Brazil's neo-liberal model collapses with 'new' anti-inflation measures

by Lorenzo Carrasco

The announcement in early February of a new "anti-inflationary packet," based on a wage and price freeze and the "deindexation" of the economy, is a desperate measure taken by the economic team headed by Brazil's Finance Minister Zelia Cardoso, in an attempt to mask the utter failure of President Fernando Collor de Mello's neo-liberal economic program, which he launched upon taking office on March 15, 1990.

Despite the recession triggered by the policy of monetary tightening that led the government last March to freeze nearly $100 billion in bank deposits and short-term funds, the specter of hyperinflation has reappeared. The official rate of inflation for the month of January was over 20%, and it is accelerating rapidly.

This explosion of the rate of inflation was far higher than what the Collor government had promised the Brazilian people and the international creditor banks—hence the President's desperation to stop it at all costs. But the measures that have been adopted will not resolve the problem of galloping inflation, but will aggravate it. If things continue on this path, a hyperinflationary explosion can be expected, along with the likely resignation of "Zelia's boys," as the economics team is known. This does not seem to bother the international bankers: They would just as soon replace the current team with one that is even more monetarist and more willing to strangle the economy in order to pay the foreign debt.

The package of measures announced in early February includes the following main points:

- a wage-price freeze, *after* increasing the rates charged for various government services by 50-90%. This means an immediate and painful reduction of the standard of living of workers.
- the elimination of the speculative "overnight" market, with the stated intention of channeling these flows into investment. However, it is expected that always clever Brazilian speculators will find other alternate mechanisms for their unproductive activities—for example, the stock market, or the black market in gold or dollars.
- the announcement of new rules for the stock market which, according to the London *Financial Times,* will allow foreign participation in Brazilian mutual funds and eliminate obstacles to "hostile takeovers." After the announcement, the stock market rose by 36% in one day.
- the maintenance of the government's underlying policy of free trade and opening abroad. The pace of trade liberalization was significantly accelerated in terms of the planned reduction of import tariffs on 13,500 products, with the intention of thereby lowering the domestic prices charged for these goods.
- Collor immediately sent Jorio Dauster, his special envoy for renegotiating the foreign debt, back to New York to explain the new package to Brazil's bank creditors committee. Dauster stated that he was taking "some new ideas" with him, with regard to the standing dispute between Brazil and its creditors over the $8 billion in arrears the country has with the banks. One of these ideas is reportedly to trade debt for equity in the Brazilian economy, at a fixed discount of 25% and applicable to *all* kinds of foreign debt, including current interest payments as well as back arrears.
- Brazil will also maintain its policies of public sector austerity, and of selling off its state companies to the highest bidder.

The depression of 1990

What further aggravates the situation, is that this package is being applied to an economy that suffered a dramatic decline last year, thanks to Collor's previous package of measures. That depressive policy, aided by stratospheric bank interest rates, led to a sharp collapse of production. According to the Brazilian Institute of Geography and Statistics (IBGE), in 1990 the GNP fell by 4.3%—the biggest drop since 1981. The economic contraction was equivalent to $14 billion in lost production, which means a drop of per capita income down to $2,240 per year—lower than the level of 1979.

The collapse of industrial production was even worse. According to the National Confederation of Industries (CNI), the main industrial organization of Brazil, the country's industrial output fell at the rate of 8% during 1990. In the state of São Paulo, which is the largest industrial concentration in all of Ibero-America, the rate of decline reached 11.9%, the worst in 15 years. The capital goods sector fell by an average 13.4%, the marine industry collapsed by 40.7%, and the electrical and electronic goods production sector fell by over 30% compared to 1989 levels.

As a result of this contraction last year, 225,000 workers were laid off in the state of São Paulo alone, raising the unemployment rate to 10.7%, the worst level since 1981. To give a sense of the magnitude of the fall in the purchasing power of wages, the president of the Brazilian Association of Electrical and Electronic Goods Producers, Paulo Velinho, explained that if the wage levels of 1980 had been maintained, this would have meant the sales last year of three times as many air conditioners and six times as many refrigerators.

