Brazil's government doing financial acrobatics on the edge of the abyss

by Lorenzo Carrasco

Unless the world financial crisis explodes in the next two weeks, it is highly probable that Brazilian President Fernando Henrique Cardoso, despite the crisis which is insistently knocking on the doors of the Brazilian economy, will manage, through diverse lying and propagandistic ruses, to get himself reelected on Oct. 4. Immediately thereafter, the crisis will return with greater destructive force, unleashing chaos in its wake. The President could celebrate his victory as a kind of Mephistopheles, against the backdrop of a country devastated by usury, with tens of thousands of bankrupt industries and farmers, tens of millions of unemployed, and with the state sector having lost the greater part of its profitable companies. A victory at the country's expense, will last only as long as the oligarchic system imposed through this mockery of democracy, lasts.

To cover for his own responsibility in the approaching domestic calamity, the President hides behind the argument that the domestic crisis is only a reflection of an international crisis. This conveniently ignores, however, what he himself told *Gazeta Mercantil* in a June 19, 1997 interview. There, he admitted that what he most feared was, that there would be a "imbalance" of the world financial system during his government. But, he declared that his government would bet the country's future, that there would be no world monetary crisis.

"We are here placing a bet, that this risk is transitory," Cardoso declared. "You know, that in politics as in economics, one is always placing a bet, because politics is the reign of the unpredictable. . . . What is our bet? It is that we are in a phase in which we are changing the structural model of our productive system. . . . So, we are making this bet . . . and we expect that this will take three to four years."

Now that he lost his bet (his "imbalance" of the global financial system has, indeed, turned into a hurricane), President Cardoso's irresponsible conduct is equivalent to the gambler who blames his personal ruin on the roulette wheel of the casino which he frequented—a point not absent from some of the electoral debates. And, still insisting that "globalization is inevitable," he continues to calmly direct Brazil into the path of the whirlwinds whipped up by the speculative world casino.

The pestilence of usury

While he contemplates the crisis, giving it nary a mention in his lavish electoral propaganda, President Cardoso has let somewhere close to $30 billion of the country's foreign exchange leave the country. Foreign exchange reserves have dropped from some $70 billion, to just above $40 billion ($42 billion, some analysts calculate, as of Sept. 22).

To try to contain the hemorrhaging of the reserves, his government raised interest rates twice in the last 30 days, jacking them up to just under 50% on Sept. 10. This dramatic measure was adopted on the explicit "suggestion" of London and Wall Street. That same day, *Gazeta Mercantil* columnist Maria Clara Prado had filed a report from London spelling out their orders: "As long as the government does not stake body and soul on a severe adjustment of the 'Real Plan' [read: impose draconian budget cuts], the crisis which has been attacking the Brazilian currency for almost two weeks, will not stop. This is the generalized impression of the London financial market. They know it is an extremely delicate situation because of the closeness of the elections, but leading analysts and players who follow the so-called 'emerging countries,' think that Brazil will have to push its interest rates much higher. The 30% level is considered insufficient to secure the money of the Brazilians themselves. The market has already set the rate at which the Central Bank will have to operate in the open market: The minimal level is 40%."

The interest rate announced the next day, 49.75%, followed London's specifications, and then some. The rate has been sufficient to stop the collapse of the stock market (so far), which had lost around 40% of its January 1998 value by the third week in September, but it did not stop capital flight. The measure, equivalent, in any case, to hanging the victim to stop the pain of hemorrhage, will increase interest payments due between now and the end of 1998 by $10-15 billion, depending on how long this level of interest rates continue.

This, alone, assures the general bankruptcy of the country. The fiscal deficit will rise from 7%, to more than 8% of Gross Domestic Product, primarily due to interest payments. The government's bonded debt will exceed $320 billion, with maturities shortening to two or three months; the non-performing loans of the private banking sector will reach more than $400 billion; and the indebtedness of private businesses will dramatically increase, many of which will therefore stop paying taxes.

