The Brazilian Chamber of Deputies repudiates the IMF's program

by Mark Sonnenblick

Yet another International Monetary Fund (IMF) mission left Brasilia Aug. 12, and for the credulous, the *Wall Street Journal* reported that "a new agreement" had been reached. As with phantom agreements the weekend of July 15, when Monday morning arrived, Brazil had not signed a new letter of intent. Brazil's debt remains in limbo, with arrears growing to over $3.6 billion on Aug. 31.

The IMF may have made a "tough austerity" agreement with the "economic triumvirate" headed by Planning Minister Antonio Delfim Netto, but Delfim's technocrats no longer dictate economic policy in Brazil. Brazil has not signed the new deal with the IMF, because interim President Aureliano Chaves has kept Delfim's team in a sort of "internal exile."

Chaves is responsive to the reasoning of two insurgent policy centers which seek to replace Delfim's discredited IMF-mandated austerity policies with approaches which subordinate servicing Brazil's nearly $100 billion debt to protecting human, industrial, and natural resources:

- *Civil society*, with the overt encouragement of Chaves, is beginning to negotiate a new "consensus," including not only business, but groups such as labor which have been marginalized since 1964;
- *The military* is preparing precise contingency plans for whatever economic warfare may be unleashed by myopic creditors when Brazil takes sovereign action on its debt.

"There is national unity for substantial changes in economic direction," Olávo Setúbal, São Paulo banker and rumored replacement for Delfim, truthfully said August 15. It could almost be called a "revolution" of labor and business, politically reflected in the Chamber of Deputies' repudiation of the IMF.

The same day the three-man IMF mission came to see eye-to-eye with Delfim's triumvirate, the IMF policy was repudiated by the majority of the Brazilian Chamber of Deputies and by the Brazilian business community.

In the lower house of Brazil's Congress, 241 out of 479 deputies signed a resolution to Chaves, Delfim, and Brazil's IMF director Alexandre Kafka demanding "an immediate break with the International Monetary Fund, a declaration of moratoria on the foreign debt, and the resulting reformulation of the economic model."

Among the signers were not only the expected members of the opposition, but also the swing Brazilian Labor Party (PTB), which had been forced by the draconian wage cut decree of July 13 to break its formal agreement to give the government party the majority needed to pass the regime's legislation in the lower house. The PTB, an artifice created three years ago by the Machiavellian political strategist Gen. Golbery do Couto e Silva to fragment the opposition, is now fragmenting the government. At least eight deputies from the once-solid government party (Democratic Social Party—PDS) also signed the resolution, also reflecting the split among the country's ruling elite.

Even if Brazil were to submit a new letter of intent to the IMF, the Fund's directors would not approve it until the Brazilian Congress puts through the center-piece of Delfim's latest capitulation to IMF austerity pressures, Decree Law 2045. This measure, decreed July 13 on the eve of President João Figueiredo's medical leave for a successful triple-bypass operation in Cleveland, slashes indexed inflation compensation by 20 per cent. São Paulo industrial and labor economists agree in their calculations that by the middle of 1985 it will reduce real wages by 25 percent—assuming that inflation drops from the record 13.2 percent monthly growth in July.

The way things work in Brazil's presidential system, the decree is law until and unless it is rejected by both houses of congress within 60 sessions. That puts Brazil-IMF relations on ice until Oct. 28. The fact that the government's PDS party, which has an ample majority in the Senate, is split by growing public remonstrations against Delfim's policy directions and by the Byzantine intrigues of presidential succession means there is a growing chance it will fail. In recognition of that, Chaves and PDS legislative leaders are offering to water down the keystone of Delfim's IMF accord.

The political resistance to IMF conditionalities reflects real fears afflicting every walk of life. Sérgio Corrêa da Costa, Brazil's new ambassador in Washington and probable negotiator in any state-to-state debt renegotiation, warned a Brazil-American Chamber of Commerce luncheon on Aug. 4: "The social fabric can be stretched so far and no further. Immediate measures are needed to lighten the burden of economic adjustments." São Paulo's press reports people boarding trains in the famine-struck Northeast of Brazil and arriving at their destinations dead of malnutrition. Working and middle class families have lost their traditional optimism and live in fear that they, too, will lose their jobs and face starvation. And Labor Minister Murillo Macedo calculates Brazil is losing $27 billion this year from its 3 million officially unemployed and that, under the IMF figure, both figures will be 50 per cent higher in 1984.

