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Economic Survey

Brazil's turn toward IMF genocide policy

by Mark Sonnenblick

The "economic miracle" nation of Brazil has entered a period of unprecedented economic chaos and deprivation. President J.B. Figueiredo kept his earlier promise of "war economy" in a nationwide television address Dec. 7. The general announced that he was devaluing the currency by a shocking 30 percent and wiping off the books the complex system of subsidies and incentives which had shielded both the population and industry from some of the effects of the country's chronic inflation.

Brazilian economic policy: "Made in Washington"

Brazil has made a commitment to return to the neocolonial "free trade" system of Adam Smith. It is a commitment, however, obtained only after a two-year process of blackmail and bludgeoning by U.S. Treasury Assistant Secretary C. Fred Bergsten. Bergsten first demanded enactment of Figueiredo's December package in a meeting with Brazilian businessmen in 1977, and made repeated threats to cut off Brazil's access to the U.S. market unless it did so. Those threats were concretized with imposition of a 24 percent extra countervailing duty on Brazilian pig iron exports in November. This prompted the Brazilian leaders to prepare their Dec. 7 package.

Immediately after Brazil announced its submission-maxi-devaluations and the ending of export incentives and subsidies—the U.S. dropped the new tariff surcharges.

De-industrialization

Despite assertions that the package was designed to enable Brazil to cope with its economic crisis, improve its international balances, attract foreign investment and reduce inflation, it will only aggravate the situation, leading to more drastic—but equally ineffectual—monetarist measures.

The Times of London reports: "the main thrust of the new measures is to hold back what is seen as the sufficiently strong industrial sector and force it to fend for itself under free market conditions."

The termination of state credit subsidies, which provided industry and agriculture with investment credit at rates frequently 30 percent under those of inflation, will accomplish Brazil's deindustrialization. The cost of the raw materials and the imported inputs going into local manufactures will rise due to the currency devaluation, and industries which have followed government advice and borrowed heavily abroad will have to come up with 30 percent more cruzeiros to repay each dollar of debt.

When asked about President Figueiredo's contention that the package was designed to stimulate foreign investment, the vice president of one of the American banks doing most business in Brazil replied, "Most companies are now moaning and groaning about how bad they were deceived into putting their money into Brazil."

The reaction from Europe was even more pointed. Rolf Lochner, president of the chemical giant Bayer do Brasil, told the Sao Paulo press that his company was confused and worried by the new measures and was revising its investment budget. Bayer had planned to put 380 million DM ($220
1980-1984 period, investments which may now be cancelled. A European industrial consultant specializing in Brazil felt the Bayer decision would carry considerable weight with the firms he was advising, which already had a "wait and see attitude" toward new investment.

A Brazilian industrialist has already announced the

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cancellation of a ceramic insulator plant because of the 30 percent added cost of necessarily imported sophisticated machinery.

The "de-coupling" of Brazil from such "dependency relations" with the advanced sector is, in fact, one of the major objectives of the revised economic model which puts a premium on "national development through three sectors: agriculture, energy production, and exports," in the words of Planning Minister and Economic Czar Delfim Netto.

"Self-imposed" IMF conditionality

With its $50 billion debt requiring servicing which eats up over 80 percent of export income and an expected rise in oil imports into the $12 billion range next year, the Euromarket banks and the International Monetary Fund now have Brazil over the barrel. Brazil will have to borrow roughly $20 billion from them next year just to make ends meet.

While no one yet knows for sure, the organs of British financial intelligence are excitedly interpreting Delfim's extirpation of the system which has protected industry and consumers from "the free market" as a sign Brazil is preparing for a heavy dose of the kind of Friedmanite "shock therapy" which has drained the blood from neighboring victims of the IMF. The *Financial Times* editorialized, "the devaluation will have an intangible but nevertheless important effect in that it demonstrates that the Figueiredo administration is willing to adopt drastic remedies for difficult problems. Brazil's creditors will be pleased." London's weekly *The Economist* commented, "Brazil may be forced to borrow from the International Monetary Fund next year, and the recalled ex-miracle-maker minister of the economy, Mr. Delfim Netto, last weekend brought in most of the draconian but liberalising economic measures that the IMF would certainly demand of him."

A round of calls to senior Brazilian and American officials of the IMF, the World Bank and the U.S. Treasury and State Departments evoked the unanimous response that Brazil had not yet approached the IMF for a bailout, but was performing on its own the kind of "purgation" the IMF typically demands. Furthermore, all the Washington-based officials insisted that Delfim Netto was now committed to "slowing inflation" by pursuing the classical IMF nostrums of putting Brazil through a recession. The Washington crowd all thought that was very nice.

Yet, even the normally well-informed Brazilian elite is still in the dark about what is happening to their country. The official policy line in January remained one of "avoiding a recession at all costs," in view of the "social explosion" which everybody knows would result. The "courageous" Fegueiredo package has been greeted with a sympathetic response from most national industrialists and from the opportunist political leaders whose jerry-built "opposition parties" are now flourishing in the "Rio Spring" of Figueiredo's "political liberalization."

