Washington's 'free trade' mafia attacks Brazil

by Lyndon H. LaRouche, Jr.

It is said, whom the gods would destroy, they first make mad. To many in the United States, as in Brazil, the manner in which the current U.S. administration imposed an across-the-board, punitive tariff against Brazil's exports, partakes of that peculiar madness which British Celtic tradition terms "fey."

There is nothing intrinsically wrong in the U.S. resort to protective tariffs, or to control of trade-deficit margins through regulation of export-import licensing. Such actions have been prescribed constitutional authorities of the U.S. federal government from the beginning, authorities which the authors of the Constitution intended should be regularly employed.

Indeed, the U.S. and its trading partners should be setting up a rationally crafted new architecture of tariff-agreements now. That shift should have begun during 1986, in the form of an oil-imports tariff designed to establish the domestic parity price of petroleum in a range of not less than $22-24 a barrel of domestic crude. The Reagan administration's failure to take such timely action was the direct cause for the increase of bank failures, and a major contributing factor behind the form and timing of the current international financial crash.

What is madness in the tariff actions against Brazil, is that the choice of tariff was an irrational one, and the given motive for the action akin to a psychotic episode.

The trigger for the tariff action was the New York bankers' confidence that the government of Brazil was at last securely committed to repudiating the actions associated with former Finance Minister Dilson Funaro. In the eyes of those bankers, and their representatives inside the Reagan administration, Brazil had capitulated; having submitted, it was to be punished savagely for the pain it had earlier caused its northerly parent.

In those circles, when the truant returns home, he is not greeted as the prodigal son returned. Rather, placing himself with the reach of the irate parents, he receives from the father, the U.S. government, a hearty, stunning thwack across the ear, and hears the menacing counsel, "Do you realize how much suffering you have caused your mother!" the latter the New York banking community. With that, another thwack, and perhaps another. Perhaps, the beating continues deep into the night. No U.S. fatted calf for Brazil.

Brazil is being taught a brutal lesson in obedience, with more severe bruisings to be expected along the way. The Soviets laugh with drooling delight at each blow so administered. In their view, Brazil is being driven, out of desperation, more deeply, more irreversibly into the waiting arms of Moscow's large-scale agreements on exploitation of Brazil's strategic minerals. It is this Soviet merriment which most pointedly assures us, once again, that those whom the gods would destroy, they first make mad.

It is madness throughout. Consider the explanation offered for these punitive tariffs. For what cause did the U.S. administration resort to such savage protectionism? For the cause of anti-protectionist "free trade," of course. It was argued: Brazil had caused the U.S. computer industry to suffer loss of the revenues which might have been gained by dumping more of its product into the Brazil market.

The U.S. administration's hysterical refusal to accept the reality of an October outbreak of the already overripe financial crash was hysterical. The Reagan administration blindly repeated almost the exact words of the doomed Herbert Hoover administration of the 1929-32 period, and the folly of that Hoover Congress which passed the notorious Smoot-Hawley Tariff bill.

Overlooking for a moment, the Mount Everest of off-balance-sheet accounts, the visible exposure of financial assets in international markets is in the vicinity of more than $14 trillion. Of this total, approximately $1 trillion is attributable to the nominal indebtedness of developing nations as a whole. Since early October, such exposed paper has been wiped from existence in the denomination of trillions of dollars, already several times more than the totality of the developing sector debt. The administration blames all this, in significant degree, on Dilson Funaro's Brazil.

Lest there be any doubt of the administration's state of mind, we see the same state of mind among both the administration and the publicized voices of the Congress, in Washington's neurotic delusion, that the world's biggest financial crash might be deterred by such ridiculously petty measures as a mere few billions in tax increases, a mere tens of billions in budget-cuts, and an irrelevant but savagely cruel dedica-

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tion to cut the pensions of those many who, in large proportion, are subsisting by such means as skimpy rare meals on canned dog food.

Already, the 600 point Dow Jones collapse over Black Monday weekend, had wiped out near $1 trillion in nominal values, with a resulting loss in federal tax-revenues for the current fiscal year of between $100 and $150 billion. Since then, more than an equivalent loss of federal tax-revenues has been added.

