the medium-term direction of economic policy in South American countries. It was, not quite 8 years ago that the leaders of all but one of the countries in this hemisphere met in Miami for the Summit of the Americas, hosted by President Clinton. At that time, the sense of optimism and sense of engagement were really quite extraordinary. And here we are, fewer than 8 years later, feeling quite nervous about both the political and the economic direction of Latin America.

Now, we can sit here and worry about it. The question is what can we do about it? And that is where your hearing plays an im-
important role, because you are focusing attention on the existence and implementation of coherent policies.

In my judgment, both the Administration and the Fund need to be rather more proactive than they have been. So, it seems to me, that in addition to the problem of coherence which you and Senator Sarbanes pointed out before the earlier panel, that we do have a problem of a certain absence of proaction.

I believe that the Administration needs to help Argentina find a way out of its economic calamity and do so in a way that indicates a continuing effort by the Administration to come up with a menu of policies that might help the country move forward. I think simply waiting by the phone, although an admirable effort at restraint and nonimposition of policies, leaves a confused government in a confused state.

I also think we need to help Brazil find a way into successful regional integration. And that two counsels continued engagement and continued efforts on the trade side, as well as on the financial side. But there again, I think our presence needs to be not just privately indicated, I think it needs to be publicly apparent as well.

In the case of the Fund, Senator, there is a certain irony here. For years, many people, myself included, have been critical of the Fund for an excessive focus on fiscal policies or on exchange rate policies or an excessive imposition of conditions for IMF resource programs.

The histories of Argentina and Brazil—as my fellow panelist, Mike Musso’s work has quite successfully shown—may indicate an insufficient attention on the part of the Fund to some unsustainable policies that go against the grain of the Fund’s own predisposition: The long-term run-up of debt and the fixed exchange rate policies, were problematic.

But that observation does raise the very delicate questions of sovereignty and how much intervention we do want the Fund or the U.S. Government to make in these circumstances. And that is one issue where I do not think there are any clear answers and I do think a continuing dialogue in fora such as this are quite important.

Finally, Senator, as you know, and Senator Sarbanes has said on many occasions, Congress cannot make policy on a day-to-day basis. That is why you have an oversight function.

But it does seem to me that this is a little bit like chairing an interagency meeting.

I always found that Treasury, State, and the other agencies were somewhat resistant to programs coming from White House staff as to what they should do. However, if you called a meeting, asked a question, and threw a piece of paper on the table, the chances were that by the next meeting, the agency would have its own program addressing the same kind of problem that you wanted them to address. And I think a hearing like this does very much the same thing and thus I applaud and appreciate your conducting it.

Thank you.

Senator BAYH. Thank you very much, Mr. Tarullo.

Dr. Mussa.
tinuing such policies. Furthermore, the design of the program "backloaded" the large majority of IMF resources so that much of the financing will be provided only if sound policies are maintained. The key policy conditionality underlying the program includes maintenance of fiscal prudence and concrete steps to reform major impediments to growth such as the current tax code. Comments by presidential candidates in recent weeks reaffirming support for the main pillars of the program increase the chances of its success.

In Uruguay, the United States supported a $3.8 billion official sector package, and drew on the Exchange Stabilization Fund to provide a short-term bridge loan until IFI financing could be put in place. We did so because Uruguay had a strong record of sound policies and we were convinced that the Uruguayan Government had a strategy to address its difficulties—particularly in the banking sector—and was committed to implementing that strategy.

While we do not yet know the final outcome, initial results in Uruguay have been encouraging. Since the IMF program was announced, we have seen increased stability in the financial system and continued strong performance by Uruguay. Under the IMF program, net deposits in the nonintervened banks have increased. As a result of this improvement in financial sector confidence, only one-third of the $1.5 billion in IMF resources targeted for the financial sector has been used. Uruguay still faces a difficult regional economic environment, but its leaders have shown their willingness to commit to necessary reforms and long-term economic goals.

