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controllable bloodletting, it may find it has unleashed more than it bargained for. The Echeverrista nationalists, no small contingent in their own right and with strong roots particularly in the peasant sector, can expect support from a number of international sources. Virtually inviting Mexico to join OPEC. Venezuelan President Carlos Andres Perez directly addressed the Mexican population in a front page interview in the daily El Sol last week and expressed his confidence that Mexico would use its oil "in solidarity with the Third World."

There are insistent reports that the Arabs are interested in extending long-term credits for Mexican industrialization if Mexico joins OPEC. In Europe, vanguard countries breaking with the dollar — most notably Italy — have maintained close ties with Mexico. Perhaps most important, Mexico signed agreements with Comecon in 1975 and 1976 which established closer potential ties with the socialist trade bloc than those of any country except Iraq. It is rumored in European capitals that Mexico may be the vanguard Third World country to be included in expanded use of the Comecon's transfer ruble as a gold-backed replacement for the dollar.

Before such policy considerations come to the fore, saner banking and business layers in the U.S. are already showing concern over the near term effects of the social explosion courted by Friedmanite policies. They fear the devastation of Mexico's productive apparatus to result from an upheaval and are rightly suspicious of the pure monetarists' vision of Mexico as simply one large oil well. A major New York investment bank is recommending continued loan roll-overs for Mexico to keep a minimum of stability in the country, and this attitude is sufficiently widespread for the hardline *Journal of Commerce* to warn yesterday that the banker freeze on loans to Mexico must not be broken until the IMF consolidates unquestioned control of Mexico's economic policies.

Brazilian Economy: The Continental Confidence Game

BRAZIL

The Brazilian economy is in peril of breaking down following the consolidation of political power in Brazil by the monetarists and allied military Neanderthals during the past month. The monetarist policies designed to meet the estimated $6.2 billion in debt service due this year will rapidly collapse the internal market, and prevent Brazil from meeting export goals and due dates on the even larger scheduled 1978 debt service.

The real productive economy of Brazil has been subjected to progressive destruction by government policies strangling internal credit, cutting off needed imports, and further reducing the consumption of the population. All that remains is a confidence game designed to preserve the belief that the paper economy can survive. Up to the end of last year, the considerable quantities of foreign investments and loans needed to pay debt service could still be conned into Brazil in the expectation of continuous high yields. But during the next few months, as is worriedly conceded by American bankers, the worsening of the situation reflected in the January "stagflation" figures is likely to burst the fantasies of "economic stabilization." The mere release of statistics showing continued inflation or a drop in foreign exchange reserves could trigger a classic panic and bring the breakdown of the national economy.

Monetarist Coup Against Industry

The key event in the monetarist subjugation of Brazilian industrialist interests was the Feb. 8 ouster of Industry and Commerce Minister Severo Gomes, the only spokesman for national industry in the cabinet. Severo had fought the monetarist policies of Finance Minister Henrique Simonsen and openly advocated the expansion of the internal market through adequate supplies of industrial credit. Severo articulated the premonitions of the local industrialists that a continuation of the consumption-cutting, tight-credit policies of the monetarists would bankrupt Brazilian-owned industry and leave it vulnerable to being bought up for a song by better-financed multinational scavengers.

Brazilian political observers are now waiting on tenterhooks for an expected Institutional Act from President Ernesto Geisel which would abrogate constitutional provisions for direct popular election of state governors in 1978. The dictatorial elimination of even Brazil's currently limited electoral process would gut the fragile two-party system, which otherwise would have served as a vehicle for the universal popular opposition to monetarist follies. New York bankers confirmed that they felt the total concentration of power in the hands of the Simonsen "team" was required for it to have the strength to overcome resistance to its triage policies.

Restraint on Real Economy

The government's obsession with improving balance of trade statistics and reversing the inflationary spiral — at all costs — is rapidly undermining the real economy. The regime has pledged to hold down the money supply to a 25 percent annual growth rate, which in the context of a 47 p means that it is severely reducing credit. Brazilian and even foreign industrialists moan that the only factor that's free to charge any price in the

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vaunted "free market economy" is money. Interest rates have risen to the 60-66 percent level; 20 percent above inflation and 30 percent above the government's monetary correction (indexing) level. The result is a cataclysmic contraction of business liquidity which has raised bankruptcy rates to double that of last year. An amazing and ever-shifting welter of price controls, quotas, prohibitions, and countervailing Keynesian gimickry is being dictatorially imposed by the monetarists in order to eliminate all production which does not result in an immediate improvement in the balance of payments. The outcome of this hodgepodge of monetarist manipulation is widespread plant closings — even in industries vital to export production.

