Brazil to pay its debt with public sector giveaway

by Silvia Palacios

In commemoration of his first year in office March 16, Brazilian President Fernando Collor de Mello gave instructions to the Central Bank to pay the country's bank creditors $352 million, representing a "down payment" on the country's $8 billion in interest arrears on its foreign debt. Brazil has now agreed to come up with at least 25% of the arrears, a commitment which suspends the de facto moratorium begun a year and a half ago when the most indebted nation in the Third World found itself flat broke, after having paid over $100 billion to its creditors in the course of a single decade.

In order to follow through on its pledge, the Collor government has decreed a series of measures that obliges already severely looted state companies to catch up their own arrears, at the cost of any further investment in expansion. In a cabinet meeting March 20, President Collor ordered all state companies to make immediate payment of $147 million to the Central Bank, representing 30% of interest charges on their foreign debts that fell due during the first trimester of 1991. The Central Bank will in turn make another payment to foreign creditor banks. "Brazil cannot negotiate abroad with any authority if its own public sector isn't honoring its debts," said Economics Minister Zelia Cardoso de Mello.

The Economics Ministry had issued a decree last January demanding that all public sector companies bring their payments up to date. According to the *Jornal do Brasil* of March 21, the government has now decided to squeeze the state companies dry by demanding *100% payment,* that is, interest *and* principal, on all cash loans and credit contracted with the World Bank and Inter-American Development Bank since 1982. It was precisely in 1982 that the state sector began to feel the negative impact of foreign debt payments on their investment capability. The most sharply affected has been the electrical sector, which has been forced to halt all vital investments under the burden of a $23 billion debt.

As part of the plan to supposedly put the public sector on a sound footing, the government announced last month that 50,000 employees—from the most skilled labor force in the country—would be laid off.

This assault on the powerful state sector, a synonym for Brazilian nationalism, has already forced the resignation of Infrastructure Minister Oziris Silva, who represented the "old guard" of the military-industrial complex, despite his own neo-liberal proclivities. It is that "old guard" which has pushed through construction of all of the country's major infrastructural projects and which now constitutes the primary resistance to the government's monetarist policies, which are accelerating the surrender of the public patrimony through privatization of strategic sectors of the economy, such as energy and communications. Oziris Silva has been replaced by economist Eduardo Teixeira, previously the president of the state oil company Petrobras, a member of the Economics Ministry and known for his pro-privatization convictions.

Following the Kissinger plan

All of these measures, presented to the public under the name National Reconstruction Plan (PRN), represent the Collor government's decision to yield to Washington's pressures, that is, to George Bush's Enterprise for the Americas Initiative, which demands that concrete steps similar to those undertaken by Mexico and Argentina, be taken toward the dismantling of the public sector and its subsequent looting by the banks.

For example, on March 29 the *Christian Science Monitor* protested that the Collor government's "biggest failure" has been its continued subsidization of the public sector. "The President must press ahead courageously with plans to privatize state-owned industries, consolidate government agencies and reduce the public work force. To achieve these ambitious goals, Collor must gain finesse in forging political alliances."

The same line was published in the *Wall Street Journal* of March 29: "The only solution is to cut the state payroll, start a long-delayed privatization program, reduce import barriers, and avoid repeating the recent $3 billion bailout of the state banks used to finance the deficit."

It thus becomes clear that these most recent measures by the Collor de Mello government are intended to comply exactly with the scenario first defined by Henry Kissinger seven years ago, when international bankers gathered in Vail, Colorado to consider what kind of mechanisms were required to oblige Ibero-America to hand over its state companies. They resolved then to force them into bankruptcy, afterwards auctioning them off at bargain-basement prices.

The strategy of launching the PRN as a weapon against the state sector, including ultimately modifications of the National Constitution, was clearly identified by the Brazilian press as a product of Kissinger Associates. On March 21, respected *Jornal do Brasil* journalist Heraclio Salles charged that, "Whoever takes the trouble to get a closer look at the PRN will see that the government is not yet ready to ask Congress to eradicate the monopolies, but rather their deregulation . . . [which is] precisely the Kissinger formula revealed in Brazil by the U.S. magazine *Executive Intelligence Review*. Another indication of the kind of letter of intent [the PRN] has come to signify is that it refers to changing the constitutional concept of the Brazilian company, to open it up to foreign monopolies."

