How long will George Soros's coup d'état in Brazil last?

by Silvia Palacios and Lorenzo Carrasco

The naming of Arminio Fraga, an employee of drug legalizer and global speculator George Soros, as the new president of Brazil's Central Bank, is the temporary "solution" that the international financial oligarchy has provided for this most recent phase of the ongoing world financial crisis. This phase was unleashed in mid-January, following the decision of the Central Bank to allow Brazil's currency, the real, to "float," the euphemism used to describe the collapse of the value of the Brazilian currency—which went from R$1.22 to the dollar, to more than R$2 to the dollar, in just two weeks—while the physical economy enters a descending spiral. This calamity can only be adequately described with the help of that great work of William Shakespeare, *Macbeth,* where Malcolm asks, "What's the newest grief?" and Ross replies: "That of an hour's age doth hiss the speaker; each minute teams a new one" (Act IV, Scene 3).

The unexpected nomination of Arminio Fraga to replace Francisco Lopes, who had been ratified as Central Bank president by the Senate only a few days before, and had not even formally assumed his post yet, marks the official surrender of control over the country's economy to precisely those international speculators responsible for the griefs which have tormented Brazil most clearly in recent days. Fraga, until one day before his nomination, had been the man in charge of "emerging markets" for Soros Fund Management since he was personally hired by George Soros in early 1993. From June 1991 to November 1992, during the government of Fernando Collor de Mello, Fraga served as director of international affairs at Brazil's Central Bank, where he was directly responsible for creating the so-called "Annex 4," the mechanism which allowed foreign short-term capital to enter the country, thus permitting the transformation of the Brazilian banking system into one large narco-laundromat. He was also responsible for the Central Bank's April 30, 1992 document, *Circular 002170,* which, as part of the Federal Deregulation Program, opened the derivatives market (hedging) for the exchange and interest rate markets.

Fraga only left the Central Bank after the impeachment of President Collor in December 1992; but one month later—so that there be no doubt as to who he served with his policy of opening up the Brazilian banking system—he became a partner and director of the Soros Fund Management, after a brief stay with the "new products and derivatives" group at Salomon Brothers.

In view of his history, the placement of Fraga at the head of the Central Bank—comparable to putting Al Capone in charge of the Internal Revenue Service—constitutes a veritable coup d'état, which, as *EIR* had warned, had been plotted for months. It was consummated only after two days of panic, on Jan. 28-29, when a general run on the banks, which would collapse the Brazilian banking system in a matter of hours, appeared possible. Thus, the image which appeared in the past few days is the hideous face of usury, once the smiling mask of "monetary stability" was ripped off by the weight of the bankruptcy of national public finances.

We also see the face of the decrepit but nonetheless vain President Fernando Henrique Cardoso, desolate over his eroding power, without any authority or credibility before a population, most of whom have suddenly discovered how much they have been fooled by this modern version of the *Picture of Dorian Gray*. As we likewise see the shattering of the national political system, which exists as a mere shadow of the financial system and its communications media which runs political life as a pimp runs his prostitutes.

The non-government of Brazil

It is under these conditions of total collapse of government, that economic policy was handed over entirely to the International Monetary Fund (IMF) and bankers of the British-American-Canadian (BAC) establishment like George Soros, who decide the daily fluctuations of Brazil's currency and interest rates.

In this environment of ungovernability, one day after the high point of the panic, on Saturday, Jan. 30, an IMF delegation deployed to Brazil on an emergency basis to take control of a situation in chaos, which their own insistence on allowing the exchange rate to fluctuate had provoked. Two days later, IMF Deputy Managing Director Stanley Fischer flew in hurriedly from Davos, Switzerland.

It was Fischer who was charged with elaborating the measures to be taken: absolutely no imposition of any kind of capital controls, and a hike in interest rates to as high as 70%, under the day-to-day control of the IMF. And, no less serious, to deepen the fiscal adjustment, which implies greater pressure to privatize the state companies Petrobras, Banco do Brasil, and the Caixa Economica Federal, the largest bank in Brazil.

