

'All the king's horses' can't put Brazil back together

by Our Special Correspondent

Brazil stands, with Asia and Russia, at the center of the on-rushing collapse of the international financial system. That was made official on Jan. 13, when the Brazilian government declared it could no longer maintain the value of its currency, the real—a de facto declaration of national bankruptcy. Speculators began pulling out their money at the rate of \$300-400 million per day, and now, a mere seven banking days later, Brazil's real has plunged from 1.22 to the dollar, to 1.72 to the dollar—a 29% devaluation—and nothing is keeping it from dropping further. Today, Brazilians must cough up nearly one-third more than a week ago, to pay off every dollar in foreign debt—a total debt which *EIR* has calculated at more than \$480 billion, more than twice as big as Russia's real foreign debt.

Pressured by the International Monetary Fund (IMF), on Jan. 18 the compliant government of Fernando Henrique Cardoso also raised basic bank lending rates, back up to an annual rate of 41%. For businesses, this translates into rates of 60-70%, and consumer credit is now in the range of 100% or higher. This will ensure that the banking system goes under soon, and mass bankruptcies escalate—no farmer, businessman, or consumer can meet payments at those rates.

With such insane policies, fears of a "Russia-style financial meltdown" of all of Ibero-America are consuming financiers and government officials around the world. (Lyndon LaRouche noted that the comparison between Brazil 1999 and Russia 1998 is inaccurate: Brazil is much worse, he explained.) Capital is fleeing all Ibero-American countries now, and hysterical governments, under IMF pressure, as is Brazil, are imposing measures which bring their doom sooner. Everywhere interest rates are being raised—Ecuador, for example, has raised the overnight lending rate for banks

to 160%!—driving their economies, too, into bankruptcy and depression.

It was in this environment of barely contained panic, that the New York Federal Reserve bank on Jan. 20 hosted a crisis session of leading Wall Street and other bankers, with Brazilian Finance Minister Pedro Malan. The Wednesday morning session included mega-speculator George Soros, the top executives of Merrill Lynch, Goldman Sachs, and Citicorp, along with a half-dozen other swindlers. The last time a meeting of this sort occurred was in late September 1998, when the New York Fed and international bankers rang the alarm bells as they tried to put out the fire-storm caused by the blow-out of the giant hedge fund, Long Term Capital Management.

A mere four months later, they were back at it again. This time, they were gathered to hold Finance Minister Malan's feet to the fire, to make sure that the Cardoso government did not back down in the face of a major political challenge to his policies that is sweeping Brazil. On Jan. 6, the governor of the key state of Minas Gerais declared a 90-day debt moratorium on the state's debts to the federal government. In the two weeks since, the mood of rebellion against Cardoso and his IMF policies has swept the nation.

Malan, predictably, emerged from the Fed seance swearing that there would be no renegotiation of the states' debts, and that Brazil would meet all of its foreign debt obligations without fail. They were the right words, but they brought little relief to the bankers, since there is no guarantee that the Cardoso government will be able to make them reality.

At the same time that the bankers were beating up on Malan in Manhattan, Federal Reserve Chairman Alan Greenspan was appearing before the House Ways and Means Committee in Washington, conveying an unambiguous swell of

panic over the Brazil situation, the out-of-control asset bubble, and other flash points for financial disintegration. In the midst of this growing sense of panic, the London Club, holders of \$32 billion in Soviet-era Russian debt, momentarily backed down from declaring Russia in default. According to wire services, the London Club voted to not take any action, in response to Russia's failure to pay a \$362 million payment, due Dec. 2.

'Tired of chaos? Try a currency board'

As IMF-induced collapse and chaos spreads from country to country, the international financial oligarchy is stepping forward to offer its victims an "end" to their misery: Replace your existing monetary authorities with a British colonial *currency board*, and jettison your currencies altogether in favor of the dollar. This, they assure their prey with a smirk, will bring you "stability"—exactly the argument that they used in 1998 to try to convince first Indonesia, and then Russia, to adopt a currency board. Fortunately, both countries refused.

Some proponents of this view, such as the *Wall Street Journal*, are open in admitting that it would mean the end of any semblance of national sovereignty—although they confess that "to Americans, junking one of the most tangible symbols of nationhood is as unimaginable as flying another nation's flag over the Capitol." But Brazilians and Argentines should have no such qualms, they reason. Argentina is already engaged in concrete discussions with the U.S. Treasury about replacing its national currency entirely with the dollar, according to numerous press accounts.

Enough!

