Working Class Struggle and the Brazilian Debt Crisis

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Introduction

The story of the debt crisis of the 1980's has been told from a variety of perspectives representing the interests and stances of various participants and observers. Here I offer a shift in perspective, indeed of paradigm. Instead of looking at the debt crisis through the eyes of policymakers or academics participating in the resolution of the crisis and the restoration of capitalist accumulation, I analyze the crisis as an expression of the ability of the working class to disrupt the expanded accumulation of capital and at times to force changes in official policymaking in ways which protect workers' interests while undermining those of accumulation. Whereas others have emphasized the manifold negative impact of the debt crisis, I will here focus instead on working class demands and struggles and show how their actions determined the evolution of the crisis. By so doing, I subordinate concern with the victimization of workers (i.e. the effects of austerity programs) to a study of the effectiveness of the working class as an active historical subject. My goal is partly to demonstrate that effectiveness and that subjectivity to those who have not recognized it, and partly to provide one point of departure for evaluating present and future alternatives for those participating in the working class struggle. By understanding working class power we can begin to inquire into how to go about increasing that power.

The working class of Brazil was neither passive nor unwitting, neither residual nor subordinate, in the build-up, outbreak and evolution of the debt crisis. Instead, workers played an active and determining role at each and every major juncture of the debt crisis. Working class demands were the primary cause of the build-up of debt in the 1970's; working class demands were the ultimate cause of the outbreak of the crisis in 1979 to 1982; working class resistance to austerity prolonged the debt crisis after 1982; and working class demands and struggles forced the international financial community to write off part of the debt and accept debt reduction after 1987. In this sense, the Latin American debt crisis was a crisis of the class relation. That is, the debt crisis was a manifestation of capital's inability to successfully manage the working class.(1)

This does not mean that workers did not experience substantial hardships and setbacks. Indeed, with the outbreak of the debt crisis in 1982, there was a fall in the standard of living throughout Latin America, including Brazil. But what interests me here is to show that, despite this, the working class was the major protagonist in the evolution of the crisis. As opposed to the usual views of the crisis as a story of conflict among governments and legislatures, among policymakers and bankers, among nation states and international financial institutions, I argue that the ultimate factor lying outside the offices and conclaves of all these actors, but determining the evolution of their arguments and strategies, was the working class itself, acting on its own behalf.(2)

The Role of Debt in Class Struggle

My argument is grounded in the Marxian theory of money and credit. Marxian methodology allows us to see the debt crisis as a crisis in the class relation. What appears as merely a financial crisis, is in fact the consequence of a breakdown in the capitalist social order.

In Marxist theory money is a form of value, and the substance of value is labor imposed under generalized conditions which Marx discusses. Money and capital, then, are not things, but the expression of a particular generalized social relation that is mediated through things.(3) As Marx emphasized, because prices and values tend to be identified with specific things, we tend to think of money and prices as expressing relationships among things—what he referred to as the "fetishism of commodities." This fetishism, like any fetishism, displaces real relationships for their substitutes. Thus, for example, Marx states:

> . . . the commodity reflects the social characteristics of men's own labor as objective characteristics of the products of labor themselves, as socio-natural properties of these things. Hence it also reflects the social relation of the producers to the sum of total

> labor as a social relation between objects, a relation which exists apart from and outside the producers. . . . It is nothing but the definite social relation between men themselves which assumes here, for them, the fantastic form of a relation between things (Marx 1976, 164-5).

This displacement occurs frequently and easily when discussing the debt crisis. The debt has too often been portrayed as an unfortunate impersonal technical problem—as if the debt itself were not the reflection of the real relationships between groups of people, but rather possessed a substance and subjectivity of its own. Too many times, for example, a story is told about how the debt was the result of entirely impersonal irresistible forces ("demand and supply" or "laws of motion") that raced out of anyone's control and then imposed themselves upon their hapless victims. My effort is to penetrate that fetishism, and to speak of the real material relations between groups of people. These relationships are relationships of power—ultimately, of force—fraught with antagonism.

Money is a mediator of social relations, and as such is a social relation itself. That is, through this phenomenon of money, different groups of people enter into definite, material social relationships. Furthermore, by controlling the mediator—money—capital attempts to organize and manage various aspects of these relationships.

When the International Monetary Fund (IMF) attempts to manage the level of the Brazilian monetary authorities' net domestic assets, it is attempting to manage the relationship between workers and capitalists. If by controlling money, the IMF can control the wage, then some workers are going to have to hand over more of their time and energy to capital as work, producing value and thus profit. In this sense, money can be used as a weapon against workers.

Marx differentiates two forms or uses of money, calling them money-as-capital and money-as-money. When money is invested in productive activities and successfully produces returns, then money is being used to solidify and extend capitalist social relations. That is money being used for productive investment: money-as-capital. That use of money is distinguished from the working class use of money. The working class uses money not to produce more money, but to obtain goods and services for consumption and leisure, that is, to obtain commodities as use-values (Marx 1976, 247ff).(4) This use of money (money-as-money or money-as-means of exchange) is an expression of working class power.(5)

The working class obtains money not only through the wage but also through government re-distributions, through direct re-appropriations, etc. Thus an analysis of working class revenue, that is, of the total social wage *as an independent variable*, would tell us about working class power (Negri 1984, 127-150; Lebowitz 1992, 15-34). Working class power as embodied in the level of the total social wage was the challenge posed to capital by the Brazilian working class.

We can see that these two uses of money, money-as-capital and money-as-money, are always in contradiction. Capital advances money to be used as capital; the working class wants to subordinate money to its needs. When money was loaned to Brazil, the risk was whether the money would be used as capital, or as money. The only way the money advanced as capital could avoid collapsing into money-as-money was by successfully commanding labor into production.

Money thus emerges as command over future labor. "*Money*, then, in so far as it now already *in itself* exists as capital, is therefore simply a *claim on future* (new) labor" (Marx 1973, 367). That is the meaning of Marx's graphic metaphors: "Capital is dead labor which, vampire-like, lives only by sucking living labor. . . ."(Marx 1976, 342). But the money advanced to Brazil failed, in part, to command labor. It failed to the extent that it financed increased consumption (through direct or indirect subsidies, for example) or social programs that were appropriated by the working class, without giving up enough surplus labor time to make that social investment profitable.

In *Class Struggles in France*, Marx suggested that credit was used by capital, in 1848, as a weapon to "buy time" in the class struggle (Ricciardi 1987a). That is, when austerity and taxation were not feasible, capital decided to finance short-term concessions to the working class in order to obtain the time needed to reconsolidate its control. This describes what happened in Brazil. By relying on credit, the Brazilian government was able to make short-run concessions to the working class (in 1974 and in 1979), and thus obtain the respite needed in which to reconsolidate its control.

Yet, "while it is possible to displace present class antagonisms into the future by purchasing concessions on credit terms, it is not possible to overcome the class relation itself on this basis" (Ricciardi 1987b). Thus the

accumulation of debt eventually exploded into the debt crisis in 1982. The struggle now continued in the streets. The class meaning of paying the debt was the transfer of real resources from workers to capital. That is, capital needed to reduce the share of the total social product going to workers in order to increase the share going to pay the debt. In 1983 and 1984 workers defended the wage and their use of money. They did so by any means available. When they were denied the use of money, that is, when they were denied access to the means of subsistence, unemployed workers bypassed the use of money and turned to direct appropriation. Workers thus threatened the continued stability of the entire capitalist system. By 1987, John Reed, chairperson of Citibank, decided that it was time for capital to retreat, if only partially, and begin to take steps to unilaterally reduce the debt.

These insights allow us to see the Brazilian debt crisis as a crisis of the class relation. The debt crisis was not merely the result of the evil machinations of greedy capitalists. Nor was the working class merely the hapless victim of the crisis, nor was the crisis merely the result of a series of inappropriate decisions or technical blunders. Rather, we can understand the debt crisis as an expression of the class struggle. Borrowed money was used in Brazil to "buy time" needed to reconsolidate capitalist relations in 1974 and 1979. The manipulation of money was used in an attempt to attack the working class in 1983-4 and reduce its access to resources. And, the defense of the level of the real wage was the basis and expression of working class power that led to the acceptance of debt reduction by 1987.

The Origins of the Debt Crisis in Brazil

The year of 1974 is a political, economic and social turning point in Brazil's contemporary history. It is the year that the liberal wing of the military regained control of the government and began a process of political liberalization (*distensão*). It is also the year of the first oil shock, which began in October of 1973. (Brazil then had an oil-dependent economy and relied on imports for over 80% of its fuel consumption.) Importantly, 1974 is also the year of a dramatic reversal in macroeconomic policy. The Brazilian government abandoned a contractionary adjustment to the oil shock and instead made a long-term strategic decision to rely on a high-debt, rapid-growth policy of debt-financed investment embodied in the Second National Development Plan (*II Plano Nacional de Desenvolvimento 1975-1979*), which became law in December of 1974. This shift in policy—from a contractionary adjustment to an external shock to a debt-financed expansionary monetary and fiscal stance—is seen by many as the proximate cause of the debt crisis. After 1974 there is a dramatic increase in the rate of the accumulation of external debt as well as a marked change in the government's stance toward the accumulation of debt, embodied in the abandonment or relaxation of a variety of controls on the inflow of capital. Here, I will seek to explain that shift in policy, that is, I seek to uncover why the government acted in the manner it did. I argue that we can understand the reversal in policy and the subsequent accelerated build-up of debt from 1974 to 1979 as the government's response to a broad-based repudiation of its policies. The elite coalition (the *Movimento Democratico Brasileiro*, MDB) that orchestrated the repudiation of the government only gained real broad-based support when it modified its platform to incorporate the demands and interests of workers. The government then chose to pursue debt-fueled growth policies in order to regain the support or acquiescence of workers and avoid greater de-legitimization.

I also ask where the borrowed money went. The ultimate use of the borrowed money was to finance working class consumption—not investment—that is, the money was used to appease the working class. In Marxian terms, money-as-capital was turned into money-as-money. This is the origin of the debt crisis in Brazil.

In 1964, a military coup overthrew a populist government. The military were divided into a liberal and a hard-line faction. In October of 1965, in the military government's first electoral test, two opposition politicians won governorships despite the government's obstruction. The hard-liners saw this result as a threat and compelled the liberal military faction to accept an extra-constitutional decree which abolished all former political parties and created a two party system. The *Aliança Renovadora Nacional*, Arena, and the *Movimento Democratico Brasileiro*, MDB, were created to represent the government and the opposition, respectively, in a virtually powerless Congress.(6)

In December of 1968, a series of student uprisings and wildcat strikes resulted in another extra-constitutional decree, *Ato Institucional No. 5* (AI-5), by which the executive branch permanently gave itself extraordinary powers. After the AI-5, the government increasingly resorted to state terror as a weapon in its war against guerrillas, and as a means to achieve the social quiescence that their economic development model required.(7)

A new strategy of opposition then emerged. In 1973, during the transfer of presidential power from General Médici (a hard-liner) to General Ernesto Geisel (of the liberal military faction), the MDB was allowed to run a token presidential campaign. The military allowed this token political charade in part to satisfy the liberal military faction, and in part as a means to gain a minimum of legitimacy, if only at the international level. The new president (already designated by the military) was to be elected by an electoral college (i.e., without a popular vote) on January 15, 1974.

