Bankers oust architect of Brazil's debt moratorium; weaken President

by Mark Sonnenblick

Dilson Funaro, the man behind Brazil's Feb. 20 declaration of moratorium on most of its $110 billion foreign debt, announced his resignation as finance minister on April 26. His replacement, Luis Carlos Bresser Pereira, is a compromise between the bankers who pulled the rug out from under Funaro and the ruling Brazilian Democratic Movement Party (PMDB).

The PMDB remains hostile to the bankers' recessionary policies or International Monetary Fund (IMF) intervention in Brazilian affairs, and are powerful enough to exert enormous pressure on President Sarney. Therefore, Brazil's creditors will not win a dramatic, quick reversal of the debt policies enunciated by Funaro and Sarney himself.

What is likely to go out the window, however, is the fortitude with which Funaro defended Brazilian national sovereignty and his patient insistence on world-wide financial reforms which would permit debtor countries to grow. Funaro's principled stance on debt was mocked as "messianism" by the mouthpieces of international usury. The *Washington Post,* for instance, described him April 29 as a man "who promoted the moratorium in a fruitless effort to win new world lending mechanisms."

Bresser Pereira, in contrast, embodies the *pragmatism* celebrated by Brazil's elites, a quality which has helped Brazil become the AIDS capital of South America. Bresser comes out of the Saõ Paulo business circles which helped bring down Funaro in order to press for an accommodation with international creditors. In an interview with the daily *O Estado de Saõ Paulo* April 26, he gave a glimpse of his flexibility toward creditors. "We must make a plan very close to what the IMF recommends," Bresser said. "We now need to cool off growth to restore a trade surplus of around $9 billion [this year] so that we can pay more or less 50% of the interest due on medium- and long-term loans from banks. I think the creditors would consider this percentage reasonable," he continued.

Bresser said that in order to rack up that kind of export performance, there would have to be some kind of big devaluation and Funaro's 7% economic growth target would have to be cut in half.

An international effort

Funaro's ouster came as no surprise: The Brazilian press has been proclaiming for weeks that he would be put out of office "soon after Easter."

Ever since President Sarney went on all channels of Brazilian TV last Feb. 20 with a powerfully clear declaration of moratorium on all medium- and long-term debts owed private banks abroad, the creditors have been striving to get rid of Funaro, whom they feared would stick to his guns and make Brazil, along with Alan García's Peru, the axis around which an Ibero-American creditors cartel could be built. Almost every week, another dirty operation to dislodge Funaro was launched. The most effective one was the ultimatum for Funaro's dismissal delivered April 7 by Saõ Paulo Gov. Orestes Quércia. As documented in *EIR,* Quércia's gambit was apparently orchestrated by the U.S. State Department, including George Shultz's personal Brazilian criminal connections and by Charles Z. Wick of the U.S. Information Agency.

Another international maneuver was run through Argentine President Raúl Alfonsín. Alfonsín's envoy threatened bankers at the April 8-9 International Monetary Fund-World Bank interim meeting in Washington that he would join Brazil's moratorium if they did not give him token improvements on debt renegotiation conditions; they did. "He [Funaro] lost by our doing this Argentine deal. That was his last chance; it left him isolated," a senior U.S banker told the *Wall Street Journal.*

Brazilian media, run by Brazil's powerful oligarchy, created confusion about the moratorium and then amplified a hundredfold every complaint against Funaro. If reality were determined by what one reads in the press, it was a daily miracle that Funaro remained in his post so long. Almost every Brazilian media pronounced that the only reasons Funaro remained was that PMDB president Ulysses Guimarães insisted upon it and that President Sarney was "loyal" to his friend Funaro.

Sarney resisted the pressures to fire Funaro, but he never lifted a finger against the easily identified authors of the attacks. It was notorious in the press that the "palace guard," headed by Sarney's son-in-law and personal secretary Jorge Murad, was the source of almost daily assaults on Funaro. Murad teamed up with Sarney adviser Rubens Ricupero—who worked diligently behind the scenes to keep Brazil internationally isolated—and they brought young economists inspired by IMF monetarist gnome Alexandre Kafka into the palace in March to discuss alternatives to Funaro and then filled the headlines for a week with scandal stories about an "alternative economic plan."

