Brazil vote sets stage for deeper crisis

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Workers Party candidate Luiz Inacio “Lula” da Silva failed to gain the outright majority needed to win Brazil’s presidency in the first round, but the turnout on Sunday for his candidacy points to his almost certain victory in the second round of voting set for October 27.

The former metalworkers union leader won just under 47 percent of the vote, nearly double the support for his nearest rival, Jose Serra, the former health minister, who is backed by the incumbent government of Fernando Henrique Cardoso and is the favorite of foreign investors. Two other candidates—Anthony Garotinho and Ciro Gomes—won 17 percent and 12 percent respectively.

Lula won in every area of the country of 175 million people, scoring his highest vote in the most heavily industrialized areas in the south of Brazil.

The run-up to the vote was dominated by a growing crisis in the Brazilian economy centered on the country’s $260 billion public debt—the largest in the so-called developing world—and exacerbated by foreign investors withdrawing capital in anticipation of an electoral victory for the Workers Party, known as the PT, for Partido dos Trabalhadores.

The downgrading of Brazil’s credit rating to the level of Nigeria and the sustained attack on its currency, the *real*, for the better part of the last year was explained by international financial institutions as a reaction to Lula’s strong showing in the polls and fears that he would not continue policies that favor financial speculators. This led to charges in Brazil that Wall Street was attempting to intimidate the electorate into rejecting the PT candidate in order to avoid financial catastrophe.

George Soros, one of the world’s biggest currency speculators whose fortune is heavily invested in Brazil, stated frankly that Brazil would not be allowed to elect Lula. “In the Roman empire, only the Romans voted,” he said. “In modern global capitalism, only the Americans vote, not the Brazilians.” The statement provoked outraged protests, including a condemnation from incumbent President Cardoso.

Lula, for his part, has attempted to calm fears of foreign investors, sending leading PT members to Wall Street to assure banks and finance houses that his government would continue the same essential policies as those pursued by Cardoso.

The International Monetary Fund agreed in August to grant Brazil the biggest ever loan made singly by the lending institution—$30 billion. The size of the package was proportionate to the anticipated fallout from a financial collapse in Brazil, the world’s eighth largest economy. US banks have outstanding loans totaling nearly $30 billion with several—Citigroup and FleetBoston Financial among them—dangerously exposed. The impact would be even more catastrophic in neighboring Latin American countries, which are dependent on Brazil for the sale of their exports.

In the late 1970s and early 1980s, Lula, who was encouraged to get involved in trade union politics by his brother, a leading member of the Brazilian Communist Party, led a series of protests and strikes by auto and metalworkers in the industrial belt surrounding Sao Paulo in defiance of the military dictatorship.

The PT emerged out of an alliance between the trade union officials involved in this movement and leftist university professors, intellectuals and students in the 1980s. Lula waged three previous presidential campaigns, but lost, twice to Cardoso. In 1989 he was favored to win and entered the second round, but was defeated after a massive media campaign vilifying both him and his party. The PT has moved steadily to the right since then, renouncing its earlier pledge to repudiate the country’s foreign debt and embracing pro-business economic policies.

The thrust of Lula’s fourth electoral campaign is economic nationalism. On the campaign trail, Lula has emphasized his determination to defend “Brazilian dignity” against the dictates of Washington. “We cannot allow others to treat us as if we were a banana republic,” he tells the crowds. This nationalist approach not only cuts across class lines, but also has an appeal to some of the most right-wing sectors of Brazilian society.

For his vice presidential candidate, he chose Jose Alencar, a textile tycoon who is also one of the leading figures in Brazil’s Christian evangelical movement. While the choice was meant to send a message to both Brazilian capitalists and foreign investors that the PT could be trusted to uphold private property and profit interests, it also cemented an alliance between the party and sectors of the native bourgeoisie—textile, agriculture, steel—that back a protectionist policy and advocate reduced dependence on multinational investment.

These sectors, in particular, are hostile to the Bush administration’s drive to nail down a Free Trade Area of the Americas by 2005 stretching from the Arctic Circle to Tierra del Fuego. They charge that Washington demands open markets in Latin America, but routinely blocks Latin American goods through tariffs on steel, agricultural subsidies and other protectionist practices in the American market.

In a written statement that he gave to the *Washington Post*, Lula said, “The [free trade] proposal as it is does not mean integration, but an annexation of Latin American economies to the economies of the United States.”

On election night, the PT candidate spoke to an audience of Latin American leftists, defending his choice of the textile magnate as his running mate. “Many people in Latin America found it strange that the PT would choose as its vice presidential candidate a businessman,” da Silva told the group, who came to Sao Paulo on election day prepared to celebrate the party’s victory. “But I would like to tell you that we didn’t pick just any businessman. Jose Alencar is an extraordinary man, one of the biggest businessmen in this country in the textile sector. But he has a nationalist position of defending our industry.”

While the PT candidate has won support from the trade union bureaucracy, whose policies are essentially nationalist, he has also made a strong pitch to the Brazilian military, the same institution that briefly imprisoned him on several occasions when he led illegal strikes more than 20 years ago.

In a recent speech, Lula won cheers from an audience of military officers in Rio de Janeiro by declaring that Brazil may have made a mistake in signing nuclear non-proliferation treaties. “Why is it that someone asks me to put down my weapons and only keep a slingshot while he keeps a cannon pointed at me?” said the candidate. “What do we get from this? Brazil will only be respected in the world when it turns into an economic, technological and military power.”

