

# The Brazilian debt crisis

*EIR's Mark Sonnenblick examines a looming threat to world banking.*

Repeated warnings about “the danger of Brazil defaulting on its \$55 billion debt and blowing out the Eurodollar market” are being echoed throughout Anglo-American monetary circles.

As a result of such well-publicized fears, Brazil has been practically closed out of the Eurodollar market so far this year. The few public loan syndications which have been attempted have been completed only with the greatest difficulty. And Brazil must borrow another \$10-14 billion during the remainder of this year or the “default” scenario could become a self-fulfilling prophesy.

The chorus is being conducted through press organs such as *The Economist* and the *Wall Street Journal*, both of which quite suddenly shifted gears on Brazil from boundless optimism to panicked pessimism. *The Economist* begins its May 17 survey by intoning: “Brazil, long the biggest and brightest developing star in Latin America, may be about to explode into a supernova.” It ends with: “The international banking system should start girding its loins for the possibility that it may never again see some of the money it has splashed out to Brazil.”

*The Economist*, the *Journal of Commerce*, most U.S. commercial bankers and the U.S. Treasury are insisting that Brazil must go to the International Monetary Fund and receive its “shock” medicine before being able to gain needed debt relief. In fact, a semi-secret conclave on Brazil was held May 20-21 at the New York Council on Foreign Relations to try to push Brazil in that direction.

But Brazilian authorities, headed by Planning Minister Delfim Netto, think differently. They regard the IMF as irrelevant in terms of the volume of funds it could supply, and downright destructive of Brazil's political stability if its conditionalities are implemented. This was explained by Professor Riordan Roett, the chairman of the CFR gathering and one of America's best known Brazilianists, in the following terms: “They *have* to go to the IMF. That's what I've been telling them, but Delfim [Netto] doesn't want to face reality. He's scared shitless of the political explosion which would come from that. He just *won't* do it.”

Many observers of the Brazilian scene are also questioning the logic of going to the IMF. One New England banker interviewed by *EIR* moaned: “I don't want Brazil

to go to the Fund. I see not the slightest reason for it.” Indeed, even the people putting the most pressure on Delfim to go to the IMF admit that he is “skillfully” applying the same Friedmanite monetarist nostrums to Brazil that the IMF demands, as fast as the body politic of that country can tolerate them.

The question demanding an answer is why Brazil, which has yielded wondrous profits to foreign investors since the 1964 coup, and Delfim Netto, known as “the architect of the Brazilian Economic Miracle” for his coordinating the 1968-73 period of rapid growth, is now being so savagely attacked by their former friends?

## Pushing the Brandt Commission

The answers lie well outside Brazil's borders.

Threatening the world with a blowout of Brazil's \$55 billion in debt is a strong card in the hand of the CFR's policy planners who are seeking to reorganize the world financial system along the lines prescribed by the Brandt Commission report. The Brandt report called for “reforming” the IMF by recycling Arab petrodollars into the repayment of LDC debt. By publicizing the danger of a Brazilian blow-out, the CFR crowd is saying: if you don't go along with our plans, the whole thing goes up in smoke. This was made almost explicit by the May 30 London-based *Latin America Regional Reports*: “Brazilian ministers are pressing for structural changes in international financial markets. . . . Brazil is likely to embrace with fervour this new role as ‘champion of the oppressed.’ . . . It is clearly in Brazil's interest to mobilize a lobby of developing nations to call for radical changes. And it is the increasing reluctance of commercial banks . . . to increase their exposure in such heavily indebted countries as Brazil, which will bring about the formation of this lobby.”

Syndicated columnist Hobart Rowen was even more to the point. If the U.S. refuses to embrace the Brandt reforms at the Venice economic summit, Rowen wrote recently, the world will face an “economic time bomb in Brazil,” whose detonation “could set off shock waves transforming a global recession into a global depression.”

Rowan was equally blunt on the IMF question: "application of the IMF's well-known rules imposing strict conditions for its loans . . . could stir a series of social revolutions in the Third World."