The prospect is that by spring of 1988, the federal budgetary deficit must reach a level of approximately $500 billion, totaling to about half or more the total federal operating budget for the current fiscal year, and an amount vastly greater than the entire nominal external indebtedness of Central and South America!

It is inevitable that the federal tax-revenue loss for the 1988-89 fiscal year will be of the same magnitude or greater. A total direct federal debt-level of about $3.5 trillion or more by the end of the 1988-89 fiscal year, is an optimistic expectation. What are $40 or $50 billion of budget-cuts, or about $10 billion of tax-increases, against deficits of $500 billion or more? The brutish cruelty of slashes in the Social Security pensions of the aged poor, produces a nominal "saving" in expenditure which, by law, can not be applied to the distress of the federal operating budget.

Lest anyone doubt the sheer insanity of the administration's thinking, it has insisted, over the course of this year, and even after the financial crash has erupted, that a collapse of the dollar which amounts, in reality, to a bankrupting of the United States, is a wonderful mechanism for eliminating the U.S. balance-of-trade deficit!

The sheer irrelevancy of the putatively corrective measures offered by the administration and Congress, is matched by the hysterical savagery with which they are deployed. If such public behavior were observed in an individual person, one would say fairly that that unfortunate person were suffering a mental disorder.

The administration's hysteria parallels its compulsive disregard for fact with which it plunges toward early appeasement of the Soviet dictatorship—offering Moscow Western Europe, where Neville Chamberlain and Daladier were blamed for offering Hitler, more modestly, Czechoslovakia.

The current financial crash signifies that the monetary and economic decisions, on matters of both foreign and domestic policy, reached over the period from October 1982 through April 1983, have been a catastrophic folly. The characteristic folly of the present administration, is its pathological degree of stubbornness in refusing to accept the evidence that any among its policies have been seriously mistaken.

These shallow-thinking fellows, long on ideology, short on powers of concentration, portray themselves as if among the mythical pagan gods of Olympos. They appear to argue, "We are the power," and imagine that no mischief could occur in this world, except that caused by someone's refusal to submit faithfully to the policy whims of that administration. They insist that it could not be the policies heretofore supported by the administration, which have caused the financial crash. Never! There is no crash! There is only the sabotage of perfection by those who have refused to submit without question to the whims of the current administration.

In the administration's manifest opinion, a few minor adjustments will dispel the supposed illusion that a financial crash is in progress. To ensure that such illusions do not return—at least, until after the November 1988 elections, they appear to say that all those who have incurred the administration's wrath, by resisting its whims, must be severely punished. "People must learn to obey! They must never dare even to think of doing differently than we instruct them to do."

If that sort of behavior continues, the United States will soon be virtually destroyed, as if in a classical Greek tragedy. Madness is the instrument by which the gods effect the self-inflicted doom of those whom they would destroy.

Consumerism

To understand the Reagan administration's behavior in all matters bearing upon economics, one must take into account the special sociology of the majority among the long-standing associates of the President's household. The dominant feature of this circle is a collection of the plebeian newly rich, like the President himself, who have gained their wealth in services or speculatively inclined practices of buying cheap and selling for a profit. Excepting such as former Defense Secretary Caspar Weinberger, they are supremely ignorant of the ABCs of production, and are hostile to the standpoint of the industrial or agricultural entrepreneur. Their world-outlook is that of the newly rich merchant-rentier.

Their affection for the weakest of the celebrated minds of the economics fraternity, Prof. Milton Friedman, is a symptom of the quality of social prejudices of the Reagan circles in economic matters.

In them, "free market" reveals a "consumerist" philosophy. Buying real or imaginary objects at the cheapest price, and turning a profit on the sale of such objects, is all the economics which the President's mind attempts to encompass. For that circle, the economics of production and basic economic infrastructure do not exist. For them, productivity is not technological progress in a capital-intensive mode; for them, productivity is simply cheap labor.

They are incapable of understanding the U.S. economy, and are more emphatically incapable of understanding the ABCs of a developing economy, such as those of Mexico or South America. They are hostile to large-scale development of basic economic infrastructure by combined governmental agencies and regulated public utilities, the hallmark of Brazil's drive for economic potential. They understand capital only as money capital; they have no grasp of the importance of the ratio of employment, of employment in production of capital goods to employment in production of households' and related goods.

