SMALL EUPHORIA, POOR BRAZIL

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Folha de S. Paulo, June 08, 2009

Over the last three months, the stock markets of the emerging countries are experiencing a strong rise. Is this an indication that the crisis is already coming to an end? Or is it a small bubble – rather a manifestation of the perverse nature of the world's financial system? Or is it perhaps a consequence of the acknowledgement of the fact that the crisis hit the developing countries less harder than the rich ones? Although it is not possible to have a satisfactory answer to the problem, it most probably is a combination of the two latter factors. On the one hand, the rise in the stock markets reflects the speculative spirit of international financial markets, which resumed the capital flow in search of better real returns and gains with the exchange rate appreciation; on the other hand, it acknowledges the fact that this crisis is being less serious in emerging countries, which thus become doubly attractive to speculation.

Evidently, stock owners in Brazil feel relieved, but they should not be mistaken: there is no guarantee that the stocks will continue to appreciate, or even that they will maintain the level they have already reached. In other extended crises – which is the case here – the stock market experienced several moments of recovering, soon followed by a decline. In the long Japanese recession, for at least five times the stock market warmed up and the prices subsequently dropped again.

In the Brazilian case, in which prices are so dependent on foreign investors acquisitions, there is always a strong instability in the stock market. The powerful reaction of rich countries' central banks, led by the American Federal Reserve Bank, injected billions of dollars into their economies. Correctly remembering the mistake made by the Fed in 1929, the central banks thereby attempted to face the liquidity crisis caused by the October 2008 panic. In their phase of euphoria, financial crises are always characterized by an absurd increase in credit. However, when they burst, the consequent loss of confidence leads to the disappearance of the credit, and the central banks have no alternative but to increase the currency supply and to reduce the interest rate in order to deal with the credit constraint. There is no guarantee, however, that the new money that passes into the hands of the banks and, more broadly, of the financial market will be forwarded to enterprises and consumers. Instead, they may very well use the new cheap resources to obtain high interests in the emerging countries. Besides, if this inflow of speculative foreign resources leads to the appreciation of the local currency, it is even better, because now the speculator will also gain – and a lot – from this appreciation.

This is essentially what is happening in Brazil with the stock market. We are experiencing a small speculative bubble in which the high real interest rates and the perverse appreciation of the "real" are perfectly joined. Rent-seekers are obviously happy, but this whole situation contributes to Brazilian unhappiness. Tied to the neoliberal principles of financial liberalization, unable to give a proof of national autonomy, our government passively watches the return of the exchange rate overvaluation. The great opportunity that this global crisis offered to Brazil to return, without any risk, to sustained economic development by lowering the interest rate and adopting measures to control the exchange rate is being pathetically lost.