
In Memoriam

Dilson Funaro, a model of debtor dignity

by Mark Sonnenblick



Former Brazilian Finance Minister Dilson Funaro died in São Paulo April 11 of a recurrence of lymphatic cancer. He was 55. Funaro, the architect of Brazil's 1987 debt moratorium, was the most courageous fighter for the principle he proclaimed: "The debtor nations must recover their dignity."

On Feb. 20, 1987, he delivered the definitive challenge to the system of international usury in a telex to 600 commercial banks holding \$62.8 billion in Brazilian debts. Funaro recalled in an article he wrote for *EIR* on Dec. 11, 1987, "The telex suspending interest payments owed by Brazil to the banks clearly states that the moratorium would be suspended when—and only when—the two parties find a definitive solution to the crisis created basically by the creditors."

In announcing the moratorium, President José Sarney said he would renegotiate the debt only from the moral position taken a month before by Pope John Paul II: "Foreign debt must not harm the basic needs of the people." Sarney stressed, "Brazil now has to prepare itself for the 21st century. . . . We must end the cycle of cheap labor."

From the start, Funaro was subjected to immense pressures, from inside and outside the government. USIA director Charles Z. Wick suddenly held a series of secret meetings with press magnates and circles tied to Project Democracy (the codename for the U.S. secret government that ran the illegal Iran-Contra weapons operations) in several Brazilian cities. Intelligence services circulated to the press dossiers alleging that Funaro's principled stance was just an "obsession" flowing from his "authoritarian" and "messianic" personality traits. With few exceptions, the press vilified him. Leaders of his Brazilian Democratic Movement Party (PMDB) promised mass rallies in support of the moratorium, but did not even try to organize them.

Project Democracy sent São Paulo businessmen into revolt. The day Funaro met with bankers in New York to explain to them why it was in their best interests to organize a just world monetary system, they flashed him a the *Wall Street Journal* report that four PMDB governors, led by ambitious São Paulo governor Orestes Quércia, demanded his ouster. Claiming Funaro represented nothing, the bankers mocked him and refused to listen to his proposals for replac-

ing the Bretton Woods system.

President José Sarney, who, on Feb. 20, read a powerful speech prepared by Funaro, immediately capitulated to the anti-Funaro conspiracies run by agents in his inner cabinet, including Sen. Marcos Maciel. The masonic lodge housed at the foreign ministry's Itamaraty Palace did its best to undermine his debt reform efforts. It had Sarney appoint Anglo-philic banker Marcio Moreira Marques as ambassador to the United States with a public mandate to propitiate the bankers outraged at Funaro. Sarney set up a special cabinet-level council to take control over debt policy from him.

'Why should I fear mere men?'

One evening, during an interview program on TV Bandeirantes, a reporter suggested to Funaro that he should be afraid of all criticism he was receiving. He responded with his customary serenity, "I have faced death and I no longer fear it. Why should I fear something that mere men say?"

In his interview, Funaro insisted that Brazil's daily economic policy be oriented to what was best for the Brazil of 20 years into the future. His approach was the opposite of Delfim Netto's dictum: "In Brazil, nothing can be planned more than ten days in advance." Specifically, engineer Funaro charged that the three years of IMF rule preceding his ministry had meant that Brazil had "lost its competitive edge" by falling three years further behind the advanced countries in all areas of high technology.

As soon as Funaro entered in August 1985, he engineered the biggest spurt of tractor buying in a decade, by providing low-interest loans and parity prices to farmers. The record grain harvests in the ensuing years are largely a result of this retooling of agriculture. Then, in March 1986, he introduced the Cruzado Plan. He turned the wage-price freeze scheme known in Argentina as the Austral Plan inside-out, so as to promote increased consumption levels, rather than to restrict them. Real incomes of the Brazilian poor rose 15%. By being able to operate at full capacity, industries made record profits. Most of the smaller national companies invested in expanded capacities. The oligopolies did their best to sabotage the plan by cutting production.

Funaro reportedly sought to ease out of the freeze, but the PMDB politicians made him hold off until after its popularity won them 85% of the vote in the Nov. 15, 1986 elections. When he had to go on TV less than a week later to announce huge price increases, none of the politicians accompanied him. The enemies of such dirigist economics have depicted the Cruzado Plan as a hoax, which ruined Brazil.

