Ganging Up On the IMF: Will Ibero-America Get It Right?

by Dennis Small and Gretchen Small

On Oct. 23 of this year, two decisive votes will take place in South America's Southern Cone. On that day in Argentina, mid-term congressional elections will put to the test President Néstor Kirchner's political mandate in his battle against the International Monetary Fund and the international financiers' vulture funds. And on that same day, Brazil will become the first country in the world to hold a national referendum on whether the sale of all types of guns should be banned for everyone except the police and military.

In Argentina, synarchists of all stripes, both inside and outside the country, are working feverishly to politically damage the Argentine President—who, alone among the governments of the region, has stood up to the financiers' genocidal policies, and who has called for the formation of a New Bretton Woods to replace the IMF. Kirchner is now reportedly considering announcing a unilateral write-down of some portion of the large debt it owes to the IMF, much as he did in 2004 with private holders of government bonds. Whether or not Kirchner proceeds along that bold path may well depend on the outcome of the Oct. 23 elections.

In Brazil, one of the principal justifications for the proposed gun ban is the incredible level of violence in Brazil's impoverished and drug-ridden *favelas,* or urban shantytowns. Curiously, the arms ban is a cause that has been lavishly promoted by the country's major media, including the oligarchical TV Globo, whose Marinho family also runs the Brazilian branch of Prince Philip's Worldwide Fund for Nature, or WWF.

An Iraq-Style Civil War in Brazil?

"Those who are proposing to take guns away from the population in Brazil, are going to bring on a civil war," Lyndon LaRouche stated in no uncertain terms. "You have entire areas of Brazil, including the *favelas* in the big cities, which are *terra incognita,* armed camps. If they continue on this, if they disarm the poor, they will unleash asymmetric civil war."

In addition to the *favelas* in the cities, the Brazilian countryside is also becoming increasingly violent, with the nihilist MST, or Landless Movement, engaging in armed land seizures, while right-wing landholders deploy private militias against them. The ravages of economic collapse, produced by adherence to IMF austerity policies, are the driving force of the looming social explosion in both the Brazilian countryside and cities.

"Under these circumstances, if you try to take their arms away with a referendum," LaRouche explained, "all sides will simply double their purchase of weapons and go for a confrontation, sooner rather than later. The government will be destroyed, because there will no longer be masses to control the national territory.

"Whoever in Brazil is ignoring this by proceeding with the referendum, is unleashing an Iraq in their own country," LaRouche added. "They should be told: 'Don't you know the lesson of the current Iraq disaster? Are you that foolish? You won't have a country left. This is the scenario of permanent warfare which is being promoted across South America by Dick Cheney, the Moonies, Banco Santander, Prince Philip's WWF, and so forth. You cannot walk in the footsteps of Henry Kissinger's policy of the 1970s, and his so-called special relationship with Brazil. Brazil may be a big country, but it will only become a big *failed* state, if this policy is pursued,' " LaRouche warned.

'End the Tyranny of Financial Capital'

There is an alternative policy for Brazil which can avoid such a slide into civil war, but it requires a radical break with the neo-liberal economic policies which have dominated the country for the past 15 years. That is precisely what is being proposed by a group of Brazilian nationalists who are organizing one of the country's largest parties, the PMDB, behind a program of government for the 2006 Presidential elections, which calls for "putting an end to the tyranny of financial capital" in order to achieve rapid economic development for the entire population of a sovereign Brazil.

The organizing drive is being led by a group of economists and political leaders which includes Carlos Lessa, the former head of the National Bank for Economic and Social Development (BNDES), whom the financiers fear because he has shown that he's prepared to fight to develop Brazil and raise the living standards and skills of every Brazilian. Lessa understands, as he explained in an April 2005 interview with *Executive Intelligence Review* (see *EIR,* April 29, 2005) that to do this, we must "tame the financial dragon" internationally.

Thrown out as head of the BNDES last November, Lessa was asked by several Brazilian state governors from the PMDB Party to head up a team which would draft a program of government for the 2006 Presidential elections. That program, a revolutionary call to take on the financiers, was presented to the PMDB executive last August.