The CFR crowd is hardly unaware that driving Brazil into the arms of the IMF will result in just such social convulsions. The fact of the matter is that this is a deliberate *goal* of the CFR policy—to destabilize or "Iranize" Brazil in much the same way as South Korea and Mexico have been targeted. As in these last two countries, the CFR's main "assets" in Brazil are the Jesuits, and the "Theology of Liberation" radicals within the Catholic church. Possibly the best known of these is the São Paulo metalworkers trade union leader "Lula," who receives his directives in public from his intimate friend and confessor, Frei Beto.

A fully "Iranized" Brazil, in the thinking of the CFR, would pose no risk of engaging in independent industrial development, and would be the best lobbyist for the Brandt Commission's low-growth reorganization of the world economy.

The Brazilian economy is, indeed, a mess, thanks to unpaid bills from the 1967-73 "Economic Miracle" and the reluctance of foreign creditors to fund the kind of industrial development needed to get the country out of the hole. Having to spend \$12 billion this year importing oil contributes to, but does not cause, the crisis.

The external constraints are serious. Brazil has to raise \$13-14 billion in new loans this year, just to pay off its debt service. It is heading for a \$2 billion trade deficit and another \$2 billion on non-interest services. This adds up to close to \$20 billion in foreign capital requirements when even the most minimal financing of on-going projects is included. Up to the end of April, Brazil had raised only \$4 billion and had spent most of the liquid part of its foreign reserves.

When given the Planning Ministry in September of last year, Delfim Netto announced Brazil would "grow its way out of the crisis." He explained that growth was necessary to provide jobs for Brazilians and to provide the materials for an extraordinary surge in exports. Delfim promised that by increasing exports from \$15 billion last year to \$20 billion this year and \$40 billion in 1984, Brazil would clear the crisis.

Delfim has made the \$20 billion figure a question of national and personal honor, and he will achieve it even if he has to export so much coffee and soy that Brazil will have to import its internal needs of such commodities after January 1. At this time, with a 35 percent increase in exports in the first four months, it looks like he will make it. However, imports increased by 51 percent. Any savage slashing of imports, such as a rumored 40 percent cut in oil imports, would close down the industrial economy, provoke riots, and impede Brazil's ability to generate exports.

The economic liberalization policies decreed by Delfim Dec. 7 included a 30 percent "maxi" devaluation and the elimination of many subsidies. While substantially reducing the government budget deficit, these measures have contributed to catapulting inflation to 94.6 percent in the last 12 months. This is more than double the inflation rates of the 1974-76 period. The export orientation and the wasting of billions of dollars on ersatz energy substitutes, such as alcohol from sugar cane, firewood, and high-ash coal, have also contributed to the record inflation.

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## The Brazil hands talk about the Brazil problem

*Dr. Riordan Roett's Center of Brazilian Studies at Johns Hopkins University is financed by Brazilian businesses, as well as American foundations. He is a coordinator of an ongoing panel on U.S.-Brazilian relations mandated by the New York Council on Foreign Relations and ran the two-day emergency brainstorming session on Brazil at the CFR May 20-21. The following are excerpts from an interview with Dr. Roett:*

**Q:** What do you think of the Brazilian debt situation?

**A:** They *have* to go to the Fund. That's what I've been telling them, but Delfim [Netto, Planning Minister] doesn't want to face reality. He's scared shitless of the political explosion which would come from that. He just won't do it.

**Q:** Is the IMF's role to break the state sector?

**A:** Delfim's doing a damn good job at that. . . . But Brazil needs *shock*; gradualism is no good. Delfim has got this thing about continuing growth. He doesn't want more unemployment. But what's he got? He's got a big balance of trade deficit. . . .

He has got to get dollars. He's got a \$55 billion debt he can't service. . . . You know his subordinates are under sharp attack. The idea is to tumble him. . . . How, you understand the reason for *The Economist* article?

. . . I was in Europe two weeks ago with the people in Deutschebank and in London. They were *very* worried about Brazil defaulting and that having a domino effect on all the LDC's Euromarket debt. They were afraid it would cause tremendous international economic dislocation.

The American banks are also afraid. They are clenching, refusing to loan. The U.S. government must give Brazil *priority*. It must pull together a big loan package from public funds and arm-twist the banks and corpora-

tions to give Brazil the funds to get it through the year. Our national interest requires it, but it's highly unlikely because of the elections. No leadership. No one in Washington will do anything for Brazil.

