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The U.S. economic collapse will wreck Brazil's 1983 plan

by Mark Sonnenblick

Brazil will not be able to fulfill the "Brazil Foreign Sector Programme in 1983" which was approved and published by its National Monetary Council on Oct. 25. These plans hinge on improvement in the U.S. economy, permitting Brazil to increase its exports by at least 9.5 percent, reversing this year's 10-14 percent export drop.

EIR tested that axiomatic assumption by means of the LaRouche-Riemann econometric model which has been exceptionally accurate in its predictions of U.S. economic performance. (Model projects for 1983 were summarized in *EIR*, Nov. 2). Dr. Uwe Parpart, *EIR*'s Contributing Editor, summarized the results in statements widely circulated in Brazil.

Parpart explained, "Brazil will not achieve the projected $6 billion foreign trade surplus in 1983, because the United States economy, and therefore world trade, will collapse by close to 10 percent next year. It is not Brazil's fault that this will happen," he cautioned, "but it is certainly foolish for Brazil to premise national planning, as the National Monetary Council document does, on 'the prospect of some recovery in commodity prices as a result of the fall in interest rates, as well as some improvement in the economy of industrialized countries.' "

Over recent weeks, Brazil has been encouraged to believe this fraud by leading U.S. bankers who are coordinating closely with Secretary of State George Shultz. Shultz hopes to put the recovery myth into the mouth of President Reagan when they visit Brazil Nov. 30-Dec. 2.

By inducing Brazilian leaders to believe that "U.S. recovery is just around the corner," they seek to prevent Brazil from allying with other Ibero-American nations to force a favorable renegotiation of their foreign debt.

A top-level Morgan Guaranty Trust source confided to *EIR* in early November that the entire financial community is worried about joint debt action in Ibero-America. "We now have a definite threat of the Andean Pact, Mexico, Argentina, and Brazil jointly defaulting on their debts. The problem is that we have already shot our one bullet. The only threat we have to convince them not to default is that they will be cut off from all loans and trade. But the stupid banks have already cut them off, so now we are forced into a negotiating situation. . . . It may all hinge on what we can do with Brazil now, on what Brazil will do. If we don't win the Brazilians over, they will bring down the whole damn thing. . . . The bottom line is that the only thing we have to offer them is to get U.S. interest rates down right now and massively change the world economy. We have to give them evidence of a U.S. recovery."

Some in Brazil may choose to pin their hopes on a U.S. recovery, but the *fact* is that Brazil's only choice for 1983 is between such unified debt action or austerity so severe that it would shake the stability of the government.

Brazil did not formulate its 1983 policy from the starting point of its development needs, of the need to provide productive jobs, tools, food, and housing to a growing population. Planning Minister Delfim Netto is explicit in his "Programme" booklet that he started planning from what the bankers might be willing to lend Brazil next year, and calculated backwards.

> "In this year, we try to reconcile the available amount of foreign loans, estimated as the feasible increase of exposure of international banks to Brazil, with the maximum level of current account deficit which may be financed, thus determining the minimum surplus needed in the balance of trade implied by these considerations. . . . In this way, next year's current account deficit cannot go above $6.9 billion, which represents a fall of 51 percent in relation to the estimated result for 1982 ($14 billion). With this reduction, Brazil's financial loan needs will be limited to US $10.6 billion, and the growth in foreign debt 8.9 percent in contrast with an estimated 17.6 percent in 1982.
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> "Thus, the surplus of US $6 billion in the trade balance . . . must be understood not as an approximate estimate, which may or may not be reached as a result of conditions in international trade, but as the *minimum* level of trade surplus needed to make compatible the deficit in the service account (dominated as it is by interest outlays and thus practically a given fact) with the *maximum* volume of credit Brazil may safely obtain from the international financial community."

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"We have been killing ourselves, but the markets just dried up," a Brazilian export leader lamented recently. Delfim had set a target to increase exports from $23.3 billion in 1981 to $28 billion this year. Not only has this 20 percent increase proved elusive, but Brazil's exports plummeted 9.9 percent to $21.0 billion in the National Monetary Council's Oct. 25 predictions (see chart). A few days later, Finance Minister Galvêas suggested both imports and exports could each fall short of these "optimistic" figures by another $1 billion.