The ascension of a liberal to power (the liberals in the military proclaimed their intent to restore democracy), and the military's invitation to campaign, spurred a debate within the MDB. One faction saw an opportunity to communicate and educate the populace, while the radical faction called for the auto-dissolution of the party to avoid legitimizing the government. The party held together when the radical faction's preferred candidate, a founder and militant of the then extinct Socialist party, accepted to run for vice-president. With the observation that "nobody ever won a soccer game by not showing up at the field," ("Candidatos para a derrota" 1973) the MDB presidential and vice-presidential candidates, Ulysses Guimarães and Barbosa Lima Sobrinho, launched an "anti-campaign" for an "anti-candidacy" (Correa 1973; "Uma necessidade nacional" 1973). At the national convention of the MDB in September of 1973, Guimarães stated:

> The nonviability of the opposition candidacy shall be a testimony to the nation and to the world that the system is not democratic. Because, as long as the system remains, the present holders of state power shall always be in government—an eternity of power . . . It is not the candidate of the MDB who travels throughout this nation. Rather, it is the anticandidate. The anticandidate who shall denounce the antielections, imposed on us by an anti-Constitution (Alves 1985, 135).

The anticampaign explicitly confronted wide-spread resignation and hopelessness through its successful slogan, taken from the refrain of a then popular song: *Navegar é preciso; Viver não é preciso* ("Navigating is necessary, living is not necessary").(8) The anticampaign marked a turning point in the opposition to the government. What it achieved, according to Alves (1985, 134-7), was to show that the official opposition party, through effective engagement at the level of formal politics, could become a vehicle for a broad-based opposition to the government.

Direct legislative and gubernatorial elections were scheduled for November 15th, 1974. In previous direct elections (and mostly in urban areas), opposition to the government had expressed itself through the widespread casting of blank and voided votes. This time, the MDB called for "the occupation of all available political space." They launched a campaign under the slogan "As long as there is one man alive, there is always hope" (Alves 1985, 144).

In the previous campaign of 1973 the MDB had concentrated on questioning the legitimacy of the military regime. This time, the MDB ran a campaign focused on bread-and-butter issues. Furthermore, *the MDB explicitly sought the support of the working class*. While the MDB leadership was composed mostly of a liberal business elite, they appealed for the working class vote by launching a sustained attack on the military government's labor policies (Sarles 1982; Skidmore 1988, 220).

The result, on November 15th of 1974, was an unexpected victory for the opposition party. The government party had felt confident in a landslide victory, even up to the last weeks before the election. When the votes were counted, the MDB had almost doubled its seats in the lower house (from 87 to 165; Arena fell from 223 to 199), and won 16 of the 22 seats contested in the Senate, causing the government to lose its two-thirds majority needed to amend the constitution. Furthermore, the MDB gained governorships in São Paulo, Rio de Janeiro, Paraná, Acre and Amazonas, where previously it had only controlled Rio de Janeiro.

What the results reflected, in the eyes of commentators, analysts and the government, was not a victory for the opposition party, but rather a resounding plebiscite against the government and against its strategy of economic development. When the first major analysis of the electoral results was published, the results confirmed the popular repudiation of the government. People at bottom of the income distribution pyramid overwhelmingly supported the MDB, while fully 80% of those polled during the election stated that the government's economic strategy benefited only the rich (Lamounier, Cardoso and Weis 1975).

The immediate aftermath of the election was fear of yet another military backlash, as had occurred before in 1965 and 1968 (Howe 1974). The military command's response came in a speech on November 27, indicating that it would accept the election results ("Discurso na Praia Vermelha" 1974). President Geisel's response came on

December 30, in a televised speech to the nation (Geisel 1974). He first congratulated the MDB for its victory. The opposition party's victory, he said, was a warning "to the few who would dream of an anti-democratic, supposedly monolithic one-party structure."

President Geisel then announced the new emphasis that his government would give to social programs. Two new executive councils, with the same rank as the Council of Ministers and the National Security Council, were created. The new Council for Economic Development and Council for Social Development were to give new attention and coordination to those areas. Budgetary funding for education, health, public transport, popular housing and regional development were to be increased.

Furthermore, Geisel confirmed, in keeping with the debt-financed Second National Development Plan, that the government would launch a series of massive investment programs, geared toward completing a second phase of import-substitution in primary inputs and capital goods. Geisel stated: "Brazil has affirmed itself as an oasis of stability and order." That was why, he claimed, Brazil would have no trouble attracting the needed foreign capital to fund the program, either in the form of external debt or direct investment.

More tellingly, Geisel announced that beginning on January 1, 1975, the economy-wide wage indexing formula would be revised, in order to end the government's policy of wage compression, and to begin fully compensating workers for the erosion of real wages caused by inflation. In 1964 (with the military coup), a wage indexation scheme was instituted that allowed the government to manipulate the level of wages, making wages a discretionary policy instrument. The indexing formula called for the annual adjustment factor to be determined by adding half of the cost of living increase of the previous two years to half of the expected inflation for the coming year. Since the government consistently underestimated the expected level of inflation, real wages consistently fell. The new formula was to eliminate the term for expected inflation, and make the wage adjustment fully compensate the worker for the inflation in the past twelve months (Geisel 1974; Simonsen 1983, 118-123; Fishlow 1974; Guenther 1975). This change was an important concession to the working class. It deprived the government of the ability to manipulate the wage level and instead instituted a rigid backward-looking compensatory rule. What had originally been instituted as a means to control workers and their demands, would soon (in the 1980's) become the government's most intractable problem.

Looking back on these changes, Geisel's chief technocrat, João Paulo dos Reis Velloso, then Minister of Planning, has euphemistically admitted that the option of adjusting to the oil shock by inducing a recession had suddenly become "inconvenient:"

> One of the alternatives we faced was to follow the lead of the developed countries: try to solve the problem in the balance of trade through a sharp drop in imports brought about by a recession, letting the social effects work themselves out, following their own course. . . . We concluded that the "recession strategy" . . . would be *inconvenient* for its effects. . . . Inconvenient for a thousand reasons, economic, social and political: mass unemployment, a fall in the standard of living of the workers, a break in the development process, the trauma of the nascent entrepreneurial structure. And all that in a country that is undertaking a necessary political *distensão* [decompression] (Velloso 1977, 115, my translation).

Several commentators have noted that the 1974 election was a turning point which caused the government to reassess and change its policies. Economist Albert Fishlow states:

> The great confidence in ARENA's unchallenged hegemony that had made the *distensão* [decompression] experiment possible in the first instance was badly shaken by a major electoral defeat in 1974. Moments of political uncertainty, and they abounded in early 1975, were not ones to impose unpopular and conventional austerity policies. . . . By early 1975, the die was therefore cast for resumed expansion (Fishlow 1989, 90).

Yet Fishlow minimizes the role of popular pressure. He places the initiative with policymakers, seeing popular pressure as a subsidiary input into a decision making process that sought to balance political and economic objectives. For Fishlow, policymakers balanced the political objective of achieving a controlled political opening (*distensão*, or decompression), with the economic objective of adjusting to a change in the external economic environment (the oil shock), in what would later prove to be an unfortunate decision (expanded growth). Fishlow's approach is made clear in the following passage (from the same text as above) which I quote at some length:

> Even in Brazil's technocratic and insulated style of decision-making, politics counted. Indeed, at decisive choice points, political objectives helped undermine what might have been more sensible economics. The 1975 decision to adandon restraint, without having integrated it into a more comprehensive response to the oil shock, was clearly motivated by the belief that economic growth was necessary to *distensão*. . . . It was, of course, politics of a special kind. Rapid growth was hardly the result of irresponsible pressure.

> Nor for that matter, was the acceleration of inflation to unheard-of Brazilian levels. Technocrats and the military dominated. Their politics was *their* interpretation of what seemed necessary to maintain society upon *their* chosen path. . . . Society's voice mattered much less, and initially not at all (Fishlow 1989, 112, 113).

On the contrary, it would appear that "society's" voice mattered most. After ten years of military rule, after having already traveled the route of repression to the point of becoming an isolated and yet all powerful leviathan, the state had exhausted its alternatives, and sought refuge in what it hoped would be the temporary respite of accumulating debt today in order to reap continued accumulation tomorrow. This is the origin of the debt crisis: it originated in the government's inability to quell the self-activity of people who expressed their demands through whatever vehicle they found at hand. That is, working class opposition to the economic policies of a repressive authoritarian government, which learned to express itself by occupying whatever political space was available to it, induced the Geisel government to seek legitimacy and support by abandoning contractionary policies in 1974, and pursuing economic growth fueled by external debt. While the opposition to the government's policies was broad-based (in that it included and was led by a liberal faction of the business elite), it's essential and largest component was the working class. It was the government's fear of yet deeper political rejection and illegitimacy which was sure to result from the application of austerity policies which made the government choose debt-fueled growth. This decision resulted in the rapid growth of Brazilian external indebtedness after 1974.

Where Did the Money Go?

Where did the money lent to Brazil go? In the words of one commentator, too much of it went to things of little or no productive value: ". . . vast handouts to the working class, to the middle class, to the wealthy. These handouts helped . . . people accept two decades of unpopular military rule" (Gall 1983, 172). Several analysts have presented figures which support this claim. Robert Solomon reported, in 1981, that unlike other highly indebted countries, the ratio of gross fixed capital formation to gross domestic absorption (domestic demand) in Brazil *falls* in several years after 1973. That is, there was a fall in the share of resources being used for investment in Brazil. Thus, Brazil was *"borrowing merely to maintain consumption in the face of higher oil prices"* (Solomon 1981, 601, my emphasis).

The Inter-American Development Bank (IDB) also presents figures which support this claim. The IDB finds that here was a relative shift in the structure of domestic demand after 1975, with proportionally higher increases going to consumption than investment. The IDB data show that there was a growing gap between the rate of growth of domestic absorption (domestic demand) and the rate of growth of the economy. While consumption grew by 8.1 percent in 1975-79, gross investment fell by -0.1 percent. The IDB concludes that this apparent contradiction "is explained mainly by the change that occurred in the structure of domestic demand, with proportionally higher increases in consumption than in investment" (Inter-American Development Bank 1984, 24-26). These figures show us that on balance, the money borrowed by Brazil from 1974 to 1979 ultimately allowed Brazilians to maintain or increase their consumption despite the higher share of resources that had to go to pay for the increased cost of imports. *The money was borrowed to maintain working class levels of consumption.* In Marxist terms, money advanced to extend capitalist accumulation was instead used to maintain working class consumption, money-as-capital was turned into money-as-money. This was a breakdown in the class relation, that is, this represents both an inability to successfully manage the demands of the working class, and an attempt to "buy time" in the expectation of a future reconsolidation of the class relation.(9)

The Second Oil Shock

In 1979—in response to the second oil price shock—the Brazilian government again first contemplated then decided against contractionary adjustment, relying instead on expansionary policies and further increases in external debt. That decision was again a response to working class pressure, most importantly, to the reemergence of the labor movement, centered around the metalworkers in the "ABC" industrial region of São Paulo (Santo André, São Bernardo, São Caetano and Diadema). When the government's expansionary policies failed, Brazilian policymakers embarked on a series of novel but failed policy experiments, all aimed at trying to avoid the need to impose austerity, resulting in the final outbreak of the debt crisis in late 1982. The Brazilian government then turned to the International Monetary Fund (IMF). The working class defended itself against the imposition of austerity demanded by the international financial community. Sustained working class resistance to the measures of austerity made it impossible to impose the full adjustment demanded by the international financial community. The international financial community, as mediated by the International Monetary Fund (IMF), was forced to modify its

demands and progressively reduce the stringency of its prescriptions. Eventually, the International Monetary Fund, in reaction to such resistance in Brazil and in other nations, began to explore alternative growth-oriented adjustment programs.

