Brazil looks to the East bloc

by Mark Sonnenblick

The Third World's single largest debtor nation is turning to the East. Brazil, which enjoys a well-deserved reputation for its strident anticommunism, has decided that ideology must take a back seat to economic reality, and will reportedly soon send a high-level delegation to the Soviet Union to negotiate the purchase of approximately 30,000 barrels of oil per day, in addition to encouraging Moscow to participate in risk contract exploration for oil inside Brazil.

It is the *political* impact of sending Brazil's "superminister"—Development Minister Antônio Delfim Netto—to Moscow that has bowled over official Washington. "Why send Delfim?" one upset State Department official complained to *EIR*, "when anybody else could have done the job?" The Delfim trip, scheduled for the end of this year, will be the first to the Soviet Union by a Brazilian minister since the military seized power in that country in 1964.

Why are the Brazilians doing it?

If anyone, or anything, has driven Delfim and the Brazilians east, it is the International Monetary Fund. Over the past months, Delfim has been in a pitched battle with that monetarist institution over its demands that Brazil entirely eliminate its growth plans. Although hardly a booming industrial economy, Brazil *has* managed to maintain a 7.9 percent growth rate, which the IMF has strenuously objected to as a bad example for other less developed countries (LDCs). Washington and City of London policy circles have also tried to force Brazil to go to the IMF for its financing this year, and in that way subject it to the antigrowth "conditionalities" which the IMF is notorious for.

Delfim has so far refused, seeking instead commercial bank loans from Europe, in particular, as a politically preferable option. In mid-September, for example, he traveled to continental Europe in search of the vast credits needed to roll over Brazil's mammoth $55 billion total debt. Outraged by such behavior, Her Majesty's foreign office took the unusual expedient of issuing Brazil the following orders through the pages of the London *Financial Times*:

> There is scant sympathy in Whitehall for the official Brazilian view that the country's economy has to continue to grow quickly in order to create jobs for the unemployed and consequently to keep social discontent to a minimum. . . .
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> Britain is expected to press the Brazilian Government to adopt strict policies of austerity and cutbacks in public spending if Brazil seeks large-scale international aid for the management of its foreign debt, estimated to be some $55 billion.
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> According to senior Whitehall officials, Britain would expect to see the Brazilian authorities go to the International Monetary Fund and accept the policy recommendations given to them there.

Brazilian officials responded with equal vehemence. Finance Minister Ernane Galvâes told the press that "no foreign government has any right to make that kind of recommendation to the Brazilian government. It's all part of some kind of intrigue." And Brazil's press attaché in London angrily explained to *EIR*: "We do not borrow from Whitehall. We borrow from banks. . . . Jamaica was crushed by the IMF's conditionalities, but we have emerged from Third World status without any help from these so-called international organizations."

But the London group is not taking no for an answer. The *Financial Times* retaliated in an editorial which ominously warned that Brazilian President J. B. Figueiredo was so badly trapped between economic and political problems that his government "may not be around for long." Figueiredo's six-year term ends in 1985! There are, in fact, growing indications that London is willing to deliberately destabilize Brazil and even topple the Figueiredo government—if it does not buckle under.

Brazil's strategy

Brazilian leaders have, over the past few years, systematically diversified Brazil's international partners so as to free their country's growth potential from blackmail by the British and the Americans, united today in pushing Brazil to the IMF.

Brazil has entrusted West Germany with the development of its nuclear energy sector, a commitment reaffirmed with the successful floating of $56 million in deutschemark bonds for Nuclebras by German, Kuwaiti and other banks while Delfim was recently in Frankfurt.

In Paris, he arranged France's biggest loan ever to Brazil: $500 million to finance French exploration and drilling equipment for Brazil's state oil company, Petrobras. There is also talk of $1 billion French financing for Brazilian coal expansion.

Delfim also plans a week in Japan in November. But most important is the Moscow trip. Delfim apparently met with his Soviet contacts while in Paris, and they agreed to fill part of the vacuum left by the Western banks. In addition to the oil discussion, the Soviets will provide Brazil with two huge hydroelectric dams, including powerhouses, cement and electric cables—all on favorable terms.

The one place Delfim won't go is the IMF, whose meeting he is boycotting.

The economy

Last year, as the signs of coming crisis became unmistakable, Delfim Netto consecrated the economy to crash programs for: 1) a "super-harvest"; 2) increasing exports; and 3) bringing on line domestic substitutes for imported oil. He can now show significant "success" in all three priority areas, but at the cost of dangerous reductions in levels of consumption by the work force, and of doubling inflation from the 45-50 percent range of the late 1970s to 100 percent today.

Agriculture: Abundant, highly subsidized credit increased overall production by about 17 percent over last year's weather-plagued harvest. But here, Delfim's priorities come into conflict with each other. Focus on export crops and the wasting of 2.5 million hectares of the best farmland (80 percent of it in São Paulo) on growing sugar cane for fuel alcohol, has caused food shortages. The result is inflation, the need to import almost $2 billion worth of food per year, and shortages of staples which are fueling social discontent.

Exports: Delfim succumbed to pressures from Carter envoy C. Fred Bergsten, and hit Brazil with a 30 percent devaluation last Dec. 7. The added competitiveness helped bring a dramatic 46 percent increase in exports of manufactures during the first half. But, while exports soared, imports increased even faster, bringing a trade deficit of $2.5 billion during the first eight months and possibly $4 billion for the year. Domestic prices also leapfrogged. Delfim is now again under pressure to abandon his current restrained rate of "mini-devaluations" and listen to the IMF crowd's demand for another "maxi-devaluation."

Energy: Thanks to the doubling of gasoline and diesel fuel and the quadrupling of fuel oil prices over the last year and the expensive alcohol program, Brazil has finally managed to cut overall oil consumption by 1.1 percent. The costs, however, have fed inflation, and Brazil can't go much further on this route without increasing the damage. Budgets for genuine energy-saving transport (railroads, ports, and subways) have been savaged in recent years. Billions of dollars are needed to put coal on stream, even for use at the pitmouth. The alcohol program for which Brazil is world-famous requires billions more in government giveaways and millions of hectares of additional farmland. And the electrical sector is having difficulty raising the $5 billion it needs annually for dam, transmission line, and nuclear construction.

Industry: The statistics show an impressive 7.9 percent increase in industrial output in the first seven months over the identical period last year. Most of the increase, however, comes from the 17 percent expansion in domestic oil and iron ore extraction. Manufacturing performance varied widely by sectors, with plastics up 8 percent and vehicles down by 6 percent. Future prospects for industries not focused on exports or fuel substitution are bleak. They will be increasingly trapped between usurious credit rates of 150 percent and more, "anti-inflationary" price controls, still higher energy costs, and inability to obtain needed production inputs.

Labor: Since wages make up only 10 percent of manufacturing costs, according to First National Bank of Boston, stepped up wage-gouging will hardly save beleaguered manufacturers. The IMF crowd, however, is insistent on this point, and demands, in the words of one U.S. bank, a "180 degree turn, à la Argentina." Almost all experts concur that this would detonate a social explosion in Brazil and put an end to Figueiredo's cherished policy of *abertura*, or political opening, through which Brazil is being gradually returned to democratic rule. Brazil's more far-sighted military officers are also anxious to avoid a social explosion that would have to be violently repressed.

By no means all the military share this outlook. Coinciding with the July visit to Brazil of Pope John Paul II, right-wing paramilitary groups began a series of what are now 60 violent attacks on the Marxist left and "liberation theology" agitators.

According to one of President Figueiredo's military advisers, the security officers who practiced torture and ran death squads during the darkest days of the Brazilian coup today fear that the democratic opening will result in their exposure and punishment. They had expected, the general continues, that Brazil's economic crisis would "automatically" bring a return to dictatorship. However, when they saw Delfim and Figueiredo buck the bankers' pressures, they knew that only by provoking a "leftist" terrorist response to "right" violence could they force an end to the *abertura*.

Figueiredo has vowed to stop the terror, without wiping out his cautiously engineered political opening. Thus far, however, powerful troop commanders have protected the new death squads. An extraordinary meeting of the Army High Command held in Brasilia Sept. 25 reportedly fought out these vital questions concerning Brazil's political and economic future, although the outcome is not yet known.