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Brazilian Industry Strangled By Debt Service

Brazil is facing a crisis of contraction in both its income producing sector and its debt payment capacity, a contraction of such proportions that only a decision to wipe the slate clean through debt moratorium would provide the basis for starting up the economy again. For the duration of its "economic miracle" Brazil has concentrated on diverting revenues from needed social investment and basic infrastructure into a small sector of cash crops and extractive industries for export. That small area of the economy has operated for over a decade at the expense of the rest of the economy. The most important economic factor, the population, has been sacrificed to this monetarist policy to the point of almost irretrievable depletion.

Freites Malman, the vice president of the National Industrialists Federation, which comprises the largest private and state sector industries in the country, remarked last December that a mere 20 per cent of the population could be considered "consumers." The other 80 per cent lives at bare subsistence levels or below, "marginalized" by national labor policies which have fundamentally operated on the concept applied by Hjalmar Schacht during his tenure as Nazi German finance minister of feeding the work force only the calories sufficient to keep it functional for one production cycle before the new shift is brought in. Malman's worried call to reverse this situation before it is too late, by investing in salary increases which would allow a "domestic market" to be born, was not an idle observation. Discontent is growing among industrialist layers who see the shrinkage of the employable work force, and the consequent withering internal markets as a question of their own survival. Their spokesman in the cabinet, Industry and Commerce Minister Severo Gomes, has expressed with increasing vehemence his concern over the ruinous consequences of the Friedmanite "economic liberalism" of Finance Minister Simonsen.

Simonsen, however, has obtained the political backing of President Geisel for a new round of belt-tightening and retrenchment measures. During his end of the year address to the nation, Geisel, reversing his previous reluctance to yield to demands by Brazil's creditors, stressed that the "economy would have to be cooled down further." Interior Minister Rangel Reis aptly described the character of 1977 as the year of the "War Economy." The main focus of the discussion so far has been to implement measures aimed at improving Brazil's $6 billion current account deficit. That deficit is unsustainable in the context of the $28 billion dollar national foreign debt which, despite all "cooling," will reach at least $33 billion by the end of 1977.

As an immediate measure of the "War Economy," the government announced that the budget programmed for 1977 would be cut by 25 per cent. Such an extreme measure was offset only by the decision to increase the budget for research and development, an area which was allocated an extraordinary 65 per cent increase in funds over last year. Central to this decision is Brazil's $12 billion deal with West Germany which would give Brazil 8 nuclear reactors. While the government has not questioned the necessity of paying its debt to international financiers this year, the determination to stick to the German nuclear deal is a direct defiance of the Carter Administration and Carter's Wall Street advisors. Simultaneously, Brazilian commitment to the nuclear program establishes strong ties with the West German government, creating a margin of independence from Washington. Internally, the determination to go ahead with the building of nuclear reactors is seen as the creation of a new area of scientific and industrial know how which will simultaneously vitalize ailing industries and establish the basis for future expansion on a more advanced technological level.

Brasilia's decision to draw the line of national sovereignty on the issue of nuclear technology however comes at a time when, as Freites Malman's statement makes clear, the vast majority of the economy is severely endangered. The fact that items such as health care and social investment programs were among the first to go in the 1977 budget, reveals a grim compromise which threatens to undo the very foundations on which a new technological order would be based.

Starvation Encroaches on Productive Powers of Workforce

35 million people, a third of the population, are publicly acknowledge to be starving in the drought stricken northeast. Despite this degree of sacrifice, the most drastic credit restriction measures, import cuts, and deindustrialization measures have failed in regulating a computerized economy gone haywire.

Last year, the government was aware that carefully calculated indexation schemes aimed at regulating wages in such a way that they would be "non-inflationary" had crippled the capacity of the labor force to be productive. In view of that fact, president Geisel announced that he would decree an unorthodox wage increase above the level of inflation. Shortly thereafter, in the wake of the Manila IMF meeting, the government altered this decision in favor of demanding further "sacrifice" from the working population.

Finance Minister Simonsen then abandoned all pretenses of computing indexation, and introduced "negative factors" in the salary adjustment figures which brought wages below the inflation rate. Chase Manhattan's affiliate in Brazil, Banco Lar applauded this measure as a necessary means of counteracting "redistributive efforts which tend to be self-defeating, contributing... indirectly on the demand side. The recent shift as regards wages, " the bank states," reflects recognition of the inflation." According to this same source, the 10 per cent growth of the industrial sector last year, which took place through large imports of capital goods despite credit restrictions and prohibitive prior-import deposits, was also "inflationary."