In this context, with an IMF government established and a representative of the international speculators in control of the Central Bank, they seek to do away with the option of exchange controls, the solution recommended on Jan. 15 by Lyndon LaRouche, when he learned of the speculative attack against the real. Later, several Brazilian journalists raised the urgency of establishing exchange controls. For example, Walter Poyares, adviser to television magnate Roberto Marinho, wrote in *O Globo* of Jan. 21, under the title "Warning Against Harmful Capitalism": "It is very sad to helplessly contemplate the disturbance that these capitalists are causing our economy. Happily, there are already rulers taking a stand against this avalanche. *Forbes* magazine publishes an interview with Malaysian Prime Minister Mahathir Mohamad, in which he explains why his country adopted exchange controls, which could last forever."

Days later, on Jan. 24, journalist Clovis Rossi wrote in his *Folha de São Paulo* column, one entitled "Why Not?": "On Sept. 1, Malaysia adopted exchange controls, a measure which violates hegemonic ideology, which commands that everything be left to the will of the markets. Analyses poured out, that the country had jumped into the most profound abyss, and would never emerge from the darkness. Yesterday, the *Far Eastern Economic Review,* an ultra-liberal magazine, evaluated the almost five months of exchange controls. Theoretical conclusion: 'Those who supported [exchange controls] have some reasons to celebrate.' "

Soros and his 'wall of money'

Evidently, President Cardoso adopted the opposite decision: Instead of defending the sovereignty of the country, he handed the reins of power to the hyenas of international speculation, who will try to liquidate what remains of the national financial system, to turn Brazil into a monetary colony subject to the international financial oligarchy, with the shortest path to such an end being the immediate imposition of a currency board such as the British imposed on their colonies in the 19th century.

This is precisely the idea that Soros and his employees, such as former Argentine Economics Minister Domingo Cavallo, have been pushing. This was the central idea discussed at the annual Davos meeting, as the solution for stabilizing the Brazilian economy. It is this idea of a currency board which is behind the proposal Soros personally raised at Davos, when he called on the international commercial banks to join with the IMF and the Group of Seven (G-7) to rapidly erect a "wall of money" to help Brazil stabilize its currency. As *Gazeta Mercantil* reported on Feb. 2, according to Soros's proposal, "the commercial banks should form a 'pool' as a global 'lender of last resort.' "

Under this system, Soros recommends that the Brazilian banking system accept loans in dollars, since the real is now "undervalued." When the real recovers, the cost of financing will be cheaper, he says, and he suggests that those credits be "linked to income from sale of state companies." Although he did not say so explicitly at Davos, this means that the cost to Brazil of his proposed stabilization program would be the sale of the gigantic state oil company Petrobras, the Banco do Brasil, and the Caixa Economica Federal, among others.

Soros calculates that his scheme will be backed by the international banks, given that, according to him, "40% of the banks in Brazil are in foreign hands and have an interest in stabilizing the situation." And, in a tacit threat, he said: "There isn't much time, because if the situation is allowed to deteriorate further, it will be more difficult to stabilize afterwards." That is, he called for speeding up what would mean, in effect, the total denationalization of the Brazilian banking system.

In apparent accordance with Soros's proposal, the Central Bank prepared the groundwork for the dollarization of the economy, by raising, on Feb. 2, the ceiling for the maximum amount that banking institutions can draw on foreign lines of interbank credit, to thus meet the demand for foreign currency on the internal market. The change in regulation permits banks to take out international loans up to 100% of their liquid assets: concretely, increasing the total international loans which Brazilian banks can take, from $3.5 billion to $55 billion! A preliminary measure for the indiscriminate dollarization of the economy.

The first consequence of this measure was that interest rates on dollar loans on the interbank market leapt from 7% to 11%, on the first day. In reality, the Central Bank's decision continues the resolution made by the U.S. Federal Reserve and the G-7 last October, to increase the liquidity of the world financial system, to thereby postpone generalized bankruptcy. But this policy exponentially increased the volatility of the global markets, which now march toward their own inevitable destruction, as occurred in Weimar Germany in 1923.