The same day of the IMF "agreement" and the Chamber call for a "break," the dozen most representative Brazilian business leaders proclaimed the private sector's alternative economic and political program for Brazil. Publisher and PDS deputy Herbert Levy presented the program hammered out in 12 hours of discussion to interim president Chaves. The entrepreneurs declare, "We are at the start of a process of economic regression with grave social consequences. This complex country . . . with an enormous contingent of absolute misery will not be able to cope with the tensions coming from unemployment and the fall in real wages. This scenario is intolerable for the Brazilians and undesirable for the Western World."

They ascribe Brazil's crisis to "the unprecedented rise in interest rates," "the intense deterioration of terms of trade," and the incompetence of Delfim Netto's response. They demand "a new attitude towards the renegotiation of the foreign debt" so that Brazil would pay neither interest nor principal until it was able to pay, and then only at lower interest rates. While not naming the IMF, the consensus document protests that the indebted nations are "prisoners of the moribund system born at Bretton Woods."

Pending the return to reason of the international system, the businessmen initiate debate on "an austerity program which is understood and accepted and capable of uniting the Brazilians and distributing sacrifices equitably." They throw their substantial weight behind the "democratic opening" started by president Ernesto Geisel and pushed forward by Figueiredo, in sharp opposition to financier calls for renewed repression.

They find it "intolerable that profits from financial speculation remain immune from the sacrifices now demanded. . . . Economic policy must preserve the productive capacity of strategic sectors whose efficient performance is requisite for the expansion of Brazil's industrial plant." They call for state assumption of all private foreign debt, and strict control over the state sector industries. Investments should focus on labor-intensive activities to reduce unemployment.

Only the fragment of business leadership most tied to speculation and foreign banks refused to adhere to the manifesto. Some Brazilian analysts believe the program expounds what Aureliano Chaves would like to do were he not limited by General Figueiredo's return to the presidency, scheduled for Aug. 29.

Figueiredo cannot hold on to economic team

It will not be as easy for Figueiredo to resume the presidency as it was for him to leave it July 14. "Chaves reminded us what it was like to have a real president," a Brazilian told *EIR*. Instead of jailing the metalworkers leaders who led the illegal July 21 strike against the IMF policies, Chaves invited them into the presidential palace to listen to labor's policy program and to have a friendly exchange about how to assure the oil supplies from Latin America needed to back up the debt moratorium also sought by labor. In a few weeks, Chaves has given delegations from every region and sector of Brazilian society at least some confidence that the political process is open enough for them to get fair treatment.

Brazil is rife with rumors—preemptorily denied—that the Army chief Walter Pires and Air Force chief Delio Jardim sent Figueiredo messages before he returned from Cleveland intimating that he should clean out his cabinet immediately on resuming the presidency. There is generalized concern that an ailing and dispirited Figueiredo would serve as a figurehead for the self-serving intrigues of Delfim and such corruption-tainted holdovers from the 1969-74 Medici dictatorship as Interior Minister Mario Andreazza. As Delfim never listens to advice, Figueiredo is responding with cliches about "not changing horses in midstream."

General Golbery, the controversial *éminence grise* of three presidencies, went so far as to give a provocative interview with the daily *Corrieo Brasiliense* claiming that Figueiredo was "unable and unwilling" to return to the presidency. Many officers interpreted Golbery to be calling for a coup. Some believe the military would be happy were Figueiredo to relinquish the presidency to the competent civilian Chaves, which would ease the traumas of firing Delfim and getting the military out of the presidential hotseat before the armed forces become "Argentinized."

Renegotiating the debt: relief or receivership

Brazilian business, labor, and political leaders want debt relief to put people back to work developing the immense potential of a landmass larger than the continental United States The "debt renegotiation," they are being offered, however, runs contrary to that objective.

It is getting hard even to find a banker who won't admit that Brazil cannot service its $100 billion foreign debt. The bankers' advisory committee is reportedly willing to accept a 90-day moratorium, while Brazil negotiates terms. The bankers, however, have frozen themselves into inaction until Brazil knuckles under to fierce IMF austerity. Their terms are far closer to those defined in *EIR*'s widely-reprinted March 15 article than the debt relief sought by most Brazilians.

Creditors see no major problem with long-term postponement of amortization. Even interest rates, which the weekly *Relatorio Reservado* claims are now running at a scandalous 3.75 percent spread over LIBOR on re-negotiated debt, could be lowered—provided Brazil puts its several trillion dollars of national assets into a creditor's receivership. The part of the deal that is not written into the contract is the most important.