Agricultural output also fell in 1990 by 10.2%, while the grain harvest in particular dropped by 21%. This situation will be felt this coming year, with a threat of a crisis of food supplies, as a result of low food stocks.

Projections for the first quarter of 1991 by the country's main economic institutes indicate an even more somber panorama. The CNI forecasts a GNP drop at an annual rate of 10%. Already in the first four weeks of January, São Paulo industry has fired over 60,000 workers, especially in the capital goods sector. This is the greatest one-month level of firings in the entire history of this sector.

And none of these forecasts takes into account the disastrous effects which the Persian Gulf war will have on the Brazilian economy.

The government's axioms collapse

The news of these disastrous results of the economic program of President Collor de Mello and his team, coincided with the outbreak of war in the Persian Gulf, and found the government and Brazil's principal political leaders unprepared to understand either the nature of the new international situation, or the country's alternatives in the face of the threat to institutional stability. This was due, for the most part, to their misreading of the world conjuncture, especially with regard to the disastrous situation of the Anglo-American financial axis. Thus, the government strategy had been designed on the illusory assumption that a liberal opening of the Brazilian economy, and automatic alignment with U.S. foreign policy, would bring in return the automatic reestablishment of financial flows from the Anglo-American power centers.

Less than a year later, reality has proven very different. The U.S. economic depression is now evident. The "Cold War," which supposedly ended, has been replaced by neocolonial "hot" genocidal wars against the Third World nations, placing Brazil as the next target after Iraq. Internally, the depression has deepened, due to the current neo-liberal economic policy, while the threat of hyperinflation has reemerged. These factors have demolished the axioms upon which the Collor administration has been basing its actions.

In March 1990, in launching the "New Brazil" program, the government froze banking deposits, proclaiming publicly, as today, that its purpose was to fight banking speculation. But this didn't last more than a few weeks, after which the government "unfroze" $30 billion for the banks, while all the productive sectors were forced to survive in an environment of sky-high interest rates and draconian cuts in public investment. In September 1990, the government stated its intention of reversing this absurd situation but, according to the magazine *Relatorio Reservado*, it again was faced down by the banks and ended up "refinancing" their $30 billion.

The cure was worse than the disease. Last year, while the real economy was collapsing, the banking system enjoyed average profits of 13% of their liquid assets, as a result of the high interest rates on the very short-term credits issued.

How to defeat the crisis

Contrary to the current approaches which view inflation as the greatest evil, and consider the government budget deficit as its main cause, effective emergency measures must start from the fact that the fundamental cause of the worldwide political and economic crisis, including the genocidal war against Iraq, is the economic collapse of the post-World War II Bretton Woods system. To solve this to their advantage, the Anglo-American axis is using every means to maintain world hegemony and the dominance of the international monetary system.

This means that Brazil must isolate itself as much as possible from the effects of the international financial crisis, by immediately discarding the fantasy of a "normalization" of relations with the international monetary system. Brazil's current economic and monetary policy of a liberal opening fully synchronized with Bush's Enterprise for the Americas, must be abandoned, not only because it represents a risk in terms of worsening the internal economic depression, but also in order to regain the confidence of political layers in the country that view the current government as intending to submit to foreign designs contrary to national interests.

To defeat inflation, Brazil will have to look inward, not open itself up. The resources for an emergency program will have to come from the sovereign power of the national treasury to issue primary productive credit oriented toward sectors which are of strategic importance, especially in the construction of infrastructure.

As *EIR* Founding Editor Lyndon LaRouche has shown in numerous works, credit which is prudently issued and oriented toward the development of physical infrastructure, is inherently anti-inflationary, since it fosters an increase in the general productivity of the economy.

Within Ibero-America, Brazil must become the most active force for economic integration, based on the construction of great infrastructural projects in energy, transportation, and communications. It is in Brazil's immediate self-interest to promote the creation of an Ibero-American common market and customs union which will allow it, along with its neighbors, to face the threats posed by Bush's New World Order.