Brazil’s "Lula" celebrates victory, IMF demands more austerity

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29 October 2002

The election of Workers Party (PT) candidate and former metalworkers union leader Luiz Inacio “Lula” da Silva triggered horn-honking, flag-waving celebrations in Sao Paulo, Rio de Janeiro and other major Brazilian cities Sunday night. Foreign and domestic capital markets held their fire in anticipation of PT’s announcement of an economic transition team.

Lula won the second round of the presidential election by a landslide margin of more than 61 percent, winning 52 million votes, the most ever cast for a Brazilian candidate.

In his victory speech, the PT candidate vowed to bring together “all of Brazilian society ... all the businessmen, trade unionists, intellectuals, to build a more just, more fraternal society with more solidarity.”

Addressing himself to a crowd of over 100,000 supporters on Sao Paulo’s Avenida Paulista, da Silva declared, “We are the ones who can guarantee an agrarian reform and that people can eat three times a day.”

In its election campaign, the PT promised a doubling of the minimum wage, the creation of 10 million jobs and more aid to the poor. In a country whose income distribution is the fourth most unequal in the world, and where well over 50 million people live under conditions of abject poverty, such pledges to ameliorate social conditions won Lula his massive vote.

His opponent, Jose Serra, ran on a platform that defended the record of two-term incumbent president Fernando Enrique Cardoso, who adopted a set of policies that have become known as the “Washington consensus,” removing barriers to trade and capital flows, privatizing state enterprises and enforcing fiscal austerity. These policies have become increasingly unpopular with masses of working people, not only in Brazil, but throughout Latin America, where workers have seen their living standards deteriorate while a thin layer at the top of society accumulates colossal wealth.

The vote expressed growing militancy in the Brazilian working class and mounting dissatisfaction within the broadest layers with a grossly unequal social structure whose foundations were laid during 20 years of military dictatorship, beginning in the 1960s. The outcome of the election will make da Silva the first president identified with a left-wing platform since Joao Goulart, who was overthrown in the US-backed military coup of 1964.

In reality, however, there was relatively little difference in the policies advanced by Serra and those advocated by the Workers Party. Having long ago jettisoned its demands for repudiating the foreign debt and nationalizing sections of industry, the PT has swung ever more sharply to the right in the current election campaign.

What has been made increasingly explicit is that despite Lula’s personal background, the Workers Party is not a party of workers, neither in composition, program nor the interests it represents. Formed in the early 1980s by a section of the union leadership, elements of the Catholic Church, university professors and former student radicals, it has moved steadily to the right over the course of three unsuccessful presidential campaigns beginning in 1989.

It has modified its policies to the extent that they now intersect with the interests of a definite section of the Brazilian bourgeoisie. This intersection is what explains the absence of agitation in Brazil’s military barracks against Lula’s taking office.

The turn to the right found its most concrete expression in the PT’s choice for a vice-presidential running mate: José Alencar, the country’s wealthiest textile magnate and the leader of both a right-wing party and an evangelical church. Alencar is representative of a substantial section of Brazil’s industrial and agricultural owners, who see the “free market” policies promoted by Washington as a one-way street that opens up Brazil to US capital but provides little in the way of a market for Brazilian goods. Their interests are reflected in Lula’s denunciation as “annexationist” the Bush administration’s proposal for an American Free Trade Area encompassing the entire hemisphere.

The PT has made it clear, however, that it has no intention of challenging foreign capital as a whole. In the midst of the campaign, Lula met with Cardoso and pledged to honor the

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conditions negotiated with the International Monetary Fund for a $30 billion loan. The fresh credit was granted for the paramount purpose of bailing out major banks such as Citibank and First Boston that had major exposure to Brazilian debt.

Since then, PT officials have announced that da Silva is prepared to increase the fiscal surplus that his government will set aside, accumulating an even higher budget surplus to avoid a default on the country's $260 billion public debt. While the Cardoso government had agreed to a surplus equal to 3.75 percent of the Gross Domestic Product, PT advisors say that Lula could hike that amount to 4 or even 5 percent.

Such a measure would further restrict the limited resources available to enact any programs aimed at improving social conditions for the masses of Brazilian poor. The stage is being set for a confrontation between the rising expectations of the Brazilian workers and the demands of the world financial markets.

Earlier this month, at the height of the second-round presidential campaign, PT advisors unveiled a joint declaration worked out with the Sao Paulo Stock Market and the Brazilian Association of Capital Market Analysts. The declaration, among other things, urges a turn to private pension funds as a means of funneling workers' money into a market that has seen share prices drop to a three-and-a-half-year low. Such a policy, the document states, "would play an important role in the financing of productive capital, through a significant participation in the capital markets, as occurs in the principal developed countries."

The document further suggests a cut in capital gains taxes, declaring that "the capital market should be seen as an integral part of the productive system, and therefore, the tax policy should take into account this strategic aspect of the sector."

The Brazilian Banking Federation was among the first institutions to issue a formal message of congratulations to da Silva. The elections, the bankers said, "mark a change in the political, economic and social environment of the country." It went on to warn the president-elect that his principal challenge was to "steer the economy on the route of growth with social justice, without compromising monetary stability that has been so hard won."

Kenneth Rogoff, the IMF's chief economist, called on the incoming government to name an economic team "who can assure markets that their policies will be sensible."

Speaking for foreign capital, the *Economist* was even more blunt in its reaction to the PT victory. "In common with many other newly elected left-wing leaders, Mr. da Silva will find his room for manoeuvre limited," said the British publication. "Given the scale of market anxiety—which has, on occasion, come close to panic—he should not be surprised by this. But even experienced hands can be taken aback by the power of hostile financial markets and the harsh judgments they can impose."

Brazil's markets remained calm the day after the election and there was little change in either the value of the national currency—the *real* —against the dollar, or in government bond prices. The relative tranquility stood in sharp contrast to the brutal attack on the *real* in the run-up to the election. The *real* has lost more than one third of its value in the past several months, and the country's bond ratings have been downgraded.

Financial analysts acknowledged at the time that the movement of capital out of Brazil was a response to the PT's likely victory. One New York finance house even revealed the existence of a "Lula meter" that correlated the PT's rise in the polls and the *real*'s precipitous decline against the dollar. As Lula's victory was regarded as a certainty, Sunday's electoral results had already been factored into the market.

Investors are waiting for Lula and the PT to name a transition team to work with Cardoso between now and the inauguration of the new government in January. The team is to be presented on Tuesday.

The financial newspaper Correio Braziliense published a report that the PT may choose Paulo Leme, Goldman, Sachs & Co.'s chief economist for emerging markets, as central bank chief, with the aim of convincing Wall Street bond traders that one of their own is directing the country's monetary policy.

Whatever steps the PT takes to reassure Wall Street, however, there is a serious threat that Brazil could be forced into a default on its $260 billion public debt before da Silva even takes office. The steep fall in the *real* and the sharp rise in interest rates—now standing at 21 percent—have made the debt burden increasingly unsustainable.

Brazil's precarious financial situation raises the clear threat of the country descending into the kind of economic meltdown that has plagued Argentina for the past year. If that proves to be the case, Cardoso could be forced from office before da Silva is even inaugurated, triggering an uncontrollable political and social crisis in Latin America's largest country.

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