The plan was dramatically confirmed by the president of one of the six most-exposed New York banks, as he conversed with a travelmate who happened to be an *EIR* editor. "We will give Brazil the solution just accepted by Poland," he proclaimed with satisfaction. "That means a moratorium accepted by all sides, the resumption of bank lending on a very modest basis, while stretching out interest and principal over a conveniently long term. The key to the agreement, the part which has not come out, is that it is secured by exportable commodities, which in the Polish case is coal. Brazil has enormous mineral resources in the process of being developed, as well as other things." He refused to confirm whether he meant the Carajás project, with ores worth $300 billion.

The creditors' strategy is to crush the state sector with iron-clad budgetary constraint and to crush national business with scarce and expensive credit. With the black market price replacing a controlled exchange rate now over 60 percent below it, foreign capital would snatch the pieces at bargain prices. To drain the proceeds, the banks want an end to all nationalist restrictions on foreign bank operations in the domestic market and on profit remittances. It is the Chilean model and the Brazilian experience, a re-run of what Finance Minister Roberto Campos started after the '64 coup until the military booted him and his military sponsors out of the government in 1967. As Chase Manhattan's senior vice-president Francis Mason told *EIR*, his preference is still the program of now-Senator Campos.

The bankers have gotten vociferous support from Washington and multinational companies in demanding Brazil open up its computer market to foreign products. At stake is not a few bucks for IBM, but control over information. Brazilian banks contracted for the SWIFT software package. The Army officers who run the agency in charge of computer policy (SEI) vetoed the deal. A banker told *EIR*, "They are playing hardball now. What if outside vendors had access to central bank figures and other security-related data? No, they're not going to budge on that."

Delfim Netto likes to echo the bankers' threats that Brazil will face even deeper cuts in vital imports in retaliation for sovereign action on the debt. With Henry Kissinger back on the scene, Washington may be stupid enough to try such an attack. He may be surprised if his "special relations" in Brazil refuse to surrender sovereignty.

During the Great Depression, Brazil saw the price of coffee drop by a full two-thirds, and with it, Brazil's ability to import. During the Second World War, Brazil couldn't obtain the products it needed from abroad for all the dollars accumulating in foreign accounts. Most educated Brazilians accept the thesis of Celso Furtado, now the top economic adviser to the biggest opposition party, the PMDB, that these import constraints were fortunate in that they forced Brazil to develop its own industry and become more than a sleepy coffee plantation.

As ably documented by Louisiana State University historian Stanley Hilton, the dramatic import-substitution achieved during the war was directed by the military. Even more important, Hilton observes, "the official consensus was that effective military strength required an industrial base that was as independent as possible."

This "security and development" concept was brought near fruition during the 1974-79 presidency of Gen. Ernesto Geisel, who sought—with considerable success—to build up a capital goods, petrochemical, and electronics base to give Brazil today most of the self-sufficiency needed to defend itself from the kind of economic warfare now threatened against it. It is thus hardly surprising for *EIR* to discern Geisel and the substantial military faction which shares his perspective of Brazilian greatness protecting the more visible civilian political enemies of the IMF program. Geisel imposed Aureliano Chaves as Figueiredo's vice-president.

Military mobilizes for economic warfare

The Brazilian Armed Forces Chiefs of Staff (EMFA) is preparing for "a war economy," reports *Relatorio Reservado*. EMFA officials are going to every major manufacturing plant in the country to prepare detailed production flow charts, bills of materials, and descriptions of the capabilities of the plant, according to industrialists. They are "preparing to integrate in planned form strategic sectors of production in case the asphyxiation of foreign exchange becomes overpowering," *Relatorio* notes.

The military has set up EMFA as its own economic planning center to sidetrack Delfim's Planning Ministry until it can be cleaned out. It is highly significant that Brazil sent EMFA commander Gen. Waldyr de Vasconselos to represent it at the July 24 Caracas meetings where Latin American countries decided to take joint action on their debts and move to integrate their economies.

On Aug. 5, when Brazil announced it would join in the Sept. 5-9 hemispheric meeting on debt in Caracas, bankers really began to sweat. Mexican columnist Adrián Lajous, with some exaggeration, cited it as "a 180 degree turn to Brazil leading a Latin American debtor's cartel." Likewise, Federal Reserve chairman Paul Volcker, in a desperate move to reduce Brazil's mission to a junior level, has persuaded Brazil's Finance Minister Ernane Galvêas not to attend, Brazilian government sources claim. The move could backfire and end up with Brazil's nationalist foreign ministry winning control over the debt policies. If that happens, the Mexican may prove correct.