The IMF and Brazil's government: going down to collapse together

by Silvia Palacios

In Brazil, as distinct from Malaysia where Prime Minister Dr. Mahathir bin Mohamad denounced mega-speculator George Soros as a criminal, the government not only signed a new accord with the International Monetary Fund (IMF) which reduces the country finally to a mere administrator of colonial policy, but it also named Arminio Fraga, a right-hand man of Soros and a U.S. citizen, as president of the Central Bank. These acts have set off a growing national indignation which is uniting differing personalities of Brazilian political life, including some usually antagonistic to one another.

On Feb. 4, the government of President Fernando Henrique Cardoso abandoned what little shame it had remaining to it, and, for the first time in the history of Brazil's relations with the IMF, called a joint press conference, with Treasury Minister Pedro Malan and IMF Deputy Director Stanley Fischer. Fischer announced the terms of the government's total capitulation to an IMF team which had arrived suddenly a few days before, on a mission it declared of the utmost urgency.

The terms of the agreement, read by Fischer in English and translated into Portuguese even as Brazilian television cameras broadcast the conference, consummated the demands imposed upon Brazil the previous October, and ended once and for all what was left of Brazil's monetary sovereignty. The conditionalities include:

- make the Central Bank fully independent from the government, with a fixed term of office for its president and other members of its board of directors;
- accelerate and deepen privatizations of the state sector, specifically the "energy and financial" sectors, a conditionality widely understood to mean handing the bankers control over the long-sought-after state oil company, Petrobras, one of the largest oil companies in the world, as well as Banco do Brasil and Caixa Económica Federal, two of Brazil's largest banking institutions, both central to the national credit policy which prevailed until a few years ago.

The IMF accord also requires that Brazil adhere to Article VIII of the IMF statutes, by which Brazil renounces its sovereignty over foreign trade, since it loses its right to impose any restrictions in response to changes which may occur. The article prohibits any exchange or capital controls, as well as any debt moratoria, and requires Brazil to reveal the amount of its foreign reserves, their make-up, and where they are deposited, in addition to reporting all gold production.

While the government and the bankers boasted of Brasilia's capitulation, in the rest of the country a much different sentiment was heard. Exemplary of this was a biting commentary by Cong. Antônio Delfim Netto, the former Planning Minister under the military government and a monetarist of the old school. Writing in *Folha de São Paulo* on Feb. 17, Delfim called the IMF deal "an embrace of the drowning." Brazil "should save itself," he concluded, in recognition that the IMF is on its way to extinction. As for the manner in which the accord was signed, he commented that "under the dictatorship, at least we were more circumspect."

The wave of repudiation took on even greater intensity, after the nomination of Arminio Fraga to head the Central Bank. All kinds of articles, cartoons, commentaries, and denunciations are circulating throughout the country, identifying Fraga as a Brazilian agent of the speculator and narcolegalizer Soros. "They put the fox in to guard the hen house," is the witticism heard all over Brazil. Confrontation is building, as the "test of fire" nears for the government, when the Senate must approve Fraga's nomination.

Institutional crisis

The element which is politically catalyzing the discontent, is the opposition of several state governments to the increasing austerity. Seven opposition governors, from some of the country's most important states, met for a second time on Feb. 5, to protest the crisis in state finances. The seven issued the "Pôrto Alegre Letter," a new manifesto following that meeting, which counter-attacked the capitulation to the IMF: "Brazilians have paid an intolerable price for an apparent monetary stability which, especially in the last weeks, has demonstrated its total fragility. We see an accelerated disequilibrium in the foreign accounts, the corrosion of public finances, the deterioration of the domestic market, and growing unemployment, which are the fruit of an unjust economic model which has tied itself to capital flows, and turned Brazil into the repository for big international speculators, who increasingly demand the nation pay a higher price. The decline in production reduces tax revenues, while debts grow at a rate as hallucinatory as interest rates."

The Governor of Minas Gerais, former President of Brazil Itamar Franco, who declared a moratorium on the debts of his state to the federal government on Jan. 6, has become the rallying point for this growing wave of national indignation, and has received the backing of important institutions in the country.

