Report from Rio by Lorenzo Carrasco

Cardoso bets his nation at the casino

The President's Global Bonds scheme works fine, as long as there is no world financial breakdown.

As his prize for having shattered nationalist resistance to the privatization of the giant mining consortium Companhia Vale do Rio Doce (CVRD) on May 6, in early June the world financial centers permitted the government of President Fernando Henrique Cardoso to place some $3 billion in new 30-year, dollar-denominated foreign debt bonds, the so-called "Global Bonds," in international markets.

This placement, which the Brazilian government presented as a great victory for its economic policy, is rather a transparent propaganda ploy to try to hide the dizzying growth of the country's foreign indebtedness. Officially, as of December 1996, the foreign debt was on the order of $180 billion. But that figure does not include the $20 billion in domestic public debt instruments indexed to the dollar, known as Series D National Treasury Notes (NTN-D). Nor does it include the $40 billion in foreign investments which daily flood into the country's stock markets, without any legal obligation to remain in the country.

In the face of this mass of debt, it is ridiculous to celebrate with such pomp and circumstance the placing of $3 billion worth of Global Bonds, which were in fact offered at an interest rate of 11% a year, 4% higher than the rate the United States pays for its 30-year bonds.

As the June 5 *Wall Street Journal* noted, in an unusual display of honesty, what is behind the "success" of Brazil's Global Bonds is a "world fever . . . for higher yields," that is, for Brazil's super-high interest rates.

In truth, the main concern of the government's economic team, whose public relations chief is the President himself, continues to be the danger of a collapse in Central Bank international reserves, the which were threatening at the end of April of this year to follow the same trajectory that led to the December 1994 Mexico crisis. It was in a desperate attempt to try to reverse this tendency that the Bamerindus Bank was hurriedly handed over to Hongkong and Shanghai Bank; similarly, the headlong rush to privatize CVRD, at whatever the political or economic cost, and the launching of the Global Bonds.

The problem Cardoso's government faces is how to provide sufficient guarantees to the international usurers, so that they will maintain a flow of foreign capital into the country sufficient to cover the balance of payments deficit of more than $32 billion that is conservatively projected for 1997, the product of an expected $12 billion trade deficit, and the anticipated disbursement of $27 billion more to service the Brazilian foreign debt.

As Cardoso stated in an interview with *Gazeta Mercantil* on June 19, his government is betting Brazil in the world casino of the international monetary system, gambling that the system will not collapse in the next three to four years. Cardoso stated:

"We are betting that this risk [of a crisis of the world financial system] is transitory. 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 pattern of our productive system. That, in this phase, we need to import a great deal of equipment and raw materials. That this will prepare us for later, better conditions of international competition. . . . So, we are making this bet, and we are going to do this. And we expect that it will take three or four years. And that during this period, although there will be a deficit . . . the conditions exist for a climate of development and political stability, and an ability to attract capital to finance the deficit."

These words, and in particular the lies about plans to import capital goods and equipment that would quickly resolve the problem, are identical to those used by the Carlos Salinas de Gortari government in Mexico, just before the debt bomb explosion in that country in 1994.

In the interview, Cardoso pledged to continue dismantling the country, this time by promising financial speculators that he will issue government bonds backed by the country's oil reserves.

The most serious aspect of Cardoso's gamble is that he is clearly aware that there does exist a systemic risk in international finances, as he expressed it in his response to the first question in the interview. "What is the thing you most fear at this moment . . . from every point of view?" he was asked. Cardoso responded: "What could have negative consequences here, would be a breakdown of the world financial system. I do not foresee this occurring, but it is something that would jolt us, because we do not have the means to control the situation."

His second fear, he explained, is the possibility of generalized social convulsion.