Paul Volcker's high interest rates and the resulting international depression have caused 20-50 percent reductions in commodity prices; markets in the developed countries have erected protectionist barriers to Brazil's manufactured exports which have to be heavily subsidized to compete in today's tiny market; and one after another of its blossoming markets in Ibero-America and Africa has been compelled by debt constraints to stop importing. Brazil's exports to its Ibero-American neighbors were down by $650 million during the first six months of this year.

Clearly, there is no expectation of anybody increasing sales to developing countries next year, so long as they are all forced to have International Monetary Fund-style austerity programs.

Yet, Delfim has pledged that Brazil would "balance" its payments with a $6 billion trade surplus next year and an $8 billion surplus in 1984—no matter how badly exports perform. That means, either there is some miracle of U.S. market expansion, or Brazil will have to slash its imports beyond the bone.

Even the 17 percent import cuts contemplated by the Delfim plan will cause a 4-6 percent decline in Brazilian GNP. That follows a 10 percent fall in industrial production in 1981 and stagnation this year. Money market association head and former central bank president Carlos Brandão predicts the import cuts and the commitment to reduce public sector deficits from 5.7 percent to 2.5 percent of GNP will result in a 4 percent GNP decline in 1983 and 15 percent unemployment. Brandão says he ardently favors Delfim's plan, since further recession would halve inflation from the 95 percent level of the last two years. Corporate economist Luiz Carlos Bresser expects a 6 percent GNP fall, while academic Carlos Lessa estimates 5 percent, with increased inflation from shortages of formerly imported necessities.

If Brazil's military and civilian decisionmakers were honestly informed that they would be expected to impose even more severe import cuts that these, they would be up in arms. The prospects of having to abandon development projects for which they have sacrificed so much; the prospects of having to systematically repress a population whose aspirations for sharing in Brazil's industrial progress were shattered by brutal austerity; would be repulsive to almost every officer. The

Figure 1

Brazil's balance of payments

(in billions of dollars)

	1980	1981	Proj. 1982	Est. 1982	Proj. 1983	Proj. 1984
TRADE BALANCE (FOB)	−2.8	1.2	3.0	0.5	6.0	8.0
Exports	20.2	23.3	28.0	21.0	23.0	26.0
Primary products	9.5	9.6	11.0	9.3	10.5	
Industrialized products	10.7	13.7	17.0	11.7	12.5	
Imports	23.0	22.1	25.0	20.5	17.0	18.0
Crude oil	9.4	10.6	10.3	10.1	9.0	
Other imports	13.6	11.5	14.7	10.4	8.0	
SERVICES	−9.8	−12.4	−13.3	−14.5	−12.9	−12.9
Interest (net)	−6.3	−9.2	−9.5	−10.7	−9.1	−8.8
CURRENT ACCOUNT	−12.4	−11.0	−10.1	−14.0	−6.9	−5.0
CAPITAL MOVEMENTS	8.9	11.6	10.1	13.6	6.9	
Amortization	−6.7	−7.7	−7.2	−7.4	−7.2	
Private bank loans	12.1	15.3	13.6	17.0	10.6	8.0
Net investments	1.1	1.6	1.9	1.5	1.5	
Government loans, suppliers' credits, etc	2.4	2.4	1.8	2.5	2.0	
CHANGE IN RESERVES	−3.5	0.6	0	−0.4	0	

Source: Central bank of Brazil in "Brazil Foreign Sector Programme in 1983," National Monetary Council, Brasilia, Oct. 25, 1982; except for column marked "Projected 1982" which was forecasted by the central bank at the start of 1982.

Note: *EIR* considers most of the 1983 and 1984 projections to be over-optimistic. *EIR* also believes there has been some fudging of the 1982 estimated figures to cover deterioration of reserves.

concept of "national security" would dictate uniting the nation with other nations caught in similar traps and dropping "the debt bomb" on the external forces which dictate Brazil's destruction.

Therefore, the cultural propensity of Brazilians to be optimists is being cynically exploited to disguise the reality.

Morgan Guaranty has led a parade of bankers and other charlatans who have put more effort into making Brazilians rather than Americans believe the U.S. recovery hoax. Recent Morgan visitors to Brazil have included:

- Dennis Weatherstone, Executive Committee chairman;
- Richard Dale, Brookings Institution, Morgan adviser;
- Tony Gebauer, Latin America chief. On the latest of his visits, Gebauer intoned, "Brazil does not need to renegotiate its debts. . . . But, there is no sin in going to the International Monetary Fund."

Aside from the British-run Morgan group, no one has been more insidious in propagating the recovery myth in Brazil than Wharton Econometrics, which simultaneously tells its U.S. clients that such a recovery is merely a possibility.

