LaRouche Friend Breaks All Records in Brazil Election Win

by Silvia Palacios and Lorenzo Carrasco

The Brazil elections held Oct. 6 have proven to be the greatest repudiation anywhere of the insanity of globalization. Out of a possible 115 million voters, 95 million Brazilian citizens went to the polls, and only 20 million voted for the government-backed candidacy of Jose Serra. The vote, in fact, represented an explicit rejection of the past eight years of policies under successive Fernando Henrique Cardoso governments. Although none of the Presidential contenders won enough votes to avoid a second electoral round, the future of Brazil as a nation will clearly be determined by the government which succeeds in turning this sentiment of generalized revolt into action.

The voters' favorite for President was Luis Inácio "Lula" da Silva, of the Workers Party (PT), drawing 47% of the total valid votes cast. He was followed by Jose Serra, with 23% of the vote, and then by the two other opposition candidates, former Rio de Janeiro state governor Antony Garotinho with 16%, and former Ceara state governor Ciro Gomes with 12%.

There were other clear indications of the total lack of credibility of the government's globalist policy. For example, of the 12 states which chose new governors in the first electoral round, seven are opposition figures (two from the PT and five from other parties).

Biggest Victories for PRONA

More revealing still was the landslide victory of Dr. Enéas Carneiro of the national Party for Rebuilding of National Order (PRONA)—prominent cardiologist, mathematician, former Presidential candidate, and a good friend of U.S. Presidential pre-candidate Lyndon LaRouche—as Federal Deputy from São Paulo, the nation's largest electoral district with 25 million voters, and where half the GNP is produced. Enéas was elected by more than 1.5 million votes, the highest vote garnered by a Congressman in the electoral history of the country. Given Brazil's system of proportional vote allocation, his election enabled five more PRONA congressmen to be elected as well, thereby turning Enéas' election into a Congressional bloc, conferring important prerogatives within the Congress.

Dr. Enéas' nearly 1.6 million votes was an all-time record both in absolute numbers and in vote percentage (about 8% statewide in São Paulo). It was a bigger vote than the next four biggest Congressional vote-getters, combined! The same wave of nationwide protest swept Dr. Havanir Nimtz, an important ally of Dr. Enéas and now city councilwoman from São Paulo, into the state legislature, again with the highest vote ever won by a candidate for State Deputy.

The Brazil election victory by a strong nationalist intellectual leader who is a friend and ally of LaRouche, coming only two weeks after the Sept. 25 vote by Italy's Chamber of Deputies in support of LaRouche's proposal to establish a New Bretton Woods reform of the international monetary system, marks a giant step forward for the U.S. Presidential candidate's global recovery strategy.

Without large financial resources at his disposal, Dr. Enéas campaigned around clear and tough arguments for reorganizing the international financial system, along the lines proposed by Lyndon LaRouche. The affinity between Enéas Carneiro and LaRouche was made explicit during the American statesman's visit to Brazil this past June. The occasion was the granting of a title of honorary citizenship to LaRouche by the São Paulo Municipal Council, on the initiative of Dr. Havanir.

'Return to Era of Vargas' and FDR

The global financial ramifications of a possible Brazil break with International Monetary Fund policies, have Wall

With the largest Congressional vote total in history, leading Brazilian intellectual Dr. Enéas Carneiro (left)—shown introducing Lyndon LaRouche (right) to the São Paulo City Council in June—has single-handedly improved prospects for a new monetary system and economic recovery.

Street and London terrified. Top financiers are proposing the IMF pump more than $60 billion into Brazil next year, so they can keep paying on their $500 billion or so of foreign obligations.

The repudiation of globalism was massively expressed at the polls, not only by the poorest layers of the population, but also by the elites most representative of national power. Thus, what emerged was a widespread rejection of that destruction of national dignity perpetrated since the 1990 election of the disgraced Fernando Collor de Mello, and continued by the two successive mandates of Fernando Henrique Cardoso. What Brazil's elites see is that it has lost all its impetus toward greatness as an agricultural and industrial power, and is now at the mercy of the tyrannical free market under globalization. As the popular saying goes, "de Fernando en Fernando, el pais se fue fregando" ("from Fernando to Fernando, the country got more and more messed up").