But statistics show that morally informed dirigism works. The undisputed improvement in living standards turned around the sharp increase in infant mortality which occurred during the IMF years. More money spent on health care, vaccinations, and sewage facilities also contributed to this. Not surprisingly, infant mortality has swung up again since Funaro's April 30, 1987 ouster, according to Prof. Pedro Israel Cabral of the Federal University of Pernambuco. The rate of migration of desperate poor into the Amazon jungle also slackened, as existing farming and industrial centers hired all the labor they could get. Despite the increased social welfare spending and dirigist subsidies, Brazil had a far lower federal budget deficit in 1986 than in years of IMF austerity before and after it.

Funaro resigned on April 30, 1987, rather than grovel before the international bankers. In his Dec. 11, 1987 *EIR* article, Funaro warned President Sarney, "To abandon the moratorium at this moment is to abandon the discussion of non-conventional paths to overcome the foreign debt problem. We will surrender our country's strongest bargaining card, but even more important, we will abdicate the key discussion of the crisis which the international financial system has been in since 1980-81. Blunders in the economies of rich countries are paid for by developing countries like Brazil, always leaving the bitter taste of recession, unemployment, economic stagnation, and resulting political instability."

When Sarney finally proclaimed the formal end of the moratorium on Sept. 21, 1988, Funaro responded, "Brazil has not achieved its objectives." He warned that banker promises to loan "new money" were a mere shell game: "It's just money to pay interest, while what we really need is new investment." In November, he charged that his successors had set punctual payments to the foreign bankers as "the only national priority." Since then, they have not even been able to do that, and have again bounced along from one unprincipled default to another.

Funaro never surrendered to the pragmatism and expediency which, in Brazil—as in the United States—are the basis for policy decisions. On his hospital deathbed in late March, he was asked about his health. He answered, "What is important is Brazil's sovereignty, the solution of the country's structural problems, and the question of the foreign debt, which must be treated with dignity."

If Brazil survives as a nation-state, it may only be because the memory of Funaro's courage and patriotism inspires others to pick up his ideas and force the world to change.

Pakistan: Economy is Bhutto's Achilles heel

by Ramtanu Maitra

The one act Prime Minister Benazir Bhutto will come to regret shortly is her decision not to review the International Monetary Fund accord reached by the previous regime. As is becoming clear now, the accord will prevent Prime Minister Bhutto from carrying out reforms she promised to the electorate prior to last year's election. Already, following delivery of \$337 million—the first tranche of the \$837 million loan—the IMF has made known its disagreement with the Bhutto administration's projected capital outlay for the Seventh Plan launched in July 1988.

When the new government took charge of Pakistan's economy last December, it promised new policies with regard to labor, industry, trade, and rural poverty, with the purpose of laying the foundation of a sound political economy, something the nation hasn't had for the last four decades. But hopes have already been dashed, and increasingly, the Pakistan People's Party (PPP) government's decision not to review the accord with the International Monetary Fund will stand out as the biggest political mistake of its first hundreds days in office.

The IMF has quickly moved in to "restructure" Pakistan's economy. Great proponents of the "free-market" philosophy, the IMF technocrats have advised the Pakistan government to increase indirect taxation to generate resources. The IMF is also taking a hard look at the Seventh Five-Year Plan, and has made it known that they do not like what they see. According to the Karachi daily, *The Dawn*, the government is trying to compromise the plan in order to satisfy the IMF.

Road to ruin

Pakistan went headlong into the IMF lap following years of stagnation in its physical economy. With a crippled infrastructure, previous governments were not able to generate resources to meet even daily expenses. Instead of investing in building up the agricultural, power, railways, and manpower development sectors, the previous regime, in particular, went on borrowing money to pay wages and meet other daily expenses.

At the same time, then-Finance Minister Dr. Mahbubul Haq—known in Pakistan as "PITS" (for "Pie in the Sky")—adopted the IMF formula of "building up the economy through export-led growth." The "pie in the sky" remained as elusive as ever, but Pakistan got deeper and deeper into debt. Its sole