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Report from Rio by Silvia Palacios

Cruzado Plan, take two

The government has reverted to IMF policies again, but some politicians prefer Alan García's approach.

Less than a week after the electoral victory of the Brazilian Democratic Movement Party (PMDB), the majority party in the government alliance, the Brazilian government used that political support to launch Phase II of the so-called "Cruzado Plan." Phase II is nothing other than a package of recessionary measures identical to those prescribed by the International Monetary Fund (IMF). With it, the government hopes to win the IMF seal of approval for its upcoming renegotiation of Brazil's illegitimate foreign debt.

The package includes: resuming minidevaluations of the cruzado currency, which were suspended when the plan began on Feb. 28, 1986; increasing by 60% the prices of gasoline and alcohol fuel; increasing by 25% rates for electricity, telephones, and other public services; raising by 100% the cost of drinks, cigarettes, and other luxuries, in order to "punish consumption." The government plans to use these tax increases to collect $11.4 billion, most of which will cover the public deficit, with a few crumbs to finance internal investment.

The Cruzado II is a band-aid to cover the gaping holes which opened in the original plan, winning a little political time before the international financial system goes under. A lot has been said about the success of the Cruzado Plan (and about its model, Argentina'a Austral Plan), which supposedly froze prices and wages and reduced inflation. Nothing is further from the truth. In Brazil, an internal black market has been created in which animal protein foods like meat, chicken, eggs, milk, and other dairy products, which are difficult or impossible to obtain at official prices, can be bought at prices of up to 100% more.

Nonetheless, the government decided to use the statistical trick of declaring that inflation has only been 10% during the past nine months. At the same time, credit for industry is available at interest rates of up to 100% and for personal consumption at 200%. Half-hearted government efforts to punish financial speculators provoked many speculative "investors" to pull out their deposits from the banks and speculate in the real-estate market, where fictitious values are climbing through the clouds, and in illegal dollars, which sell for 90% above the official exchange rate.

The false inflation statistics were stripped naked with the announcement of Phase II. Accordingly, the director of the national statistics service resigned. He protested that to hide the real inflation figures, the government would base the index on the consumption of poor families. The products not included in the index are catalogued as superfluous, such as, for example, clothing or shoes above the lowest level of quality.

During the nine months of the cruzado, internal investment has been non-existent, despite many industries operating at near-capacity levels. The energy sector, a key bottleneck to growth, requires an investment of $5 billion by 1989 to increase installed capacity. In October, Planning Minister João Sayad tried to obtain a $100 million credit for that sector and failed, despite Brazil having been a very punctual and obedient debtor. The banks refused it, demanding IMF approval before loaning anything. So, Sayad came home just like all the Hispanic-American economic ministers, with empty hands.

However, the straw that broke the camel's back and triggered the draconian austerity was the spectre of another 1982 debt crisis engendered by the eclipse of the trade surplus. The surplus had been kept above $1 billion a month. But, in September it fell to $600 million and then in October to a squalid $200 million. The $1 billion monthly surplus was the guarantee of punctual payment for the $13 billion in usurious interest on the foreign debt. On top of this, foreign reserves fell to a bit over $5 billion, the minimum tolerable. That flashed red alarms in Brasilia.

The austerity packet has gotten broad sectors of the country quite upset—not least the newly elected governors, who were voted into office on the idea that there would be no changes in the Cruzado Plan. Three of them ran to meet with President José Sarney to propose to him that the foreign debt be dealt with the way Peruvian President Alan García has done.

Waldir Pires, the governor-elect of Bahia, urged that debt payment be held "to a maximum limit of 15 to 20% of the value of exports." Para's governor, Helio Quiroz, posed the question more directly: "If Peru stopped paying, why don't we?" And Parana's Alvaro Dias proposed postponing all payments on the foreign debt for four years in order to invest the savings, as Peru is doing, to modernize industry.

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