The 'Real Plan' accelerates the destruction of Brazil

by Lorenzo Carrasco

No one can deny that the government of Brazilian President Fernando Henrique Cardoso, assisted by the major media, has successfully manipulated the Brazilian people into believing in the alleged "virtues of monetary stability," to mask what is undoubtedly the worst economic destruction Brazil has ever known. The cause of this destruction is the Real Plan, the austerity program devised by Cardoso when he was finance minister, and imposed in June 1994. The government makes much of the fact that the plan lowered inflation, which it did, but at the expense of the physical economy.

I was able to confirm this firsthand, during a recent seminar sponsored by the Roraima State Business Federation, to which I had been invited by its president, Antonio Airton Dias. I addressed a group of the state's top-ranking businessmen, politicians, and government officials on the Real Plan, from the standpoint of the international financial crisis. Most revealing was that every speaker, after first formally defending the federal government's monetary program, then went on to document the economic devastation affecting each sector, proving the reality of Brazil's generalized national bankruptcy.

Narco-liberalism

As *EIR* has repeatedly documented, the Real Plan's basic premises consist of making the entire economy dependent on "motel capital"—funds which come in at night and leave in the morning and, clearly, have no reproductive purpose. This is how the government protects the capital flows needed to plug the enormous deficits created by its fantasy-ridden policies of "industrial modernization" and globalization.

Aside from prostituting the agencies of government, whose responsibility ordinarily would be to safeguard the economy, these practices have turned Brazil into a giant laundromat for dirty money. Part of these funds, once laundered, find their way to the Central Bank where they are added to the country's foreign reserves. President Cardoso, Finance Minister Pedro Malán, and Gustavo Franco, Central Bank director of foreign affairs (whom Sen. Delfim Netto refers to as an advocate of "theology of speculation"), all point to the size of these reserves as one of the greatest triumphs of the government's economic program.

This dependence on hot money was recently denounced at the International Seminar on Money Laundering, jointly sponsored by Brazil's Office of Revenue Collection and the U.S. Internal Revenue Service (IRS). As reported by *Tribuna da Imprensa* on March 18, in opening the conference, Deomar Vasconcelos de Morais, general coordinator of investigations of the Brazilian tax agency, announced that Brazil is among the ten largest dirty-money-laundering countries in the world, particularly of drug money. Vasconcelos de Morais stated that the combination of Brazil's monetary stability policies, deregulation of the economy, and bank secrecy laws make Brazil "quite attractive" for drug-traffickers who, in 1996 alone, are estimated to have laundered more than $5 billion.

The Central Bank, in its obsession with demonstrating the Real Plan's "successes," has become the greatest protector of the dirty money which enters the country in the form of short-term capital; at the same time, it opposes any investigation of the rotting banking system, for fear the stench would reveal the horrid reality of Brazil's economic bankruptcy.

Plan for national destruction

Aside from this "triumph," packaged in the slogan "Investors Have Confidence in the Real Plan," the physical economy is in a state of accelerating collapse. The deregulation of the exchange rate and trade liberalization, which made these capital flows possible in the first place, have already produced growing trade deficits. **Figure 1** shows the fall in the balance of trade, which accelerated dramatically in 1994 when the Real Plan was implemented, and at a time when there was a trade surplus of more than $10 billion. At the end of 1996, Brazil had a trade deficit of $5.5 billion, and if the $2 billion deficit accumulated in the first two months of this year is any guide, the 1997 trade deficit will be over $10 billion.

Moreover, payments for servicing both public and private debt (interest and amortization) are growing exponentially. Last year, payments in this category were a little more than $25 billion. For 1997, as even the Central Bank admits, the amount will jump to $32 billion. Therefore, to cover these foreign obligations, in the range of $40 to $50 billion, following its perverse logic, the Brazilian government will have to make it even easier for hot money to enter the country. The growth in the official foreign debt is shown in **Figure 2.**

The trade deficit and larger foreign payments are also reflected in the growing current-account deficit (see **Figure 3**). In 1996, contrary to all official and bank estimates, the balance of payments deficit exceeded $24 billion, confirming

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FIGURE 1

Brazil: balance of trade versus debt service

(billions $)

