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.

'economic miracle'

The myth of free enterprise

Free enterprise cultists rave about the military government's success in cutting the budget deficit from 55 per cent in 1973 to 8 per cent in 1977. This was done at devastating cost to the economy and the population. The deficit was cut by firing tens of thousands of state workers, eliminating free services such as public education and a health system, and by doubling the real costs to consumers of such services as gas, water, and electricity. While "big government" was reduced, tax rates were jacked up as high as the market would bear. The protective tariff system was eliminated to subject domestic manufacturing to "free trade" competition with products "dumped" from abroad onto Chile's free market place at duty rates of under 10 per cent.

The late 1973 end to price controls sent prices skyrocketing to an average inflation rate of 700 per cent during the first half of 1974, double its peak under Allende. Workers' wages and the supply of credit were frozen. The immediate result was to cut real wages in 1974 to less than 50 per cent of what they had been in 1971, by University of Chile figures.

The disappearance of Chile's traditionally strong mass consumer market, combined with usurious interest rates on loans (often given only at real interest rates of 9 per cent per month), higher taxes and loss of protection from imports, rapidly wiped out many industrial firms.

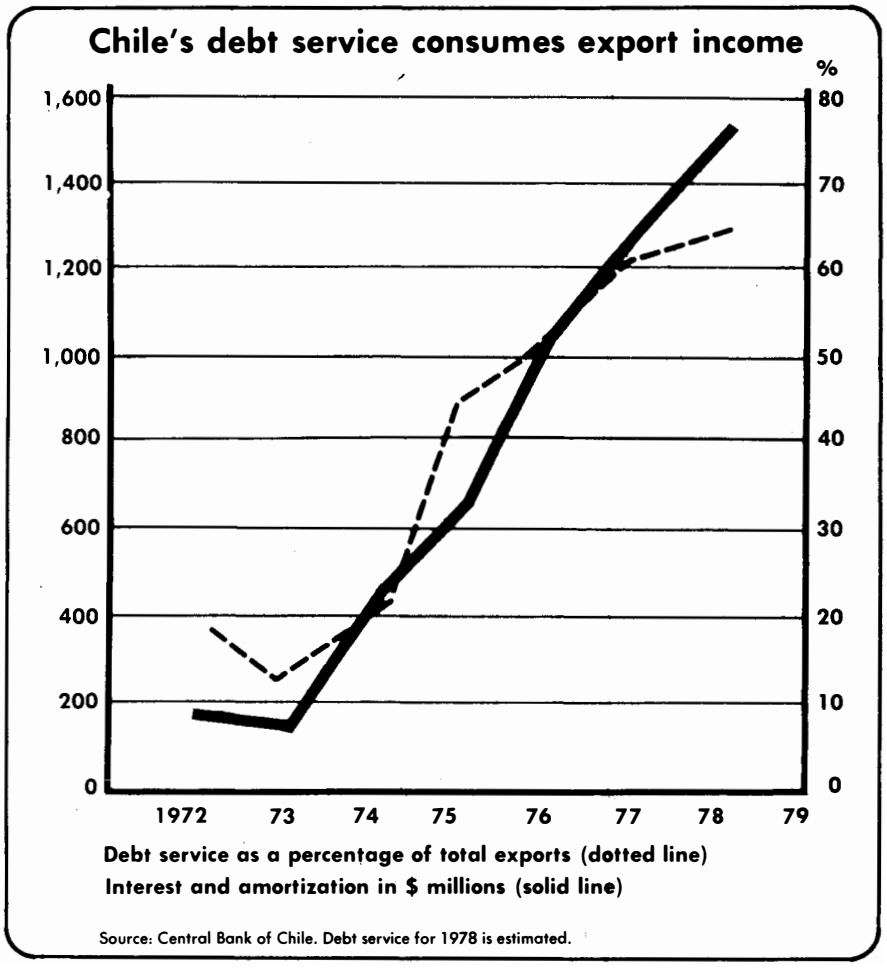
In April of 1975, the Milton Friedman model was put into full gear and the depression deepened. By August 1975, industrial output was running at only 61 per cent of the levels of three years earlier, and at only half of 1972 levels if industries such as metals, petroleum and wood pulp are excluded.

A policy of unemployment

Employment also plummeted. By March of 1976, the deindustrialization policies of the monetarist government had raised the unemployment rate to 19.8 per cent from 3.1 per cent in 1973. Officially, unemployment was gradually reduced during the 1976-78 "recovery period" to 13.7 per cent in September 1978, but most observers doubt the validity of that figure. The University of Chile, for example, considers unemployment to be at a 22 per cent level, when those forced out of the labor market or on the "Minimum Employment Plan" are included. The Minimum Employment Plan hires workers at wages of roughly $24 per *month* for local pick and shovel and broom work.