**Outlook for the Region**

In spite of recent turbulence, I remain confident about the region's prospects. First, the current economic cycle of slow or negative growth will improve, especially as the U.S. economy continues to gain strength. At about 38 percent of GDP, exports comprise a large percentage of income for the Latin America region as a whole. I believe that many countries within the region have made important progress over the past decade in strengthening the economic institutions and policies that will improve their growth prospects. In a number of countries, for instance, central banks have focused more on keeping inflation low. And many countries have abandoned soft exchange rate pegs and maintained floating exchange rate regimes, helping them to adjust more easily when faced with economic shocks. Others, such as El Salvador, have been successful with full dollarization.

Across the region, the private sector now contributes a larger percentage of GDP than it did during the 1980's, which will help Latin American economies regain their dynamism more quickly. Many countries now have more extensive trade and financial linkages amongst themselves and with developed economies—such as the United States and Europe—than they did in the past. This is a factor that will help to accelerate their recovery once conditions improve. Finally, Latin America also has a strong human capital and resource base that provides a solid underlying foundation for future growth.

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**PREPARED STATEMENT OF DANIEL K. TARULLO**

**PROFESSOR OF LAW, GEORGETOWN UNIVERSITY LAW CENTER**

**OCTOBER 16, 2002**

Mr. Chairman, Senator Hagel, I appreciate your invitation to testify today. I am currently a Professor at Georgetown University Law Center. As you know, between 1993 and 1998, I held several economic policy positions in the Administration, ending as Assistant to the President for International Economic Policy. I testify today purely in my individual capacity as an academic, with no client interests or representation.

**What Is At Stake**

The importance of the topic of this hearing is difficult to overstate. If the world economy continues to stumble over the next year or two, much of South America may be afflicted with financial and business crises that produce another "lost decade," such as that which gripped the region in the wake of the debt crisis of the 1980's.

The human costs of that decade are inestimable in any meaningful sense. Yet out of that tragedy there did arise a renewed commitment in most countries of the region toward both democracy and market-oriented economic reform. By the time of the Summit of the Americas held in Miami in November 1994, most of the hemisphere looked forward to sustained economic growth. That confidence was shaken just a few weeks later by the onset of the Mexican financial crisis. In 1998, the
spread of the Asian financial crisis threatened to halt the progress that had been achieved. Today, Argentina is losing ground rapidly, and much of the rest of the continent is in danger of doing likewise.

The debt crisis of the 1980's helped convince Latin American countries to abandon the policies of the 1960's and 1970's that had laid the groundwork for crisis. Today, there is a growing sentiment in the region for abandoning the market-oriented policies of the 1990's that are blamed by many for the current difficulties. There is a real risk that countries in the region will fail to differentiate between specific policies that may indeed be tied to their financial problems, on the one hand, and a basic embrace of market economy policies on the other.

The consequences may be very serious. First, some countries could revert to import substitution and other failed policies of the past. This would be a prescriptive approach to economic stagnation. Second, if economic troubles persist long enough, democratic institutions may themselves become discredited, threatening the considerable progress of the last couple of decades. Third, because the market reforms of the last decade are widely characterized as part of the so-called "Washington Consensus," the United States may be blamed for the region's troubles. If so, prospects for true partnership with South American countries would be dashed. We might instead return to the bad old days of chronic mistrust and occasional confrontation.

Our interests and our values are thus very much at stake. We cannot solve Latin America's problems. But we can, and must, adopt an activist, supportive set of policies to reassure these countries that we stand behind them and to offer, at least, the outlines of a path to integration in the global economy that produces sustained and equitable growth.

The Origins of the Current Crises

The disheartening fact is that Argentina and Brazil, South America's two largest countries, are again in financial distress. Argentina, of course, has defaulted on its external sovereign debt. Its banking system has been dysfunctional for 10 months. The country is in severe recession, having suffered a double-digit drop in GDP over the last year. Brazil has, with the assistance of the International Monetary Fund, thus far contained the damage from the pressures on its currency and equity market in advance of the presidential election. But its position is tenuous, to say the least.

