New regime to halt Brazilian growth

Despite the reappearance of many faces associated with the rapid Brazilian economic growth rates of the past decade in the cabinet of Brazil's new president, Joao Baptista Figueiredo, the gears of the nation's industrial machine are being thrown into reverse.

The motor of Brazilian economic growth during the past period was the rapid build-up of basic industry and assimilation of the world's most advanced technologies. Under President Ernesto Geisel (1974-79), Brazil focused its energies on building up basic industries like steel and petrochemicals, capital goods, and the infrastructure needed for future development. In the area of machinery and equipment, for example, domestic production in Brazil spurted ahead at an average of 7 percent the annual rate during the 1974-78 period, but the overall average of 9 percent growth rate maintained in industry was sufficient to make Brazil an ever-growing market for foreign capital goods producers. Brazil has gained an impressive industrial structure capable of rapidly raising the inadequate standard of living of the majority of its population

in Latin America

Mexico: *Gustavo R. Velasco.* Founder and director of the Free School of Law in Mexico City, and mentor of pro-Chile propagandists and writers Luis Pazos and Mont Pelerin's Agustin Navarro Vasquez. Helped found Mont Pelerin fronts like the Panamerican Institute of Business Development. (IPADE).

Argentina: *Guillermo Klein.* Argentine undersecretary of finance, hand-picked lieutenant of Finance "Czar" Martinez de Hoz. Helps coordinate 12-member de Hoz "brain trust," all Chicago School disciples. Fellow de Hoz defender: former finance minister and Pelerin member, Alvaro Carlos Alsogaray.

Brazil: *Eugenio Gudin.* Octogenarian "godfather" of the Brazilian monetarist school and life member of Mont Pelerin. Writes a weekly column in the daily *O Globo,* where he recently called for de Hoz-style iron control of Brazil's economy and Argentine "model".

Brazil: *Henry Maksud:* publisher of *Visao* business magazine and raving disciple of von Hayek. Honored speaker at the Hong Kong conclave of the Mont Pelerin Society in September 1978.

Led by state sectors

The government has been the engine of the development process by channeling resources into the most vital areas and giving generous subsidies to foreign and domestic entrepreneurs who worked within the government-directed programs. Brazil has built up a complex system of state incentives and controls with which to provide that direction. It is this system—and the industrialization impulse itself—which is now being dismantled by the followers of the Mont Pelerin Society "free enterprise" cult.

General Figueiredo has granted Planning Minister Mario Simonsen dictatorial powers over the economy in the name of "halving inflation," currently hovering around 40 percent per year. No other government official can make any important decisions affecting the economy without the prior approval of the "economic czar."

Shortly before Geisel left the presidency in mid-March, however, Simonsen forced him to decree a 7 percent cut in the 1979 budget, which had been approved in January. The agencies most severely affected are those producing steel and petrochemicals and providing the electrical, transport, and communications infrastructure needed to support future growth. Simonsen also clamped a tight lid on the ability of the big state sector companies to borrow abroad. The entire sector will be forbidden from borrowing more than $300 million in any month or $3 billion in the entire year, a 25 percent cut from last year's levels.

In a complementary measure, the National Economic Development Bank (BNDE) has been ordered to shift its lending of highly subsidized cruzeiros from capital-intensive basic industries areas.

The BNDE will now focus on light manufacturing industries which are labor-intensive, use relatively primitive technology and can generate profits without the long lead times of more substantial industrial investments.

In the name of "free enterprise," the private banking system now will have to reserve half its portfolio for Brazilian private sector borrowers. These measures—taken together with the generalized "anti-inflationary" reduction of money supply—will throw the capital-starved big state enterprises and the multinational corporations into a fierce battle for the totally inadequate amounts of credit open to them. "Free market" interest rates for industry and their consumers will skyrocket. Most sectors of industry, with the exception of those oriented towards bringing in a quick buck on the export markets, will be severely depressed.

