Brazil: Congress and executive in confrontation

by Mark Sonnenblick

The packed galleries of the Brazilian Congress kept a well-disciplined silence the evening of Oct. 19 until the Chamber had voted into oblivion the controversial wage-cutting decree on which the renegotiation of Brazil's $100 billion debt hinges. Then there erupted the same chants of "IMF get out" and the exultant singing of the national anthem which had broken out a month before when the Chamber first showed that it intended to assert national sovereignty over the dictates of the International Monetary Fund.

The tension reflected recognition that Planning Minister Antonio Delfim Netto and the currently hegemonic faction of the government were looking for pretexts to eliminate any legal channels for blocking submission to the conditions imposed on Brazil by the IMF and the creditors. Hours before the vote, Gen. Newton Cruz, the commander of the Army in the Brasilia region, announced on television that President Figueiredo had decreed a 60-day "state of emergency" for Brasilia under which meetings could be banned, private homes searched, and mail and press censored.

Seeking to avert a head-to-head crash between Congress and the executive, some members of the ruling party had sought to negotiate the terms of the now-famous Decree Law 2045 with the opposition which forms a majority in Brazil's lower house. As decreed by President João Figueiredo on July 13, the law forbade wages to rise by more than 80 percent of the inflation index since the last increase. With inflation running at an annual rate of over 200 percent during the past several months and heading upward, Decree Law 2045 has sharply reduced real wages for those workers whose semi-annual increases came up in August, September, and October. (Decree laws immediately go into effect until vetoed by Congress, which has 60 sessions to consider them.)

These cuts are on top of a statistical fraud comparable to that of the U.S. Bureau of Labor Statistics. Delfim Netto's underlings "purge" from the index what they call "accidentals," skyrocketing prices such as the increase of corn prices last month by 91 percent. Thus, the official cost of living index records a 147 percent increase for the 12 months ending September, while the real figure was 175 percent.

The regime offered to negotiate only on peripheral questions such as the legal status of strikes in the distant future, but remained faithful to IMF insistance that it "bite the bullet" on real wages. Ulysses Guimarães, president of the largest opposition party, the Brazilian Democratic Movement Party, complained that the regime refused to negotiate; talks broke down on the afternoon of the 19th.

Even the pretense of negotiations would not have been needed had not a major portion of the ruling Democratic Social Party (PDS) found the wage-cutting law intolerable. The government could then have fairly easily made sure there was no quorum until after the 60-session deadline for congressional veto of the decree ran out October 28. But 29 PDS delegates showed up; the PDS leadership could only try to save the image of party unity by having party leaderships vote for all their members, which resulted in a 29-231 formal vote defeating Decree Law 2045. The Chamber also shot down Decree Law 2036 mandating extra reductions in state-sector remuneration.

As expected, the government responded to its defeat by immediately promulgating Decree Law 2064, which also fulfills Brazil's commitment to the IMF to limit wage increases to 80 percent of the inflation index. The only difference is that 2064 was given a more equitable political cover by taking much more from the better-paid segments of the work force and less from the 72 percent of the labor force which earns barely enough to provide food for their families. State-sector wage bills must be cut to 80 percent of the inflation index. The law mandates a complete phase-out of cost of living increases by 1988. Well-informed sources claimed that the new law had been granted prior approval by the IMF and that the government would continue to dictate wages by decree until it coerced Congress to give its stamp of approval.

The regime plans "by any means necessary" to get a favorable vote on Decree Law 2064 before the Nov. 15 deadline set by the IMF for the private banks to commit themselves to new money for Brazil. "I have no doubt Decree Law 2064 will be passed before Nov. 15," a PDS leader says. "The party will 'close the question' and expel from Congress any member who does not vote for it," he explained. The unvoiced but understood threat against the opposition members is if they do not go along, the state of emergency will be extended to states such as São Paulo and Rio, stripping elected opposition governors of their power.

Observers foresee a series of nasty political confrontations between the executive and every other sector of the Brazilian polity. The regime has apparently exhausted its ability to act through persuasion and is perhaps about to embark on the dangerous path of force.