The origins and characteristics of the Argentine and Brazilian travails differ in many particulars. But it is important to note that the recent financial histories of these countries are closely intertwined. The Brazilian financial crisis of late 1998 and early 1999, itself an outgrowth of the Asian financial crisis, had a pronounced negative effect on the Argentine economy. Both nations have been seriously affected by lagging growth in European and North American export markets. And contrary to official expectations, Argentina's default on its external debt late last year has had contagion effects upon Brazil and other South American countries.

So too, longer-term developments in these countries bear important similarities. Each returned to democratic rule less than 20 years ago. Each implemented a managed currency regime in the early 1990's in successful efforts to vanquish runaway inflation. Each is struggling still to escape the tendency toward lax fiscal policy that has afflicted them for decades. Each implemented genuine market-oriented economic reforms in the 1990's, and took steps to strengthen their banking systems. But each still lacks some of the institutional capacity to support and regulate effectively a market economy.

There is considerable disagreement among official and unofficial observers as to the precise origins of the current crises. Indeed, the blame game is now being played with characteristic vigor by critics and defenders of the governments themselves, the IMF, and the U.S. Government. It seems to me that, while fair-minded people may disagree over the relative weights to be assigned, the chief proximate causes of both nations' problems are reasonably clear.

In Argentina, three factors stand out. First, the government ran significant budget deficits and thus incurred substantially greater debt during the 1990's. Much of this sovereign debt is denominated in dollars and much of it is owed to foreign lenders. Running budget deficits in bad economic times is generally good policy. But Argentina increased its total public debt to GDP ratios by more than a third during some of its best economic years, leaving it vulnerable to debt servicing problems during an economic downturn.

Second, the currency board that had been instituted a decade ago in a highly successful effort to tame inflation became a major source of distortions in the economy. This policy device, well-suited to inflationary times, is highly problematic during a recession. By tying the value of the peso to the dollar, Argentina's ability to increase export earnings was severely constrained during the extended period of dollar
strength. Argentine productivity was not keeping pace with American productivity growth, yet the relative prices of Argentine products remained valued as if this were the case. At the same time, the currency board made borrowing in dollars seem a bargain.

Third, the series of shocks that beset the world economy—particularly emerging markets—begun in late 1997 exacerbated the problems created for Argentina by loose fiscal policy and the albatross of the currency board. Slowing United States and European economies meant less vigorous export markets for Argentina. Flows of long-term direct investment dried up. The 1998 Brazilian crisis and subsequent devaluation of the real struck another blow to the Argentine economy, with its fixed exchange rate.

By early 2001 many people—myself included—thought that the combination of Argentina's fiscal policy, currency board, and external debt position was unsustainable. By late 2001 nearly everyone, the IMF included, had reached the same conclusion. The default and devaluation of late 2001, while perhaps inescapable, left both the Argentine economy and political system in disarray. Only now, nearly a year later, do we see glimmers of hope that Argentine's problems may have bottomed out. Even if this proves to be the case, full recovery is a long ways away.

In several important respects, Brazil's situation is different and more favorable than that of Argentina. Brazil abandoned its managed exchange rate regime in early 1999 and has thus escaped in recent years the shackles of the strong dollar. Brazil has significantly reformed the fiscal relationship between state and federal governments that has so bedeviled Argentina. Indeed, Brazil has recently been running a primary budget surplus of between 3 percent and 4 percent of GDP (although its debt servicing costs are so high that it still has a substantial bottom-line budget deficit).

Unfortunately, Brazil's situation resembles that of Argentina in two important respects. First, Brazil's public sector debt rose dramatically during the 1990s. In fact, Brazil's public debt increased faster than Argentina's, nearly doubling during the decade, to about 60 percent of GDP. While this borrowing is less dollar-denominated and external than Argentina's, Brazil's external exposure is still sufficiently high (about 40 percent of total public debt) that it was vulnerable to changes in international capital market conditions and sentiment. Second, like Argentina, Brazil has been buffeted by the cumulative effects of South American economic problems and by uncertain prospects for global growth.