Brazil's Cardoso government is trying to oblige the IMF and its creditors, but faces a national rebellion, catalyzed by the refusal of several state governments to impose further austerity. On Jan. 18, seven opposition state Governors met in Belo Horizonte, capital of Minas Gerais, on the initiative of that state's governor, Itamar Franco, whom Wall Street and London brand a "renegade" and "rogue" because of his 90-day debt moratorium.

The governors issued a national call to arms against international financial speculation. Their manifesto, the "Belo Horizonte Letter," defines the fundamental strategic issue facing every nation today: Will the world be run by the financial speculators, or will we organize ourselves and our governments, "to stop the bloodletting" of financial speculation, and reassert our human right to "the certainty of a better, more just and prosperous future"?

The governors' letter may prove a nightmare to international bankers, because it is galvanizing others into action. In Brazil, the manifesto has already been endorsed by trade unionists and by the National Mayors Front, and around it, a national resistance movement against the government's IMF-dictated policies is forming.

Three thousand people came to Belo Horizonte to demon-

strate their support for the governors, a rally organized by various national trade unions. When the governors finished meeting, Itamar Franco told the crowd: If we do not change national policy to one based on "political reason," we face a "danger that the national institutions, built with such sacrifices, will perish, dissolved by the ungovernability which the economic situation will provoke." The national economy is "exhausted, as a result of the transfer of the product of the labor of Brazilians to the world financial system, through the highest interest rates of modern times," he said. "The time has come to say 'Enough!'"

Before the meeting, Dr. Enéas Carneiro, a former Presidential candidate who had invited Helga Zepp-LaRouche to Brazil in August 1998, issued an open letter offering Franco, himself Brazil's former President, his full support. Dr. Carneiro outlined protectionist measures required, and urged that Brazil use its authority in the world to call on the United States "to convoke, under its leadership, a new Bretton Woods agreement in which sane regulations are defined for the existence and functioning of the International Financial System."

Such measures can turn the corner on the Brazil crisis. But nothing less will work.

Documentation

Itamar Franco: Economics begins and ends with man

Minas Gerais Gov. Itamar Franco welcomed the six other governors to the Palace of Liberty in the state capital, Belo Horizonte, on Jan. 18:

The Palace of Liberty, witness to the Brazilian history of our century, receives Your Excellencies, the Governors, in the Federation's most difficult hour.

We are not facing a political conflict between the states, nor a confrontation between the states and the Union, but the danger that the national institutions, built with such sacrifices, may perish, dissolved by the ungovernability which the economic situation will provoke—if we are not capable of offering, to the whole country, our contribution, based upon political reason and the experience of administering public affairs.

We do not merely represent the peoples of our states. I am sure all Brazilian people, from all the regions of our great and generous land, are with us in our concerns and our will for an honest and clear debate on national problems.

We received the treasuries of our states, drained. As the whole national economy has been drained as a consequence of the transfer of the product of the labor of Brazilians, to the world financial system, through the highest interest rates in modern times.



Itamar Franco, the former President and current governor of the Brazilian state of Minas Gerais: "The time has come to say 'Enough!' "

No economic policy can be successful, if it does not begin and end with the human being. Man works and produces to realize his species, not for exhibition in statistical tables.

As stated in the message which the eminent public figure of Ceara, one of the best of our constitutionalists, Prof. Paulo Bonavides, sent me, it is necessary to restore the appropriate functioning of the Federative principle. Our meeting will reconstruct the ruined bases of the system, and restore to the autonomy of the member-states, the moral substance of the authority which was taken away from them, their powers which have been degraded, and their Constitutional functions, encroached upon, and scorned by the arrogance of the Central Power.

Welcome to Minas Gerais.

The following "Belo Horizonte Letter" was issued by the governors at the end of the Jan. 18 meeting, signed by the governors of the states of Minas Gerais, Rio de Janeiro, Rio Grande do Sul, Matto Grosso do Sul, Acre, Amapa, and Alagoas.

The Brazilian Federation is in crisis. The country is living a dramatic moment, as seen in the grave disequilibrium in its foreign accounts, the fragility of its public finances, the dismantling of its productive structure, unemployment reaching alarming levels, in short, the impoverishment of the states and municipalities, which find themselves incapable of meeting the basic demands of the population.

It is necessary that Brazilians recover their certainty of a better, more just and prosperous future.

The impasse in which we find ourselves worsens the social situation day by day, leading families to desperation, frustration, and anxiety, stemming from their lack of opportunity and lack of participation in the process of production and consumption.

The difficulties of the moment are the sad result of the

cruel and unjust economic policy adopted by the Union. This has only benefitted international speculative capital, which throughout the last years has been getting the highest interest rates on the planet.

