Report from Rio by Geraldo Lino

Brazil responds to reality

Fear of a Mexican-style crisis has provoked a shift even on the part of some dyed-in-the-wool monetarists.

The recent shocks delivered to the international financial system are causing those Brazilians who had allowed themselves to be seduced by "neo-liberal" free-trade economics to wake up to harsh reality. Even President Fernando Henrique Cardoso has been forced to recognize the gravity of the crisis and implement what his advisers euphemistically call "corrections" to the Real Plan, in an attempt to avoid the type of crisis which hit Mexico last December and now threatens Argentina.

On March 6, after three months of trade deficits and capital flight which caused a $3 billion drop in foreign reserves, the government was forced to implement a "phased" devaluation of the national currency, the *real,* dangerously overvalued by an estimated 30%. By adopting a system of "fluctuation bands" controlled by the central bank, the government will try to bring the *real* and the dollar into parity by May 1 without running the risk of a sudden devaluation.

Nonetheless, the day after the new system was announced, the central bank had to spend almost $300 million of its reserves to keep the dollar within the established limits, a fact auguring future difficulties in this crucial aspect of the economic plan.

On top of credit restrictions implemented in mid-February to combat a "consumer explosion" (which is really nothing more than a small increase in purchasing power of the poorer sectors of the population due to low inflation levels), the government has also announced new austerity measures. And, in an attempt to maintain foreign speculators' interest, it is dangling the possibility of privatizing the Companhía Vale do Rio Doce, owner of the world's largest iron ore reserves at Serra dos Carajas in the Amazon. The overall privatization program will also be accelerated in tandem with efforts to pass constitutional amendments in the Congress to eliminate state monopolies in the energy, telecommunications, and oil sectors.

Recent developments have also provoked an intense debate on the highly speculative character of the world financial system, bringing important sectors of the local establishment into a discussion which just a few months ago was limited to isolated nationalist groupings. As some in these circles fear that a deepening crisis will lead to a general questioning of the globalist, neo-liberal model, their spokesmen have adopted a policy of "cutting their losses" by admitting to some of the system's flaws in order to salvage its most important elements.

While in Chile on March 2, President Cardoso departed from his prepared text and attacked the International Monetary Fund and World Bank, which he said were "no longer able to control the world financial markets."

The ultra-monetarist former finance minister, Antonio Delfim Netto, recently attacked financial derivatives for creating "a $13 trillion cloud" of speculative capital which "floats around the world in search of profits which the world economy cannot offer." In an interview published in the March 5 *O Estado de São Paulo,* Delfim Netto defined derivatives as "a monster, something like an abstract and mutant virus," and pointed to the bankruptcies of Orange County, California and Barings Bank as the result of excessive speculation with these instruments. "People are induced to think that there is a supreme entity called the market, described 200 years ago by Adam Smith," he added, and warned that "the market needs national regulation. It needs a strong state."

However, the editorial in the February issue of *Ombro a Ombro,* the newspaper which circulates among the Armed Forces, better reflects the views of those who seek a radical, positive change in the financial system. "Mexico's financial crisis was a stark demonstration of the failure of the neo-liberal model which has been popularized among the developing nations and adopted by their credulous or subservient elites as the 'last word' in economic policy," the editorial stated. Therefore, "the results obtained show that the neo-liberal model, and by extension the lauded 'globalization' of national economies, are characterized by a distortion which is incompatible with the goals of real economic development, producing an enormous imbalance between the indices of the real economy and the growing mass of nominal resources which circulate in the financial system."

As an alternative, the editorial proposed that "the Executive should fully assume its role in guiding economic processes, directing financial resources to productive sectors of the economy such as projects for expanding and rebuilding infrastructure. This is the only way to efficiently deal with the problems caused by the lack of productive employment and the deficit in per capita consumption for the majority of the population."