Indicative were the comments of Congressman Delfim Netto on Oct. 1, to the newspaper *Monitor Mercantil,* regarding the imminent electoral victory of "Lula." The former finance minister stated that "there is no reason to fear the consequences of a new policy that has growth and employment as its priority, instead of servitude to what is imagined to be the wishes of market agents. The new government will have little liberty, but it will be enough to generate more development and less 'marketeering.' "

Clearer still were the comments of ambassador Rubens Ricupero, secretary general of the UN Conference on Trade and Development (UNCTAD), in a Sept. 29 syndicated column in *Folha de São Paulo,* in which he stated that the country needed to return to the "Vargas Era." Nationalist President Getulio Vargas launched Brazil's industrialization process in the late 1930s and '40s, while operating as a crucial wartime ally and friend of American President Franklin Delano Roosevelt. Wrote Ricupero, "Outside adversity is not always invincible. One example was the so-called Vargas era, begun (and in part motivated by) the crisis of 1929 and the Great Depression."

Cardoso explicitly repudiated Vargas' achievements, which Ricupero outlined in his statements to *Folha.* In the late 1930s, he said, "the country had to suspend debt payment and saw its options narrowed, caught between Stalinism and Fascism. Nonetheless, [Vargas] very quickly brought [Brazil] out of recession, promoted industrialization and built the Volta Redonda [steel complex]. There were admirable achievements: BNDES (the National Economic and Social Development Bank), Petrobras [the national oil company], the National Steel Company which today, sadly, we let pass into foreign hands. Of the legacy of the Vargas era, perhaps the most important [aspect] is the example of some Brazilians [who were] able to act, and conquer an inhospitable foreign climate."

From Word to Deed

Whether or not Luis Inácio Lula da Silva can bring this sentiment to reality remains to be seen. While he managed to turn these national concerns into votes for himself, Lula is a very amorphous personality who tends to accommodate to pressures, which has allowed him to head a party which is a mosaic of different factions, all within the left wing. At the same time that he was a founder in 1990 of the São Paulo Forum, together with the Cuban Communist Party, he also agreed in 1993 to become a member of the Inter-American Dialogue, founded as a branch of the Trilateral Commission for the Western Hemisphere, on the personal invitation of President Fernando Henrique Cardoso. More recently, the PT—in alliance with the French Socialist Party and the networks of the Anglo-French Goldsmith family—was a founder of the World Social Forum in Pôrto Alegre, supposedly the world opposition to globalism.

On the other hand, it is also true that the PT shelters genuinely nationalist sectors, whose strength was reinforced at the end of the campaign, by the support of important industrial and political sectors. Lula's victory in the second electoral round, as is likely, will unleash an intense and immediate internal shockwave within the structure of the PT and its allies.

The international financial oligarchy would like to polarize the situation as rapidly as possible. Sociologist Helio Jaguaribe hinted at this, in an Oct. 1 interview with the Argentine daily *Clarín,* noting that Lula's victory has "as its sole precedent in Latin America, that of the Chilean Salvador Allende," who was victimized by the most radical leftist factions formally allied to him. Today, groups of the international oligarchy are moving feverishly, as was demonstrated by Constantine Menges of the "utopian" group in power in Washington, who wants to turn a Lula victory into the pretext for including South America in the "axis of evil," and turning it into a target of the lunatic Bush government's "anti-terrorist" agenda.

Undoubtedly, the results of the Brazilian elections will forge a new geometry that will have major repercussions on the international financial system, and on the policy of the Bush Administration toward the hemisphere. Thus, the *Washington Post* of Oct. 7 commented fearfully that "an anti-globalization backlash is sweeping Brazil." Whoever is the winner will face an explosive international situation, with a systemic crisis of the financial system, and the efforts of the Bush government to erect a new imperial rule.

It is obvious that the economic collapse has nothing to do with the electoral process, as some would have it. The crisis will worsen between now and the end of the year, and the Cardoso government will require radical measures to stem the capital flight. If the floating exchange rate is maintained, the financial hemorrhaging will continue, and the country will be like Argentina before the year is out. As Ambassador Ricupero commented in an Oct. 9 note in *Gazeta Mercantil,* "The current government must assume responsibility for the situation, which is the result of the policies it followed, with bets which proved wrong. The current government should take preventive measures against turbulences that could continue to affect the Brazilian economy even after the election of a new President in the second round."