The Lawyers Institute of Brazil and the Order of Brazilian Lawyers (OAB) have drawn up a joint "Manifesto of Brazilian Jurists," which condemned the submission to the IMF and the federal sanctions imposed on Minas Gerais. Reginaldo de Castro, president of the OAB's Federal Council, warned that there now exists a "crisis in the system of law. . . . The federal pact cannot rest upon the increasingly evident [damaging] centralization." Press accounts of the OAB meeting where the manifesto was discussed, reveal the mood developing in the country over the government's decision to sanction Minas Gerais: "It was stupidity for the President of the Republic to denounce the Brazilian states before international financial bodies. . . . To attack the federation, to attack national unity, is a crime of treason," said former Minister Almino Afonso.

The London-centered financial oligarchy has declared Governor Franco of Minas Gerais to be a serious obstacle to their globalist project. This fear was expressed, for example, by Albert Fishlow, a member of the New York Council of Foreign Relations, in a Feb. 14 article in *Folha de São Paulo,* under the title: "What Is at Stake in Brazil." In analyzing the governors' protests, and the importance of the states in the history of the Brazilian federation, Fishlow warns that Minas's is not an isolated voice, and that "the rest of the world is watching. The Brazilian inability to resolve the problem effectively will be a severe blow." He concludes with the warning: "There is much at stake in Brazil."

Itamar Franco's actions are also causing consternation in the ranks of the opposition Workers Party (PT) and the other organizations which are in the orbit of the São Paulo Forum. Agents of London as they are, these Jacobins love to *talk* a radical language, but never *do* anything which offends the bankers. Thus, since the group of seven opposition governors was formed, some of the PT members among the group have been willing to break ranks with their colleagues, seeking to reach pragmatic separate deals with the Cardoso government, or even going so far as to back the President's agreement with the IMF. This was clearly stated by the Governor of Mato Grosso do Sul, Jose Orcirio de Miranda, who declared: "The Governor [Itamar Franco] has other resentments, which we have to ponder, but which necessarily should not be on the table. Our view, putting ideological and political differences aside, is that it is necessary to negotiate with the President of the Republic to strengthen the finances of the states, and the President in his international negotiations."

A showdown looming

The Cardoso government has frozen federal funds to the state of Minas Gerais, in order to force it to capitulate. The government even went to the extreme of requesting that international financial institutions (the IMF, the World Bank, the Inter-American Development Bank) cut off any type of aid to the state, arguing that Minas was "insolvent," in an official note released by the Treasury Ministry on Jan. 21. Indeed, on Feb. 5, IADB president Enrique Iglesias sent a letter to Governor Franco duly informing him that the doors to his bank are definitively shut to any aid request from the state.

At the same time, press outlets for the Cardoso government began to put out threats of a possible federal intervention into Minas Gerais. A column in *Jornal do Brasil* on Feb. 16 reported that in recent days, "in Planalto Palace [the Presidential palace], there is talk of the Princess Rebellion," a famous incident in the turbulent 1930s, "when the federal government ended the revolt by the force of the Army."

Itamar Franco responded to this virtual declaration of war, with two official notes issued on Feb. 11, which stung the President like boiling oil. In his first statement, the Governor put the population on alert: "The federal government has just committed another act of violence against the people of Minas. In an order sent today to the banks, a director of the Central Bank embargoed the accounts of the State of Minas Gerais, for payment of credits allegedly owed to the Union. This measure . . . proves the hostility against the people of Minas, and belies the President of the Republic's announced willingness to hold dialogue with the states. The Minas government assures the population that it will not fail to meet its obligations, which will be carried out with the inalienable dignity of the people of Minas. Minas will not submit."

The second note caused even greater panic. Citing "the growing acts of hostility against the people of Minas, culminating on this date with the seizure of funds indispensable for the maintenance of the state's essential functions," the Governor called a meeting with the top command of the state's Military Police. As a result, there is discussion in the Brazilian media of an overt showdown, possibly including military incidents, between Minas and the federal government, should the latter try to subjugate Governor Franco by force.

On Feb. 12, Franco told students demonstrating at the state palace in his support: "At this moment in which the Brazilian economy begins to be monitored by the IMF, it is necessary that the young people return to the town squares . . . to show our . . . desire to see a free country." Brazilians must remember "that painful image which is burned into our retina, seeing on television the Treasury Minister of Brazil at the side of vice president of the International Monetary Fund, using a translation into our language made by another foreigner."