Anti-usury law approved in Brazil

The new Constitution limits interest rates to a maximum 12%—and clashes with official policy.

'Real interest rates, including commissions and any other remunerations directly or indirectly linked to the granting of credit, cannot be higher than 12% annually, and all charges beyond that ceiling will be considered the crime of usury, punishable by law."

The above is the text of Article 197 of the new Constitution of the Brazilian Federal Republic, which will go into effect in early October. The anti-usury article, surprisingly approved by the National Constituent Assembly in its final days of session, reestablishes the "law of usury" imposed by nationalist President Getúlio Vargas in 1933, against the oligarchical coffee-growers, who strove to keep Brazil a colony exporting a single cash crop.

The "law of usury," which established the same 12% ceiling on interest rates, was a vital weapon in the economic armory of the dirigist President, and endured until 1964, when it was overturned by the coup which brought to power the government of Gen. Castello Branco, under pressure from the national and international creditor banks.

The new usury law stands in total contrast to the demented monetary policies of Finance Minister Maílson da Nóbrega, Planning Minister João Batista de Abreu, and the Central Bank technocrats, who are bent on financing the internal public debt by selling government bonds at astronomical interest rates.

Whether the new law succeeds in straitjacketing the monetarists or, as is the case for numerous policy areas in Brazil, the law is studiously violated by the government of President José Sarney, remains to be seen.

In just the past month alone, the Central Bank offered financial institutions interest rates on government paper as high as 18% a year. With this policy, not only has the internal public debt soared—to the benefit of a handful of speculators—but investment in any real productive activity has been made absolutely prohibitive. This in turn is driving the nation into the worst crisis in its history, buried under nearly $250 billion in internal and foreign debts.

Its insane monetary policies threatened by the new usury law, the economic team headed by Finance Minister da Nóbrega has mounted an offensive designed to eliminate, or at least delay, implementation of the law through legalistic ruses about supposed juridical ambiguities in the definition of "real interest."

After all, said da Nóbrega, "which is the concept of real interest? There exists a concept of real interest in the economic field, but not consecrated in the juridical field."

Da Nóbrega has already ordered the Central Bank not to respect the new constitutional mandate, and instead gave a green light to begin a final round of negotiations on the internal debt, offering government paper at a real interest rate of 15.9%. Central Bank President Elmon Camões pledged: "We are going to carry out the instructions of the finance minister, in the sense of continuing the current policy independent of what may happen."

The Central Bank's director on public debt, Juárez Suares, joined the chorus of attacks against the new anti-usury law, stating, "The limitation on interest rates is a regression; Getúlio Vargas already tried it."

In addition, President Sarney's legal adviser, Saulo Ramos, according to the daily *O Estado de São Paulo,* is readying a communiqué for circulation to all official banks, instructing them outright to violate the 12% ceiling, until the new constitutional law can be "interpreted" by ordinary legislation.

The 12% limit on interest rates does not, in itself, constitute a solution to the country's vast financial problems, but it does pose the necessity for an urgent internal financial reorganization that can channel the more than $50 billion circulating on the internal speculative markets into real production.

With such a reorganization, the fantastic paper profits of the financial oligarchy could be wiped out in one blow, and along with it their stranglehold on the Brazilian economy.

If, to all this, one adds the fact that the new Constitution explicitly dictates that all international agreements—including those signed with financial institutions—must first be discussed and approved by the majority of the national Congress, the new anti-usury law becomes still more explosive. It is no accident, therefore, that Minister Maílson da Nóbrega took the first plane to New York City, to personally pressure for the signing of an agreement with the international banks and the International Monetary Fund *before* the new Constitution goes into effect.