Brazil moratorium sinks International Monetary Fund

by Robyn Quijano

Since Brazilian President José Sarney declared a debt moratorium on Feb. 20, Ibero-America's largest debtor has eliminated the "aura of power" of the International Monetary Fund (IMF), which has, for the last decade and more, dictated economic prescriptions designed to kill the patient. Perhaps more significant than that, Brazil's action has taken the conscience of the world hostage, forcing a long overdue debate on morality and economics which was more politely advanced 20 years ago by Pope Paul VI in his encyclical on the urgency of developing the Third World, *Populorum Progressio*.

Because governments of the industrialized West did not heed the Pope's warning in 1967, millions have died of starvation, while now AIDS, the Black Death of the 20th century, is threatening entire continents. Brazil is one of the most devastated victims of the AIDS epidemic worldwide, with the highest number of officially reported cases outside the United States.

While U.S. Federal Reserve chairman Paul Volcker, who set off concentration camp-style looting of the developing world with his interest-rate hikes in 1979, has claimed that the bank's negotiators are suffering "battle fatigue," he has prepared total warfare against Brazil. He is trying to bash bankers into line to cool out the other debtors, to isolate Brazil, to move in for the kill. Already Argentina has been given a $500 million emergency loan to assure no "debtors' club" develops. Mexico, which has been promised over $7 billion since September, is being promised March delivery. But even if the banks get into line and come up with fresh money for all the troubled debtors, the governments that have bowed to the IMF's genocidal austerity, will have trouble hanging on to political power.

The Catholic Church has clearly defined the issue as human life before debt. Brazil has defined the issue as one of national sovereignty and morality. And Ibero-America is a Catholic continent, with Brazil's the largest and most successful economy. Already nationalist military, trade union, political, and industrial layers are mobilized throughout the continent to follow Brazil's example.

While most bankers are constitutionally incapable of debating morality in economics, except to determine that no such category should exist, governments


NSIPS/Ana Maria Mendoza

Peru's President Alan García (left) is received by Venezuelan President Jaime Lusinchi (right), during a January 1987 visit to Caracas. Both García and Brazilian President José Sarney have cited recent Vatican statements on the debt, to explain their rejection of the IMF's conditions. Will the rest of Ibero-America follow their courageous example?

have responded to both the Vatican and Brazil's eloquent plea to create a new economic order, and to solve the debt crisis for good instead of just papering it over. In the days since the debt moratorium was declared, both Japan and Italy have extended new credits, and French Premier Jacques Chirac has criticized the International Monetary Fund, and submitted the Vatican document on "An Ethical Approach to World Indebtedness" (see pages 28–31) for the study of his economics ministry.

On the other hand, U.S. Treasury spokesman Robert Levine commented only, "If the idea works, they could bring down the system. Do you think we are going to let that happen?"

Brazilian Finance Minister Dilson Funaro is traveling throughout the capitals of the industrial countries to explain why his nation—the eighth-largest economy in the Western world, with a land area greater than the continental United States, and a population of 140 million, a section of which has a 40-year life expectancy—had to change the rules of the game.

Funaro is talking to governments, not to bankers. He is bringing a moral message, and a message of sanity. Only debt relief will allow the advanced-sector countries to export to the developing sector. Funaro has let the creditor governments know that he does not intend to stop being part of the international economy, but rather is putting "conditions" on Brazil's participation in it. He stated on Feb. 26 that he intends to purchase $10 billion worth of goods for the industrial sector this year, and will concentrate investment on the creation of infrastructure.

"Brazil does not need [IMF] monitoring. It has the third-largest trade surplus in the world, and a lower public-sector deficit than most of its creditors," said Funaro. The problem in Brazil, he said, lies "abroad, with foreign creditors who ripped up a 20-year consensus on development when the Mexican debt crisis first broke in 1982. The credit freeze reversed the flow of funds to such an extent that Brazil, in the past four years, has paid out $45 billion, while receiving in return only $11 billion."

"There is a confusion in the discussion," he noted. "Who raised the interest rates, who changed the rules? Not Brazil."

Excelsior, Mexico City's most prestigious daily, warned that the risks of the present crisis are greater for obstinate creditors than for Brazil, since a hard line will intensify the solidarity of all Ibero-America with the Brazilian cause, and will trigger a nationalist awakening. "It should above all be clear that each time a nation declares itself in moratorium, it multiplies its capacity to import, precisely because it stops using its resources to pay an absurd debt and dedicates it instead to encouraging investment. . . . If later other countries should follow its example, what would be created in Ibero-America would be an enormous expanding market that would absorb abundant goods and services from the industrialized North. A little later, with the basic balance of our economies reestablished and growth renewed, we could return to servicing the debt. This is the path that would benefit both the North and the South, but political clarity unfortunately does not appear to be an attribute of the rich countries."