In March of 1979 General João Baptista Figueiredo was inaugurated President and Mário Henrique Simonsen was named Minister of Planning, while Delfim Netto was made Minister of Agriculture. (Under Geisel, 1974-1979, Simonsen had been Minister of Finance.) Simonsen announced that his highest priority was the control of inflation, which was rising from its 1978 rate of 40.5 percent. (It would reach 76.8% and 110.2% in 1979 and 1980 respectively [Baer 1989, 135].)

Several factors were fueling the inflation. Brazil had been pressured by the United States to remove a number of export subsidies. In order to maintain the level of exports, the rate of mini-devaluations was accelerated ("Simonsen Announces Switch" 1979; "New Brazilian Measures" 1979). In Brazil's indexed economy the increased devaluation raised the price of imports, raising prices throughout the economy. Moreover, bad weather had hurt agricultural production, raising food prices.

In April 1979, inflation for the month of March was reported as 5.8%, reaching a cumulative total of 14% for the first three months of the year, far exceeding government objectives. The Minister of Finance, Karlos Rischbieter, blamed speculation in the money market and excessive foreign borrowing (which was expanding the money supply) for the inflation ("Record March Rise" 1979).

On April 18th of 1979 a set of anti-inflationary measures were announced ("Panorama" 1979). The most important measure in the package was Central Bank Resolution No. 532, April 1979, designed to decrease the inflow of foreign borrowings to the private sector by requiring a compulsory deposit of 50% of all private sector borrowings to be retained in the Central Bank, receiving no interest ("Brazil Cuts Back" 1979; International Monetary Fund 1980, 78-9). Other measures were later passed to control speculation on the money market ("Brazil's Smaller Banks Hurt" 1979) and to increase agricultural production ("Uma superagricultura?" 1979; "Brazil's New Regime" 1979; "Inflação: Em baixa" 1979).

When the second oil price shock arrived in mid-1979, Simonsen began to campaign for stronger recessionary measures.(10) While Rischbieter and Delfim had both sought ways to lower interest rates, Simonsen argued for allowing interest rates to rise freely. In an explicit attempt to control the foreign debt, Simonsen called for a reduction in the expenditures of state enterprises, often financed by their easy access to external credit ("Brazil Heading" 1979; Baer 1989, 109).

While Simonsen campaigned for recessionary adjustment, Delfim (the former Minister of Finance during the "miracle" years of 1968-1973) disagreed vociferously and publicly. Delfim argued that demand restraint was unnecessary, and proposed instead an expansionary supply-side solution. His alternative received the support of the business community. Simonsen found himself isolated, resigned in August of 1979, and was replaced by Delfim Netto.

There followed a large expansion in the money supply in the entire period from August 1979 to 1981. *Conjuntura econômica* (the most authoritative monitor of the economy) noted that "the main sources of this monetary expansion are located in precisely those operations over which the authorities have the greatest direct control, such as credit expansion in the Bank of Brazil and the decreased issuance of federal securities" ("Política monetária" 1979).

On the fiscal side, Delfim reversed Simonsen's contractionary fiscal program to a weakly expansionary or neutral one. Delfim also reversed the government's stance toward external debt. While Simonsen and Rischbieter had sought to constrict the inflow of debt, Delfim took steps to increase the flow of external savings into country. Thus, on December 7th, he eliminated the 50% compulsory deposit of private sector borrowing that had been introduced by Simonsen, and reduced the income tax on interest remittances. Rischbieter (a Simonsen protégé) disagreed with Delfim on a number of issues, and finally resigned mid-January after criticizing the government for allowing the foreign debt to snowball out of control.

Why did Brazil abandon Simonsen's attempt to use contractionary measures in response to the second oil shock, and instead shift to Delfim's expansionary supply-side program? Fishlow and Baer argue that this policy

reversal occurred as a result of the combination of the following pressures upon policymaking: 1) industrialists argued that a recession would threaten their already narrowed profit margins, 2) private banks did not want to compete with the Bank of Brazil, as would have happened under Simonsen's proposals, 3) new ministers and various public enterprises did not want to accept reductions in their expenditures and budgets, and finally 4) "Workers were already experiencing erosion of real wages from accelerating inflation because indexing was only annual, and saw no attention to their concerns" (Fishlow 1989, 101; Baer 1989, 109).

Fishlow and Baer have trivialized or repressed the explosive events of 1978 and 1979. They make no mention of the unprecedented wave of strikes that swept Brazil (with several incidents of rioting and looting). The year 1979 saw a generalized working class mobilization. This wave of working class actions was the main cause of the abandonment of contractionary adjustment. Furthermore, business' resistance to Simonsen's proposals, which Fishlow and Baer treat as an independent cause, was also a reaction to working class struggle.

The re-emergence of the labor movement begins with earlier events. In July of 1977 a group of economists confirmed that official inflation statistics, which were used in the wage indexation formulas, had been manipulated (by Delfim Netto) in 1973 to reduce real wages (Keck 1992, 63-64; Skidmore 1988, 205; Alves 1985, 193). The loss was calculated at 34.1 percent of real income. The metalworkers from a suburb of São Paulo, the São Bernardo do Campo Metalworkers' Union, having received a curt negative answer to a request for compensation from the government, organized a campaign to recoup their lost income. The practical experience of the "campaign of the 34.1 percent"—organizing through factory committees, mobilization committees, daily bulletins, assemblies at the entrances of the factories, etc.—helped lay the foundations for the actions which were to follow in 1978 and 1979 (Centro Ecumênico de Documentação e Informação 1987, 48-49).

On May 12th of 1978 workers at a Saab-Scania truck and bus factory in São Bernardo began a sit-down strike. The strike had been organized within the factory by the workers themselves. The morning shift arrived to work, punched their time cards, and sat down. The sit-down strike was a new tactic that caught management and police unprepared. Within a week 77,950 workers in Santo André, São Bernardo, São Caetano and Diadema, the ABC region, were on strike. Employers decided to by-pass existing labor legislation and negotiate directly in what amounted to de facto collective bargaining. On May 31st, the Metalworkers' Union of São Bernardo do Campo and Diadema signed an agreement with the employers' representatives for staggered wage increases adding up to 24.5 percent more than their wages in April. The victory demonstrated that the strike legislation and the wage indexing formulas could be bypassed. Other industrial workers were quick to learn from the example, and the strike movement spread throughout São Paulo, and then throughout the country. Over a nine-week period 245,935 workers were on strike in nine different cities in the state of São Paulo. By year's end 539,037 workers had been on strike throughout the country—including white-collar, blue-collar and agricultural workers. This was an explosive rebirth of the labor movement, which had been kept silent since 1964 (Skidmore 1988, 204-206; Alves 1985, 196-97; Humphrey 1982; Maroni 1982; Antunes 1988; Keck 1992).

The 1978 strike campaign set the pattern for 1979. That year more than three million workers went on strike. The actions included not only metalworkers but also textile workers, urban service workers, bank workers, miners, construction workers, teachers and agricultural workers.

In the first six months of the Figueiredo government, while Simonsen was campaigning for contraction, there were 83 strikes, involving over 200,000 workers, with 21 strikes continuing during August. The wave of strikes again spread outward from the ABC region. There were several violent confrontations with army and police, and heated negotiations. The government gave top priority to dampening labor unrest ("O governo reage" 1979). Within the cabinet, Simonsen saw any wage concessions as inflationary and, as described by one news source, "stood for rigid anti-inflationary measures at almost any political cost" ("Unofficial Action Maintains Tension" 1979). This is the context in which Simonsen was proposing a contractionary adjustment to the second oil shock.

Business owners—whose alliance with the military government had already fractured (Bresser 1978)—reacted with alarm to the call for recessionary measures, fearing that an expansion of social unrest could be sparked by such action. The then vice-president of the powerful Federation of Industries of the State of São Paulo (*Federação das Indústrias do Estado de São Paulo*, FIESP), which was acting as the representative of business at the negotiating table with labor, directly criticized the call for austerity:

> Recessions are always accompanied by social crises. The country pays for recessions for years. I can state, as a former executive in government, that every jail costs fifteen schools. That says everything. In a country without unemployment compensation one cannot allow people to become unemployed. . . . It is indispensable at this juncture, during this time of political opening, to avoid something that would lead the people to despair. . . . We want to here emphatically reject the false dilemma in which some protagonists of the economic debate are ensnared [i.e., Simonsen], who would imprison our dynamic economy in a straight-jacket of recession and discouragement (Kupfer, "A culpa" 1979, my translation).

Abílio Diniz, one of the eight business representatives within the *Conselho Monetário Nacional* (National Monetary Council, the highest economic policy-setting organ), stated:

> I don't think it is necessary to paralyze the economy country to end inflation. It would be crazy to propose a recession. We cannot have unemployment. Brazil is facing serious social problems. We cannot add unemployment to our difficulties. Our problem is that we have not yet completely emerged from underdevelopment and we aren't yet at full development. This half-baked situation is tough, but it's our reality. We must, therefore, continue our march toward development (Kupfer, "Cada um faça" 1979, my translation).

When Simonsen resigned and was replaced by Delfim Netto, the São Paulo business community was euphoric. At his inauguration speech, Delfim declared:

> Gentlemen, prepare your plows and your machines: We are going to grow. . . . We must end this mania of becoming embroiled with difficulties, presenting them as excuses for all of our problems. We must face things with a different spirit: we must grow in order to overcome our difficulties. We must produce more food, more manufactured products. We must give jobs to everyone so as to abate all social tensions (Delfim Netto 1979, my translation).

Delfim immediately made good on his promises: ". . . this country can only face the crisis by growing." Money was immediately made available to "anyone with a viable idea" ("A pedidos, bis" 1979, my translation). When asked about the wave of strikes, Delfim stated: "The strikes are a reality; they cannot be ignored. And in the face of it, we have only two possible ways out: either to remain in contemplation, or to act in a direction capable of correcting the situation. And to correct it means to return to high growth" ("Abrir é conveniente" 1979). Clearly, it was pressure from workers that accounts for the government's decision to accumulate debt after the second oil shock.

The Outbreak of the Debt Crisis and the Struggle Against Austerity

The Mexican debt moratorium was announced on August 12, 1982. The moratorium triggered a stampede of bankers out of lending to all developing nations. Brazilian policymakers were immediately aware of the danger they were in. Without dollars to borrow to cover imports and other commitments, Brazil's foreign reserves began to run down. At the end of August, the Central Bank held US$ 6.97 billion in gross reserves (5.1 billion was enough to cover three months imports, considered the minimum safe limit) ("A confusa situação" 1982). In September, after a Central Bank sale of gold and Special Drawing Rights, rumors of a drain on reserves became common. The president of the Central Bank, Carlos Langoni, responded by suspending the publication of reserve figures and prohibiting any Central Bank employee from speaking to the press ("Question Mark" 1982; "Plan May Resolve Crisis" 1983). Some months later, an IMF Staff Report of February 1983 placed the value of liquid reserves (that is, convertible cash balances immediately available) at the end of 1982 at *negative* $1.5 billion (cited in: Bacha 1983, 31). From August until late November, the Brazilian authorities hid this information from the public and the international financial community. Instead, they repeatedly and vehemently denied any problem ("Uma cronologia" 1982). Why did they do so? The main reason was that they did not want an appeal to the IMF to further tarnish the government's image. An election was scheduled for November 15, 1982 and the government felt that to do so would have cost them too many votes. Six days *after* the election, on November 22, the first IMF mission arrived to Brazil.