IMF Check-Mates Itself in Brazil

by Dennis Small

You have to admit, there is more than a touch of irony in the situation surrounding Brazil's elections. In the weeks leading up to the vote, the international financiers holding Brazil's foreign debt— all $500 billion of it—extracted promises from every leading Presidential candidate, pro-government and opposition alike, that should they win the elections, they would maintain Brazil's current agreements with the International Monetary Fund (IMF). Backroom deals were cut, threats were delivered, and when the election rolled around, you could almost hear Wall Street breath a collective sigh of relief: "We're okay, boys. They've all agreed—including Lula—that they'll savage their economy before suspending debt payments. Thank goodness reason prevailed."

But reality has asserted itself and threw a couple of hitches into the Wall Street scenario. First, Dr. Enéas Carneiro kicked over the chessboard. In his congressional race, Dr. Enéas, the Brazilian politician most closely associated with Lyndon LaRouche's call for breaking with the entire IMF system—Dr. Enéas calls it *ruptura*—won more votes than any congressional candidate in the entire history of Brazil. Now all political bets in Brazil are off.

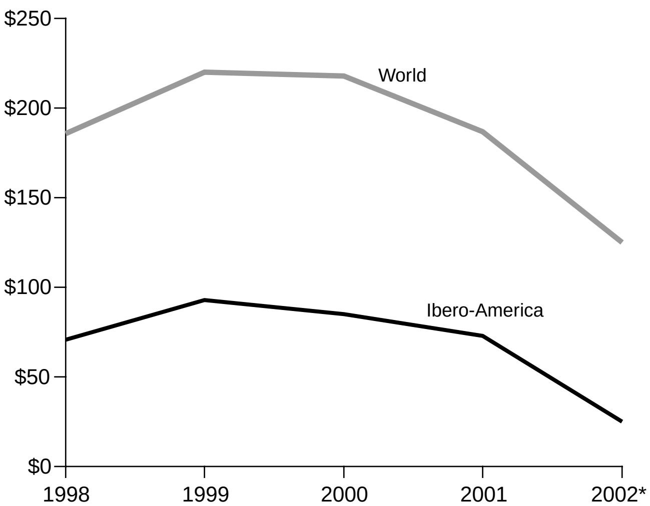
Secondly, the IMF has managed to place *itself* in checkmate in Brazil. It has engineered a debt bubble of such dimensions and characteristics there, that the IMF is about to destroy itself by successfully imposing its own policies. LaRouche recently explained the matter: "Any conditions that Brazil would capitulate to from the IMF, would, in effect, destroy Brazil; but that would also destroy the IMF itself. Whereas any action on the Brazil case which would be acceptable to the future of Brazil, which would actually enable Brazil to deal with its problem, would effectively bankrupt the whole IMF system. This is reality: If Brazil concedes, Brazil collapses and that causes a chain-reaction collapse of the IMF system. If the IMF concedes to Brazil, to reasonable conditions, the IMF collapses immediately—which is probably the best solution."

Consider the following evidence of LaRouche's case.

'The End of an Asset Class'

In 2002, there has been a dramatic contraction of foreign financial flows into the entire so-called "emerging market," but especially into Ibero-America. At the Oct. 1 Latin America Investor Summit, a meeting held in Washington, of company executives, bankers, investors and government

FIGURE 1
Foreign Private Capital Flows
(Billions of $)



*Projection

Source: World Bank, EIRNS.

officials, high-level World Bank officials revealed that private financial flows to emerging markets will total only $125 billion in 2002—as compared to $187 billion in 2001. This is a 33% decline, as compared to more moderate ups and downs over the previous four years (see **Figure 1**). These flows include both Foreign Direct Investment (FDI), as well as portfolio investment (purchases of bonds and stocks).

The regional picture for Ibero-America is even more dramatic. "Financial flows have really dried up in the region," Guillermo Perry, the World Bank's chief Latin American economist, told the gathering. As Figure 1 shows, foreign private capital flows into Ibero-America are expected to drop to a mere $25 billion this year, a shocking 64% decline from 2001's level of $70 billion.

These numbers are a reflection of this year's Argentine and Brazilian debt crises, in particular. Foreign banks and other creditors have simply red-lined the entire continent: they are refusing to lend new money; refusing to roll over or refinance existing loans; and mercilessly insisting that countries pay off their usurious debts on schedule, regardless of how many times that debt has already been repaid, and regardless of the social and economic consequences.