When U.S. economist Lyndon LaRouche put forward his Operation Juárez program in 1982, he defined the interest of the advanced sector just as *Excelsior* does today. It is clear that the collapse of markets in the Third World also wrecks the industrialized nations. But LaRouche wrote that if the United States refused to act rationally, Ibero-America could survive by freezing debt payments, and organizing a common market to become an economic superpower.

That common market is mapped out in a book written last year by the Schiller Institute, *Ibero-American Integration, One Hundred Million New Jobs by the Year 2000*. The book, sold in Ibero-America, and exclusively printed in English in this magazine's *Operation Juárez* series, spelled out the potentials of the common market, and measured the "illegitimate" debt of the major debtor nations. It demonstrated that, because of overcharge on interest, Brazil now owes $33.2 billion more than it should. If the terms of trade had remained at 1977 levels, Brazil would have also saved $91 billion. If capital flight had not occurred, by 1983 Brazil would have paid the entirety of its debt. By 1985, Brazil would have had a surplus of $58.5 billion.

Audit the illegitimate debt

Funaro announced that his government will begin an audit to determine what portion of Brazil's debt is illegitimate. Brazil owes $27 billion more than it would have owed, if interest rates had remained at "traditional levels," said Funaro. Were it not for Volcker's usury, and the $1 billion Brazil has paid in commissions alone to international banks for the favor of renegotiating debt, Brazil would owe only $80 billion, he said. In the last five years, Brazil has paid the banks $55.8 billion in interest alone, and still owes $108 billion!

Funaro questioned the legitimacy of the billion dollars in commissions, noting that since he took over the finance ministry he has paid none.

The audit will uncover corrupt officials known for stuffing Swiss bank accounts with their own commissions. On Jan. 26 Deputy Hermes Zanetti, of the ruling PMDB party, from Rio Grande do Sul, charged that as much as $20 billion was deposited into private accounts in Switzerland, a product of dirty deals around the debt. "If the guilt of ex-ministers in economic areas is proven, they should be punished, because those are crimes against the public," said Zanetti.

Ex-Minister of Planning Delfim Netto has denied that he is afraid of an audit.

Brazil's investigation follows moves by Peruvian President Alan García to clean out corrupt officials who, for personal profit, handed his nation over to foreign predators. The recent indictment in Peru of David Rockefeller's favorite banker, Pedro Pablo Kuczynski, co-president of First Boston International, for defrauding Peru of $800 million in 1980, when he was energy and mines minister, set the tone for Funaro's move.

According to the *Financial Times* of London, "unlike so many of his predecessors, Mr. Funaro is not a wheeler-dealer pragmatist." He is nicknamed "the Messiah," reflecting "respectful awe and barely-concealed alarm at the minister's apparent utter conviction as to the justice of his cause. Many believe that his courageous and apparently successful battle with cancer of the lymph glands, has reinforced in him a sense of being the man chosen by destiny to lead his nation from debt enslavement."

García and Brazilian President Sarney, both deeply religious Catholics, have cited Pope John Paul II and the document of the Vatican's Commission *Justitia et Pax*, in their battle to place human life above debt payment. The recent Vatican document on debt not only placed the blame for the misery and bankruptcy of the Third World on the IMF and usury; it also criticized poor countries' "negligence" in permitting "fiscal fraud, corruption, monetary speculation, and private capital flight"—evils Brazil and Peru are moving to clean up as they rebuild their economies.

Great projects and a regional currency

Little by little, the debtors' front is forming, Peru's President García told a group of foreign correspondents on Feb 24. "We are on a path of no return." There are no longer any in-between arrangements for the debt problem, he told them; it is impossible for the debtors to pay under current conditions. A specific dilemma exists: Either you pay, or you grow economically. Foreign credit is "a myth," because as everyone knows, more currency leaves Latin America than enters.

García outlined five phases in the battle for a debtors' cartel. The first phase—bilateral negotiations—created a "front of frustrated negotiators." The second step—unilaterally limiting payments—was begun by Peru. Brazil has now joined, and "I am sure others will make the same decision," he said. Because of Brazil's economic weight, its decision has "enormous importance," and "can open a much wider road than Peru could." The next step must be the adoption of "a macro-economy without misery for all the peoples of Latin America. That is," García said, "seeking forms of non-IMF macro-economic development," which avoid the worsening of "structural defects, centralism, bureaucratism," and the amassing of "rentier wealth." Then, the fourth step will be to relaunch the development model of each one of our countries, as in the decade of the '50s and '60s. The fifth phase will be "economic, political, and moral union," where Latin America will arrive sooner or later, to break its vicious cycle of poverty, García concluded.

The following day, Peru's foreign minister, Alan Wagner, announced that President García will meet with President Sarney as soon as possible. The foreign ministries of both countries are now working to coordinate a date for an "Amazon summit," whose agenda will include trade relations in the context of the Amazon Cooperation Treaty, the collapse of border trade, and needed road connections between the two countries.

