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Despite an infusion of $7 billion in foreign credits to help prop up the banking system, the banks are essentially insolvent. More than $7 billion has fled the system since January and the anticipated return of foreign investors has not occurred.

Moreover, almost all of Argentina's provinces are collapsing under the weight of Cavallo's draconian austerity regime. The delay in payment of wages and pensions to public employees in many provinces has provoked social protest and a situation that is ripe for manipulation by terrorists and provocateurs. In the politically and economically important province of Córdoba, for example, the passage of an Economic Emergency Law on June 22 mandating harsh austerity and payment of $600 million in wages and pensions to public employees with special provincial bonds led to two days of protest that turned violent when members of the left-terrorist Patria Libre party infiltrated the demonstration.

Similar protests have occurred in the provinces of Salta, Jujuy, Tucumán, Río Negro, Tierra del Fuego, and Catamarca. To governors' pleas that the federal government assist them economically, Cavallo has responded with the demand that provinces immediately privatize their provincial banks and other public companies, to generate needed funds. The finance minister told Córdoba Gov. Eduardo Angeloz that the World Bank would be happy to provide him with funds, as soon as the governor privatized the Bank of Córdoba and the provincial energy company.

Signs of economic disintegration are everywhere. In the province of La Pampa, in the heart of Argentina's fertile *pampa húmeda,* farmers are auctioning off their agricultural machinery and land, at prices one-third of their value, to generate funds to pay their debts. Of the province's 10,000 producers, 4,000 are in bankruptcy.

According to the Argentine Federation of Chambers of Commerce, at least 42,000 businesses have shut down this year. The dramatic decline in sales in several key sectors of the economy tells the story. In May alone, sales of food dropped 15%; medicines, 25%; textiles, 41%. The May drop in auto sales, one of the country's most important sectors, was estimated to be as high as 80%. Brazil's recent decision to establish quotas on auto imports, if kept in place, is expected to devastate Argentina's auto industry. The 70,000 vehicles Argentina had hoped to sell to Brazil during the rest of 1995 will now drop to 12,000, according to industry experts.

Argentina's hope of offsetting its trade imbalance and preventing a worse recession by exporting large quantities of goods to the Brazilian market were also dashed on June 22 when the Cardoso government devalued its currency, the *real*. This will make Argentine goods more expensive in comparison to Brazil's, and lower Argentina's export revenues at a time when it can least afford it.

Brazil

Virtual stability, real disaster

by Lorenzo Carrasco

At the completion of one year of its "monetary stability program," the government of Fernando Henrique Cardoso is attempting to hide, with ad hoc economic indicators, the disaster which is sweeping through the Brazilian economy. The official inflation indicators—30% since July 1994—with an alleged growth in Gross Domestic Product of 9.1% in the last quarter, portray a numerical "virtual reality" very far from actual reality.

Throughout this year, and in order to achieve this virtual stability, the government has adopted three devices to "hold down" inflation. The first was to overvalue the national currency, the Real, with respect to the dollar, provoking a brutal breakdown in prices. This measure was implemented under the illusion that the country would be flooded, starting in 1995, with foreign capital. In fact, up to December 1994 the country had accumulated $43 billion in exchange reserves.

Second, in order to keep on feeding the gluttony of the usurious banks and to maintain the influx of foreign capital, interest rates were shot up to the stratosphere—the highest interest rates in the world—after the Mexican crisis of Dec. 20, 1994. At present, the basic rates which are applied to public securities, which serve as the reference for the entire national finance system, are between 50% and 60% annually in real terms.

Third, to keep up the pretext of near-zero inflation, in a climate of absolute monetary speculation, the government defined a basic market basket at a level lower than the costs of production. To do this, it adopted the insane policy of importing basic foodstuffs in which the country is self-sufficient, thus artificially depressing prices. The same occurred in the shoe and textile industries, among other sectors. The government similarly froze rates for public services, gas, telephones, electricity, and fuel.

Operation successful, patient dead

This policy of self-dumping against domestic production indeed reduced inflation dramatically, from about 40% a month to the present 2% level, a rate that only touches those families living at the very limit of primary subsistence, who

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spend 70% of their family budget for food and transportation. But even this apparent benefit will be temporary and will vanish when the effects of the depression and bankruptcy of Brazilian agriculture affect the future supplies of those products.

