Click here for Full Issue of EIR Volume 15, Number 40, October 7, 1988

Report from Rio by Silvia Palacios

The Brazilian Titanic

Brazil's Congress is moving to nullify the latest debt agreement with the international banks.

The Brazilian Senate has just been handed a legislative bill which, if they approve it, would rip up the foreign debt agreement just signed by Finance Minister Maílson da Nóbrega with the creditor banks in New York on Sept. 22. The legislative proposal calls for the suspension of all international agreements which have not been approved by Congress as of Oct. 6—the date the newly drafted Constitution will be proclaimed as law.

"Those who consider themselves experts and who accelerated the [debt] agreements to conclude them before the proclamation of the Constitution, are completely mistaken," said Sen. Severo Gomes, author of the bill. Gomes goes on to cite an "American economic analyst" (apparently a reference to the well-known formulation of Lyndon LaRouche) who "compares the [debt] agreement to a kind of arrangement of the seats aboard the Titanic. The image fits like a glove. . . . When the bankers discover that the agreement is worthless, it is possible that their appreciation of Mr. Maílson da Nóbrega's services may change; and his candidacy for the presidency of the World Bank will slowly sink, to the final strains of the orchestra on board the Titanic."

The government's economic team has been running a race against time to execute all the agreements, both tacit and explicit, that have been signed with the banks *before* the Oct. 6 deadline, when those agreements come into flat contradiction with various aspects of the new Constitution which seeks to put a halt to the continued looting of the Brazilian economy.

For example, regarding the foreign debt, the Constitution establishes that *all* international agreements must be discussed and approved by the Congress. As Planning Minister João Bautista de Abreu confessed, the economic team will have to operate as the "guerrillas" of the IMF if they are to achieve the goals agreed upon with the banks.

Thus, on Sept. 21, the National Monetary Council sneakily took advantage of the fact that the Constitution's articles on the financial system will require complementary laws, to ram through a decree denationalizing the national banking system. The Council revived a 1964 law, written by free-trader and Gorbachov admirer Roberto Campos, to permit up to 30% participation of foreign banks in their associations with domestic commercial banks. With this one move, they struck down an unwritten agreement, imposed by nationalist sectors in 1968, which had effectively suspended the Campos law and kept foreign hands off the Brazilian banking system. The Sept. 21 liberalizing measure was effectively imposed by the World Bank (part of the "tacit" accords), which has argued for a broader banking reform.

A congressional vote to nullify the debt agreements would be the only natural response to the great fraud the bankers have committed. With the backdrop of an immense Brazilian flag behind him, Citibanker William Rhodes told the international press that the medium-term debt package signed with Brazil is "the greatest registered in history."

According to his contented report, the package involves $82 billion, between so-called "new money" and refinancing of old. What Rhodes did not say was that of the $5.2 billion in new money, $4 billion will go to pay interest arrears from 1987, due to the declared debt moratorium, and the $1.2 billion remaining will go to pay 1988 and 1989 interest charges, which are, respectively $10.2 billion and $10.5 billion. In other words, 96% of the interest charges due will be paid by Brazil out of its own resources.

Brazil also promises to permit the issuance of $15 billion worth of exit bonds, which will enable the creditor banks to cash in an equal amount of their debt holdings.

That Brazil may fail to comply with certain clauses in the deal with the IMF—as Maílson da Nóbrega suggested might happen when he asked for an IMF "waiver" at the signing—does not worry the bankers, as long as they have their guarantee of uninterrupted looting of the country's vast wealth.

In fact, Rhodes has already taken full inventory of Brazil's "convertible" wealth. "Potentially," declared Rhodes, Brazil could reduce its debt with the commercial banks by more than $18 billion between 1988 and 1993, using debt-equity and other conversion schemes.

Rhodes's employee at Citibank Claude Pomper, a renowned magician with confetti-money, was more honest. Until now, he explained, debt for equity has worked well in Brazil because the Sarney government has shown "sufficient flexibility" to tolerate *informal* (read, unregulated) debt conversion schemes. If the rate of debt conversion by the Brazil government continues, said Pomper, "the medium-term Brazilian debt could be reduced up to 36% by the end of 1990."

© 1988 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.