

With or Without You: Argentina, Brazil and NAFTA

taxes, deductions, avoidance, evasion and simple non-payment."¹¹ The tax system was changed in January 1995, increasing the average corporate tax rate in Brazil from 49.5% to 56%.¹² Higher corporate taxes in Brazil encourage foreign companies to invest in Argentina rather than Brazil.¹³

Brazil's recent history has seen significant price inflation caused by chronic public sector deficits. As a result, Brazil's inflation rate has consistently outpaced Argentina's throughout the 1990s.¹⁴ The 1994 Real stabilization plan, which loosely pegged the Brazilian Real to the U.S. dollar, brought down the inflation rate. However, Brazil's inflation continues to outpace Argentina's by a significant margin. For example, the Brazilian *monthly* inflation rate was an estimated 3.5% in July 1995,¹⁵ while Argentina's *yearly* rate for 1995 is expected to be between 3 and 3.5%.¹⁶

Argentina has a fixed exchange rate of one peso to one U.S. dollar. There are no currency controls. Although this system has the disadvantage of being inflexible and difficult to adjust to accommodate accumulated differentials between external and domestic price movements and the potential negative impact of these differentials on the balance of payments, it has effectively curbed hyperinflation in a transparent manner. It is notable that the Central Bank maintained peso-dollar parity while under considerable pressure during the "Tequila crisis" which began in Mexico in December 1994.

Brazil has also recently pegged its currency, the Real, to the dollar but in a much looser and less transparent way. The Central Bank buys and sells U.S. dollars

¹¹ "Brazil Survey", The Economist, 29 April 1995, p. 13. U.S. Department of State, Economic Policy and Trade Practices: Brazil, 19 July 1994. (National Trade Data Bank CD Rom).

¹² "Brazil: Change of Address", Economist Intelligence Unit Business Latin America, February 1995.

¹³ Ibid.

¹⁴ The Inflation rate, calculated using a GDP deflator, from 1991-1993 was 995% for Brazil and 43.5% for Argentina. The rate for 1994 was 2,192% for Brazil and 1.5% for Argentina. The World Bank, Global Economic Prospects and the Developing Countries 1995, (Washington D.C.: April 1995), p.80.

¹⁵ "Brazil Rates Seen Steady, Inflation a Concern", Reuter News Service, 12 July 1995.

¹⁶ "Argentina's Menem Declares War on Tax Evasion", Reuter News Service, 13 July 1995.