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Table 3 — Tractors Produced in Relation to Grain Production and Area Sown

	TRACTORS PRODUCED (UNITS)	DOMESTIC SALES (UNITS)	GRAIN** (MN. TONS)	AREA SOWN (MN. HECTARES)	YIELD (TONS/ HECTARES)
1973	21,306	18,782	21.4	9.6	2.2
1974	24,573	20,650	21.9	9.9	2.2
1975	18,827	15,208	20.0	10.6	1.8
1976	19,896*	17,378*	24.5	18.0	1.3

*PROVISIONAL

**WHEAT, CORN AND SORGHUM

SOURCE: BANK OF BOSTON AND FAO MONTHLY BULLETIN

for is to keep meeting payments on Argentina's $12 billion foreign debt. Neither wheat producers nor the government were prepared for the bumper crop, and have run into serious problems of shortage of storage facilities and lack of markets for wheat exports. By mid-February 1977, only 3.8 million tons, or one third of the crop, had been sold, leaving 4.0 million tons for domestic consumption and 3.7 to be exported. The situation since then has been aggravated by a serious shortage of storage capacity.

Through the end of last year and the beginning of the current one, an unusually heavy rainfall in the entire Buenos Aires, La Pampa and Santa Fe wheat belt seriously damaged harvested. Most producers were forced to sell out their wheat at very low prices in an attempt to prevent further losses. A top spokesman for the agricultural producers recently demanded that the government adopt new policies that would integrate the agro sector with industry, in order to avoid problems like those described above.

De Hoz's policy is also coming under fire from industrialists, who had previously agreed to a year of "sacrifice." During that period the industrial sector has been forced to eliminate nearly all its imports of capital goods to save foreign exchange, and sharp raw material price increases have made it almost impossible for industrialists to kick off an actual recovery.

Brazil To Become A Soybean Economy?

BRAZIL

Brazil is in the process of degeneration to a "soybean economy," the price now being paid for the much-touted "economic miracle" initiated nine years ago. The phenomenal growth rates of 1968-73 were achieved through pyramiding debt and destructive accumulation off working class living standards, the labor power of the nation.

The "economic miracle" effectively shut down in 1973, but Brazil is only now feeling the full weight of its consequences. To meet steadily increasing servicing obligations on an external debt conservatively estimated at $33 billion, the Brazilian government is systematically scrapping industrial growth in favor of light industrial and agricultural production which produces quick cash returns — either in export earnings or in import-substitution foreign exchange "savings."

Given the recent consolidation of political hegemony of the "ultra-hard" Medici faction of the military in Brazil, the economic collapse of Latin America's "big power" has dangerous potential for the entire continent. Like Germany in 1937, Brazil is being primed as a war machine, to march against its continental neighbors and the socialist nations of Africa — driven by the need to take outright sources of wealth in order to meet its debt obligations. Already, the Carter Administration's "human rights" sanctions have provoked a call within Brazil to rev up the nation's small but rapidly growing military production industry, which could emerge as a significant prop to an industrial base otherwise headed for real trouble.

Return to "One Crop" Economy

The aim of the plan forwarded by Brazil's Finance Minister Mario Henrique Simonsen is to "slow down" or freeze the growth of those sectors of the economy which do not directly contribute to increasing the inflow of foreign exchange through production for either export or import substitution.

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The primacy of debt payment has produced a stagnation of growth. This is primarily due to the fact that an increased percentage of total financial inflows to Brazil has been channeled into debt servicing at the expense of investment in production. Debt servicing has risen rapidly and continuously over the last five years, registering a 40 percent jump between 1975 and 1976 alone. Servicing payments on the country's more than $33 billion foreign debt are expected to hit $7 billion this year, and to reach $8 billion in 1978. With absolutely no chance that the record 1976 gross loan inflows of about $10 billion will be matched in 1977, Simonsen has turned to the deliberate and systematic removal of funds from the productive economy to pay the debt.

As a result of Simonsen's tight-credit and wage-cutting policies, industry producing for the domestic market — roughly 85 percent of the total manufacturing sector — is to cut back operations to a fraction of the 1969-74 levels. The prime targets are consumer durables — like the automobile, electric and electronic industries — which, as Brazilian Planning Minister Joao Paulo Reis Velloso bluntly put it, are "prohibited to grow in 1977." The accelerating downturn of the domestic market and locally-oriented production is already resulting in a slackening of demand for capital goods inputs.

