'Beans with rice' to pay debt in Brazil

by Luís Barbosa and Lorenzo Carrasco

When he took possession of the Finance Ministry in Brazil at the end of 1987, Maílson da Nóbrega declared that his strategy would be to follow the "beans with rice" model, meaning that he intended to undertake no revolutionary innovations, like the Cruzado Plan of former Finance Minister Dilson Funaro. Rather, he would follow the path of the "good boy" at the service of the International Monetary Fund and creditor bankers, focusing his administration on the day-to-day economic crisis and on "recovery of the country's international credibility," allegedly damaged by Funaro's declaration of a debt moratorium in February 1987.

Ten months later, the words of the minister took on a shockingly literal meaning, with growing food exports—imposed by the need to generate ever-larger trade surpluses to pay the foreign debt—leading to shortages of rice, beans, meat, and other food products essential to the sustenance of the majority of Brazilians, for whom prices have risen well above the official inflation rate.

This situation was made clear by the announcement of a trade surplus through September of this year of some $14.5 billion, and the projection of an annual surplus of more than $20 billion, an historic record for Brazil. Of the $32 billion anticipated in export revenues through the end of the year, $25.5 billion are from agricultural exports, of which $10 billion are food items. Of these, nearly 30% are represented by the record export of 500,000 tons of beef, 220,000 tons of chicken, and 500,000 tons of rice. These figures do not in any way represent significant production increases; rather, in the majority of cases, they represent significant reductions in the per capita consumption indices of the Brazilian population (see graphs).

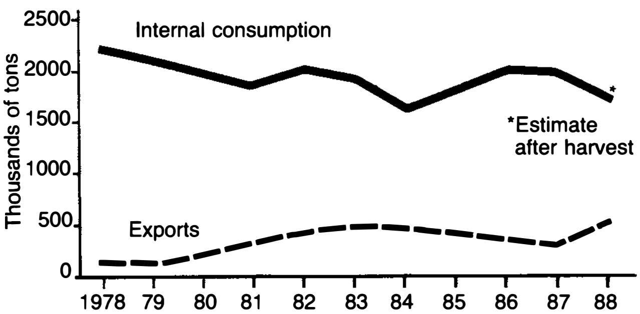
It is worth noting that while the amounts cited might appear minimal in relation to volumes of international trade, they become extremely significant when converted into per capita consumption figures: the exports of beef represent the equivalent of the annual consumption of 40 million individuals; the chicken, 20 million; and the rice, 7 million.

A self-cannibalizing process

The government's policy of liberalizing exports of food products, praised as one of the leading elements of the "modernization" of Brazil's economy, in fact constitutes one of the main factors responsible for accelerating the perverse process of "inflationary feedback," which is threatening to send inflation rates above 30% *a month*. As part of this liberal policy, the government has been significantly reducing its role in the merchandising of food products, permitting the increased intervention of speculating intermediaries, which has in turn contributed to the reduced profits of the productive agricultural sector.

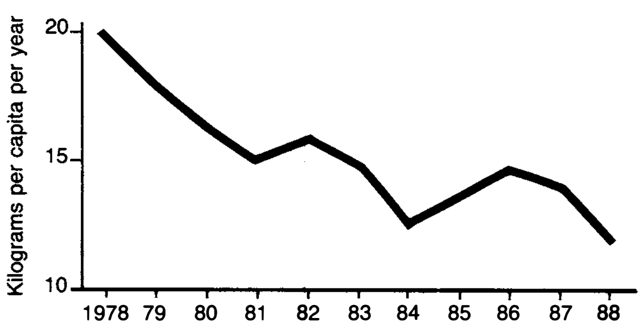
The mechanism of this truly cannibalistic process is simple: In addition to the constant issuance of currency necessary to remunerate exporters for their dollars (profits which are, in their majority, then poured into the rapid turnover speculative markets), the export of food is triggering real physical shortages of these products on the domestic market, which has in turn driven domestic prices up toward those on the international market, and not just for the exportable products, but for all variety of food items.

FIGURE 1
Beef: Brazil's internal consumption plummets, as exports rise



Sources: CFP (Production Finance Company), Cacex, Banco do Brasil, Ministry of Agriculture of Brazil.

FIGURE 2
Per capita meat consumption of Brazil dropped 40% over the past decade



Sources: CFP, Cacex, Banco do Brasil, Ministry of Agriculture of Brazil.

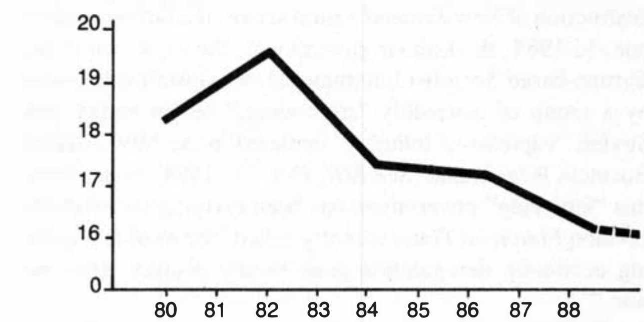
Therefore, while the official inflation rate on Sept. 15 was 397%, according to the Brazilian Institute of Geography and Statistics, during that same period the price of beef rose 750%; chicken 772%; milk 568%; wheat flour 869%, etc. In the month of September alone, while the official inflation rate was 24%, the price of rice rose 27.8%, beans 53.2%, beef 42.3%; and chicken 40.82%.

