that must maintain super-high interest rates. This problem will become even more serious now, because the government has decided to raise interest rates even higher.

The artificial upvaluation of the real vis-à-vis the dollar, according to monetarist logic, will provoke a mass buying spree on the part of those who have substantial savings.

To prevent this, the interest rates are being raised again. The overnight rate was just raised by the Central Bank to 8%, which rate serves as a reference point for the entire banking and credit system, at the same time as the reserve ratio for deposits in the banking system was raised to 100%. With this measure, those who keep their reals in savings or investments can earn 4 to 5% a month, while those who try to withdraw funds from the banking system will have to pay interest rates above 10% monthly, an insane level of usury.

Deflation and hunger

This reform could bring about "monetary stability" in the short term as intended, but its effects on the circulation of physical goods and services will be disastrous: First, because it is insane to promote a reduction in consumption in a country in which 50% of the population lives in misery and 34 million are at the point of extreme hunger, verging on starvation. In 1993 alone, under the effects of previous economic "therapies," Brazil reported 530,000 cases of malaria, 5 million cases of schistosomiasis, 5 million cases of Chagas disease, 200,000 cases of leprosy, and 100,000 cases of tuberculosis. The fascist doctors who are administering this new plan are able, in the face of this, to hail the fact that in the first week of July, i.e., the first week of the new plan, consumption in the main cities of the country fell approximately 40% compared to the first week in June.

High interest rates and a precipitous fall in consumption will result in a sudden deflation, but one which will lead mainly to the bankruptcy of the small and medium-sized industries that lack the financial capacity to survive such declines, and which will feel severe price rises in the cost of their inputs. This, in turn, will quickly lead to an increase in unemployment, as layoffs will be the main means of cutting costs in an economy that is violently contracting. And there is no doubt that in the medium term, this violent deflation will provoke in its turn a decline in tax revenues that could deal a mortal blow to the already weak central government finances.

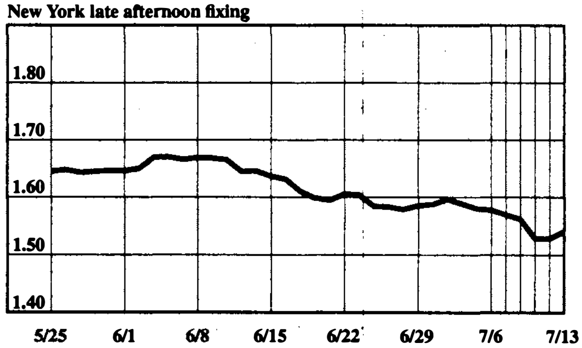
Trade and balance-of-payments deficits

The exchange rate upvaluation will, in a very few weeks, bring about a drastic decline in Brazilian exports and an increase in cheap imports that will very shortly erase the current sizable trade surplus, now running at $15 billion a year. This tendency will be encouraged further by the lowering of tariff rates and the overall program of liberal reforms being introduced. Within a few months, Brazil will join the

Currency Rates

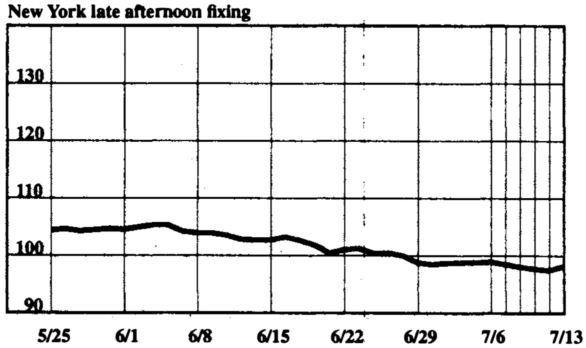
The dollar in deutschemarks

New York late afternoon fixing



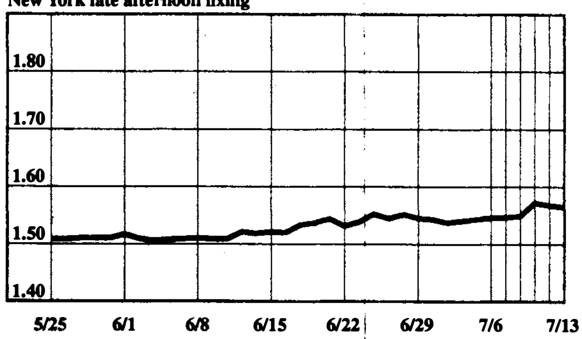
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing