US and IMF rescue banks in Brazil

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2 December 1998

By the summer of 1998, a worsening of the Russian economic depression had resulted in a collapse of the ruble and default on Russian debts. The impact of the Russian crash was felt across the world. In the United States it triggered the collapse of the $100 billion Long Term Capital Management hedge fund, with potentially devastating effects on world capitalism.

The line of falling economic dominoes that had begun almost a year earlier in Southeast Asia was making its way around the world. Investors were withdrawing their money from one semicolonial nation after another, in hopes of staying ahead of the financial storm. By September 1998 all eyes had turned to Brazil.

Brazil, the tenth largest economy in the world, owes the US banks nearly $30 billion, more than any other nation. Its total debt, $90 billion, is one-eighth of its $720 billion Gross Domestic Product.

In spite of draconian measures imposed by Brazilian President Fernando Enrique Cardoso, including the firing of 30,000 civil servants, it was apparent that Brazil would not be able to stay current in payments to that debt in 1999--the numbers were not adding up.

The competitive devaluations that resulted from the Asian recession had made Brazilian exports, such as steel, relatively expensive. Furthermore, different rates of wholesale price inflation between the US and Brazil had made it hard for agricultural exports to compete internationally.

This made the exchange rate of 1.16 *reales* to the US dollar, unsustainable. As foreign and Brazilian financiers converted their *real* accounts to dollar deposits, an exodus of dollars began to deplete Brazilian dollar reserves. Ironically, these capitalist investors made a devaluation all but certain, as the dollar reserves, which could have been used to pay the debt, were used to protect the value of the *real*.

A devaluation of the Brazilian *real* carries with it the potential of the collapse of major American banks, ushering a global depression. That is why Brazil raised interest rates to 43 percent and, beginning in early 1998, proposed an austerity plan of budget cuts, to transfer the money to international banks.

Given the magnitude of the problem, a rescue package of $41.2 billion was just put together by the United States, the IMF, the World Bank and the Inter-American Development bank. The money is in the form of a standby loan that will be doled out to Brazil as the government of Fernando Enrique Cardoso imposes further cutbacks and ushers in an economic recession. Increased unemployment and taxes, and lower living standards are projected for the working class.

Cardoso, a Brazilian social democrat, was heavily backed by the US in his recent reelection bid. He has combined free market austerity measures and privatizations along with demagogic criticisms of the conditions of social inequality that exist in Brazil.

Officially, the unemployment rate is 8 percent. Independent observers calculate that the actual rate of unemployment approaches 20 percent. These estimates do not include the huge army in the informal sector (day laborers, door-to-door manicurists, cutlery sharpeners, peddlers, etc.) that earns less than the Brazilian minimum of $105 a month (25 percent of what it takes to feed a family of four).

Out of Brazil's 60 million workers one out of every six earns the minimum wage, or less. There is no unemployment insurance. Under Cardoso's austerity plan, unemployment compensation of $83 dollars per month would be given to the long-term unemployed on the thirteenth, fourteenth and fifteenth month of unemployment. 'Informal' workers' retirement taxes are to be increased, driving many of them out of the pension system altogether.

Brazil has the most unequal distribution of income and wealth in Latin America (the region in the world with the most unequal distribution of income and wealth). The richest fifth of the population controls 60 percent of the wealth and the poorest fifth accounts for 2 percent. In terms of income, the top 10 percent receives 48 percent of total income, and the bottom 10 percent earns only 1 percent.

Cardoso's austerity plan proposes changes in social security payments that would greatly reduce pension increases and entitlements.

Brazil's child mortality rate of 42 per thousand is four times Cuba's, three times Chile's, twice Argentina's and 1.5 times Mexico's. Brazil's life expectancy at birth (67 years), among the lowest for all of Latin America, is nine years less than Cuba's, eight years less than Chile's, six years less than Argentina's and four years less than Mexico's.

Cardoso proposes cutting the health and nutrition programs. Furthermore, Cardoso's social security 'reform' would impose a retirement age of 65, far above the male life expectancy of 57, insuring that very few live to collect their pension. He has referred to workers who retire at 50 as 'bums.'

Brazil also has one of the least equitable distributions of land in the world. About 20 percent of the population hold 88 percent of the land, while the poorest 40 percent own just 1 percent. Cardoso has called for relief for the 'obligations' of the rich landowning oligarchy. Land reform programs are to be cut.

In addition to those proposals, the Brazilian government is proposing the elimination of the automatic deduction of one day's wages per year that currently goes to the trade unions (for a total of $500 million).

Even nature is not free from Cardoso's budget cutting. Ninety percent of Brazil's budget to protect the Amazon Jungle is being slashed.

Each of Cardoso's proposals will widen the gap between rich and poor. Each of these measures indicates that every possible resource that is made available to rescue capitalists and bankers is being obtained from the working class.

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