

Brazil's Lula reassures Wall Street, warns workers of austerity

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In the two days following his landslide victory in Brazil's October 27 presidential election, Workers Party (PT) candidate Luiz Inacio "Lula" da Silva has taken pains to reassure the world's financial markets that his government will enforce the austerity policies initiated by its predecessors.

Lula's 61 percent vote in the election—the largest ever for a Brazilian presidential candidate—represents an indisputable mandate for sweeping changes in a social structure characterized by vast inequality and abject poverty for tens of millions. But the president-elect and other top PT officials have spent the days since the vote warning that fulfillment of election promises will be subordinated to the demands of the International Monetary Fund and the international banks.

"My government will be for the excluded, the discriminated, the humiliated and the oppressed," Lula declared after a series of meetings with incumbent President Fernando Henrique Cardoso and other officials. He quickly added that there are no "miraculous solutions" to the country's debt crisis and that "budgetary restrictions" will pose a major obstacle to the realization of his platform. "The tough path Brazil will have to walk will demand austerity in the use of public funds," he said.

Senator-elect Aloizio Mercadante, a top economic adviser to Lula, further warned that there was little chance that the incoming government would realize its promise to dramatically increase the country's monthly minimum wage, which now stands at a miserable \$60 a month.

"We will have a shortfall of 15 billion *reales* in revenues in the coming year and a target surplus of 49 billion which must be met," said Mercadante.

Henrique Meirelles, the former president of BankBoston who returned to Brazil to run successfully

for a seat in the federal Chamber of Deputies, spelled out the concerns of foreign capital that the incoming PT government is attempting to allay. "The worry is that he (Lula) could give in to social demands in a way that would compromise public finances," he said. Meirelles has been mentioned as a possible minister in the incoming government.

There is no sign that Brazil's financial crisis will recede during the two months of transition before da Silva assumes power on a January 1. The run on the national currency, the *real*, is continuing, and substantial payments on the country's foreign debt are coming due. Having lost 40 percent of its value since the beginning of the year, the *real* fell another 2 percent against the dollar in the first 48 hours after the election.

Brazil's bond ratings continue to fall, with investors now demanding a yield of more than 22 percent. The result is an interest rate that is so high the debt burden has become virtually unsustainable.

While the media had anticipated the nomination immediately after the election of key officials such as the central bank president and minister of finance, the PT has thus far named only the head of its transition team. He is Antonio Palocci, a former federal deputy who also served as the mayor of Ribeirao Preto, a medium-sized city in the state of Sao Paulo.

Palocci's background is similar to many of those in the top echelons of the PT. As a student activist under the military dictatorship, he was a member of the leftist group Liberdade e Luta (Freedom and Struggle). He joined the PT while still in medical school and became a doctor, while rising within the leadership of the party and climbing the ladder of electoral posts. As mayor of Ribeirao Preto, he gained fame for pushing through the privatization of local utilities even before the federal government instituted a similar policy.

On Tuesday, Palocci joined Lula in meeting with incumbent President Cardoso to discuss the transition. Also present were PT party leader Jose Dirceu, also a former student activist and member of a clandestine guerrilla group under the dictatorship, and vice president-elect Jose Alencar, Brazil's richest textile magnate and leader of a party identified with the former military regime. The PT chose Alencar as Lula's running mate to cement its ties with Brazilian big business and reassure the capital markets that the party would continue "free market" policies once in power.

While Cardoso offered to allow Lula and members of his incoming cabinet to participate in talks scheduled next month with the IMF, the PT leadership has rejected the proposal, anxious to put off as long as possible any direct association of the incoming administration with what are bound to be unpopular measures.

Palocci said the PT would concentrate on three major objectives until the end of the year: putting together a budget for 2003, negotiating taxation policy with the state governments, and drafting a constitutional amendment that would allow the incoming government to make the Central Bank autonomous.

The current budget proposal, predicated on continuing economic contraction and falling revenues, provides no money for new social initiatives. Instead, it complies with a policy dictated by the IMF to set aside as surplus an amount equal to 3.5 percent of the gross domestic product in order to back up debt payment obligations. The PT has accepted this provision and has gone further, indicating it would consider raising the amount.

While President Bush called Lula to congratulate him and invite him to the White House, there were indications that relations between the incoming Brazilian government and Washington will be tense. Treasury Secretary Paul O'Neill announced that the financial markets will be closely watching Lula for "reassurances that he's not a crazy person." The insulting remark evoked a protest from former Brazilian president Itamar Franco, who called O'Neill a "psychopath."

The US State Department's director for Brazil and the Southern Cone, meanwhile, issued a blunt warning that the PT should drop its populist promises. "What Lula says as president-elect will be scrutinized much

more closely than when he was campaigning," said the official, James Carragher.

The Republican right continued to vent its hostility toward the newly elected Brazilian president. In a letter dated October 24, Congressman Henry Hyde (Republican of Illinois), the chairman of the House International Relations Committee, told President Bush that he feared da Silva would join Cuban leader Fidel Castro and Venezuelan President Hugo Chavez to form "an axis of evil" in the Western Hemisphere.

Lula, the Republican congressman continued, is a "pro-Castro radical" posing "as a moderate." He accused him of consorting with "Latin American, European and Middle Eastern terrorist organizations" and claimed that a PT government could quickly revive a program to test "a 30-kiloton nuclear bomb."

These wild charges parallel the pretexts advanced by the Bush administration for its planned invasion of Iraq. Under the doctrine of "preemptive" war, they could be used to justify a future war against Brazil as well.



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