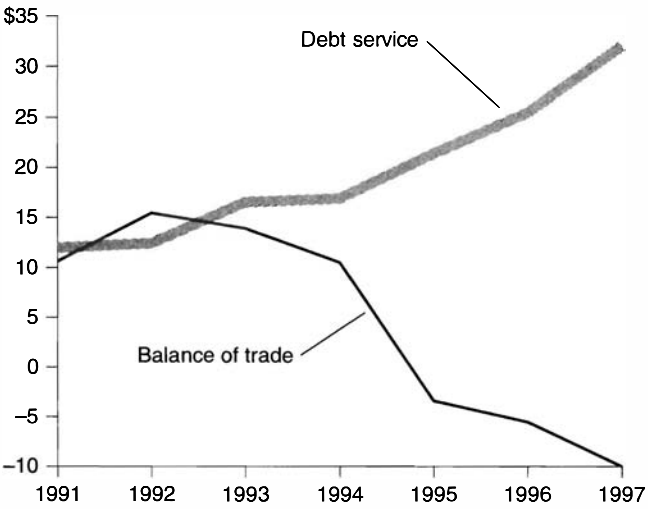
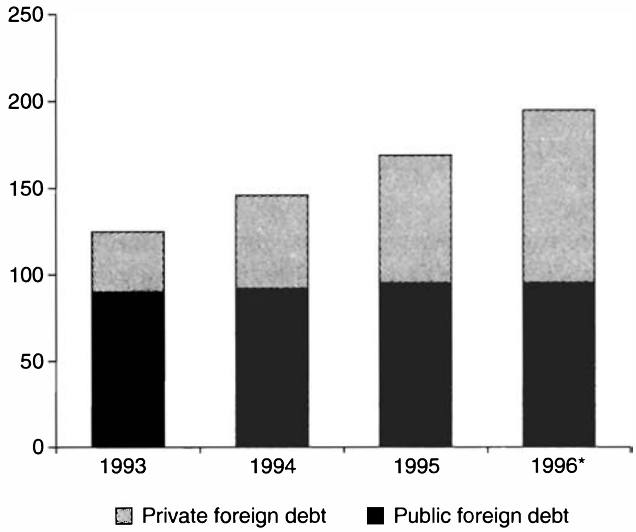


FIGURE 2

Brazil: official foreign debt

(billions $)



* *EIR* projection.

EIR's estimate that it would be more than $20 billion. For 1997, it will exceed $32 billion, the same level Mexico reached in 1994 when its economy crashed.

Denationalization and deindustrialization

As seen in the bottom half of Figure 3, the capital flows mentioned above are covering this deficit. According to Central Bank statistics, the total amount of foreign capital entering the country in 1996 was $35 billion, of which $9.6 billion was declared by the government to be direct investment. This is a huge lie, because it counts $2.3 billion from privatizations, among them, Rio de Janeiro's state-run utility company Light, and over $6 billion which came in to buy up Brazilian firms. This cannot be considered direct investment, because it came in to purchase public and private physical assets, and not to broaden the economy's physical base. The truth is that businessmen who are selling their companies are then putting their funds into domestic and foreign speculative markets.

It's important to develop this point further, because under the rubric of "foreign direct investment," the most shameful denationalization of both public and private industry is taking place. Energy, food processing, beverages, and auto parts are only some of the sectors affected.

This is the means by which the government hopes to receive an estimated $18 billion in 1997. Of this, $6 billion is expected from the privatization of the giant minerals complex, Companhía Vale do Rio Doce (CVRD), and other amounts are expected from privatizations in the infrastructure, including electrical energy, telephone, ports, and transportation sectors. The continued auctioning off of private-sector industry will yield additional amounts.

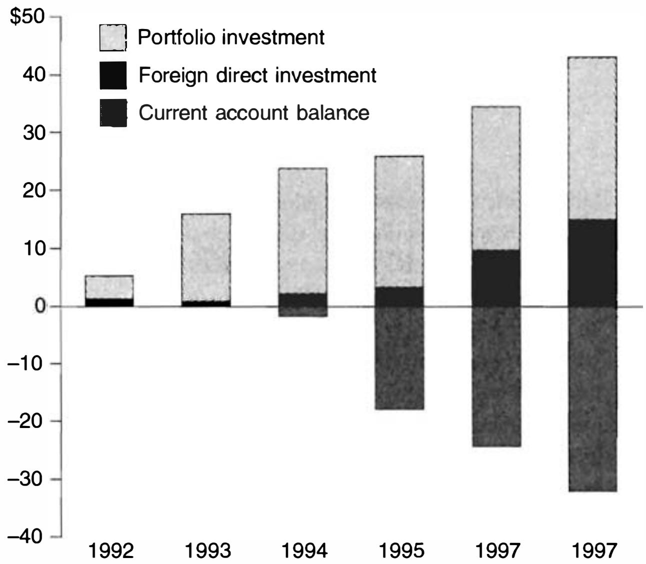
In addition to the denationalization of private industry, the Real Plan is also deindustrializing Brazil, under the guise of promoting increased "productivity" and "modernization." This does not just refer to the capital goods sector, the only one in Ibero-America; but also to the destruction of the industrial labor force, replacing it with less-skilled manpower. In 1995 and 1996, São Paulo industry alone laid off 350,000 workers.

