

State Department botches attempt to undermine Brazil's moratorium

by Mark Sonnenblick

The U.S. State Department got caught red-handed trying to topple Brazilian Finance Minister Dilson Funaro, the architect of its debt moratorium strategy. Luiz Henrique, majority leader in the Chamber of Deputies, revealed on April 12 that State's Brazil desk officer, Elkin Taylor, had been running around Brazil orchestrating Funaro's ouster. The U.S. embassy in Brasilia confirmed that its former political attaché and foreign debt specialist had "an intensive schedule of meetings" with government and business leaders on Tuesday, April 7.

The next day, São Paulo governor Orestes Quércia, the point man for the operation, demanded President José Sarney fire Funaro immediately, or lose the support of himself and three other governors whose states produce 80% of the national product. Funaro survived; and political and business leaders committed their support to the debt policies he advocates.

Quércia did his best to pull the rug out from under Funaro the day before the finance minister told the interim meeting of the International Monetary Fund (IMF) in Washington that "lasting solutions" were needed to provide "financing on a medium- and long-term basis for the growth of our economy."

Funaro's top aide, central bank president Fernando Gros, reported that his four-hour meeting with the 14-bank creditor committee April 10 had been made difficult by the fact that every banker had in front of him a copy of that day's *Wall Street Journal* article headlined, "Leaders in Brazil Demand Funaro Quit His Post; Powerful Governors Call on President to Implement a New Economic Policy." Gros warned Brazil's creditors that they "must at all costs avoid politicizing the debt. If they don't, in the next round of negotiations, in my place will be the leader of the [majority] Brazilian Democratic Movement Party, a real politician, who perhaps will not even speak sitting down as I am."

The escapade caused the bankers to refuse serious discussions on the flexible "menu" of debt financing options presented by the Brazilians. "If he [Funaro] leaves, the policy could change," a member of the creditors' cartel told *Jornal do Brasil*. David Mulford, a member of the White Weld-

Merrill Lynch dirty-money mafia placed by Donald Regan as assistant secretary of the Treasury for international affairs, called in a group of reporters hours after the governors spoke in São Paulo to deliver the line. He was quoted, off the record, in the *Wall Street Journal* April 9 with the following dictum: "Either the [Brazilians] change, with them applying an orthodox economic policy, or there will be a change in the ministry, followed by the adoption of an orthodox economic plan."

The State Department encouraged the bankers to abort Brazil's efforts to begin debt renegotiations. A top U.S. diplomat in Washington told *Jornal do Brasil*, "Why make concessions to a team which could fall tomorrow? Even if the new ministers have almost the same points of view, it is always good to negotiate with them, because they will be able to give something in return." Funaro announced he would not allow the conversion of unpayable debt principal into equity ownership of Brazil's industry and natural resources. "The debtor countries must rescue their dignity," he countered.

The Brazilian media played down the Elkin Taylor affair, as had perhaps been pre-arranged by USIA director Charles Wick during his secretive visit to several Brazilian cities the week before. The press preferred to speculate that São Paulo governor Quércia's bombastic ultimatum had been coordinated by members of President Sarney's palace guard interested in purging Funaro and his debt policies. There is some truth to that. The only name given by the embassy of a Brazilian with whom Taylor worked was that of a protégé of Rubens Ricupero, the "Rasputin" of Sarney's inner circle, who is known to be working to undermine Funaro. Ricupero is the State Department's top agent of influence in Brazil and a leading opponent of joint action by Ibero-American debtors.

The Shultz connection

Another track between the State Department and Quércia runs through swindler Mario Garnero. Secretary of State George Shultz was for many years a director of Garnero's Brasilinvest investment trust. When it looked as if Brazil was moving toward unity with other Ibero-American debtors dur-

ing the 1983 debt crisis, Garnero personally arranged the meeting between Shultz and Brazilian officials which led to Brazil's capitulation to an IMF agreement and the deepest depression in its history. Garnero then asset-stripped Brasiinvest, leading to its bankruptcy and massive losses for the Brazilian treasury. He would have gone to jail in São Paulo had he not had powerful political protection. In an interview published in *Folha de São Paulo* on Dec. 16, 1985, Garnero named only two people "from the political world" loyal to him during the "episode." One of them was Orestes Quércia, then the deputy governor of São Paulo. The title is appropriate for a vulgar politico who had mysteriously become rich overnight when Mario Garnero managed more than a billion dollars and spent money like water around IMF meetings.

