The choice before Brazil is national sovereignty or starvation

by Mark Sonnenblick

Brazilian President João Figueiredo returned to the presidency Aug. 26 after a 45-day medical leave, with the affirmation that "National sovereignty is untouchable."

"We want to comply with our financial obligations, but we will not accept impositions which imply the abdication of our authority," Figueiredo warned. "The honor of the nation is more important than any advantages or concessions which harm our national dignity. We will not accept any economic-financial negotiations which harm our moral authority."

But the Brazil to which Figueiredo returned is a country already staggering under the effects of "concessions" Brazil has made to placate creditors by churning out a $6 or even $7 billion trade surplus this year. As business leaders insist, the "dollarization" of the domestic economy (pegging internal interest rates to the dollar's) results in usurious internal interest rates which are choking off every productive sector. New York bank economists anticipate a 7-8 percent drop in industrial output this year, with 40 percent of Brazil's 47 million workforce already underemployed. For those lucky enough to still have jobs, Figueiredo and Delfim and misguided business leaders are trying to ram through Congress Decree-Law 2045 which will cut real wages by 25 percent over the next two years.

Such policies will cause a social and political explosion, Brazilian authorities and business leaders have warned over and over again. Yet all of them make the grave mistake of believing that their creditors also fear social breakdown in the country which has half of Ibero-America's population, economy and resources.

The contrary is starkly revealed by a spokesman for David Rockefeller's Commission on Western Hemispheric Debt (see interview, page 6).

Trapping rats

The intended consequence of these policies—starvation—has become Brazil's reality. As grain stockpiles have been depleted in the drive to cut imports, most of the 60 million people in the drought-struck Northeast, and millions elsewhere, hover on the edge of starvation. On almost any given day in some town of the Northeast, up to a thousand starving people descend on the market in a desperate search for food. Sometimes the authorities calm the mob by giving a pound or two of rice to ward off starvation for a few days. Sometimes the crowd carries off sacks of grains, flour, and powdered milk.

For the last five years, lack of rain has killed the crops in this rugged area. Food is so scarce in Ceará state that people fight over rights to trap rats. Whole towns survive on fried lizards. The few pick-and-shovel jobs on labor fronts pay $23 per month, just enough to provide one person with a starvation-level 999 calories per day. In the once prosperous European-settled South, massive floods have been followed by plagues.

As a result of IMF-mandated austerity policies, industrial production fell 6.7 percent, with capital goods down 22.5 percent to a third of capacity. Industrial bankruptcies were up 28 percent, and preventive reorganizations up 87 percent.

All of Brazil's interminable "negotiations" with its creditors, and their policeman, the International Monetary Fund (IMF) revolve around the question of what Brazil will give up next, not any alleged differences over statistics.

Under these circumstances Figueiredo has balked; but he has refused to decisively break with the IMF, and lead an Ibero-American debtors' cartel which would set conditions permitting a resumption of economic development. Though Figueiredo has also refrained from using Brazil's ultimate weapon—a declaration of moratorium—he has been urged to do so by labor, business, and political leaders, and—according to several *EIR* military sources—by the Brazilian Army, who are reported to oppose continuing Delfim Netto's surrender to the dishonorable conditionalities of the creditors.

What is at stake is the existence of Brazil as a nation-state, as a country which could develop its resources into a great industrial power by the end of this century. The big question mark is whether the military will rally its population around that goal or will be manipulated into the kind of impotent isolation in which Chile's Pinochet is now locked.

In the meantime, neither Brazilian leaders nor their creditors still entertain illusions that Brazil could in fact continue to service its debts. On Aug. 19 Planning Minister Antônio Delfim Netto informed the Paris Club of government creditors that Brazil was unilaterally suspending all payments of principal *and interest* on some $9 billion worth of debts to 15 foreign governments and agencies such as the World Bank. Delfim told the Paris Club convenor, French Treasury official Michel Camdessus that Brazil would not resume payments until the governments of the North agree to extend terms on some $2 billion in interest and principal due them over the next 17 months.

