Funaro reportedly sought to ease out of the freeze, but the PMDB politicos made him hold off until after its popularity won them 85% of the vote in the Nov. 15, 1986 elections. When he had to go on TV less than a week later to announce huge price increases, none of the politicos accompanied him. The enemies of such dirigist economics have depicted the Cruzado Plan as a hoax, which ruined Brazil.

But statistics show that morally informed dirigism works. The undisputed improvement in living standards turned around the sharp increase in infant mortality which occurred during the IMF years. More money spent on health care, vaccinations, and sewage facilities also contributed to this. Not surprisingly, infant mortality has swung up again since Funaro's April 30, 1987 ouster, according to Prof. Pedro Israel Cabral of the Federal University of Pernambuco. The rate of migration of desperate poor into the Amazon jungle also slackened, as existing farming and industrial centers hired all the labor they could get. Despite the increased social welfare spending and dirigist subsidies, Brazil had a far lower federal budget deficit in 1986 than in years of IMF austerity before and after it.

Funaro resigned on April 30, 1987, rather than grovel before the international bankers. In his Dec. 11, 1987 *EIR* article, Funaro warned President Sarney, "To abandon the moratorium at this moment is to abandon the discussion of non-conventional paths to overcome the foreign debt problem. We will surrender our country's strongest bargaining card, but even more important, we will abdicate the key discussion of the crisis which the international financial system has been in since 1980-81. Blunders in the economies of rich countries are paid for by developing countries like Brazil, always leaving the bitter taste of recession, unemployment, economic stagnation, and resulting political instability."

When Sarney finally proclaimed the formal end of the moratorium on Sept. 21, 1988, Funaro responded, "Brazil has not achieved its objectives." He warned that banker promises to loan "new money" were a mere shell game: "It's just money to pay interest, while what we really need is new investment." In November, he charged that his successors had set punctual payments to the foreign bankers as "the only national priority." Since then, they have not even been able to do that, and have again bounced along from one unprincipled default to another.

Funaro never surrendered to the pragmatism and expediency which, in Brazil—as in the United States—are the basis for policy decisions. On his hospital deathbed in late March, he was asked about his health. He answered, "What is important is Brazil's sovereignty, the solution of the country's structural problems, and the question of the foreign debt, which must be treated with dignity."

If Brazil survives as a nation-state, it may only be because the memory of Funaro's courage and patriotism inspires others to pick up his ideas and force the world to change.

Pakistan: Economy is Bhutto's Achilles heel

by Ramtanu Maitra

The one act Prime Minister Benazir Bhutto will come to regret shortly is her decision not to review the International Monetary Fund accord reached by the previous regime. As is becoming clear now, the accord will prevent Prime Minister Bhutto from carrying out reforms she promised to the electorate prior to last year's election. Already, following delivery of $337 million—the first tranche of the $837 million loan—the IMF has made known its disagreement with the Bhutto administration's projected capital outlay for the Seventh Plan launched in July 1988.

When the new government took charge of Pakistan's economy last December, it promised new policies with regard to labor, industry, trade, and rural poverty, with the purpose of laying the foundation of a sound political economy, something the nation hasn't had for the last four decades. But hopes have already been dashed, and increasingly, the Pakistan People's Party (PPP) government's decision not to review the accord with the International Monetary Fund will stand out as the biggest political mistake of its first hundreds days in office.

The IMF has quickly moved in to "restructure" Pakistan's economy. Great proponents of the "free-market" philosophy, the IMF technocrats have advised the Pakistan government to increase indirect taxation to generate resources. The IMF is also taking a hard look at the Seventh Five-Year Plan, and has made it known that they do not like what they see. According to the Karachi daily, *The Dawn,* the government is trying to compromise the plan in order to satisfy the IMF.

Road to ruin

Pakistan went headlong into the IMF lap following years of stagnation in its physical economy. With a crippled infrastructure, previous governments were not able to generate resources to meet even daily expenses. Instead of investing in building up the agricultural, power, railways, and manpower development sectors, the previous regime, in particular, went on borrowing money to pay wages and meet other daily expenses.

At the same time, then-Finance Minister Dr. Mahbubul Haq—known in Pakistan as "PITS" (for "Pie in the Sky")—adopted the IMF formula of "building up the economy through export-led growth." The "pie in the sky" remained as elusive as ever, but Pakistan got deeper and deeper into debt. Its sole major export capability—cotton and cotton-related products—was hamstrung by the IMF's trade arm, the General Agreement on Tariffs and Trade (GATT).