That is exactly what Simonsen intends. He is operating under tremendous pressures from the London and Wall Street banking communities which are demanding that Brazil turn in a $3 billion annual balance of trade surplus with which to pay its mushrooming debt service, in contrast to the $1 billion trade deficit racked up in 1978.

Selling cutbacks

Simonsen and his subordinates have mounted a three-sided effort to sell his destructive policies to various Brazilian constituencies. First, they are putting forth lavish praise to "free enterprise," and promises to "destatize" public sector enterprises true to a long-term campaign of Simonsen's economics mentor and Mont Pelerin Society life member Eugenio Gudin. This Friedmanite propaganda has succeeded in convincing most of the powerful business community in Brazil to welcome or at least accept the dismantling of the state structures which have nurtured and protected them.

Second, Figueiredo is proclaiming that "agriculture has the priority." Beyond being an excuse for strangling industry, the objective is to grind out a few billion dollars worth of cheap exports from Brazil's bountiful land and abundant miserably paid agricultural labor force.

For those not enamored of the "laissez faire" rhetoric of the Mont Pelerin Society, Finance Minister Karlos Rischbeiter has embellished the same policies with flowery Kennedyesque appeals. Rischbeiter called for "a war on absolute poverty." He blamed technology for causing rural unemployment and urban migration, and called for the population to be "fixed in the rural areas" through World Bank-style slave labor employment. "Otherwise," he threatened, "Brazil is going to turn into a new Iran, where the fourth estate reacts violently as a result of having been marginalized from economic growth."

The clearest example of Brazil's changing of gears is in the energy area where the model agreement for West Germany to transfer its most advanced nuclear technology to Brazil is being spurned by Simonsen and his Energy Minister, who will quietly try to starve the program of needed funds, and justify their acts on the grounds that demand for electricity is stagnant. Meanwhile the country is being turned into a slave labor sugar plantation to produce alcohol to replace imported petroleum. Based on stoop labor sugar cane harvesting, the "gasohol" program is based on similar ersatz fuel programs developed by the Nazis.

Petrobas, the state oil company, has to pay much higher costs for alcohol than petroleum and is forced to pass the costs on to the consumers.

—Mark Sonnenblick

The truth on Chile's

In the view of Milton Friedman-styled Chicago School monetarists and their "plain business" followers, Chile's "economic recovery from the Allende disaster is now complete." They marvel at the success of the Friedman-taught Chilean "Chicago Boys," backed up by the savage repression of General Augusto Pinochet, in reducing consumer price inflation from 337 per cent in 1973, the year of Allende's destabilization and the Pinochet coup, to only 30 per cent in 1978.

Bankers are beginning, in fact, to call the restructuring of the Chilean economy along Friedmanite "liberal" lines "the Chilean Miracle," says London's *Institutional Investor*. "It is a plan that is bound to bring joy to any international banker, since it makes proper debt-servicing a cardinal virtue and debt-rescheduling a cardinal sin." Chile paid up every penny on time during the period of harshest austerity, reports the *Institutional Investor*, "even though it meant that some 50 per cent of the country's export earnings were devoted to debt service."

> ***"Chile has too many people. The type of economy Chile can generate can't absorb the workforce. They are not seeking full employment. It doesn't fit in with their deindustrialization plans."***
>
> *—Leslie "Skip" Bourne, organizing a May conference in Santiago for* Business International, *designed to promote the "Chile Model" for U.S. industrialists.*

But closer scrutiny of the "miracle" exposes the transparency of its touted accomplishments. Chile is a bankrupt and devastated economy. Debt service payments have increased by an annual average of about 30 per cent since 1973 and will continue to outstrip export growth for years to come. This creates a veritable time-bomb which can only be postponed by higher copper prices (an undependable factor), by selling off natural resources to foreigners, and by pyramiding international loans. There is little chance that Chile will ever again be an outpost of industrial development in the South Pacific.