

The Effects of Financial Globalization on Brazil (1999-2002)

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Abstract: The twenty-first century was a transition that allowed us to identify a particular moment in Brazilian Economic History, the convergence between the orientation of neoliberalism and of the Real Plan. This perspective that acted as an interpretive key of the paradigm of the “New Economy”, after the technological Revolution that characterized this period. This context led our research theme to relate the effects of financial globalization on Brazil, accordingly to the perspective of the editorial agenda of the newspaper “O Estado de S. Paulo” (1999-2002). The methodology of documentary research allowed to classify, under “analysis and synthesis”, more than 1,400 editorials. The results revealed an editorial agenda that was constituted in the exercise of elaborating discourses on the Brazilian reality as part of a narrative that was consolidated from XIX century on the history of Brazil Republic.

Key words: economic history of Brazil republic; new republic; globalization; real plan; “o estado de S. Paulo”

JEL codes: B, F, N

1. Introduction

The twentieth century marked a structural transition in the Brazilian economy. From the condition of agro-exporting semicolony in the late nineteenth century, following the Proclamation of the Republic in 1889, Brazil closed the last century occupying a place among the ten largest world economies, according to the International Monetary Fund (IMF).

These economic transformations involved social effects that were accentuated in the late 20th century, largely due to the impact caused by the technological financial globalization on the labor market, accentuating the structural social inequalities of the country.

This social impact somewhat compromised the change in the economic model proposed by the Real Plan from 1995, after five economic plans from 1980 that failed. The Real Plan came with the proposal to ease the country’s inflationary escalation, also to replace the old economic model, “of import substitution, of forced industrialization and development”¹.

The old model was considered the “malignant triad” (Campos, 1999), for the combination of “inflation, protectionism and exchange devaluation”. In contrast, the Real Plan would be the “benign triad” as it combines “monetary stability, openness and structural reforms”².

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¹ “O que faltou para completar o real”, *O Estado de S. Paulo. Notas & Informações*, 03 jan. 1999, p. A3.

² “O que faltou para completar o real”, *O Estado de S. Paulo. Notas & Informações*, 03 jan. 1999, p. A3.

However, this transformation of the economic model in Brazil proposed by the Real Plan also involved taking on the global challenges that were in progress. This was accentuated by the shift to the system of globalized volatile capital markets, which translated into internal risks of great magnitude due to the effect that the international financial crises had on emerging economies, as was the case of the Brazilian economy in this period.

This moment in the history of contemporary Brazil involved dimensioning the challenges of reorganizing a new development model for the country when financial globalization organized a new operating system in integrated markets. The geopolitical agenda that became evident with the creation of economic blocs such as NAFTA, the European and Asian Common Market. This led Brazil to seek hemispheric insertion with the southern countries, with Argentina as its main partner of the regional economic bloc in the creation of Mercosur in 1994.

The force of this moment of transition has become much more decisive by the changes of digital technological paradigm of the volatile monetary pattern of the international financial market that has impacted on systemic crises in emerging countries, whose deeper effects have been translated into currency devaluation, rising foreign debt and economical stagnation.

The convergence of these two ongoing phenomena in Brazil in the transition to the 21st century, the change in the economic development model proposed by the Real Plan and the impact of financial globalization at the end of the last century were the foundations of the main hypotheses elaborated by this research.

The research was based on following the thematic and editorial agenda of the newspaper *O Estado de S. Paulo* (1999-2002) because it considered the historical collection of the newspaper on the History of Contemporary Brazil, from the Proclamation of the Republic to the present day.

The editorial line of the newspaper defines in Brazil an influential point of view since the end of the nineteenth century, part of the coffee economy, founded in 1875 and turned into a herald of republican ideas. In addition to opinionated journalism, the newspaper stands out for its commitment to report on the daily facts that characterize Brazil's economic agenda today. In this way, it constituted a privileged place to observe the impact of global facts on the local sphere and the unfolding of the applicability of the Real Plan in seeking to overcome structural inequalities in the combination of economic and social by the power of journalism to narrate facts.

This research's objective in the field of the Economic History of the Republic in Brazil considered that the point of view of the newspaper *O Estado de S. Paulo* has been distinguished by the republican tradition. This narrative marked in the country a symbolic place, on the one hand by the action of reporting reality, on the other, by the power to organize an influential economic agenda.

In formulating a set of hypotheses, the research considered the new economic context of Brazil, a period that was characterized as the transition to the new Millennium. What was marked by determining factors reorganized this new economic context. That is, the impact of the new international financial system, strongly marked by the influence of the neoliberal orientation that was largely determinant in the new model, the Real Plan.

