Is Brazil planning an escape from creditors' blackmail?

by Mark Sonnenblick

Borrowing money in Brazil can cost up to 496 percent interest, President João Figueiredo learned April 13 when the Saõ Paulo Chamber of Commerce presented him with a study based on interest rates published by the banks. Figueiredo wrote a note on the study, "Minister Delfim: how can this be tolerated?" and sent it to Planning Minister Delfim Netto, the mastermind of economic policy in Brazil.

With his characteristic Jesuitical brilliance, Delfim responded with an open letter to the president contending, "In fact, it is not possible to bear the interest rates shown at the top levels of the table. Happily, they do not exist, because a company which tried to pay those interest rates would not survive for long."

Bankruptcies among Saõ Paulo's machine-building, metallurgical, and electronics industries are running at 333 percent of last year's rate. Similar situations prevail in chemicals, construction, and throughout industry. Since Delfim Netto began putting the squeeze on the economy in September 1980, industrial jobs have been reduced by 200,000. With over a million jobless in Saõ Paulo, any spark can start a riot, as happened there April 3 to 5. Riots swept Rio a week later.

The riots may prove the last straw for Brazil's subordination to the dictates of international bankers. Up to 40 percent of the army officer corps blames Delfim's submission to the International Monetary Fund (IMF) for the civil disturbances. While, until now, Figueiredo has defended Delfim Netto's policies, his remonstrance on the interest rates hints that the scales may have finally fallen from his eyes.

Figueiredo meets April 26 to 28 with his Mexican counterpart, Miguel de la Madrid, who also realizes that his country's security demands prompt escape from the debt trap. Bankers are worried that with $88 billion outstanding each, Mexico and Brazil could turn their debts into a weapon to force the birth of a new development-oriented international economic system.

Up to now, Brazil has feared to take bold steps to rescue the world from the depression. It has been cowed by threats from bankers and the Kissinger faction in Washington that Brazil would lose its "credit rating," its access to financing, and its valued friendship with the United States if it stopped taking orders from Morgan Guaranty bank.

But by the end of April, the banks stopped financing Brazilian trade—thus eliminating the effectiveness of using threats of credit cut-off to restrain Brazil's actions.

Banks pull the plug on Brazil

Nervous bankers are pulling the props out from under Brazil's shaky $88 billion debt structure. "The short-term money which had sustained the country since last year is gone; and since it is not coming back, Brazil will have to do something. It is a question of how long you could fool everyone," commented an executive of a Hong Kong-based bank April 20. Brazil's domestic banking system may be the next victim. The smaller Brazilian banks are unable to borrow dollars abroad, and the government will be forced to decide whether to let the banks collapse, buy them up Chile-style, or declare an outright nationalization of the banks à la Mexico—a possibility which even international bankers have begun discussing.

Brazil's biggest creditor banks gathered in London's Dorchester Hotel April 18 to see if they could agree on how—or even whether—to prop up the faltering structure. Less than two months ago, the banks managed to thrash out an agreement which was supposed to end Brazil's debt servicing problems for the rest of the year. Even that has now unraveled.

"I thought they could muddle through the summer, but now the whole rescheduling package is out of order," a senior London investment banker confided to *EIR*. Official figures show that banks have reduced their short-term lending exposure in Brazil by at least $1.4 billion during the three-week period at the end of the first quarter.

At the London meeting, the bankers listened while third-level functionaries of the central bank echoed Delfim's tired lies about Brazil achieving a $6 billion export surplus this year and that "Brazil will need to borrow no additional money." (Bankers Trust calculates Brazil needs $4-$7 billion more to get through the year.) Delfim's emissaries insisted that all Brazil needed was for the European and middle-sized U.S. banks which had pulled out from their interbank money-market lending to Brazilian banks to put $1.5 billion back into Brazil. That will prove easier said than done at a time when bankers are rushing to avoid getting caught in the moratorium which Brazilian economists and even moderate political leaders now believe to be inevitable.

