Brazil, autopsy of usury

Not even a miracle could save the monetary and financial system in its present form. Lorenzo Carrasco Bazúa reports.

Finance Minister Maílson da Nóbrega has now added one more title to his long bureaucratic career, that of having accomplished—in a mere 12 months—the total destruction of Brazilian public finances. In reviving the policies of his mentors, former ministers Delfim Neto and Ernane Calvêas, and abandoning the reforms initiated by Dilson Funaro, the architect of Brazil's 1987 debt moratorium, he has intensified the country's economic and financial crisis to the point that not even a miracle could save the monetary and financial system in its present form. In fact, any internal or external instability could, at this point, send speculators—known in International Monetary Fund (IMF) lingo as "economic agents"—into a panicked withdrawal from Brazilian financial markets flooded by worthless public bonds, and could drag the entire economy down with them.

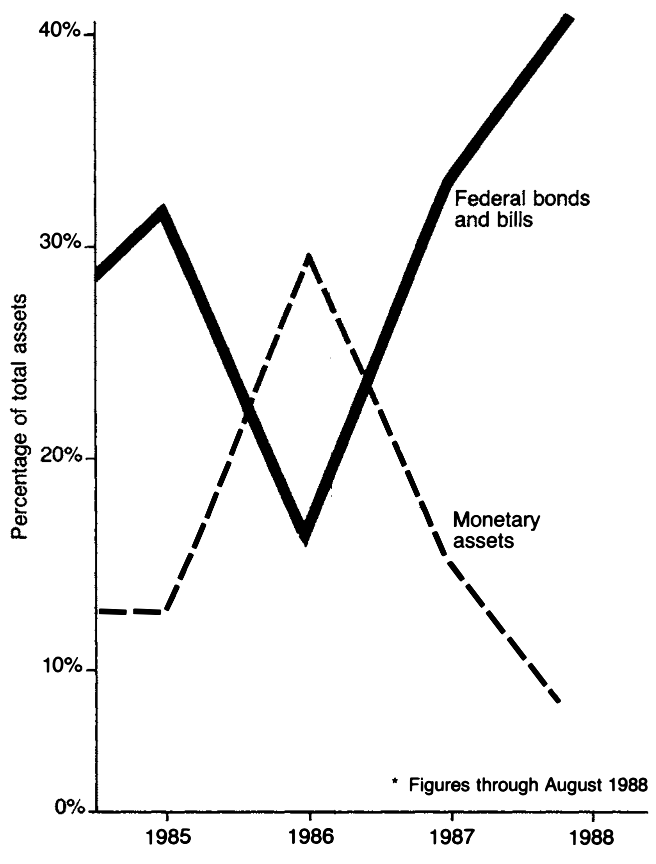
Brazil's public finances have been technically bankrupt since at least 1983, but have not been formally so declared because the IMF has contrived statistical ruses to artificially sustain a cadaver which imitates all the motions of a real financial system, but is stripped of any productive function. Brazil's financial system is, in reality, nothing but a conduit for sending gigantic transfusions of real economic wealth abroad to help sustain another cadaver, namely the international monetary system.

One of the accounting stratagems the IMF regularly uses is called the "operational deficit," whose manifest purpose is to leave out of government deficit accounting the annual cost of the internal debt, which is presumed to be automatically assumed by the Central Bank through the issuance of new public debt bonds. In this way, the Brazilian internal debt—which grows primarily as a result of foreign debt service payments and interest payments on the internal debt itself—exerts additional pressures on the speculative bubble into which national financial markets have been converted.

