# Brazil's Debt: Trying To Conceal the Abyss

by Adriano Benayon

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In election years, making up news becomes an even more intense and widespread practice than usual. Through wholesale production of illusions, the Brazilian media and its sources are trying to exorcise the ghost of Argentina, where the formerly overvalued currency dropped to the bottom. Here and there social and economic decay rushes forward, while discredited governments keep asking the International Monetary Fund (IMF) for more of the same poison that has been wearing out both economies.

Brazil's Central Bank released data according to which public expenditures on debt interest amounted to 86.4 billion reals in 2001 ($39.3 billion at the current rate of 2.2 reals per dollar). That is 7.6% of the Gross Domestic Product. But the true numbers are far greater. Just the domestic public debt of securities in private hands reached the equivalent of $300 billion by the end of 2001. About $82 billion thereof are indexed to the dollar. With an interest rate that averaged over 20% per annum on a debt stock which averaged $272 billion, interest payments in 2001 reached $55 billion (10.6% of GDP).

## Cover-Up of Real Foreign Debt

And that is only a part of the total domestic debt. The Central Bank holds the equivalent of $80 billion of Federal Treasury securities, which means that a corresponding mass of money has been emitted by the Central Bank. That is on top of the official money supply, and many other obligations of the Federal Treasury, such as the guaranteed savings deposits and accounts, the official social security fund (Fundo de Garantia de Tempo de Serviço), and those of the so-called workers support fund (Fundo de Amparo ao Trabalhador). All these monies are used to subsidize the financial positions of the foreign and the local oligarchies at the expense of the workers, to whom the money technically belongs.

The official foreign debt was the object of extensive cosmetic cover-up in 2001. The loans of foreign-based transnational corporations (TNCs) to their local Brazilian subsidiaries are now considered as foreign direct investment (FDI) in the official calculations. This trick "reduced" the official foreign debt, but not the de facto foreign liabilities, which include FDI. Furthermore, other omissions contribute to shrink the official foreign debt, albeit not the real one.

Thus, the official foreign debt went down from $237 billion at the end of 2000 to $192.4 billion at the beginning of the current year. (It was not much over $100 billion at the end of 1994.) An actual reduction of Brazil's foreign debt during 2001 could not have occurred, since the current account deficit remained on the same level, and the incoming FDI dropped significantly.

Not even the Central Bank's numbers support the version of an improvement in the foreign accounts. These official statistics distinguish between "service" payments and "capital income." The latter encompasses interest payments and the officially acknowledged profits of transnational corporations and banks. But, the truth of the matter is that the real profits of FDI are also transferred abroad through several "service" accounts, as well as via overpriced imports and underpriced exports. Even considering "capital income" only, the deficit amounted to a record $19.7 billion. Moreover, the combined deficit of services and capital income increased to $27.5 billion, in spite of the economic slump and the exchange rate depreciation.

In short, the vulnerability grew, and so we have the vicious cycle of dependence on the very source of the deterioration: foreign capital, especially foreign direct investment. For that matter, it is more important to understand the source of the debt than to assess its size and growth. For example, what happens when the current account deficit is covered by a positive balance in the capital account (i.e., an inflow of loans and other financing plus FDI)?

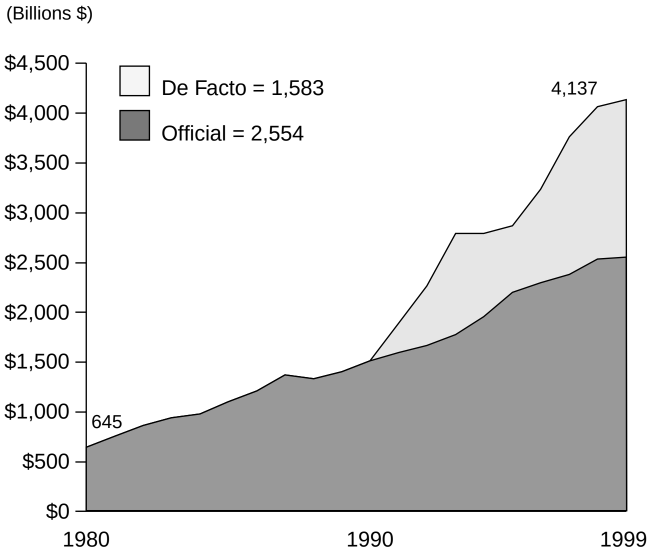
The answer: Remittances of huge profits reaped by the TNCs from the captive domestic market and foreign trade operations, cause the current account deficit to be chronic. For just the last five years, this outflow totalled $137.1 billion, financial resources transferred from Brazil permanently: Bid them farewell. The country will never see them again.

