The central bank debate

Who ultimately controls economic policy was at the heart of President Franco's purge of the economic cabinet.

The surprising resignation of Economics Minister Paulo Haddad on Feb. 28 was not due, as the speculation in the Brazilian and international press would have it, to bad timing on the part of a President with an "incompatibility" problem. Haddad's departure from the cabinet was in reality due to a fierce dispute over the question of who would control Brazil's central bank, until now little more than a rediscount window at the disposal of the all-powerful Brazil Banking Federation (Febraban).

According to the daily *Jornal do Brasil* of March 3, President Itamar Franco resolved to fire Haddad because he had concluded that instead of controlling the government's technocracy, it was controlling him. Franco was also convinced that the bulk of the state bureaucracy, especially in the area of finance, maintained incestuous relations with the major business groups. His concern was especially acute with respect to the central bank, which he viewed as a sort of Febraban central office.

"Economic policy has been set by the central bank. I want to invert this process. The central bank is the one that must shape itself to the economic policy," Franco said. Regarding Haddad, the President called him "an accountant, a mere controller of expenses. The central bank is what controls the interest rate. And whoever controls interest rates controls economic policy."

The mere threat of an intervention into the financial policy of the central bank has awakened the furies of the financial oligarchy and its political henchmen, presaging the fall of the President himself. During the first week of March, the possibility of Franco's resignation was the subject of discussion among political groups in the National Congress.

The magazine *Veja,* mouthpiece of the Anglo-Americans in Brazil, dedicated its March 10 issue to attacking President Franco for believing in "the conspiratorial theory of history," especially with regard to the behavior of the major economic groups. *Veja* went so far as to report alleged economic plans, including a new seizure of assets and price freeze, to no other purpose than provoking a financial panic.

Reflecting this same climate of hysteria, the daily *O Estado de São Paulo* reported March 7 that the French government had cancelled all credits to Brazil, in reprisal for Franco's change in economic ministers. The false report had to be officially denied by the French embassy in Brazil.

Also symptomatic was the immediate reaction of the Brazilian Social Democratic Party (PSDB), to whose ranks belongs Foreign Affairs Minister Fernando Henrique Cardoso. The President's personal decision to replace Haddad with Eliseu Resende was considered by the PSDB to be an act of independence which "broke the consensus" that has been sustained in the Congress since the impeachment of ex-President Fernando Collor de Mello at the end of last year.

Eliseu Resende, a personal friend of President Franco, comes out of the political networks of the state of Minas Gerais which were prominently involved in the major infrastructure projects of the period of military rule known as the "Brazilian miracle." This prompted condemnation from the Workers Party (PT), which lamented "the choice of a minister who served the dictatorship."

If what worries the PSDB and the PT is Franco's growing signs of political independence, their reactions are perfectly compatible with that of the financial oligarchy, which fears that Franco will intervene into the corrupt financial system and reform it by attacking the privileges of Brazil's private banks.

Franco appears to understand that there is no possibility of political or economic stability in Brazil as long as the status quo of the national financial system is maintained. That is why Brazil's oligarchy is having nightmares about the return of the ghost of Dilson Funaro, the economics minister who declared a debt moratorium in 1987.

For example, the "insider" weekly *Relatorio Reservado* speculates in its March 8-14 issue that "Itamar and his group want to re-issue Funaro's Cruzado plan," in reference to the 1986 plan which, despite its flaws, succeeded in halting for several months the financial carousel which proved so profitable to the bankers then controlling the central bank.

Franco has reached a moment for fundamental decisions. Either he intervenes into the financial system with a de facto nationalization of the central bank—a move which implies a change in the foreign debt renegotiations and a rechanneling of state resources into development—or he will take the path adopted by President José Sarney, when he fired Dilson Funaro in the midst of a financial reorganization. The only difference is that, this time, the country, having just been through the impeachment of Collor, will not tolerate a repeat of Sarney's cowardice and mediocrity.