prevent an agreement," a senior U.S. administration economist commented.

De Larosière, who works closely with Bank for International Settlements chairman Leutwiler, appears to be doing his best to push through the "zero option" Leutwiler has defended, in various private speeches and in a March interview with *EIR*: to force the crisis now and let the American government take its lumps in the process.

In any case, the net effect of the IMF's tough stance is to push the United States towards confrontation with the Ibero-Americans, which has been the core of the central European position from the beginning. Swiss National Bank consultant Karl Brunner, the leading figure in the monetarist "Shadow Open Market Committee," has led a small guerilla war against U.S. congressional approval of an $8.4 billion quota increase for the International Monetary Fund. *Wall Street Journal* editor Robert Bartley, former Treasury Secretary William Simon, former Chase Manhattan Bank chairman George Champion, former Treasury official Paul Craig Roberts, and a number of other figures associated with the Swiss-based Mont Pelerin Society have been working with Brunner against the quota increase. It is not so much that these gentlemen object to the IMF, but that they want to force a crisis between the United States and the major debtors.

Another factor is the Swiss ties of the leading Treasury officials responsible to manage the debt problem, Undersecretary Beryl Sprinkel and Assistant Secretary Marc Leland. Sprinkel is Milton Friedman's virtual alter ego, a Mont Pelerin Society ventriloquist's dummy. Leland, the former personal lawyer of Geneva's Edmond de Rothschild (and Guy de Rothschild's son-in-law), entered government service as a protogé (during the Vienna MBFR talks) of Fred Iklé, the Swiss-American Defense Department undersecretary for policy.

The Treasury Department, despite protests from most of the rest of the government (and even from Paul Volcker's Federal Reserve), has tied American policy to the ridiculous presumption that a combination of economic recovery and IMF conditionalities will cure the debt problem. This sort of thinking has dug American banks in deeper. In restating the Treasury's "what me worry" attitude before a National Foreign Trade Council press conference last month, Secretary Donald Regan told *EIR* why joint renegotiation of debt moratoria by Ibero-America was unthinkable. "Why, these countries would never get another loan!" Regan said.

The Treasury position comes down to 1) pushing Ibero-America into default, and 2) declaring economic war upon defaulting nations. At this point, Fed Chairman Volcker will, "under compulsion," leap in to save the banking system from collapse, and buy up a large portion of the banks' $300 billion outstanding Ibero-American loans—a sum about twice the size of the Fed's balance sheet.

Both Ibero-America and the United States, barring a political deal above the heads of the Treasury, Fed, and IMF, will lose their shirts under this arrangement.

Brazil's 'consensus' likely to surprise the creditor banks

by Mark Sonnenblick

If Brazil frustrated its foreign creditors during June, it may exasperate them in July. Take the case of Chase Manhattan senior vice-president Francis L. Mason. On June 2, Mason promised *EIR* economics editor David Goldman that Brazil will "play a little brinksmanship for a few days" with the IMF and then both sides would back down, with Planning Minister Antonio Delfim Netto forcing through radical austerity. Mason chided Goldman that anyone who has "the idea that there are some military guys who can put a gun to Delfim's back is ridiculous."

The military stopped Delfim from "biting the bullet" on austerity, and by June 28, Mason had changed his tune. In an agitated discussion with Goldman, Mason predicted, "The chances of a Brazilian debt moratorium are greater than 80 percent, probably close to 100 percent. . . . There is already an ultra-nationalist reaction in Brazil," Mason added. "There will be a change in government. Delfim Netto will be out. It's really a shame; it will be straight military and more authoritarian than today."

Mason's case is indicative of the confusion permeating the highest levels on Wall Street. He is the head of risk analysis for Chase Manhattan and one of the key figures in the formation last year of the "Ditchley Group" creditors' cartel. He is also chief negotiator for all the banks with Venezuela.

No one, in or out of Brazil, can safely predict what will happen there in the coming months. The wild back-room intrigues over chosing a successor for President João Figueiredo provide fertile soil for many surprises. And all Byzantine scenarios for succession in 1985 have been spoiled by General Figueiredo's coronary troubles.

On July 14, Figueiredo will relinquish the presidency to civilian Vice-President Aureliano Chaves, while he undergoes a full examination in Cleveland. The air force minister believes Figueiredo requires a bypass operation which would put him on the sidelines and Chaves in the saddle for two months, or possibly longer. Military coup rumors flew thick and fast, compounded by reporters trying to plant evidence in the mouths of the military ministers. All they got in return were strong commitments to the constitutional process of succession and affirmations of military respect for Chaves.

