

# Brazilian president prepares to implement IMF austerity package

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Brazilian President Fernando Henrique Cardoso, reelected October 4, is preparing to implement a package of austerity measures which will cut health and pension protections, eliminate thousands of civil servants' jobs and increase income taxes. Brazil's biggest creditors, led by the US banks, are demanding the budget cuts as a precondition for a \$27 billion International Monetary Fund loan.

Cardoso is also expected to maintain high interest rates--which rose by 29 points in recent weeks to nearly 50 percent--to stabilize the nation's currency, the *real*, and stem the flight of capital from the country. In the aftermath of the Russian economic crisis and the investment pullout from 'emerging markets' throughout the world, \$750 million a day was leaving the country. Brazil's foreign reserves neared levels of insolvency, falling from \$78 billion in July to \$48 billion in September, while the value of the *real* fell 40 percent.

These economic measures are expected to throw the country into deep recession next year, worsening the conditions for the country's 30 million poor and throwing millions out of work. Anticipating a further plunge in demand, Ford, Fiat and General Motors announced 20 percent production cuts last week, a move which will idle 50,000 auto workers. The jobless rate in Sao Paulo, the industrial and financial center of the country, is already 19 percent.

US President Clinton and Treasury Secretary Robert Rubin aggressively supported Cardoso's reelection, and then campaigned for the IMF loan, because US banks and companies have \$39 billion invested in the country. Major banks like Citicorp and J.P. Morgan, holding some \$8.5 billion in Brazilian debt, are particularly exposed to a possible default on repayments.

Voicing this concern the *New York Times* on October 7 editorialized, 'Brazil's President, Fernando Henrique Cardoso, has little time to savor his apparent first-round re-election victory on Sunday. He must take rapid and unpopular steps to save the economy.' And to make the point even stronger, currency traders and speculators pulled another \$300 million out of Brazil, leading to a 5 percent fall on the stock exchange the day after the elections. The market fell another 180 points Thursday.

After speaking to Clinton Wednesday, Cardoso sought to reassure the money markets that he would rapidly proceed to reduce the country's \$65 billion deficit no matter what the social costs. 'We need to have Brazil's fiscal situation changed by next year. We will continue to advance with the reforms of the state.... I

want to repeat that I am not willing to lose time and that we will continue demanding fiscal sacrifices.' In his speech he promised to reveal his three-year austerity program, which is expected to cut \$25 billion from the budget, by October 20.

## Election results

In the polling October 4 Cardoso received nearly 53 percent of the vote, while his closest competitor, Luiz Inacio da Silva (Lula) of the reformist PT (Partido dos Trabalhadores--Workers Party), received 32 percent. Ciro Gomes, former finance minister from the northeastern state of Ceara, got 11 percent, while Eneas Carneiro, a nationalist who called for Brazil to build an atomic bomb, received 2.2 percent. Though voting was obligatory, 30 percent of the 106 million voters abstained or spoiled their ballots.

PT candidates had a stronger showing in statewide gubernatorial elections, which means Cardoso's political allies will have to face runoffs later this month, increasing his difficulty in pushing through the austerity package. The five-party coalition that supported da Silva's campaign said Monday that they would not support Cardoso's package.

Cardoso was heavily promoted by big business and the news media in Brazil, which either blacked out news of Lula's campaign, or warned that his election would lead to economic collapse. The PT charged the polling institutes, media and electoral officials of conspiring 'to influence public opinion and alter the electoral will' by inflating Cardoso's lead in pre-election polls.

Cardoso began his political career in the 1960s as a leftist professor who was forced into exile under the military dictatorship and then founded the Brazilian Social Democracy Party in 1988. He has come full circle and established himself as a right-wing champion of free market policies and a favorite of Wall Street.

As Minister of Finance under former President Itamar Franco, Cardoso helped draft the 'Real Plan' which he then implemented in his first term in 1994. The plan, named after the country's new currency, lured international investors by loosening currency exchange controls, lowering tariff rates and opening up state-owned telecommunications, electricity, gas, transportation, petroleum and mining enterprises to private capital. In his first year in office foreign direct investment doubled and Brazil soon became one of the world's most attractive 'emerging markets' to global investors.

