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Brazil prepares return to the IMF regime which wrecked its economy

by Mark Sonnenblick

Brazil's chief debt negotiator Fernão Bracher has promised the holders of the country's $113 billion foreign debt that Brazil would soon submit to International Monetary Fund (IMF) surveillance. Bracher knows what IMF austerity means: As central bank president under Planning Minister Delfim Netto during Gen. João Figueiredo's regime in the early 1980s, Bracher helped impose looting policies from which Brazil has yet to recover.

Opposing this capitulation to a new round of the IMF's crushing austerity, is former Finance Minister Dilson Funaro, the architect of Brazil's debt moratorium, who was forced to resign in April under pressure from the creditor bankers. "I would not even agree to speak with the IMF," Funaro recently insisted. "What has to be negotiated is the question of resource transfers." He contends, "There is no possibility of development in a country which transfers 5% of its Gross National Product for serving debt. Development is part of the PMDB [ruling Brazilian Democratic Movement Party] program . . . and we hold that Brazil cannot pay more than 2% of its GNP, without becoming unable to implement a development policy."

Experience shows him right. When the private bankers with whom Bracher is again trafficking cut off all voluntary lending to Brazil in early 1982, they promised that Brazil's problems would be over if it made "one, or a maximum of two years, of sacrifices." Brazil followed their orders. Living standards were cut by 30-40% and the most impressive industrial capability in the Third World "turned to scrap," in the words of the São Paulo Federation of Industries.

Brazil signed its first letter of intent and technical memorandum with the IMF on Jan. 6, 1983. Within days, it had devalued its currency by 30% and embarked on an export binge to pay the sky-high interest on its foreign debt. Brazil, which had sustained rapid growth through 1981 by importing as much as it exported, churned out $13 billion in trade surpluses in 1983 and 1984. Almost every penny of that was used to pay debt service.

The entire economy was subordinated to generating the trade surplus. The dirigist state machine which had been used to promote industrialization was used to cut imports and free up domestic production for exporting. Brazil halved its imports of machinery from the United States and other advanced countries, thus slowing its development and making Brazil less able than ever to meet its obligations. It saved another $1 billion on food imports and turned croplands from growing food for Brazilian consumption into growing soy for export or sugar cane for producing alcohol, to replace imported petroleum.

Fiscal incentives and other export subsidies added billions of dollars to government expenditures. To compensate for this drain, tax burdens were increased, while government investments were halted, agricultural and industrial incentives disappeared, and social spending shrank to near-African levels. Brazilians came to know the IMF as "Inflation Misery Famine." One of the ironies of IMF "shock" policies, is that they are always marketed as "the best way to reduce inflation," while their perpetrators know full well that they will be inflationary. Brazil's inflation more than doubled to 211% in 1983, and stayed there until after Brazil broke with the IMF in February 1987. The 1983 budget deficit rose from an expected 8.8% to an astounding 18.6% of GNP, as the intentional recession wiped out the tax base. To keep up the IMF's farce of concern for inflation and budget deficits, Bracher and other Brazilian monetarists kept raising their targets. The same IMF and banks now demanding that Brazil cut its budget deficit to zero swallowed six such "revisions."

Up against the wall

Brazilian planners have found no way to achieve sustained growth, so long as Brazil remains dependent on the deteriorating world market. Even amidst the U.S. consumer "import orgy" of 1986, world trade shrank 2.5%.

Luiz Carlos Bresser Pereira has been successful in increasing Brazil's market share, while contributing to drive down world prices. For example, Brazil will export 5% more iron ore and pellets this year in order to earn the same dollars as last year. As the United States and Japan each cut steel output by 3 million tons in the first half of the year, Brazil cut its ore price to Japan by 6% and to Europe by 3.5%.

Brazil exported 3.16 million sacks of coffee in September, more than any month in the past 28 years. Brazil's coffee exports more than doubled this year. This helped drop the world coffee price to $1 a pound, lower in real terms than during the Great Depression.

Last year, Brazilians had to wait for months to receive the autos and appliances they bought at relatively low prices.