A year of neo-liberal disaster

The first revelations on the performance of the once-dynamic Brazilian economy following a year of neo-liberal experimentation under the Collor government, demonstrate that the country is experiencing the worst recession of the past two decades. On March 15, the first act of 23 new state governors—including at least seven of the most important states in the country—was to declare a partial or complete debt moratorium, to try to get the dire financial circumstances of their administrations under some kind of control.

The state statistical institute, IBGE, issued the results of Brazil's 1990 economic performance. The Gross National Product fell by 4.6%, considered the worst decline since 1980; the sharpest fall was in the industrial sector, which shrank by 8.6%. The agricultural sector fell by 4.4%, primarily due to the fact that the Economics Ministry's monetarists held back agricultural credit for the harvest.

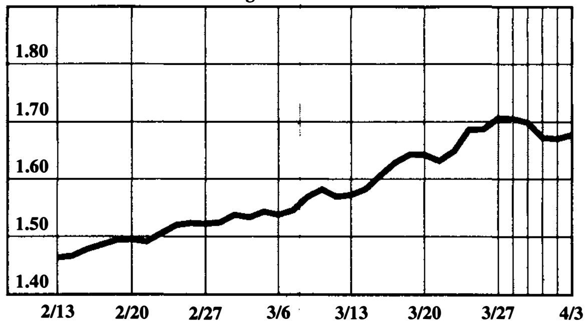
Early data on 1991's performance strip away any remaining illusions about the so-called Collor Plan. In January, the industry in the state of São Paulo—the largest in all of Ibero-America—collapsed by a stunning 20% over the same period in 1990. The decline in Minas Gerais, the second largest industrial state in the country, was 11%.

Even more shocking were the figures published by the Labor Ministry, which measure the real dimension of the recession which is flattening the country. During 1990, there was a nearly 4% fall in total employment, representing the elimination of more than 992,000 jobs. Compare this to the government's own statement last year that 1.5 million jobs needed to be created, to absorb the youth just entering the labor force. Economist Adolfo Furtado, a former Labor Minister, declared that not only did the number of unemployed grow in 1990, but that "informal" labor—that is, workers laboring without any contract guarantees or protection—had grown. In 1989, it was estimated that "informal" workers constituted 72% of Brazil's total work force.

Currency Rates

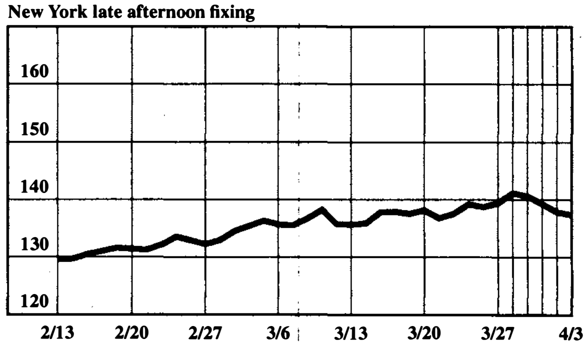
The dollar in deutschemarks

New York late afternoon fixing



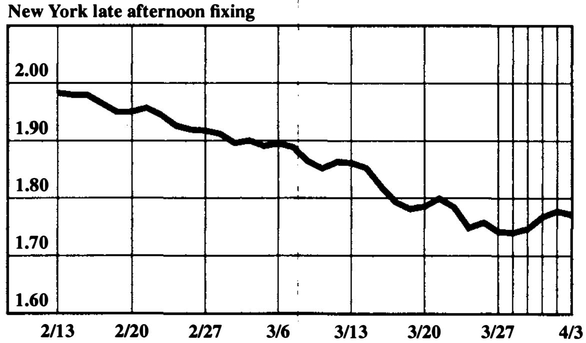
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing