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'Summer Plan': speculation at noon

Schachtian-style austerity measures under President Sarney are raising interest rates above 25% per month.

On Oct. 13 of last year, the Sarney administration failed in its first effort to launch "a star wars of interest rates." On that day, the overnight market interest rate rose 10%, reaching the 50% per month level. The measure immediately unleashed a wave of panic on the financial markets, forcing Finance Minister Maílson da Nóbrega to reverse the measure and abruptly fire the central bank's public debt director.

Three months later, President José Sarney—under the close supervision of such deans of the monetarist gang at the Getulio Vargas Foundation as Octavio Gouvêia de Bulhões and Mario Henrique Simonsen—imposed the so-called Summer Plan: freezing wages and prices; creating the New Cruzado with a value of 1,000 old cruzados and parity with the dollar; and drastically cutting back on public expenses, including the firing of some 60,000 state employees.

The principal measure of the austerity package, however, is a raising of interest rates, disguised as an anti-inflation fight.

As far as speculators in public debt are concerned, there is no difference between a 50% inflation rate with a 25% monthly interest rate, which is what occurred in October, and a 25% interest rate with the 0% inflation the Summer Plan decree claims it wants to achieve.

But for the usurers, even this is not enough. Prof. Rudiger Dornbusch of MIT demanded "stratospheric levels" of interest rates which he claimed would compensate for the high risk posed by the Brazilian economy. This was the same argument as monetarist Paulo Guedes of the Brazilian Institute of Capital Markets, for whom the real ideal interest rate level is 40%.

According to the monetarist theories implemented under the Summer Plan, the rise in interest rates will absorb the "excess liquidity" of the economy, attracting said "excess" toward the overnight market. With this logic, the government supposes, no one will want to hold onto dollars, gold, or real estate, nor will industrialists and merchants want to store merchandise. The result, so the argument goes, will be immediate deflation.

But reality has proven otherwise. During the first weeks of the plan, the speculative markets in gold and the dollar continued to thrive, and the government began to receive dollars that exporters were acquiring through foreign credit lines at 12% annual interest rates, to then invest them in New Cruzados at 1,000% a year!

At the same time, the hikes in interest rates are making credit for production and consumption more expensive, which is triggering an immediate and deep depression in the real physical economy. Last year alone, industrial production fell 3%. With the Summer Plan, that decline will undoubtedly reach 10%, pushing both state and private companies to the verge of bankruptcy.

The government's philosophy can thus be summed up as follows: "If they want to speculate, let them do so solely against public debt paper, that is, against the nation's finances." Therefore, while the austerity package presumably puts an end to indexation of the economy, it maintains—by decree—the spiraling rise of the internal debt through unlimited issuance of new paper. For example, in January, the Treasury—through the Central Bank—sold $7.6 billion worth of public paper to cover the $7 billion worth that came due that month *plus* $600 million worth of interest payments on that debt.

The layoff of between 60,000 and 90,000 public employees, as the government hopes to carry out, will accomplish a savings of between $700 million and $1.1 billion. That is, by removing the economic sustenance of 60,000 or more families, the Brazilian government expects to save the equivalent of one month's interest costs on the internal debt. In short, this means that even if the government were to fire 200,000 officials, as former Finance Minister Delfim Neto demands, this would in no way alleviate the public deficit, which is what the government claims it is resolving with its Summer Plan.

According to Treasury Secretary Luiz Antonio Gonçalves, the internal debt as of December 1988 was 77 trillion cruzados, equivalent to more than $90 billion. In 1989, before the Summer Plan, payment of interest on that debt was calculated at approximately $10 billion, representing a full 15% of total government expenditures authorized by the national Congress for this year. But with the new level of interest rates decreed under the Summer Plan, the additional internal indebtedness could reach at least $7 billion a month!

By April at the latest, when the Treasury no longer has any means to withstand this avalanche, inflation will undoubtedly rise to at least January 1989's 40% a month. If the government continues obeying the bankers and their monetarist agents, the collapse of the nation is assured.

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