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Brazil, citing the Pope, drops the debt bomb

by Mark Sonnenblick

Citing the Pope, Brazilian President José Sarney proclaimed on Feb. 20: "We are suspending our debt payments. . . . We cannot pay the debt if it means the hunger of the people. . . . A debt paid through misery, surely is an account paid at the price of democracy."

Sarney revealed that he made his courageous decision after a three-hour meeting of the National Security Council, which is composed of the military joint chiefs of staff, as well as the heads of the executive, legislative and judicial branches of government. This military support is a significant deterrent to banker intrigues to overthrow Sarney.

"We do not want any more palliatives or provisional solutions," Sarney insisted in refutation of banker expectations that he would just declare a "technical moratorium" until Brazil's cash-flow problems could be papered over. The President of the country with the largest number of professed Catholics said he would renegotiate the debt only from the moral position recently taken by Pope John Paul II: "Foreign debt must not harm the basic needs of the life of a people." In contrast to former economic czar Delfim Netto's selling Brazil's future for 30 pieces of silver, Sarney stressed, "Brazil now has to prepare itself for the 21st century. . . . We must end the cycle of cheap labor."

Sarney replied to banker rumors that he had simply run out of cash, by insisting moratorium was a political decision, and that Brazil had saved enough cash and oil to survive "several months" of economic warfare.

Almost as he spoke, Argentine Finance Minister Mario Brodersohn announced that unless private banks grant it $2.15 billion in new loans, "we won't be able to pay interest on the foreign debt. First we need to have 4% internal growth." The erstwhile monetarist declared, "If they give us nonsense, we'll give them nonsense."

The Group of Five (United States, England, France, Japan, and Germany) began an emergency meeting Feb. 20 to decide how to respond to Brazil's action.

Brazil cannot go on paying because the world market has been ruined. Instead of the trade surpluses of over $1 billion during almost every month from mid-1983 to mid-1986, the surpluses since November have averaged $150 million. Prices have been driven through the floor by Brazil and others who are told by Washington to "export or die." Of Brazil's two dozen major crops, only tobacco and orange juice had higher prices in 1986 than the year before. As populations have lost the ability to consume, competition has gotten fiercer. Coffee prices, for example, were 24% lower in this January than a year ago. Last week, Brazil attempted to make $250 million by selling coffee at any price. That knocked the price to $1.15 a pound, barely half of last year's levels.

Every country is in the same straits. The U.S. Commerce Department reported that the major 20 Latin American nations exported 8.6% less to the United States during 1986 than in 1985 because of price decreases. Their trade surpluses with the United States were 23% lower.

After Brazil and most of the other major Ibero-American debtors were first bankrupted by Federal Reserve chairman Paul Volcker's high interest rates in 1982, Volcker and Donald T. Regan cut a deal with them. If they would play the game by the bankers' rules, the United States would allow them to earn dollars to pay debts by opening up its doors for their cheap exports. The Commerce Department reported that from 1981 to 1985 the region sold 25% more to the United States and bought 30% less. The United States lost productive jobs and covered its trade deficit by becoming the world's largest debtor; but cheap imports held down inflation statistics and Citibank was able to report record earnings. It was

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called "the Reagan recovery." Living standards in Ibero-America fell by about 30%, making it a festering source of plagues.

Brazil and banks default together

Brazil's default technically bankrupts every money-center bank in the United States; each has more than its entire capital base tied up in Brazil loans. Since 1982, Brazilian leaders have been aware that they have "the banks over a barrel." But until now, they refused to drop what Lyndon LaRouche first named "the debt bomb." When Brazil stopped paying interest for three months in 1982, economic czar Delfim Netto kept it a dirty secret.

In his 1982 *Operation Juárez* memorandum to Ibero-American governments, LaRouche explained that a "debt bomb" would have to fall on the heads of U.S. policy-makers to force a total overhaul of the international financial system. A new monetary system to finance worldwide technological progress and production had to replace the moribund debt system, he argued.

LaRouche's policy recommendations were rejected then—and now—by the same Washington crew which fixates Ibero-American policy on arming drug-pushing Nicaraguan Contras and the same usurers whose tottering banks are kept solvent by the $400 billion annual drug traffic.