Washington acting for the IMF

Figueiredo is going into this confrontation under massive pressure from creditors and the governments of Brazil's nominal allies, such as Switzerland, Britain, and the United States.

Fritz Leutwiler, head of the Swiss National Bank and the Bank for International Settlements (BIS) declared in a Gotherburg, Sweden, address the night before Brazil's congress rejected Law 2045, "As for Brazil, a solution might be forthcoming, but there are still obstacles. The Brazilian Congress is the main one. The agreements Brazil is discussing and which have been published will not be accepted [by the Congress] in their present form; this is clear." Leutwiler cautioned, "Austerity is not easy. It may lead to political unrest and social upheaval, but still—the IMF and the BIS are the only institutions that can possibly manage the crisis."

The Thatcher government in Great Britain is seeking to enact the same bloody vengeance on Brazil that it took on Argentina. According to *EIR*'s sources, Thatcher is enraged that Brazil granted and then took away refueling rights for British planes on their way to the Malvinas, forcing expensive airborn refueling.

But it is the United States which is most aggressively pressuring Brazil on behalf of the IMF. Asked to comment Oct. 20 on the state of emergency and the new wage-cutting decree, State Department spokesman John Hughes replied that they were an internal Brazilian matter and no business of the United States.

When Hughes was reminded that Secretary of State George Shultz had publicly expressed his support for the wage-slashing measures and that Treasury Secretary Donald Regan had said at the September IMF meeting that he "shudders to think of Brazil's future if the measures are not passed," Hughes confessed, "Well, without presuming to interfere in what is an internal matter for the Brazilians to decide on, it is true that the Secretary has expressed his confidence in the ability of the Brazilians to resolve their economic difficulties. That confidence continues." When *EIR* asked him, "The support of this administration for democracies everywhere is well known; do you make exceptions in the cases of countries which don't comply with the IMF?" Hughes responded, "That is a rather broad and sweeping question. Our record in support of democracy is well known and it speaks for itself. However, there are certain realities with which we have to deal."

The United States is itching to restore the bilateral military agreement unilaterally terminated by Brazil in 1977 in response to the Carter administration's "human rights" rights and opposition to Brazil's nuclear energy program. The United States is offering the cash-strapped Brazilian navy and air force financial aid for a strategic airbase on Trinidade Island in the South Atlantic well to the east of Rio. Brazilians are bargaining over terms of military technology transfer; other enticements may be offered during Shultz's Oct. 25 visit.

While U.S. pressures have defined the "reality" within which Brazilian economic policy is being made, the United States is losing its local friends. "For the first time in all my years of dealing with Brazil I sensed a lot of antagonism towards us from people who had never felt that way before as a result of IMF conditions and demands," a pharmaceutical executive told *EIR* on returning from São Paulo.

The oligarchic *O Estado de São Paulo* lamented that U.S. Treasury Secretary Donald Regan's repeated blunt orders that the Brazilian Congress pass 2045 had provoked "the advance of nationalism. . . . The worst thing is the corollary to this type of reaction: since the crisis wasn't created by the people who were deprived of their rights for many years, nobody should pay for it."

Which way for military hardliners?

Gossip columns in the Brazilian press claim President Figueiredo threatens to "call Pires," the army minister, to repress any civilians who successfully oppose his will. Back in July, according to the weekly *Relatorio Reservado*, Delfim Netto sought to shortcircuit congressional rejection of IMF mandates by simply eliminating Figueiredo's democratic opening and reviving the old repressive apparatus of Institutional Act No. 5.

However, the military is beset by conflicting pressures and faithful to divergent loyalties. Nobody can predict which way it will turn as the crisis deepens. The hardline nationalists now identify the creditors—more than the increasingly violent civilian population—as Brazil's number-one enemy, because of the creditors' overt contempt for national sovereignty.

Indeed, in recent weeks the drift of these ultra-hardline factions of the army (as can be gleaned from statements by retired officers) has been toward a nationalist alliance with the political opposition, rather than toward repression of dissent.

General Sylvio Frota, the right-wing army commander whose attempted 1978 coup failed to stop Figueiredo from becoming president has come back into the spotlight with indictments of the IMF.