Do away with 'parochial' resistance

What stands in the way of the imposition of a currency board, and the consolidation of the financial oligarchy's globalist utopia in Brazil, is the political situation, particularly following the decision by former President of Brazil and now Minas Gerais state Gov. Itamar Franco to declare a moratorium on that state's debt. In reality, Franco's decision brought to light a central problem in the republican history of the country, because the IMF and World Bank policies have stripped the states of their autonomous capacity for development, which had been maintained through the regional development banks and state banks. As a federal republic, at least until the 1970s, the Union shared with the states the power to issue credits for development, and the states had the ability to issue their own bonds. The debt renegotiations carried out by the Cardoso government with the states, stripped the states of any possibility of financial autonomy, transforming the Union into a monetary tyranny, a debt collector for usury.

This latter is a *sine qua non* of the recolonization projects for Brazil. That is why the *Wall Street Journal,* on Jan. 29, charged that local politics—the *Journal* considers human life to be a "parochial interest"—is the greatest threat to national stability, because, "with markets around the world sensitive to developments in Brazil, small-time political operators suddenly wield power." Minas Gerais Governor Franco is their leading target. The article concludes that "the ebb and flow between central and regional power has been a recurring theme in Brazilian history. It's also at the root of the country's chronic economic instability."

Likewise, senior World Bank economist Luiz A. Pereira da Silva, demanding a more severe fiscal adjustment in *Gazeta Mercantil* on Feb. 2, asserts that "the program must have a calendar which can be executed in the short to medium term, for the amortization of the domestic public debt, and have no renegotiation of the restructuring agreements of the state debts. Although there will inevitably be discussions about a new fiscal federalism, the opening of a Pandora's Box at this stage would certainly increase doubts about the federal government's capacity to honor its domestic public debt."

The bankers are right to be afraid. The nearer Brazil comes to dissolution, the greater grows the resistance rallying around Governor Franco, and it will continue to sweep across the country, pulling in its wake governors who today profess their loyalty to the President of the Republic. And thus, the widespread response to Governor Franco's ironic comment on the nomination of Arminio Fraga to the Central Bank: "I am very happy today, because we now have a new Finance Minister, Mr. Stanley Fischer, and a new president of the Central Bank, Dr. George Soros. Perhaps now it will be easier for Minas to renegotiate its debt without intermediaries. But we will have to improve our English a little bit first."

Minas Gerais revives 'Brazilian Greatness'

by Silvia Palacio and Lorenzo Carrasco

Under the headline "Minas Moratorium, Reviving 'Brazilian Greatness,' " Lyndon LaRouche's associates in the Ibero-American Solidarity Movement (MSIA) in Brazil, issued a political statement of support for the Governor of Minas Gerais state, Itamar Franco, for his historic decision to declare a 90-day moratorium on the state's debt to the federal government. Franco's decision, says the statement, has created the opportunity to transform the national calamity, into a rebirth of "Brazilian Greatness," should the country prove capable of calling upon the President of the United States to convoke a new Bretton Woods conference, to reorganize the bankrupt world monetary system to further the interest of nations, rather than the financier oligarchy.

The state of Minas Gerais, with a territory of almost 600,000 square kilometers (larger than France) and 18 million inhabitants, is self-sufficient in electricity generation and food production, and it is the second most industrialized state of Brazil. Historically, what occurs in Minas Gerais has proven to be a watershed in every political crisis in the nation's history, going back at least to 1792, when its citizens rebelled against excessive taxes to the Portuguese Crown (the which was nothing but a debt collector for the British Empire), an act known as the *Inconfidencia Minera* or "Minero Unfaithfulness." This movement, under the marked influence of the American Revolution, was led by Joaquim José da Silva Xavier (known as "Tiradentes"), who was said to always carry a copy of the U.S. Declaration of Independence in his pocket.