"To Change Brazil," as the program is named (see documentation, below), warns that the continued existence of Brazil as a sovereign nation and organized society is in danger, unless it breaks with the "market rules" imposed by the international financial system. "This circular reasoning [of the market—ed.] has led to a collapse of thinking. Over time, societies become incapable of defining their own development agenda. . . . They abandon the idea of having a mission. They become used to living with chronic crises. They accept the tyranny of short-term issues."

The document goes on to propose a cogent package of measures, that would actually work to shift Brazil's internal economic dynamic. They include radical, urgently required policies such as:

- The imposition of capital controls, to put an end to speculative capital flows in and out of the country.
- Government intervention to manage the exchange rate, rather than the current disastrous floating exchange rate system.
- Drastically lowering domestic interest rates, in order to finance internal development.
- Using the $35 billion per year of Primary Budget Surplus to foster that development, rather than to pay the foreign debt, as is the case today.
- Creating a "new architecture" under which the country's Central Bank would be required to work with the government's Treasury Ministry to achieve national development goals—a Hamiltonian banking policy.
- Dramatically increasing the average productivity of the Brazilian labor force by introducing advanced technology throughout the economy.
- And "to do that, it is essential to return to large-scale investments in infrastructure," led by the central role of the State.

A Movement Taking Shape

Large meetings of PMDB leaders and members are now being held, state by state, to debate this program. The first meeting, held in the state of Paraná on Sept. 12, drew more than 1,000 people, including numerous national leaders and state governors. At the next meeting, in São Paulo, 2,000 people came to hear Lessa and others discuss how Brazil could secure its future. Paraná Governor Roberto Requiao told the São Paulo meeting that Brazil is not a market of consumers; it is a *nation.* Markets operate on an instantaneous basis, and have no home or interest other than creating wealth for the speculators. A nation has a past, and is building the future. Nations have citizens, not consumers, he asserted.

A questionnaire has been circulated among party members, which asks, along with other questions, if the PMDB "should run the risk of challenging the financial system and big media" to develop the country. Of those polled so far, 85-90% have answered: Yes!

Lyndon LaRouche commented that what Lessa and the PMDB are proposing is the alternative to civil war: Brazil has no other sane option. "Lessa's life is in danger," LaRouche warned, "because he is telling the truth. Anyone who does, faces that—unless they gang up on the enemy!"

For his part, Lessa has been clear in his support for the battle being waged by Argentine President Kirchner. In a Sept. 18 speech in Paraná, Lessa said: "We have alternatives. The Brazilian state has many more instruments than Argentina, which is facing international pressure with dignity and success, while we are following a policy of retreat, concessions, and submission."

Lessa's support for Kirchner is all the more striking given the repeated refusal of Brazilian President Lula to give Kirchner any backing in Argentina's life-and-death battle against the IMF and the vulture funds. To the contrary, Lula has gone out of his way to distance himself from Kirchner's aggressive approach, and to politically support Kirchner's factional party rival, former Argentine President Eduardo Duhalde, who is today a top official of Mercosur, the Common Market of the South.

Duhalde recently attacked Kirchner's economic policies for being based solely on the "competitive advantage" created by the 2002 peso devaluation (overseen by then-President Duhalde), arguing that it will take "many years to emerge from crisis" if Kirchner's policies continue.

In a public slap to Kirchner, Brazil's Lula used a Sept. 30 summit of the South American Community of Nations, held in Brasilia, to praise Duhalde to the skies as a great leader of South American integration. Lyndon LaRouche commented incisively: "Duhalde is the Sancho Panza of the Southern Cone, although there is stiff competition from Brazilian President Lula."

In 1982, LaRouche's friend Mexican President José López Portillo broke publicly with the IMF, declared a debt moratorium, and nationalized Mexico's Central Bank. But when he sought the support of Ibero-America's two other major countries, Argentina and Brazil, to jointly defend their sovereignty and organize for a New World Economic Order, both those governments beat a cowardly retreat.

Now the shoe is on the other foot. Argentina's Kirchner is taking a courageous stand—for which he is being denounced as "authoritarian" by the bankers' foot soldiers, just as López Portillo and his legacy are attacked in Mexico today. Will the nations of Ibero-America get it right this time, and unite to follow LaRouche's lead?