Murad caused the ultimate embarrassment to Sarney on the day of Funaro's resignation, by inducing the President to call in Citicorp's candidate for finance minister. On April 27, Tasso Jereissati, the 37-year-old governor of the northeastern state of Ceara, arrived at the palace, accepted being finance minister and accepted the staff which Murad had assembled for him: Kafka's economists, André Lara Resende and Persio Arida, to make policy, and Miguel Ethel to implement it. Ethel was the best man ("godfather" in Portuguese) at Murad's wedding to Sarney's ambitious daughter Rosana, and was promoted for the job by Citicorp international director Mario Simonsen. Simonsen was Brazil's planning and finance minister in the 1970s; and he still holds the dubious honor of having increased Brazil's foreign debt faster than any other minister.

The Citibank gambit blew up in the President's face, as will any other effort to impose IMF-style policies on Brazil. PMDB party chiefs found out about the plan, vetoed it, and delivered to the presidential palace a short list of acceptable finance ministers. One of the two names on it was Bresser Pereira, who had cultivated his image as what he calls a PMDB "social democrat" for the past decade.

After this widely reported incident, it is not surprising that Sarney feared to appear at the next day's press conference.

Brazil still can't pay

Brazil's creditors are celebrating their recovery of some leverage over Brazil, just as their entire dollar system breaks out of control. Brazil itself will not be able to pay more than half of its interest bill, even if the PMDB were to accept Bresser's program for sacrificing domestic economic growth and real wages for the sake of export promotion.

PMDB Sen. Albano Franco countered Bresser on April 28 by stating that the new finance minister's 3% economic growth target was "excessively low." The senator, who is also president of the powerful National Confederation of Industries (CNI), observed, "Three percent would be achieved solely with the growth of agricultural production, with the record harvest, meaning almost zero growth for industry."

Franco offered Funaro a job as president of the CNI's Economic and Social Policy Council; and Funaro accepted. Funaro will keep his team of policymakers together as a counterpole to Bresser's policies, the daily *Gazeta Mercantil* reports. The debt policies Funaro designed are the policies of the PMDB, its president Ulysses Guimarães repeatedly states. A united Funaro group orienting the PMDB would prove a potent obstacle toward changing those policies.

In his last press conference as minister April 27, Funaro showed he was ready to keep fighting, and would not be trapped into "lower sentiments" like resentments, when his country was at stake. He pledged, "I will continue debating our country's problems in every corner of my country." He analyzed his ouster: "I want to say that I fought hard for changes in Brazil. And you know that I fought hard to change relations between rich and poor in Brazil. The changes are not easy because those who enjoy privileges and benefits try to hold on to them; and most of the time, the have-nots, lack communications power held by the most privileged." He lamented, once again, that Brazil is "a nation of impunity" for crimes committed by the oligarchy.

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A few days before he was toppled, Funaro dared to challenge the financial oligarchy, which has controlled Brazil's economy for centuries, with few interruptions. Funaro announced that the days of usury inside Brazil were over. The banks would not be able to continue extorting from their borrowers interest levels 10-50% above the interest they paid depositors. The government limited large banks to spreads of 4% and small banks to 5%. At the same time it reduced debt burdens for farmers and small businessmen and provided credit to state governments. The bankers went wild, threatening to do their lending only under the counter.

Finance Minister Bresser Pereira gives lip service to "controlling bank commissions." But he joins Brazil's foreign creditors in wanting high internal interest rates. "The domestic interest rate cannot be very low, or you will have flight capital," Bresser Pereira told *O Estado*.

President Sarney is now weaker than ever. Leaders of his PMDB party, such as House Majority Leader Luis Henrique, who fought off efforts from radicals of the left and right for immediate direct elections for a new president, are now considering the idea. The PMDB-dominated Constituent Assembly has the power to decide the question. If Sarney rushes to please creditors by accepting austerity programs and giveaways of Brazilian assets along the lines sought by the IMF and the World Bank, his presidency could well abort. In any event, the Brazilian situation remains volatile.