Finally, of course, the growing prospect of a change in Brazil's ruling coalition has, throughout the last several months, applied enormous pressure on Brazil's currency and equity markets. As Mr. Da Silva's election prospects brightened, culminating in his leading the vote-getting in the first round of elections, markets became edgier. Da Silva's commitment to significant social change and policy stances in earlier elections have unnerved some investors, notwithstanding his repeated commitments to honor Brazil's debt obligations.

The Role of the IMF

Consideration of the role of the IMF in the Argentine and Brazilian situations is perhaps best divided into discussion of: (1) the Fund's short-term decisions to provide or, eventually in the case of Argentina, not to provide assistance programs; and (2) medium-term issues concerning the wisdom of the Fund's advice to, and monitoring of, emerging markets.

Decisions on Stand-By Credits

The Fund's decision to provide a stand-by arrangement for Argentina in late 2000 was a questionable one, which has since been characterized by some from the outgoing Clinton Administration and the Fund itself as a close call one way or the other. It was difficult to see how Argentina's fiscal situation could feasibly and sensibly be reversed quickly enough to render its external debt obligations sustainable. Adding more multilateral debt seemed the triumph of hope over experience.

If the 2000 program was questionable, then the additional assistance program announced in the summer of 2001 was simply mistaken, as the Fund itself essentially acknowledges. Renegotiation of Argentina's external debt, abandonment of the currency board, or both were clearly required. Perhaps a Fund package accompanying such measures would have had a chance of success, though one suspects it may have been too late to pull off a reasonably smooth landing. By the end of 2001, the Fund had reconsidered. It made no further assistance available to an Argentine government unable to meet its external debt payments and beset internally by rising popular anger.

The decision not to provide further assistance for the muddling-through efforts of the Argentine government is certainly defensible. What seems less defensible, at
least to an outside observer, was the apparent withdrawal of the Fund (and the United States) from the field. While Fund officials continued to make sympathetic noises about a willingness to help Argentina, it was hard to discern proactive efforts to assist in organizing a dialogue with creditors or in formulating a set of interim policy measures that would contain Argentina's downward slide and accelerate an economic turn-around. It may well be that the political situation in Argentina was by November 2001 so chaotic as to foreclose any coherent policy response by the government. If so, the mistake in having provided stopgap programs in late 2000 and mid-2001 is all the more telling.

In the case of Brazil, the Fund offered what I consider to be a very successful program for Brazil in December 1998. Indeed, in retrospect that program and Brazil's own economic management look to have been the turning point in the financial crisis that had started in Asia and was spreading to other regions. Brazil abandoned its exchange rate regime in the early stages of this program. As the 1998 standby arrangement was expiring, the Fund offered another program in September 2001, largely on the basis of unfavorable external developments. The Fund conditioned the program on achievement of primary surplus targets.

Late last summer the Fund reached the sound conclusion that investor uncertainty in advance of the presidential election could itself lead to financial crisis, regardless of the policies eventually followed by the new president. By announcing a program that had a large "headline" number but that withheld most of the assistance until after the new administration's policies become clear, the Fund was attempting a delicate balancing act. I agree with the Fund's effort to strike this balance and hope its formula succeeds.

My reservation about the program as announced was that it was unaccompanied by any formal private sector actions. If Brazilian policies, the world economy, and investor sentiment all break the right way, Brazil's situation may stabilize and its external debt may become sustainable. Given the size of that debt and the reality of a teetering world economy that may soon be shaken by major military conflict, I worry that debt rescheduling may be necessary. My own predisposition would have been to include some form of private sector involvement—such as commitments on net capital inflows in the medium term—in the initial plan, so as to enhance chances for its success. If restructuring becomes necessary in the coming months, further financial disruption is essentially inevitable.

The Fund's Advice and Expectations

It is very difficult for the Fund to escape criticism in the case of Argentina. The Fund has had multiple programs over several decades with the country. Moreover, as is now regularly pointed out, through much of the 1990's the Fund praised Argentina as an exemplar of privatization, market-oriented reform, and financial stability. Something was obviously wrong or missing in the Fund's prescriptions.