The export-oriented sector of the Brazilian economy (roughly defined) is composed almost exclusively of producers of primary commodities including coffee, sugar, soybeans, iron ore and manganese ore (see Table 1). Nearly 75 percent of Brazil's total export earnings last year came from sales of these primary products. Of total mining and quarrying output, about 73 percent (mostly iron ore) was exported; about one-half of total agricultural output was sold overseas. On the other hand, the bulk of the manufacturing sector (and about one-half of the agricultural sector) produces for local consumption. The small but growing capital goods sector, while accounting for slightly over 4 percent of total manufacturing, supplied about 58 percent of local demand in 1976; it has been scheduled for a (privileged) 15 percent growth rate in 1977 because of its import-substitution value.

The accompanying debt-equity tables indicate the precarious shape of Brazilian industry (Table 2). While the export sectors — agriculture and mining — have relatively low debt-equity ratios, those of sectors producing for the internal consumer market (food, textile, portions of the mechanical and electrical industries) are extremely high. Metallurgy — predominantly steel production — shows an increased ratio due to the high volume of foreign credits pumped in as part of the government program to achieve steel self-sufficiency by the mid-1980s.

Given these high debt-equity ratios, *accelerating* rates of growth, as occurred from 1969-73, are necessary simply to keep Brazilian industry solvent (Graph 1). Simonsen's objective is to *reduce* the growth of industrial production to a maximum 7 percent this year, which will set off a chain reaction of bankruptcies.

Stagnation in Industrial Growth

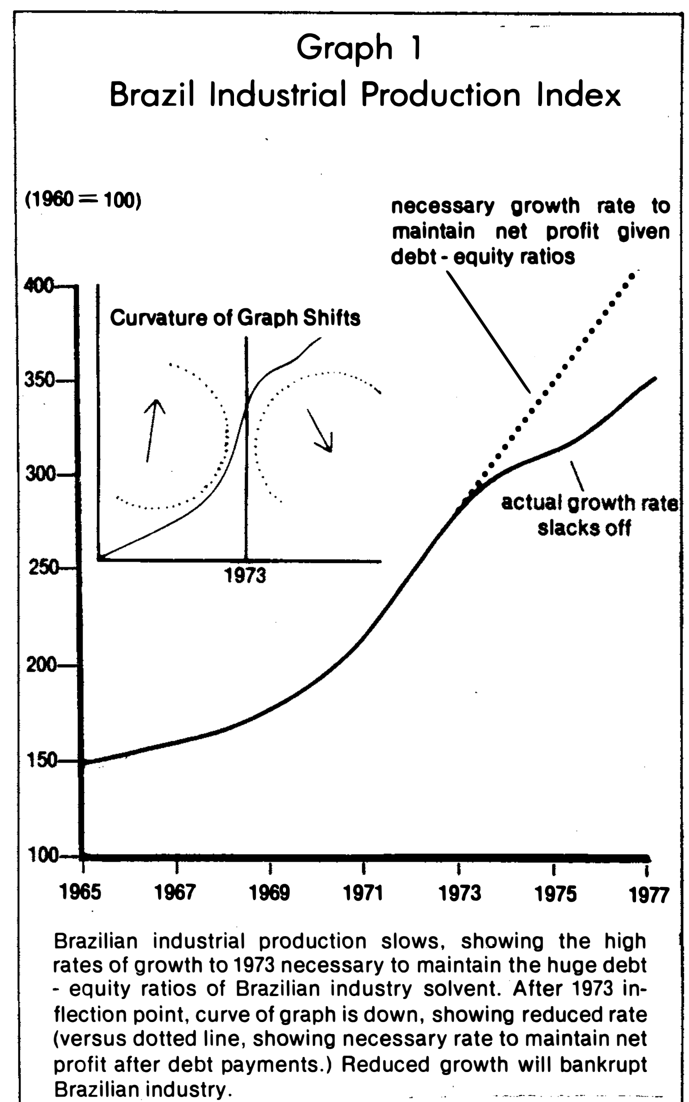
Although a real fall has not yet occurred, industrial production growth rates have been levelling off steadily

Table 1 — Production and Export of Manufacturing, Agriculture and Mining, 1976

(billions of U.S. dollars)

	PRODUCTION	EXPORT	EXPORT AS % PRODUCTION	PRODUCTION AS % TOTAL PRODUCTION
MANUFACTURING	23	3	13%	61%
AGRICULTURE	14	7	50%	36%
MINING	1.1	.8	73%	3%
TOTAL PRODUCTION	38.1	10.8	28%	100%

SOURCE: COMPILED FROM UNITED NATIONS MONTHLY BULLETIN OF STATISTICS, AND BOLETIN DO BANCO CENTRAL DO BRASIL



Brazilian industrial production slows, showing the high rates of growth to 1973 necessary to maintain the huge debt - equity ratios of Brazilian industry solvent. After 1973 inflection point, curve of graph is down, showing reduced rate (versus dotted line, showing necessary rate to maintain net profit after debt payments.) Reduced growth will bankrupt Brazilian industry.

