Editorial

Brazil and the global financial crash

Just when you thought it was safe to go bullish with your mutual funds and stock portfolios, as the Dow Jones Industrials cruised comfortably past the 9,500 mark, and the Wall Street press proclaimed the inauguration of the euro "good for Europe and good for America," events in Brazil "smacked you up-side the head," with a most unpleasant dose of reality. Whether you realize it yet or not, the next phase of the biggest global financial collapse in modern history has begun.

On Jan. 6, the governor of one of Brazil's largest and most economically important states announced that he was declaring a debt moratorium on the state's obligations to the the Brazilian federal government. Gov. Itamar Franco of Minas Gerais (a former President of Brazil) was blunt: The state does not have the money to pay its debts to the federal government, which amounts to about $15 billion, and they will not pay. Governor Franco's chief of staff further declared that the state cannot meet its foreign debt obligations, which include a $108 million Eurobond settlement that comes due in February.

The action by Governor Franco may well trigger similar moratoria by governors of four or five other Brazilian states, all in the control of parties lined up in opposition to President Fernando Henrique Cardoso, who vows his undying loyalty to the International Monetary Fund and the British monarchy.

As we go to press, President Cardoso's government has responded to the actions by Franco with ham-fisted hysteria, declaring the 90-day moratorium to be illegal, threatening to cut off federal funds to the state, and vowing to meet all its foreign obligations, come what may.

The Franco actions are already catalyzing broader opposition within the country. Leaders of the national association of mayors have backed the Minas Gerais moratorium, and are considering similar measures themselves. And the recently formed, non-partisan Brazilian Sovereignty Front has also supported the moratorium, and is calling for an across-the-board two-year debt moratorium of all state debts to the federal government.

The international reaction to the Brazilian developments was swift.

Within hours of the Minas Gerais announcement, stocks in West European markets began to tumble. The implications of the moratorium were obvious: The IMF deal with President Cardoso—a $40 billion bailout, conditioned on vicious austerity measures, which would bleed the state Treasury, shut down industry and agriculture, and force the cheap selloff of Brazil's national patrimony to foreign buyers—is now pronounced "dead on arrival."

These developments in Brazil do not come as a surprise to *EIR*. In August 1998, Helga Zepp-LaRouche, the founder of the Schiller Institute, spent a week in Brazil, meeting with leaders of industry, labor, and the political opposition. Her report, published in these pages, warned of a collision between patriotic elements in Brazil who were dead set against the IMF looting, on the one side, and the Cardoso government and the international banking community, on the other.

Such a show-down, we confidently reported, would unleash new global financial chain-reaction instabilities, leading ultimately toward the disintegration of the entire global monetary and financial system.

Certainly, Brazil was not, and is not the only possible flash-point for the next phase of the global crash process. Japan's banking system is still carrying a $2 trillion nonperforming debt burden, and is a far bigger "Achilles' heel" than Brazil; the global, unregulated derivatives markets represent a $160 trillion speculative bubble; Russia's August postponement of certain debt payments was matched in December by a de facto default on Soviet-era debt to the London Club of international commercial bankers. Fourth-quarter earnings of major American industrial firms, dependent on exports to Asia and Ibero-America, are going to shock the financial markets when they are published later this month.

It was inevitable, barring a shift in global monetary and economic policy toward Lyndon LaRouche's program for a New Bretton Woods financial reorganization, that one of these crises would hit shortly after the New Year's celebrations.