Days before, García had announced the discovery of huge gas deposits, the equivalent of 1.2 billion barrels of oil, in Ucayali, in the southern jungle region. He said that a pipeline could be built to Brazil, whose key vulnerability is its lack of energy self-sufficiency.

Brazil must turn to Ibero-America for trade, and provide an "umbrella" for other countries which become disillusioned with the IMF accords, the secretary of international relations of the Brazilian Democratic Movement Party (PMDB), Deputy Fernando Gaspariat, said Feb. 23. "The crisis now begins to affect all at the same time," he said, "and will bring about a better understanding than ever before." Brazil must change business partners, and reactivate trade with Ibero-American countries to prepare for possible reprisals, he argued. Venezuela, for example, was once Brazil's principal oil supplier and could become so again, if Brazil exported cars and other products in return. In this way, Brazil's position on the debt could create bonds of solidarity with the rest of the continent.

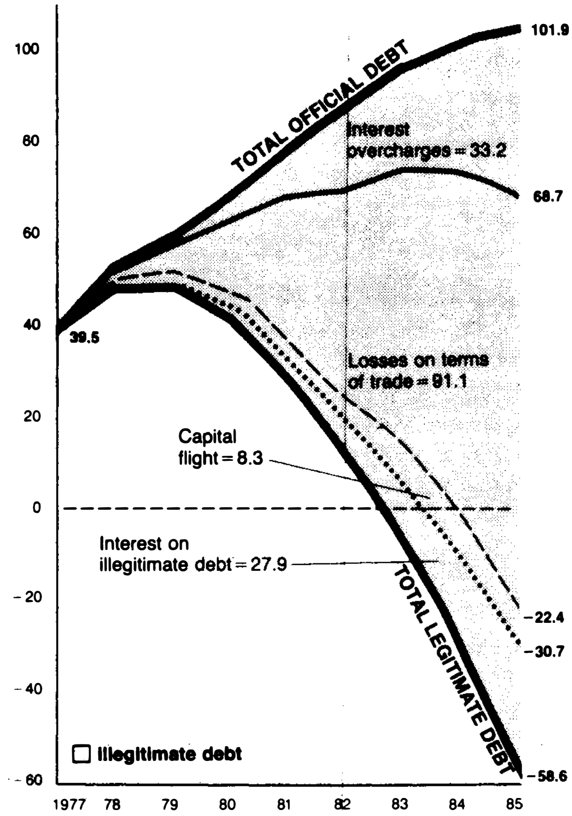
To facilitate just such a common-market approach, Funaro ordered studies into how a regional currency could guarantee imports at levels necessary to maintain economic development and normal supplies, even during the exchange crisis. The central bank's director of foreign affairs, Carlos Eduardo de Freitas, and the executive secretary of the Customs' Policy Commission, José Tavares de Araujo, who have been working on the possibility, were given six months to come up with a plan. Tavares is "optimistic" about the possibilities of regional trade. Peru's García has been working for such a currency for over a year.

The new currency was one of the main issues which Funaro discussed with Brazilian business leaders who were worried about a possible cutoff of supplies of oil, raw materials for the pharmaceutical industry, and other items not produced inside Brazil, after the moratorium. The National Federation of Industries (CNI) backed the government, after meeting with Funaro. "The suspension of dollar payments on the interest of the foreign debt . . . was a just decision that could not be postponed, based on the exercise of national sovereignty, to avoid recession and preserve internal conditions of social and political stability," the CNI document states. The country could not withstand a new round of unemployment, "which would inevitably follow a drop in productive activities, if the orthodox route of generating trade surpluses at all costs to cover debt service, was followed."

CNI President Alvaro Franco, who presented the document to Funaro, attended the December 1985 conference at Rome's Urbaniana University, where Joseph Cardinal Ratzinger delivered his famous address on "Economics and Morality."

Foreign debt of Brazil, 1978–85

(billions of dollars)



Sources: ECLA and authors' estimates.

Brazilian Finance Minister Dilson Funaro announced on Feb. 25 that his government would begin an audit to determine what portion of Brazil's $108 billion foreign debt is legitimate. He calculated that, had the U.S. Federal Reserve not jacked up interest rates starting in 1979, the debt would have been $27 billion less.

Readers of *EIR*'s "Operation Juárez" series know that the actual situation is even more shocking: In an equitable environment, Brazil today would have no debt at all! Brazil has suffered acutely from shifting terms of trade since 1977, paying $12.8 billion more for its imports because of their higher prices, and receiving $78.5 billion less for its exports, whose values have declined. Adding to this the savings Brazil would have accrued from stable interest rates and the elimination of flight capital, would have enabled Brazil to pay off its entire debt by 1983. (See *EIR*, Oct. 10, 1986, pp. 16-21.)