Even as they are pulling their own capital *out* of Ibero-America, these private speculators are demanding the IMF and the G-7 governments put public moneys *in*—provide massive bailout packages in the tens of billions of dollars. That way, they scheme, countries like Brazil will be able to pay back their private creditors, *before* they are driven to default.

Thus, the IMF approved a $30 billion bailout package for Brazil last August, which was the largest IMF loan ever granted to any country. But as LaRouche warned at the time, even that amount was grossly inadequate to cover Brazil's out-of-control debt bubble. An Oct. 2 wire from Bloomberg news service quoted Roger Scher, the top Latin American analyst at Fitch, Inc., the British credit rating agency, commenting: "If Brazil can't return to the market soon, then the IMF money is not enough," adding laconically, that Brazil will need *$63 billion* from the IMF in 2003. Inter-American Dialogue president Peter Hakim agreed: "Brazil is one of those countries that could knock everyone's cart off balance. The IMF can't just sit back and say, 'We've done the best we can do.' " And mega-speculator George Soros howled that more IMF and G-7 money had to be thrown at Brazil *now,* to stop default.

At the Latin America Investor Summit, top management from Merrill Lynch, Wall Street's premier brokerage, presented their conclusion. Investors are "getting into a bunker. . .and staying there," said Jacob Frenkel, chairman of Merrill's international unit. If Brazil defaults, or there is other severe market instability in that largest of Third World debtors, this will "devastate confidence" in the sovereign (government) debt of the entire emerging market. Tulio Vera, a top Merrill Lynch researcher, added: "If we see a negative development in Brazil, that will call into question the viability of the asset class."

Just to be clear: the "asset class" being referred to so cavalierly, is the *entire debt structure* of the Third World and former East Bloc countries. It is these nations—and their populations—which Wall Street is now preparing to write off.

Some might ask: But is Brazil really going to default on its $500 billion in real foreign debt, or on its $335 billion in public debt (foreign and domestic)? Yes; default is no longer avoidable, regardless of who wins the Presidential run-off elections, and of what policies he announces. The IMF has made sure of that.

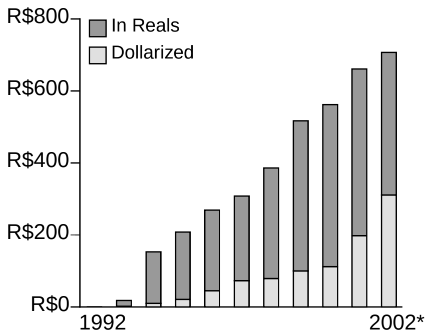
The problem can be summarized in a word: *dollarization.*

Dollarize, Devalue, Default . . . and Die

Consider the actual structure of Brazil's debt bubble. For the moment, focus on the public domestic debt—the bonds that the Fernando Henrique Cardoso government has issued over the eight years it has been in office (**Figure 2**). That debt rose from some 150 billion reals in 1994, to over 700 billion reals in 2002, an almost five-fold increase.

That is only the beginning of the problem. Brazil, under pressure from the IMF and "the markets," began to issue domestic bonds denominated in *dollars,* not reals. This foolishness really took off over the last two years, in order to "attract" foreign investors who were worried that a devaluation would catch them holding real-denominated bonds. So the proportion of Brazil's bonds that are dollarized has grown to over 45% today. That means that every time the real is devalued vis-à-vis the dollar, the government debt *automatically rises*—without borrowing a single additional penny.

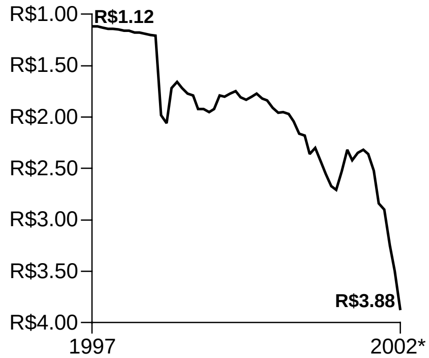
FIGURE 2
Brazil: Dollarization of the Public Domestic Debt
(Billions of Reals)



*October

Source: EIRNS.