Three years earlier, in November of 1979, as part of its strategy of maintaining control over the process of political opening, the government, with Congressional participation, abolished the *Ato Institucional No. 2*, (which had created the two-party system in 1965) and allowed for the creation of political parties. The government's intent was to split the opposition into a number of parties while maintaining its own party intact. It could then remain in control either on its own or in an alliance with the more conservative factions of the opposition.(11)

The government party, Arena, was renamed the *Partido Democrático Social* (PDS), while the opposition split into five parties. Most of the old MDB became the *Partido do Movimento Democrático Brasileiro* (PMDB).(12)

In May of 1980, the government canceled nationwide direct elections for mayors and municipal councilors scheduled for the end of the year. The majority of mayors and councilors were of the government party, PDS, and, because inflation was running at over 100 percent, the government feared major losses if the elections were held as scheduled (Skidmore 1988, 222; Kucinski 1982, 78). In September of 1980, the Congress rescheduled the municipal elections for November 15, 1982. By doing so, they made them coincide with already scheduled direct national elections for congressional deputies, one third of the senators, and all state legislatures. In November of 1980, direct elections for state governors were re-introduced and scheduled for the same date. Thus the elections of November 15, 1982 emerged as the most important elections since 1974. Brazilians were to vote for every level of government but the presidential.

The importance of these elections was also indicated by the measures the government took to guarantee itself victory. In November of 1981, the government changed a number of the electoral rules, giving itself a series of advantages ("Eleições: Pacote" 1981; Alves 1985, 222-24). For example, it required all voters to vote a straight ticket for all offices, thereby assuring itself a divided opposition. Furthermore, no candidate could withdraw from any race, unless her or his party withdrew from the entire election. This made it difficult for individual opposition candidates to withdraw from races and pledge support to other opposition candidates. The government believed that all these changes would assure its continued control.

In December, and in response to the government's manipulation of the electoral rules, one of the new parties, the *Partido Popular* (PP), with which the government had hoped to form a pro-government coalition, merged into the PMDB. The PP, led by Magalhães Pinto and Tancredo Neves, had represented the interests of the reformist national business class ("A primeira surpresa" 1980; "A maioria dos empresários" 1980; Selcher 1986, 60-61; Alves 1985, 218, 224; Skidmore 1988, 266; Kucinski 1982, 7). This moved the PMDB, heir to the old MDB, to the center-right.

Several analysts have argued that like the elections of 1974, these elections (of 1982), were again seen as a plebiscite on the government. The PMDB sought to create that climate and urged voters to vote "usefully," by choosing the one party that had sufficient local support to defeat the government party (Alves 1985, 224-5, 228-9; Skidmore 1988, 222, 227, 233).

This was the election that the government needed to win. As part of its strategy to do so, President Figueiredo instructed his Ministers not to divulge the nature of the foreign exchange crisis until after the election. After the votes were in, the government admitted that it was already in contact with the IMF and had begun drafting a letter of intent. Six days after the election, the first official IMF mission arrived.

The government's strategy of splitting the opposition was largely successful. The government won 12 of the 22 governorships, including some that were expected to go to the opposition. Yet the key states of São Paulo, Rio de Janeiro and Minas Gerais went to opposition governors. Though the opposition won 50.0% of the votes for the Senate (with 13.5% counted as void or blank), the PDS retained a majority of the seats (46 to 23). In the Chamber of Deputies, the combined opposition parties now out outnumbered the government party by 240 seats to 235, a slim margin which required the government to win over three votes to make a majority (Skidmore 1988, 233-5).

As had occurred in 1974, there was a change in economic policy after the election. This time, though, with the election behind it, the government abandoned its aggressive growth policies, and instead attempted to apply the austerity policies that were now demanded by the IMF. This time, the government judged that the threat posed by foreign creditors outweighed the threat posed by a population rejecting the imposition of austerity.

Seven "letters of intent" were negotiated with the IMF in the two year period from January 1983 to December 1984—none was ever complied with. Each of these letters represents an agreement between the IMF and the Brazilian government, that is, the performance targets contained therein were arrived at by mutual consultation and negotiation. Each of them is an official document setting out the Brazilian government's goals for short and

medium term policy (see: Crockett 1982). What a review of Brazil's "letters of intent" shows is that the international financial community progressively reduced the stringency of its demands over the two year period.

The argument can be raised that these letters of intent did not represent the actual intentions of the Brazilian government, but were rather attempts to temporarily mollify the financial community and obtain the release of needed funds.(13) This would not undermine my contention that these documents did represent the demands of the international financial community vis-à-vis the Brazilian working class.

My argument is that the IMF was forced to reduce the stringency of its demands. The progression—from more to less stringent—is not uniform, but the trend is clear. Although, we see between the first and second letters of intent an increase in the stringency of the demands, a distinct loosening of demands occurs with the fourth and fifth letters of intent (when the IMF agrees to include a new measure of the public deficit in the letters of intent, thus implicitly recognizing an intractable inflation). The main reason (but not the only reason) the IMF was forced to loosen its demands is because it recognized that it was *politically* unable to obtain the de-indexation of wages, that is, it was politically unable to reduce the wage—*working class consumption*—to the level necessary to fully service the external debt.

Despite their usefulness as measures of demands of the international financial community, the great emphasis that the IMF attached to the deindexation of the economy and in particular to wage de-indexation cannot be directly observed from these letters. The IMF was careful not to raise this sensitive issue in public. The emphasis attached to deindexation can be inferred from the negotiations themselves (when we have reports from participants), from the chronology of the denial of tranche drawdowns and the concession of waivers, and from a "Technical Evaluation" of Brazil's performance, produced by the IMF mission to Brazil in June 1983, which clearly revealed the importance that the IMF attached to wage deindexation.(14)

The inability to reduce working class consumption (the wage) in order to free resources for debt payment, coupled with the constant criticisms of the policies of the IMF, led the IMF to question and re-evaluate its own methods. In February of 1987, the International Monetary Fund, in collaboration with the World Bank, organized a three day symposium on the design of growth-oriented adjustment programs ("Growth-Oriented Adjustment Programs" 1987; International Monetary Fund 1987, 43-44; De Vries 1987, 252). The symposium marks a turning point in the IMF's history. A long-standing criticism of IMF adjustment programs—that they are counter-productively recessionary—was finally, if only implicitly, accepted. Yet, as Miles Kahler is careful to point out, while the contractionary adjustment orthodoxy was placed in retreat, no clear-cut alternative has yet re-established a consensus (Kahler 1990).

In January of 1987, Michel Camdessus replaced Jacques de Larosière as managing director. Thereafter the Research Department, under a new director, Jacob Frenkel, began the process of developing adjustment programs that would incorporate growth targets. An initial step in this process was to review the theoretical foundations of Fund-supported adjustment programs and determine how to extend the basic financial programming model in order to "incorporate the economic variables and relationships that are crucial for meeting growth objectives." One study states, "although the promotion of sustained growth has always been a major concern of the Fund, growth aspects of adjustment programs have recently received increased attention." It then goes on to redefine the role of the IMF:

> If the sole objective of a Fund-related adjustment program were simply to secure a short-run improvement in the balance of payments, then policies designed to control aggregate demand, such as the restraint of domestic credit expansion, would be sufficient in most instances. In fact, however, Fund-supported adjustment programs have a broader set of objectives, including the full and efficient utilization of existing productive capacity, the achievement of a balance of payments position that is sustainable over the medium term, and an improved long-term growth performance. Reliance on a single instrument, or even a set of policies, exclusively directed toward demand management would generally be inconsistent with the multiple objectives of programs (Research Department of the International Monetary Fund 1987, 27, 29).

As the study itself states, though, this is an entirely new direction and focus for the IMF. The IMF had recognized the increasing political unviability of its traditional recessionary demand-management approach.

Why did these changes occur? They occurred because the international financial community found it impossible to impose the austerity they sought. The working class, through a myriad of means, resisted and actively fought these measures: *it is to the working class that credit must be given for these changes*. In the face of working

class resistance, the IMF—in the short-term—began to ameliorate its demands, and in the long term, began seeking growth-oriented adjustment programs.

Throughout the debt crisis, the resistance to the demands of the IMF was global. A historically unprecedented wave of social unrest swept through the debtor countries in response to domestic austerity policies applied in order to maintain payments to the creditor banks. John Walton finds that from 1976 to 1986, 13 of the 24 nations of Latin America and the Caribbean experienced 50 separate austerity protests defined as "large collective actions in opposition to state economic policies that stem from international pressures and aim at domestic reforms to reduce the foreign debt." The most common result, in response to the uprisings, was that austerity measures were retracted or ameliorated (Walton 1989; Walton 1987; Walton and Ragin 1990; Walton and Seddon 1993; Bienen and Gersovitz 1986).

The resistance to the demands of the IMF in Brazil took a number of forms—carnival floats and sambas, political cartoons and political satires, public speeches and public prayers—these were but a few of the many creative, humorous and very Brazilian means of discrediting and protesting against the policies of austerity demanded by the international financial community. The depth and richness of this collective mobilization has yet to be chronicled.

The channels through which this resistance acted upon the government and then upon the international financial community were also multiple. I want to trace how some actions of the working class produced changes in the demands of the international financial community. My presentation is certainly not comprehensive, I have only chosen some illustrative examples that demonstrate the validity of my argument.

Repeatedly, and throughout the years of negotiations with the IMF, wage policy was a focus of struggle. The IMF called, in its private negotiations and explicitly in the technical evaluation of 6 June 1983 (after Brazil's first suspension for non-compliance), for the de-indexation of wages to inflation. Clearly, the IMF understood this was a potentially explosive point and did not refer to it explicitly in the seven letters of intent. Yet beginning with the first IMF mission to Brazil in November of 1982, the IMF took a "hard stance" against Brazil's system of indexed wages, calling it "madness" and demanding "fundamental" and "drastic" changes ("IMF Deal Likely to Provoke" 1982; "IMF Mission Lays Down the Law" 1982).

The IMF's recommendations on wage policy produced a fierce internal debate within the Brazilian government. Delfim Netto, who had resisted the last change in wage policy (November 1979) and saw the biannual wage adjustments as inflationary, along with Minister of Finance Ernane Galvêas, argued for a return to the system of annual adjustments. (Recall that with 100% annual inflation, a fixed nominal wage loses half its value in twelve months. Thus, making adjustments every six months instead of every year accelerates price inflation as businesses seek to maintain their relative share of income.) The President's top aide, Leitão de Abreu and the Minister of Labor Macedo, however, "warned of the serious social repercussions of such an abrupt change in policy." The President preferred to attempt the milder of options, by which the six-monthly adjustments would be retained, but the lowest paid workers would lose their adjustment of 10% above the rate of inflation (Cruz 1983; Torres 1983; "IMF Mission Lays Down the Law" 1983; "New Wages Policy" 1983).