Brazil's "uncensored" press is covering up Bergsten-IMF paternity of the package, whereas *The Economist* more candidly notes, the "stiff and long-overdue economic measures ... are almost exactly the package that outside economists have been urging." IMF head de la Rosiere told journalists at Belgrade in September that the Fund is eager to make a deal with Brazil. But if Brazilians thought that the IMF or the U.S. were dictating policy to it, there would be formidible reactions, especially among hardline nationalist military sectors

How to destroy Brazil's economy

President Figueriredo's economic program, announced in December, includes the following:

- a 30 percent devaluation—the biggest in the history of cruzeiro, which started the year at 20.8 to the dollar and ended at 42.3.
- Elimination of incentives for exports, and of prior deposits for imports.
- Elimination of prohibition on imports of types of capital goods also made in Brazil.
- Elimination of subsidized credit—80 percent of industrial and agricultural credit has been government subsidized.
- 20 percent reduction in state sector imports—if enforced, would limit use of advanced technology.
- Freezing of $6 billion which companies deposited in special devaluation-proof government accounts (Resolution 432). Devaluation rumors sent most of the country's industrial working capital into special government accounts, from which it now can not be withdrawn except to repay foreign debts or to make direct risk investments. The freezing of these funds, to prevent speculators from cashing in on the devaluation, has angered foreign investors.
- Partial de-nationalization of oil—foreign and domestic firms will be granted drilling rights under "more flexible" terms, thus ending the state oil monopoly.

Brazil's energy program-problem

Gasoline and electric rates in Brazil were raised by 58 percent shortly before the December devaluation. Fuel oil and diesel prices have been tripled in less than two years. As a "solution" to the energy problem, Brazil has instituted the world-leading gasohol and pure alcohol gasoline substitution program, which requires subsidies of over 50 percent and is causing the displacement of food crops from near urban centers, increasing inflation and hunger. Yet the government is planning to accelerate the gasohol program.

The biggest energy policy change this new year is elimination of the state-owned Petrobras's monopoly of on-shore oil drilling. "New, flexible conditions" for risk contracts for both Brazilian and multinational oil companies are now being offered, This move against Petrobras, and the fervently-defended nationalist principle of "the oil is ours," opens the door to wholesale grabs of Brazil's substantial mineral resources by its creditors and allied interests. The denationalization of minerals might well be the primary goal of the foreign pressures for "economic liberalization."

The nuclear energy program is being quietly slowed down, although Brazil is selling nuclear technology to countries such as Iraq and Argentina.

From the horse's mouth

The following exchange took place at the Nov. 26 press conference of President J.B. Figueiredo, a retired cavalry officer:

Q: And how will Brazil be next year, without oil and without money?
A: It'll be exactly that way, without oil and without money.

Q: Isn't there a solution?
A: Hitch yer horse to the plow, and walk. That's the solution .... I don't have any short-term solution. The solution is to belt tighten and not to waste energy.

which would view it as a "sell-out of national sovereignty." Therefore the strategy is to seek an open relation with the IMF only *after* IMF programs are actually being implemented.

Social explosion

While such strategems may temporarily confuse Brazil's elites, the cruel realities of the doubling of fuel prices, and the general effects of 104 percent increase in the cost of dollars during the year are already causing localized eruptions of the vast mass of pauperized workers whose incomes suffered even in the best of times. In the days before Figueiredo's Pearl Harbor day blast, he was verbally and physically attacked by a hungry crowd in a historically passive and content town. And four suburban railroad trains were ripped up by enraged workers who could no longer contain the frustration of train breakdowns causing them loss of pay.

All advocates of genocidal reductions in employment and wages are quite aware that the social explosion resulting from such a policy could destroy Brazil. *The Times* of London asks, "will the negative effects of the new measures provoke a new social crisis?" The *Financial Times* warns, "The domestic effects of the devaluation will ... have to be handled with great care by the Brazilian authorities .... As the government ... moves away from the authoritarianism that it finds increasingly difficult to maintain, the opposition to its policies will become more and more vocal."

Even Finance Minister Karlos Rischbeiter, last March a demogogic advocate of "income redistribution," explained Jan. 4 that the wheat subsidy had not yet been reduced because "the government lacks the courage to do so." Its impact on costs of living will be enormous.

No more miracles

Figueiredo is preparing for this by postponing next year's local elections until 1982 as part of a "political reform" which all commentators (except *EIR*) praised as "a step towards democratization." Although the purpose of Gen. Golbery do Couto e Silva's "reform" was to induce the opposition political parties and trade unions to help shove severe sacrifices down the throat of the population in return for "free elections," there is high possiblity that the necessary pace of consumption reductions will be too fast for any "social pact." Only a regression to the naked force on which Delfim Netto's 1968-73 "economic miracle" was based would suffice. And even that would produce no new miracle. Therefore, a leading banker concluded, "The strength of Brazil is that they have the capacity of moving by fiat, but it's not going to be an easy couple of years."

