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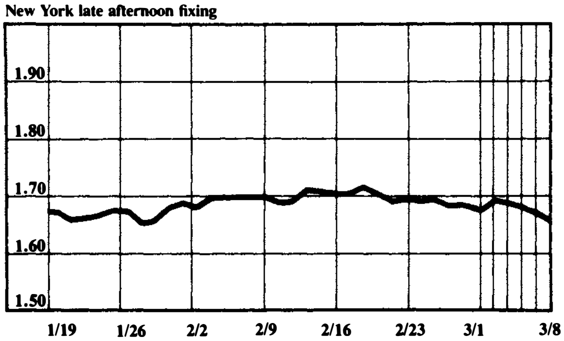
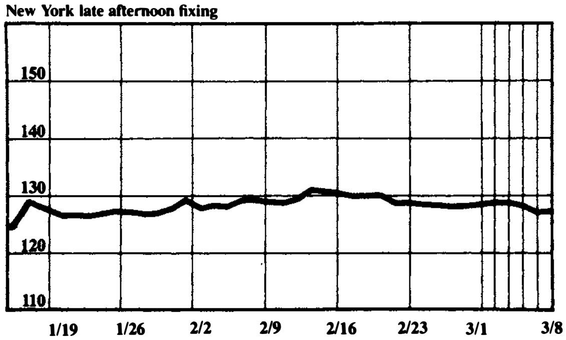
Currency Rates

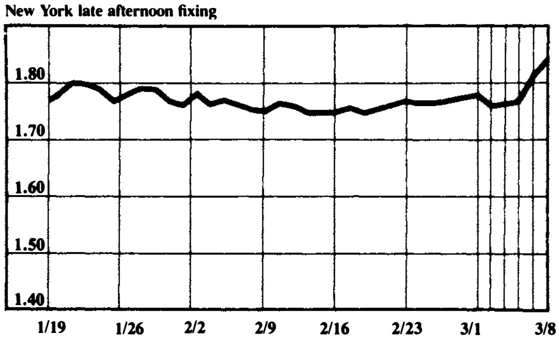
The dollar in deutschemarks
New York late afternoon fixing



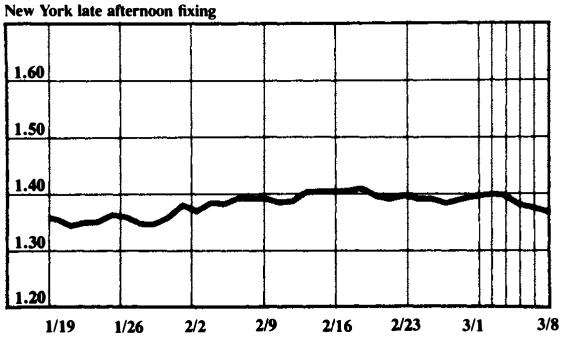
The dollar in yen
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



Brazil stumbles into national tragedy

by Mark Sonnenblick

Brazilian President José Sarney is subjecting Brazil to the tragedy of Shakespeare's *Macbeth,* the daily *O Estado de São Paulo* wrote in its Feb. 28 editorial. The staid mouthpiece of São Paulo's traditional coffee exporter oligarchy did not venture so far as to imply that the Sarney family's lust for presidential power had been behind the suspicious death of president-elect Tancredo Neves on the eve of his inauguration two years ago, leaving the throne to his obscure Vice President Sarney. But *O Estado* called for general elections in 1988:
to be President, but ended up being, decides to think of Brazil and not his personal image or the interests of those who surround the Palace and want to stay there as long as possible?"

A more potent commentary on the destruction wrought by Sarney was offered by Dilson Funaro, the former finance minister who raised living standards and led Brazil into a debt moratorium Sarney has since repudiated. Funaro, who served as Sarney's finance minister from August 1985 to April 1987, judges "a government is finished when it is no longer able to solve a country's fundamental problems. And the Brazilian government is, right now, so caught up in a process—whether presidential term or other things—that it separated itself from the fundamental problems and lost the ability to make decisions."

Funaro expects the Sarney government "will be practically over the moment the [new] Constitution is ready. . . . At that point I hope the nation will go back to discussing the main questions. The worst thing that could happen to a country is not to have a design; and Brazil has lost its design."

Funaro has a clear idea of Brazil's national mission. As he travels around the country expressing it, he is greeted by warm applause and wishes he could become President. People remember his March-November 1986 "Cruzado Plan" price freeze as the only time when millions of Brazil's working poor.could go into a supermarket and come out with more than rice and bananas, or go into a drug store and purchase more than a couple of aspirin. The political establishment and the mass media are going to great lengths to disparage the Cruzado Plan, and the honesty of the man a U.S. Brazil-

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ianist mockingly calls "St. Funaro." The mass media has blacked out Funaro's response.

