Report from Rio by Silvia Palacios

Congress presses for debt moratorium

One-fourth of Brazil's $100 billion foreign debt is illegitimate and should never be paid back, lawmakers say.

Even as U.S. Undersecretary of the Treasury David Mulford and Sen. Richard Lugar (R-Ind.) were pressuring Brazil not to declare a moratorium on its foreign debt in September, anti-usury nationalists in Brazil's National Congress won a battle to put the question of declaring a debt moratorium at the center of the national agenda.

On Aug. 17, Brazil's Joint Congressional Committee on the Foreign Debt approved a bill demanding: judicial action against foreign debt negotiators who have abused their office; immediate suspension of payment on *all* foreign debt, until the Supreme Court of Justice can judge the constitutionality of existing debt contracts; and payment to be made, after such judgment is rendered, only if and when the Congress approves new contracts with the creditors, at fixed interest rates, and without clauses that violate national sovereignty.

In constitutional terms, the bill is impeccable, based on Article 49 of the new Constitution that empowers the Congress to "make final rulings on treaties, accords or international actions that carry onerous liabilities or charges against the national patrimony." And in political terms, the bill merely demands that the intolerable usury that the creditor banks have imposed on the country, and which has thrown the country into recession, be terminated.

Acting from the same spirit, the Congress recently gave its backing to President José Sarney for maintaining a fixed minimal level of foreign reserves.

One week before the Joint Committee approved the bill, the Senate released a report detailing the extent to which the foreign debt is illegitimate. According to the report, at least one-fourth of the nation's $100 billion debt is the result of excessively high international interest rates, according to a conservative calculation made by the Central Bank. The report documents the massive transfer of resources from Brazil abroad.

From 1984 to 1988, Brazil paid $69.7 billion ($18.8 billion in amortization, and another $50.9 billion in interest), while receiving only $28.5 billions in loans. Adding together interest, profits, dividends, and other services, excluding amortization, the real transfer of resources was $63.8 billion between 1983 and 1988, about 3.5% of the Gross Domestic Product, equivalent to about 20% of total national savings during that period.

The accord in the Joint Committee was not arrived at without a fight. A tremendous factional battle took place between Sen. Severo Gomes, secretary of the Committee, and Deputies Oswaldo Lima Filho and Irajá Rodrigues, both from the PMDB, the latter the formal author of the bill. Senator Gomes finally had to resign from the committee after failing to soften the treatment of the creditor banks, at which his longstanding pretense of being an anti-usury nationalist was exposed as such. During the debate, Senator Gomes had tried to use the dishonest statements of some specialists in international law to back up his arguments against a debt moratorium.

In this hot situation, first Mulford arrived in Brazil, followed almost simultaneously by Lugar. Mulford followed in the footsteps of Citibank John Reed, who recently visited Argentina, Brazil, and Chile, carrying a virtually identical message. In the words of the daily *O Globo* Aug. 18, "They came to prevent a September declaration of moratorium when the Brazilian government is supposed to pay the banks $2.3 billion."

After meeting with Finance Minister Maílson da Nóbrega, Mulford took a hard line against Brazil, saying that only with an accord with the International Monetary Fund will Brazil be entitled to a possible reduction in its debt.

Mulford and Brady clearly indicated the price Brazil would have to pay for any debt accord. He said the Brady Plan will only be applied to countries that impose drastic austerity measures, and he was evasive on the possibility of the U.S. intervening with the IMF to urge a provisional accord with Brazil to tide the nation over through its presidential elections in November.

Lugar, for his part, said flatly that significant debt reduction for Brazil will have to wait for a new government in 1990. The agenda for talks with that new government must include, he said, "a liberalization of the economy," thereby making clear what kind of a president U.S. President George Bush desires for Brazil.

Lugar also directly attacked the centralization of exchange transactions decreed by the government a month ago to protect foreign reserves. He is apparently not pleased that, since then, the Central Bank has retained a portion of the profits which foreign companies have been sending abroad, and which constitute a disguised form of flight capital.