Cardoso has carefully avoided using the term 'IMF package' in

his public appearances since the election. The IMF is universally hated because of the suffering it imposed on the population during the 1980s, and Cardoso fears that his allies will be defeated in the next run-off, or even worse social upheavals will follow.

There are increasing signs of class conflict. Last July, thousands of union members, students and landless peasants clashed with police during a protest in Rio de Janeiro against the sale of the state phone company, Telebras. The government dispatched 3,000 armed police to attack the demonstrators with bullets, tear gas and batons.

Last spring hundreds of peasants organized in the Landless Movement occupied government buildings in 10 state capitals to press for government land reform. Over half of Brazil's arable land, much of it uncultivated, is owned by only 2 percent of the population. While a 1993 law allows expropriation of idle land, powerful landlords have used security guards and military police to massacre peasant squatters. Cardoso has given tacit support to the violence by denouncing the land seizures.

#### The policies and record of the Workers Party

Despite widespread opposition to Cardoso's pro-business policies, however, the Workers Party was incapable of rallying the support of the working class and poor peasants. While the news media did what it could to undermine support for the PT, it was the party's policies and record which were more fundamentally responsible for its defeat.

In the first election following the fall of the military junta that came to power in a 1964 US-backed coup, Lula was narrowly defeated by Fernando Collor de Mello. In 1994, despite enjoying a large lead over Cardoso in early polls, Lula was defeated again. During that campaign the PT candidate spent most of his time attempting to convince Brazilian capitalists and foreign investors that their interests would be protected under a PT regime. Lula traveled to New York where he met with representatives of Wall Street's banks and investment houses to assure them to have 'no fear to invest' in Brazil.

In the 1998 election campaign, Lula called for a series of reformist measures, including a public works program to provide jobs for the unemployed, the expansion of social programs and an increase of the monthly minimum wage to nearly \$1,000 from \$116 over the next few years. At the same time PT supporters said a vote for Cardoso was a vote for the IMF and greater unemployment and poverty.

Behind the reformist slogans, however, the PT advanced a program of economic nationalism and collaboration with the Brazilian capitalists against their foreign competitors. Lula called for the imposition of currency and import controls to try to insulate Brazil from global markets, similar to those measures imposed by Malaysia. The PT also called for tariffs to protect Brazilian manufacturers against foreign imports.

Such a program was incapable of rallying the support of many workers who recognize how interconnected the Brazilian economy is to the world market, and who remember the crisis of hyperinflation in 1987 when Brazil defaulted on its foreign debt. At that time workers saw the price of goods double before they

could get their paychecks home.

Moreover, many workers are familiar with the consequences of these same policies as practiced by the country's trade unions. Lula, as leader of the Metalworkers Union and the CUT trade union federation, has collaborated with the transnational auto companies to drive productivity up nearly 50 percent and eliminate thousands of jobs. Rank-and-file opposition forced Lula to back down from a plan to join Cardoso's 'Forum for an industrial policy,' and in March 7,000 Ford auto workers in Sao Paulo overwhelmingly rejected the Metalworkers Union's proposal to lengthen the workday without paying overtime.

Workers throughout Brazil have also had their experiences with the PT candidates in office. In the 1994 elections the PT won 50 seats in the House of Representatives, five in the Senate and two governorships. In addition they became the mayors of four state capital cities, including Sao Paulo, and important working class centers like Santos, Brazil's largest port, and Diadema and Betim, the centers of the auto industry. Within weeks of their election these PT officials sought to distance themselves from the party's leftist image and worked to win the confidence of the banks and corporations. The party's congressmen voted along with the right-wing parties for privatization and other IMF-imposed economic measures.

Lula is frequently referred to by the media as a 'socialist' and a left-wing 'radical' and his campaign was backed by a coalition of Stalinist and social democratic parties, some trade unions and peasant organizations, as well as sections of the Catholic Church. In the end, the PT's policies are aimed at defending both Brazilian and international capital against a revolutionary movement of the working class and rural masses.

In the past weeks general strikes have erupted in Ecuador and Colombia against IMF dictated austerity measures. The economic crisis hitting Brazil, already the country with the most unequal distribution of wealth in South America, will lead to similar explosions. None of the capitalist parties--free marketeers or bourgeois nationalists--have any progressive solution to the economic crisis. A new political road, based on socialist internationalism, must be opened up.

*See Also:*

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