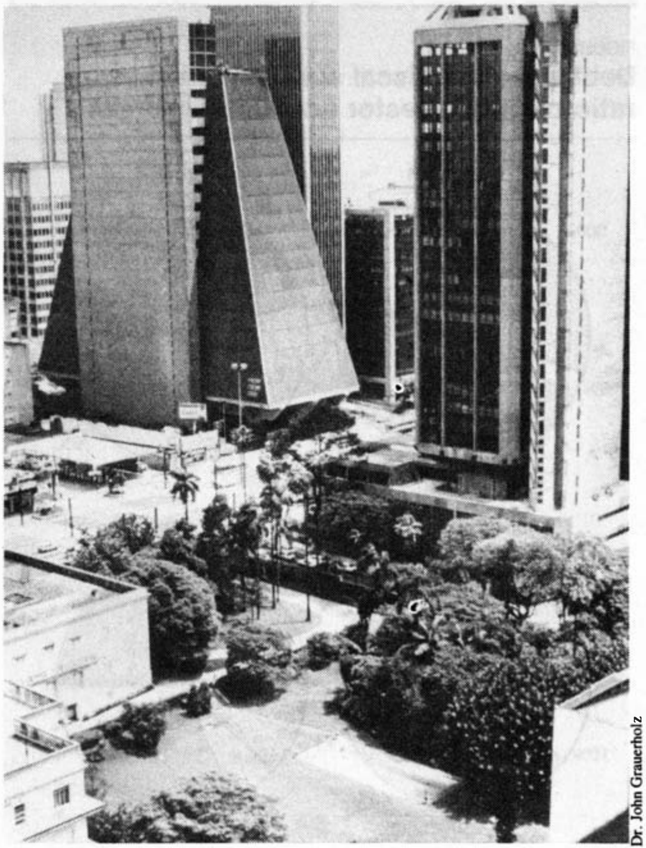
The IMF's fraud is so vast that while Brazil's 1988 public deficit under "operational criteria" reached 5% of the Gross National Product, under "nominal criteria" that same deficit reached an unheard-of 36% of the GNP (see **Figure 1**). By this ruse, the IMF seeks to convince its victim that through cutbacks in the federal budget and those of the state and municipal governments—which translate into sale of the national patrimony and the laying-off of thousands of public employees—a small fiscal surplus can still be generated in 1989.

These cutbacks will mean immense sacrifices that threaten the very stability of the national institutions, but mean virtually nothing in terms of a genuine solution to the public deficit. What possible effect could a 5% reduction of the Gross National Product have for a deficit that will top 40% in 1989?

FIGURE 1
Brazil prints money while real assets collapse

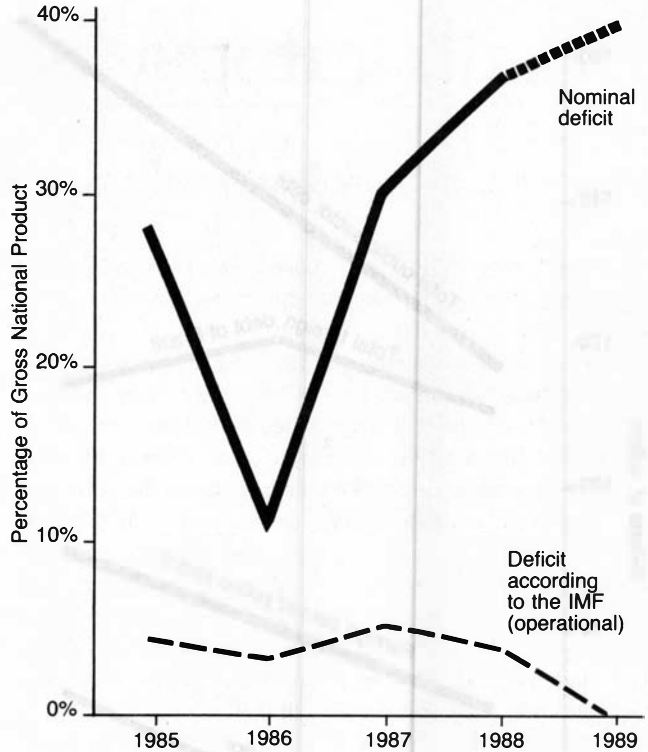


Source: Brazil Economic Program, Central Bank



Real estate boom in São Paulo. Speculative investment has turned the national credit system into a casino, as the real economy is destroyed.

FIGURE 2
Brazil's nominal public deficit far exceeds IMF figure



Source: Brazil Economic Program, Central Bank

Speculative overdose

The problem of the fiscal deficit is not caused by excessive expenditures of the public sector, but rather by the criminal insistence on servicing an unpayable foreign debt through generation of vast trade surpluses. The deficit stems not only from the direct subsidies granted exporters by the federal government, but from the growing internal indebtedness of the federal government caused by that export policy.