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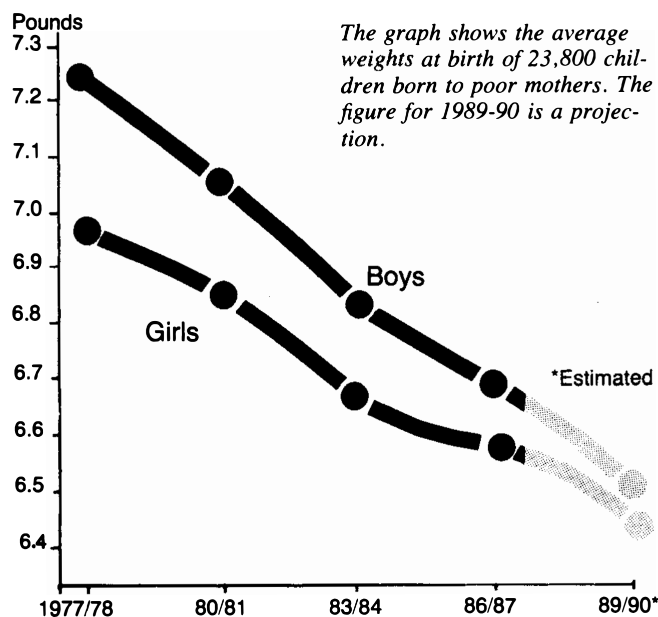
FIGURE 1

Undernourished Brazilians are becoming pygmies



Source: Meraldo Zisman, M.D., "Nordeste Pigmeu—Uma Geracão Ameaĉada," Recife, Brazil, 1987.

Wage and price policies this year have reduced sales of home appliances by 43%. Appliance industry spokesman Aldo Lorenzetti charged Oct. 28, "Brazil is going toward collapse with that deliberate policy of impoverishment." In the São Paulo industrial belt, more than 70,000 industrial jobs were eliminated in São Paulo in the past six months.

Brazilian industries are being ruthlessly decapitalized. Prof. Dante C. Matarrazo found that first-half losses were equal to 28.8% of capital for the computer industry, 20.1% for the shoe industry, and 23.7% for vehicles and machinery producers. Auto producers closed down to demand higher prices, despite their domestic sales being halved. Matarrazo said that the miserable losses in industry contrasted with the high profits of banks operating inside Brazil, "showing a violent transfer of resources from the productive to the financial sector."

The intentional triaging of domestic consumption has succeeded in increasing automotive sector exports by 85% this year, to an estimated $4.5 billion.

Export, and die

When Planning Minister Delfim Netto back in 1982 began touting exports and budget cuts as Brazil's solution, *EIR* warned that without big capital investments, Brazil's ports would not even be able to handle the load. Brazil is wasting $1 billion this year in penalties to shipping companies for loading delays at its congested ports. Under the IMF program, budget savings were achieved by halving highway maintenance. Brazil's highway death rate is now eight times that of the United States. It would cost $6 billion to eliminate 2,000 identified death traps on Brazilian highways.

The failure to invest and to maintain has taken similar tolls on all of Brazil's physical and human infrastructure. A dam not completed because of IMF cuts has led to rationing in the impoverished Northeast. The state electric company Electrobrás needs to invest $6 billion per year to sustain 7% annual growth; since the IMF took over, it has been investing only $3 billion. In contrast, it is paying $5 billion annually to service its foreign debt. The 1987 budget was for $5 billion in investments, but that was just cut after the World Bank and private banks cut off $1.2 billion in expected loans. The World Bank suspended its loans because Brazil's electric rate hikes were fast enough to spur inflation and damage the steel industry, but not enough to pay its debts.

When President José Sarney announced a debt moratorium on Feb. 20, he proclaimed that its purpose was to force creditors to renegotiate the debt under conditions which would permit Brazil "to pay its social debts" and to end the "cheap labor model" on which all its recent growth has been based.

The social debt is dramatic. Sarney's Government Action Plan, released in October, reports that 90.8 million people, 67% of all Brazilians, cannot obtain the 2,250-calory daily nutrition standard. In the Northeast, the average food intake is only 1,845 calories, and 86.5% of children under 5 are undernourished, it reports. A study of 30,000 poor children in the Northeast city of Recife, by Dr. Meraldo Zisman, found a steady decline in birthweights (see graph). The average weight of poor children born there fell from 6.8-7.0 pounds in 1977 to 6.6 pounds in 1986. He found 80% of these children "were unable to recover normal minimum growth standards" during their first four years.

The minimum wage has been reduced from about $90 in 1981 to $65 at the beginning of the year, to $40 now. Nationwide, 42% of families earn less than the minimum wage; 62% in the Northeast. There are 36 million children in families with incomes under $70 per month, and 7 million abandoned children. Public employees recently received wage increases, so that an x-ray operator now earns $105 a month and a licensed pharmacist $220. Over 46 million people have no access to medical services, nor access to treated water; 57.6 million people live in housing units "without private or collective sanitary installations," the government reports. The number of people living in urban slums (*favelas*) increased from 8 million in 1980, before the implementation of the IMF program, to 12 million in 1985.

Sarney's Government Action Program calls for major progress by 1991 toward "paying the social debt." The Plan was, however, stillborn. It projected 5% economic growth for 1987. Even before it had left the printer, the government admitted that growth would only be 2%, and that only because of the record 1986-87 harvest.