Pakistan's external debt in recent years rose fast, increasing from $7.8 billion in 1978-79 to about $16 billion in 1988-89. Debt servicing, which hurts the economy most, increased during the same period from an annual $437 million to about $1.5 billion. Such a policy would have landed Pakistan in the IMF's lap earlier, but for foreign-based Pakistani workers, whose remittances amounted to some $2.5 billion annually during the 1980s.

To replenish the fast-dwindling foreign exchange reserves, the previous regime, with a caretaker government at the helm, signed the agreement with the IMF—fully aware that the IMF would claim its proverbial "pound of flesh" in the form of conditionalities. So too, the present regime, citing the pressing need to augment foreign exchange reserves agreed to keep the accord.

Pound of flesh

The IMF is already demanding its "pound of flesh" for the $837 million loan. The IMF has opposed the Sri Lanka-Pakistan barter trade through which Pakistan gets about $30 million worth of Ceylon tea, and is telling Sri Lanka to sell the tea in the open market where it will fetch a higher price. Recent news stories from Pakistan indicate that the government is now making preparations to sell off the decaying national railways, retaining ownership only of the roadbed.

It is a classic example of the bankruptcy of monetarist policies. Pakistan Railways was performing abysmally and the rail-to-road ratio in the country had been decreasing rapidly. Pakistan has been spending less and less on railroad upkeep, and during the past four decades only a measly 260 km of new track was laid. Instead, Pakistan, an oil-importing nation, has been building roadways to carry passengers and freight at a higher cost. And the interior of the country remains almost as inaccessible as it was during the British Raj. Instead of making the rail system a priority for the type of large infrastructure investments only government can muster, the IMF mandates "privatization."

In the agreement, the IMF laid down a series of reforms the government has to undertake if it wants to receive the last and third tranche of the loan next year. Among these is an overhaul of the tariff structure, reducing it from the present 10-425% range to a 10-120% range, and replacing existing import bans and non-tariff restrictions with tariff protection. Pakistan has also been told to raise customs on duty-free items to at least 10%, reduce duty exemptions in general (with the exception of inputs for export production), and make a whole range of changes in the duty structure.

Most of the measures are aimed at import liberalization. When Pakistan Finance Secretary A.R. Akhund pointed out during a meeting on Jan. 28 that some of these measures may cause serious dislocation to the nation's economy, he was reportedly told by IMF officials that if the trade liberalization measures were not implemented on the three-year schedule the country would face serious financial difficulties.

Besides "restructuring" the economy on a day-to-day basis, the IMF has also leveled its diktat on the Seventh Plan now under implementation. The new version of the plan, now conceived as a four-year developmental plan, proposes to reduce the budgetary deficit-to-GDP ratio from 5.8% in the first year, to 5.4% in 1990-91, 4.6% the next year, and 3.7% in the final year. This represents a compromise with the IMF demands for more drastic reductions.

Such drastic cuts in expenditure as the new plan suggests will seriously jeopardize the most-needed sectors and virtually doom the much-vaunted anti-poverty plan as envisaged by the PPP prior to coming to office. To keep these "political" programs on line, Pakistan is now seeking $3 billion in assistance from the Western aid consortium for 1989-90. Already officials are slated to visit West Germany to sign a DM 300 million agreement for the year.

Nonetheless, the government appears keen to stick by the IMF and implement the package. Prime Minister Bhutto has appointed people who are completely in tune with the IMF to the critical economic posts. One such individual is V.A. Jafarey, a super-technocrat who had also served the previous regime. Another is Feroze Qaider, chairman of the Economic Consultative Committee—a handpicked group of technocrats and professionals who carry out various economic exercises, supposedly on behalf of the prime minister.

This crowd can be relied upon to do the IMF's dirty work. Jafarey, for instance, who is the prime minister's adviser on Finance, Planning and Development, and Economic Affairs, is so eager to prove that the new measures are working wonders that he told newsmen in February that the $450 million budget deficit for July-December 1988 dropped to $135 million on Jan. 23, 1989, and turned into a surplus of $130 million on Feb. 5. Despite the expression of serious reservations on the part of the news men, Jafarey declined to elaborate how this magic was possible. He didn't seem to mind outright lying later, when he said that collection of income tax and sales tax were on target.

Slowly but surely, these miracle workers are sowing distrust. During the budgetary discussion in the Parliament, for example, advisers and economists alike insisted that $2.5 billion or more could be raised without playing havoc with the existing tax structure, simply by making the tax collection more efficient. But when the government presented the revised budget in December, it could not come up with anything better than an additional $30 million, to be raised by means of a 1% surcharge on imports.