Friedman's model increases inefficiency

The proponents of the Chilean Model claim that Friedmanite "free market economics" has radically increased the "efficiency" of the Chilean economy by getting the modern equivalent of Hitler's "useless eaters" off the payroll. Official government employment statistics are sufficient to prove that there has been a sharp diversion of labor from productive to unproductive activities, even when all the workers thrown on unemployment are not taken into account (see chart). Clearly, the overall rate of "efficiency" and "productivity" in the Chilean economy has collapsed along with the rest of the real economy.



Fewer investments

The ostensible purpose of economic "sanitizing" conducted by the Mont Pelerin crowd was to bring about an economic boom by creating conditions favoring local and foreign investment. Although monetarist propaganda such as *Business International*'s have brought many investors sniffing around Chile, few are foolish enough to risk their money in a country which is being destroyed.

Between August 1974 and April 1978, Chile's Foreign Investment Committee approved and widely announced 289 foreign investment projects with a total investment of $2.5 billion. Sixty-six per cent of this investment was to come from U.S. companies. However, a survey of actual U.S. direct investment in Chile in 1977 found a total of only $187 million worth of *new and old* U.S. investments. U.S. investment in Chile grew at only a 4.5 per cent rate in 1977, compared with 16 per cent elsewhere in Latin America, despite Chile having by far the most liberal conditions for foreign investors.

The Chileans themselves have decapitalized their country to such an extent that even the monetarist *Economist Intelligence Unit* says "investment levels are inadequate for any future growth." The IMF reported that gross fixed investment fell from 11.8 per cent of GNP during the hand-to-mouth Allende year of 1972 to only 9.0 per cent of GNP during the "record GNP growth" of 1977. Industry is just wearing out 10 and 20 year old equipment, never to be replaced.

Even the extractive industries have been managed with a predatory, fast-buck attitude which bodes ill for the future. Although copper production increased rapidly between 1973 and 1976 as new mines were completed, it has been stagnant since then. Last year the state copper company reinvested 25 percent less than its own management estimated as necessary to keep up production, and it is widely thought to be cheating on its accounting of depreciation in order to report healthy profit levels.

Agriculture shrinks

Five years after the coup abolished Allende's land reform and gave back full property rights and police security to the landed oligarchy, agriculture is a disaster area. The prohibitive costs of credit, the high prices of fertilizer, and the elimination of all protection from imports have not compensated for the dirt-cheap labor. Chilean farmers have pulled their profits into speculation, cut back acreage planted, and brought about a drop of 27 per cent in the production of the 14 basic crops in the 1977-78 crop year. Agriculture has shifted to export fruit and vegetable crops, leaving the local population more undernourished than ever.

—Mark Sonnenblick

Argentina: world's

The acclaimed "Argentina model" that William Simon and others have proposed the United States follow is presently in the process of destroying Argentina's own small and medium-sized national industry, its state sector and its labor force which, two decades ago, was the most advanced and educated in the developing sector with cultural and skilled levels comparable to those of Europe.

Argentine Economics Minister José Alfredo Martínez de Hoz is the author of this "anti-inflationary" model, which is premised on the conversion of the Argentine economy into an "agro-exporting" and nonindustrial one. As part of this model, de Hoz has eliminated the protective tariffs on manufactured goods imports in line with the British doctrine of "free trade," which increased the rates of interest on credit to industry, and drastically restricted internal demand for consumer goods.

Even so, 1978 proved a disaster for the monetarists. Inflation, for the fourth consecutive year, was the highest in the world at a rate of 170 percent. The GNP fell 4.1 percent, largely due to an 8 percent drop in industrial production. In contrast, as a result of elevated levels of monetary speculation at the expense of production and real investment, the financial sector grew by 8 percent.

Bleak as this record is, spokesmen for the City of London financial interests, such as the *International Currency Review*, attribute Argentina's troubles to the excessive "gradualism" of de Hoz, as compared to the shock treatment employed by Milton Friedman. The fact is that despite his "best" intentions, de Hoz has simply been unable to risk the political consequences of firing 300,000 out of a total of 1.6 million public workers, as the International Monetary Fund has demanded.

Industrial sector: Argentine publications like *El Economista* already insist that small and medium-sized Argentine industry "has died." Those most affected by the low purchasing power, the high cost of money and the impact of foreign competition were the textile and machinery and equipment sectors, whose production levels fell 9.1 percent and 14.2 percent respectively.

In the case of the home appliance industry, by the middle of this year more than half of internal supplies will be made up of imported products as a result of the Economic Ministry's intention to transform that industry into labor-intensive assembly lines.

Although recent bankruptcy figures have not been released, in the last two months of 1977 these broke the national record—more than 8 times the accumulated