In January of 1983, the government faced a newly elected Congress in which the government party controlled two-thirds of the Senate, but held only 235 of the 479 seats in the Chamber of Deputies, a minority against the combined 244 of the opposition parties. The government sent the new wage legislation to Congress not as a normal bill but as a special Decree-law which the Congress could only approve or reject without modification. Decree-law 2,012 reduced the inflation adjustment for the lowest paid workers from 110% of inflation to 100% of inflation, reducing the wage adjustment for other workers to 95% (for workers earning three to seven times the minimum wage) and 80% (for workers earning seven to fifteen times the minimum wage) of inflation. (Two-thirds of all Brazilian employed workers earned less than 10 times the minimum wage.) A cap was placed on the adjustment for productivity. This change was not severe enough for the IMF mission. Nevertheless, there was widespread public resistance. A national campaign was launched, one which would culminate in a general strike (the first since the military coup of 1964) ("Um golpe no cruzeiro" 1983; "New Wages Policy" 1983).

The struggle to defend the wage became the focus of a continuing popular mobilization, culminating in a Congressional showdown in September (between the third and fourth letters of intent). One of the more significant actions, however, was to come in April, and it came from the unemployed. It was significant because it marked a

turning point in people's perceptions and because it highlighted the government's dilemma: to stick with the austerity program would mean to risk further upheavals, while to redirect resources toward ameliorating social distress would undermine the austerity program. The largest single source of employment in Brazil was the construction industry; it was traditionally used to absorb new entrants to the labor-force and rural-to-urban migrants. Yet the budgetary cutbacks had eliminated various public works programs designed to create employment. Furthermore, the resources of the *Banco Nacional de Habitação*, the government housing agency, were being diverted into export finance, while the rise in mortgage rates was simultaneously decreasing home-buying ("IMF-backed Policies Pose Dilemma" 1983). Unemployment was rising steadily, and in April, it was variously estimated at a total of over one million people in the six main metropolitan areas ("Um caldeirão fervente" 1983).

On Monday, April 4th of 1983, unemployed workers in São Paulo exploded in extremely violent rioting and persistent looting. The actions continued for more than three days. The rioting spread out from the district of Santo Amaro, 12 miles south of São Paulo's downtown. The district, where some 80,000 unemployed workers lived, had a long history of rising tensions and was the focus of much political proselytizing. On Monday, a march of unemployed workers was called by the PMDB federal deputy Aurélio Peres, who was a long-time militant of the (illegal and thus underground) Albanian-line Communist Party of Brazil (PC do B, distinct from the Moscow-line PCB). When some of the participants looted a passing truck full of oranges, and then threw the oranges through the windows of a supermarket, the march turned into a riot. The owner of the supermarket would later recount: "In two minutes, there were 500 people taking everything." The looting and rioting then spread into the heart of São Paulo ("Negros dias de abril" 1983).

During the three days of violence, some 200 stores were looted, including large grocery stores as well as downtown jewelry stores and fashion boutiques. Forty-eight private homes were invaded and destroyed. One hundred and twenty five buses and automobiles were overturned, burned or destroyed. Many observers noted the ferocity of the roving crowds of looters ("Negros dias de abril" 1983).

On Tuesday, the second day of the unrest, 3,000 demonstrators marched to the governor's palace to demand jobs. They tore down the outer fence of the palace and invaded the grounds, demanding an immediate audience with the newly-elected PMDB governor, Franco Montoro. News accounts state that when the authorities agreed to allow a few representatives to meet with the governor, the crowd, leaderless, demanded an immediate collective audience. They were dispersed only after a pitched battle ("O palácio dos atônitos" 1983).

Schools and stores were closed as São Paulo experienced a run on the banks. In Rio de Janeiro, reports of looting also closed stores. Military troops were called out in Fortaleza (a northern state capital). Incidents were recorded in Santos, Ribeirão Preto and Campinas. The riots, televised throughout the country, would linger in everyone's memory ("4 de abril de 1983" 1983).

Programs to create jobs and increase the flow of inexpensive foods were immediately created at both the federal and state level ("Riots Change Power Balance" 1983). At the federal level a foodstamp program was begun. The *bônus de alimentação* was created, where anyone earning at least a minimum salary would qualify for ration of rice, beans, spaghetti and vegetable oil. More significant were the actions taken by several of the state governments. The Montoro government in São Paulo significantly increased expenditures and employment by investing heavily in public works, including sanitation programs and housing programs ("Um caldeirão fervente" 1983; "Unemployment at Record Level" 1983). State governors appealed to President Figueiredo to keep a pre-election promise of increasing the share of tax revenues allocated to local government. A procession of state and local officials appealed to the federal government for funds ("IMF-backed Policies Pose Dilemma" 1983). To the extent that these programs would increase government expenditures and therefore increase the public deficit, they not only undermined the IMF austerity program, but were also a direct response to working class resistance.

Public opinion was affected, and it directed itself straight at the root cause: the demand for payment of the external debt. The *Latin America Weekly Report* stated that "there has been a strengthening of the current of opinion favoring a unilateral moratorium on foreign debt servicing to allow a partial economic recovery" ("Um caldeirão fervente" 1983; "Unemployment at Record Level" 1983).

The repercussions of the April riots (along with those of a March strike in Lima, Peru) spread out at the international level. The *Wall Street Journal* reported that "officials from U.S. and international organizations are worried that, unless the situation is managed carefully, it could lead to more serious social disruptions and political

instability." C. Fred Bergsten, then director of the Institute for International Economics, referred to Brazil when he stated: "There's only so much economic contraction a government can stand before it no longer is able to cope with the pressures. The one thing we ought to make sure of is that the belt-tightening policies we ask borrowing countries to take don't turn counterproductive and backfire" (Pine 1983). Statements such as these, from respected members of policymaking circles, would bring pressure to bear upon the IMF to reconsider its demands.

After the riots, the government's stance vis-à-vis the IMF changed. In sharp contrast to it behavior in December, the government now took "a very tough line" in June. Reportedly, the government demanded that the IMF allow it more time to make necessary adjustments. More significantly, the government sought allies with which to pressure the IMF. The *Latin America Regional Report* stated that "after direct contact between Figueiredo and Reagan, Brazil was given an assurance that, apart from providing further bridging credit, *the US government would press OECD finance ministers to force the IMF to relax its performance criteria"* ("Talking Tough to the IMF" 1983, my emphasis).(15) Here is a clear link between the actions of unemployed workers in the streets of São Paulo to the subsequent loosening of IMF demands.

In July of 1983, a strike explicitly aimed against the austerity policies of the IMF attempted to close down the eleven petroleum refineries of Petrobrás, which supply almost 100% of the gasoline, liquefied gas and diesel in Brazil. Closing the refineries for a week would have paralyzed the entire country, leaving the government in the very difficult position of having to use foreign exchange to import fuels. The largest refinery, Paulínia, outside of Campinas, in São Paulo, and the refinery of Mataripe, in Bahia, the northeast, were the focal points. Paulínia (1,200 workers) was struck first, on July 6th, and Mataripe (2,176 workers) was struck on July 7th. The workers at those refineries were joined in solidarity, on July 7th, by 50,000 metalworkers in São Bernardo. The plan called for the strike to spread to all eleven refineries.

What made this strike different from the previous 507 strikes (involving 5.5 million workers) during the four years of the Figueiredo presidency was that it was recognized, both by the workers and by the government, as a "political" strike, that is, its explicit goal was to change the government's stance toward the international financial community. A telegram informed the president of Petrobrás of the strike. It stated: ". . . strike on June 6 for job stability, revocation of Decree law 2,024 [a wage indexing law], against the IMF and for national sovereignty" ("O governo com o dedo no gatilho" 1983).

Strong and immediate military intervention, along with serious disagreements among the several union leaders (a national general strike was being planned for the following week) prevented the consummation of the plan. Yet, for several days, the government found itself on the verge of a national paralysis. Such pressure is only comparable, as one newsmagazine noted, "to the pressure that is today exerted on this government by the international financial community" ("O governo com o dedo no gatilho" 1983, 21).

A national general strike "to protest economic policy, demand a moratorium on the debt and the repudiation of the IMF" was organized by several unions and scheduled for July 21st. This would be the first national general strike since the military coup of 1964. The stated aims of the strike were:

> To protest the economic policies of the government as responsible for unemployment, low salaries, and rising cost of living. 2. To protest the attempts to end other salary benefits, particularly of the retired. 3. To favor a moratorium on the question of the debt, with an immediate break with the IMF and the freezing of payments with renegotiation. 4. To seek job security and safety. 5. To seek controls of food prices, particularly staple foods. 6. To seek the end of government interventions in trade unions and the return of all democratically elected leaders to their unions (Alves 1985, 243).

The strike brought the entire city of São Paulo to a standstill for 24 hours. In Rio de Janeiro, a parade of 40,000 people strolled down Rio's main downtown avenue, under a shower of confetti, and then occupied a main plaza to hear series of speeches, sing songs and end with the national anthem ("Uma vitória geral" 1983).

Caught between a recalcitrant population and the demands of the IMF, the government soon split in two. With the IMF denial of the second tranche drawdown in May of 1983, the government was under pressure to impose yet additional austerity measures. Upon his return from talks held directly with the IMF in Washington, D.C., the Central Bank president, Carlos Langoni (a graduate of the University of Chicago) publicly condemned Brazil's austerity efforts as "totally incoherent and inadequate," and argued for a severe "shock treatment." Certainly reflecting what he heard from the IMF, he called for a single drastic adjustment, where wage indexation and

subsidies would be entirely eliminated immediately ("Delfim Unveils New Economic Austerity" 1983; "Figueiredo Opts for Milder" 1983).

Langoni's arguments "did not allay Figueiredo's fears that the political and social costs of his package could be intolerably high." Within the government, Langoni was called "a tool of foreign interests." Delfim and his team proposed a set of more gradual adjustments, and "deliberately leaked to the press controversial aspects of his tough austerity package, in a successful attempt to sabotage it" ("Figueiredo Opts for Milder" 1983). Langoni resigned on September 2, and was replaced by a Delfim protégé, Affonso Celso Pastore.

After his resignation, Langoni seems to have rethought his positions. In his statements to the press, Langoni claimed he resigned in order to avoid signing the third letter of intent. He cited the IMF demand for a budget deficit of zero and a 55% inflation rate as "unrealizable." Those targets, still part of the negotiations leading to the third letter of intent, were later raised ("Brazilian Officals Indicate" 1983). Langoni warned, in no uncertain terms, that the measures required to achieve such goals would create unprecedented social dislocation ("Fratura exposta" 1983; "Langoni's Departure" 1983; "Pastoral Symphony" 1983). Most probably, Langoni had scenes of the April riots in his memory when stated to *Euromoney* magazine:

> The Fund asks too much of the developing countries in too short a time. So far, about half of the countries in the EFF [Extended Fund Facility] program have had to ask for a waiver. This reflects the difficulties in achieving some of the initial goals of these programs. Since the need for an adjustment program arises so suddenly, there is often a dangerous conflict between the Fund's requests and what is politically and socially viable within the country. . . . In the management of demand policies, it is imperative to take into account the social constraints represented by excessively high unemployment (Langoni 1983).

