 by Silvia Palacios and Lorenzo Carrasco

A bad case of 'chicken'

Sarney's submission to the banks can't change the reality of no money to pay the debt; the fight is far from over.

On May 18, two days before the fateful 90-day period was up on Brazil's Feb. 20 declaration of debt moratorium, a broken President José Sarney abandoned his last shreds of patriotism before a national television and radio audience. By declaring that Brazil's economic problems stem from the internal political crisis and not from the ruined international financial system, Sarney yielded to bankers' pressures and gave a green light to resume negotiations with the International Monetary Fund, which, in fact, happened hours before the presidential announcement.

Two days later, Finance Minister Bresser Pereira told foreign correspondents that "I am not an enemy of the IMF; we are members of that institution." In a nasty swipe at his predecessor, moratorium architect Dilson Funaro, Bresser said "We will negotiate [with the IMF] like adults. . . . I don't know why we didn't renegotiate the debt in July or August of last year, when there were favorable conditions for both sides."

The IMF's first act was to target the political opposition to the reimposition of its power. IMF delegation head Thomas Reichmann told journalists he was worried about Brazilian governors' attitude of "not accepting severe economic measures" because of their election promises.

Sarney's capitulation to the banks was a potentially fatal blow to his wobbling presidential image; he compounded his error by using his national address to define his own presidential term as five years, with elections in 1990, going over the heads of the Constituent Assembly and the Democratic Alliance.

The Democratic Alliance is a political pact between the majority parties, the Liberal Front Party (PFL) and the Brazilian Democratic Movement Party (PMDB), to effect a peaceful transition from a military to a civilian regime, thanks to which Tancredo Neves and José Sarney were elected as President and Vice-President, respectively. When Neves died and Sarney became President, he promised to comply with the Democratic Alliance agreements, which meant that the Constituent Assembly would set the length of the President's term in the process of writing a new national constitution.

By setting his term at five years, and declaring an end to further debate on the issue, Sarney violated the pact. This means a showdown with the Constituent Assembly—and with a leadership faction in the PMDB which has become increasingly vocal in favor of direct elections in 1988, at the latest. PMDB leaders, one after the other, responded to Sarney's announcement by either describing it as "a mistake," or insisting that it was only an opinion, subject to the Constituent Assembly's decision.

President Sarney's new position was induced by a rigid palace guard commanded by ambassador Rubens Ricupero and Sarney's private secretary and son-in-law, José Murad, working closely with Mario Henrique Simonsen in favor of Citibank's interests. Citibank has no illusions of recovering its devalued dollars; its intention is to wipe out any patriotic tendency which seeks to defend Brazilian interests. As the *Wall Street Journal* commented May 20 about Citibank's announced $2.5 billion loss: "The Citibank decision raises the stakes in the bank's war of nerves with Brazil. . . . Citibank's move shows Brazil that, if necessary, the bank could afford to write down its Brazilian loans."

It was the same palace guard which pressured for Dilson Funaro's ouster, throwing out his internal economic plan which sought to limit bank profits as a way of reducing interest rates and creating cheap credit for industry.

With Funaro's departure, the new economic policy under Minister Bresser Pereira inverts the policy, tolerating interest rates above inflation, which went over 20% a month in April. Inflation in May is expected to hit 30%, which will unleash galloping hyperinflation.

The hegemonic influence of Simonsen and Citibank in the new government policy has already borne its first fruits in the resumption of negotiations with the IMF and in opening the doors to massive exchanges of foreign debt for shares of Brazilian companies.

The opposition to this policy is centered around Funaro who, since he left the Finance Ministry, is viewed as presidential material by a growing circle of influentials. In a keynote to the Second National Congress of Financial Executives May 20, Funaro insisted on a "non-orthodox solution so that Brazil can grow." In what was viewed as a polemic against Bresser, he stated: "The majority of underdeveloped countries have the same potential for development as Brazil. But to be a power, it is necessary not to lose a sense of nationality."