Brazilian 'superminister' braces for confrontation with banks

by Mark Sonnenblick

Brazilian Finance Minister Dilson Funaro has dramatically strengthened his internal flank as he heads for a showdown with Brazil's creditors. With manifest support from U.S. Treasury Secretary James Baker III, Citibank proclaimed it would rather take some losses on Brazilian debt accounts than to accept Funaro's demand for conditions which would allow Brazil to grow its way out of its debt crisis.

"History shows conciliatory methods often do not produce results," Funaro told the *Wall Street Journal* recently. A.W. Clausen, the former World Bank president who has moved back to Bank of America, replied March 18, "Brazil is bluffing." A columnist in the business daily *Gazeta Mercantil* the same day described the situation as a "chicken game," the test of guts in which two U.S. teenagers drive down the middle of a road toward each other; the "chicken" is the one who veers to the side first. Bankers are scared of Funaro's uncompromising commitment to Brazilian growth. One commented last week, "I think I see the light at the end of the tunnel, but it may be a locomotive coming down the track toward me."

Brazilian central bank president Francisco Gros was not flustered by the increasingly suicidal tendencies shown by Citibank, Bank of America, Conti Illinois, and the like. "Until the country stopped paying interest (Feb. 20), we were worried. Now, *everybody* is worried." Gros insisted at a March 13 press conference, "If the Brazilian economy does not grow, Brazil will not even pay interest; there will be no way to pay." He said he was sure that the banks would not be so stupid as to act on their threat to cut $15 billion in short-term credit lines March 31: "If the credit lines were cut, Brazil would lose exports and not be able to resume interest payments." Brazil will use its exports for the imports it needs to grow, Gros asserted. "We will allocate whatever is left over for interest payments." Funaro projects that imports will grow by 10% this year and exports by 6%, with the bankers simply having to find some way to reduce or finance the $5.5 billion of Brazil's $9 billion interest bill it cannot pay.

Nor was Brazilian President José Sarney cowed by the bankers' escalation of threats. He asked West German Federal President Richard von Weiszäcker to make an unscheduled stop in Brasilia March 15. During their meeting, Sarney accused the foreign banks of conspiring to divide and conquer. He warned that such tactics were not prudent, since they could lead to a "real confrontation situation," a Brazilian source close to the presidency reported. Sarney reminded him that the Weimar Republic was forced by the Treaty of Versailles to pay 2.8% of its Gross National Product in reparations. Brazil, in contrast, has been paying 5.5% of its product for debt service. He warned that such economic constraints made it extremely difficult to preside over a smooth transition from 21 years of military rule to a stable democracy. The German President expressed comprehension and praised Brazil's "force and vigor."

World Bank faction defeated

On March 17, the leader of the bankers' fifth column inside the government, Planning Minister João Sayad, was fired by President Sarney. The nest of those who advocate giving creditors ownership of Brazilian companies is being cleaned out with a series of resignations from second tier economic policy posts.

According to the daily *Gazeta Mercantil*, the U.S. Treasury and many New York bankers were expecting and helping Sayad in his effort to sabotage Funaro's economic program. Sayad, a leftist economist, never supported the Feb. 20 debt moratorium. As soon as it was declared, the World Bank asked him to prepare and fight for an alternative policy, one which would bring Brazil back to playing the debt game by the bankers' rules. Sayad obliged.

After all, Sayad's boys had invented, on request of International Monetary Fund gnome Alexandre Kafka, a new way to sucker countries which had been raped by the IMF to accept being raped again. Their scheme, called "heterodox shock" is now being imposed on Argentina under the name of "Austral Plan" and would have been imposed on Brazil, had not Sarney and Funaro twisted their "Cruzado Plan" into a growth scheme.

Sayad's plan was written in the gibberish that wins Nobel

Prizes for the world's most incompetent economists. But its bottom line was:

- Cut real wages by about 15%.
- Sharply devalue Brazil's cruzado to promote exports.
- Turn worthless foreign debt into equity ownership of Brazilian industry, agriculture, and mining.
- Reinstate the IMF ban on high technology industrial and infrastructure projects by cutting government investment budgets.