Table 2 — Evolution Of Debt/Equity Ratios

	AGRI-CULTURE	MINING	METAL-LURGY	ELECTRIC INDUSTRY	MECHANICAL	TEXTILE	FOOD
1966	.12	.43	1.02	1.28	.53	.57	.80
1968	.25	.34	.64	1.25	.51	.58	.68
1970	.24	.44	.67	1.09	.86	.74	.98
1972	.53	.59	.63	.70	.85	.96	.98
1974	.68	.67	1.10	1.47	1.16	1.14	1.48
1975	NA	.74	1.22	1.54	1.11	1.12	1.41
COMPARABLE U.S. DEBT/EQUITY RATIOS (1975)	NA	.58	.49	.41	.39	.51	.56

N.A.= NOT AVAILABLE

HIGHER NUMBERS MEAN HIGHER INDEBTEDNESS ON WEAKER CAPITAL BASE

SOURCE: VISAO: "QUEM E QUEM?", 1976.
U.S. FEDERAL TRADE COMMISSION

since 1974, as debt servicing has absorbed ever greater proportions of financial inflows. Most key production sectors and industries show average annual growth rates in 1975 and 1976 which are far below the "boom" years 1967-73 (see Tables 3A,B). Most striking are the cases of the auto industry, truck and tractor production, and non-housing construction. The shutdown in production of critically-needed housing units — never emphasized as a priority investment target — reflects the well-documented process of destruction of labor power in Brazil, which shows up as a real limit to the country's future ability to expand high-technology development.

Credit Crunch

Simonsen's primary weapons against an already battered industrial sector are tight-credit and import restrictions. His program began to be phased in in July 1975, with the introduction of 180-day 100 percent prior import deposits. The terms were subsequently extended to 360 days, and a number of "superfluous" import items were prohibited altogether. This strategy almost doubled the cost of imports, and stagnated their growth in 1975 and 1976. The extra cost to companies which depend on imports to maintain operating capacity was exacerbated by a swift drying-up of local credit. The problem worsened last year when commercial bank interest rates were allowed to float like a hot-air balloon. By the end of 1976, cruzeiro rates were topping the 60 percent per annum ceiling, while consumer credit terms were cut in half from 24 to 12 months.

The results of Simonsen's slowdown policy showed up in the narly 25 percent drop in overall automobile production between January and February of this year due to inventory pile-up. General Motors of Brazil alone cut production by 20 percent at their Sao Caetano do Sul plant in February, in order to pare down excessive inventory. The tractor industry is faring even worse, due to hefty cuts in agricultural credit. The Financial Times of London estimated recently that tractor production will be reduced to one-third of plant capacity.

In addition to import controls and credit restrictions, consumer-oriented industry is also going to suffer from a renewed push to drive down wages below the 50-60 percent drop in real wages over the last decade. Last month, the government established a dangerous precedent in wage policy by limiting wage increases for government employees to only 30 percent, a drop in real terms of 15 percent over the previous year. Income distribution patterns over th 1960-1970 period (see Table 4) already show a drastic depletion of middle income layers in terms of their share of economic growth. The slow-down policies now in effect can only result in a more rapid, severe depletion in the period immediately ahead.

Revising The Five Year Plan

The government is now scrapping the orientation toward industrial growth embodied in its five-year development plan, PND II (1975-1979), as the drastic revisions over the last six months make clear (Table 5). The government budget for 1977 has been cut by 25 percent in real terms from what was originally planned in the PND II. The infrastructure category — which effectively defines the parameters of industrial development and growth — is hardest hit by the scheduled \$3.3 billion cut in spending. The only industries spared are those — like steel, petrochemicals, capital goods and fertilizers — which contribute to alleviating balance of payments pressures. Of the rest, transportation and

Table 3A — Percent Rate of Growth of Production, 1967-1976

	Petrol Crude	Petrol Refined	Iron Ore	Motor Vehicles Autos	Motor Vehicles Trucks	Motor Vehicles Tractors	Home Electrical Appliances	Wheat	Housing Units	Non-Housing Cnstrctn.
1967-1972	1	16	13	24	30	43	20	-9	1	20
1973	0	1	77	18	35	80	16	15	-6	16
1974	6	0	48	7	6	5	-3	7	-19	-2
1975	-3	9	23	-2	-1	23	26	7	2	-6
1976 (est)	-2	7	-4	1	5	10	38	8	---	---

Source: Boletin do Banco Central do Brasil, Jan. 1977

Table 3B — Brazilian Industrial Production By Volume

(monthly averages)