There is yet another illusion that these high-level technocrats are spreading widely, and that is the belief that the IMF will readily renegotiate the "conditionalities" if Pakistan goes through the motions and imposes some of the Fund's demands. But the Jan. 28 meeting, and the subsequent mid-

March meetings between Pakistani officials and the Fund give no grounds for such confidence. On the contrary, it is apparent that under whatever pretext, the IMF has forced Pakistan to swallow its program "hook, line, and sinker." In fact, as early as Dec. 12, one IMF official told an Islamabad-based daily that if Pakistan tries to renegotiate the accord, the "quantum [of loan] might be bigger under the Enhanced Structural Adjustment Facility arrangement, but the conditionalities will be much stiffer."

Meanwhile, Pakistan's debt is growing and the rate is expected to increase since the government is seeking loans from the international market to carry out some of the "populist" campaigns to ensure its own political survival. The much-hoped-for export sector is doing less than expected. The policy of liberal imports has resulted in raising the import bill by 8.4% during July-December 1988 compared to the same period the year before. But exports have risen by a meagre 0.7%, making a mockery of the "export-led growth" scenario. As a result, the trade deficit has increased by 26% to $1.112 billion. Consequently, exports financed only 65% of imports instead of 70% the previous year.

Needless dilemma

This bleak situation need not have come to pass, and still may be transformed, providing the prime minister is permitted to develop an accurate picture of the country's basic economic requirements, and takes determined advantage of the well of good will that exists for her to succeed in stabilizing Pakistan. Bhutto's assumption of power was heralded the world over, including by the oil-rich Arab nations. Under such circumstances, instead of relying upon technocrats who talk and think like the IMF officials, Bhutto ought to approach various heads of state for bilateral arrangements on a long-term, low-interest basis.

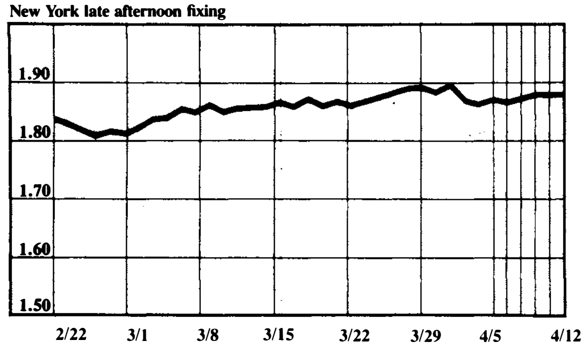
There are ample indications that investors, as well as government, are looking at Pakistan with renewed interest. It showed up when Pakistan raised nearly $800 million from the U.S. market from a loan rotation underwritten by the U.S. administration. Another $100 million has been mobilized by a consortium of foreign commercial banks operating in the Middle East to finance the Rice Export Corporation. The West German government has agreed to provide at least DM 100 million more this year as assistance.

Bhutto must avail herself of this good will quickly, to secure funds for investment in areas which are essential for building a stable economy but which have been decreed out of bounds by the IMF. If she turns off the technocrats' blather for a moment, she will recognize that Pakistan requires a productive agricultural sector, backed by a basic industry which provides the proverbial teeth to that agricultural sector. To meet this basic requirement, Pakistan will have to focus investment in power generation, water supply and drainage, railroads to link up the interiors, and large-scale educational programs—in short, basic infrastructure. It is the only way out.

Currency Rates

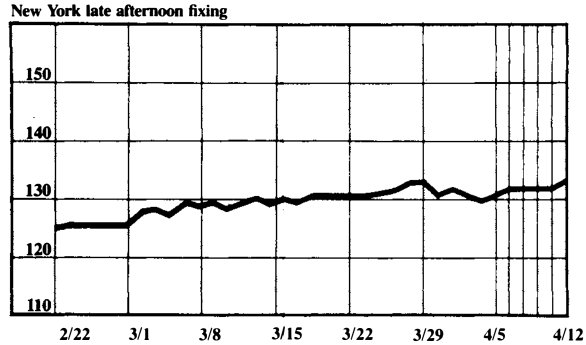
The dollar in deutschemarks

New York late afternoon fixing



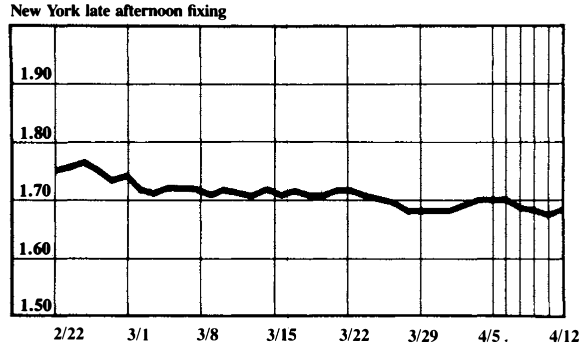
The dollar in yen

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