IMF defeats direct elections as Brazil heads toward ungovernability

by Mark Sonnenblick

Early in the morning of April 26, the International Monetary Fund succeeded in imposing its major political conditionality on Brazil. A constitutional amendment which would have provided for direct elections of a new president this year was blocked from passing the Congress by the army's bayonets.

The Fund had instructed President Figueiredo that it would not tolerate such democracy. U.S. Treasury Undersecretary Tim McNamar and Commerce Undersecretary Lionel Olmer were but the latest to insist that direct elections would undermine present debt arrangements. The 7 million marchers in the streets of Brazil's cities since January whom Figueiredo defied also knew that no democratically elected government would continue abject submission to foreign creditors.

'Don't blame the IMF'

So, martial law in the capital of Brasilia for a week prior to the vote instructed the Senators which way to cast their ballot—or face a military coup.

Three Brazilian children die every hour from poverty-induced causes. That number is rising as Brazil sacrifices its internal needs to comply with creditor conditionalities. Social pressure will continue to build, whether or not normal political channels are kept open, and creditors' pressures will also continue to build.

The *New York Times* commented May 1 on the April 22 Dominican Republic riots, recalling the warning President Blanco made on the consequences of accepting IMF conditionalities. But then the *Times* states: "That warning applies also to other nations trapped on the debtors' treadmill. *But it is no answer to blame the IMF for doing its job*. Better ways need to be found to reward a society for accepting austerity. . . ." Similarly, "adjustment is unavoidable," editorializes the *Washington Post* May 3. If a country rejects the IMF, "adjustment would take the form of a collapse of the currency and an abrupt end to all imports—threatening not merely austerity, but actual starvation."

And so, a nation approaching 150 million is being driven toward the mass bloodshed seen recently in the Dominican Republic. By rejecting direct elections in order to preserve genocidal austerity, the government has forfeited its last shreds of credibility and popular support. The power shown in the streets left a profound impression on the population. It could well revive in a few months in one form or another, and may lead to social unrest which will make the Dominican instability seem small in comparison. The question now is not whether Brazil will become ungovernable, but when.

During April, as Figueiredo made clear he would prevent direct elections at whatever cost, the creditors cleaned up Brazil's accounts. Another $875 million in new money was added to the $3 billion disbursed in March. These funds, combined with income from record monthly trade surpluses based on slashing imports 44%, permitted payment of almost all catagories of arrears.

There are reasons why warnings such as those of political risk analysts Frost and Sullivan that Brazil is a "very bad risk" are being ignored:

1) It is a dramatic profit center: Brazilian loans fetch an average of 15% including fees—3% over prime, and at least 6% over U.S. inflation.

2) Banks are rebuilding their Brazilian portfolios to prepare for what they think will be profitable debt-for-equity conversions, of the type exhibited when the large Alfa industrial group of Mexico agreed to convert hundreds of millions of its foreign debt into more than 30% foreign-creditor ownership in its companies.

'Brazil at the price of a banana'

While a Brazilian default was averted March 31, few believe that the mishmash of banking gimmicks keeping Brazil afloat can be duplicated again, or will even last through 1984. Everyone realizes that a structural change is needed. The $100 billion question is whether the structure that gets chewed up is the structure of the debt or the structure of Brazil.

The IMF "adjustment" program's effects are clearly visible: a doubling of inflation; a 25% reduction in real wages; reduced food consumption; increased infant mortality. The less evident effects are: emplacement of mechanisms to guarantee that once-creditworthy state-sector companies are starved of capital, and private-sector firms are decapitalized through record-high interest rates, making them desperate to obtain capital even at the risk of losing management control.

These changes leave little doubt that the next phase of debt renegotiation will center on the conversion of debt into equity, first proposed by Henry Kissinger in August 1983 Vail, Colorado meetings, using the British East India Company model for transforming debtors into colonies.

Investment banker Felix Rohatyn recently paraded his recipe for "debt relief" in the Brazilian weekly *Istoe*. Brazil would turn over its debts, on which it now has to pay 14% interest, to a subsidiary of the World Bank or the IMF, "and the banks would get notes issued by the same IMF-II and guaranteed by the governments of the industrialized countries . . . and by a percentage of each developing country's trade surplus." In return, "Brazil would have to continue with the IMF . . . clearly with permanent controls on spending by state enterprises. It would also have to adopt a more open policy towards foreign capital investments. And, in this light, numerous public-sector companies would be passed over to the private sector. . . ."

