Report from Rio by Lorenzo Carrasco

A governors' revolt

The majority of Brazil's PMBD governors are revolting against the plague of usury inundating the country.

With the popularity that swept them into office last March threatening to evaporate before their very eyes, Brazil's governors have decided to act in the face of an economic and social crisis of devastating proportions. In an emergency meeting held on Jan. 15 with President José Sarney, 21 of Brazil's 23 state governors presented a document demanding, among other things, the "partial suspension of the foreign debt" and the linking of further debt payments to a fixed percentage of the nation's exports.

The governors, all from the ruling PMDB party of Sarney, declared that a substantial portion of the country's $100 billion foreign debt is "illegitimate" because of U.S. interest-rate hikes, and that savings from a suspension of payments was required to meet the "minimal needs" of the population.

Rio state governor Moreira Franco urged the formation of a pact among government, labor, and business to fix wages, prices, and interest rates at reasonable levels, while the governor of Bahía, Waldir Pires, spoke in the name of the northeast states when he asserted, "The country cannot continue making annual interest rate payments of $11-12 billion a year, while fighting for $3-4 billion to finance its development. These resources must be invested in increasing production. . . ." Accusing the government of persisting in the monetarist policies of the late unlamented dictatorships, Pires insisted, "The path lies through an act of national sovereignty regarding the foreign debt."

Governors like Pires are responding to a panic that has begun to set in, as the collapse of the so-called Cruzado Plan and the capture of the economy by speculators is now painfully evident to all. Interest rates have soared above 500% a year, strangling real production and sending food prices on the black market—the only place most basic foods items are available—into the stratosphere. The failure of the much-vaunted Cruzado Plan is due precisely to the fact that while prices and wages were frozen by the government, the payment of $12 billion a year in interest on the foreign debt continued intact and bankers were permitted to speculate freely with interest rates on domestic lending.

While it was being repeatedly asserted that the general inflation rate had not gone much beyond 20% in the past nine months, interest rates were already approaching the 500% mark, making a mockery of the government's pronouncements. The reason for the prevailing speculative insanity has nothing to do with the magic of the marketplace, or the "invisible hand," but rather that the financial oligarchy in Brazil is desperate to prevent an accord between President Sarney and the PMDB governors who see the government's economic policies as pulling the electoral rug out from under its own feet.

Oligarchic circles—represented by former economics minister and current Citibank official Mario Henrique Simonsen, banker and current Brazilian ambassador in Washington Marcilio Márques Moreira, and former minister and power broker Delfim Netto—know that the disaster of the Cruzado Plan, aggravated by the drop in exports and therefore in the trade surplus, leaves the Sarney government at a critical crossroads: either signing an agreement with the international bankers (with or without the IMF's formal involvement), which would rapidly destroy the legitimacy of the government and plunging Brazil into a hyperinflationary panic; or striking a deal with the political machine of the PMDB.

This last would entail, as the governors' document itself outlines:

- freezing bank interest rates at an annual 6% a year;
- maintaining wage gains at 8%;
- creating 1 million jobs a year;
- finding a solution to the foreign debt problem, which assumes a minimum 6% annual growth rate of the Brazilian economy.

The Sarney government is still looking for a way out of its dilemma. The president of the Brazilian central bank, Fernão Bracher, spent the second week of January in Washington, D.C., meeting with representatives of the International Monetary Fund and the creditor banks to try to negotiate a restructuring of the debt without touching off a revolution back home. Inside Brazil, the ministers of finance, planning, and labor have been holding a series of meetings with political, business, and labor leaders to try to seal a pact to revive the moribund Cruzado Plan.

But the governors have already expressed their disgust for the government's economic failures, and labor relations with the government are grave as the spiral of strikes escalates. A desperate business community is threatening "civil disobedience"—illegal price hikes—if they can't get any relief.