Morgan bank hawks ‘debt relief’ swindle to Brazilian government

by Mark Sonnenblick

Morgan Guaranty Trust is trying to seduce Ibero-America’s big debtor countries with illusions that they could get relief on their unpayable $400 billion in foreign debts. Mexico fell into the trap and accepted a Rube Goldberg arrangement concocted by Morgan and the U.S. Treasury. Morgan and Kissinger Associates are trying to use the “relief” granted Mexico to tempt countries like Brazil and Argentina to surrender their sovereignty to the International Monetary Fund and their fabulous natural resources to the creditor banks.

Under the Morgan deal, Mexico will be permitted to trade to creditor banks $10 billion in bonds guaranteed by the U.S. Treasury in exchange for about $20 billion in debts which it could never pay. Sounds nice. The U.S. and Mexican press has been making it seem as if Mexico would reduce its interest payments by as much as $900 million a year. More honest calculations made by London bankers, and reported in the Financial Times, are that Mexico will save only $137 million a year, less than 2% of what it is now paying. It will also tie up $2 billion of its reserves as collateral held by the U.S. Treasury.

Alan Stoga, senior partner at Kissinger Associates, described Morgan’s Mexico deal as “a carrot to the other debtors. I suggest it wouldn’t have happened if the Brazilian and Argentine situation had not been so bad.”

The Brazilians are taking the bait. The president of the ruling Brazilian Democratic Movement Party (PMDB), Ulysses Guimaraes, stepped off the plane from New York at Sao Paulo Jan. 3, to announce that Morgan Guaranty Latin America vice president Gonzalo de Las Veras had briefed him on the Mexico deal. The daily O Globo ran a big headline, Jan. 4, “Ulysses brings Morgan foreign debt plan to the PMDB.” It reported that Morgan had offered Ulysses a plan which would reduce Brazil’s foreign debt by 20-25%. Ulysses later clarified that Morgan had not offered Brazil the same deal as Mexico. He considered the Mexico plan “reasonable”: “The formal recognition by the creditors that there is a nominal debt and a real debt—with the later, in our case, 25% lower than the one which has been announced—is an important step for us to begin to seek a solution to the debt problem.”

Maison da Nobrega, who was named Brazil’s new finance minister Jan. 5, called Morgan’s Mexico deal “an extremely positive fact for Brazil. Imaginative solutions are starting to appear. This is a demonstration that creditor countries are starting to accept the need for a lasting solution to foreign debts.” Da Nobrega recognized that Brazil would not be given the same arrangement, since it has no reserves to give the Treasury, but assured that Brazil would find a way to get some of its $115 billion debt converted into long-term bonds.

Reagan administration officials are rubbing Brazil’s face in the supposed fact that Mexico was “rewarded” for surrendering control over its economic policy to the IMF. “There presently does not seem to be the climate” for U.S. support for any debt relief for Brazil, a Treasury official told the daily Jornal do Brasil, Dec. 30. Brazil is being hung out to dry by Washington until all those responsible for its debt moratorium, including President Jose Sarney, crawl. “To restore a climate of cooperation, the Brazilian government would have to make a clear demonstration that it changed its attitude,” Jornal do Brasil heard everywhere in Washington.

Morgan rises again in Brazil

Morgan seems to be pushing Citibank out of its dominant position on Brazil debt renegotiation, just as it recently did in the Mexican case. The team from the creditors’ committee visiting Brazil during the first week of January to negotiate new terms on medium-term debt is headed by Morgan Guaranty’s Arturo Perzekanski.

Morgan has been at loggerheads with most other U.S. money center banks, ever since the Third World debt crisis broke in 1982, as was reported exclusively in EIR and EIR Debt Watch special reports at the time. While Citibank and Manny Hanny acted on the belief that subjecting debtors to genocidal IMF austerity would result in debts being paid, Morgan recognized that it was just a short-term postponement of the crisis. So, Morgan — like co-thinker banks owned by the old European oligarchy — prepared for the worsening crisis by setting aside reserves. Most other American banks simply used the high interest payments from their developing country usury to hide the fact that their domestic energy, farming, shipping, and real estate loans were rapidly going bad. That kept alive illusions about the solvency of the banking system — and of Reaganomics.

Citibank took the back seat in 1983 when de las Veras’s predecessor at Morgan, Tony Gebauer, paraded the debt
renegotiation he made with Brazilian Planning Minister Del­
mim Netto. Gebauer was last seen at a campus-like low-se­
curity prison near New York City. He confessed and was
convicted of having embezzled a reported $6 million from
the accounts of four wealthy Brazilians through a department
Morgan set up, from which he managed illegal flight capital
from Latin America. To save the "good name" of banking
secret for its dirty money operations, Morgan arranged with
the U.S. district attorney for Gebauer to go to jail and for it
to repay the embezzled funds, in return for the capital flight
operation being kept secret.

