A social pact with usury

The Brazilian government, the unions, and business leaders have signed a pact "freezing inflation" at 20% per month.

With great pomp, the government of President José Sarney tried to present the agreement it reached Nov. 3 with labor and business leaders as if it were the start of a "great social pact" which would finish off inflation. After it is denuded of the political fantasies with which it was packaged, the social pact does nothing more than set a limit to inflation: 26.5% in November and 25% in December.

Under this "anti-inflationary" strategy, designed by Citibank international vice president Mario Simonsen, all factors of the real economy—i.e., wages, prices, and public service prices—remain subject to a pre-established inflation rate. On the other hand, domestic interest rates and payments on the foreign debt remain open to unlimited expansion, extending the pestilence of usury into all pores of Brazilian society.

Although several of the union and business leaders in the negotiations wanted to discuss, as part of the pact, the foreign debt problem, Finance Minister Maílson da Nóbrega would brook no questioning of the accord he had signed with Brazil's creditor banks. Nor would he permit discussion of the new constitution's prohibition of real interest rates of more than 12% annually.

The pact is really nothing more than a two-month truce, providing a breathing space for the Nov. 15 municipal elections and for the government to try to create the political conditions for savage austerity. In January, the caged inflation will be released, and prices could rise 40% in that month. The government will then show its true intentions: sharp cuts in real wages, massive layoffs of public employees, tax increases, and, above all, a rapid increase in domestic interest rates. The government also expects to collect $2.5 billion from state governments, one-quarter of their foreign debts.

Da Nóbrega and Citibank's Simonsen, himself a former finance minister, will never admit the true cause of this hyperinflationary process: the accords signed with the international bankers.

First, the government committed itself to generating huge trade surpluses to pay interest on the $120 billion foreign debt, at the expense of lowering internal consumption. Excessive exporting created shortages, and vastly higher prices of products, especially foodstuffs. The central bank turned on the printing press to get local currency, cruzados, to buy dollars from Brazilian exporters. More paper money and fewer goods on the local market equals growing inflation.

Second, Brazil's deal with the bankers includes clauses pledging Brazil to convert foreign debt paper into cruzados for "investments" in Brazil, and clauses permitting the international bankers to "re-lend," to anybody in the country, the cruzados frozen in blocked accounts at the central bank. Since Brazil suspended principal payments on foreign debt in 1982, about $25 billion worth of such frozen cruzados has accumulated.

The printing press was also turned on to create this reserve. The central bank recently estimated that between $7.5 and $8.5 billion worth of foreign debt paper was turned into Brazilian equity in 1988. When all is said and done, the agreement with the banks has resulted in the central bank issuing approximately twice as many cruzados as it otherwise would have. That is what has brought inflation rates up to 1,000% annually.

Thanks to this scheme, the international creditor banks, like the Citibank of Mr. Simonsen and its chief, John Reed, who chairs the bank advisory committee which dictates terms to Brazil, are once again making profits this year. Brazil has come up to date on its interest payments. Through the "menu" of debt-for-equity conversion schemes, the banks are getting real assets for worthless debt which they had largely written off.

That is why former Finance Minister Dilson Funaro is so sharply critical of the Sarney government. Speaking on the TV program, "Critica e Autocritica" Nov. 6, Funaro charged that his successors in the ministry have set punctual payment to the international bankers as "the only national priority." He asserted that hyperinflation was caused by the $55 billion in interest payments Brazil has sent abroad in the past five years and insisted that the debt moratorium he declared in February 1987 was and is the necessary path.

Funaro's statements were blacked out of Brazil's newspapers, which usually record the opinions of every politician. The motive for this became evident three days later in the arguments used by France's Paribas bank president Michel François Pancet. He said that no matter how much Brazilian authorities groveled, the banks would never provide the "voluntary" new lending for which Brazil was sacrificing itself. "The path of normalizing debt payments helps," he said, "but the insecurity of the banks reappears constantly when we verify that many Brazilians do not want the debt to be paid."