Working class resistance to the measures demanded by the IMF took a variety of forms, and played themselves out in a variety of fora. I have only selected a few examples. The cumulative effect of these various acts of resistance was to produce a loosening of the demands of the IMF. In the long run, such resistance from Brazil and from several other countries resulted in a change of the approach of the IMF.

The Acceptance of Debt Reduction

In 1989, there was a dramatic about-face in the strategy adopted by the international financial community toward the debt problems of the developing countries. The new strategy, referred to as "debt reduction," represented the acceptance of the fact that the debt could not be paid back in full, even if stretched out or re-negotiated.(16) On March 10, 1989, U.S. Secretary of the Treasury Nicholas Brady called on private banks to voluntarily reduce debt burdens on a case-by-case basis. Brady stated:

> Despite the accomplishments to date, we must acknowledge that serious problems and impediments to a successful resolution to the debt crisis remain. . . . Growth has not been sufficient. Nor has the level of economic policy reform been adequate. Capital flight has drained resources from debtor nations' economies. . . . Neither investment nor domestic savings has shown much improvement. . . . Inflation has not been brought under control. Commercial bank lending has not always been timely. . . . Prosperity remains . . . for many out of reach. . . . The path toward greater creditworthiness and a return to the markets for many debtor countries needs to involve debt reduction (cited in: Lissakers 1991, 227).

Brady was in fact placing the U.S. government's official endorsement on a proposal that had already been frequently urged. At the governmental level, the Miyazawa plan (Mossberg 1988) and the Mitterand proposal (Greenhouse 1988), of June 1988, had both called for debt reduction. Within the academic world closest to policymaking, Jeffrey Sachs (1985; 1986) in 1985, and Rudiger Dornbush, Paul Krugman and Stanley Fischer (Fischer 1987) in 1986 were emphasizing the need for debt relief. Acceptable mechanisms for debt reduction had also been experimented with. In July of 1987, as part of a broad stabilization program, the Bolivian government bought up its own debt on the secondary market, at an average eleven cents to the dollar, reducing its debt from $1.5 billion to $259 million. A major change in the attitude of some commercial banks was evident in the Mexican debt agreement of 29 December 1987. In that plan, Morgan Guaranty Trust Company proposed to exchange Mexican debt for bonds of a lesser face value, but higher interest, that were to have their principal backed by zero-coupon U.S. Treasury bonds bought by Mexico. The plan, not entirely successful, envisioned reducing Mexico's $70 billion debt by as much as $10 billion (Bennet 1987; Farnsworth 1987). Brady's outright call for debt reduction was the culmination and official recognition of all these developments.

In practice, debt reduction has meant that a variety of market-based procedures, a "menu" of options such as debt-for-bond exchanges, debt-equity swaps, debt buy-backs, etc., have been used to permanently reduce the value of the banks' claims upon the debtors. The incentive for debtors is obvious, while the incentive to commercial banks has been the greater of threat of outright debt repudiation.

This development represented a major shift in policy. Previously, a consensus existed between governments, international financial institutions, central banks and commercial banks, that the debt could and would eventually be repaid. Cohen aptly called this the "containment strategy" (Cohen 1989). The strategy consisted in containing and managing the crisis by assembling short-term refinancing packages that would allow the temporary respite needed for the debtors to implement the domestic reforms needed to be able to pay the debt. The principal goal was to continue the servicing of commercial bank claims without an interruption in payments of interest nor a reduction in the present value of the claims. That strategy proved unworkable, and was abandoned in favor of "debt reduction."

What dynamic produced this change in strategy? Debt reduction was not arrived at as the simple result of a farsighted consensual transition. On the contrary, debt reduction was actively resisted by members of the banking and policymaking communities. The 1987 Morgan Guaranty debt reducing agreement with Mexico was actively resisted by several U.S. banks, which refused to sign. John S. Reed, chairperson of Citibank, accepted the terms under protest and with great reluctance (Truell 1987). E. Gerald Corrigan, President of the New York Federal Reserve, epitomizes the reluctance of regulators to accept the notion of debt reduction. He argued against debt forgiveness on two very sensible grounds: that debt forgiveness would make creditors reluctant to extend any further loans, which were crucial to economic growth in the developing world; and that debt forgiveness would reduce the pressure on developing nations to complete needed domestic reforms. Thus, in April of 1988, almost a year before the Brady plan announcement, he stated:

> In looking at the overall situation, it is clear that we are at something of a crossroads. . . . Some have suggested that the way for the future lies in some sweeping and generalized approach that would incorporate—one way or another—a program of debt relief, debt forgiveness and/or the shifting of commercial bank debt to the official sector. I do not share that view. . . . Anything approaching a "forced" write-down of even a part of the debt—no matter how well dressed up—seems to me to run clear risks of inevitably and fatally crushing the prospects for fresh money financing that is so central to growth prospects of the troubled LDCs. . . . I find it wholly unrealistic to assume that creditors would take forced losses and then turn around and extend new credits, even if such new credits were senior to the old credits. . . . Generalized approaches to debt relief or forgiveness seem to me to also work the wrong way in terms of incentives in the debtor countries. That is, even the specter of some generalized form of debt relief can carry with it the illusion that the burden of policy adjustment and adaptation is lessened or removed. To the extent that occurs, conditions could actually worsen and the slippery slope of debt relief becomes very slippery indeed. In other words, once the process starts, what is to stop it (Corrigan 1988, 3, 4)?(17)

What dynamic, then, explains the shift in debt strategy that is finally consolidated in the Brady plan of March 1989? My argument is that the dynamic that explains this shift is working class struggle, that is, what caused banks and governments to accept debt reduction was the active resistance of the working class. Because workers refused to accept a sufficient reduction in their standard of living in order to accommodate payment of the debt, the debt was declared at least partially unpayable. This shift must be recognized as a victory, however partial, for workers' willingness to resist the attempts to make them pay for the debt. Although the story is a global one—workers resistance was world wide—the fact that Brazil was the largest Third World debtor makes the actions of its workers especially important.

From 1979 until the turn to the IMF at the end of 1982, Brazil applied a number of macroeconomic policy programs in rapid succession. Each produced seemingly perverse effects. With the abandonment of expansionary policies by the end of 1979, Brazil attempted a new monetarist (expectations management) program in 1980. It was abandoned in 1981 in favor of a very tight monetary policy (Bacha 1983). Each of these, though, was unable to reduce a steady inflation of about 100%. This experience provided the need and the incentive for Brazilian economists to develop theory that could explain the observations and provide a framework for viable policy.(18) In particular, a "stylized fact" that needed explanation was the steady non-accelerating inflation that did not seem responsive to traditional policy. After 1979, annual inflation in Brazil doubled, reaching about 100%, and then held steady at that rate for the next three years, despite contractionary policies after 1981. With the partial application of IMF sanctioned demand-management policies in 1983 to 1984, inflation doubled again (a perverse, unintended effect), reaching some 220%, and again held steady at that rate. This seemed to be a peculiarly Brazilian inflation; it did not fit the traditional pattern of accelerating inflations.

Orthodox Brazilian economists placed the cause of the inflation in monetary and fiscal policies (Lemgruber 1984; Contador 1985). Neostructuralists were steadily piecing together a different, "heterodox," explanation (Lopes and Bacha 1983; Bresser and Nakano 1984). Heterodox theory focused on the role of wage indexation in propagating inflation.

In 1964 (with the military coup), inflation in Brazil was controlled by instituting a wage indexation scheme that allowed for wage repression. The size of the annual mandatory wage adjustments throughout the economy were determined by adding half of the cost of living increase of the previous two years with half of the expected inflation of the coming year. Because the officially forecast expected rate of inflation was consistently lower than the actual inflation, real wages gradually fell. (Inflation fell from 144% in the first quarter of 1964; to 57% in 1965; to 38% in 1966.)

As we have seen, in January of 1975 (after the 1974 MDB electoral victory), the wage indexation scheme was made wholly backward-looking, adjusting for past inflation, as against the previous scheme of adjusting for both past and a (manipulated) expected inflation. The new wage scheme thus granted workers full compensation for past inflation (Simonsen 1983).

The new backward-looking wage adjustment scheme added a "memory" to the system. Any past inflation would be perpetuated as the current correction on wages. Neostructuralist economists completed this analysis with the observation that high concentration ratios in the Brazilian economy resulted in wide-spread oligopolistic cost-plus pricing, which meant business would pass any wage increase on to prices. Furthermore, the inflation was validated in an environment of accommodating monetary policy.

Such a structure made it impossible to squeeze out inflation through traditional means. A contraction of demand affects the level of employment and output, but does not affect the level of inflation. Neither Keynesian nor monetarist contractionary policies would work because neither directly manipulates the wage. Real wages were indexed to prices, thus no Phillips-curve tradeoff was possible.(19) The steady inflation is the result of a continual catching-up, with both labor and business trying to defend and maintain their share of national income. A price rise, which is an attempt to increase the relative share of business, produces a retaliatory wage rise. In such a situation, any exogenous supply shock that raises a price (such as a sudden fall in supply or a devaluation) permanently raises the level of inflation. This type of steady, intractable and nonaccelerating inflation was referred to as inertial inflation.

The new heterodox models could both explain the perverse effects of orthodox policy and provide the analytical argumentation for a new set of policies. Inflation doubled in 1979 because of the new wage law (of November 1979) increased the periodicity of wage adjustments. Wages were previously adjusted every year, after November of 1979 they were adjusted every six months. In order for business to maintain its share of the national income, prices had to rise twice as fast, because wages were adjusting twice as often. The 30% maxi-devaluation of February 1983 also pushed inflation to its new higher level of some 210%, where it then held steady. The IMF prescriptions could not control the inflation because they could not erase the backward-looking "memory" of the system.

Francisco "Chico" Lopes proposed a "heterodox shock," that is, a total wage and price freeze at an "equilibrium" level (in practice, the average of level of prices and wages during the previous six or twelve months). The freeze would be temporary and carefully administered to allow for needed correction of price distortions. After the freeze, the economy would could carry on without the built-in inflation (Lopes 1984). Persio Arida and André Lara-Resende proposed a monetary reform where the continually devaluing currency would be replaced by another that held its value in terms of purchasing power (Arida and Lara-Resende 1985).

This new body of theory resulted in three major and completely unprecedented macroeconomic policy experiments: Argentina's *Plan Austral* of June 1985, the Israeli program of July 1985 and Brazil's *Plano Cruzado* of February 1986.

The *Plano Cruzado* (Cruzado plan, Decree-law 2,283) was announced by President José Sarney on 28 February 1986. It consisted of a temporary wage and price freeze with a monetary reform. The key elements were: 1) a price freeze on all final goods; 2) a wage freeze, following a readjustment that set wages at the average level of

the previous six months, plus (as a last minute sweetener) an added 8% real wage increase; 3) a rent and mortgage freeze, also at the average level of the previous six months; 4) a new wage escalator system, where wages would be automatically readjusted whenever the consumer price index rose over 20% (the wage "trigger"); 5) a prohibition of index clauses for contracts of less than one year; 6) a new currency, the cruzado. Contracts previously made in cruzeiros would be converted to the cruzado under a conversion rate where the cruzeiro payments would decline against the cruzado at a monthly rate of 14%, the presumably expected monthly inflation rate that had been implicitly written into cruzeiro contracts. The Cruzado plan did not make any specific mention of the exchange rate, but the government indicated it intended to keep it fixed at Cz$13.84 to the dollar. The plan also created, for the first time in Brazil, limited unemployment benefits, of partial wages for up to four months after being unemployed.