	Steel (1,000 metric tons)	Autos (1,000 units)	Wheel Tractors (1,000) units	Cement (1,000 metric tons)
1972	543	34.8	2.5	948
1973	596	38.8	3.9	1,117
1974	603	46.8	4.1	1,243
1975	694	46.2	5.1	1,358
1976 June	735	46.9	6.5	1,460
July	796	46.0	6.7	
Aug	841	43.4	6.8	
Sept	817	42.4	7.3	
Oct	732	46.3	7.1	
Nov	764	44.2	5.9	

Source: UN Monthly Bulletin

Table 4 — Percentage Change in Participation of Income, 1960-1970

Poorest 10%	- 5.13
Next 10%	-11.64
Next 10%	-13.16
Next 10%	-16.55
Next 10%	-20.32
Next 10%	-22.75
Next 10%	-21.68
Next 10%	-11.80
Next 10%	- 1.64
Richest 10%	+20.50

Source: Carlos Geraldo Langoni, *Distribuiçao da renda e desenvolvimento economico do Brasil.*

communication equipment producers are expected to be the worst casualties.

The serious effects of cutting infrastructural investments — particularly in a developing nation like Brazil — show up most clearly in the case of railroads, electricity, and telecommunications. Investment in railroads was cut (based on projections of 50 percent inflation in 1977) by 33 percent. The Steel Railroad linking the nation's iron and steel center in Minas Gerais to the industrial hub of Sao Paulo has been abandoned in the middle of construction; completion has been postponed from the end of 1977 until the early 1980s. Spokesmen for the state-owned electrical company Eletrobras warned that the budget cuts mean that no new projects can be initiated this year, and that projects in midstream — like the giant Itaipu hydroelectric station — will be seriously slowed down. Eletrobras officials have projected the need for electricity rationing by 1980-81 if the current investment policy is not quickly reversed. Telecommunications will be crippled. One of the major equipment producers in Brazil

stated that the continued operation of the industry at only 40 percent capacity would show up as a bottleneck to overall growth by 1980.

Social welfare categories were similarly hit. Government investment in social welfare was cut by at least 26 percent from 1976 levels, while funds for the National Housing Bank were reduced by over 21 percent. What is more, assets of both the NHB and workers' pension funds are being channeled into the stock market — as a supposed prop to industry.

Export and import-substitution oriented enterprises received the only real increases in budget allowances. Allocation to Petrobras, the government oil company, is likely to be increased by close to 22 percent, while the state mining conglomerate Cia. Vale do Rio Doce received an increase of 32 percent. But even this "profitable" sector is not protected. The 4 percent decrease in investment in government steel industries reflects the downward revision in projected steel output of almost 30 percent below original PND levels. And as recently as this month, the Steel and Non-Ferrous Ores Council (Consider), a state planning body, revealed that it is adopting an entirely new strategy toward steel production in order to reduce imports of coking coal considered a drain on foreign exchange. The government intends to scrap plans for the construction of major highly efficient steel complexes with full-sized blast furnaces that produce 100 tons per day, in favor of mini-furnaces with a capacity of only 10 tons per day, using charcoal or low-quality local coke. On the basis of expanded capacity statistics for steel complexes under construction, government planners have calculated that the additional imported coke requirements — estimated to cost $300 million this year — would be a waste of foreign exchange already earmarked for balancing international payments.

Table 5 — Capital Investment Budget, 1976-77

(%)

	1975 TO 76 % INCREASE IN CURRENT CRUZEIROS	1976 TO 77 % INCREASE IN CURRENT CRUZEIROS	1975 TO 76 % INCREASE IN REAL TERMS	1976 TO 77 % INCREASE IN REAL TERMS
TOTAL CAPITAL INVESTMENT	22	17	-21	-22
PRIORITY AREAS (AVG)	30	NA	-13	NA
IRON ORE (V.R.D.)	129	98	53	32
STEEL	NA	44	NA	- 4
PETROBRAS	56	83	4	22
INFRASTRUCTURE	30-40	NA	-7 TO -13	NA
ELETROBRAS	62	31	7	-13
TELEBRAS	NA	26	NA	-16
RAILROADS	54	1	2	-33
PORTOBRAS	NA	22	NA	-19
ROADS (D.N.E.R.)	NA	17	NA	-22
AMAZON DEVELOPMENT	NA	- 3	NA	-35
LOANS TO PRIVATE INDUSTRY				
NATIONAL ECONOMIC DEVELOPMENT BANK	NA	17	NA	-22
HOUSING (B.N.H.)	NA	18	NA	-21
HOUSING (C.E.F)	NA	4	NA	-31

REAL % CALCULATED ON THE BASIS OF 50 PERCENT INFLATION IN EQUIPMENT COSTS DURING 1976 AND 1977.

SOURCE: PLANNING MIN. VELLOSO ON EXPECTED 1976 INVESTMENTS IN VEJA, OCT. 27, 1976