This is precisely the "convincing economic plan" which Brazil's foreign creditors demand day after day. Sayad sneaked the plan to Sarney while Funaro was in Europe fighting for international support for Brazil at the beginning of March. When Sarney refused to touch it, he leaked it to the press along with misinformation that Sarney had accepted it, which made bankers in New York and London ecstatic. Sarney, however, was angered, as were the leaders of the ruling Brazilian Democratic Movement Party (PMDB), who had won 80% of the votes in November's gubernatorial elections on an anti-IMF and pro-growth program. With the inauguration of new PMDB governors in 22 of the United States of Brazil, March 15, Sayad's fate was sealed.

PMDB president Guimarães who had gotten Sayad his job broke the news March 17 that Sayad's plan "should be archived for the future." Within hours, the bearded economics professor was out.

With Sayad's demise goes the World Bank's plan to replace the hated IMF as the protector of creditor's interests in Brazil. The World Bank had waved the big stick of cutting off all loans to Brazil if Funaro remained in power. It announced it was going to open a permanent office in Brazil April 15 and dangled the carrot that it would provide Brazil with a $3 billion "structural adjustment loan" if Sayad's plan were made government policy.

Although the World Bank has a better image than the IMF, its own technocrats admit that its conditionalities are even stiffer than those of its Bretton Woods sister. When a country submits to World Bank "adjustments," it cannot delay an electric rate increase, give a wage hike, or allow tax relief to a troubled industry without a special dispensation from the colonial overlords in Washington.

Brazil rejected the Sayad-World Bank threat to its sovereignty.

Funaro revives great projects

Funaro announced that the creditors would not be presented with his economic plan until it had the political support of the elected representatives of the Brazilian people. He is not proposing a new edition of last year's consumption increases, because every industry is now working at close to capacity. The 12.1% increase in industrial output last year, called "excessive consumption" by every newspaper in the United States, merely brought Brazil per capita income back to 1980 levels.

Funaro told *Istoé* magazine, "We are going to hand in a plan for the next four years, approved in Brazil and defining what we need to grow." His idea is that Brazil has to average 7% annual GNP growth for the rest of the century to provide the better living standard its people demand. To do so requires heavy investments in the country's basic industry and infrastructure.

Marcio Fortes, the president of the National Development Fund told a businessmen's conference in Rio March 16 that $28 billion would have to be invested in stell, paper, petrochemicals, fertilizer, and metals by 1996 just to keep a growing Brazil self-sufficient in those areas. He is zealously guarding the $6 billion his fund collects each year from compulsory savings on luxury consumption for use in such long-range projects. Other government officials plan to double the steel industry from the 24 million tons this year to 50 million by the end of the century.

The country's ports, inland transportation, and electrical grids also require expansion. That is not to speak of the cheating on social infrastructure during Brazil's "economic miracle" which has left 90% of Brazil's population without sewer connections.

To invest $12 billion per year in basic industry and agriculture while gradually increasing consumption, Brazil has no choice but to end the debt drain. An equal challenge lies in the internal economy. "My greatest problem is the expectations of the people who elected me," one governor confessed amid the euphoria of his inauguration March 15.

The Brazilian military wisely turned over the task of governing to civilians in 1985 because it knew unmet social needs were creating explosive conditions. The popular belief that democracy means the end of poverty has created extremely high frustration levels. That is providing fertile ground for those who want to destabilize Sarney. Sarney's vision of a banker plot to topple him is "paranoia," "xenophobia," "making of scapegoats," the press and other local allies of the bankers screamed March 18. Yet, that same press is blowing out of all proportion political protests by forces which want a regression to military rule.

In the state of Parana, 100,000 farmers blocked bank offices and roads March 10. They were led by a strange coalition of Nazis and Communists, united on weakening the government and undermining Funaro. They were led by the large latifundists under the control of the oligarchy's Tradition, Family, and Property (TFP) front, the Rural Democratic Union, in alliance with the pro-Cuban Workers' Party. In recent years, 200 deaths have been caused in rural violence between squatters led by Workers' Party leftists and radical priests, and the hired gunmen of the feudal landlords.