FIGURE 3
Brazil: Devaluation of the Real
(Reals/Dollar)



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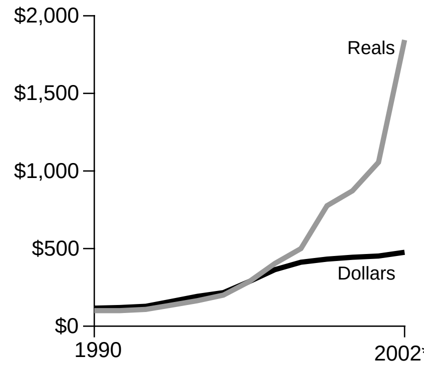
Source: EIRNS.

FIGURE 4
Brazil: Foreign Debt
(Billions)



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Source: EIRNS.

Not surprisingly, the Brazilian currency has come under speculative assault by its own creditors, and has plummeted from 1.12 reals to the dollar back in early 1998, to about 3.88 to the dollar, as of this writing (**Figure 3**). That is a 71% devaluation.

That devaluation has driven up Brazil's total government obligations, as measured in reals; i.e., in terms of what must be extracted from the country's real economy to keep the bubble afloat (**Figure 4**). Today, that amount stands at a staggering 1.8 trillion reals.

Now add one final consideration. Speculators have also driven up the interest rate they are demanding the Brazilian government pay on its new bonds, pronouncing that Brazil's "country risk" rating—the premium they must pay above U.S. Treasury bills—is now at over 2,100 points. That means that Brazil must now pay 25% interest rates, or higher, on any new bonds they issue. But about 40% of its *old bonds* are also linked to market interest rates, which means that they too rise along with the "country risk" and other usurious charlatanry.

In sum, 45% of Brazil's 700 billion real government debt is dollarized. Another 40% is interest-linked. Every 1-centavo decline in the currency boosts the debt by 3.5 billion reals; and every percentage-point rise in interest rates increases it by 4.2 billion reals. Meanwhile, the IMF and the speculators go merrily about simultaneously driving the real exchange rate down, and interest rates up. Result: *Brazil's debt is arithmetically unpayable.* Brazil stands at the edge of default—like it or not. The prestigious *Financial Times* of London recently explained to its often obtuse readers that, if the bailout packages of Brazil prove insufficient, "this will not only destroy the fragile economy of Brazil, but also the very *raison d'étre* of the IMF."

Brazil reached this pass by following IMF orders to the letter: it *dollarized;* it *devalued;* it is about to *default;* and, if it stays on this policy trajectory, it will soon *die,* as neighboring Argentina is now dying.

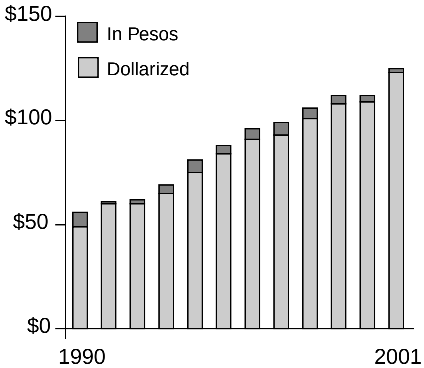
LaRouche has emphasized the insanity of the dollarization of the debt: "On the Southern Cone debt situation, with this dollarization of the Brazil debt: the first demand has to be that the IMF agrees to cancel the dollarization, the increments of the debt based on dollarization. Reverse the dollarization as a great error, which creates an impossible situation, which threatens the continued existence of the IMF itself."

Brazil is not alone, as can be readily seen in the corresponding graphs for Argentina and Mexico (see **Figures 5-10**). The percentage of dollarization varies among the three cases, as do the time frame of the devaluations and the amounts by which the public debt has soared (as measured in local currency). But the pattern and the causality is identical: they each bear the unmistakeable finger-prints of IMF policy lunacy.

Argentina is the most advanced of the three cases. After defaulting on about $140 billion in foreign debt in late 2001, Argentina has spent the 10 months since then cringing and crawling before the IMF and international financial community, while savaging its economy, hoping to get some sort of bailout package. As of October 2002, what Argentina has to show for its subservience is: 25% national unemployment; poverty gripping about 54% of the population; a collapse of imports by nearly 75%; advanced social dissolution—and not a penny in new money.