Brazil's central bank head Carlos Langoni denied April 13 that Brazil was $1 billion behind in paying interest and trade bills. Brazil was only $999 million in arrears at the end of March, his chief aide, J. C. Madeira Serrano, told foreign bank representatives April 19. Sources at Petrobràs, the state oil company, told the press April 14 that oil accounts were running $200 million arrears, thanks to 10- to 15-day central bank delays in providing dollars.

During the January and February period when the bankers were trying to keep Brazil playing their game, nine big U.S. banks, which would lose their entire capital were Brazil to go bankrupt, acted as a "safety net" by paying the debts Brazil could not pay. Morgan Guaranty Trust tried to restore the safety net March 10, but Chase, Citibank, and others panicked at taking further risks in Brazil. All the gentlemen's agreements on banks keeping lending to Brazil were off, and "everybody's getting out as fast as possible," in the words of a Chicago banker.

Thieves fall out

It would seem logical for the world's bankers to agree to save themselves from the international collapse which would ensue if Brazil's mammoth debt joined those of dozens of smaller countries in default. But they are at war with each other over who should take the losses for world debts which are bigger than a depressed world can pay.

Kissinger Associates, Inc. has a plan for a global credit dictatorship run through the IMF to give each and all his fair share of the pain. Slick Wall Street lawyer William D. Rogers was made a founding partner in Kissinger's cabal last year with orders to get debts paid at any cost. "We need a mechanism to determine how to allocate austerity—what countries should contract, how by and by how much, what countries should run surpluses. How, in short, should the process of worldwide adjustment be shared?" opined the sado-masochistic Rogers in the *New York Times* April 13. Rogers says that all lending to the Third World should be run directly or indirectly through the International Monetary Fund.

But the Swiss and their West German cohorts say "no" to all plans to have them share the pain. "The Bundesbank [West Germany's central bank] report threw a pail of cold water on the British and American plans for having the IMF take over the debts," a London banker told *EIR* the next day. The Bundesbank annual report declared the IMF must not allow itself "to be seduced either by creditor countries or by commercial banks into taking over part of the outstanding debts."

Brazil plans escape

The simple-minded greed of all banker factions has pushed the world crisis past the point where even they can manage it. This fact has not passed unperceived by Brazilian strategists, who have prepared options for saving their country from being ripped apart in a world economic breakdown.

Momentum in business circles for declaration of a moratorium on the foreign debt surged ahead in mid-April as the banks cut off financing for Brazil's vital imports and for its exports to markets in the developing countries. Governors such as Tancredo Neves of Minas Gerais state and Jair Soares of Rio Grande do Sul—erstwhile defenders of Delfim's IMF policies—now call for Brazil to negotiate a moratorium with foreign creditors before events bring more radical measures.

Finance Minister Ernâne Galveas vehemently denied ru-

Brazil's cash flow problem

(billions of U.S. dollars)

Payments due between March 15 and Dec. 31, 1983	
Interest (net)	7.125
Other services (net)	3.088
Export financing (additional)	.870
Repayment of arrears	.215
Repayment of bridge loans	2.300
Total requirements	13.598

Dollar inflow expected between March 15 and Dec. 31, 1983	Hypothesis 1	Hypothesis 2
Trade surplus	4.750	1.900
IMF disbursements	1.589	1.589
Jumbo loan signed Feb. 24	1.900	1.900
Direct foreign investment	1.200	1.200
Total inflow	9.439	6.589
Total cash flow deficit	−4.159	−6.909

Note: The difference between the two hypotheses is how far Brazil will fall short of its $6 billion trade surplus target.

Source: Bankers Trust studies, as reported in *Veja*, March 23, 1983. A Bankers Trust spokesman told *EIR* in reference to the above numbers, "The numbers are not right. They mixed up several reports which were just planning documents. Anyway, our bank is not ready to give numbers out, because we have a sensitive relationship with the central bank." *EIR* believes they are a useful starting point, on the assumption that there is no major withdrawal of banks from short-term financing.

mors in an April 12 Rio daily that he would declare a moratorium when he visited the United States April 22 through 25. People are taking bets on the moratorium date.