Yet it is important not to jump from this observation to the conclusion that every policy the Fund recommended was unsuitable or that its recommendations were the chief causes of the 2001 financial implosion. I should quickly note that I have certainly disagreed with Fund policies in the past, whether general or country specific. Up until quite recently, the Fund was on a campaign to eliminate all of the controls on capital inflows, with no more than nominal attention to the capacity of a country's financial system to absorb big inflow surges. The Fund's sometimes reflexive emphasis on fiscal tightening even in the midst of fiscal distress has often been inappropriate. Fund endorsement of privatization without regard to transitional and ownership arrangements can be ill-advised in some circumstances.

But privatization—whether well or poorly conceived—did not cause Argentina's financial crisis. And the Fund's response to Argentina's fiscal policy which is most susceptible to criticism is its failure to insist on more fiscal discipline during years in which economic performance was relatively good. Or, what amounts to a variation on this theme, perhaps the Fund should have pressed Argentina to limit its external sovereign borrowing. Likewise, the Fund might be criticized for not urging Argentina to abandon its currency board, since one of the principal lessons which the Fund drew from the Asian financial crisis is that a fixed exchange rate in an environment of free capital flows vastly increases the risk of financial crisis in emerging markets.

In assessing the Fund's dealings with Brazil, one might similarly criticize the Fund's acquiescence in the rapid increase in sovereign debt levels. Here, though, the criticism is less justified. In 1998, Brazil was a kind of firewall against the further spread of financial crisis. Insistence upon greater fiscal austerity in that period would have been counterproductive. Indeed, the Fund would have itself been subject to the recurring criticism that is pithily summed up in the witticism that IMF...
stands for "It's Mostly Fiscal." By 2001, the Fund was conditioning a program on maintenance of a significant primary budget surplus.

Like Argentina in 2001, Brazil's exchange rate regime had helped create the conditions for crisis in 1998. Export earnings were artificially restrained by an over-valued currency, and short-term dollar debt was artificially attractive. Some have charged the IMF with the responsibility for Brazil's imposition of a crawling peg exchange rate in 1994. It may be fair to say that the IMF was once too tolerant of fixed exchange rate regimes—a position that it has now changed. But it does not accord with my understanding to say that the IMF urged a fixed-rate regime upon Brazil in 1994 (or, for that matter, upon Argentina in 1991). On the contrary, at least at the staff level there were serious misgivings about this policy step by Brazil.

What conclusions can we draw about the role of the Fund from the recent Argentine and Brazilian experiences? I believe these experiences reinforce one fundamental point and raise one fundamental question.

The fundamental point is that a presumption of private sector involvement should obtain whenever the IMF approves a sizeable stand-by credit to assist countries unable to service their sovereign debt. Usually the private sector involvement will be important for achieving a sustainable program for the country. Private sector involvement will always be important for creating a set of incentives for lenders and borrowers that are more closely correlated with the risks actually involved in specific debt transactions. The nature of the private sector involvement can and should vary with the particular circumstances of the debtor country. Commitments to maintain existing levels of exposure will be adequate. And sometimes rescheduling may be appropriate. Less frequently, some reduction in the debt stock itself may be necessary. But in all cases the private sector involvement must be real rather than specific. That means the development and publication of satisfactory, precisely-stated terms.

The fundamental question raised by the Argentine and Brazilian experiences is the degree to which we want the IMF to assume responsibility for the economic policies of emerging market countries with actual or potential debt problems. It should be clear from the preceding discussion that the rectification of possible IMF mistakes would have come only at the expense of substantial infringement on the sovereignty decisions of a democratically elected government. Should IMF officials have pressured Brazil in 1994 not to adopt the pegged exchange rate? Should the Fund decide when a country should stop borrowing abroad? Should the trade-off between containing runaway inflation now and the risks of debt and currency imbalances later be made by the elected representatives of the people or by the Fund?

