Between Berlin and Buenos Aires

Brazil suffers mitigated damages, thanks to the near disappearance of public debt in foreign currency and the foreign exchange reserves accumulated in the Lula governments

by Luiz Gonzaga Belluzzo

Valor, 03/10/2023

In the novel “A Princess in Berlin,” writer Arthur Solmssen gently torments us with the story of Peter Ellis, a young American from Philadelphia, an ambulance driver on the Western Front during World War I. In Paris, Peter meets a former German officer, Christopher Keith, whose life he saved in Verdun. Christoph is descended from a family of bankers from Berlin. At their invitation, Peter agrees to go to Berlin to study painting.

Walking through the streets and Cafés of the City Light, Keith launches an invitation to Peter:

“Come to Germany,” Keith said.

“To Germany?”

“My friend, in Germany we have inflation. Do you know what that means? Money is worth less and less, I mean our German mark, it buys less and less every day. You know what a U.S. dollar was worth today - I mean, this afternoon, when the banks closed? About two hundred milestones - so one of our milestones is half an American penny! And it’s getting worse, they haven’t decided how much Germany will pay in reparations to the Allies, every day the brand falls more, and for that check you can live in Germany – well, very comfortably.”

Argentina debuts in the clutches of another monetary crisis, among many that suffered in the 20th century and the aurora do XXI

The cinema offered us a dramatic narrative of Ingmar Bergman. In the opening of the classic “The Serpent’s Egg”, Bergman presents the anguish of his German character stunned by the recount, minute by minute, of the milestones needed to buy a pack of cigarettes. Between the entrance to the bar and the arrival at the counter, the unfortunate knew what price went up.

Crushed by the war repairs imposed on it by the Treaty of Versailles, the German economy succumbed to the impossibility of generating the currencies necessary to serve what was imposed on it. The systematic flight from the mark to the dollar and the pound, the reserve currencies of the Gold Exchange Standard, has triggered the hyperinflation and the need for monetary emissions from the Reichsbank to “cover” the desperate flight of the national currency.

In Argentina today, prices have not reached the speed of German hyperinflation, but are already fast to untread another inflationary process of weimarian proportions.

On the eve of the game Boca Juniors vs Palmeiras, the Argentine police warned Brazilian fans: those who commit the disrespect of burning weights in the stands will be arrested. A Palstine friend protested: they should warn the wealthy Argentines. By escaping to the dollar, they burn weights every day, several times a day. (Fortunately, nuestros hermanos should appease their concerns in the face of the growers of the perro muerto that recommends Javier Milei to dollarize the economy.)

Experts deplore the collapse of Argentine peso. These prosecution witnesses, it is said, are the same ones who recommended a harsh and ruthless adjustment to the Brazilian economy after the 2014 elections. Market spokesmen said that confidence had to be regained.

In short: if the emerging indigent tidying up the house and follows the canons of the macroeconomic tripod, investors gain confidence and flood the well-behaved boy from direct investments and buy confident public and private debt securities. As well do Brazilians, trust has entered the sails and the economy was one of a stern wind in the Temer-Meirelles Era.

Argentina debuts in the clutches of another monetary crisis. It is necessary to emphasize the expression “another one”. One more, among the many that affected the economy of the hermanos in the twentieth century and in the dawn of the 21st century.

The attentive reader certainly keeps in memory the prodigies of Martínez de Hoz in the 1970s. Valladolished by the abundance of petrodollars, “Mago de Hoz” promoted the appreciation of weight. The two experiences of exchange rate appreciation and external indebtedness were shipwrecked in the tsunami of the debt crisis of the 1980s.

Born of the rubble of the debt crisis, the convertibility of Domingo Cavallo, a colonial old would, was reinvented in the early 1990s to take Argentina out of hyperinflation. A peso was worth a dollar. The euphoria of the first years of dulce plates disappeared with the succession of financial crises: first Mexico, then Asia, culminating in the Brazilian devaluation of 1999, the beginning of the end.

In the last 40 years of capital account opening, crises have multiplied in so-called emerging economies. From Mexico to Argentina, through Asia and Russia – without forgetting Brazil – economies have swayed, flogged by currency and financial crises.

The experience of financial globalizations – that of the three last decades of the nineteenth century, as well as that of our times, the era of the Wolf of Wall Street – demonstrates that the moods of globalized financial markets, in their insatiable voracity, impose their reasons on the monetary and fiscal policies of the countries of inconvertible currency that open their capital accounts, surf in the external credit cycles and become debtors in foreign currency.

So persistent were the lessons of “reality” that not even the advocates of financial openness resisted the precariousness of their wisdom. At the beginning of the first decade of the third millennium, IMF and BIS reports were already in mind to alert emerging countries to the risks inherent in credit and external debt cycles and their procession of currency, monetary and fiscal incidents.

In non-convertible currency economies, such as the Brazilian real and the Argentine peso, capital mobility tends to produce unwanted valuations, followed by abrupt devaluations. Floating exchange rate regimes fail to soften the thieves and monetary authorities of the country's "weak currency" – with unpredictable "buying point" – are tempted to sell reserves or raise interest rates to stabilize the course of the exchange rate. It doesn't work. If the reserves are low in the face of a high financial liability in foreign currency, such desperate measures accentuate distrust in the local currency and accelerate capital flight.

Brazil suffers damages mitigated with the marches and foreign exchange counter-marchas, thanks to the near disappearance of the public debt in foreign currency and the foreign exchange reserves accumulated in the Lula governments. Damn inheritance on the left.

Luiz Gonzaga Belluzzo is professor emeritus of the Institute of Economics of Unicamp and the Federal University of Goiás. Write monthly on Tuesdays.

He is a professor at Unicamp and founder of Facamp. In 2001, he was one of the 100 largest heterodox economists in the Biographical Dictionary of Dissenting Economists.