The Cruzado Plan did not include any rules or targets for monetary or fiscal policy. This was to allow the government the greatest possible flexibility for dealing with any abrupt or unforeseen changes in the economy. A large initial monetization of the economy was expected as people would again begin to hold money balances after the fall in inflation.

Before the Cruzado plan, wages, rents and financial instruments were readjusted at intervals of differing lengths. All wages were readjusted every six months, but not all simultaneously. Rent contracts were readjusted annually or every six months, while government bonds were readjusted every month. Thus an uncorrected wage and price freeze would result in major redistributions of income and wealth with, for example, some wage-earners whose wage had just been adjusted receiving a higher real wage than those whose wage had been adjusted five months ago. The task was thus to design a "neutral shock" that would not disturb the existing distribution.

The formula arrived at was to set wages at their average level during the previous six months. Significantly, a bonus of 8.0% was added to all wages and a new minimum wage was set at 16.1% over the old level. Baer concludes that this real wage increase, which resulted in an overheated economy, was the Cruzado plan's fatal flaw: "The Cruzado Plan . . . was fatally flawed by its incorporation of a substantial real wage increase. Whatever good the Cruzado Plan did was largely canceled by the inflationary wage shock" (Baer 1989, 164).(20)

Why was this initial real wage increase included in the plan? Clearly, it was included in order to placate and win the support of workers. In fact, several measures were being introduced that deviated from the original designs of heterodox theory. The wage increase, the automatic wage trigger to be set off whenever inflation rose to 20%, and the unemployment benefits clearly transcended the limits of a monetary reform (see: Setti 1986; Flynn 1986; Sola 1991; Cohen 1987). These elements would lead to the plan's eventual failure.

The *Plano Cruzado* initially met with overwhelming popular support. Housewives enthusiastically went to the streets as *Fiscais de Sarney* (Sarney's inspectors), charged by the president to police and report on any merchants breaking the price freeze. Enthusiasm began to wane when the government kept changing the *tablita* (the table of adjustments devised to eliminate expected inflation from extant contracts) and when people saw that nothing happened to Abílio Diniz, owner of a major supermarket chain who was also a member of the National Monetary Council, when he was caught violating the price freeze.

The plan ignited a spending binge fueled by the real-wage increase granted to gain working class support for the plan. With the elimination of indexing on savings accounts, people shifted money out of savings and purchased consumer goods as a precaution. The increase in consumer demand caused the economy to overheat.

The price freeze maintained relative price distortions which further fueled consumption. Some prices were caught behind on their adjustment for inflation and were thus frozen at relatively low levels.

Fixing the exchange rate quickly resulted in an overvalued cruzado. Consumer spending increased imports, while exporters, waiting for a devaluation, turned to the domestic market. Increased imports and decreasing exports began running down foreign exchange reserves and put pressure on the (fixed) exchange rate (Cardoso and Dornbusch 1987; Modiano 1988). By October, the Central Bank again ceased publishing official statistics on the level of foreign reserves ("Inflation Surges" 1987).

The economists who devised the Cruzado plan always expected the price freeze to be temporary. But as the President's prestige came to be identified with zero inflation, the unfreezing of prices was continually resisted. The government resisted undoing the price freeze for two reasons. One was because a legislative election was scheduled

for November 15th, 1986, eight and a half months after the beginning of the plan. A second reason was because the wage trigger had been set to guarantee a wage increase whenever the consumer price index rose over 20 percent. Allowing the inflation to set off the wage adjustment trigger could lead to a renewed and resurgent inflation.

The government waited until after the election to undertake needed adjustments. On Saturday, 15 November 1986, the government party (the PMDB) received the highest voting ever in the history of Brazil, winning 22 of 23 governorships, 44 out of 49 seats in the Senate, and an absolute majority in the Chamber of Deputies. By doing so it also gained control of the Constituent Congress, charged with writing a new constitution. On Friday November 21, in what was the first significant adjustment of prices since February, the government announced the largest ever increase in prices and taxes in the history of Brazil.(21)

That next Thursday, November 27, intense rioting broke out in Brasilia protesting the price increases. Twenty thousand people, invited by the labor unions, marched to the center of the city. Riot police and army troops in tanks faced the crowds, which at one point tried to enter the national Congress and the Ministry of Finance. The events were reported as the largest riot ever seen in that area. Television and newspapers carried images of police attacking protesters and banks being looted ("Um vendaval agita Brasília" 1986; "Protest of Measures" 1986; Riding 1986).

In early December the two largest labor unions (CUT and CGT) organized a national general strike for Friday, December 12, to protest the price increases. An estimated 15 million out of 52 million economically active joined the strike. While the strike was generally judged a failure in São Paulo and Rio de Janeiro, the strike did paralyze nine of the twenty two states, including most of the northeast. Army and navy troops were called out throughout the country ("A miragem desfeita" 1986; "Uma jornada desigual" 1986; "O Exército sai às ruas" 1986; "A face da greve" 1986).

By January inflation had returned to its pre-*Cruzado* rate of 12% a month, and the government was debating a new wage trigger policy ("O PMDB coça o coldre" 1987). On the evening of Friday, February 20, 1987, President Sarney announced that the country was out of foreign reserves, and was declaring a unilateral moratorium of payments on the external debt ("Sarney espeta a conta" 1987; Riding 1987). The government's refusal to make necessary adjustments before the elections had doomed the plan and eventually resulted in the moratorium.

On February 20, 1987, Brazil unilaterally declared a moratorium on payments of interest (principle had not been paid for years) on all medium and long term loans from private international banks. In the opinion of Jeffrey Sachs, Brazil's moratorium produced a positive result:

> Brazil's moratorium did produce one good result: it did finally provoke a serious view of what was going on. The commercial banks, with Citicorp in the lead, took a step ahead of the Treasury and of the Federal Reserve, by making provisions for loan losses against LDC debt (Sachs 1988, 21).(22)

Citicorp's chairperson, John S. Reed, surprised and divided the U.S. banking community (Berg 1987; Bennet 1987) when he broke ranks on May 19, 1987 and publicly announced steps to prepare for potential losses on sovereign loans to developing countries. Until that day, the major banks had insisted that with proper debtor-country policy reform and a renewal of global economic growth, the sovereign loans were ultimately collectable. In a carefully orchestrated move—including prior notification to the Federal Reserve, the Treasury and the Securities and Exchange Commission; hand-delivered explanations to the major debtor governments; and advance warning to banks whose Third World exposure or weak balance sheets required preparations for any adverse market reactions—Citicorp announced that it was adding 3 billion dollars to its loan loss reserves against developing country debt for the second quarter of 1987. Doing so meant that if a particular loan were deemed uncollectable, the amount of the loss would be deducted from the reserve and thus not affect current income. The reserves were specific provisions against loans made to a list of thirty-one developing countries, including Brazil. Citicorp's action resulted in a 2.5 billion dollar loss for the quarter, the largest single quarterly loss ever reported by a commercial bank.

There were many motivations behind Citicorp's decision. Citicorp's official explanation is contained in its formal report to the Securities and Exchange Commission (Form 8-K, filed to report unusual changes). It contained a one-sentence explanation:

> [The provision was made] to reflect the increasingly visible economic reality that the adjustment process for the heavily indebted countries will stretch in to the 1990's, the impairment of this portfolio as seen in the recent agreements and the current events in Brazil, and the decision by Citicorp to restructure its exposure through debt-equity swaps, sales and other actions (cited in: Guttentag and Herring 1989).

Citibank's official explanation thus explicitly cites "current events" in Brazil as a motivation for increasing provisions against loans to developing countries.

Several factors made Citicorp's move possible. At the outbreak of the crisis in 1982 several banks found that their exposure to developing country loans exceeded their capacity to bear losses. By 1987, banks had built up enough capital so as to be less threatened by losses from such loans. While these factors made Citibank's decision more feasible, by themselves they do not explain why the decision was taken.

John Reed's move forced all other nine "money center" banks to follow suit. Citibank was the largest single holder of developing country debt. When it decided that the loans were not worth their face value, then the other banks holding such assets would be hard-pressed to explain to stockholders why theirs still was. By the end of 1987, all the major U.S. banks had increased their loan loss reserves against Third World debt by more than 15 billion dollars, accounting for some 25 to 35 percent of their total developing country loans outstanding.(23)

Citibank's decision, motivated by Brazil's moratorium, spread through the U.S. banking system and then abroad. Some Western European, particularly German, banks already had higher reserves against Latin American debt than did the American banks. Those that didn't, such as English and Canadian banks, followed Citibank's lead and increased their provisioning. In August of 1987, the Bank of England sent a letter to all United Kingdom banks with developing country exposure, encouraging them to increase provisions "where appropriate" to reflect "the deterioration in the prospects of their recoverability" ("Banks Grin and Bear It" 1987; "Banks Slither on the Citi Slick" 1987; Bird 1989).

This move, in turn, marked the beginning of direct participation of the major U.S. banks in the existing secondary market for developing country debt. By allowing for losses on their Latin American assets, and suspending the fiction of their continued value, the banks could begin to sell off or swap these assets at secondary market prices. The larger reserves could be used to cushion the short term losses incurred by such sales. Smaller regional banks had been the original sources of supply in the secondary market. With Citibank's move, the major banks could now enter the secondary market. Their participation depended, to a large degree, on their ability to absorb the losses incurred by selling the debt at secondary market prices. The key issue is that the secondary market valuation—that is, the market's recognition that developing country debt was only worth a fraction of its face value—provided the rationale and incentive for the acceptance of debt reduction.

When John Reed increased loan loss reserves in May of 1987, he forced other banks, in less flexible positions, to follow suit. The move also resulted in a sharp drop in the price of debt on the secondary market. Argentine, Brazilian and Mexican debt were selling at 65 cents, 76 cents, and 55.5 cents respectively to the dollar in the fourth quarter of 1986, and dropped to 33.5, 38 and 49 cents to the dollar in the fourth quarter of 1987. This large discount, and the availability of debt on the market, is what has provided the incentive for debt conversion and debt reduction.

A new approach to the debt crisis then emerged. Banks, recognizing the inability of governments to impose the austerity necessary to repay the debts, became eager to get rid of developing country debt in order to improve their asset quality. This change in strategy amounted to an admission that the debt would not be paid back in full. By 1994, according to one recent accounting, some U.S. $61.1 billion, representing 31.9% of eligible debt, had been erased (Cline 1995, 235).

The acceptance of debt reduction was the result of the continued inability to impose the austerity necessary to transfer resources out of the working class. Citibank accepted to absorb losses on developing country debt after the Brazilian moratorium of 1987. This event was the turning point in the evolution of the crisis. I have also shown how the moratorium itself was the result of sustained working class pressure upon the government of Brazil.

Conclusion

I have shown that the working class played a central role in the evolution of the debt crisis. At certain key junctures in the debt crisis, working class actions constrained and determined the policy decisions and responses of governments, international financial institutions and banks. The debt was accumulated because of working class pressures; the debt could not be fully paid because of working class resistance to austerity; and the debt was finally reduced because of the continued intractability of the working class. Money-as-capital was, to a significant degree, made into money-as-money.