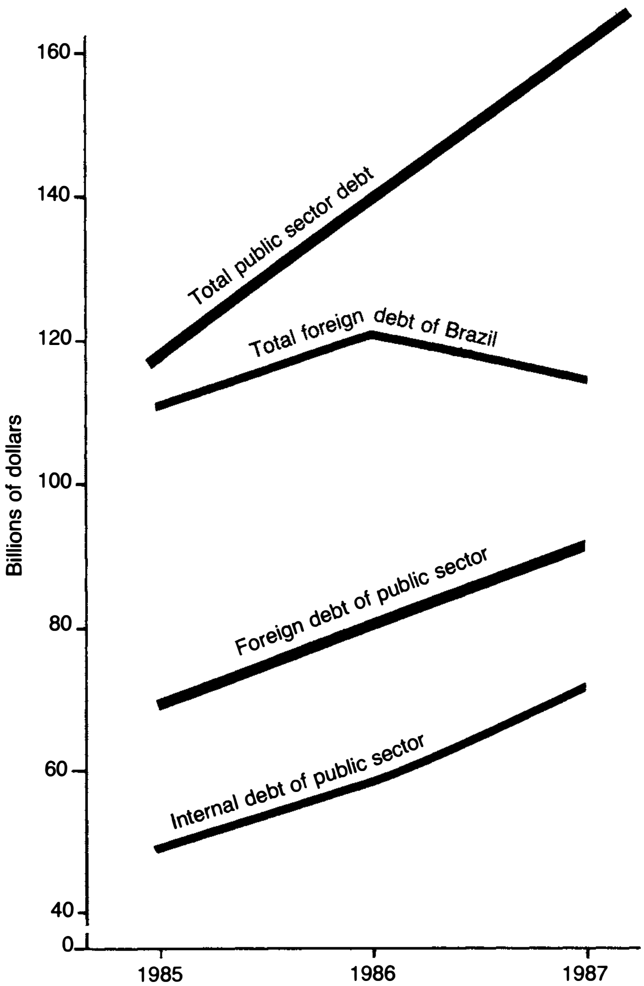
The connection between payment on the foreign debt and growth of the internal debt is a direct one. Of Brazil's foreign debt, 87.2% is public, while the dollar earnings of exporters are private. The government buys, in cruzados, the entire trade surplus (in 1988, it reached $19 billion) with resources obtained either by issuing currency through the Central Bank, or by placing growing volumes of government paper on the financial markets. The purchased dollars are then sent to the international banks as interest payment on the foreign debt. In 1987 alone, the federal government paid out $6.5 billion, and more than $9 billion in 1988.

Internally, the issuance of public debt bonds absorbs a large portion of private national savings, preventing the channeling of these financial resources into real production. To this must be added the calamitous state of basic economic infrastructure in the country—highways, railroads, ports, electrical energy, urban and rural social services, etc.—due to the lack of government investment.

In the period from January through September of 1988, the net increase in public bond placement, according to National Treasury statistics, reached the dollar equivalent of $8 billion, a quantity which projected through December 1988 represents more than the government's payment of foreign debt service for the year. This internal indebtedness does not correspond to any investment in real production, and occurs while the Gross National Product has fallen to zero and industrial production by more than 3%.

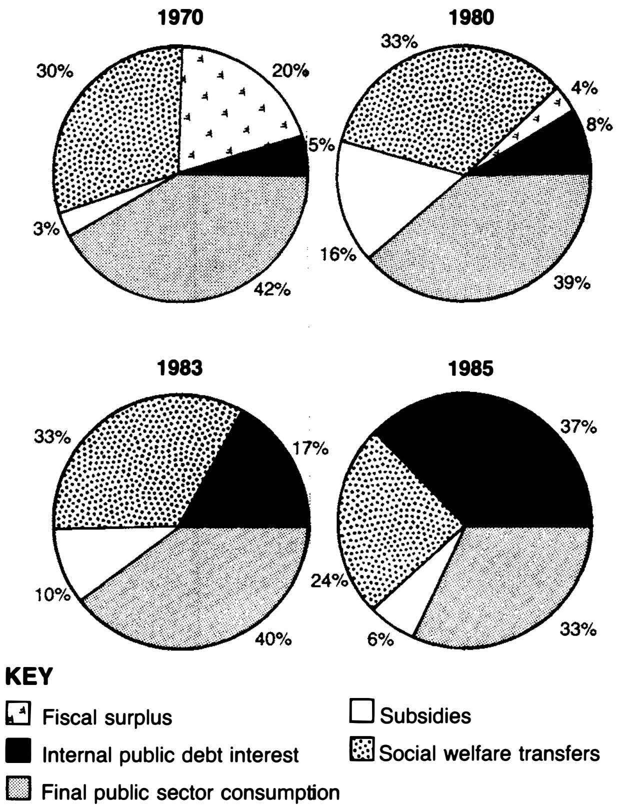
It is in the issuance of bonds without any real wealth or productive function behind them that the real cause of the inflationary spiral in Brazil lies. These bonds are offered on the financial markets at a rate slightly higher than the standing inflation rate, which in turn sets the pace for future inflation, triggering that speculative whirlwind known as *bicicleta financiera*, or "financial bicycle." The mass of government paper now in the hands of the Brazilian public is so large that, by the end of 1988, it represented a full 40% of all the holdings of the monetary system, while money in circulation