These are not easy questions. Uncorrected national policies may lead to requests for sizeable IMF stand-by credits. When a country is in crisis and seeking substantial international resources, some imposition of conditions is inescapable, as in any lender-borrower situation. Earlier reform would obviously be preferable. It is certainly incumbent upon the IMF to sound private and, in unusual circumstances, perhaps even public warnings about unsustainable national policies. How far the member states of the IMF want the Fund's staff to go in forcing policy decisions upon countries not in immediate crisis seems to me a subject in need of substantially more exploration and debate.

The Role of the Administration

It is apparent from the foregoing discussion that the situation in Argentina was already deeply troubled when the Administration took office in January 2001. The agenda for reforming the so-called international financial architecture had stalled. Quite frankly, the problems in the international financial system are not susceptible of quick and easy solutions, so one can hardly criticize the Administration for failing to solve those problems in less than 2 years. But, I regret to say, having been dealt a bad hand, the Administration has not played that hand particularly well.

The voice of a U.S. economic official is itself an important instrument of policy. A consistent, measured, and coherent voice establishes credibility, reassures market actors, and enhances U.S. economic leadership. The absence of such a voice has just the opposite set of consequences. While I think it unfair to hold the Administration responsible for all the financial problems faced by emerging markets, I think it is legitimate to criticize the lack of consistency, coherence, and restraint in its statements and actions.

When the Administration took office, it proclaimed the end of large IMF "bail outs." Although many were skeptical that such a blunt policy approach was optimal, it was certainly a clear position. The Administration's endorsement of a program for Turkey did not appear a real departure from this position, since most people understand that there is an implicit "security exception" to any stated international economic policy.
But the misguided program for Argentina and the defensible programs for Brazil and Uruguay have obviously undermined completely the Administration's stated policy position. The current Administration view appears to be that it will not support "unsustainable" IMF programs. I do not think one can find any Administration that has ever stated its support for unsustainable IMF programs. In the absence of a clearer policy statement, it is hard to know where exactly the Administration stands.

Similarly, with respect to reforms of the international financial system, just a few months ago the Administration publicly rejected IMF proposals for a sovereign debt restructuring mechanism (SDRM), in favor of voluntary terms in bond indentures. Again, one might agree or disagree with that position. Yet just a few months later the Administration appears to have endorsed the IMF plan. While one should always be mindful of Ralph Waldo Emerson's observation that "a foolish consistency is the hobgoblin of little minds," it is not reassuring to see the Administration walk away from a strongly stated position with no explanation of why its views had changed.

The relative passivity of the Administration during and after financial crises has also been disappointing. I understand and appreciate the Administration's view that it cannot impose solutions on Argentina or any other country. But it seems to me both ill-advised foreign policy and wasteful economics to have simply stood by and waited for Argentina to come up with an acceptable plan. Things are only made worse when Administration officials make off-handed comments critical of the country suffering through the crisis. The confusion and uncertainty attending a financial crisis afflict all participants. Generally speaking, an active role by the United States is necessary for expeditious movement along the path to a solution. There is a wide spectrum running between efforts to impose economic policies and sitting by the phone waiting for the Argentines to call. I would suggest that the better U.S. position is somewhere in the middle of that spectrum.

I am glad that the Administration has eschewed the simplistic solutions to complex financial problems that some have urged upon them. But the complexity and seriousness of problems require the exercise of leadership. While the U.S. agenda for international financial reform may have to be developed and implemented in stages, with continuing refinements, our direction and aims should be clearly stated and consistently advanced. The retreat of the United States from a clear leadership position on the problems of specific countries and on the broader issues of reform is costly as a matter of both foreign and economic policy.

Conclusion

At the risk of repetitiveness, let me end where I began. It is very much in the U.S. interest that the rest of this hemisphere consist of well-established democracies that produce equitable economic growth for their peoples. While there will always be good-faith differences of view as to the most appropriate U.S. policies in support of these ends, there can be little doubt that an active presence in attempts to solve national and regional problems is imperative. To me, this imperative means both a more visible presence in efforts to reverse Argentina's economic slide and a more consistent, active leadership role in efforts by the international community to address systemic international financial problems.