Brazilian government faces opposition to its IMF deals

by Mark Sonnenblick

Former Brazilian Finance Minister Dilson Funaro is accusing his successor of implementing International Monetary Fund austerity conditionalities, while claiming he has not made any agreements with the IMF. According to the *Jornal do Brasil,* Funaro will "drop a new bomb in Brasilia" with that allegation Aug. 11. The Rio daily says Funaro will contend that the debt negotiations he launched, which were the "locomotive" for the debtor countries, have been "derailed," throwing all the debtors off track. He will argue that Finance Minister Luiz Carlos Bresser Pereira's debt stance is "incoherent" with the program of the ruling Brazilian Democratic Movement Party (PMDB).

Funaro was ousted May 30 by President Jose Sarney's "Palace Guard," precisely because he was intransigent on the principle that "the debtor nations must recover their dignity." Funaro sought to persuade creditor nations that only a new world monetary system oriented toward financing rapid development of the Third World would solve the debt crisis. Funaro's stance irritated creditors like Citibank who were willing to take large losses to maintain their policy of confrontation with debtors. It also disturbed the Reagan administration, which refuses any such global financial reform. Funaro charged July 8 that State Department Brazil Desk officer, Elkin Taylor, "was in Brazil last March telling several contacts that the United States would not negotiate Brazil's foreign debt if I continued in the ministry." "Funaro's fall was decided at the IMF," Brazil's top anti-communist labor leader, Joaquim dos Santos Andrade, declared after meeting with its new executive director, Michel Camdesus.

Bresser, on the contrary, is a Brazilian pragmatist. Like former Planning Minister Delfim Netto, Bresser is fixated on bargaining some short-term arrangement within the context of the debt crisis. The "Macroeconomic Plan" Bresser is now implementing is hard to distinguish from the seven successive letters of intent which Delfim Netto wrote to keep Brazil in the good graces of the IMF.

Brazil's political choice

During his July 22-26 meetings in New York and Washington, Bresser assured bankers he was ready to play by their rules, but they sent him back to obtain the political backing needed to make such a deal stick. In a haughty editorial, the *Washington Post* opined Aug. 2, that Bresser's week of talks ended "on an inconclusive and unreassuring note." "When Brazil says that it wants to negotiate with the banks first and the IMF later (if at all), it is saying that it wants new loans but is not prepared to proceed with the other half of the deal—the economic reforms. . . . The real issue here is not a matter of financial technicalities. It is a political choice and the choice is Brazil's."

Brazilian politics today revolves around that choice. Funaro and his patriotic allies inside and outside the government are fighting tooth and nail to prevent Brazil from succumbing to another, and more savage, round of IMF-directed looting. The banks have given Sarney until September to crush those Brazilian forces resisting conversion of their paper debts into control over Brazil's fabulously rich domestic resources.

Is Bresser a veritable tiger?

Finance Minister Bresser held a cordial five-hour meeting July 22 with representatives of the 14 banks on the bank advisory committee, the IMF, and the World Bank. The next day, the advisory committee sent a telex to Brazil's 600 creditor banks, formalizing two ultimatums. It declared that Brazil must "develop a program which would use all possible sources of funds," a euphemism for a stand-by agreement with the IMF. It also ordered: "Brazil has to make a payment on account, a good will payment which would facilitate its return to the economic world." The Brazilian press reported that the banks concretely demanded a "symbolic" payment of about $340 million, 20% of interest payments which have been withheld since Sarney declared a debt moratorium, Feb. 20. Bankers and the Treasury are reportedly willing to ignore the Aug. 20 date on which banks have to set aside loan loss reserves on most of their $25 billion non-performing Brazilian debt. A Treasury official specified Sarney has until Sept. 30 to promise that Brazil will break the moratorium and until mid-October to do so, or face reprisals.

Bresser told the bankers that was fine with him, but "I don't have the support of my party, or of my President" for a return to the IMF. The weekly *Istoe* noted July 29, "The [bank advisory] committee is fully convinced that the impasse is political and comes from a clear veto by the PMDB to an understanding with the Fund. Thus, they say, the committee is really waiting for a change in the political support structure for President Sarney as the necessary basis for a change in the Brazilian attitude. . . ." The creditor banks main question seems to be: Would Bresser Pereira survive a change in the Sarney government's political basis?