Gebauer’s partner, Delfim Netto, tolerated $10 billion in
capital flight and is now a leader of the self-named “Center”
[Centrão] grouping in the Constitutional Assembly. The
“Center” is expected to purge from the draft constitution this
month most of the restrictions on foreign looting placed in it
by nationalist tendencies. The “Center” is reportedly busi
buying up delegates with a $35 million slush fund.

“Center” coordinator Deputy Afif Domingos issued a
fascinating manifesto in O Globo, Dec. 30. Afif is suing EIR
Rio correspondent Silvia Palacios for having reported in the
June 12, 1987 issue of EIR on Afif’s links to a group of
congressmen who were “plotting to write out of the new
Constitution the state monopolies over petroleum and other
natural resources which are the pillar of Brazilian economic
sovereignty.” EIR reported that these leaders had received
ample aid from the Reagan administration’s “Project Democ­
arcy,” including training seminars on how to organize a “pri­
ivate sector” lobby to pressure Brazil’s Constituent Assem­
blly.

The “Center” is taking over the Constitution-writing pro­
cess with an effectiveness comparable to that of the business
lobby that sponsored the 1964 coup. But Afif is hardly grate­
ful to his U.S. sponsors. His Dec. 30 manifesto is based on
the premise, “for the rest of the century the North American
economic equilibrium will be questionable.” In this “new
international order,” Brazil could attract the surplus Japanese
capital which had been going to the United States. The Jap­
anean would invest in Brazil’s “agriculture-mining duo.” “Ja­
pelan is a country lacking natural resources. Brazil is the great
partner. . . . Foreign capital, accompanied by technology,
would be very welcome, so long as this exploitation meant
that the other side would promise to consume those products,
which could reach consumers fully processed here, using
labor power in the producing region.”

The president of the Bank of Tokyo warned in São Paulo
Dec. 22 that Brazil would get not a penny from Japanese
banks and investors unless it went to the IMF and stopped
restricting foreign investment. Among the items in the draft
constitution the “Center” is trying to eliminate, is one which
bans foreign companies from mining concessions within 150
kilometers of the nation’s borders, which would rule out
foreign exploitation of an area larger than that of Western
Europe.

Afif concludes, “We need general elections to unmask
those who want to keep Brazil in the poorman’s club, with
alliances with Cuba, Nicaragua, or other Latin American
‘powers’. . . . We are going to defeat the pessimists, xen­
ophobes and retrogrades. . . .” He accuses President Sarney
and the 22 PMDB party governors of blocking an IMF-run
dismantling of the state sector: “These governors surround
President Sarney, and in return for their fragile support, charge
a price from the federal vaults which renders inviable any
austerity plan, no matter who wrote it and who or what system
is the government.”

**Debt for equity gives pound of flesh**

The variant of the Morgan plan soon to be offered to those
debtors too bankrupt to guarantee their debts with cash re­
erves is that they give creditors their farms, mines, and
factories. Such transfers—with or without the use of gun­
boats—violate the sovereign immunity of nation-states. Since
1982, EIR has documented how Henry Kissinger and the
cleverer” creditors have been wielding the crisis to bludgeon
debtor governments to surrender their sovereignty. The tech­
nical name for foreclosing on a sovereign nation’s patrimony
is “debt for equity.”

George Bush declared during a talk at the National Press
Club in Washington Jan. 5 that “flexibility, debt-equity swaps,
and debt write-downs” will all have to go into solving the
Third World debt crisis. A “top Brazilian official” told Jornal
do Brasil of Jan. 3 that Brazil would offer each debtor bank
options including debt-for-equity conversions, Shylolock’s
“pound of flesh.” The next day, Morgan’s house organ, the
New York Times, extolled the Mexican debt deal, adding,
“What’s needed is a lot of special solutions like this one,
tailored to specific circumstances. . . .” The Times, edito­
rially and in an op-ed by Albert Fishlow, suggested that the
World Bank guarantee restructured debts for countries like
Brazil. The World Bank would dictate “structural adjust­
ments” to the debtors, including “opening up” their econo­
miess to foreign asset-strippers and speculators.

During the two weeks since Mailson da Nóbrega took
over Brazil’s finance ministry, he has approved more debt-
equity swaps than in the previous 50. In a typical swap,
several European and Canadian banks were given majority
ownership—but not control—over Brasmotor, S.A., a large
industrial conglomerate, in return for $50 million in debts
owed them by the Brazilian government. Ownership of Rio’s
shipyards is also being denationalized.

The key question is political. Every share of every private
and public company in Brazil could be bought out for $20
billion, if laws were changed. That would give creditors
absolute ownership of over $250 billion worth of annual
production, minerals in the ground worth more than $1 tril­
lion, plus a subcontinent’s real estate.

That is what Morgan and the international oligarchy cov­
et. That is what they will get if the “Center” consumes its
coup. That is a big price to pay for 2% relief on interest
payments.