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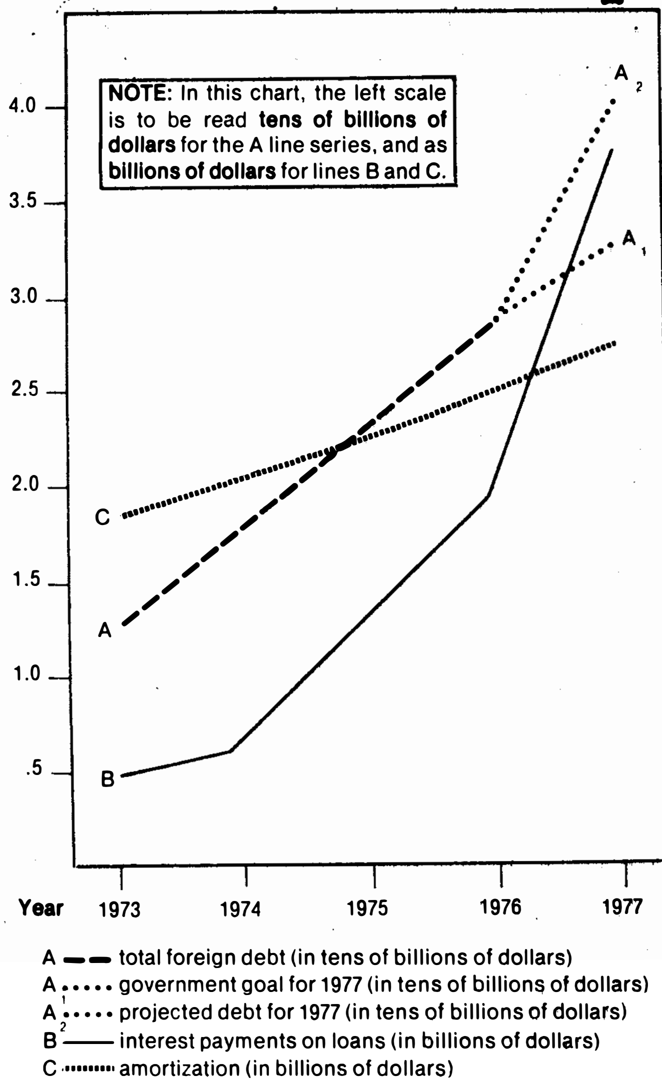

New Levels of Austerity

From the standpoint of financiers holding Brazilian debt, real investment at this point threatens the country's capacity to pay those debts through austerity measures, and is therefore "inflationary." While holding on to research and development, the government has given in to bankers' pressures for austerity, which entails postponing critical areas of investment, a decision which will exacerbate the collapse spiraling into the income producing sector.

Immediately after Geisel's Dec. 29 state of the nation address, the finance minister slapped further austerity measures on the economy. In 1976, a 100 per cent prior import deposit was maintained, interest rates on internal credit were allowed to float, consumer credit was slashed in half in some cases, and travel curbs were instituted to foster internal savings. For 1977, growth will be "cooled" from 8 to 4.5 per cent per annum. Inflation is targeted to be brought down from last year's 46 per cent to 30-35 per cent, and the trade deficit is to be reduced by $1.8 billion.

Simonsen's only proposal for accomplishing this is "export, export, export," the only activity for which credit incentives will be provided. The export drive will be coupled with a reduction in total investments, and 30 per cent overall drop in the government budget.

Such monetarist policies have already resulted in the bankruptcy of 25 per cent of Brazil's national small and medium industry by May of 1976; the end of the year figure is estimated to be close to 35 per cent. 1977 will see a wave of chain reaction bankruptcies which will hit large national industries and foreign companies as well.

Official figures on the unemployment resulting from such collapses are not available. Besides the millions fleeing from the Northeast in roving hordes the unemployed are already swelling the cities. Unhealthy conditions caused by decaying sewage and sanitation services in urban areas crammed with millions of undernourished inhabitants, are creating an environment ripe for sweeping epidemics. The condition of the population has already plummeted to such levels that local health officials have abandoned immunization programs as ineffective on human beings so weakened that they are not able to produce antibodies. The compulsory work fronts set up in the Northeast to stop labor migration to the cities are being disbanded because of budgeting cuts for food allowances for laborers.

Already Northeast sugar industry workers have begun strikes brought about by the inability of plantation owners to pay them following the sugar price collapses. Plantations that produce 40 per cent of the total Northeast sugar output are threatened with bankruptcy in the coming year. The Finance Ministry's strangulation of credit for machinery and fertilizers for agriculture has already resulted in the return to theuse of work animals in many areas. Collapse of investment in fertilizers and machinery will severely lower general productivity in crops earmarked at both exports and internal consumption. A telling symptom of the deadly contradiction of the agro policy is this year's bean shortage which deprived the vast majority of the population of its main staple. Further emphasis on cheap agro production for export will only exacerbate the problem.