The groundwork for an alliance between the stridently anti-communist military hardliners and their former enemies of the nationalist left is being laid by Gen. Antônio Carlos de Andrada Serpa, who was fired from the army high command in 1979 for his radical opposition to multinational corporations. Serpa declared in a Sept. 30 interview with *Jornal de Brasilia:* "I estimate that if the president were to declare a moratorium and a break with the international financial system, the nation would immediately unite behind him. I defend moratorium because I do not recognize the foreign debt. . . . This is the form of neocolonial exploitation generated by the Bretton Woods agreement" which set up the IMF.

General Serpa went on to assert that negotiations with the IMF "not only damage national sovereignty, but humiliate President Figueiredo, the Armed Forces and the Brazilian people." As a solution, General Serpa proposed "direct elections [which] can give Brazil a president with the moral authority and civic courage to do what must be done, which is to declare a moratorium as an act of Brazilian sovereignty. . . ."

The Brazilian road show

While Congress was locked in confrontation with the executive, central bank head Affonso Celso Pastore was on his first two-week tour around-the-world. During stops at Honolulu, Tokyo, Bahrain, London, and Zürich, Professor Pastore tried to convince 850 increasingly nervous private creditors to take another ride on the Brazilian renegotiations merry-go-round. Selling tickets to "Phase Two" of Brazil's renegotiations is proving more difficult for Pastore than "Phase One" was for his predecessor Carlos Geraldo Langoni from December to February. Pastore is seeking $6.5 billion in new money from 800 banks, while Langoni set out to get $4.4 billion from only the 160 most exposed banks.

The banks had to use funny bookkeeping and other tricks to keep Brazil's arrears, estimated by Delfim Netto at $3.5 billion, and by *EIR* at $7.1 billion, from burning a hole in their Sept. 30 balance sheets. With the defeat of the wage law, that problem is likely to return with a vengence at Christmas, when Brazil's insolvency will be too big to paper over.

Brazil's debt has become as wound up in insoluble contradictions as Argentina's. The IMF has suspended its deal with Brazil, and a laboriously negotiated new one depends on both the wage-cutting measures and on private banks and governments mustering new cash to lubricate Brazil's $19 billion annual debt service. No creditor is willing to move without all the others agreeing. Another catch is that the banks cannot disburse overdue payments from existing loans until Brazil pays up its arrears to them.

That would require the artifice of a quick-fix $3 billion "bridge loan," but no one is willing to put forward his money first. And the longer Brazil delays signing with the IMF, the more apparent it will be that it is violating its brand-new third letter of intent.

Although most bankers believe Pastore will be unable to raise the $11 billion in new money he says is needed to supplement a $8 billion trade surplus, they also recognize that the new money request was too low, and the whole exercise—even if successful—will have to be repeated again by the spring of 1984.

Pastore's biggest problems, however, are political. Pastore said he was "dismayed" by the British government's public catagoric refusal to join in the $2.5 billion in new money from government export agencies he is seeking. (The U.S. Eximbank is committed to put up $1.5 billion of this, provided the Europeans and the Japanese all join in. The Swiss National Bank is also doing its best to sink this key component of Phase 2 by forbidding Swiss banks to lend to foreign export-import banks.)

Sir Alan Walters, Thatcher's economics adviser, suggested in an Oct. 17 Washington speech that Third World debtors should sell off their assets in order to buy up their debts from banks at a large discount. Walters's bald ultimatum brought into the open what *EIR* has been alone in reporting since March.

Appetites have been whetted by recent discoveries of gold nuggets weighing 66 and 100 pounds, and by Mining Minister Cesar Cals predictions that Brazil's 300 tons of gold reserves would be yielding $7-$8 billion annually by the end of the decade. And gold is only a small part of the mineral wealth locked into an undeveloped area bigger than the 48 states.

The IMF and the other creditors had frozen all deals with Brazil pending congressional sanction of Decree Law 2045. Now all the deals are off. The government is showing it is determined to exact the same pain from wage-earners by temporary decrees, but that may not satisfy the creditors. The creditors certainly are interested in reducing the consumption of Brazilian wage earners by an estimated $17 billion annually—but only if the savings can be converted into their pound of flesh.