Brazil, with its natural and human resource potential, has all the objective conditions to get out of the crisis immediately. It is necessary, before anything else, and on an emergency basis, to stop the bloodletting caused by the artificial rate of return for financial capital, which is responsible for the intolerable levels of indebtedness reached.

The balancing of the budgets and public finances of the Union, as well as the states and municipalities, is a priority goal. But this will only be achieved if, at the same time, measures aimed at redirecting monetary and interest rate policy toward the development of production and of the domestic consumer market, be adopted.

Another priority is a tax and fiscal reform which balances the necessities of state tax collection, with social justice and the requirements of the productive process, ensuring that the weight falls upon each, in exact proportion to the capacity of each of the contributors of the Union, and the collection be compatible with the responsibilities of each political level of the Union. Given the complexity of the material, and the multiplicity of interests to be reconciled, we hereby propose the launching of a National Forum for Tax and Fiscal Reform, in which the Union, the states and municipalities, and also society, are called upon to debate the guidelines for a new system, compatible with the expectations of the nation.

Immediately, two priorities must be dealt with. First, the restoration of the ability of the states and municipalities to collect taxes, gravely compromised by the reforms introduced at the federal level in the tax system with the ICMs tax [merchandise sales tax], and in revenue-sharing. Secondly, it is necessary to recognize, definitively, the absolute impossibility of paying the installments of the refinanced states' debts, under current conditions, as is the case of Minas Gerais and other states.

The excessive commitment of state revenue to cover these financial burdens, makes unviable the provision of even such essential public services as security, health, and education. In this regard, as was already done in the recent past, it is necessary to immediately reach political and juridical accords, establishing conditions compatible with the real capacity of the states to pay.

If, on the one hand, overcoming the crisis requires radical changes in the direction of national economic policy, on the other hand, it is necessary to take up the question of the immediate recomposition of the Federal Pact. States and municipalities must have the conditions in which to exercise their roles, with balanced financial and social responsibility. Their autonomy must be respected by the Central Power, as established in the Constitution, the basic instrument of national unity.

In the face of the crisis, it was agreed that Governors

Anthony Garatinho of Rio de Janeiro, Olivio Dutra of Rio Grande do Sul, and Ronaldo Lessa of Alagoas, representing all the states gathered here, will seek, together with the Legislative and Executive Branches, the immediate opening of dialogue on the renegotiation of the debts of the states, without any resources being embargoed during the period of discussion.

Two days after the government devalued the real, Gov. Itamar Franco had addressed a meeting of 110 of the state's 863 mayors, who came to Belo Horizonte on Jan. 15, to show their support for the state's debt moratorium.

"We have been going through very grave times, in the last 48 hours," he told them. "This is a moment for profound meditation, and in this hour, we of Minas Gerais are going to say that this is the hour of 'Enough!' because it is not possible that the system of national production be transferred to the international financial system. We cannot permit these interest rates, because our industries are being handed to foreigners; we cannot permit these interest rates which are bringing our workers to unemployment."

This "grave moment in the history of the country" is the result of errors committed by members of the President's economic team, he said. "This team which is still with the President — many of them worked with me," he added, referring to his period as President. "And how many times I had

fight with these people, because these people could not make out the human being, they could only make out numbers."

"We do not want a rupture of the country's democracy," he added. "On the contrary, my life shows that I always fought for the state of rights, for the defense of human rights. We would not now bring the country to any rupture." But, Minas Gerais cannot accept this policy, "which brings unhappiness, recession and unemployment."

On Jan. 19, Governor Franco gave his first press conference to foreign journalists since the devaluation of Brazil's currency, in which, among other matters, he laughed at the "ridiculous" charge, asserted by many a banker and government official, that a moratorium by the state of Minas Gerais could, in itself, have caused "the collapse of Tokyo, Hong Kong, Wall Street stock markets, and the collapse of the dollar in relation to the yen." Present were reporters from Italy's Corriere della Serra, Associated Press, Reuters, the British Broadcasting Corporation, Newsweek, and Uruguay's El País. We publish here a portion of Corriere della Sera's Jan. 21 report on the interview, in which Franco reveals that his mother was Neapolitan, and was named "Italia."

"What are the few million dollars we froze, just for 90 days, in comparison to trillions everyday circulating in international finance? . . . Today Brazil is much poorer than five

Columnist cites LaRouche, backs Lautenbach Plan

José Neme Salum, columnist for the Mexican daily *Excelsior*, devoted his regular column on Jan. 18 to a description of the Lautenbach Plan to revive the post-World War I German economy, based on "increasing production rather than limiting it." As *EIR* has pointed out (e.g., Michael Liebig, "Lautenbach's Program for German Recovery," *EIR*, Jan. 8, 1999), Dr. Wilhelm Lautenbach's recovery plan would have prevented Adolf Hitler's rise to power in 1933.