The State Sector

The state owned sector of the economy is the area the military government has attempted to protect against the surrounding collapse. The 1977 budget however, shows clearly that this attempt has also been sacrificed to debt requirements. Funds for social services, health and education were drastically reduced. The already battered infrastructural projects such as railroads, highways, and ports were slashed by 10 per cent. This figure presumes an inflation rate of 30 per cent. But 1976 inflation reached 45 per cent and inflation at this level would result in a 25 per cent cut to infrastructure.

Trade Crunch

The bulk of Brazilian export revenues depends on the highly unstable fluctuations in the agricultural commodities market. Last year's $10 billion export revenues were obtained chiefly because of the 140 per cent rise in coffee prices. The other major earner was soy (beans and cake) which, together with coffee, brought in $3.8

billion. Iron ore, representing another 10 per cent of exports, declined last year, and, given the difficulties of the Japanese steel sector, is expected to drop further this year. Sugar, another traditional export, dropped from representing 9 to 1.5 per cent of export revenues because of the 60 per cent drop in world prices.

Brazil's main trading partners continue to be the U.S., Europe and Japan, partners with whom they are in the red. Imports from all three sectors have declined sharply over the last year. The only region with which Brazil has shown an increased trade pattern is the Arab and African countries, to whom they sell principally assembled motor vehicles, and the Soviet Union. Over the last year, trade with the Soviets increased 45 per cent, to a value of $789 million, and is expected to reach $1 bilion during 1977. The main economic advantage in this trade is that Brazil has a positive balance of payments with the Soviets, and has been able to import vital petroleum from them. Although the 2.5 million tons of crude imported for $260 million constitute only 5 per cent of Brazil's petroleum needs, this trade represents an increasingly important buffer to the collapsing economy.

For 1977 it is estimated that Brazil will need a good $6 to 8 million in refinancing for its trade deficit and loan repayments. Although it managed to obtain close to $10 billion last year, the tight Euromarket and overexposed New York banks will be unable to come through with this year's need.

Venezuela 1976: Oil For Development

Despite the steady rollback of petroleum production and export revenues since the peak oil boom year on 1974, Venezueal's imports of capital goods and industrial inputs soared to a record level of close to $4 billion in 1976, an increase of more than 20 percent over the previous year. This continued upward trend exemplifies the capital-intensive industrialization policies of President Carlos Andres Perez, and indicated that instead of continuing the 1974-75 rate of increasing its deposits of petrodollars abroad, the government is using its oil to finance development. Not only did Venezuelan deposits in the United States decrease in 1976, but all key indicators reveal that the steady rate of growth of industry recorded since 1972, approximately 10 percent per year, rose to over 12 percent in 1976, with the strategic sectors of steel, general manufacturing and construction setting the pace.

The growth of imports was crucial in allowing for the expansion of industrial output, which is now more than 100 percent above the 1970 level. Purchases of machinery, chemicals, and industrial raw materials continue to comprise about 60 percent of total imports. Although this proportion is the same as during the peak income year of 1974, its present significance is shown in the absolute increase of total imports by more than 20 percent last year to $5.9 billion, as comparted to $3.8 billion in 1974.

The primary difference between these two years is that in 1974, the government placed more than $3 billion of its oil revenues in the Venezuelan Investment Fund (FIV), a petrodollar holding fund consisting of about half of Venczuela's total reserves at that time. The FIV deposited over 90 percent of its assets in short-term accounts in private New York banks. U.S. Treasury notes, and on the Eurodollar market. In contrast, last year only $581 million went into the FIV, which simultaneously began to serve as a major source of development credits for Venezuelan industry. Besides the $415 million provided directly by the FIV to expanding state sector industries, indirect credits via FIV loans to other government funds, coupled with direct infusions of oil revenuse generated during the year, resulted in the astonishing leap in credits from public lending agencies to manufacturing by 95 percent. As an example, the Venezuelan Development Corporation (CFV), which one year ago was reportedly on the verge of shutting down, was revived and increased its lending to the manufacturing sector by 53.3 percent.

Resulting government contracts with the private sector, especially construction, spurred overall capital formation. This process began to take off in 1975, when total fixed capital investment jumped by more than 50 percent to $7.3 billion or 25.4 percent of GDP — a very high ratio. Preliminary estimates for 1976 indicate perhaps an even higher rate of expansion. The construc-

VENEZUELAN OIL PRODUCTION 1972-76