Brazil's partial moratorium caused bankers to miss several heartbeats, and it went unreported in the U.S. financial press for almost a week. During August, Brazil also stopped debt service to practically all creditors. For the first time, it fell $500 million in arrears on interest, as well as over $2 billion in arrears on principal and trade bills, and another $800 million behind to the Bank for International Settlements. If regular interest payments are not resumed by the end of September, Citibank, for example, will have to write off $100 million in profits—much to the embarrassment of its managers and its stock value.

A London source told *EIR*, "We are desperately wishing it [a moratorium] won't happen. If it does, we've lost the game. We are horrified at what we see and will do anything to stop it." So far, a moratorium has been warded off by: 1) repeated false reports from Delfim and the banks that the IMF's Jacques de Larosière had endorsed Brazil's letter of intent and the banks would give Brazil a $6 billion jumbo loan, and 2) military fears that the United States would seize its assets abroad, its ships, its planes, and perhaps even the Amazon region.

In the view of a prominent London merchant banker, just returned from emergency "advisory committee" meetings in New York, "The Brazil problem is imminent. Rumors that the IMF will give its seal of good conduct and the banks will extend new money are not credible. In fact, there will be an awful lot of banks that simply won't give a penny. I think that the Brazilians are still trying to reach an agreement with the creditors rather than try something big and unilateral. They are moving towards an agreement that will be very unfortunate for the foreign bankers. The point is that Brazil won't earn the money to pay debt, that's all. Citibank's dreams of collateralizing the raw materials in the Carajás project are pipedreams. The Brazilians would rather go to war. That's their sovereignty. The Brazilian crisis could have two effects: 1) that all the other Latin Americans stop paying interest too, and 2) that the banks stop distinguishing between the bad guys, Mexico, and the very bad guys, like Brazil."

The Anglo-American news media have been loaded with comparisons of Brazil's "failure" and Mexico's "success" in imposing austerity. *The Economist* of London writes of Mexico, "In no other country. . . not even post-Weimar Germany, has so radical a programme been instituted so rapidly, so free from hesitation—or with such sudden success." Mexican finance minister Jesús Silva Herzog was all smiles and self-congratulation at the celebration of the refinancing of $11.4 billion in public debt held at New York's posh Lincoln Center on Aug. 26, but the odor of unreality was the same as at Brazil's ill-fated Feb. 25 signatory festivities.

'Apocalypse Now'

The Bank of England is encouraging the military's fears by leaking reports that its three-year old scenario for a Brazilian debt moratorium, entitled, "Apocalypse Now," has been activated. According to a City insider, Threadneedle Street is "twisting arms, telling the Latin Americans that the flight-capital assets they have in the United States in particular, holdings of bank deposits, Treasury securities, and real estate, might well be seized in the event of a moratorium."

A leading Brazilian capital-flight operator in New York told *EIR*, "What a scenario! Unfortunately for the debtor countries we don't have enough military power to defend ourselves. . . . We saw it in the Falklands." He contended that if the U.S. took such action against Brazil, "Everyone in Brazil will go leftist in 24 hours. We are not leftists, but we will be. There is no way out of it." A leftist upsurge is the military's biggest bogeyman.

Rumors swept through Brazilian banking circles Sept. 1 that the government was about to give creditors shares in the state-sector giants which control Brazil's petroleum and ore-mining as partial payments for debts. This is easier said than done, since the still-powerful military feels its mission is to protect the strategic industries and resources which are the key to the nation's future. Contrary to rumors on the Chicago commodities exchange Aug. 25, exports of remaining soybean stocks will continue, though they will be watched more closely.

People like the Rockefeller spokesman who expect the army to do their dirty work by repressing an increasingly miserable population may be surprised that the army wants to leave politics to the politicians. Figueiredo declared on Aug. 26 that he would allow the opposition parties to help him select the next president. That means that Brazilian internal politics will not be ruled by dictatorial imposition. Negotiations with business, labor, and other constituencies in pursuit of a broader consensus add up to bad news for the bankers.

Under these circumstances it is hardly surprising that the Brazilian military has blocked the signature of a new letter of intent with the IMF which mandates shock therapy to reduce inflation from 180-200 percent this year to 55 percent next year and cut state sector deficits to zero.