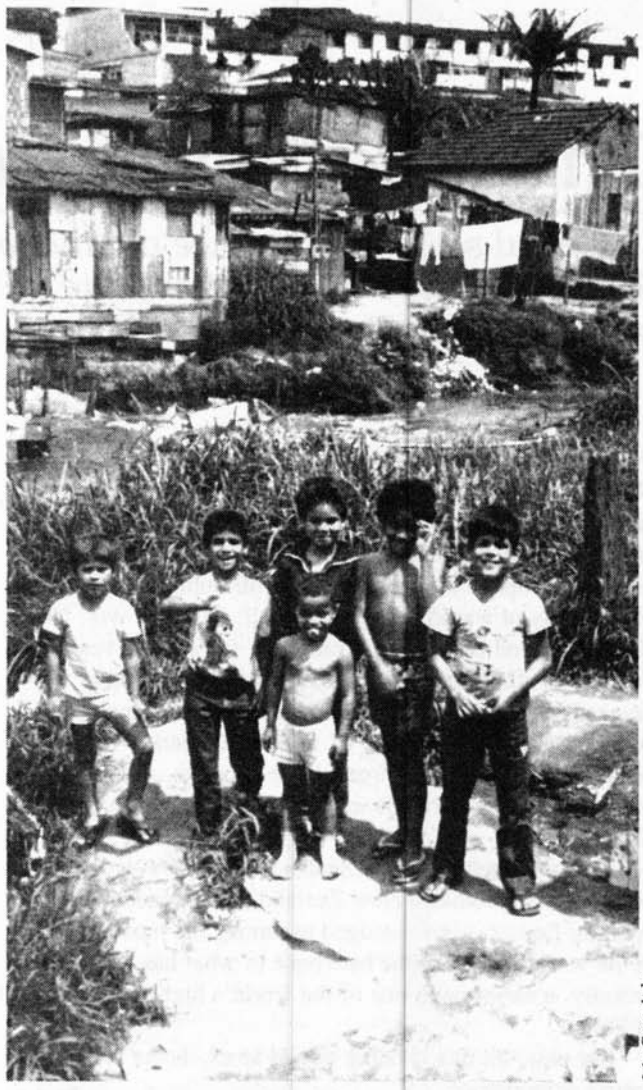
As long as such a policy continues, the announcement of the Company of Production Financing that 1988-89 grain production would reach a record 72 million tons cannot be greeted with much enthusiasm by the majority of Brazilians. Such a production record, under present conditions, means neither more food on the table, nor more profits for the producers. Rather, it means more dollars for the international bankers and more cruzados for the speculative financial markets. In sum, more inflation.

FIGURE 3

Brazilians' consumption of beans dropped 15% in five years 1982-87

Kilograms per capita per year

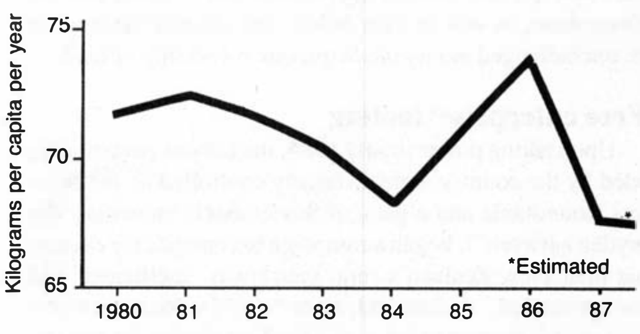




A 1987 view of slums of São Paulo, Brazil.

FIGURE 4

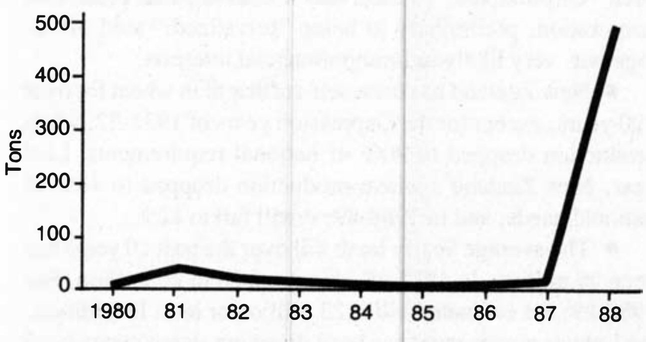
Brazilian rice consumption dropped 8% in one year and is still falling



Source: CFP.

FIGURE 5

Brazil's rice exports skyrocket while consumption falls



Source: CFP.