

Report from Rio by Lorenzo Carrasco

The economy is another Collor scandal

Despite the government's economic incompetence, the international financial elites are backing Marques.

The economic recession induced by the subservient free-trade policies of the government of President Fernando Collor de Mello has not only proved useless in stopping inflation, but is returning as a deadly boomerang, threatening to decapitate the scandal-ridden government. Despite brutal austerity imposed through high interest rates and drastically reduced public sector spending, inflation is over 20%.

Although there was some small increase in industrial activity, largely the result of an increase in exports and a good harvest, during the first quarter of 1992, unemployment has continued to grow. In the industrial sector of São Paulo alone, there have been 84,000 jobs lost this year through mid-May, representing a 4.91% reduction in employment. The total number of unemployed in São Paulo has passed 1 million.

The picture is still worse, when one learns that Collor's monetary policy has caused a dramatic loss in fiscal income, not only due to the collapse of economic activity in general, but also because as many as 40% of the total number of tax-liable individuals have refused to pay their taxes, in a clear act of civil disobedience to a government considered lacking in credibility.

The accounts of the National Treasury are a good barometer of the internal damage the Brazilian economy has suffered. Tax income, which had already fallen 20% in 1991 over the previous year, fell an additional 8.6% during the first four months of 1992, in comparison to the same period in

1991. In absolute numbers, this meant that the government received the equivalent of \$3 billion less in tax revenues, suggesting that the emergency tax bill approved in late 1991 is a failure.

As if this weren't enough, Brazil's high interest rates have resulted in an 86% increase in the growth of both domestic and foreign debt service during this same period. Also during this period, debt service on government bonds rose by 302%.

The consequence of this situation is that the Collor government is not going to be able to meet the objectives agreed upon with the International Monetary Fund (IMF), specifically regarding its fiscal deficit. For example, although the government managed to achieve a 2.67% primary surplus of the Gross National Product (GNP), despite the fall in tax collection, it is still less than the 4.58% goal agreed to with the IMF.

Regarding the so-called operational deficit (that which, for the IMF bureaucrats, results from adding financial charges to the primary surplus), the picture is alarming. Because of the uncontrolled emission of government paper, the operational deficit rose to 5.91% of GNP, instead of the IMF-dictated goal of 2.90%.

Despite this economic disaster, which was revealed to the public at the same time that the scandal of President Collor's campaign treasurer broke into the open, Brazil's monetary authorities, and particularly Economics Minister Marcilio Marques Moreira, have received the unqualified support of the

international bankers and financial institutions. The solution Minister Marques has proposed to the IMF is to just change the evaluation criteria of the agreement with the IMF, since the government is imposing the brutal public austerity measures which is really what the IMF wants.

For example, U.S. Ambassador Richard Melton told the press within hours of the Collor scandal becoming public that accusations of government irregularities do not affect Brazil's image abroad. Brazil's prestige remains intact, he insisted, thanks to its economic policy. "My impression is that things are going well in that sense," Melton told *Folha de São Paulo* on May 27.

Salomon Brothers investment house produced a recent report entitled "Brazil: Implications of the Accusations Against President Collor," which stated that the charges would not lead to either an economic or political crisis. The report emphasized that Minister Marques will emerge with his credibility reinforced, and that the most probable impact of the scandal would be to pose a temporary obstacle to the government's ability to impose tax reform.

In addition, IMF Managing Director Michel Camdessus took advantage of his visit to the Earth Summit conference in Rio de Janeiro to propagandize among congressmen, business leaders, and newspaper publishers in favor of Collor's tax reform bill, which is being presented to Congress as an "urgent measure," a "last ditch" effort to revive the corpse of Collor's economic program.

And last but not least, U.S. President George Bush used his own brief visit to Rio to promise Minister Marques that the U.S. Federal Reserve would intervene to help Brazil reach a negotiated foreign debt restructuring with its creditor banks.