**Q:** I've been thinking about what IMF conditionalities would cause in Brazil, and it's quite frightening.

**A:** It is *really* scary, but they have to go. . . . No one knows what will happen. Brazil is a different country now from 1964, much more complex. Politically, *now* is the best time. The opposition is totally disorganized. Golbery [the regime's chief strategist, General Golbery do Couto e Silva] has done really well with his political reform. The only problem is São Paulo. It could blow sky high.

. . . The military will go along. They're already restless about this political opening. And to enforce an IMF agreement will require a political closing. There will just have to be a return to repression. It's going to be horrible. But it can't be allowed to last long. In the long term, a repressive regime is very bad for United States interests, not just in the ideological sense, but because they become too independent. They could go off in some other direction.

**Q:** What kind of reactions are you getting from Brazilians on the IMF?

**A:** Brazilians are eternal optimists. That's a problem. They have a big country and they don't know a damn thing about what's going on in the outside world. I'm going to Brasilia in a few weeks to set them straight.

The Brazilian businessmen at the meeting I had this week at the CFR just started to wake up and get the point.

*Following are excerpts from an interview with the vice-president of a major New England bank.*

**Q:** The word is out all over the place that Brazil has to go to the Fund because the second-tier banks won't loan anything without the Fund's stamp of approval.

**A:** I don't want to see Brazil go to the Fund! I see not the slightest reason for it.

It's really hard for banks to loan to Brazil, even if we want to. The banks are under the gun from the Controller of the Currency to hold down lending. He highlights any country loans over 25 per cent of capital. By highlighting these loans, he's telling them, 'Don't lend any more!'

Also, bankers around the country are reading all those stories about strikes, about the *abertura* [political openings] and they are looking at what happened to Iran, and now all the trouble in South Korea, Liberia, and some countries in Central America. Jesus, it's a tough environment for a bank manager!

**Q:** What would the Fund want from Brazil?

**A:** The Fund would attack the rate of growth of the

Brazilian economy. For the last several years, the sine qua non of Brazilian policies has been that 5 or 6 percent annual growth is needed to provide employment for the million and a half people entering the job market. To do so, they need imports, a certain amount of inflation and increased debt. That point is being attacked by the Fund.

I've been doing some hard thinking about Brazil going to the Fund: Can you put it on the same plate with the *abertura*? No. It would mean fundamental changes in the Brazilian system. They would probably push a free market on Brazil similar to Argentina and Chile, maybe freeing up imports, reducing protectionism.

**Q:** How do you think Brazil is going to get the funding it needs?

**A:** Obviously the Japs are dead in the water. That knocks out what's been a big source.

The medium sized [American] banks are out of the market. The large banks are not only out of the market, but have run down their exposures. United Virginia looks at the big banks pulling out and says, 'Why should I help Citibank or Chase?'

But they can't pull out of the LDC's. They have too much invested there. With all those years of Citibank boasting about their LDC profits, they tooted their own vulnerability. You can see what people think of their new plans by looking at the price/earnings ratio on their stock.

*The following is excerpted from an interview with Brian Zipp, U.S. Treasury Brazil Desk Officer:*

**Q:** Will the U.S. bail out Brazil?

**A:** The United States has no global responsibility to bail out everybody who gets themselves into problems. The commercial banks are in there and so are other countries . . . official rescheduling is not under consideration.

**Q:** What would the IMF want Delfim to do?

**A:** . . . The Fund's stamp of approval means something to bankers only when it has teeth in it. There is no way to achieve austerity and the kinds of changes the banks require while at the same time improving the social indicators. There has to be a trade-off. . .

. . . We have the same kinds of troubles as Brazil, like high prices of imported oil. When you're in that kind of situation, you have to bite the bullet sometime.

. . . Brazil traditionally does not like going to the Fund. It creates too many political problems. I hope they can do it on their own. They have to decide.

**Q:** Why should Brazil go to the IMF if Delfim seems to be doing the kind of policies it would recommend?

**A:** Delfim is doing a good job. He's moving in our direction, towards our own policies. He's on the road. He's doing many of the things the Fund would have him do; let's hope he keeps doing it.