ance for error in our electronic payment systems. Like a breakdown in an electric power grid, small mishaps create large problems. Consequently, we have endeavored in recent years, as the demands on our system have escalated (we clear $1.5 trillion a day on Fedwire), to build in significant safety redundancies. . . Along with our other central bank colleagues, we are always looking for ways to reduce the risks that the failure of a single institution will ricochet around the world, shutting down much of the world payments system, and significantly undermining the world's economies. Accordingly, we are endeavoring to get as close to a real time transaction, clearing, and settlement system as possible. This would sharply reduce financial float and the risk of breakdown."

Thus, Greenspan made reference to real underlying problems, while offering ridiculous non-solutions. Today the problems have intensified to the breaking point.

Brazil's 'virtuality pact' about to pop

by Lorenzo Carrasco

There exists among the main communications media and public and private institutions in Brazil, a kind of "virtuality pact," a sort of fairy tale that nothing is wrong, that everything has returned to normal despite the crisis that followed the Russian debt moratorium of last Aug. 17, and then the Brazilian maxidevaluation of January 1999. Just a panic, nothing more. "Nobody talk about the crisis, and it won't come back," seems to be the idea behind the pact.

But the reality behind this "virtuality pact" is that it is a calculated part of the environment created by the decision of U.S. Federal Reserve Board Chairman Alan Greenspan to hyperinflate the world economy, by reducing primary interest rates, as a means of simply postponing the explosion of the global financial bubble. Thus, the "rapid recovery of Brazil's credibility," which the Cardoso government insists on presenting as its great victory, is about as solid as the hyperinflated bubble that sustains it. The truth is that no government has spent as much of the country's shrinking public revenues as President Fernando Henrique Cardoso has, in trying to hide the undeniable truth of the bankruptcy of Brazilian public finance. In fact, the more he tries to hide the truth, the more it seems to surface.

According to Brazilian Central Bank figures, the liquid debt of the public sector, both public and private, reached a half-trillion reals (Brazil's currency, more than $300 billion) in April, which is four to five times more than the public-private sector debt by that same period in 1995. If we take the most optimistic estimate of an annual interest rate of approximately 25%, the cost of interest on this debt will still be $75 billion in 1999—$6.5 billion a month, or significantly more than 80% of the tax revenues collected in 1998.

But this is a best-case scenario, which supposes an exchange rate of 1.7 reals to the dollar by the end of 1999, an average annual interest rate of 27%, and the general assumption that Greenspan will keep the primary interest rate at the Federal Reserve frozen. Even if Greenspan's hyperinflation madness could be indefinitely sustained, the situation in Brazil might still enter a new phase of collapse in August, when the enormous task of rolling over a half-trillion reals has to be faced.

The scenario grows worse in view of the fact that the early 1999 devaluation of the real did not produce the expected rapidly increasing the trade surplus, thereby reducing the balance of trade deficit. The agreement with the International Monetary Fund (IMF) assumed an $11 billion trade surplus in 1999, but if even $3 billion is reached, it will be a miracle. This, of course, will increase the pressure for more foreign capital, and the emission of more public bonds, which are today largely indexed to the dollar.

An IMF 'virtual reality' pact

To hide this calamity, the agreement struck with the IMF draws a veil over the issue of how this debt will be paid, presupposing a flow of eternal and unlimited foreign capital. It concentrates instead only on the demand that the Brazilian government must produce a *primary* fiscal surplus (that is, before payment of interest on the public debt) of 3.5% of Gross National Product, in order to keep from further worsening the debt picture. The IMF is no longer concerned with the so-called *nominal* deficit, because this includes interest payments on the public debt, which they expect to remain quite high. Maintaining a primary surplus means cutbacks in every public budget line without exception, and an intensified dismantling of public companies and concessions, through privatization. It also means implementation of so-called "structural reform," which includes an increase in taxes, reduction of pension and retiree funds, and massive layoffs of still more public workers.

This policy has created conditions of accelerated social disintegration. For example, unemployment in the state of São Paulo, the most industrialized in the country, was 17.8% in January, 18.7% in February, 19.9% in March, and 20.3% in April. This means that nearly 1.8 million heads of families are without incomes.

Despite IMF Managing Director Michel Camdessus's denials that the IMF has ordered cutbacks in Brazilian social spending, the reality is that, by the end of this February, the Cardoso government had already slashed the 1999 anti-poverty budget by an addition 2.04 billion reals, leaving just six of the original 31 federal programs still with their budgets

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