Documentation

'To Change Brazil'

These are excerpts taken from To Change Brazil*, a program of government issued by the PMDB party of Brazil in August 2005. It was drafted by a team of economists led by Dr. Carlos Lessa, the former president of Brazil's National Economic and Social Development Bank (BNDES). Subheads have been added.*

. . . In the decade of the 1990s . . . we witnessed a conservative counter-revolution carried out in stages, something like a *coup d'état* extended over time. . . . In the economy, the idea of a future built by a community which interacts democratically—a conscious and sought-after future whose focus is the greater well-being of all—was replaced by an opaque one created only by the interplay of the market, in which cooperation gives way to fierce competition of interest only to the strongest. The conception of a national enterprise disappeared from our legislation, and the role of the state was eroded and weakened. As for social concerns, with the announced "end of the Vargas era," workers' rights were threatened, and the social security system so subordinated to the logic of budget-balancing, that it was shredded beyond recognition.

No Brazilians decided any of this freely or consciously. Similar programs were imposed on other countries, always under the sponsorship and inspiration of the international financial system and the institutions it controls, with the connivance of local partners. What these all have in common is the dismantling of the agencies of social solidarity, the weakening of nation-states and increasing subordination of each economy to the ever more volatile flows of big capital.

The monumental failure of these policies is always attributed to the weakest links. . . . The conclusion is repeated monotonously: Double the bet, keep at it, more of the same, because new so-called "reforms" still have to be implemented.

Widely promoted by the mass media, this circular reasoning has led to a collapse of thinking. Over time, societies become incapable of defining their own development agenda. They no longer recognize their problems or their potential. They abandon any idea of having a mission. They become used to living with chronic crises. They accept the tyranny of short-term issues and gravitate toward artificial or imported ideas. . . .

The labor market disintegrated, with close to 25% of adult Brazilians forced into full unemployment or chronic under-employment, not to mention the large numbers thrown into the informal sector.

Hostage to the Financial System

The nascent attempt to build a nation-state based on social well-being was interrupted. The state lost its ability to carry out, encourage, or coordinate investments, instead becoming hostage to the financial system. It also lost territorial control, both in the country's interior, as in the case of the Amazon region's extensive border, as well as in the large urban centers. . . .

The long-term history of the Nation became subordinate to financial capital's short term. . . .

The commitment to development reflects the decision to put an end to the tyranny of financial capital and our condition as a peripheral economy, asserting that we shall mobilize all of our productive resources and no longer accept the imposition of policies, either domestically or from abroad.

Naturally, this demands five interrelated measures: (a) the reduction and eventual elimination of the primary budget surplus, today above 5% of Gross Domestic Product (GDP); (b) control of capital inflow and outflow; (c) reduction of the basic interest rate to international levels; (d) management of the exchange rate at a level conducive to balancing our foreign accounts; (e) agreements on price stability.

Over the recent period, close to 40% of the nation's resources have been used to pay debt, leaving less than 5% for investment. The disproportionate expenditures for debt service compared to other government expenditures, is shocking. In the current budget, one month of interest payments is equal to an entire year's allocation for the national health-care system. Fifteen days [of interest payments] is equal to the annual education budget. . . .

This leads to an irrational increase in the foreign debt. Projects under way, which are inadequate in any case, end up being financed by the World Bank or the Inter-American Development Bank (IADB). We take on dollar debt abroad to build railroads or sanitation systems, which require no import of goods or services. These could be financed entirely by national capital.

National Resources Trapped by Speculation

And the resources to finance these projects do exist—were they not trapped in a perverse machinery. The level of the current primary surplus is such that the government takes out of the economy—collects from the people—close to 80 billion *reais* annually to pay part of the interest on the debt. The worst part of this is the transfer of income from the poor (the largest taxpayers), to the rich (who hold the debt bonds).