This neoliberal tendency was almost hegemonic in the late twentieth century and functioned as a kind of operating standard to adapt to the economic structures of the globalizing world for the New Economy, which ran on a total immaterial financial operating system from end of last century. Thus, the research sought to map aspects of this process about Brazil in the newspaper pages in search of comprehensive links of the new ideological and economic format of the world. This was shaped by the realignment of the world after the end of the period known as the Cold War, due to the predominance of ideological tendencies that manifested themselves during the geopolitical changes of the international economy after 1980, an influence that was decisive in Brazil.

2. The Perspective of O Estado de S Paulo Newspaper About the Real Plan

In essence, the newspaper did not fail to report and comment in the public sphere on what involved in this period (1999-2002) the central macroeconomic proposal of the Real Plan. The priority was based on a new economic structure for the pursuit of currency stability with inflationary control through targeting policies for state reorganization. These guidelines were part of an economic model based on a tripod of reform, structural adjustment, and openness of the state apparatus economy to private enterprise.

In many moments, the newspaper considered the international context converging with national transformations, or modernization of the country to the current global standard, commenting on the new orientation of the world system, essentially coincident with the neoliberal orientation. This was decisive in the opening and preponderance of market power over economies. This fact was accompanied by the new globalizing technological paradigm, reorganizing the world system in new media, which evidenced the capacity of the integrated financial markets that, in real time, were acting on state economies.

3. The Effect of the International Financial Market on the Real

Brazil had not yet overcome the impact of the international financial crisis of 1998, when in the middle of January of the following year, 1999, came the crisis of devaluation of its new currency, the real. In a wide aspect all assets and contracts were devaluated, a loss still incalculable at the beginning of 1999. But it was not for the business of monetary compensation, that is, in US dollars.

In an editorial³, the newspaper followed Banco do Brasil's effort to sell dollars and hold the Real at any price, which fell 28.75%, according to the headline of "OESP" on January 22, 1999. The variations in the US currency caused, for example, ten days after the devaluation, a field of tension in the market, which was reflected in the Sao Paulo Stock Exchange, closing down 4.59%. The appreciation of the dollar was around 40.36%. Losses from this devaluation of the Real should also be assessed against what Brazil had already lost six months earlier, with the international financial crisis. Brazilian reserves ended 1998 with a current account deficit of US\$ 34.9 billion, the deficit equivalent to 4.48% of GDP, as a result of trade and services operations that the country did abroad. According to "OESP", these operations meant "the worst annual performance of these accounts since the beginning of the Real Plan", ending 1998, at one of its lowest levels of this decade, as the balance pointed to a deficit of US\$ 35.232 billion, as editorial.

These data provide a dimension of the effects of the capital markets crisis in Brazil, since in April 1998, four months before the crisis, Brazilian reserves totalize US \$ 74.6 billion. At the end of 1998 it was US \$ 35 billion, we went back to the 1994 level, that is, the Real Plan lost large assets in its first and main years of progress due to the effects of globalization in Brazil during this period. It was noted that this performance meant the worst annual turnover of these accounts since the beginning of the Real Plan at a time when Brazil was promoting one of the largest privatization processes in the world this year. Still, it ended 1998 with international reserves at one of the lowest levels of this decade.

The newspaper followed the processes of financial openness that intensified with the Real Plan and reported that the country experienced moments of great inflow of international financial capital and significant participation in major privatization processes. Like those in the banking system and the telephone system, as was

³ Desvalorização excessiva, *O Estado de S. Paulo. Notas & Informações*, 21 Jan. 1999, A3.

the case with Telebrás, it considers the largest privatization of a state system to occur in the world to date.

The combination of these facts and their impacts were factors that had a direct impact on the rates of increase of unemployment already above 10%, when the value of the minimum wage for Brazilians in 1999 was R\$ 130.00, lower than necessary to buy a basic food basket, budgeted at R\$ 130.83. At the same time there were waves of protests and a tendency towards local and global movements against financial globalization. The editorial line of the newspaper was considering that the new Brazilian economic policy was consistent⁴. The emphasis of this analysis was on the government's political and economic orientation, "which needs to inspire confidence abroad and have political support within it". And he drew attention to one fundamental caveat in this whole crisis scenario: "By the way, it should be noted that banks have not lost money in Brazil, unlike in Asia and Russia".