They see productive capital and infrastructure as among the first expenditures to be cut for the sake of increased profit. They admire the wealth of the United States, to the degree they can acquire it; but they have not the slightest notion of how that wealth was built up through capital-intensive, energy-intensive investment in technological progress of farming and industry, and capital improvements in basic economic infrastructure. Their economics of production are those of the meanest, most technologically illiterate sort of "sweatshop" operator.

Brazil is a vast country, with vast natural potentials waiting to be developed. So far, the development of this area is delimited to those regions in which infrastructure has been developed up to the level of kilowatts per square kilometer and per capita consistent with that in the industrialized nations of Japan, Western Europe, and North America. The

U.S.-Brazil trade war on the way?

by Mark Sonnenblick

President Ronald Reagan announced Nov. 13 that the United States would apply $105 million worth of tariff surcharges and bans on Brazilian goods in retaliation for Brazilian measures to protect its nascent computer industry. Reagan justified his action in the name of "a free and open trade system."

Brazilian President José Sarney immediately protested "this uncalled-for and discriminatory threat" and announced, "I have ordered the ministry of foreign relations and the finance ministry to immediately study measures which could be taken against imports of U.S. products, if the threats made public today are implemented."

During the next month, this issue will provoke the most intensive lobbying, in Washington and in Brazil, in the history of North-South relations. In the formal realm, the U.S. Federal Register will soon publish a list of Brazilian exports to be banned or subject to up to 100% duty surcharges. That will be followed by several weeks of public hearings and possible modifications by the administration.

The U.S. sanctions list is expected to include shoes, textiles, and airplanes, which are now being exported by Brazil, and computers, which it does not yet export. A U.S. government source told the daily *O Estado de São Paulo* Nov. 11, "Our decision is to impose a 100% surcharge on the products chosen, eliminating them from the market."

"He who sanctions may also be sanctioned," Brazilian Science and Technology Minister Luiz Henrique remarked Nov. 14. He commented, "Like any good cowboy, President Reagan is going to count to 10 before pulling the trigger." His predecessor, Renato Archer, pointed out that Brazil could purchase the $1 billion in electronic components it imports every year from the United States from Southeast Asia instead. Another potential target is the $274 million in steelmaking coal Brazil buys from the United States, but could buy cheaper from Australia or Poland.

One fact, conveniently overlooked by all those who argue that Brazil's computer industry is responsible for $105 million of the record U.S. trade deficit, is that in 1985 the United States exported to Brazil $85.9 million in automatic data processing machinery, plus $198.8 million in parts for such machines. U.S. computer product exports to Brazil have gone up every year, and are now several times larger than when Brazil started protecting its computer market a decade ago. Some of that goes into the big mainframe and medium-sized systems IBM makes in Brazil for the local market.

There are clearly other motives for Brazil-bashing.

Bashing Brazilian mercantilism

The Reagan administration and Brazilian Finance Minister Luiz Carlos Bresser Pereira are blaming U.S. protectionist Democrats, labor unions, and industrialists for the assault on Brazilian protectionism. On the afternoon of Nov. 6, Sen. Ted Kennedy and five other Democratic Party senators introduced a resolution recommending that the President retaliate against Brazil for protecting the micro end of its computer market from being swamped by IBM. Their action was closely coordinated with Treasury Secretary James Baker III, who had been wielding threats of retaliation to get Brazil to break its debt moratorium. Hours after Bresser capitulated on that front, Kennedy moved.

A high-level State Department official told Brazil's *Gazeta Mercantil* on Nov. 13, "The President's decision shows the enormous frustration in the U.S. today over Brazil, a country which has become an economic power but insists on behaving like Paraguay, with a mercantilist policy which does not allow for reciprocity." The State location of industries depends upon the energy-density of the locale, and the logistics of transportation and related factors affecting the movements of goods and population.

There is no escape from this. Although the energy-density per capita in Japan, is lower than that in West Germany or the United States, the energy-density per-square kilometer is several times greater. Combining the two factors, as energy-density per per-capita unit of population-density, we see that the latter energy-density function correlates with levels of technology and productivity which might be achieved. If Brazil were not to invest in large-scale infrastructural development, geographically, it would be required to invest at least as much in capital improvements in presently industrialized zones.