Brazil's central bank head, Affonso Celso Pastore, likes the idea of a "Brazil Fund" managed by a subsidiary of the World Bank; it would be a receptacle for cruzeiros in lieu of dollar debt obligations, and snap up ownership of Brazil's public and private companies. Another variation being pushed by Olmer and McNamar would implement the changes in Federal Reserve Regulation K first disclosed by *EIR* in February. The Brazilian central bank would pay 65% of the interest on foreign debt in hard currency and up to 35% into blocked cruzeiro accounts, which would then be rendered negotiable and sold to prospective investors in Brazilian companies.

The weekly newsletter *Relatorio Reservado* quotes Brazilian banking sources saying, "With the debasement of the cruzeiro in relation to the dollar, the national patrimony would be sold at the price of a banana."

Economic warfare

Many creditors are resisting debt-for-equity schemes because laws heavily tax those foreign-enterprise profits averaging over 12% of capital per annum. Foreign investors will not act until they get irreversible changes to permit extraction of windfall profits. Brazil's laws also protect strategic sectors of the economy such as petroleum, iron mining, banking, and computers from foreign control.

The Reagan administration, which flatly turned down the Dominican plea for intercession with the IMF to ease conditionalities, is also acting as the usurers' errand-boy in this case. The United States is hitting Brazil with economic warfare, using pressure points which include exclusion of Brazilian steel from the U.S. market through duties, and unexplained postponement of $1.5 billion in U.S. Eximbank trade-credit guarantees. The threat to close Brazilian steel out of U.S. markets is a *political* offensive to force Brazil to end protection for the domestic computer industry, open up fully to foreign investors, and give long-term political guarantees against sovereign action on foreign debt.

Military moves against direct elections

Never since the March 31, 1964 coup has the military been so divided. In 1964, the conservative middle class marched in the streets urging the military to take power. Twenty years later, the same middle class, the bankers, and the industrialists were in the streets with the masses peacefully demanding an end to the IMF dictatorship. President Figueiredo sacrificed the credibility of the ruling PDS party and of the military in order to defeat that demand.

Figueiredo threatened PDS congressmen a week before the critical vote with a right-wing coup, saying a free vote "would mean handing the country over to the most radical leftists." Such predictions did not jibe with polls, which showed that Vice-President Aureliano Chaves would be the direct-elections victor. But the threat was clear.

The press has been told to publish economic stories with upbeat headlines—not an easy directive to follow. The only thing upbeat is the export boom, fueled by subsidies, real wage reductions, and a further decline in terms of trade. The internal economy is dramatically shrinking, and the population knows it. Inflation eroded the legal minimum wage to below $10 per week, before it was raised May 1. First National Bank of Boston calculates that the total payroll was probably down 25-30% in real terms in one year. Larger export crops which have displaced food crops are causing shortages which have inflated food prices. Public health has broken down in many places. Malaria cases reported in the first quarter were up 74% from last year due to restrictions preventing the importation of the active agents of DDT.

What next?

Aside from a flurry of violence April 26, when police broke up a small protest march in downtown São Paulo, most of the 7 million people who had marched for direct elections reacted with passive despondency.

Yet, the political mass strike has proven that the two pro-IMF front-runners for the presidency, Paulo Maluf and Mario Andreazza, would face such universal repudiation that neither would be able to govern the country. President Figueiredo will soon offer Congress an alternative amendment for direct elections in 1988, thereby reducing the next president's term from six to four years; Congress will be given more power over economic questions and more time to veto presidential decrees. The opposition parties are expected to try to strike a bargain for direct elections in one or two years, with an interim transition president. These negotiations are likely to drag out over several months.

But Brazil's is not a crisis that will follow anybody's political calendar. The economic realities could bring a popular explosion within weeks. The political system has failed the hopes of the people. The Brazilian population may have a longer fuse than the Argentine or the Dominican, but when it explodes, no one can predict the outcome.