By the way, the article by journalist Joelmir Beting, who evaluated the performance of foreign banks in 1998, which had a gain of around 15.45% in shareholders' equity in Brazil, is commented very little compared to profits. obtained from the devaluation of the Real, as they were stored in US dollars. On the same day, March 11, 1999, the Brazilian Institute of Geography and Statistics (IBGE) released a survey, a Summary of Social Indicators in Brazil. The statement by IBGE President Sergio Besserman, a specialist in Brazilian economy, drew attention by stating that Brazil was an unfair country, with poor income distribution, but that the new indicators pointed to improvements in its social conditions, motivated the choice of Brazil. editorial theme "A glass in half"⁵.

For the newspaper, "the worst news contained in the IBGE Synthesis of Social Indicators, was not exactly the extreme inequality in the distribution of wealth, the well-known national characteristic that, in 1994, made the then candidate, Fernando Henrique Cardoso, open his government program with a harsh diagnosis: "Brazil is no longer an underdeveloped country, it is unfair", but the knowledge that this statement still remains very current. And that nothing or almost nothing has changed for the portion of Brazilians living in the so-called low poverty line (monthly income of R\$ 45 per capita at 1996 prices).

To interpret these diagnoses about the Brazilian situation. The National Household Sample Survey (PNAD) showed that the richest 10% of the population earned almost 47 times what the poorest 10% receive — a unique contrast in the group of the World's ten largest economies, of which Brazil was a part. "A glass in half", was an image related to the affirmation of a logic of opposites, Brazil has problems that are typical of developed and underdeveloped countries which aggravates inequalities⁶.

4. A Synthesis of the Effects of Financial Globalization on the Real Plan (1999-2002)

The moment at the end of 1999 was a protest against the effects of globalization on underdeveloped countries. The newspaper reported on its front page the Seattle downtown occupation movement to prevent 135 delegates from moving to the World Trade Organization (WTO) meeting for the Millennium Round. At the time, many writers even commented that these movements resembled "May 1968 in Paris".⁷

In Brazil, social movements, especially the Landless and opposition parties, have forced discussions on issues such as the low value of the minimum wage, the increase in foreign debt and the commitment of social programs by this new model.

With each new edition of the newspaper the effects of globalization became even more evident. The

⁴ "A consistent politics", *O Estado de S. Paulo. Notas & Informações*, 10 Mar. 1999, p. A3.

⁵ "A glass half full", *O Estado de S. Paulo. Notas & Informações*, 12 Mar. 1999, p. A3.

⁶ "Um copo pela metade", *O Estado de S. Paulo. Notas & Informações*, 12 Mar. 1999, p. A3.

⁷ "A batalha campal de Seattle", *O Estado de S. Paulo. Notas & Informações*, 2 Dez. 1999, p. A3.

repercussions of this new system were mapped by the newspaper in several editorials. Some of these dimensioned that “the more a country integrates into world trade and finance flows the greater its exposure to the effects of crises”, as the period was marked by cascading systems crises as a result of international financial crises⁸.

Thus, the new Millennium in Brazil began with the devaluation crisis of the Real in January 1999, days after the reflection of President Fernando Henrique Cardoso. Brazil had just turned to the IMF in December 1998 to secure a \$ 41.9 billion loan to secure the financial imbalance as a result of the foreign exchange flight of the August 1998 international crisis.

In this period of transition to the new century, the crises in Brazil followed and culminated in that of the electric system in 2001, when the country experienced a blackout. Which would not be so impactful if the country did not have the largest hydroelectric complex in Latin America and one of the largest systems based on clean energy, coming from its hydroelectric potential, also among the largest in the world.

This movement forced privatization into large system structures. The newspaper provided occasion for the thematic debate, where in addition to ideological and economic factors were set trends for trade partnerships to new alternative sources of energy. This occasion made room for neighboring countries, among which it led to the construction of the Brazil-Bolivia gas pipeline, which has become one of Bolivia’s most important sources of income. The intention was to rethink the energy base, and in this sense, the newspaper supported the movement of opening the state sector for privatization, traditional companies of the old economic model were privatized or auctioned for concessions for long years.

This period was also characterized by Brazil’s successive trips to the International Monetary Fund to seek financing capable of balancing the impact of currency fluctuations. The movement of speculative capital caused the unregulated flow and influx of international financial capital, which ran in real time in search of good rates, a factor in which Brazil stood out for being one of the most attractive markets in the world in this period. And so, in 2001, the worsening of the internal crisis and its most important trading partner, Argentina, prompted speculation about a new currency crisis in Brazil, factors that again forced an agreement with the IMF.

This whole Brazilian panorama evidenced disputed political fields, which reflected a scenario that was interpreted as “alert” to speculative capital. It warns that it was at the root of the currency crisis that resurfaced in 2002. In the last half of this year the economic team resorted to the IMF several times; As a result, more than 60% of Brazil’s Gross Domestic Product (GDP) would be committed to public and foreign debt.

