Morgan bank hawks 'debt relief' swindle to Brazilian government

by Mark Sonnenblick

Morgan Guaranty Trust is trying to seduce Ibero-America's big debtor countries with illusions that they could get relief on their unpayable $400 billion in foreign debts. Mexico fell into the trap and accepted a Rube Goldberg arrangement concocted by Morgan and the U.S. Treasury. Morgan and Kissinger Associates are trying to use the "relief" granted Mexico to tempt countries like Brazil and Argentina to surrender their sovereignty to the International Monetary Fund and their fabulous natural resources to the creditor banks.

Under the Morgan deal, Mexico will be permitted to trade to creditor banks $10 billion in bonds guaranteed by the U.S. Treasury in exchange for about $20 billion in debts which it could never pay. Sounds nice. The U.S. and Mexican press has been making it seem as if Mexico would reduce its interest payments by as much as $900 million a year. More honest calculations made by London bankers, and reported in the *Financial Times,* are that Mexico will save only $137 million a year, less than 2% of what it is now paying. It will also tie up $2 billion of its reserves as collateral held by the U.S. Treasury.

Alan Stoga, senior partner at Kissinger Associates, described Morgan's Mexico deal as "a carrot to the other debtors. I suggest it wouldn't have happened if the Brazilian and Argentine situation had not been so bad."

The Brazilians are taking the bait. The president of the ruling Brazilian Democratic Movement Party (PMDB), Ulysses Guimaraes, stepped off the plane from New York at São Paulo Jan. 3, to announce that Morgan Guaranty Latin America vice president Gonzalo de Las Veras had briefed him on the Mexico deal. The daily *O Globo* ran a big headline, Jan. 4, "Ulysses brings Morgan foreign debt plan to the PMDB." It reported that Morgan had offered Ulysses a plan which would reduce Brazil's foreign debt by 20-25%. Ulysses later clarified that Morgan had not offered Brazil the same deal as Mexico. He considered the Mexico plan "reasonable": "The formal recognition by the creditors that there is a nominal debt and a real debt—with the later, in our case, 25% lower than the one which has been announced—is an important step for us to begin to seek a solution to the debt problem."

Maílson da Nóbrega, who was named Brazil's new finance minister Jan. 5, called Morgan's Mexico deal "an extremely positive fact for Brazil. Imaginative solutions are starting to appear. This is a demonstration that creditor countries are starting to accept the need for a lasting solution to foreign debts." Da Nóbrega recognized that Brazil would not be given the same arrangement, since it has no reserves to give the Treasury, but assured that Brazil would find a way to get some of its $115 billion debt converted into long-term bonds.

Reagan administration officials are rubbing Brazil's face in the supposed fact that Mexico was "rewarded" for surrendering control over its economic policy to the IMF. "There presently does not seem to be the climate" for U.S. support for any debt relief for Brazil, a Treasury official told the daily *Jornal do Brasil,* Dec. 30. Brazil is being hung out to dry by Washington until all those responsible for its debt moratorium, including President José Sarney, crawl. "To restore a climate of cooperation, the Brazilian government would have to make a clear demonstration that it changed its attitude," *Jornal do Brasil* heard everywhere in Washington.

Morgan rises again in Brazil

Morgan seems to be pushing Citibank out of its dominant position on Brazil debt renegotiation, just as it recently did in the Mexican case. The team from the creditors' committee visiting Brazil during the first week of January to negotiate new terms on medium-term debt is headed by Morgan Guaranty's Arturo Perzekanski.

Morgan has been at loggerheads with most other U.S. money center banks, ever since the Third World debt crisis broke in 1982, as was reported exclusively in *EIR* and *EIR Debt Watch* special reports at the time. While Citibank and Manny Hanny acted on the belief that subjecting debtors to genocidal IMF austerity would result in debts being paid, Morgan recognized that it was just a short-term postponement of the crisis. So, Morgan—like co-thinker banks owned by the old European oligarchy—prepared for the worsening crisis by setting aside reserves. Most other American banks simply used the high interest payments from their developing country usury to hide the fact that their domestic energy, farming, shipping, and real estate loans were rapidly going bad. That kept alive illusions about the solvency of the banking system—and of Reaganomics.

Citibank took the back seat in 1983 when de las Veras's predecessor at Morgan, Tony Gebauer, paraded the debt renegotiation he made with Brazilian Planning Minister Delfim Netto. Gebauer was last seen at a campus-like low-security prison near New York City. He confessed and was convicted of having embezzled a reported $6 million from the accounts of four wealthy Brazilians through a department Morgan set up, from which he managed illegal flight capital from Latin America. To save the "good name" of banking secrecy for its dirty money operations, Morgan arranged with the U.S. district attorney for Gebauer to go to jail and for it to repay the embezzled funds, in return for the capital flight operation being kept secret.

