Bankers play their last card in Brazil

by Silvia Palacios

In early May, a group of European and U.S. bankers headed by John Reed of Citibank held a private seminar in the city of São Paulo, the conclusion of which was to put out the line worldwide that investing in Brazil definitely does *not* run the same risks as in Mexico. Behind this apparent "confidence-boosting" campaign is a determination by the bankers to appropriate for themselves the rich public companies that the Fernando Henrique Cardoso government is being urged to privatize.

In addressing the press, Reed declared that "the worst of Mexico's crisis is over; international capital will return to Latin America," albeit with greater caution than before. He emphasized that all that remained for Brazil to become the spoiled darling of the bankers is privatization, and more privatization. He demanded that this process be "accelerated" by the Brazilian government, by putting more political pressure on the National Congress to immediately approve the constitutional reforms that would alter the status of the state companies, including the state oil monopoly Petrobras, and open them up for takeover.

Privatization was also the message to President Cardoso during his trip to England to attend the 50th anniversary of V-E Day. In a meeting with the *crème de la crème* of the City of London, four of the major banks—including Rothschilds—insisted that their primary interest in Brazil was investment in privatizations.

Feeling the 'Tequila effect'

Despite all the propaganda, however, the reality is that Brazil has been continuing to lose its international reserves in substantial quantities. According to reports in the daily *Gazeta Mercantil,* Brazil lost $7.9 billion in reserves between March and April of this year due to the effects of the Mexican crisis, the partial flotation of the Brazilian currency, the *real,* and the payments of interest and principal on the foreign debt. In the past four months, there have been net capital exports of $10.4 billion, meaning that the exchange reserves (which the government boasted were more than sufficient to protect Brazil from the so-called "Tequila effect"), have fallen from $40 billion in January to $28 billion currently.

This fall in reserves is not the only symptom of impending economic disaster. There are also agricultural and industrial bankruptcies, rising unemployment, and even suicides of debt-strapped businessmen unable to continue producing under the exorbitant interest rates. In Rio Grande do Sul and São Paulo, industrialists and agricultural producers are being punished by indiscriminate imports stemming from the Cardoso government's "open door" policy. And in Minas Gerais, the country's third largest industrial state, there is a rebellion of the industrialists against the government's currency policy.

One business leader of that state told this reporter that, "if this continues, we aren't going to go into bankruptcy; first we are going to shut down the companies." He added that in Minas Gerais, no one believes the free-trade myths any more: "When there was the NAFTA [North American Free Trade Agreement] party, we travelled to the United States and I asked the manager of one powerful industrial group if he was optimistic about the business opportunities that would be opening up in Mexico. He told me, 'Do you think we're stupid?' Then I realized that I, with my question, was the stupid one."

Also giving the lie to this bankers' propaganda were the comments of former Brazilian President José Sarney, who in 1987 decreed a debt moratorium and who today holds the Senate presidency, the third most important institutional position in Brazil.

In an article in the May 5 *Folha de São Paulo,* Sarney warned that Brazil could not continue to follow the suicidal route trodden by Mexico. "The truth is that the Mexican case is not limited to Mexico's difficulties, but rather involves the test of a model that was judged invulnerable to any crisis. . . . I am taking precautions. Two years ago, from this very spot, I stated that Mexico was the most successful of the models adopted by the countries of Latin America to solve their crisis. It was my mistake, and everybody else's, too."

In the Chamber of Deputies and other institutional centers of the country, there is a growing certainty that Brazil is entering into the maelstrom of collapse as well. In the first week of May, Congressman Valdir Colatto, one of the leaders of the congressional farm bloc, quoted at length from a report on the Mexican crisis produced by *EIR,* emphasizing that the first productive sector to foreshadow the bankruptcy of the Mexican model was a collapse in agriculture, precisely as is now occurring in Brazil.

The Cardoso government's stubborn adherence to the sellout policies initiated by the predecessor government of Fernando Collor de Mello, has provoked widespread indignation. On May 11, in the daily *Tribuna de Imprensa,* a civil-military group published an open letter to the National Congress protesting each of the actions undertaken by the Cardoso government to date. They attacked the government's demographic policy, privatizations, the bleeding of resources via domestic and foreign debt payments, efforts to impose the one-worldist concept of "limited sovereignty," nuclear policy, and more.