The editorial newspaper supported the government’s attitude to use the IMF to remedy the impact of recurring crisis in the international financial system. It considered that the renewal of the agreement with the International Monetary Fund was the most prudent way for Brazil. The signing of new agreements, with redemption for 2003, would, to some extent, require that the new president elected in October 2002, Luiz Inácio Lula da Silva, from the Workers Party (PT), who would assume the presidency of Brazil in Commitment to the IMF’s orientation, taking forward the neoliberal orientation reforms already underway in the country.

In this context, the newspaper “O Estado de S. Paulo” commented that the “outstanding agreement” signed with the IMF was “the recognition of how much Brazil has changed under the leadership of Fernando Henrique Cardoso” in implementing the Real Plan and “A proof of confidence in its role as guarantor and the maturation of democracy” in Brazil⁹.

⁸ “Crises financeiras Internacionais”, *O Estado de S. Paulo. Notas & Informações*, 30 dez. 2000, p. A3.

⁹ “The President and the guarantor of the democracy”, *O Estado de S. Paulo. Notas & Informações*, 9 ago. 2002, p. A3.



Figure 1 Methodological Procedure

This research was based on the analysis and synthesis of 1460 editorials of the newspaper “O Estado de S. Paulo” between 1999 and 2002. This period coincides with the last government of President Fernando Henrique Cardoso. Our overall objective was to map the “OESP” agenda and its editorial narrative, aiming at a more detailed panorama of Brazil during this period.

Therefore, we systematically observe the organization of guidelines, thematic selection criteria and the journalistic principles that underpinned choices about this transition period from Brazil to a new Millennium. Our specific objective was Brazil at this crucial time in the New Republic during the implementation of the Real Plan, the dominant theme on the 52.53% editorial agenda, in the period 1999-2002, according to the survey data presented above.

Thus, the research interpreted that the editorials analyzed the Real Plan as a structure from which the economic effects of globalization on Brazil were most manifested; thus understanding that the structural model of the Real Plan meant a key to access to globalization by resembling the proposals of the New Economy and structural reforms in the state functioned as a microsystem of integration with the macro model of financial globalization.

5. Conclusion

The national context analyzed by the newspaper indicated that the first term of President Fernando Henrique Cardoso (1995-1998) as head of the administration of the Real Plan “[...] was the proposition of the most comprehensive set of reforms conceived in Brazil since the years. 1930 and 1940 “[...] This picture of normality in the context of the inauguration of a reelected president would change completely with the impact of the devaluation of the Real after the first half of January 1999. This will allow us to state that the following period (1999-2002) was of turbulence and financial instability largely due to the factors that influenced this Brazilian moment, related to the effects of the international market disorder.

At the end of his second government, President Fernando Henrique Cardoso occupied an important space on the front page of the studied newspaper, not because the election of the next president, Luís Inácio Lula da Silva,

was already defined, but by the effect of risk rating agencies and financial market weight on Brazilian domestic policy. For President FHC, “the financial market acted in a wrong way in relation to Brazil, fantasizing about it.” For the president, the financial instability that was experienced in Brazil between 1999 and 2002 was due to the “cognitive dissonance of the markets, due to the difficulty of perceiving positive indicators” in the Real's performance. What to produce “self-fulfilling and crisis-induced prophecies”. The president suggested that this strategy of crisis was the power and performance of the press.

In a way, President Fernando Henrique Cardoso ended his second term by administering a Real Plan that suffers profound deviations from intentionality. And he makes one of his last speeches addressing the financial market and its surroundings by the context of producing “fictions”, which would later be called Fake News, referring to the effect the market has on cutting production, knocking down jobs and derailing it. prices, “who gets the heaviest account are Brazilians who barely know what finances are”, said the president.

By making a specific cut about the first devaluation of the real we seek to characterize a determining period in the economic formation of Contemporary Brazil under the New Republic, within the scope of the Real Plan (1999-2002), when the transition to the 21st century. The economic effects of financial globalization on Brazil were presented by the press economic agenda as an impact factor on the country's political and economic structure with serious and deep financial commitments.

In this sense, the material worked showed that the propagation of these effects goes through the power and understanding of the media in the sphere of the press, in the specific case of the worked newspaper, “O Estado São Paulo”, by the power to articulate discourses that consolidated social and economic realities. through the historically constructed narratives in Brazilian society. To understand the impact of the financial globalization's effects on the consolidation period means understanding Brazil's 21st century.

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