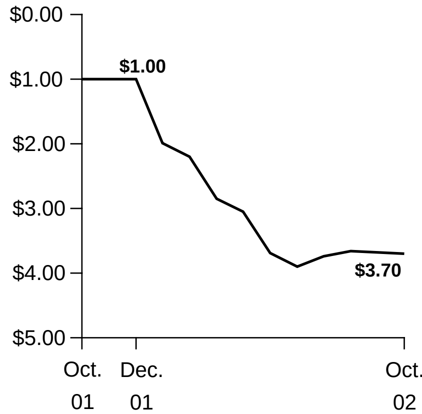
One of the bitter ironies of this situation is that, even if the IMF and Wall Street do, at some point, agree to restructure Argentina's defaulted debt, it will also now be necessary to "restructure the restructuring." In other words—an Oct. 1

FIGURE 5
Argentina: Dollarization of the Public Debt
(Billions of Pesos)



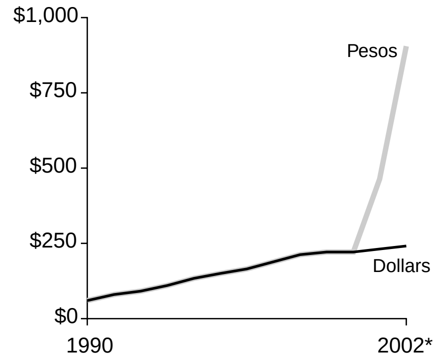
Source: EIRNS.

FIGURE 6
Argentina: Devaluation of the Peso
(Pesos/Dollar)



Source: EIRNS.

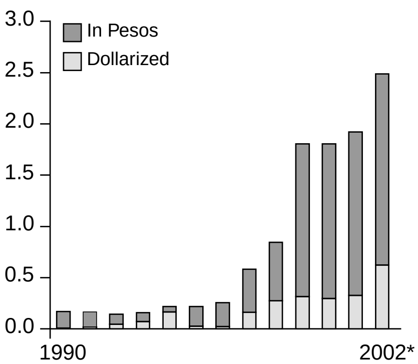
FIGURE 7
Argentina: Foreign Debt
(Billions)



*October

Source: EIRNS.

FIGURE 8
Mexico: Dollarization of the Public Domestic Debt
(Billions of Pesos)



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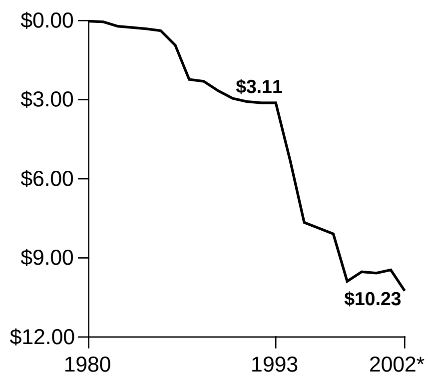
Source: EIRNS.

FIGURE 9
Mexico: Devaluation of the Peso
(Pesos/Dollar)



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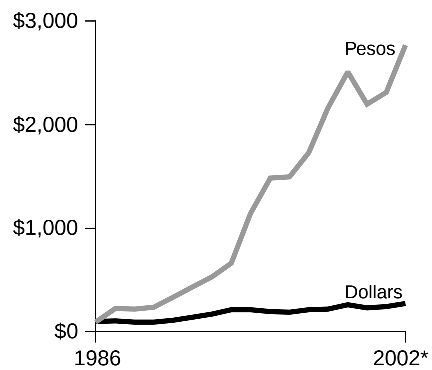
Source: EIRNS.

FIGURE 10
Mexico: Foreign Debt
(Billions)



*October

Source: EIRNS.

article in Argentina's leading daily, *Clarín,* explained—the compensatory bonds, penalties, and capitalization of unpaid interest has been growing so rapidly over the last 10 months, that "even with a 70% write-off of the foreign component of the still not negotiated debt, the burden is unsustainable"—Argentina is simply unable to pay.

Clarín elaborated: "What kind of write-off is being discussed? The biggest one ever seen on the foreign markets. . . . In Russia and Ecuador, the reduction was only about 40%. . . . Barclays Capital is carrying out exercises that assume a write-off of 90% of the bonded debt, and even that way, closure would require a primary budget surplus on the order of 3% of annual GNP."

Argentina has even been driven to consider something never done before: the write-down of up to 30% of the debt it owes to *multilateral agencies*—the IMF, World Bank, and Inter-American Development Bank (IDB). The problem here is typified by the fact that the IDB has about 20% of its own loan portfolio in Argentina. Could it survive such a write-off? And what happens when Brazil, Mexico, and a dozen other countries join Argentina in writing down their debts to the IMF et al.? Who will survive, then?