Barter: Brazil's new 'safety net'

Under Delfim, Brazil has bent over backwards to please the bankers, but it has not lost all sense of its national interst. Brazil is larger than the continental United States and its leaders plan to make Brazil an advanced industrial nation. When they perceive the banker-run "free market system" as no longer providing for the national security, they will break with it—and that break could be surprisingly soon.

Brazil has prepared by setting up a series of barter arrangements which will guarantee most of its world trade when it stops paying the debt and loses access to hard currency. When President Figueiredo visits Mexico April 26 to 28, he is expected to agree on details of a $2 billion annual trade arrangement under which neither country will need to have any cash. Mexico will send Brazil almost $1 billion worth of oil and receive from Brazil the same amount in Brazilian machinery, oil field equipment, electronics, auto parts, special steels, paper, lubricating oil, soybeans, corn, and sugar.

Brazil's decisions about when and how to break with a failing economic system are political decisions, and Figueiredo is bringing with him to Mexico the leading officials of the government including most of the cabinet, his top civilian and military advisers, and the heads of the big state-sector companies who will be working out additional bilateral and triangular trade deals with the Mexicans.

These agreements and similar ones with other oil and wheat-producing neighbors in Ibero-America could provide Brazil with a "safety net" both better constructed than that formerly provided by the banks and one over which it has sovereignty. It gives Brazil and the rest of Ibero-America the protection from banker blackmail needed to secure the kind of debt postponement that will permit them to become customers again for the modern technologies and equipment which the United States should want to sell them.

Brazilian delivers a message to Wall Street

Wall Street financiers are still trying to figure out what Herbert Levy, a leading Brazilian banker and publisher, meant when he delivered a pointed anecdote at the April 11 Brazil-American Chamber of Commerce luncheon in New York. The story, Levy said, was told to Queen Elizabeth the last time she was in Brazil, and it was reportedly "the first time she ever lost her public composure."

Brazilians may not be the most literate people in the world, Levy began, but they have a certain "wiseness" that has enabled them to get along. He offered the case of a humble family in the interior of Brazil. The only item of nominal value possessed by this poor family was an heirloom porcelain dish, dating back several centuries and engraved with the coat of arms of an ancient noble house. A certain antique dealer got wind of this dish and decided to try to acquire it. Upon arriving at the modest home of this humble family, the antique dealer posed as a mere tourist, and, of course, he was invited inside. On the table was the dish.

The antique dealer struck up idle conversation with the master of the house, until a small cat walked up to the table and meowed, at which point the peasant poured some milk into the dish and placed it on the floor. The antique dealer, watching the cat lap up the milk, seized the opportunity. "What a lovely cat. Extraordinary, in fact. Tell me: would you be willing to sell me that cat? How much do you want?"

"Oh, I don't know," the master of the house said. "I guess about 10,000 cruzeiros."

The antique dealer quickly handed the peasant the money, and casually added, "By the way, I hope you don't mind, but I'd like to take the dish so I can feed the cat."

The peasant smiled and said, "I'm sorry, sir, but that would not be possible. You see, that is the dish we use to sell cats."

Levy told the story in the middle of an otherwise prepared speech that was extremely critical of the IMF, whose policies he described as "ill inspired" and "dangerous." Of Brazil's $84 billion foreign debt, he said, $26 billion is the result of oil price increases after 1975 and another $24 is due entirely to the increase in U.S. interest rates. That means Brazil is responsible for only some $33 billion of its debt, and even this must be reorganized, Levy stated.

Incredibly, the American bankers present failed to understand Levy's message. Tony Gebauer of Morgan Guaranty took the podium to disagree with the luncheon's guest of honor, saying that "much has been done" to solve the debt crisis, that he agrees with Levy's call for increasing IMF quotas (Levy said no such thing), and that everything must be done through "existing institutions," particularly an "expanded IMF."

Levy then rose a second time to make his point clearer for the thicker heads among the audience. We have had enough experience with "IMF orthodoxy," he said; it was what Brazil was told to impose following the 1964 coup. Levy added, "We broke with this policy in 1967, and that is when the Brazil Miracle began. That is when we invested in production."