The International Monetary Fund axes Brazil's nuclear energy program

by Mark Sonnenblick

One of the developing sector's most ambitious nuclear programs, Brazil's, has become the first casualty of Brazil's submission to International Monetary Fund (IMF) conditionalities.

Brazil signed a 29-point letter of intent to the IMF on Jan. 7, just hours after *O Estado de São Paulo* had leaked, "President Figueiredo yesterday ordered the suspension of the Iguape I and II nuclear plants which were to be built in São Paulo as the third and fourth units of the Brazilian-German nuclear program. . . . According to government sources, during at least the next three years, while the program of adjustment to the international crisis is in effect, it is unlikely that the resumption of the nuclear agreement will be authorized."

It did not take long for all concerned to verify the news. Presidential spokesman Carlos Atila took pains to deny that the elimination of nuclear development was part of a secret agreement with the IMF. Atila explained that it was "merely" a result of the 41 percent reduction from last year's level in the budget of the state nuclear agency, Nuclebrás.

On the 10th, Nuclebrás announced that work on Angra II and III, the first two of the German plants under construction near Rio de Janeiro, would also almost cease for the next year.

The nuclear program is not a showpiece. It was designed by people committed to continuing Brazil's development at such a rate that all the energy of the Amazon's rivers would not meet its needs until the advent of fusion power. It is that commitment to man's progress which is the target of the IMF and its Malthusian co-thinkers.

The *New York Times* rejoiced, "With its agreement on terms for an IMF loan, Brazil appears to have temporarily applied the brake to its rush toward the status of a great industrial power. . . . The loan and the austerity program mark the end of the drive for major economic development, a drive that has been managed by a small team of technically minded decision-makers within the military government that has dominated Brazilian politics for years."

In 1977, U.S. Vice-President Walter Mondale provoked Brazil to break military relations with the United States by ordering West Germany to abandon its contract to help Brazil build eight power plants plus enrichment and reprocessing facilities. Today, U.S. Secretary of State George Shultz, who chaperoned Brazil's "blind date" with the IMF, is treated as "Brazil's friend in Washington." When Shultz heard last September that Brazil was studying adoption of U.S. economist Lyndon LaRouche's recommendation of using its debt as a weapon for forcing a growth-oriented new international economic order, he met with Planning Minister Delfim Netto and promised "U.S. backing" with the IMF and with the private creditors. Shultz arranged for $1.5 billion in U.S. Treasury funds to go to keeping Brazil from default.

Nevertheless, Brazil was forced to stop payment of principal on long-term debts Jan. 3. The money is accumulating in intererst-bearing accounts in the central bank. Brazilian leaders had apparently expected that the international bankers—goaded as they were by Jacques de Larosière of the IMF and by federal regulatory agencies on behest of Shultz—to commit themselves to rollover Brazil's 1983 debt service by the Dec. 30 deadline. Now, it seems the process may be drawn out until March 1, with the banks asking Brazil for one concession after another. So far, they have been getting them.

The Brazilian authorities are also counting on the IMF rushing to disburse $1.62 billion shortly after the mid-February directors' meetings. But, again, they may be put on a shorter leash than they anticipated.

Conditionalities

Americans may as well learn how the IMF operates, since there are moves afoot (see article, page 4) to put the U.S. under similar strictures.

In its "letter of intent" and accompanying "technical memorandum" the victim defines precise qualitative and quantitative policy parameters which have already been negotiated with the IMF. This is the straitjacket within which the country must live until it repays the IMF credits and interest. If the IMF finds compliance in each quarterly audit of the country, it dribbles out that quarter's credit ration. If not, it tells all credit sources to cut off lending.

The "technical memorandum" sets specific limits for each coming quarter for:

- reducing the balance-of-payments deficit to zero by December;

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- reducing public-sector borrowing;
- reducing internal money supply;
- limiting growth to total foreign debt to $6 billion in the year;
- devaluing the cruzeiro against the dollar by over 12.7 percent (more than Brazilian internal inflation) during 1983;
- eliminating "minor foreign exchange restrictions" including progressive taxation of profit remittances, limits on royalty remittances, export taxes on coffee and other crops.

The guts of an IMF program is always to have the government dictate savage reductions in consumption and productive investment in new plant and equipment so that whatever wealth a country can generate is diverted into paying foreign debts. The IMF accords have already had a dramatic effect on life in Brazil.