'The Rubicon is Brazil'

That Brazil's financial calamity is not worse, is because of the fearful recognition on Wall Street and in London that the Brazilian crisis can drag the rest of the financial system down with it. *Gazeta Mercantil's* London correspondent, Fernando Dantas, put it this way on Sept. 8: "The global markets are focussed on Brazil. . . . What happens there, will be decisive, to know whether the wave of aversion to risk which is passing from country to country, will be detained, or, instead, will worsen substantially. There is near consensus in the City of London over the importance of Brazil in the current world turbulence. For some analysts," he wrote, "at this point, Brazil is even more important than China and Hong Kong, in terms of determining what will happen in the global economy. Because of its dominant position, what happens in Brazil will certainly determine the direction of all Latin America. In addition to this, the influence of the Latin American economy on the United States is much greater than that of Southeast Asia or western Europe."

Albert Fishlow, the New York Council of Foreign Relations' Paul A. Volcker Senior Fellow for International Economics, voiced the rising fears over the *political* impact, were Brazil to break with globalization outright. In an article published in early September, entitled "Lessons of the Economic Crisis," Fishlow warned that "it would ironic—and tragic—if the U.S.A., the European Union, and especially Japan were not in condition to take important steps toward coordination of this process [of globalization]. We will see over the next months, whether this will occur or not. . . . But it would be equally tragic . . . if the developing world decided that globalization is undesirable, and began to turn back from current economic policies. Perhaps the most important example will be Brazil. What Brazil does in the near future, is of vital interest to the world."

Identical warnings were made on Sept. 17 by Alan Blinder, former vice president of the U.S. Federal Reserve, before House Banking Committee hearings. "It is urgent and imperative that the United States and the IMF [International Monetary Fund] check the crisis, before it swallows Latin America. . . . If Brazil falls, it will have a domino effect," he said.

For the president of the Inter-American Dialogue, Peter Hakim, Brazil "is in a very delicate position," facing various possible attacks on its stock market and its currency, the *real*. He believes that it is crucial to put together "a foreign financial package." "The future of Brazil and Latin America depends on an international action at this moment," which the United States must head up, he said. According to the Sept. 18 *Wall Street Journal,* the IMF's Stanley Fisher spoke "informally" with top executives of the leading New York banks and financial houses, including Chase, Citicorp, Goldman Sachs, and Merrill Lynch, on Sept. 3, and lined up an agreement to back an IMF package for Brazil, should this become necessary. Brazil, the fifth-largest foreign market of the U.S. commercial banks, was considered too big to let it fail.

As the vice chairman of Citicorp, Bill Rhodes, announced shortly after that meeting: "The Rubicon is basically Brazil, and if Brazil holds, so do the emerging markets."

The game is up

With this idea that the Brazilian economy is too big to fail, President Cardoso is placing another bet, a bet, as the Brazilian newspaper *Folha de São Paulo* put it on Sept. 16, "that the worst of the crisis is over, a bet premised on the principle that Brazil is the last country where the domino effect of global turbulence can be checked, thereby keeping it from sweeping away even more. . . . If that is the case, the government believes that the developed world, especially the United States, will find a way to create a financial cushion which will permit Brazil to resist the impact of the crisis. If this is not the case, Latin America will fall, dragged down by the weight of the largest economy in the sub-region, with direct and heavy repercussions upon the United States itself. After all, Latin America absorbs close to 20% of U.S. exports, and U.S. banks lent Brazil almost $28 billion, four times more than to Russia."

Fortunately, sane voices are being raised from within Brazil's political establishment, against this continued irresponsible course of action. There is an increasing number who recognize, as former President, now Sen. José Sarney bluntly stated in his weekly column in *Folha de São Paulo* on Sept. 18: The speculative game is over. The former President said:

"That the crisis is big, everyone knows. When it will end, no one knows. Clinton says it is the greatest crisis of the last 50 years. No one recalls problems of this nature that have a fast and easy solution. The issue is more profound. This is the bankruptcy of the model of speculative financial capitalism; it is the first great convulsion of neo-liberalism, and the warning sign that the internal contradictions of capitalism are breaking out, as occurred with communism. . . . The bankruptcy of Latin America is the end of the solution based on free-market preaching. . . . Brazil has to be alert and have other options. Under no circumstances, should it burn its reserves on the expectation of aid. It must have a 'deadline.' When this red line is passed, it must play dirty and use the axe."

The problem is that thus far, the only game which President Cardoso understands, is that of betting, in a game premised on his firm belief in the immortality of the gods of Olympus whom he is committed to serve. But under current conditions, in which the system as a whole can come apart, the President's bets are dangerous rhetorical acrobatics at the edge of the world financial abyss.