Neme begins by observing that the Brazil crisis put an end to the British Prime Minister Tony Blair's "Third Way," while demonstrating the International Monetary Fund's incompetence in dealing with the "current systemic crisis of the world financial order." He argues that China and Malaysia offer an exemplary response to such a crisis, through capital and exchange controls to stop the cancer of speculation. The New Bretton Woods alternative, as proposed by Lyndon LaRouche, is available to any government that proposes to avail itself of such a solution, says

Neme, who then refers to the "national remedy" formulated in 1931 by German economic official Lautenbach.

The German economist, writes Neme, warned that the application of so-called "anti-crisis" policies or "structural adjustments" such as budget cutbacks, increased taxes, and reduced salaries, "inevitably lead to a complete economic and political catastrophe." Instead, said Lautenbach, "the use of essentially unused productive capacity is the real and most urgent task of economic policy and, in principle, is its solution." How would it work? Discountable and long-term state-generated credit for investment in public works and infrastructure such as railroads, dams, canals, etc. Such credit would not be inflationary, because it would stimulate production throughout the economy, using labor and capital that is otherwise going unused.

In a clear warning to the Mexican (and Brazilian) governments, Neme concludes with a quote from Lautenbach: "By means of such a credit and investment policy, the disproportion between supply and demand in the domestic market is alleviated, and therefore total production is given a directionality and a goal. If we refuse to adopt such a policy, we will inevitably find ourselves on the path to continuous economic disintegration and a complete bankruptcy of our national economy."

years ago. . . . The monetary reform had to be accompanied with necessary changes for the country. Immediately after defeating inflation, the government had to change the whole administration and fiscal machinery. Instead, [President] Cardoso dealt for one whole year only with the constitutional reform that ensured his re-election. And we ended up in the arms of international financial capital.

“We totally sold out. . . . We gave away half of our productive system thanks to privatizations. Well, what happened? Today we must go with hat in hand, to Washington, to beg money from the IMF. The whole world knows that the IMF advises only recessive policies and that its orthodoxy leads to poverty. . . . I cannot starve my people, or suspend stipends to my employees, in order not to collapse stock exchanges abroad. . . . I say that when you transfer sovereignty over your productive system to the international financial system, this must happen.”

Asked what was his alternative to the devaluation of the real, Franco replied, “I have an idea on the subject, but I prefer to wait and see.”

As for Mexican President Ernesto Zedillo’s public attack on Franco’s declaration of a debt moratorium, Franco fired back: “Zedillo does not even know where Minas Gerais is and not even where Latin America is, although he declares himself to be part of it.”

China to U.S.: Help us build infrastructure

by Richard Freeman

In early January, the U.S. Commerce Department announced that Commerce Secretary William Daley will lead a multi-agency mission to China and Hong Kong on March 14-20, following a business mission to South Korea on March 10-13. The mission will follow up on initiatives for U.S. industry to participate in building infrastructure in China that were developed at the 12th annual meeting of the Sino-U.S. Joint Commission on Commerce and Trade, held on Dec. 17-18 in Washington, D.C. The principals at that meeting were Chinese Minister of Foreign Trade and Economic Cooperation Shi Guangsheng, and Commerce Secretary Daley.

On Dec. 22, Yu Shuning, Minister-Counselor for Press Affairs from the Chinese Embassy in Washington, presented the results of this joint Sino-U.S. Commission. Yu stated, “The Chinese delegation provided the U.S. side with three lists of major projects to provide opportunities for the U.S. business community to compete on the Chinese market.

“The first two lists comprise 28 projects in infrastructure and 10 technical renovation projects, which will be undertaken this year [1998] and in 1999. The amount of these 38 projects is about \$20 billion.

“Secondly, the third list comprises 25 sectors, areas for cooperation between the two sides in the period from 1998 through 2005. The value of these projects is estimated at U.S. \$600 billion.

“And finally, we told the U.S. side that in this period, from 1998 through 2005, China will import equipment, technologies, and products worth U.S. \$1.5 trillion.

“So, there are plenty of opportunities for the U.S. corporations to compete on the Chinese market on a fair basis. We say to address the issue, joint efforts are necessary.”

An alliance for development

The Daley mission to China, following up on the proposals of the 12th annual meeting of the Sino-U.S. Joint Commission on Commerce and Trade, represents a ray of hope that the United States will develop a foreign and economic strategy that strengthens a development alliance with China, Russia, and India, for the Eurasian Land-Bridge and other great infrastructure projects, and away from its current ill-fated alliance with the monetarist, speculative Casino Mondiale schemes of the London financier oligarchy.

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