Brazil for sale

Under the government's new IMF-dictated shock plans, the state will face total insolvency in short order.

The policy of Brazilian Finance Minister Mailson da Nóbrega, until now, has been to fulfill all the demands of the creditor banks and international financial institutions to the letter, without demanding a single guarantee in return. Under this policy, Brazil has paid more than $1 billion in back interest payments on its foreign debt since December of 1987, and in exchange has received nothing but new conditionalities for extending its repayments over a longer and longer period of time.

In truth, the creditor banks are gaining time for the application of a program of brutal austerity designed to yield gigantic surpluses in the trade balance, which would in turn guarantee punctual payment of interest on the Brazilian debt. During the first two months of 1988, Brazil had already achieved a trade balance of $1.895 billion, an historic record for those months, which demonstrates the level of economic looting to which the country's productive plant is being subjected. With these levels, President Sarney's economic team is already projecting a year-end surplus surpassing $12 billion.

Of course, these trade surpluses are the opposite of real economic growth. The gross national product last year fell to just 2.9%, well below the 8% achieved in 1986. The fall of the GNP during 1987 would have been worse yet, had it not been for the record agricultural growth of 14%. The growth of the GNP in 1986, and the record agricultural output of 1987, were both the result of the economic policies of former Finance Minister Dilson Funaro.

But the collapse doesn't end with the fall in the GNP. Industrial activity in 1987 grew by a mere 0.9%, compared to 12.1% in 1986. This collapse worsened during the final months of 1987 and the first months of this year. São Paulo industry—in the region with the greatest industrial density in Ibero-America—registered a 5.5% decline compared to the same period one year earlier.

During February, national consumption of petroleum derivatives fell 7.2%, while consumption of fuel oil fell 17.2%. Electrical energy consumption in São Paulo fell 2.8%. The same occurred with cement, whose consumption fell 11.2% during January-February 1988.

The crisis also worsened among state sector companies, who are the primary purchasers of domestic capital goods and other products. The state petroleum company, Petrobras, reduced its purchases by more than 4%.

Not satisfied with the current levels of collapse, the International Monetary Fund and creditor banks—with the connivance of the Sarney government—are putting the final touches on a new shock plan that seeks to reduce the public deficit from the 7.4% in 1987 to 4% in 1988. This plan to "Bolivianize" Brazil will impose credit strangulation of major state enterprises, eliminate infrastructural investments, and reduce public sector wages by 30%. It will trigger mass layoffs.

Finance Minister da Nóbrega has already announced the elimination of the National Investment Fund (FND), created by Funaro to direct investment into economic infrastructure. This will create major problems for the electricity and steel sectors, already in bad shape.

The limiting of credit to the state sector is intended to force Electrobras and Siderbras, among others, to undergo forced privatization in search of credit. For this, the government has approved a massive debt-for-equity program, and is working to force state companies onto the stock market. Other sectors targeted for denationalization are shipbuilding and capital-goods.

Some economists of the PMDB party linked to former Minister Funaro have denounced the debt-for-equity swindle as a move to convert foreign to internal debt, aggravating the insolvency of the state and increasing the very inflation rate which has served as the pretext for the government's denationalization program. The internal debt is primarily concentrated in short-term titles upon which the highly-speculative financial markets depend. There is currently in circulation, in internal debt paper alone, the equivalent of $50 billion (5.5 trillion cruzados), which must be periodically renewed.

The incompetence of Sarney's economic team has triggered, with these and other measures, soaring levels of financial speculation, which are making any productive investment impossible. On the so-called open market alone there exists the equivalent of $60 billion belonging to Brazilian companies, which under other conditions could be reinvested in real growth.

In sum, if the plans of Minister da Nóbrega are carried out with the blessings of monetarist apostles Delfim Netto and Roberto Campos, the Brazilian state will be driven into total insolvency.