

'Shock therapy' for Brazil?

Mark Sonnenblick reports on David Rockefeller's latest instructions to his southern debtors.

In order to execute stiff austerity "conditionalities" recommended by the International Monetary Fund, David Rockefeller has ordered Brazil to reinstate the dictatorship the Figueiredo government is presently dismantling.

Rockefeller gave his ultimatum that Brazil shift to "shock therapy"—as the discredited methods peddled by Nobel Laureate Milton Friedman are appropriately called—on the eve of this week's Chase Manhattan Bank board of directors meeting in Brazil.

Chase held similar festivities a few days earlier in Argentina, where Rockefeller, whom Argentina knows primarily for his sponsorship of the Trilateral Commission, held what he proclaimed to be a "historic" meeting with Argentine Finance Minister José Martínez de Hoz. De Hoz's Friedmanite policies, which have decapitalized industry and blown out the Argentine banking system, are under increasing attack by business and military leaders in Argentina. Rockefeller also paid friendly visits to Chile, Paraguay and Panama.

In an interview with *Veja* magazine, Brazil's *Newsweek*, the Chase chairman declared: "Brazil must make serious adjustments in its economy. . . . On this point, I believe the IMF has a role to play. . . . The adjustment process is always painful." Chase, which has an exposure of \$2 billion in Brazil, threatened that until Brazil goes to the Fund, it and other American and British banks would continue blocking the loans Brazil needs to service its \$57 billion debt—the largest in the developing world. (The blockade has not been airtight and Brazil has continued to be able to raise funds in the Eurodollar markets, though at higher interest than before.)

Rockefeller noted that "after a period without democracy, the Brazilian government has taken measures to permit greater participation by the people." But, to the interviewer's question of whether additional austerity programs would be compatible with the political opening, Rockefeller replied, "to do both things at the same time would probably be more difficult than to do one at a time." By demanding that economic belt tightening come first, Rockefeller was brazenly advocating the return to power of the repressive apparatus which made Brazil's 1968-75 "period without democracy" a nightmare. Rockefeller piously added in justification: "It is

understandable that they acted in the past the way they did."

Rockefeller tried to bolster his Friedmanite arguments by broadly hinting that they are shared by the incoming Reagan administration. Business International, the New York consulting firm, likewise tried to give the Brazilians the impression that American business solidly backed recessionary policies for Brazil in a document it presented to the government at a meeting of 100 multinational executives in Brasilia. The multis would be the first ones hurt by Brazilian austerity and devaluations which make it harder to pay their dollar loans, but some of them believe that Brazilian firms will be hit harder, permitting monopolization of the local market.

It remains to be seen to what degree Brazil will knuckle under to Rockefeller's austerity demands—with or without the U.S. presidential seal of approval. For months, Brazilian Planning Minister Antônio Delfim Netto, the country's chief economic policy-maker, has been carrying on a running battle with his enemies in the City of London, Wall Street, and the Carter administration, who are trying to send him to the IMF. In every international financial capital, Delfim has refused to submit to the exigencies of the bankrupt IMF.

The argument of Delfim and Brazilian President João Figueiredo is straightforward: IMF "structural adjustments" will damage the Brazilian economy. They contend that debts are best paid through growth, not shrinkage. As Delfim put it in an Oct. 20 speech at the National Foreign Trade Convention in New York, "a much too drastic policy . . . to curb economic growth will make the task heavier for future generations, which will inherit an even poorer country with its productive capacity hampered by the lack of adequate investments."

President Figueiredo is particularly sensitive to the social and political dislocations that would be caused by the application of virulent economic austerity. Figueiredo's entire political strategy is premised on gradually broadening the "political opening" initiated a few years ago. Specifically, he and his *éminence grise*, General Golbery do Couto e Silva, believe that seriously depressive measures would bring the defeat of the government party in the 1982 general elections, in which local, state,

Butcher and Rockefeller talk about Brazil

Williard Butcher, Rockefeller's replacement as President of Chase Manhattan, made the following comments to the daily, Jornal do Brasil, Nov. 2:

The association of the IMF with the private banks to take care of Brazil's needs will increase Brazil's ability to raise loans on the world markets. If we think it is in the interest of Chase, in the interest of Brazil, then I should say it would be an added positive factor in considerations of Brazilian loan requests.

David Rockefeller conveyed the same message—and more—in a more diplomatic fashion in an interview with the Brazilian newsweekly, Veja, Nov. 5:

I don't think a country like Brazil that is so dependent on imported oil can take energy prices rising so rapidly without making serious adjustments of its economy. . . . On this point I think the IMF has a role to play. . . . The IMF can make objective recommendations without getting involved in politics. . . .

I ask myself if Brazil can deal with its economic problems without taking some of these austerity measures. The adjustment process is, unfortunately, always painful, but I don't see any long-term way of avoiding it. . . . Given the fact that Brazil's foreign debt rose so substantially, I think it's unrealistic to hope private banks would give loans as they used to.

I think that people here in the United States are in general satisfied to see that the Brazilian government—after a period of without democracy—is taking steps to permit the people greater participation. It is understandable that [the dictators—ed.] acted in the past the way they did, but one always hopes that such forms of government are temporary. . . .

Veja asked, "Would new austerity programs be compatible with the political opening?" Rockefeller responded diplomatically, but clearly:

I certainly applaud both objectives—the effort to adjust the economy and the political opening—but it would probably be more difficult to do both at once than to do them one at a time.

and federal officials constituting the electoral college for the 1985 presidential succession are to be elected. This rejection of the regime might in turn result in an army "hardliner" coup against the democratization process, and set into motion a vicious cycle of "left versus right" violence and counterviolence.

The European connection

Brazil is by no means isolated on the international scene in its battle with the IMF. After meeting with Delfim during a Paris visit, in which Brazil picked up substantial bank loans, French President Valéry Giscard d'Estaing told his ambassador to Brazil: "Brazil is a very important country for France, which considers it a partner even more from a political than an economic perspective." On the same late October voyage, to Japan Delfim landed almost \$1.8 billion in combined credits and investments. Paris and Tokyo are actively recycling petrodollars to finance exports of their countries' industrial equipment for Brazilian development projects. This is a direct challenge to the IMF's attempt to close off credit spigots until Brazil agrees to submit itself to IMF supervision.

Yet, neither such positive deals nor European words of encouragement suffice to meet Brazil's need for \$13 to \$17 billion in gross capital inflows in 1981. Delfim is, consequently, being forced to play a pragmatic balancing act at home. On Nov. 4, he announced a package of austerity measures which go in the direction the IMF—which even Brazil's anti-IMF supporters in France, Germany, and Japan had been demanding. He told reporters that starting in January, Brazil would gradually increase the pace of minidevaluations to compensate fully for its rapid inflation. Present stiff controls on prices and interest rates will also be eased, while the money supply tourniquet will be turned even tighter in the face of a predictable inflationary outbreak.

Delfim stated hopefully that these orthodox recessionary policies would increase exports and domestic investment in new productive capacity. However, as has been found with the approach of Paul Volcker and Maggie Thatcher, "freeing" a troubled economy to "market forces" tends only toward hyperinflation combined with recession.

Although monetarist in approach, Delfim's new measures fall far short of the savage wage gouging and dismantling of Brazil's industrial structure being demanded by the IMF in return for at most \$3 billion in "tranches" at high cost and short term. Perhaps most significant of all, as an example for the other developing sector nations which are watching the Brazilian precedent closely, is the fact that Delfim once again refused to let his country be a guinea pig for the IMF.

It is this independent attitude that Rockefeller and his allies find so offensive in Brazil's current posture.