EIR received a call from Rio: "The military will make a coup and use repression to impose the IMF policies. They will put the country under Roberto Campos," the caller claimed. Campos performed that role before, as finance minister following the 1964 coup, and is again articulating "what Brazil should do," in the opinion of Chase's Mason.

EIR does not rule out that some general with "a friend at Chase Manhattan" and a Swiss bank account may be induced to try something that would work in a banana republic. But, all available evidence shows that the military is determined to get itself out of direct management of the country, before its institutional unity is shattered and its ability to defend national sovereignty is eroded by the economic and political crises. The last thing the officers want is a bloody confrontation between the armed forces and a hungry population. They will not satisfy the expectation of Lombard banker Aldo Baiardo that by "exterminating 2 or 3,000 people the government could end the danger of revolution."

A social pact?

That the military backed the successful resistance of state sector workers to IMF-mandated wage gouging during June shows a tendency on its part to seek reconciliation, rather than confrontation with Brazil's 130 million citizens. On the political side, there was no visible military backlash against President Figueiredo's blessing of the efforts of 1964 nemesis social democratic Rio governor Leonel Brizola, to form a coalition with the ruling party.

Chaves's temporary presidency is accelerating moves toward a national political alliance uniting the large moderate tendencies in opposition and ruling parties and a national social pact uniting labor and industry. Such national unity would provide a secure basis on which to break Brazil away from IMF tutelage, and make those internal changes needed to resume development. The political operation is being led by Tancredo Neves, a long time political ally of Chaves who was elected governor of Chaves's home state of Minas Gerais on the opposition PMDB ticket.

The Brazilian National Industry Confederation (CNI) will propose the "social pact" concept to the labor unions. CNI president, Albano Franco, a senator for the government party, told the Rio daily *O Globo* July 4. "What we cannot tolerate is the de-industrialization of the country to pay its foreign debt. We cannot tolerate the Argentinization of the Brazilian economy," he said, referring to the dismantling of Argentine industry under the IMF mandate of José Martínez de Hoz from 1976 to 1980. "Brazilian industries were constructed with great sacrifice during several generations," he continued. "The destruction of all these industries to pay the Brazilian foreign debt is intolerable."

Franco is pushing through the CNI his "proposal for an understanding which could reduce the country's social crisis and guarantee the survival of free enterprise." This "social pact" is to be negotiated between industry and labor unions modelled on the 1979 social pact in Spain which, he said, permitted a rapid and effective transition to a relatively stable and democratic society and to similar arrangements in Belgium and Italy.

"Guaranteeing the political opening process and overcoming the economic crisis, we would also guarantee free enterprise, the survival of businesses, employment and the wealth of the country," declared Franco. The top leader of Brazil's industrialists directly countered Planning Minister Delfim Netto's efforts to gain business applause for the savage wage cuts demanded by the IMF and the banks. Senator Franco said, "I belive that today, conscious Brazilian businessmen are no longer concerned with reducing salaries. The survival of businesses depends of better wages. . . . A strong market has strong companies supplying it."

"The economic crisis changes political behavior," Franco commented in defense of giving Brazilian workers the right to strike, which has, until now, been resisted by business and the regime.

Delfim Netto's stranglehold on Brazil's economic policy is threatened by the advent of Aureliano Chaves. The notorious animosity between economic czar Delfim Netto and Aureliano Chaves led to Delfim taking long foreign tours each time Chaves took office during Figueiredo's foreign trips and 1981 illness. Since then, almost every sector of Brazilian society, including the military, has been upset with the disastrous results of Delfim's deals with creditors and the IMF.

Delfim has earned Aureliano's hatred by slicing out of the budget all federal money for Açominas, the modern steel complex Aureliano began when he governed the state of Minas Gerais. Through bringing in dozens of multinational metalworking industries and the steel project, Aureliano hoped to keep his state from being a backwater raw materials producer for São Paulo. Açominas is today 90 percent completed, but paralyzed after selling its blast furnaces to London's Morgan Grenfel bank in a vain attempt to capitalize completion.

A hint of things to come may be seen in Trade and Industry Minister Camilo Penna, Aureliano's friend who served as his finance secretary when governor of Minas Gerais. Penna has emerged as the cabinet-level partisan of the state industries which he said were "scapegoated" for the country's crisis. "Were it not for these ventures, the country would be in worse shape. It would lack self-sufficiency in electricity and steel, two strategic elements for development," he declared June 28. Penna has revealed that he is battling in the cabinet for Brazil to avert the tragic deals made by Delfim with the banks and the IMF by engaging in direct government-to-government political negotiations with the United States for a mutually beneficial debt solution.