EIR Economics

Brazil wage agreement resolves nothing

by Mark Sonnenblick

Under immense international pressure, Brazil's Congress will probably soon pass a new wage program, arduously negotiated Oct. 26 with the government, a program whose wage cuts are not as draconian as those in two decree laws defeated by Congress. The euphoric response by the Brazilian media and many politicians belies the dramatic reality that the new income-reducing policy remains a dramatic concession to the International Monetary Fund. The primary political objective of the IMF in Brazil has been to get the representative civilian bodies to put their good name on the austerity programs which threaten to shred Brazil's social fabric.

The major difference between the new Decree Law 2065 and its repudiated predecessors is its provision that wages will be increased on the average by 87.5 percent of the cost of living index; the previous two decrees gave only 80 percent compensation. These questions are vital in a country whose 14 percent October inflation increase means prices have tripled in the past 12 months.

Brazil's third letter of intent to the IMF, signed Sept. 15, however, pledges that "semi-annual wage adjustments are limited to 80 percent of past inflation." Though the Congress may capitulate politically to the IMF, the Fund's directors could still refuse to give Brazil their approval when they meet Nov. 18 to consider this and other quantitative violations of the terms of the new letter of intent.

Brazil's 800 private creditors, whom de Larosière had ordered to commit themselves to $6.5 billion in new money by a Nov. 10 deadline, have also been playing their cards close to their chests. Though further delays will build Brazil's arrears to the banks far beyond their current $3 billion level and cause huge headaches with non-performing loans for the big U.S. banks on Dec. 31, there is no guarantee that the $6.5 billion will come through. The Swiss banks state that they will refuse to give a dime until the U.S. Congress turns over $8.4 billion to the IMF; *EIR* has confirmed from sources in England and Brazil that because Margaret Thatcher is bent on giving Brazil the same bloody treatment this year she gave Argentina last year, she will try to prevent British banks from participating in refinancing. If some banks opt out, many others could follow.

Reconciliation between the government and the majority of Congress ended a week of confrontation filled with rumors that the old dictatorship would be revived to force decree law 2064 through a recalcitrant Congress.

It is doubtful that the Congress, which was riding high in the saddle for the first time since the 1960s, would have agreed to *any* IMF-mandated incomes reduction had it not felt threatened by a revival of dictatorship.

Even the top people in the government who are imposing the IMF's shock measures are dead set against them. One of the most powerful leaders of the ruling PDS party, who confided to *EIR* that he was determined to force the Congress to swallow the IMF's medicine, also stated, "The IMF is drowning us; even after we pass the wage decree, they will keep us in water up to our nose and not give us any room to breathe." A hardline military officer reacted to the overt threats from Donald Regan and George Shultz on the wage bill by complaining, "All I can conclude from U.S. policies towards Brazil is that they want us to have a social explosion, to go communist. Could it be that Washington's foreign policy is being formulated by the Russians?"

The entire Congress rebelled Oct. 21 at the new Decree Law 2065, which "would exterminate the middle class" by cutting the real incomes of those earning over $16,000 per year by more than half. Delfim refused all negotiations.

The stage was set for Brazil's third big political-military crisis since early July when Delfim first tried to impose IMF measures by direct emergency rule, according to *Relatorio Reservado* newsletter. Following a radical sit-in in the Congress, on Oct. 19, Figueiredo gave Brasilia regional army commander Gen. Newton Cruz authority to wield "emergency measures." Each morning, Cruz would issue a note banning more civic activities. Finally, on Oct. 24, he had the military police invade, close down, and investigate Brasilia's bar association.

Cruz's crude acts of intimidation failed to spark a hardline coup against Figueiredo's "democratic opening." That night, Cruz appeared on television to offer a quasi-apology. The daily *Jornal do Brasil* reported that Figueiredo had ordered Gen. Otavio Medeiros, his powerful intelligence chief and until recently Cruz's boss, to throttle his protégé.

Most interesting is the fact that Army Minister Walter Pires had his ministry issue a stinging press statement Oct. 25 stating that Figueiredo, *not* the Army Ministry, was responsible for Cruz's conduct with the emergency measures. The Army publicly reminded Cruz that he "for example, could not deploy army troops on internal security missions without authorization from the minister," and that his army function is "entirely focused on troop and cadre professionalization." The navy and air force ministers joined Pires in asking Figueiredo to stop Cruz's repressive ploy, according to the semi-official daily *O Globo*.

"I would rather work as a stevedore carrying rocks than negotiate with Delfim," protested a leader of the government's Democratic Social Party (PDS). But, finally, Figueiredo ordered Delfim to sit down with PDS leaders to negotiate a politically viable wage law in an eight-hour session on Oct. 26. Thomas Dawson of the U.S. Treasury and a committee of bankers went to Brasilia to advise Delfim during the process.

The portly Delfim is skating on thin ice. He failed to block former army minister Gen. Sylvio Frota from testifying in closed congressional hearings on alleged kickbacks Delfim received on foreign debts he arranged in Europe. The hearings could ultimately challenge not only Delfim, but the legality of Brazil's debts.

INTERVIEW: Jamil Haddad

Rio's mayor: 'We won't pay debt'

The prefect, or mayor, of Rio de Janeiro, Jamil Haddad, gave this interview to EIR'*s Dennis Small on Oct. 17. Jamal was appointed prefect by Leonel Brizola, Rio State's governor, whom polls say would win the presidency if there were direct elections now.*

EIR: You have said that the $150 million loan made to the municipality of Rio de Janeiro in 1979 from the Bank of Montreal is illegal because it was not utilized properly. Is that correct?

Haddad: By law, these foreign loans must be tied to specific investment problems. In fact . . . the loan was not used for any program, any investment, and in fact that money remained in the state bank unused until 1980, when it was used for balancing the budget. . . .

In April of this year, we paid 4.6 billion cruzeiros on this loan, and we are supposed to pay 6.6 billion this month, which means more than 10 billion in interest alone this year and every year until 1985, when we are supposed to begin paying back the principal.

We have no way of paying this. Our income for October is 17 billion cruzeiros. We would have to use almost half of this month's city income to meet this interest payment, when this loan was not used for any investment or project that could bring any social benefit. . . .

EIR: Then a large part of the Brazilian foreign debt could be found to have been contracted illegally?

Haddad: The problem is that not even government officials have full knowledge of the facts, since we have been living under a period of exception [1968-74]. . . . We still do not have this information; not even the Brazilian congress has access to information on the types of external financing being done by the country. That is why I say that everything *leads*