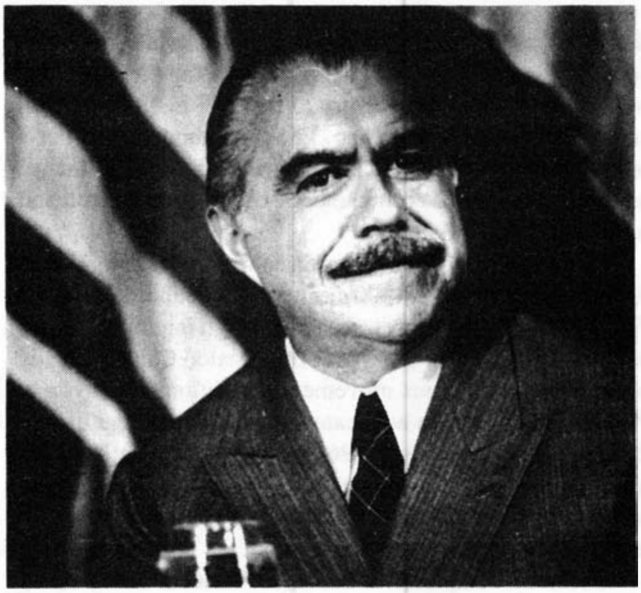
There is more chance now than ever for a unified Ibero-American debt strike. Powerful Brazil has broken the ice. Every country is bankrupt simultaneously, even the ones who sacrificed populations to export like crazy. The old debt deals have unraveled; and the bankrupt private banks are unwilling or unable to dish out the "new money" needed to hold their clients in debt peonage.

Mexico, promised $12 billion in September 1985, is kept dangling days away from default by short-term "bridge loans" which lead to nothing. This makes the backroom brawl over presidential succession ever more volatile. Peru's President Alan García, the first President with the courage to protect his country from the world economic collapse, will walk into this powder keg March 23, according to unconfirmed reports. García, who brought over 8% economic growth to his nation last year, could swing the political balance in Mexico.

Once Brazil moved, **Argentina** had to follow. Its government is squeezed between a Peronist labor movement which demands García's policies and the April visit of the Pope. Its President, Raúl Alfonsín, could not be seen as continuing to crawl when neighbor Brazil stood up.

Venezuelan Finance Minister Manuel Azpurua threatened creditors Dec. 29 with a debt moratorium should they refuse to ease debt terms. This should have been automatic under a contingency clause in the debt deal signed a year ago, given the drop in oil income from $13.3 billion in 1985 to $8 billion last year. A third of Venezuela's 1987 budget will be wasted on interest.

Ecuador, bankrupt, ceased interest payments in January. Its case proved once again that anyone who plays by the bankers' rules will lose.



President Sarney: "Foreign debt must not harm the basic needs of the people."

Brazil spent months quietly and patiently asking its creditors for token interest rate reductions and for $4-6 billion to cover this year's balance-of-payments hole. Any lingering doubts about how creditors would respond to its request for "flexible" conditions were dispelled on Feb. 13 by Vernon Walters, the U.S. ambassador to the United Nations. Walters—supposedly a "friend" of Brazil—gave a categorical "no." In a Worldnet interview via satellite to Brazilian journalists Feb. 13, Walters asserted, "The United States believes in the work [to be] performed by intelligent men to reschedule the debt [so that] its payment does not harm the population. But the money was loaned and must be paid."

The creditors' committee has refused even to talk, until Brazil surrenders itself once again to genocidal austerity under the direct control of the International Monetary Fund. Every U.S. banker and official mouthpiece, including U.S. ambassador Harry Shlaudeman, ordered Brazil to the IMF. On Feb. 20, Sarney ruled out "recession, unemployment, and social crisis which would bring political instability in its train."

Hitler—or Operation Juárez?

The bankers are plotting to destabilize Sarney and to overthrow Finance Minister Dilson Funaro, the parliamentary leader of Sarney's Brazilian Democratic Movement Party, Luiz Henrique, revealed hours before the historic speech. Brazilians listening to Vernon Walters's fluent Portuguese recalled his role in encouraging the Brazilian military to topple an inflation-ridden democratic government in 1964, and replace it with a 20-year military dictatorship.