It is to the economic and strategic advantage of the United States, that Brazil be able to increase its per capita output to the highest possible levels at the highest rate. The United States should desire to export to Brazil, not the lower unit-

Department remains loyal to the treasonous tradition encapsulated in its slogan: "We don't want any Japans south of the border." It is with this idea in mind that the bipartisan Project Democracy mafia in Washington promotes the destabilization of those Third World governments who know that the only way any country has industrialized is when its governmenthas aided new industries and protected them from foreign competition.

Through the National Endowment for Democracy, the U.S. taxpayers are financing politicians in the Third World who are trying to destroy mercantilist and dirigist structures there. The daily *Correio Brasiliense* reported July 24 that former Finance Minister Delfim Netto had been meeting with powerful businessmen, Gen. Octávio Medeiros, and ex-President João Baptista Figueiredo to plot against President Sarney. The daily said that they were acting on behalf of international financial groups, which wanted to force Sarney to abandon national sovereignty in foreign debt negotiations, as well as in defense of the computer industry. *Correio* claimed that Gen. Vernon Walters, who coordinated the 1964 military coup in Brasilia with the Figueiredo faction, was involved in the conspiracy.

Sen. Roberto Campos is also back on center stage. As the central bank president imposed by the 1964 coup, Campos placed Brazil under International Monetary Fund control, brought on a deep recession, and facilitated the takeover of Brazilian industry by multinational corporations. Campos lamented in a July 5 newspaper commentary that Sarney did not fully open the Brazilian economy to foreign investment in computers, "the nerve center of modern industry, putting himself in a more reactionary position than that of Gorbachov, whose *perestroika* is precisely intended to attract the multinationals of information and electronic technology."

A similar line was taken by Deputy Afif Domingos, who on Aug. 27 denounced a new article being written for the Constitution in Brazil, which mandates that the state give preference to "the nation's scientific, technological, and cultural progress as a criterion for granting incentives, for purchasing, or for granting access to the Brazilian market." Calling it "an attack of hysterical xenophobia," Afif said it was being done, "exactly at the moment in which the most isolated country in the world—the Soviet Union—has begun to open its regime." "We must send the authors of that draft to Russia, so that they learn a little from Gorbachov," said Afif, according to *Jornal do Brasil*.

Constituents and military

Delfim, Afif, and Campos are among the leaders of a Constituent Assembly coterie that is moving heaven and earth to overthrow all or part of the nationalist draft Constitution which came out of committee Nov. 15. According to *Veja* newsweekly, which supports their efforts, one of their scenarios is to procure Brazilian military intervention against the Constituent Assembly.

The Constituent Assembly is being closely monitored by U.S. Ambassador Harry Schlaudeman, an experienced coup-maker. Treasury Secretary James Baker III is trying to fine tune the U.S. trade sanctions to help the Project Democracy faction triumph over Brazilian nationalists. The threat of sanctions against Brazilian shoes, for instance, could provoke whole states to demand their representatives take computer protection out of the Constitution when it comes up in the plenary.

The bulwark of the policy of defending the Brazilian computer industry is in the army. Military nationalists decided a dozen years ago that the country needed its own computer industry as a matter of national security. Army engineers nurtured it from nothing. Some whiz kids in Washington think that by banning imports of Brazilian aircraft, the pride of Air Force nationalists, they could focus vengeance on high-tech factions of the military.

Such imperial tactics are likely to backfire, just as Jimmy Carter and Walter Mondale's 1977 attempt to bludgeon Brazil on "human rights" wrecked the Brazil-U.S. military agreement. A new U.S. offense would poison the waters for Brazilian cooperation against Soviet incursions. It might also provoke Brazilian leaders to stop pandering to the maniacs in Washington, and turn production toward their internal market and that of their continent.

weight value of households' and related goods, but the higher unit-weight value of capital goods. The greater the growth of the Brazil economy, the greater the appetite for such capital-goods imports, even while Brazil's own capital-goods sector is growing rapidly. Given adequate rates of development, the existing external debt of Brazil becomes soon a mere pittance compared with the national income.