Yet for the rest of the population, which consumes less than 50% of their family budget on food and transportation, inflation is much higher than what the government recognizes. For example, apartment rents grew by 160% in the year of the Real plan, medical services by 70%, and school tuitions by 80-100%. In the face of this inflation, which the ad hoc indicators of the government do not report, the population resorted to their only remaining source to keep up their living standards: personal debt and installment buying, which cost as much as 18% a month in interest.

The result of this process is the plain and simple bankruptcy of families. For example, the volume of bounced checks in May was the highest in a decade, 1.4 million. Although this fell in the first 20 days of June, with more than 100,000 checks returned without funds, overall this is 370% more than the same period last year, and a record in the banking history of the country. Moreover, in São Paulo alone a million people stopped making any payments on loans this year. According to the Credit Protection Service, in the first 25 days of June 138,000 new people filed for bankruptcy, a 245% increase over the same period last year. The government and the banks, which are the usurers' partners, are very worried about the exponential rate of insolvency, which could cause the entire credit system to go bust. In fact, last month, the central bank of Brazil carried out a sweeping intervention to save one of the biggest Brazilian banks. According to some sources, this was Banco Economico, the oldest in Brazil.

But the calamity is no less for the agricultural and industrial producers. The effect of astronomical interest rates, with depressed internal prices, and in a climate of insane liberalization of trade, checkmated the producers of basic farm products, who will lose more than 1 billion Reals in subsidies for the sake of the banks and the government's zero inflation. The crisis is likewise pounding the shoe, textile, toy, and home appliance industries, as well as many others. In May, São Paulo industry, according to figures of that state's Industrialists Federation (FIESP), laid off 10,000 workers. From January to May, the number of preventive ("Chapter 11") bankruptcies went up by 411%, and bankruptcies in general, by 70% over those same five months last year. Nonperforming securities reached 1.2 million in that period, 84% above the previous year. In May alone, 57 companies declared bankruptcy.

As a reflection of this situation, manufacturing activity, according to the Brazilian Institute of Geography and Statistics (IBGE), fell cumulatively by 4.4% from December to April, with the largest declines, around 15%, reported in the sectors of shoes, clothing, wood, plastic products, and textiles in general.

The hemorrhage of cash reserves

Meanwhile the high interest-rate policy is victimizing even government finances. Just in the first four months of 1995, the increase in the federal government's debt in securities rose by $10 billion and the debt of states and municipalities another $4 billion. In other words, this policy is costing the public coffers $3 billion a month, calculated on the basis of 4% monthly interest on a total internal debt, in January, of 75.3 billion Reals, according to figures of the Economics Institute of the Public Sector (IESP). Thus in 1994, the public sector—Union, states, and municipalities—spent $2.6 billion on interest payments. That is three times as much as is spent on health annually, in a country where more than 40 million people suffer from some kind of endemic disease. Out of the total sum of this interest, $5.4 billion—10% of all tax revenues—is dedicated to paying interest on internal debt each year. With these figures, the privatization of public companies is criminal, when the resources that would be collected thereby, in the best of cases—for example Vale de Rio Doce—would barely suffice to pay half a year's interest on debt.

As to external accounts, the situation is no better. The euphoria and self-sufficiency of the government at the outset of the year is shriveling up at the same rate as cash reserves are dwindling. In May, for the seventh month in a row, the trade balance, despite increased customs duties, went into the red for more than $600 million, and it would have been even worse except that the government added the exports of the first week in June into the data. Losses of $5 billion were accumulated during this period. So far this year, the deficit has climbed to $3.492 billion. The June deficit alone will probably reach $1 billion, which will make it impossible for the government to meet its goal of a $5 billion trade surplus for the year, needed to compensate the balance of payments and services which will register a deficit of more than $15 billion this year.

Given that the flow of foreign capital is still negative, despite insane interest rates, the loss of reserves will go on. Since last December's financial explosion in Mexico, Brazil has so far lost this year more than $10 billion in reserves, leaving a total of about $30 billion. The most optimistic expectations are that only $10 billion more will leave the country during the rest of the year on account of the balance of payments deficit.

All this obviously does not take into account the climate of world financial instability. The crisis in Argentina, or the rekindling of the Mexican bank crisis, could be the straw which breaks the camel's back of the virtual reality by which the government is masking its economic disaster. When this happens, the Cardoso government will be revealed as decrepit and crazed, in a modern version of the portrait of Dorian Gray.