Brazil: Workers Party officials accuse Wall Street of "electoral terrorism"

Bill Vann
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The Brazilian government announced a series of emergency economic measures June 13 aimed at stemming the precipitous fall of the country's currency against the dollar and strengthening the country's position on world financial markets.

The run on the Brazilian currency, the real, and Wall Street's downgrading of Brazilian government bonds have been widely attributed to electoral polls showing Luiz Inacio da Silva, the candidate of the Workers Party (PT), leading his government-backed opponent by a margin of 2-to-1.

Da Silva, universally known as Lula, is a former leader of the Sao Paulo metalworkers union. The PT has repeatedly placed second in elections since 1989, when direct voting for the presidency was restored for the first time since the military seized power 25 years earlier.

While the party's populist official platform has called for the repudiation of the country's foreign debt, or at least a renegotiation of the terms of repayment, with each successive election—and as it has gained control of state and local governments—the PT has veered further to the right.

In the current campaign, it has vowed to uphold all economic agreements concluded by the current government. The PT's main economic spokesman, a federal deputy from Sao Paulo, Aloizio Mercadante, made a trip to Wall Street recently to assure investors that a Lula administration would guarantee profitability to foreign investors.

The major finance houses were apparently unimpressed. One investment banker at Goldman Sachs revealed that the firm had created what he called a "lulameter," directly pegging the fall in the real's value against the dollar to the growth in popular support for the PT candidate.

Moodys, meanwhile, downgraded its rating on Brazilian foreign currency bonds from "positive" to "stable," while investment firms have openly declared they are selling off Brazilian assets because of the election polls, fearing either an outright win by Lula or the inability of his main rival, Jose Serra, the candidate of the government coalition, to form a viable administration.

Multibillionaire investor George Soros, who is heavily invested in Brazil, warned that a victory by the Workers Party would unleash "chaos."

The real has fallen 17 percent against the dollar, while Brazil's principal stock market has seen share prices plummet by more than 15 percent this year. Bond yields have increased by nearly 20 percent this month alone, meaning that the Brazilian government is compelled to pay out that much more to raise funds to service the country's $255.5 billion debt.

PT supporters have accused the government of collaborating with the foreign banks in a form of "electoral terrorism" aimed at convincing Brazilians that it would be economic suicide to vote Lula into office.

The emergency measures announced by the government of Fernando Henrique Cardoso include buying back $3 billion worth of foreign debt, the tapping of a $10 billion line of credit with the International Monetary Fund and the securing of an agreement with the IMF allowing Brazil to maintain a lower level of foreign reserves.

Finance Minister Pedro Malan said that these measures were designed to "counter the wave of anxiety" buffeting the Brazilian economy. While the new line of credit and lower reserve requirements increase the government's ability to intervene in foreign exchange markets to defend the value of the

real, they would prove impotent against a sustained speculative attack on the national currency. In 1998, the Cardoso government secured a $43 billion package from the IMF that failed to stem capital flight, forcing a sharp devaluation of the Brazilian currency.

Lula's lead in the polls is less a cause than a symptom of the economic storm threatening Brazil. There are increasing concerns over whether the government will prove capable of servicing the country's massive foreign debt.

Continuous increases in interest rates to bolster the value of the real have driven the economy into recession. The Brazilian auto industry last month registered a 19 percent fall in production, while the sale of vehicles plummeted 27 percent compared to the same month last year. Meanwhile, newly privatized industries such as Emrater, Telemar and BCP are on the brink of default, registering declines in stock prices of up to 50 percent.

While international financial agencies and the Brazilian government continue to insist that the country is insulated from the meltdown of the Argentine economy over the past six months, a continuing drop in currency value will have a devastating effect on Brazil's public dollar-denominated debt. If the Brazilian Central Bank is forced to continue raising interest rates—already among the highest in the world—in order to raise funds on the financial markets, the result will be a downward economic spiral that could well plunge Latin America's largest economy into an equally desperate crisis.

Brazilian society remains one of the most polarized on the planet, with an estimated 50 million people—nearly one-third of the population—living so far below the poverty line that they are undernourished. At least 22 million people live on less than one dollar a day. Public employees have seen their salaries frozen for the past five years, while inflation continues to mount.

One recent government study showed Brazil's wealthiest 10 percent earning nearly 20 times more than the bottom 40 percent.

These are the social conditions underlying the surge in support for the PT, whose populist campaign decries social inequality. The party has responded to its increased support, however, by working actively to suppress the class struggle and to cement political deals with the most right-wing forces in the country.

PT leaders have sharply criticized the Landless Rural Workers Movement, or MST, for continuing a series of land occupations. A recent takeover of an estate owned by the Cardoso family in Minas Gerais provoked an angry response from the Brazilian president and a threat from the PT leadership to break off relations. Bowing to the pressure, the MST announced a "truce," suspending its occupations as a gesture of support to Lula.

Leftist intellectuals who support the PT, meanwhile, have expressed increasing opposition to the party's electoral maneuvering, which has included an approach to the Liberal Party (PL), a right-wing party tied to an evangelical church that advocates free market economics and a flat tax. The Liberals have conditioned their collaboration on the PT's promise to keep the current central bank president, Arminio Fraga, who previously served as an advisor to Soros.

In the past three elections, the PT has proven incapable of gaining sufficient votes to win in the first round, and has gone down to defeat in the second. Wall Street's warnings of economic calamity in the event of a Lula victory, faithfully echoed by Brazil's right-wing media, are designed to ensure a similar outcome in October. In the 1998 election, Washington exerted similar pressure, vowing to grant Brazil a major loan only if Cardoso—rather than the PT—emerged victorious.

At the same time, the PT's attempts to make itself acceptable to multinational investors as well as its search for electoral partners on the Brazilian right are preparing the party to play a new role, as a potential partner in a coalition government brought to power to contain an upsurge of the Brazilian workers and oppressed.