The lunatics abroad have demanded of Brazil, and other nations of Central and South America: Cease developing immediately! Crush your internal households' goods market to a minimum, and then below that. The result is a lowering of the level of the economy of Brazil—and other nations which are victims of this lunatic demand, and a lowering of the means to pay external debt.

The growth of the households' goods market is a function of the ratio of employment in capital goods and capital improvements in infrastructure, to employment in production of households' goods. On condition that capital investment is energy-intensive, capital-intensive, and technology-intensive, productivity rises more or less in ratio to the increase of the capital-intensity of the division of labor in production.

This Hamiltonian economics—which the idiots among the President's economic advisers deride as "mercantilism"—utterly escapes the mental powers of that administration. They are, sociologically, merely consumers, not producers. They are the plebeian newly rich merchant-rentiers, who despise the hewers of wood and drawers of water. Production is not an occupation of which to brag in their social set.

What should Brazil import from the United States? That which it chooses to import, first of all, as a sovereign nation should. From the standpoint of economic science, Brazil should import, above all else, those capital goods which, as tangible investments, increase the scale and productivity of average employment in Brazil's national economy.

The tariff issue

The classic scientific work on the system of political-economy perfected by the United States in the past, is Friedrich List's famous book on the subject of national economy. This is no different than the "mercantilism" on which the original prosperity of the United States was premised, but List amplifies Hamilton's work, in the light of broader lessons accumulated over the 50 years following the 1791 *Report to the U.S. Congress* "On the Subject of Manufactures."

The great folly of the U.S. government over the recent 40-odd years, is that none of these administrations learned much, if anything, from the fact that the policies of Presidents Calvin Coolidge and Herbert Hoover created the Great Depression of the 1930s. So, we have had the spectacle, over 40 years, of U.S. Presidents dedicated to eradicating even the memory of the "mercantilist" American System of political-economy. In the great financial crash and looming new world depression of today, we see the rotten-ripe fruit of that anti-mercantilist folly.

It is the common interest of those nations members of the community of principle adopted as integral to the 1823 Monroe Doctrine, that each nation prosper, and that no goods compete in their domestic markets at a price below the fair cost of production of such goods. If goods are sold in a market at a price below the fair price of production, then the domestic industries are wiped out in the effort to compete with those imports; so, the ability of that nation to continue to import cheap goods is shrunken in the direction of a worsening state of misery.

It should be our policy, that the cost of production defined by the practice of competitive production of quality goods be more than covered by the price at which those goods are sold.

In addition to recovering the combined direct, capital, and infrastructural costs of average production, the price paid must give the producer access to a significant sort of modest profit, a profit chiefly to be reinvested in the improvement of the quality of production, living standards of the operatives, and productivity of labor.

In addition to this, it is to our common advantage that each such nation have a stable currency, and maintain the means to meet its obligations for incurred debts and imports. It must use various means of governmental regulation of foreign exchange and trade to ensure that this stability is preserved. No neighborhood is improved by the blight of poverty spreading among its residents. No business can long prosper by means which bankrupt its clientele. The prosperity of each contributes to the prosperity of us all.

It were economic prudence, as well as the law given to Western civilization, to love thy neighbor as thyself.

It is within this context that such means of regulation as exchange-controls, export-import controls, tariffs, and tariff agreements in a fraternal spirit, be shaped and applied with common approval. To that which the neighbor needs, we must adjust ourselves, and that to our own ultimate greater advantage.

It is a time for extensive measures of regulation of exchange and trade in international markets. However, as the lesson of Smoot-Hawley should warn us, this must not be done arbitrarily or vindictively. It must be done rationally, according to sound economic principles, and in a spirit of fraternity among trading partners.

In the case of Brazil, and its neighbors, it is the vital economic and national-security interest of the United States that those nations prosper. Any contrary view is folly at all times, and would be insanity under the present conditions of worldwide financial collapse.

It is no secret, as my 1982 *Operation Juárez* and later supplements address this point, that as U.S. President I would foster a certain sort of cooperative integration of Ibero-American economies in a special sort of customs union among perfectly sovereign states, and as a measure of mutual defense of stable fixed parities of the currencies of each and all those nations.

Such innovations are not the province of the government of the United States; they are the sovereign affair of each among the states concerned. Yet, if the United States shows its commitment to foster the success of ventures in such directions, that showing facilitates the new arrangement wherever sovereign states elect to adopt it.