Manufacture of consumer durables and construction have been the first targets for strangulation. Housing starts in Sao Paulo were down 25 percent and commercial building starts down 100 percent from January, 1976 levels. Not surprisingly, this "cooling off" of demand coincided with a 60 percent increase in con-construction costs. The response of Mauricio Schulman, head of the Banco Nacional de Habitacao, is to triage the construction industry by shifting funds allocated for housing construction into the stock market.

Even such a priority industry as steel is being triaged. Price controls and lack of demand have forced 46 of the blast furnaces in the Minas Gerais steel belt to cease production since last October, resulting in 15,000 steelworker layoffs.

The picture is the same in agriculture, which until the middle of last year was Brazil's pampered source of export growth. Farmers are still "privileged," according to Agriculture Minister Paulinelli, since their credit supply will only be cut by 5 percent. But that credit is at 60 percent interest rates and the government is quietly phasing out the 15 percent interest loans with which it formerly subsidized the partial mechanization of agriculture. As a result of the credit squeeze, tractor manufacturers are stuck with inventories equal to five months sales. *The Financial Times* of Feb. 22 projects that they will have to cut production by 45 percent from last year's levels in order to reduce the inventories. Thus Brazil will produce only 35,000 tractors, less than a third of its 110,000 annual capacity.

Wheat provides an equally graphic example of the insanity of the monetarist controls. Although the wheat board is still trumpeting that imports will be cut in the expectation of a 30 percent increase in local production, wheat grower spokesmen assure that they will be forced to cut plantings by 30-50 percent. They claim that price levels fixed by the price control board fall far short of the board's own production cost calculations. The board acknowleges that fact, but argues that farmers should subtract the costs of amortizing the machinery they use on wheat from their profits on soybeans!

State Governments Bankrupt

The Governor of the State of Sao Paulo emerged from a meeting with President Geisel Feb. 24 in what reporters described as an uncharacteristic state of nervousness. Governor Egydio told the press that he had been seeking federal economic aid. What he didn't say was that the federal government has been sucking dry the state's taxation base and that Sao Paulo is rumored in banking circles to be near default. Following the recent defaults of the economically insignificant Northeast states, a default of the state in which 50 percent of Brazil's industry is concentrated could well bring down the whole internal financial system.

Industrialists Suicidal Wage-Cutting

The government's decapitalizing of industry for the sake of external accounts has put industrialists in a position where the individual entrepreneur sees the most vicious wage-cutting through labor recycling as his only hope for postponing imminent bankruptcy. The industrialist daily *Folha de Sao Paulo* reported Feb. 25 that skilled toolmakers and semi-skilled assembly-line workers are being fired and rehired en masse in order to employ them at 33 percent lower wage levels. The assemblers' wages were reduced from $1.35 to $.90 per hour. Layoffs in metalworking in January were running at 74 percent above those of a year ago.

The government approves of such cost-cutting. "To stimulate employment and prevent a recession," the regime has institutionalized wage slashing for the whole country by holding indexed wage increased to 6 percent under the official cost of living increases since last September. Planning Minister Reis Velloso said Feb. 28 that despite such cuts in real wages, wages were "the leading edge of the inflationary process." Public employees are to get a 30 percent annual increase, 17 percent behind the cost of living.

Freitas Mallmann, the vice-president of the National Federation of Industries, has characterized such "wage restraint" as "a purely magical solution." "We have to give our workers decent salaries," he said last December, "since only through strengthening the internal market will the country have the conditions for a rapid recuperation. Until we convince ourselves of the necessity for better salaries, we're going to be banging our heads against the wall looking for miraculous solutions."

The Way Out: Debt Moratorium

The way out for Brazil is expanded real capital formation and expanded consumption levels for the population. It is clear that the policies now being implemented lead sharply in the opposite direction. The purge of Industries Minister Severo Gomes and the expected repudiation of Geisel's promises of a political "opening" deprive the industrialists and the population at large of any visible means for changing the situation.

Yet the discontent sweeping the country is visible even in such traditional bastions of reaction as the daily paper *O Estado de Sao Paulo.* A column in *O Estado* of Feb. 25 hints that the international lending agencies need Brazil more than Brazil needs them. Columnist Chagas implies that Brazil could wage an effective fight against its foreign creditors by saying, "for the BID (Inter-American Development Bank) to suspend its operations with Brazil...would even imperil the BID."

The manager of the New York branch of a Brazilian bank was even more frank when he was asked recently whether Brazil might default or declare a moratorium on its $29 billion dollar foreign debt. He laughed heartily and responded, "The crux of the matter is...Who's got who by the balls?"