From debt to inflation

Brazil is being strangled by a foreign debt of $50-52 billion, which demanded almost $13 billion in debt service last year, about 85 percent of Brazil's $15 billion export earnings.

Despite Brazil's backbreaking effort to achieve a 33 percent increase in exports in 1980, the debt service burden will continue to eat up the largest part of export income. Trade and service balances will remain sharply negative. Finance Minister Karlos Rischbeiter lamented Jan. 4 that Brazil's 1979 trade deficit of $3 billion would be replicated or worsen each year through 1984. His ministry is forecasting a trade deficit of $4.4 billion this year—even if Brazil manages to reach its $20 billion export goal.

To cover these deficits, Brazil will have to borrow $18-23 billion on the international money markets—roughly double what it has been taking in recent years—at the very time that its formerly good credit rating is falling apart.

This crisis is projected onto the internal economy as impressive jumps in inflation, which almost doubled in 1979 to 77.2 percent, the highest rate since the military government took power in 1964. (T

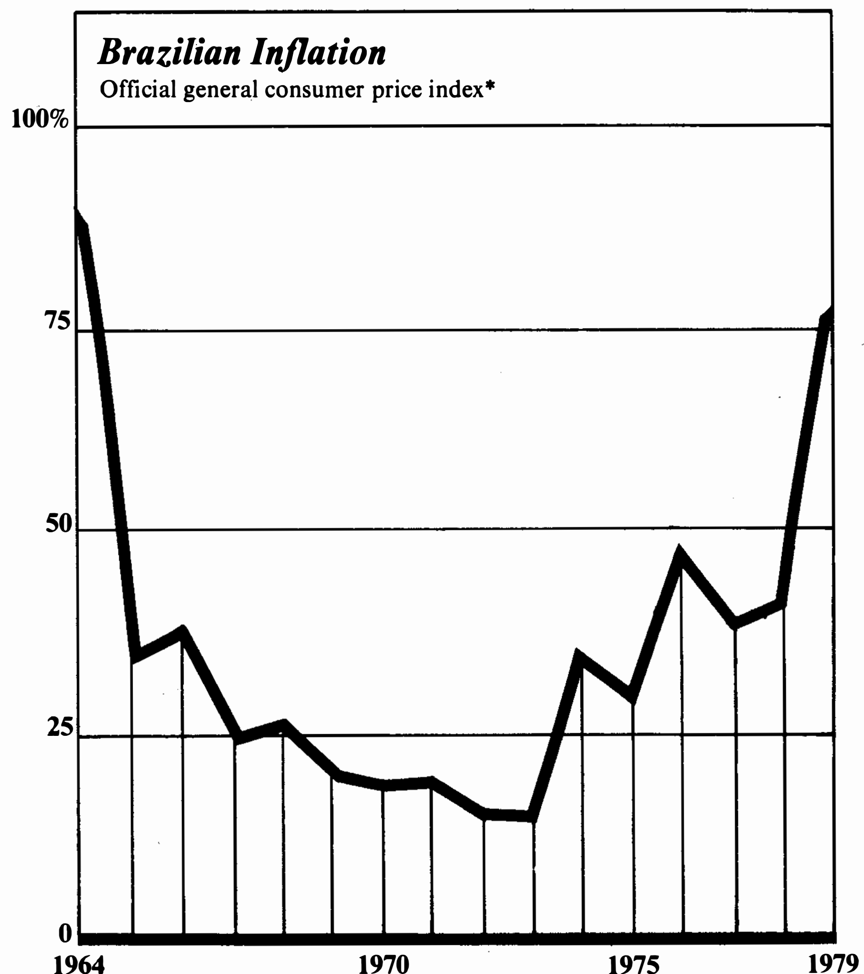
graph for 1964 was largely caused by the new government's ending "artificial" price controls and subsidies, a process President Figueiredo pledged to repeat in his Dec. 7 address.)

December's inflation climbed at an annual rate of 133 percent—even though the main reverberations of the Dec. 7 package will only be felt in the next few months.

Food led the cost of living parade with 86 percent increases in the official statistics and more than 100 percent in the eyes of other observers. Planning Minister Delfim Netto is premising his anti-inflation campaign on increased food production. To stimulate that, he has granted 70-100 percent increases in parity prices for the 1980 harvest and has promised further increases later. The rapidly expanding planting of sugar cane for alcohol and gasohol oil substitution already uses 22 percent of Sao Paulo's farmland and is displacing food crops all over the country. The extreme rate of devaluation and other export inducements will stimulate the diversion of agriculture from domestic to export production. The devaluations will make imports of wheat and other foods more expensive. (T

raw materials.) Thus, no one should expect a decrease in inflation, even if economic growth is slowed or reversed.

The hyperinflation compressed real wages by at least 13 percent during 1979, since, according to the First National Bank of Boston Newsletter, average wages of workers increased by only 57 percent, compared with the official 77 percent inflation.



* Prepared by the government's Getulio Vargas Foundation. Other sources give much higher figures for the years 1973, 1974 and 1979.

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