Gazeta Mercantil, Brazil's leading business daily, reported Oct. 7 that Wharton's Brazil director Gabriel Gutiérrez, was telling groups of São Paulo businessmen that the U.S. GNP would grow by 3.9 percent next year. *Gazeta* paraphrases Wharton, "The main U.S. economic indicators will be more favorable in 1983. . . . With economic recuperation, the market for Brazilian exports will increase; and with reduced interest rates . . . Brazilian debt service will be alleviated. With this perspective, Gutiérrez believes Brazil could administer its foreign accounts in 1983 without necessarily taking recourse to a violent adjustment which would imply a strong recession."

On his return to the United States, Gutiérrez told *EIR*, "For Brazil, there will be enough of a recovery for Delfim's program to work. There will be a modest U.S. recovery, 2.9 percent growth in GNP. . . . Our actual physical model of world trade further shows that it will grow by 1-2 percent in 1983, compared to a fall in world trade in 1983. . . . That will mean a rise in Brazil's trade of 8 percent or more. . . . So, overall, we consider the Brazilian program to be feasible. We think they can keep their trade surplus up to $5 billion or $6 billion."

Gutiérrez gave the same line to Wharton's semi-annual Brazil update for $6,000-per-year corporate clients, held in Philadelphia, Nov. 4-5.

This assertion prompted *EIR*'s Dr. Parpart to respond, "People who are peddling in Brazil the tale of a U.S. recovery for 1983, like Secretary of State George Shultz or the Wharton econometric forecasting service, are either blind to actual developments in the U.S. economy, or are deliberately misinforming the Brazilian government and public in order to keep the lid on the situation. Let me remind you that *EIR*'s record on this count is unmatched by any other econometric service: For 1982 we forecast a 7 percent decline in industrial production in the United States, and statistics covering January through September of this year show precisely that annual rate of collapse. The Wharton model, on the other hand, had predicted a 3 percent *increase* in American industrial output for 1982. They weren't even in the right ballpark."

Parpart concluded: "Wharton is now forecasting a 3.5 percent growth of U.S. industrial output for 1983; but they will be as wrong for 1983 as they were for 1982. The *EIR*'s LaRouche-Riemann model shows that, not only will U.S. industrial output decline by up to 10 percent, but that 1983 U.S. imports will also contract by 10 percent—with world trade dropping at about half that rate. Under these circumstances, Brazil doesn't have a prayer of making a $6 billion export surplus; they will be lucky to come up with a $1 billion surplus—unless, of course, Brazil slashes imports so severely that the domestic industrial plant shuts down."

It is just as easy for Delfim Netto to promise savage austerity to the bankers as it is for them to promise they will not force violent recession on Brazil. But in the real world, neither Delfim nor the bankers will fulfill their marriage vows. The International Monetary Fund will visit Brazil Nov. 22-28 to work out austerity conditionalities.

Ronald Reagan will follow on the 30th. *The Guardian* of London claims he will offer Brazil $3-6 billion U.S. government backing for banks rolling over Brazil's $86 billion debt, in return for Brazil supporting various State Department military adventures in Central America and black Africa.

Or, Reagan could confront reality, and help Brazil restructure its debt in such a way that it—and the United States—could grow in genuine partnership.

Figure 2

Brazil's foreign debt

(in billions of dollars at end of year)

	Published long- and medium-term	Hidden short-term debt	Total debt
1977	32.0	2.1	34.1
1978	43.5	1.6	45.1
1979	49.9	3.6	53.5
1980	53.9	9.4	63.3
1981	61.4	12.9	74.3
1982	76.3	12.9	89.2

Source: *Folha de São Paulo*, Oct. 17. 1982. The first column are the official figures issued by the central bank for debts over one year, except for the 1982 figure, which is *Folha*'s calculation. Note that it differs from the latest official estimate of $72.2 billion. The second column was published until 1980; U.S. banks have an estimate even higher than *Folha*'s current guess on short-term debt. But *Folha* does not consider the $3 billion reduction in foreign reserves this year, which would make the debt $86 billion. The *Wall Street Journal* estimate is $87 billion. What is undisputed is that Brazil's foreign debt is the world's largest.

What the IMF says

An official of the International Monetary Fund offered the following views to a nervous banker a few days *before* Planning Minister Delfim Netto obtained approval from the Brazilian National Monetary Council for Brazil's 1983 program. "Banks are irresponsible in classing Brazil with Mexico. Brazil and Mexico are worlds apart! . . . Don't push Brazil into a corner!