In any case, it is the vital interest of the United States, that the approximately 350 millions of Ibero-America today be unleashed to realize their potential in cultural heritage and resources to become one of the great economic superpowers of the world. Whatever measures of exchange-control and trade regulation those sovereign states adopt, which might be helpful to the common interest of those states and the United States, must be favored by the government of the United States.

General agreement on the principles involved would not be difficult to reach. The details of practice are less simple, but the states of this Hemisphere already have existing, institutionalized mechanisms for working out accord in such matters, and could establish new mechanisms were it agreed that these are needed.

The most important thing now, is to understand that each of us is proceeding in mutual good will, that we wish not to injure one another. Faith in such good will fosters toleration for sovereign actions which might otherwise be causes for conflict.

For example, were I President today, and to institute an emergency trigger-price tariff measure on imports of petroleum, if the brother-nations of the Hemisphere knew that it were I that was doing that, they would not see this action as injuring them. The oil-producing nations of the Hemisphere would know that I was proceeding in full awareness of their national interests, and would know that I had something additional up my sleeve which would ensure that they were not injured by the new tariff arrangement.

They would recognize that I must defend the vital economic interests of the United States, as I would view similarly urge such sovereign measures by friendly states. I would not permit the stability of the Hemisphere's or other friendly oil-exporting nations to be injured by such actions; rather, we should meet quickly to elaborate a new, comprehensive energy policy, establishing an equitable long-term perspective for the affected sectors of industry.

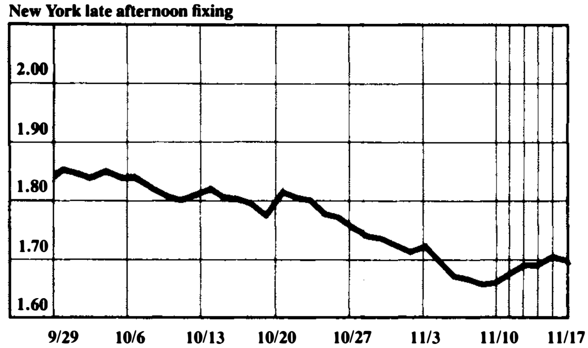
The spirit in which things are done by friendly sovereign states is foremost. That this spirit is permeated with rationality, is the most essential of additional requirements.

So, all the impending pressures for controls over foreign exchange and foreign trade must be approached, and that aided by fraternal collaboration among the friendly states involved. Good faith, rationality, and collaboration, based upon a commitment to the fostering of the sovereign interest of each and all, defines a certain style of diplomacy. It is a change of style, in that sense, which is most urgently needed.

Currency Rates

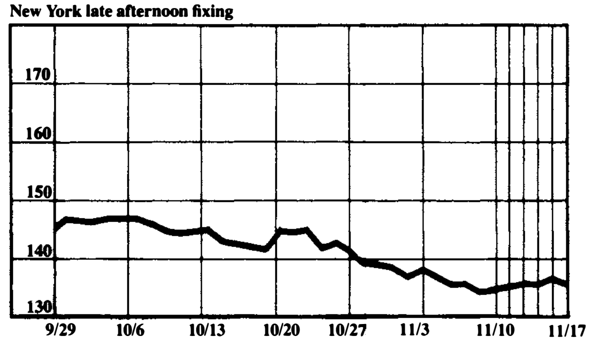
The dollar in deutschemarks

New York late afternoon fixing



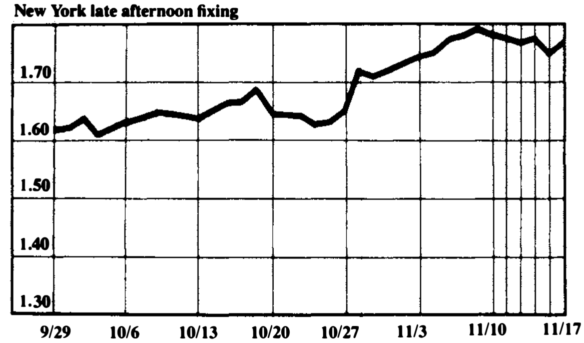
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing