Report from Rio by Silvia Palacios

Debt accord a bad deal

The accord Cardoso has signed with Brazil's creditors is the first step toward dollarizing the economy.

Brazil's Social Democratic Finance Minister Fernando Henrique Cardoso finally signed an accord on Nov. 3 with the country's creditor banks that restructures the $52 billion outstanding to private banks, representing something under half of Brazil's total foreign debt. Cardoso is the darling of the New York banks and a prominent member of the Inter-American Dialogue think-tank. What he has signed will give the *coup de grace* to Brazilian economic sovereignty by submitting the economy to a slow dollarization process, "Brazilian-style."

The accord, whose implementation is contingent on an agreement with the International Monetary Fund (IMF), is a facade behind which the productive capacities of the country will eventually be destroyed, along the lines of the financial globalization plans of the U.S. Federal Reserve (see *EIR*, Oct. 8, p. 22).

In order for the pact to go into effect in April 1994, Cardoso set a number of conditions, stating that "there was a reduction of Brazil's debt under the 'Brady Plan,' " in reference to the plan for slight reductions in debt pushed by former President George Bush's Treasury Secretary Nicholas Brady. "The next step is that the U.S. government will issue Treasury bonds that will provide guarantees [to the banks] under the accord. And for this the Treasury wants the IMF's backing." He said he was certain that U.S. Treasury Secretary Lloyd Bentsen was committed "to issuing the guarantee bonds." Cardoso said he hopes to sign a stand-by agreement with the IMF by early next year.

Under the deal, Brazil receives all of a $4 billion reduction of its debt. This would be merely a bad joke compared, for example, to the $40 billion in interest Brazil paid just during the previous government of José Sarney—if it hadn't also led to the country's deindustrialization.

In a hallucinatory state of mind, Citibank's William Rhodes said during the signing ceremony in Toronto that the agreement was "historic" and, when fully carried out, will represent the end of the international debt crisis that began in August 1982. "We are counting on Minister Cardoso to complete this work," he said.

Despite bankers' efforts to endow the accord with extraordinary importance, its farcical nature was manifest almost immediately. The very person who negotiated the accord for Brazil, the manic-depressive monetarist André Lara Resende, who left his post in December, stated, "More important than the money that will come from the IMF is the significance of the agreement with the IMF," that is, the accord is of no positive consequence for the economy.

Coming in the midst of a profound political crisis and power vacuum, an agreement with the IMF, like the one with bank creditors, is important apparently only in the sense of transmitting the perception that the bankers and their errand boys such as Minister Cardoso, with their neo-liberal programs, run the country.

But prevailing opinion in Brasilia is that, given the IMF's continued lack of confidence in Brazil's stabilization program, Cardoso's economic team of Harvard- and Yale-trained whiz kids will attempt to wrest from the Fund at least some sort of "subtle accord."

At the same time the agreement was announced, Cardoso and his closest aides revealed their plans to dollarize the economy. Cardoso's special assistant, Edmar Bacha, announced in a meeting with a select group of bankers in Rio de Janeiro that the government will institute a new daily indexation program for the economy that will be tied to the value of the U.S. dollar. The final goal is that this indexing procedure will lead to the dollar's replacing the cruzeiro, which is at present still Brazil's currency.

The plan will come into full effect in 90 days, as, little by little, prices will become fixed to the dollar. At that point, according to the economic magicians, inflation will evaporate because the cruzeiro will disappear, since the new indexing process will supposedly not be connected to past inflation. There will only be "present inflation," according to the new phraseology invented by the Central Bank's Director of Monetary Policy, Francisco Pinto.

For his part, Minister Cardoso was evasive and chose to avoid the term "dollarization," in an interview he gave recently in Canada, in order not to have to admit the similarity of his plan to Argentina's "convertibility plan." But he finally admitted, "I know of no stabilization plan that did not end up with with a new, strong, and convertible currency. The objective here is the same."

And another step being taken immediately will be the liberalization of foreign exchange transactions. The existing policy of high interest rates will be maintained, and a new set of budget cuts was just sent to the National Congress which will lead to even greater austerity.