"Delfim has agreed to demand from the banks to bring down the public sector deficit from 6 percent of GDP [about $20 billion] in 1982 to 2.5-3 percent of GDP [$9-10 billion] in 1983. In order to do this, public sector spending on the big development projects will be cut to *zero* next year. There will be no government spending on capital investment, on imports. . . . This means the big Amazon projects will either be slowed down or stopped—unless the private sector wants to finance them. . . . If the international banks decide not to finance the projects, then they will all just have to be shut down. They will die a natural death. . . . The Japanese are the key to the Amazon projects. Volcker is concerned to get their priorities in order. . . . But the U.S. banks are pulling out altogether."

What Brazil's leaders say

Luiz Carlos Bresser Pereira, economist for the Pão de Açucar conglomerate, declared in Rio, Nov. 4: "The country is in the midst of renegotiating its foreign debt. Soon we will be at the International Monetary Fund and I know that, if we don't negotiate hard with our creditors, we won't get out of this situation. . . . It is worthless to go to the IMF to solve temporary liquidity problems and then suffer renewed spasmodic crises in the near future.

"In any showdown, Brazil should take advantage of its Third World leadership and of the problems of the creditor countries themselves, whose banks would go under with a new crisis of non-payment in order to reschedule our debt."

Bresser Pereira considers it "stupidity" to deal with the debt crisis through deep recession. "Obtaining a $6 billion trade balance surplus is giving too much gratification to the international bankers, while we have responsibilities to our country and our people," concluded the executive.

Sidney Latine, chief economist of the Brazilian Association of Chambers of Commerce, argues that "going to the IMF would bring us more harm than good." In an interview with Rio's daily *Jornal do Commercio*, Nov. 4, Latine condemned the Fund for demanding impossible social and economic conditions, including wage cuts, public spending cuts, credit squeeze, and tight controls on money supply.

The economist stressed that it is absurd for Brazil to try to solve its debt crisis by itself, "since no country is able to do that alone. It is a world problem. That debt cannot be paid in less than 50 years, and—inevitably—there will be a new international arrangement."

"I think the Third World should renegotiate its debts as a bloc, with Brazil assuming its natural leadership role. That is what was shown by the position taken by President Figueiredo at the United Nations," he insisted.

The vice-president of the Rio Chamber of Commerce, Amaury Teporal, warned, "Brazil is a sovereign country and is not going to subordinate itself to anything that is not good for its people and its economy. . . . To politically destabilize Brazil would be an enormous error."

What the debt crunch is

Gold is all Brazil has left to pay debts coming due in November; and Brazil put seven tons of gold, worth about $100 million, on a plane to a Swiss bank in Zurich, according to the *Financial Times* of Nov. 12. Some experts believed Brazil could be forced to default on its $86 billion foreign debt on the eve of the Nov. 15 elections, or that the threat of such default could be used to drive Brazil into the arms of the International Monetary Fund. David Rockefeller will be promoting an IMF deal and savage austerity during his Nov. 18 inspection of Brazil.

At the end of July, when the Central Bank suspended all official information on foreign accounts, reserves stood at $6.97 billion. Now, gross reserves are around $3 billion, but except for whatever fragment remains of the $766 million in gold Brazil had in June, the reserves are composed of illiquid trade debt owed by Argentina, Mexico, Poland, Nigeria, Bolivia, etc.

In August, the banks decided to "pull the plug." By the time President Figueiredo spoke at the United Nations, Sept. 27, the dozen Brazilian banks operating in New York were unable to find lenders to refinance paper coming due. They were bailed out by foreign associate banks and by the Brazilian central bank, which started "burning reserves." Planning Minister Delfim Netto was later quoted, "It seems we lost $2 billion in one week."

The mystery factor in Brazil's debt crisis is the size of short-term debt, which the government has kept secret for several years. Wharton's October *Brazilian Economic Outlook* calculates it at $8 billion. A Finance Ministry source informed the authoritative daily *O Globo* of Nov. 12, however, that the short-term debt was double that: $12 billion in trade debt and $4 billion in high-cost overnight funds. The source reported that Brazil would thus have to amortize $4 billion in January, the same in February, and larger amounts monthly thereafter . . . if, that is, Brazil accepts the harsh conditionalities tied to Wall Street "bridge loans" and the International Monetary Fund.

That would postpone the crash of the Brazilian debt situation until January.