FIGURE 3
Internal and foreign debt of Brazil's public sector, 1985-87



Source: Central Bank.

FIGURE 4
Debt balloons, fiscal surplus vanishes as ratio of public sector accounts in Brazil



* Source: IBGE, Getulio Vargas Foundation

fell to less than 8% (see **Figure 2**).

Although this represents nothing in the real economy, it does faithfully reflect the hyperinflationary process which has seized hold of the Brazilian economy. No one wants money that is losing value at the rate of more than 1% a day, and so they run to the "overnight" or "open" markets which deal in government bonds, to "protect" their patrimony.

As if this weren't enough, the authorities contribute to the monetary disorder by granting such additional "incentives" to exporters as daily mini-devaluations which exceed the inflation rate by a slight margin.

In sum, the government has turned the monetary and national credit system into one immense casino delivered over to the whims and manipulations of the international bankers and their local agents; a casino where the only loser is always the nation itself, which covers its losses through ever-increasing internal indebtedness. As can be seen in **Figure 3,** both the foreign and internal public sector debt are growing, although the total foreign debt of Brazil decreased in the last year.

If we discount from the public sector debt all international reserves and Central Bank loans, we find that the total net debt for 1988 will come to more than $70 billion, the equivalent of 27% of the Gross National Product. Forty billion dollars of that debt is government paper in the hands of the Brazilian public. It is not consolidated public debt, as the IMF's fraudulent concept of "operational deficit" would have us believe, but a debt of the central government, payable on demand at a moment's notice. It is, in fact, the average amount which daily circulates on the short-term financial markets, and which depends on the constant placement of new bonds at ever-higher interest rates to maintain itself.

It is now a simple matter to understand the roots of the government's deficit. As can be seen in **Figure 4** on the public sector's current accounts, all categories of expenses

TABLE 1
Debt, as percentage of GNP, grows fastest in Brazil public sector money flows

	1970	1980	1983	1983
Total tax collection	27	26	23	21
Total public sector expenditures	21	22.2	24	29
Fiscal surplus or deficit	+5.4	+3.8	−1.3	−8
Internal public debt interest	1.3	1.2	4.1	10.8
Net transfers abroad	−4	−2	2.4	5.1

* Source: IBGE, Getulio Vargas Foundation

between 1970 and 1985—wages and benefits, purchase of goods and services, subsidies and social security costs—have small fluctuations up and down throughout those years. Only payment of interest on the internal debt, which until 1980 represented less than 2% of GNP (see **Table 1**) surged forward by 1985 to 10.8%, or 37.2% of total government expenditures on the federal, state, and municipal levels.

Although the national records of the past three years are still not available, the continuity of Maílson da Nóbrega's policies with the period prior to 1985 are evident. Proof lies in the reports of the National Treasury, which is responsible for the greater part of this debt, which indicate that real growth of federal security debt through September 1988 was 1300% with respect to the same period in 1987.

Two currencies, and two measures

The volume of unbacked public debt paper is such that it has been virtually converted into a new currency. In fact, Brazil is currently functioning with two separate currencies, one being the cruzado which pays wages, public utilities, taxes, and all other monthly service costs. The other remunerates the overnight market, which is based on public bonds and through which the assets of commercial banks, working capital of companies, resources of exporters and surplus funds of occasional or professional speculators are daily readjusted.

With an inflation rate that reaches 30% a month, the resources transferred from the first currency to the second are immense. And it is this perversion which in the final instance is deliberately covered up by the IMF's concept of an "operational" deficit.

There is little time before this speculative bubble must burst. Its limits have been reached. If the Sarney government persists in producing gigantic trade surpluses at the expense of the real economy, it is likely that the entire structure of the internal debt will explode before the first quarter of 1989 is out. Should that happen, there is no force on Earth that will be able to hold back the hyperinflationary holocaust to follow.