Gebauer's partner, Delfim Netto, tolerated $10 billion in capital flight and is now a leader of the self-named "Center" [Centrão] grouping in the Constitutional Assembly. The "Center" is expected to purge from the draft constitution this month most of the restrictions on foreign looting placed in it by nationalist tendencies. The "Center" is reportedly busy buying up delegates with a $35 million slush fund.

"Center" coordinator Deputy Afif Domingos issued a fascinating manifesto in *O Globo,* Dec. 30. Afif is suing *EIR* Rio correspondent Silvia Palacios for having reported in the June 12, 1987 issue of *EIR* on Afif's links to a group of congressmen who were "plotting to write out of the new Constitution the state monopolies over petroleum and other natural resources which are the pillar of Brazililan economic sovereignty." *EIR* reported that these leaders had received ample aid from the Reagan administration's "Project Democracy," including training seminars on how to organize a "private sector" lobby to pressure Brazil's Constituent Assembly.

The "Center" is taking over the Constitution-writing process with an effectiveness comparable to that of the business lobby that sponsored the 1964 coup. But Afif is hardly grateful to his U.S. sponsors. His Dec. 30 manifesto is based on the premise, "for the rest of the century the North American economic equilibrium will be questionable." In this "new international order," Brazil could attract the surplus Japanese capital which had been going to the United States. The Japanese would invest in Brazil's "agriculture-mining duo." "Japan is a country lacking natural resources. Brazil is the great partner. . . . Foreign capital, accompanied by technology, would be very welcome, so long as this exploitation meant that the other side would promise to consume those products, which could reach consumers fully processed here, using labor power in the producing region."

The president of the Bank of Tokyo warned in São Paulo Dec. 22 that Brazil would get not a penny from Japanese banks and investors unless it went to the IMF and stopped restricting foreign investment. Among the items in the draft constitution the "Center" is trying to eliminate, is one which bans foreign companies from mining concessions within 150 kilometers of the nation's borders, which would rule out foreign exploitation of an area larger than that of Western Europe.

Afif concludes, "We need general elections to unmask those who want to keep Brazil in the poorman's club, with alliances with Cuba, Nicaragua, or other Latin American 'powers'. . . . We are going to defeat the pessimists, xenophobes and retrogrades. . . ." He accuses President Sarney and the 22 PMDB party governors of blocking an IMF-run dismantling of the state sector: "These governors surround President Sarney, and in return for their fragile support, charge a price from the federal vaults which renders inviable any austerity plan, no matter who wrote it and who or what system is the government."

Debt for equity gives pound of flesh

The variant of the Morgan plan soon to be offered to those debtors too bankrupt to guarantee their debts with cash reserves is that they give creditors their farms, mines, and factories. Such transfers—with or without the use of gunboats—violate the sovereign immunity of nation-states. Since 1982, *EIR* has documented how Henry Kissinger and the "cleverer" creditors have been wielding the crisis to bludgeon debtor governments to surrender their sovereignty. The technical name for foreclosing on a sovereign nation's patrimony is "debt for equity."

George Bush declared during a talk at the National Press Club in Washington Jan. 5 that "flexibility, debt-equity swaps, and debt write-downs" will all have to go into solving the Third World debt crisis. A "top Brazilian official" told *Jornal do Brasil* of Jan. 3 that Brazil would offer each debtor bank options including debt-for-equity conversions, Shylock's "pound of flesh." The next day, Morgan's house organ, the *New York Times,* extolled the Mexican debt deal, adding, "What's needed is a lot of special solutions like this one, tailored to specific circumstances. . . ." The *Times,* editorially and in an op-ed by Albert Fishlow, suggested that the World Bank guarantee restructured debts for countries like Brazil. The World Bank would dictate "structural adjustments" to the debtors, including "opening up" their economies to foreign asset-strippers and speculators.

During the two weeks since Maílson da Nóbrega took over Brazil's finance ministry, he has approved more debt-equity swaps than in the previous 50. In a typical swap, several European and Canadian banks were given majority ownership—but not control—over Brasmotor, S.A., a large industrial conglomerate, in return for $50 million in debts owed them by the Brazilian government. Ownership of Rio's shipyards is also being denationalized.

The key question is political. Every share of every private and public company in Brazil could be bought out for $20 billion, if laws were changed. That would give creditors absolute ownership of over $250 billion worth of annual production, minerals in the ground worth more than $1 trillion, plus a subcontinent's real estate.

That is what Morgan and the international oligarchy covet. That is what they will get if the "Center" consumates its coup. That is a big price to pay for 2% relief on interest payments.