Brazil's imports and exports came to a halt for the first two weeks of March. What the bankers cannot do themselves was accomplished by striking seamen, agitated by the Workers' Party. They refused generous wage offers, and seized their ships. Marines were sent to the ports, but did not break the strike.

A plot by the Workers' Party to imitate the seamen and occupy the country's oil refineries was nipped in the bud by the deployment of army units to a dozen refineries. The unions and the state oil company, Petrobras, agreed to negotiate wage demands.

"Prudence should not be mistaken for weakness," Sarney declared March 11. He was answering charges that the government "lacked a firm hand" made by General Octavio Medeiros and published on the front page of *O Estado de Sao Paulo* that day. Medeiros, the Al Haig of Brazil, is a Mossad-trained spook who ran Brazil's FBI-CIA from 1979 to 1985. "The concept of authority is destroyed today. When I was in government, I think the concept of authority was different."

Medeiros' outburst against Sarney occurred just *after* the President had outraged liberals by deploying military force to the refineries.

Military reaction to Medeiros was so hostile that he tried to deny his remarks. Even the small minority which Chagas says would like to make a coup apparently felt he had moved prematurely.

O Estado's Carlos Chagas commented that Madeiros "is the quasi-candidate of the authoritiarian system for the presidency of the republic." Chagas suggests Medeiros may be seeking "the destabilization of the regime." The conservative Chagas asks, "Who benefits from these singular things? Not the government, not the armed forces as an institution, nor society which, despite everything, still had confidence in the New Republic" (Sarney's regime). He answers, "The government did not expect the opening of internal flanks at the moment it was trying to fight a holy war on the international level."

When in power, Medeiros reportedly used intimidation, censorship, and other unattractive forms of pressure to provide political cover for then Finance Minister Delfim Netto's dirty deals with the international banks.

In a speech to businessmen in Rio March 16, Finance Minister Funaro agreed with General Madeiros that the concept of authority *was different* when he and Delfim were running the show. "In 1982, the recession was deliberate; the previous government accepted externally-imposed adjustments. The 1982 crisis was not of the debtors, but of the world economy. In 1980, the American policy raised interest rates. In 1982, financing stopped coming. If the Brazilian government had acted differently in 1981 and 1982, there would not have been a recession."

Brazil rebuffs foreign asset-strippers

Brazil's foreign creditors want to buy out the country's internal economy for a nickel on the dollar. That would happen if they were allowed to convert their worthless debt paper into "risk investments" in Brazil. The Brazilian economy produced $265 billion worth of goods and services in 1986. Yet, total ownership of every voting and preferred share issued by the private, state-owned, and multinational companies which produced over 80% of that product could now be bought for $21.2 billion. For a mere $6.2 billion, foreign speculators could obtain 51% of the voting shares of all those 632 companies.

These figures were calculated by the Rio stock market, which has been leading domestic lobbying on behalf of the foreign creditors. President of the stock market Sergio Barcellos presented his report to President José Sarney on March 16. He then told the television and print media that Sarney had agreed with his plan to convert debt into equity.

Not even the stock market believed Barcellos; it continued its decline that day. Finance Minister Dilson Funaro declared the next day that nations have to be careful to keep a balance between national and foreign companies, and not let foreign investors overwhelm domestic initiative. On March 11, Funaro had argued that debt swaps were next to useless as solutions for Brazil's debt crisis.

In 1983-84, Brazilian Planning Minister Delfim Netto gave a 10% bounty on every dollar of debt turned into "investment." Several U.S. banks grabbed the opportunity to buy up Brazilian banks, thereby joining in the looting process by which Brazilian banks return 30% profits on capital year after year. The way was led by Alan Stoga, who bought the Denasa Investment Bank for First Chicago Bank, asset-stripped it, and then went to work for Kissinger Associates, Inc. Bankers Trust bought the Iochpe group with debt money, and Citibank bought the Comind finance house.

The swindle was so scandalous that the government ended the bounties and gradually imposed restrictions, starting in October 1984. But laws permitting such operations remain on the books. The country could be sold off cheap in a moment, were a switch in government policy to occur. The main reason Citibank and others take a hard line on Brazil's debt is to force Brazil to give in on just this point—to surrender its economy to foreign creditors.