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Brazil's 'Wall of Money' Is Collapsing

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The simultaneous resurgence of financial crises in Argentina and Brazil, triggering pre-panic runs against the currencies and debt paper of both countries, is an unmistakable symptom of the ruin of the entire financial system. The failure of the so-called "financial armor," and the futility of the Argentine foreign debt swap organized by Economics Minister Domingo Cavallo, also show the bankruptcy of the policy initiated with the May 1998-February 1999 period of crises, first in Russian debt paper and then with the devaluation of the Brazilian currency, the real.

As part of a global strategy by the Anglo-American financial powers, coordinated with U.S. Federal Reserve Chairman Alan Greenspan, a fantasy-ridden hyperinflationary scheme was put together, which mega-speculator George Soros dubbed, at the January 1999 Davos World Economic Forum, with the generic name "the Wall of Money."

What Soros meant to suggest was simply that the bankruptcy of Brazil, and that of the entire world economy, could be masked by the hyperinflationary printing of money; hidden, literally, behind a "wall of money." Soros' own protégés, his apprentice at the Brazilian Central Bank Arminio Fraga and, later, Domingo Cavallo at the Argentine Economics Ministry, would serve as the guards of that "Wall of Money."

From that moment onward, any "analysis" of the financial situation of Brazil or of Argentina, became one great lie. These countries, like coma patients in the intensive care unit, were kept on life support through a continuous money flow. This policy, officially launched in October 1998, began to visibly disintegrate, with the onset of the U.S. economic depression. The hyperinflationary magic of Alan Greenspan has ended, and with it, that of his pupils Arminio Fraga and Domingo Cavallo. Today, they are on the verge of fleeing their guardposts as the collapsing Wall of Money also buries their prestige among international speculators.

The effect of Greenspan's failure to keep the U.S. markets up, is immediately reflected in the impossibility of maintaining capital flows to the so-called emerging markets, specifically that of Brazil. For Brazil, this means that, this year, its permanent balance of payments deficit, calculated for 2001 at around $28 billion, will not be able to be covered by the flow of foreign capital. This problem is most evident in the fall-off of direct investment, now expected to reach barely $20 billion, as compared to last year's $30 billion figure.

To compensate for this lack of foreign investment, Brazil will have to seek new foreign loans, which will immediately increase the risk of financial insolvency. Brazil currently has a foreign debt of more than $380 billion, meaning an annual transfer abroad of $20 billion in interest payments, on top of profit and dividend transfers, all of which play a major part in the balance of payments deficit. Clearly, the new loans will have to be contracted at higher international interest rates, given that the insolvency risk is higher.

This picture of the country's foreign accounts is primarily responsible for the increase in domestic nervousness over the value of the real, especially since the majority of foreign loans are private, and all companies are joining with career speculators in "protecting" themselves from the ongoing exchange crisis. Already, the value of the dollar has risen this year by about 25% against the real.

At the same time, difficulties in rolling over government debt paper are growing, which has driven up interest rates, as well as dollar-denominated Treasury debt. For example, of the entirety of domestic government debt today—some $230 billion—$60 billion is dollar-indexed instruments, and so must be added to the country's foreign debt, which thus rises toward the half-trillion dollar mark! The interest rate on those dollar bonds has been rising, and is today more than 11%, when just a few weeks ago, it was 8%.

The Pestilence of Usury

It is obvious that we have reached the end of the line. In the case of Brazil, the so-called "Real Plan" turned the 1980s inflation into hyperinflation, under the illusion that globalization and, with it, totally opening up the economy to free trade, would bring a flow of cheap goods and financial resources that would lead to an explosion of economic growth and productivity, which in turn would make the increase in government debt negligible. This was the great "secret" of the Brady Plan.

However, the economic opening that put a brake on monetary inflation, by means of increased imports of all sorts of goods, not only destroyed national industry, but created huge deficits in both the trade balance and in the balance of payments. This in turn triggered a growth in debt. In this way, Brazil's internal government debt went from 42 billion reals in 1994, to approximately 550 billion reals today. When the first explosion of the Real Plan occurred in January 1999, the International Monetary Fund (IMF) determined that this debt, representing 41.3% of Brazil's Gross Domestic Product before the August 1998 Russian crisis, could not surpass 46.5%. But today, it is expected to reach 53% by year's end, a palpable demonstration of the pestilence of usury that has infected Brazil.

Without new means of confronting the crisis, Argentina's bankruptcy will trigger a domino effect in Brazil that, given the size of the Brazilian economy, threatens the disintegration of the rest of the world financial system. Just as the Communist system succumbed with the fall of the Berlin Wall, so too will the Anglo-American liberal system, which dreamed of world empire, fall beneath the ruins of its own Wall of Money.

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