Bresser, caught between a rock and a hard place, is struggling for PMDB backing, which is vital because its members make up 80% of the Congress and Constituent Assembly. Bresser is taking the path of Mexican Finance Minister Gustavo Petricciolі who last year claimed he had "fought like a tiger" and won provisions "guaranteeing" Mexico 3% annual growth in a deal with the IMF. (Mexico has paid its debts by further reducing output and real wages, while increasing non-oil exports.)

Bresser performed his tiger act Aug. 3. He said, "I feel sorry for the international bankers who think Brazil should first obtain an accord with the Fund to later solve the debt renegotiation . . . because they will get nothing if they stick with that idea. The Fund is for later and I will have the necessary support when there is going to be a deal."

Bresser's strategy is to win the confidence of the PMDB by squeezing from the bankers what look like generous terms, without harsh conditionalities, on a small part of Brazil's debt, that maturing in 1987 and 1988. He has repeatedly stated that Brazil needs the banks to loan $4.3 billion this year and $3 billion next year to cover part of the interest payments due them, and that this money must be lent at interest rates of zero "spread" over the prime or LIBOR rates at which the big banks themselves borrow funds.

That "victory" would win Bresser political backing for accepting "economic reforms" enforced by the IMF or the World Bank as part of what he calls a "heroic" solution for the bulk of Brazil's outstanding debts.

During a July 28 interview on Radio Globo, President Jose Sarney showed he is softening his rejection of the IMF. He said, "We are members of the Fund. We have no bias against the Fund." He stressed, "We are not going to submit to any surveillance on the terms made in the past," but he claimed that since the IMF threw Brazil into its worst depression in history starting 1982, "the Fund has changed."

PMDB: IMF has not changed

"Anyone who thinks the Fund is going to change, just because Brazil wants it to, is fooling themselves," former Funaro aide Paulo Nogueira Batista retorted. Nogueira insisted Brazil had to hold to Funaro's hard line if it hoped to obtain a reasonable deal from private creditors without IMF conditionalities. "To suspend the moratorium now and pay part of the interest, just to get a goodwill sign from the IMF, as Bresser says, is a pure waste of political time and space. It would throw out the window everything we have gained so far."

On his return from his American sojourn, Bresser met resistance from the PMDB party leaders who had reportedly selected him as Funaro's replacement two months ago. PMDB president Ulysses Guimarães called the IMF a "scarecrow" and noted that it is "almost a dirty word for us." Guimarães pulled together a meeting of party leaders at which Bresser was given a mandate to go ahead and negotiate with the banks along the "tough" lines he had presented, but no party backing for any IMF deals.

The real world has made the fight in the majority party quite intense. A sobering reminder of what IMF austerity involves was provided in early July when a 50% increase in Rio bus fares led to rioting throughout the downtown area; 100 buses were reportedly burned. Almost daily food riots and supermarket looting are a harbinger of social disintegration. Under Bresser's program, the government projects that by the end of the year, real wages will fall by 7.1-16.2% from those of April. At the same time, Bresser rewarded speculators with real interest rates on the government's local debt that would give a 100% return on an annual basis.

President Sarney's political strategists are putting the heat on PMDB leaders by threatening to split the party. They are negotiating for opposition groups favoring an IMF deal, such as Delfim Netto's Democratic Social Party, to replace the nationalist half of the PMDB as the government's base. Sarney's aides went so far as to seek out Ronaldo Caiado, the leader of the feudal landlord lobby and opponent of every social reform Sarney has advocated, to ask his price for giving Sarney the 35 votes he controls in the Constituent Assembly.

Many bankers are betting on the PMDB yielding under the pressure. A senior British member of the the bank advisory committee, however, told *EIR*, "The Brazil situation won't be resolved by October," the point at which U.S. banks would have no choice but to write off their Brazil exposure. If they really believed in the free market, they would have to depreciate Brazilian debts by the 46.5% discount they are selling for on the secondary market.