Since the beginning of the year, investors have pulled their money out of banks into legal hedges such as gold (which rose 20 percent in a week) and illegal ones such as black-market dollars (which now fetch 88 percent more than the legal exchange rate.) The withdrawals, combined with the IMF clamp on credit and insistence on massive devaluations have sent interest rates to annual levels of up to 360 percent on commercial paper. Given that the average Brazilian company has debts equal to 60 percent of its capital, the business daily *Gazeta Mercantil* editorializes, "How can any Brazilian company withstand real interest rates of 50 percent and more above inflation?" Their pressures and hopes were placed on the National Monetary Council, which met Jan. 11 only to reduce some of the taxes on the banks, but not to ease the credit scarcity. The vice-president of the National Industry Confederation, Edgard Arp, concluded, "Credit has ceased to be an activity in support of productive activity, transforming itself into a unilateral drain of resources. Today, Brazil is a country belonging to the moneylenders."

Banking sources whisper that 300 of the medium and large industries are close to bankruptcy due to the absurd interest rates; their failure would ruin many banks. During the second half of 1982, 8 to 10 percent of all loans were in arrears, compared with the normal 0.5 percent rate. São Paulo's bankruptcies topped the record in December, accompanied by another ratchet drop in employment.

"The common people are just buying food," reports an *EIR* subscriber, a São Paulo electronics engineer. "They are hysterical, afraid of not having jobs and not having anything to buy in the stores." This radical change of mood from the ingrained optimism of a generation experiencing practically unbroken development has a rational basis.

Bad weather, farm credit cuts, and commitments to the IMF and the banks to radically reduce wheat imports add up to a growing prospect of serious food shortages in the world's fourth biggest agro-exporter, a country which—if developed—could equal the entire world's food output.

Is Brazil's collapse reversible?

Delfim Netto did not show up at a Tokyo seminar on Japanese-Latin American relations Sept. 28, because he was in New York and Washington closeted with George Shultz working out the program Brazil is now carrying out. The speech he had read for him in Tokyo, however, pointed to the "irreversibility" of world economic cataclysm coming from precisely those policies.

Delfim Netto now admonishes the country's fabulous capital-goods sector, built to turn out $7 billion worth of quality machinery a year is "not underutilized, but dispensible." *EIR*'s São Paulo engineer fears, "If those industries are lost, we may not recover for 30 or 40 years."

The productive aparatus of the world's tenth largest economy is in danger. The Brazilian Exporters' Association reports that the inavailability of export pre-financing is already inhibiting the producing of the exports. Thus, it warns, Brazil will fail to meet its $6 billion trade surplus commitment—even if markets could be found.

To try to meet the conditionalities imposed by Shultz's friends at Morgan Guaranty and the IMF, Brazil is forced to dump its steel on the United States. It can compete because a Brazilian steelworker only earns $150 per month, compared to $2,000 for an American. Yet, the IMF insists that the minimum-wage levels in Brazil are scandalously high and must be reduced in real terms so as to make exports even more competitive. There is fierce resistance on the question from saner minds, but Delfim Netto restates daily that real wages must and will be slashed.

Carlos Bresser Pereira, a successful private-sector economist who soon will manage the huge and hugely indebted São Paulo state bank, Banespa, asks in print: "If the measures pacted with the IMF were complied with, wouldn't they be disastrously recessive?" And he adds, "Wouldn't a moratorium end up being better than those measures? Without any doubt, we would have grave problems. We would have to pay cash for our imports and there would not be sufficient foreign exchange, so that a selective control of imports would be inevitable. We would thus lack basic inputs and have sectoral recessions. But wouldn't even that be better than the prolonged and hopeless recession implicit in the government's latest measures?

"In the final account, amid the crisis unleashed by ceasing payments we would have to administer our economy more decisively, instead of being run by our creditors?"

Bresser's colleague, the senator-elect from São Paulo, Severo Gomes, is insisting that Brazil declare a moratorium and renegotiate its debt together with the other similarly struck countries of Ibero-America, while trading with them on a barter and common-market basis.

President Figueiredo has risked his presidency and the national security of his country by following George Shultz's "friendly" advice. His Jan. 13 talks with Argentine president Reynaldo Bignone reportedly will center on the debt problem. Will the two generals afflicted with over 40 percent of developing-sector debt take counsel from Lyndon LaRouche and Severo Gomes?