These figures are only outdone by the 1990-92 government of Fernando Collor de Mello which, in 1991-92, caused the layoffs of 550,000 of São Paulo's industrial workers. So, since 1990, when the deindustrialization plan really began, São Paulo industry fired 900,000 workers, or almost one-third of the industrial workforce in the most industrialized Brazilian state. Today, less than 2 million workers are involved in São Paulo's industrial activities. During the same time period, 500,000 workers were fired from São Paulo's construction sector, reducing it to half of what it had been in the previous decade.

Bond scandal: the Federation disintegrates

If the situation with Brazil's foreign accounts is disastrous, the domestic crisis is even worse. On the national, state, and municipal levels, the public debt is growing at a dizzying rate. In June 1994, when the Real Plan began, public debt was $80 billion; by December 1996, it had tripled to $230 billion. Judging from the growing dollarization of National Treasury Notes (NTN-D), which pay interest rates on the variation in the exchange rate, the federal government is having increasing difficulties in renegotiating its debt paper. According to the Association of Open Market Institutions, in January of

FIGURE 3
Brazil: foreign investment versus current account
(billions $)



this year there were $22.4 billion worth of NTN-D circulating in the market.

The public debt problem is equally serious at the state and municipal levels. Global liquid debt for these categories (bonds and bank and contractual debt) exceeds $120 billion, of which $50 billion is in bonds.

This is at the heart of the scandal currently under investigation by the Brazilian Senate, regarding *precatorios,* the Portuguese name for documents which recognize official debt, and indicate the need to allocate budgetary resources to pay it. Aside from the criminal aspects of this case, i.e., those who committed fraud, the problem was caused by the government's own monetary stabilization policy, which is strangling the states financially. The first step imposed controls on state banks, reflected in the destruction at the federal level of the giant Banco do Brasil. Next came the suspension of authorizations for issuing public bonds for the financing of state and municipal economic projects.

Thus, it was through the artifice of issuing bonds for the payment of this official debt, that some governors hoped to get around the brutal austerity imposed by the government; they used the funds from bond issuances to pay other things, such as wages or investments. In 1996, state bonds for the payment of *precatorios* were issued in the amount of $1.4 billion. Also in 1996, the total value of bonds issued for *precatorios* reached $10 billion. The depth of the crisis for states and municipalities is seen in the fact that, in 1996, their fiscal deficit was 1.89% of Gross Domestic Product ($14 billion), or half of the country's *total* fiscal deficit.

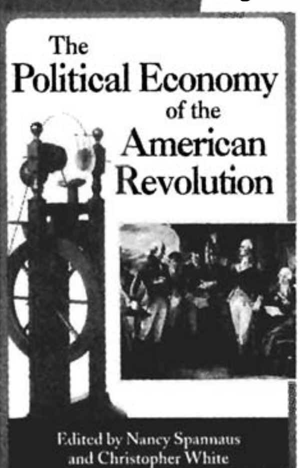
Worse, in response to International Monetary Fund and World Bank demands, the federal government intends to squeeze states and municipalities further by eliminating any ability to issue credit, a key prerogative of Brazil's political constitution as a federation. This measure is intended to first concentrate monetary power in the Central Bank, so as to ultimately make it completely independent from the federal government.

As journalist Newton Rodrigues observed in his column in the March 9 *Gazeta Mercantil,* what is at stake with the current policy of monetary stabilization is Brazil's structure as a federated republic. "Republican federalism didn't just fall from the sky," Rodrigues said, "but was the necessary instrument of a general desire for decentralization, at the end of the imperial system, in which all power emanates from the center and is exercised in its name." Rodrigues's remarks are an accurate portrayal of the imperial Napoleonic regime of Fernando Henrique Cardoso.

In fact, in its slavish desire to court the power centers of the international financial oligarchy, the Cardoso administration is headed toward breaking up the Brazilian system of a federated republic. As one senator commented to this author, this is the first government of the Republic not to build great works. Yes, it is a government without works, but with a blind faith in the financial system behind its plan for national destruction.

DO YOU KNOW

- that the American Revolution was fought *against* British "free trade" economics?
- that Washington and Franklin championed Big Government?
- that the Founding Fathers promoted partnership between private industry and central government?



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