Quércia's governors' clique was so out of step with the rhythm of Brazil's domestic political intrigues that President Sarney quipped that "the governor appears to have unlearned how to do politics." Inside Brazil, the blast backfired. PMDB governors of 17 other states rebuffed Quércia. Many of them and the PMDB's national leadership pointed to the treasonous nature of his attack when Funaro was defending Brazilian interests abroad. The point was made most clearly April 13, by Energy and Mines Minister Aureliano Chaves. Chaves, who had been put into the vice-presidency of the last military administration by former president General Ernesto Geisel, runs the small conservative Liberal Front Party (PFL). Chaves reportedly told PMDB president Ulysses Guimarães April 11, "Let me tell you, Ulysses, Funaro does not represent the PMDB; he represents the Republic. We have to fight for his preservation; and count on me for that."

But although there was a closing of ranks behind Funaro, neither Sarney nor Guimarães took Quércia to task for what he had done—the only kind of message the State Department and creditor banks would have understood.

Funaro's permanence in the cabinet is not guaranteed. Wave after wave of destabilization operations have not toppled him, but they have made it difficult for him to reduce Brazil's internal interest rates, the cancer which is destroying Brazil's present and future growth. Rates averaging 28-50% annually in real terms for business working capital are driving thousands of small businesses and farmers bankrupt. They are closing shops and blocking roads in protest, while companies in alliance with the usurers are putting their money into the orgy of money markets speculation, diverting capital from investment in Brazil's future.

PMDB Senator Fernando Gasparian has suggested digging out of the archives the anti-usury law passed under President Getulio Vargas in 1930, which sends to jail anyone who charges over 12%. President Sarney has already taken the first step toward acting on this sentiment. In a meeting with congressional leaders of the PMDB and PFL parties, Sarney—accompanied by Funaro—stressed that the top priority of the finance ministry would be to declare war on high interest rates.

Interview: Artur João Donato

Rio business behind government on debt

Artur João Donato is the president of the Federation of Industries of Rio de Janeiro. He and Mr. Franco (below) were interviewed by Lorenzo Carrasco, EIR correspondent in Brazil on April 10.

EIR: What is the position of the industrialists regarding the Brazilian government's decision to suspend interest payments on the foreign debt?

Donato: The industrialists of Rio de Janeiro share the general thinking of the business class, which is not only of the business class but practically of all Brazilian society, that it is impossible to sustain financial commitments with the sacrifice and absolute subjection of the country to recession.

The businessmen are firmly backing the manner in which the Brazilian government seeks to negotiate the country's foreign debt problem with its creditors. We judge that the manner in which IMF monitoring (of the economy) was previously done would bring recessive consequences for the Brazilian economy. So the business class, generally speaking, is against recession, because in the past recession caused unemployment, social dissatisfaction, hunger, and misery. This is a young country, with tremendous resource potential. This country only has the potential to become viable, and meet its destiny of greatness, to the extent that it affirms a permanent policy of economic growth.

EIR: The Church has played a very important role in terms of evaluating the IMF conditionalities from a moral standpoint. To what extent do you believe the Vatican document on the debt influenced the decision of the Brazilian government, and has influence on the industrialists?

Donato: What we are seeing is that the solution to economic problems must be sought in other spheres. From economics we go on to politics, to the social arena; we are in the moral sphere which also has its great heralds. Now we hear the words of the President of Portugal, who was in Brazil to fully support the Brazilian position for moral and political reasons. In France, we have President Mitterrand also supporting the Brazilian position. The Brazilian position is supported throughout the Third World, and today we also witness the express, clear, and very precise backing of the Church, which for humane reasons obviously does not wish poor nations to