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Report from Rio by Lorenzo Carrasco

Economic mini-shock in Brazil

The cost of this hoped-for economic miracle would be to plunge the state-sector industries into bankruptcy.

The disappearance of the Bank of Brazil as the institution of monetary authority, and the drive to put state-sector assets, especially in steel and electrical energy, up for preferential sale has been the "minishock" treatment, which threatens to lead to more drastic monetarist measures, among them making the Central Bank an independent authority that can dictate government spending. Also being mooted is a super-devaluation of the cruzeiro, as touted by ex-Planning Minister Delfim Netto.

The blocking of the so-called transfer account (a mechanism that lets the Bank of Brazil anticipate payments for government projects, especially for investment, forcing the Central Bank to issue new currency), seems to be part of the package of conditions that the creditor banks imposed on Brazil in the last round of negotiations. The outcome was the refinancing of a $16 billion short-term commercial credit line, which Brazil uses to finance its absurdly disproportionate consumer-goods exports.

For the creditors, there is no conflict—as David Rockefeller explicitly noted when he visited Brazil in January—in signing an accord with Brazil that is not supported by the International Monetary Fund (IMF), since Brazil has already punctually paid $12 billion a year in interest alone. What do the bankers care about IMF backing, when all of Brazil works to pay the interest on their $102 billion foreign debt? Better yet, they impose the IMF program, but in their own name!

In the last decade, the IMF and the Central Bank mafia have been trying to wipe out the Bank of Brazil's ability to issue currency. This demand met opposition by nationalist forces, which considered the bank crucial to national economic development. A like "reform" was proposed by ex-Finance Minister Ernane Galvêa under the last administration, as part of his program to strangle the Bank of Brazil, which led to cutting its national banking operations from 30% in 1978, to only 8% in 1985.

In early February, the National Monetary Council, which includes the monetary authorities and Brazil's private economic elite, decided to close down the "transfer account," and created the Treasury Secretariat as a way to limit credit, exercising tighter control over governmental spending, and centralizing all currency-issuing activities in the Central Bank, whose bureaucracy is the most susceptible to the monetarist policies of the international financial institutions. With such austerity measures, Finance Minister Dilson Funaro intends to "chill" the economy, and bring the public sector deficit down to zero.

This measure cuts off executive power from the monetary arm most closely tied to production. The Bank of Brazil becomes a commercial bank subject to financial speculation, losing its capacity to grant credit at zero cost, and its investment and subsidy capacities.

Politically, the measure fits into a scheme to impose a parliamentary system, reducing the President to impotence, while the "independent" Central Bank could become the true government under the tutelage of the oligarchical families—an "independent" Central Bank, which, according to Delfim Netto, would have the "force to resist the government and its demands for issuing currency."

The big financial centers' euphoria did not stop there; the government's expressed wish to sell off the equity of the state-sector industries has them in a tizzy. At the end of 1985, the government announced its pilot plan to sell off equity in the state-sector oil company, Petrobrás. This was the economic model that the big bankers who met in London in January, sponsored by the Inter-American Development Bank, held up to be imitated by all of Ibero-America.

The debt-for-equity scheme was launched at the August 1983 meeting in Vail, Colorado of a group tied to Rockefeller and Henry Kissinger. In Brazil, the idea has been pushed by former Central Bank head Carlos Longoni, and by the president of the Rio de Janeiro Stock Exchange, Enio Rodrigues. More recently, the idea was revived by businessmen Antonio Erminio de Moraes, who thinks that by trading debt for equity Brazil could cut the principal of the debt, and so pay less interest. Under his plan, Siderbrás, the state steel firm, and then the energy sectors would be put up for sale.

The solution is absurd: The Siderbrás group's financial problems stem from the fact that steel is sold and exported at a price below production costs. Since 1978, Siderbrás earnings have been $4 billion below its real costs, or 75% of its foreign debt, calculated at a little more than $6 billion. Brazil's "export miracle" is pushing its own state-sector industries into bankruptcy.

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