He has also backed a plan for Embraer, the Brazilian aircraft manufacturer and fourth largest such company in the world, to begin producing a new jet fighter, together with missile technology, capable of competing with the US F-16. The proposal would represent a direct challenge to Washington and a qualitative increase in Brazil's stakes in the international arms trade.

Lula has further antagonized Washington with statements opposing the US military intervention in neighboring Colombia—a position shared with the current government of Brazil—and remarks criticizing the Bush administration's policies. "Out of every ten words he says, nine are to provoke a war," he said recently in describing the US president.

The remark on nuclear arms drew immediate fire from Washington, with a dozen Republican Congressmen addressing a letter to President Bush warning that the candidate's position was a matter of "grave concern" to the US.

The US Embassy in Brasilia has made no overt criticism of Lula, but it is evident that the US ruling elite, like its counterpart in Brazil, is divided over whether it should mount an all-out campaign to block the coming to power of a PT government, or support it as the best means of containing a social upheaval in Latin America's largest country.

The PT has to a large extent already proven its willingness and ability to impose economic and social policies dictated by finance capital. The party has run five states and seven state capitals, including Sao Paulo, the largest city in the Western Hemisphere. Still, the fear within ruling circles is that the election of Lula as president will spark social expectations among the masses of Brazilian working people that cannot possibly be met within the present economic setup.

The vast majority of the nearly 33 million people who cast votes for the PT did so because they want a change in the US-backed "free market" economic policies that have meant growing poverty for the majority and the unprecedented enrichment of a thin layer at the top of Brazilian society.

More than one third of Brazil's population lives in poverty, either unemployed or earning less than the minimum wage of approximately $60 a month. The country is one of the most unequal on the planet in terms of income distribution. According to 1999 figures, the richest 10 percent of the population accounted for 47.4 percent of the national income, while the poorest 40 percent received a meager 8.1 percent. Continued high interest rates and unemployment have only widened this gap over the last three years.

On the campaign trail, Lula repeatedly speaks on the need for greater social equality, saying that every Brazilian is entitled to "at least three meals a day." He has also pledged to create 10 million new jobs to alleviate the unemployment crisis. While backing away from its earlier promises to repudiate the foreign debt, the PT has repeatedly promised a "break with the existing economic and social model."

But the PT's commitment to meeting the terms of the IMF's $30 billion loan precludes any sweeping social reforms. Officials in the Cardoso government are assuring the international banks and financial institutions that a PT government's economic policies will not stray from those of the present administration.

In 2002, the incumbent government has already slashed public spending by more than $6 billion. Industrial activity has fallen by more than 4 percent this year, and the unemployment rate in the industrial and financial center of Sao Paulo has risen to nearly 10 percent, its highest level since 1982, at the height of Brazil's worst debt crisis.

Meeting the conditions of the new IMF loan will force even deeper cutbacks. These include a requirement—also embraced by Lula—that an annual budget surplus equal to 3.75 percent of the gross domestic product be set aside to placate international investors' fears. The Cardoso government's own analysts produced reports showing that these sums could be used to attack the appalling levels of destitution in Brazil.

Lula has attempted to defend the party's policy, telling audiences, "There are some contracts that simply must be complied with, though that doesn't mean we agree with them." The PT candidate has also promised not to reverse the privatization of state-run industries carried out over the last eight years by Cardoso, driving up both unemployment and the cost of essential services.

Numerous press reports have appeared based on statements from PT officials that the party is planning to pick someone from the financial sector to run the Central Bank, acting with virtual autonomy. Among the names mentioned are: Henri Philippe Reichstul, former head of the state-owned oil company Petrobras and now an executive with Globo, the right-wing media conglomerate that organized previous propaganda campaigns against Lula; Enrique Meirelles, chief of the international division of FleetBoston Financial, one of Brazil's biggest lenders; and Joao Sayad, another ex-banker who was the financial secretary for the municipality of Sao Paulo.

Even if a PT government were inclined to pursue a radical shift in economic policy, it would confront a congress that will be little changed by this month's election. The party is expected to hold less than one-fifth of the seats in the lower house of the legislature, which will still be dominated by the rightist and centrist parties that backed Cardoso and Serra.

There is little indication that the financial markets have been reassured by anything that Lula has pledged, nor for that matter, that his election is their principal concern.

Since March, Brazilian bonds and the country's currency, the *real*, have fallen by roughly 30 percent. The fall in the value of the *real* against the dollar has placed even greater pressure on the national economy by driving up the cost of servicing Brazil's huge debt load. Meanwhile, multinational investors and banks are reluctant to offer new credit in the region following the default of Argentina and the staggering losses on Wall Street. Fearing a potential default, investors are moving money out of Brazil, putting still more pressure on the currency and bonds.

The fear in the financial markets is generated essentially by Brazil's extremely unstable economic situation and the growing conviction that Brazil is headed for default no matter what any government does.

Between now and the end of 2003, some $90 billion in foreign debt will come due under conditions in which renegotiating terms of payment will be extremely difficult given the global economic crisis.

A continued run on the *real* will leave a PT government committed to meeting the demands of the IMF with few choices, when and if it takes office in January. Brazilian companies—especially those linked to the world market—will respond to the deflated value of the national currency by moving to raise prices. To prevent a renewal of hyperinflation, the Central Bank will once again raise interest rates, leading to a further contraction in production and even greater unemployment.

In short, the conditions that will confront masses of Brazilians will be precisely the opposite of those promised in Lula's populist campaign. The inevitable result will be mounting social and political crisis.