But the creditors, primarily bankers, don't want to keep the money gained as a result of their manipulations. Money doesn't earn interest. Nor do they wish to invest it in productive activities; their most comfortable and lucrative alternative is speculation itself. The minute they get resources from the primary surplus, they run to the Central Bank to buy more bonds, which yield more interest. Since those bonds are as

Carlos Lessa (right) led the drafting of a plan to free Brazil's economy from the grip of the financial vultures, and institute a policy of development and investment in large-scale infrastructure.

good as having cash in hand, having been traded daily on the overnight market, we can call them "financial money."

. . .This machinery has to change. The 80 billion *reais* annually which are today immobilized in the primary budget surplus, must be instead carefully directed to finance public expenditures in education, health, low-income housing, agrarian reform, agriculture, sanitation systems, infrastructure, security, and defense. In this way, we can generate millions of jobs directly. The increase in government purchases and wages would lead to millions more jobs in the private sector. Financing these sectors would not be inflationary, as we're not dealing with a primary issuance of money. These are funds that were removed from the economy through taxation. . . .

The second measure of a new macroeconomic policy would be capital controls. In an economy like ours, whose foreign accounts have been historically fragile, when capital flows in and out without regulation, it changes, above all, the relation of power. The movement of unregulated financial wealth prevents both the control of, and even the calculation of, the exchange rate, and thereby threatens to undo the pricing system on which the real economy is based. Since the exchange market is exceptionally volatile and ultrasensitive to speculative flows, financial capital acquires a veto power over any decisions that society might wish to make. Cornered, the state becomes hostage to these capital flows. Sovereign power changes hands.

Once controls over foreign capital flows are reestablished, like those that existed for more than 60 years in Brazil until 1992, thereby eliminating the possibility of a flight of the *real* to the dollar, the Central Bank once again will have the ability to fix low interest rates, easily reducing them to a level compatible with balanced public accounts and the restarting of economic growth.

Should the financial market reject the lower rates, and threaten not to buy public bonds, the Central Bank will buy the maturing or matured bonds to inject liquidity into the interbank market. The banks will have to accept the new rates offered for the simple reason that they will have no better alternative to use their available resources. Capital controls won't demand any kind of legal changes, as the Central Bank is already authorized to apply them. . . .

The institutional architecture of economic policy is turned on its head. With the Central Bank as its agent—it operates autonomously, like a state within a state—the financial system subjugates the entire nation-state and productive sector. Democracy is subverted, because real power lies beyond the population's reach. In the new architecture we're proposing, the Central Bank will have to coordinate intimately with the National Treasury, with both pursuing combined goals not only for inflation, as is the case today, but also for employment, use of productive capacity and the volume of credit offered to the real economy. . . .

Relocating workers from the most backward sectors to the most modern, or modernizing those backward sectors, will greatly increase average productivity, the benefits of which will be felt throughout society as a whole.

Large-Scale Infrastructure Investments

To do this, it is essential to return to large-scale investments in infrastructure. Inefficiency and crises in energy, transportation and telecommunications, become systemic inefficiency and crises which affect every undertaking. These are sectors which demand large, long-term projects always related to strategic planning. Brazil is self-sufficient in the knowledge and use of technology in most infrastructure sectors. . . . The role of the state in the elaboration of this systemic vision is irreplaceable. . . .

In a word: we must increase at the greatest possible speed the average productivity of labor, retain within our own economic space the largest portion possible of the wealth created, and distribute that wealth in the fairest possible manner. . .

Our maneuvering room in the international context would increase significantly, were South America to take up its own mission. It is a continent of enormous potential. . . . Our peoples can easily build a common identity. A South American mission is necessary and viable. Brazil plays a central role in this and, with no pretentions to hegemony, has a great interest in this integration. . . .

Large undeveloped countries, such as the United States of the 19th Century and China of the 20th Century, have already faced these kinds of challenges, each in its own way, and only became successful when they dared to apply internal reforms and rejected the station to which the international order of their time relegated them. They paid the price for those decisions. They suffered pressures. They made mistakes and learned from them. And in the end, they emerged from their underdeveloped status. . . .

History is now asking whether our generation and our institutions possess the greatness to unleash the civilizational promise which lies within Brazilian society. The PMDB calls on all Brazilians who desire this, to say "yes."