Once again, the apparat which is openly fighting for fascist solutions to the crisis is amplifying hysteria about inflation and "lack of leadership." A prime example is Delfim Netto, who handed the country to the IMF in 1983. Delfim told the Rio daily *O Globo* Feb. 12 a story about how Hitler's central bank president Hjalmar Schacht dumped a finance minister who wanted cash to meet the Christmas payroll and went on to "stop inflation."

The shocktroops for a Hitlerian coup are being mobilized. A demonstration of 25,000 farmers who came to Brasilia Feb. 12 for legitimate protests against high interest rates and low parity prices was taken over by Ronaldo Caiado, an ally of the gnostic religious movement, Tradition, Family, and Property. TFP, which advocates a return to the age of feudalism, led mass rallies in 1964 calling for a coup. Another agent of the rotten Braganza and Thurn und Taxis feudal family interests in Brazil called for the new constitution to replace the President with a monarch.

Invidious comparisons between President José Sarney and Chilean President Salvador Allende fill the liberal press. Allende was overthrown in 1973, with the help of the TFP and Harry Shlaudeman, now U.S. ambassador to Brazil. But the vast majority of citizens voted against austerity in the Nov. 15 elections. The PMDB politicians they elected, the Church, and the powerful conservative nationalist sector of Brazil's military can be depended upon to fight the "treason" Sarney named on Feb. 20.

President Sarney's Address

'Time for a definitive solution to the debt'

The following is an unofficial EIR *translation of the speech by Brazilian President José Sarney, broadcast on radio and television at 8:30 p.m. on Feb. 20, 1987.*

Brazilians, good evening:

It is with with great emotion that I speak to the nation to say that, after hearing from the National Security Council—which is made up of all the ministers of state, the president of the Supreme Federal Tribunal, the presidents of the House and Senate, the head of the Chiefs of Staff of the Armed Forces—after hearing from the National Security Council which I convoked, I have taken a decision of grave importance in the history of contemporary Brazil. I wish to announce that the country is suspending payment on the interest of its foreign debt.

I must confess that it was not easy to take a decision of this magnitude. This is, above all, a position of courage, a position of someone who has faith in our Brazil. We are going to negotiate a solution for amortizing our debts within parameters which do not compromise national development. A solution which avoids the political instability which inevitably will follow recession, unemployment, and social crisis.

But, I must tell you that this is not a position of confrontation. Brazil is not a confrontationist country. Brazil is the eighth-largest economy of the Western world; it does not want to be an autarchic economy, outside the international community. We desire just negotiations; we have a free market economy—competitive, dynamic, modern, and with the right to grow.

We made a great effort to activate our foreign commerce, but we could not do it at the cost of a recessive policy, whose only object would be to generate significant trade balances, forgetting the unpostponeable interests of the nation.

Brazil has no desire to deceive anyone, but believes it should have special payment conditions. At the negotiating table, we will state the conditions which do not compromise the objectives of national growth. For reasons of sovereignty and national security, our reserves must be preserved. From the beginning of my government, I established that this would be our approach, to maintain a limit, and I set a limit. Now I have come to the moment of decision. I want to make it clear that we have made our decision in full awareness.

Brazil today has sufficient reserves to meet import needs for several months. Our liquid and available reserves, I can assure the nation, are $3.962 billion. It is not customary for countries to reveal the amount of their reserves, but I want to make them transparent tonight, precisely to avoid mistaken interpretations by those who do not believe in our country. The situation is totally different from that of 1982. At that time, there was a de facto limitation. Why? Because Brazil did not have the reserves to honor its commitments; it did not even have sufficient currency to finance essential imports. We were left at the mercy of the creditors, who imposed their conditions, and we were in no condition to resist.

Brazil had to resort to the Monetary Fund under circumstances that are well known. Today this is not the case. We have sufficient resources, and with the measures taken now, we preserve our foreign exchange, strengthening our negotiating position. What we do not want are palliative or short-term solutions. The measures we are now taking demonstrate this government's determination to create the conditions for a definitive solution to the debt question. A lasting solution, which is the outcome of a just and broad understanding, which will create stability.