The Cruzado Plan "was not a miracle," Funaro told the low-circulation São Paulo weekly *Retrato do Brasil,* Feb. 23. "A nation's project is not accomplished in 10 months. . . . The Cruzado distributed income. There was a 14-15% [real] wage increase. . . . Unemployment fell from 10.5% to 2.5%. And consumption indices rose, food consumption by 8%, medicine by 35%!.. For the past 25 years, Brazil has only had concentration of income." He argued it was unfair to blame the Cruzado Plan for the inflation which increased after it, because "the policy of building silos, warehouses and industry—everything which pulls down inflationary expectations—is a plan for several years of government, not just 10 months." During his period, manufacturing "expanded violently. As a result, there wasn't a machine left on the market. Delivery dates for machines were 24 months."

The *Washington Post* editorialized, "Both Brazil and the United States got themselves into serious trouble by overspending on consumption, a policy with no more substantial purpose than to please people." A recent Brazilian central bank study, however, proved that Funaro's alleged 1986 "overspending on consumption" brought the government a revenue surplus equal to 2% of the Gross National Product. In contrast, recent recessionary years all brought budget deficits. Public finances are now in a "pre-bankruptcy situation" because of the snowballing of debt service obligations and the exhaustion of the tax base, the study concludes.

The banks move on a rudderless Brazil

Brazil's creditor banks are trying to lock a rudderless Brazil into their own long-term design for the country: paying debts. Under the terms of a debt accord triumphantly announced March 7, Brazil would devote its energies from now through 2008 to repaying commercial banks every penny of the $64.2 billion in medium-term debts with due dates from 1986 to 1993. For the next eight years, Brazil's blood, sweat, and tears would go just to paying interest. The banks' generosity is limited to a token reduction in interest rates (to 0.8125% over LIBOR), and to refinancing $4.87 billion of the interest due and overdue them this year. Brazil will have to pay 29% of its exports just to cover the other $7.53 billion due private banks this year, along with another $3-4 billion to the World Bank, IMF, and foreign government banks. After 1993, Brazil would slowly begin to amortize the debt, on top of the interest.

Wall Street simply dropped a 20-year mortgage payment chart on top of Brazil. This Alice-in-Wonderland exercise will never get Brazil's debt paid. To do that, the banks would have to finance the rapid development of the country's productive capacity, or at least give Brazil the chance to reinvest its own surpluses, rather than shipping them abroad to pay debt.

The strings attached are so ugly that Brazilian Finance Minister Mailson da Nóbrega has not revealed them, and probably never will. Central Bank president Fernando Milliet, who had done much of the negotiating, resigned March 7, rather than having to sign his name to an infamous agreement. The banks are reportedly demanding the present Brazilian government renounce for all future governments the right to declare a debt moratorium. They also reportedly have da Nóbrega's agreement that they would be allowed to use $20 billion worth of principal to buy up assets in Brazil. With a lot less than that, bankers could buy up, at current Rio and São Paulo stock prices, every share of Brazilian private enterprise and the public third of state enterprises. There is no doubt that the creditors' project is to liquidate the Brazilian nation-state and snap up ownership of several hundred billion dollars in resources and industries. On March 2, Bank of America's Brazil region president Joel Korn ordered Brazil to have "an open door policy" toward foreign "investment . . . that is, with less government interference in the private sector."

The government "hurries to betray the country and pay the debt by mortgaging the generations of the future," warned the think tank of the majority Brazilian Democratic Movement Party (PMDB). PMDB deputy Irajá Rodrigues described da Nóbrega's deal as "an insult to the Congress and the Constituent Assembly, especially when it is known that the accord with the creditors was made to the detriment of national sovereignty." The legislature could try to outlaw the agreement.

Battle over austerity

But, the first challenge to the finance minister came from the military. Mailson da Nóbrega, and his sidekick, Planning Minister João de Abreu, tried to push through the cabinet a three-month wage freeze on executive branch employees with inflation raging at 17% a month. On the eve of the meeting, armed forces chief of staff Lt. Brig. Paulo Roberto Camarinha, issued an order that military personnel be granted a 16% increase in March. The chief of the National Intelligence Service blocked the order from being printed in the official daily. During a series of meetings March 2, the monetarists met fierce resistance from the military chiefs and from the heads of state companies, who expressed fears of disaffection in the ranks and the loss of skilled personnel.

The public servants confederation issued a manifesto swearing that "the foreign and internal debt will not be paid with your sweat and your hunger." The Air Force Minister insisted that civilian and military employees "are not responsible for the inflationary process," and studies appeared to demonstrate that.

When the smoke cleared, the government decreed the routine 16% increase. Sarney had balked at freezing wages. But da Nóbrega had survived to continue battling for the wage-gouging demanded by the banks and the International Monetary Fund.