The opposite holds for the capital account. The positive balance on capital account means that: 1) in the case of loans and financing, there is a corresponding accretion of foreign debt and of the credits held by foreign banks and corporations; 2) FDI takes over from Brazilian capital in the production of goods, mineral deposits, and real estate. All of this becomes foreign property.

## The Multiplier of Foreign Capital's Drain

But, the actual situation is even worse, because the effective growth of capital as transnational firms' assets occurs as a large multiple of the sums registered as FDI, and an even greater multiple of the foreign currency brought into the country. Registered FDI totals $170 billion, which is 35% of GDP. Although the contribution of foreign direct investment to real production has not corresponded even to

**World Total, 'Emerging Markets': Foreign Debt, Official vs. Real**




* June 2001

Sources: World Bank; *EIR*.

*This chart, published in an Ibero-American debt study in* EIR *on Feb. 8, 2002, illustrates worldwide, the kind of debt fraud dissected here for Brazil, by Dr. Benayon. Both "domestic debt" and "foreign direct investment" have become de facto foreign debt through the operations of the globalized "free trade" system and IMF control of credit and currency conditions.*—Dennis Small

its registered value, it has acquired control over the economy at least four times greater than that value—i.e., something like 150% of GDP.

The historical capital/output ratio in Brazil is 2.5. In other words, on average, 2.5 units of capital yield 1 unit of production. So, for $500 billion of GDP, the capital stock should be about $1.25 trillion. Over 60% of that, or $750 billion, already belongs to transnational corporations. This is 4.3 times the registered value of FDI, including reinvestment.

In order to understand why the multiplier is so great, the following should be taken into account: 1) companies based on local capital have an unsustainable situation because the neo-liberal economic model frequently forces their owners to sell them for almost nothing; 2) magnificent assets of state companies are handed over for nothing, or at negative prices, since the government grants the transnationals a vast array of subsidies, such as financing at favored rates, tax exemptions and credits. All of this is paid for by the Brazilian people, and the name of the racket is "privatization"; and 3) transnational corporations active in Brazil wipe out all local competitors, since they employ physical capital and technology at zero cost, fully amortized abroad by sales in large markets. As they gain monopoly positions, they exploit the local market at will. The bulk of the gains are transferred abroad, and there still remains some money to reinvest. But actual investment is a pittance, compared to the impressive sums of registered investment.

Thus, for Brazil, accepting foreign capital entails, among other things, aggravating the problem that its advocates claim to solve: the trade deficit. Interest expenses grow with the foreign debt. And, more important, the deficit is caused mainly by the remittances of the transnational corporations, i.e., by foreign direct investment. To that end, they use over ten different line items of the services account, as well as transfer-pricing in imports and exports. Therefore, the greater the control of industry and trade by transnational corporations, the greater will be the current account deficit.

## Debt Spiral As in Argentina

Under such conditions, besides deteriorating steadily over the long term, the economy also periodically lurches towards the abyss: for instance, when the debt approaches a level which causes doubt about the country's ability to pay the debt service, or when foreign investment diminishes or leaves for any reason. Both events cause the already high interest rates on the internal debt to increase further, which in turn leads to higher risk spreads on the foreign debt's interest. As a result, the debt stock grows faster, and debt service becomes unsustainable. Furthermore, all of that leads to devaluations, which in turn cause an increase of the foreign debt as measured in the national currency, pushing up the domestic debt, due to the appreciation of securities indexed to the dollar.

All of that strangles non-finance expenditures. Thousands of examples illustrate that, such as the story of the older public health workers in the city of Belém. Asked why they had failed to detect the presence of the mosquito *Aedes aegypti*, carrier of the dengue virus, as was their responsibility, the men pointed out that their wages did not permit them to buy eyeglasses.

When the collapse deepens, as in Argentina, governments often apply to the IMF for "help," which exacts further cuts in non-finance expenditures and tax increases. All of that causes income and production to fall. As a result, the gap between the economic means of payment and the size of debt and its service grows and grows. This is more than a vicious circle: It is a spiral, where the dimensions of the problem grow at every turn.

The above analysis demonstrates that what is happening in Argentina is not far from Brazil's doorstep. One wonders why Argentina has not yet swept aside the political and economic system that is destroying it. Instead, government officials continue to humiliate themselves and the country before the IMF, begging it to inflict more punishment upon the people, as though the latter had been the cause of the misery created by the economic model and the IMF. That misery in fact comes from idolatry: of the dollar and the illusory inflows of foreign capital.