Report from Rio by Lorenzo Carrasco

'Final solution' for Brazilian state

The government's new "action" program could knock the last props out from under the depression-ravaged economy.

Best summarizing the spirit of the Immediate Action Program (PAI) announced June 15 by Brazil's new economics minister, Fernando Henrique Cardoso, was the comment of his economic policy adviser, Gustavo Franco, who, with the morbid humor characteristic of monetarists trained at Harvard University, said, "Now we will have to hand over a cadaver every 48 hours."

Franco's statement, which could well have referred to the hundreds of thousands of Brazilians starving to death across the country as the result of economic policies dictated by the International Monetary Fund and World Bank, was a crude indication that the current economic team, in its zeal to keep the country's creditor banks happy, is prepared to carve up the state and hand it over, one piece at a time.

The principal measures announced include, first, a cutback of $6 billion in the 1993 federal budget, approximately 2.5% of the total budget of $234 billion. Despite the fact that a full 62% of this total, or $145 billion, is allocated to service the internal and foreign debt, the cutbacks fall directly upon the already dramatically pared-back investment allocation. The measure will have the immediate effect of worsening the depression conditions ravaging the country.

That the PAI is based on usury is made clear by the fact that this year's budget commits $10 billion for interest payments and $135 billion for amortization, which in fact constitute the speculative mass of government paper which daily passes through the financial markets. Sixty-two billion dollars is earmarked for payment of public officials, social expenses, and obligatory resource transfers to the states and municipalities. The economic cabinet plans to increase budget cutbacks in precisely these areas, should the measures designed to boost tax collection fail.

The PAI is also designed to provoke a direct confrontation between the federal government on the one hand, and the states and municipalities on the other, by threatening to strangle the latter financially if they do not accept the rigid payment guidelines on their debts to the federal government. It is on this point that the greatest political resistance is likely to occur, given that state governors control the majority of Brazil's legislators. It is no accident that Cardoso's team is seeking to impose its "fiscal adjustment" guidelines upon the state and municipal budgets, which have until now proven to be the sole source of investment funds under the government's general austerity regimen. The impact of such a confrontation could be to shatter Brazil's federated republic, paving the way for a new federal pact.

Treatment being readied for the state banks is not much better. The most serious measure is the so-called white collar law, which prohibits a financial institution from granting loans or advances to its controller, in this case, the state and municipal governments on the one hand, and the state companies owned by the government on the other. Under this new rule, for example, the Bank of Brazil will no longer be able to finance the foreign operations of the state oil company Petrobras.

Regarding the program to privatize state companies, the PAI revives the most radical goals of the Collor de Mello administration and proposes "rapid conclusion of the privatization of steel, petrochemical, and fertilizer companies." Further, the PAI proposes "starting the privatization of the electricity and railway sectors, according to the pre-existing program," by opening these up to foreign capital flows. "This new legislation is more than welcome to us," said a Shell Oil representative; the firm has long had its eye on Brazil's petrochemical industry.

The PAI is especially favored by usurious international interests, although these continue to argue that the plan should be still more ambitious—perhaps a cadaver every 24 hours? They are also concerned about possible nationalist resistance within certain political sectors. Declared one London banker to *Gazeta Mercantil* June 16, "What will now prove interesting will be Congress's response on the one hand, and the attitude of President Itamar Franco on the other."

Wall Street bankers are enthusiastic, with one recent Salomon Brothers study noting that "Brazil's opportunities for striking a debt restructuring deal through the Brady Plan increased with the new economics minister's program."

The most symptomatic reaction was that of former U.S. Secretary of State Henry Kissinger, who, according to *O Globo* of June 17, described Brazil at an Americas Society bash as "one of the best places for investment worldwide [because] of the magnitude of its natural resources, the talent of its people, and particularly, because of its spectacular economics minister."