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lated the levers of political economy with consummate finesse in order not to disturb the delicate political balance in the country and not to blow out the economy.

The 180-degree turn from unbridled growth to recession was effected at the end of last year under incredible blackmail pressure from the Bank of England, David Rockefeller, and their allies among U.S. banks. The banks simply cut off lending to Brazil. Delfim was presented with the choice of letting the IMF bludgeon Brazil with its conditionalities, or of making Brazil a net exporter through his own methods. With no alternative world monetary system in view, Delfim eloquently mocked the IMF, and chose the "sovereign" road to recession. The world's "limits to growth" forces had clearly felt compelled to exterminate the very self-confidence born of Brazil's meteoric rise to the world's eighth largest economy. The World Bank had concluded its late-1977 confidential report on Brazil with the lament, "The Brazilian Miracle . . . established great confidence in the long-term growth potential of the country, which has made it difficult to adjust to the necessity of moderating the growth rate as a means of combatting the balance-of-payments and inflation problems Brazil faces today."

While the advanced industrial countries plunged into recessions, the Brazilian military government insisted on continued 8 to 10 percent annual industrial growth. The opponents of Brazil's growth orientation were confounded by the 7.1 percent increase in manufacturing production during 1980.

Then, during the last months of the year, Delfim instituted monetary constraints which look much like those Paul Volcker imposed in the United States. Delfim adroitly cloaked his Dec. 7 announcement of policies which would carry Brazil into a recession. He consecrated Brazil to "free enterprise," eliminated price controls on most goods and on interest rates, cut back wage indexing, and announced curbs on government spending. Specifically, he imposed strict limits on money supply and bank creation of new credit; these have sliced credit available to the economy by over 20 percent in real terms over the course of the year. The credit-shortage/high-interest policy has fully achieved its intended purposes: 1) forcing companies to borrow dollars abroad to help finance Brazil's balance of payments at a time when the Brazilian government had difficulty borrowing; 2) forcing companies to sell off or use up inventories of inputs and finished products, resulting in

Opposing views on a policy of sacrifice

Central Bank President Gerardo Langoni, a friend of Milton Friedman and the host of Paul Volcker's Labor Day sojourn in Brazil, explained Brazil's policy switch to the press after having done so to the Naval War Academy, Oct. 5.

Langoni said, "The superimposition of the financial shock on top of the second oil shock of 1978 made Brazil unable to sustain the strategy of growth accompanied by increasing foreign indebtedness which it followed during the 1974-78 period when foreign interest rates were lower than U.S. inflation levels. Today, interest rates are 5 to 6 percent positive, above U.S. inflation." This, said Langoni, forced Brazil to slow down industry, promote exports, and shift investments into agriculture and alternative energy sources.

Cláudio Haddad, the Central Bank's Public Debt Director, further outlined the strategy Brazilian monetary authorities were pusuing to reduce Brazil's current account deficit during a period of sky-high foreign interest charges (see Figure 3). In an Oct. 11 interview with Rio's daily *Jornal do Commercio,* Haddad stated, "I think that next year we will have to obtain a brutal trade-account surplus in order to gradually close out the current account deficit. . . . The key to this in terms of political economy is a sectoral re-allocation. We must generate a trade surplus next year; if we bring in a $5 billion surplus on trade, it will be little. We need to capture less foreign savings and more internal savings. Thus, the present monetary and fiscal policies must be maintained. We must produce goods to be sold abroad, more 'tradebles,' and fewer domestic goods."

Brazil's Parliament and the majority of the country's industrialists, however, take the opposite view. A formal parliamentary commission of inquiry studied the causes of the high internal inflation rates (see figure 2). Its conclusions were related by Deputy Herbert Levy, an old-time conservative politician, banker, and publisher of Brazil's national business daily *Gazeta Mercantil.* Levy's report states: "We are exchanging a full-scope economic policy which could fully mobilize the human and physical resources available in Brazil which are capable of pulling it out of today's difficulties for an action oriented by mere accounting considerations in order to obtain dollars at any cost, thereby solving immediate balance-of-payments problems, but sacrificing a large part of the population."

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