Workers were not mere victims of the debt crisis. On the contrary, I have tried to show how their demands led to the build-up of debt. Nor were they merely reactive to the actions of banks, governments or international institutions. On the contrary, they often took advantage of opportunities and acted with self-determined goals and strategies to which capital was then forced to react. This power to influence the direction of policy is a *problem* for capital and for capitalists. When the working class acts exogenously to the plans of policy makers, i.e., when it acts as an autonomous subject against or beyond capital, it makes its own projects and demands paramount. The problem for policymakers is to restore the sustainable accumulation of capital by finding ways to either incorporate those demands or to repress them.

Only by understanding working class subjectivity and power we can begin to inquire into how to go about increasing that power. By understanding that power, we also discover how, despite their *apparent* absence in theory and policy discourse, working class power is in fact very clearly recognized as *the* force to be curbed or coopted by the economists, businessmen, and politicians attempting to manage the class relation.

ENDNOTES

1. My use of the term "working class" is Marxist, but Marxist in a very specific sense. I use the term in a way that is inclusive of a wide variety of people whose labor is tapped by capitalism for its own reproduction. Thus the term is not restricted to the traditional waged industrial working class but denotes not only a wider range of waged workers, e.g., white as well as blue collar workers, service and state sector workers as well as factory workers but also a wide variety of unwaged people as well, e.g., peasants, housewives, students, petty commodity merchants in the informal sector, and so on. While this re-reading of Marx owes much to Mariarosa Dalla Costa and Selma James (1972) as well as to E. P. Thompson, it is also clearly implicit in the work of Marx himself.

2. My presentation is limited to a study of the Brazilian case. Focusing on Brazil is justified by the fact that it was the largest single debtor and a major participant throughout the debt crisis. In 1988 the World Bank's list of "highly indebted countries" included 17 countries with a total debt outstanding of US$ 528.6 billion. Brazil accounted for US$ 120.1 billion or 22.7% of the total (World Bank 1988, xviii). My case study should be placed within the wider international and transnational context of the origins, circulation and evolution of the crisis. An overview at the international level of the role of working class power in the dynamics of the debt crisis is presented in Cleaver, 1989.

3. Marx states: ". . . capital is not a thing, but a social relation between persons which is mediated through things" (Marx 1976, 932).

4. Marx (1976) states (p. 253): "The simple circulation of commodities—selling in order to buy—is a means to a final goal which lies outside of circulation, namely the appropriation of use-values, the satisfaction of needs. As against this, the circulation of money as capital is an end in itself, for the valorization of value takes place only within this constantly renewed movement. The movement of capital is therefore limitless." Marx draws this distinction from Aristotle. From Aristotle, it informed much of medieval scholastic economics. Fellow economists may recall Keynes' injunction in the *General Theory*: "I was brought up to believe that the attitude of the Medieval Church to the rate of interest was inherently absurd, and that the subtle discussions aimed at distinguishing the return on money-loans from the return to active investment were merely jesuitical attempts to find a practical escape for foolish theory. But I now read these discussions as an honest intellectual effort to keep separate what the classical theory has inextricably confused together. . . ." (Keynes 1936, 351-52).

5. In Marx's day, the reproduction of the working class was largely left up to the working class itself. That is, capital did not directly manage the reproduction of the ability to do work—it did not manage working class consumption. With the rise of the Keynesian state and the management of working class reproduction, Marx's analysis can be extended. Money circulates as money to the degree and extent that it does not serve to reproduce the

ability to do work, but is rather subversive of that reproduction of labor-power. This extension of Marx's analysis was first carried out in an appendix to Cleaver, 1977.

6. Because the military were internally divided, they never carried out a thorough institutionalization of their authoritarian rule. Thus, for example, Congress was made powerless and repeatedly purged, but maintained. One often cited analysis calls Brazilian society at this time "an authoritarian *situation*, rather than an authoritarian *regime*." By this it was meant that the lack of an ideological consensus within the government prevented the creation of an authoritarian regime similar to those in Spain or Portugal at the time (Linz 1973).

7. Roberto de Oliveira Campos, Minister of Planning from 1964 to 1967, argued that political stability, the result of political repression, was the key ingredient required in order to produce the six "miracle" years of impressive economic growth: "The excellent growth performance of the Brazilian economy in the period of 1968 to 1973—which exceeded that of any previous period—elicits investigating which were the determinants, not only economic but socio-political determinants, of this surge of growth, especially in view of the many previous frustrating experiences which Brazil and other underdeveloped countries have seen. . . . The first of the previously missing ingredients was *political stability* . . . Beginning in 1964, we were able to achieve a reasonable political stability, through a regime which some political scientists describe as 'modernizing authoritarianism,' which allows for differentiated subsystems—including political parties, interest groups such as employers and workers unions, press and means of mass communication—but keeps their autonomy temporarily limited" (Campos 1974, my translation, emphasis in original). Mário Henrique Simonsen, Minister of Finance from 1974 to 1979, stated to *Forbes* magazine in March of 1973 that "With a freely elected president you could hardly do this. It would be very difficult. . . . Democracy is something no developing nation can afford" ("How to Live with Inflation" 1973).

8. From a popular song, "Os Argonautas," of Caetano Veloso, composed in 1969. The refrain is drawn from Fernando Pessoa and recalls the early navigators of the fifteenth century as they embarked upon their journeys into the unknown seas. Perrone (1989) provides a discussion of the important role played by urban popular music during the period of military rule. A translation of the lyrics of "Os Argonautas" can be found in Perrone's text on page 75.

9. The objection can be raised that the consumption being maintained in the face of the two oil shocks was luxury consumption, and not working class consumption. Mention is also often made of failed government investment programs, such as the nuclear power program (some US$ 4.2 billion spent by 1982) or the Açominas steel plant (more than US$ 2.5 billion) (e.g.: Kuczynski 1988, 64). Barring the corrupt diversion of funds—which can reasonably be assumed to be proportionately small—the Brazilian external debt was not used to import luxury automobiles. In any case, the Keynesian category "consumption" does not allow us to disaggregate a "luxury" consumption from a "working class" consumption. Nevertheless, the relevant Marxian categories are money-as-capital and money-as-money, which do not build nor depend upon what is ultimately a socially constructed evaluation of what types of consumption are "luxuries." See also, note 1. It is true that external debt was used to fund several major parastatal investment programs, some of which were designed as indivisible "lumpy" projects that assumed continued economic growth at rates that later proved overly optimistic. Given the fungibility and substitutability of funds, the argument above—that loans were being used to maintain levels of consumption in the face of rising import costs—does not turn on what the final use of each individual loan may have been (investment or consumption goods) but on how the national economy utilized the sum of resources available to it.

10. Several authors refer to a never-published Third National Development plan, then under preparation, where Simonsen's recessionary intentions were made explicit. (Skidmore 1989, 20; Bacha and Malan 1989, 128; Skidmore 1988, 215).

11. Thus, for example, the government tacitly encouraged the creation of the *Partido dos Trabalhadores* (Workers' Party, PT), which was formed by the leaders of the ABC strikes of 1978 and 1979. The creation of the PT was deeply divisive within the working class movement, with many arguing that union militants should stick to union organizing and others arguing that an independent workers' party would strengthen the government by dividing the opposition (Keck 1992).

12. The other parties were: the *Partido Democrático Trabalhista* (PDT) of Leonel Brizola; the *Partido Trabalhista Brasileiro* (PTB); the *Partido dos Trabalhadores* (PT); and the *Partido Popular* (PP). The Communist parties, of which two were significant (the PCB and the PC do B), were not allowed to register as political parties.

13. This hypothesis, though frequently raised, has not been systematically studied. The issue is raised, for example, in Marques and Batista, 1984, p. 6. A journalistic example is Casado, 1984.

14. Carneiro notes: "This experience can teach us that the implicit conditions may be more important than the explicit conditions" (Carneiro 1988, my translation).

15. The U.S. government demanded a quid-pro-quo, and obtained Brazil's increasing participation in the Central American conflicts.

16. Sachs stated of the Brady plan: "The focus on cutting the debt burden contrasts sharply with earlier Treasury policies, under both Donald Regan and James Baker, which had held that eventually all of the commercial bank debt should be repaid on market terms" (Sachs 1989, 87).

17. That Corrigan played a major role behind the scenes in the debt crisis is vouched for by Paul Volcker, who states that Corrigan was "immersed in the process" (Volcker and Gyohten 1992, 203).

18. For example, partly on the basis of the Brazilian experience, Dornbusch stated that there was "need and room" for a paradigm that he finds "is hard to accept, were it not for the alternatives." He reviewed the recent experience with both traditional programs (fiscal discipline and the right real exchange rate), and new monetarist programs (purchasing power parity and the monetary approach) and found both lacking. He then states: "It is now increasingly realized that inflation stabilization involves breaking the inertia arising from contracting, indexation and expectations. The combination of wage controls *and* exchange rate targeting, along with price controls in the public sector, make it possible to synchronize the deceleration of wages and prices throughout the economy" (Dornbusch 1982).

19. Whether the wage indexation, which in any case only would cover the formal sector, could dominate market mechanisms is an empirical question. A test by Lara-Resende and Lopes found that for the period 1960 to 1978, prices in Brazil can be explained by the cost of inputs plus the statutory wage (Lara-Resende and Lopes 1981).

20. Baer goes on to reiterate: "Matters were made worse by the persisting public sector deficit, a relatively low exchange value of the cruzado at its launch, and then by the execution of the plan: prices were frozen in disequilibrium too long and monetary policy was too loose. The wage increase was the essence of what went wrong, however. Unfortunately, given the government's political weakness, it may be that the Cruzado Plan had to incorporate a wage increase." Eliana Cardoso concurs: "There is no controversy about the reasons why the Cruzado Plan failed. The most prominent factor was the overheating of the economy through loose fiscal and monetary policies, as well as through the overly generous wage policy" (Cardoso 1991, 153).

21. The following prices were raised: gasoline and alcohol (used as an automotive fuel), raised 60%; automobiles, 80%; postal services, 35%; telephone services, 35%; electricity, 60%; sugar, 25%; medicines, from 5 to 15%; liquor, 100%; cigarettes, 45% to 120%, etc. The government expected to raise an additional $11.5 billion in revenues. A new (manipulable) index of inflation was created. Three government regulatory agencies were closed, eliminating 30,000 jobs ("O eleitor foi empacotado" 1986; "O governo enche o bolso" 1986; "A safra de promessas" 1986).

22. David Rockefeller and Pedro-Pablo Kuczynski agree with Sachs on this point. Rockefeller states: "Brazil's unilateral decision in February to suspend interest payments on its debt brought about a chain reaction of events, including the decision by Citibank, followed by Chase Manhattan and other United States banks, to increase loan loss reserves. . . . Many observers seem to feel that at long last banks are taking their heads out of the sand and recognizing the inevitable" (Rockefeller 1987; Kuczynski 1987). Journalistic reports at the time also explained Citibank's decision as a direct reaction to the Brazilian moratorium. See, for example: "A Stunner from the Citi" (1987).

23. Citicorp did not participate in a second round of increases of loan loss reserves in 1989, and eventually suffered a downgrading by Standard and Poor's.

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