

# Brazil: Lula's first 100 days—austerity for the poor, tax cuts for the rich

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22 April 2003

Since he took office 107 days ago, Brazilian President Luis Inacio da Silva (Lula) has carried out austerity policies in the interest of the international banks, in many cases outdoing his predecessor, Fernando Enrique Cardoso. In addition to pushing through legislation that would place the country's Central Bank out of the control of the elected government and the country's voters, he has cut public spending and increased interest rates, curtailing the Brazilian government's ability to create jobs and provide social benefits.

He now plans to reform the state-run pension system. On April 17, Lula obtained the consent of the country's 27 state governors to back a system that will raise the retirement age and lower benefits for Brazil's public employees. "We are all in the same boat," said Lula, in reference to the deficit in the pension system. New retirees would have their benefits capped and taxed.

While pensioners would see their benefits reduced, another proposal would lower taxes on savings. Lula and his advisers have resurrected the old "supply-side" and "trickle-down" arguments pioneered by Ronald Reagan and Margaret Thatcher. They claim that lowering taxes, particularly for businesses and the wealthy, will produce growth for Brazil's capitalist economy and eventually jobs for the poor.

Throughout the election campaign last fall, Lula campaigned on a vaguely nationalist economic program, promising vigorous measures to create one million jobs and to tackle the country's social inequality.

Yet, in negotiations with the International Monetary Fund, he agreed to subordinate his economic proposals to the demands of international investors. After winning the election, Lula put together an economic team committed to conservative policies, similar to

those of the Cardoso government.

Lula's arguments about tax cuts and growth notwithstanding, his government's policies are designed to protect the interests of international creditors. Brazil owes \$250 billion to US financial institutions. Last summer, it obtained a \$30 billion credit line from the IMF, contingent on the drastic cuts in the federal budget, a monetary policy run by the banks and structural reforms that would lower costs for businesses, including a reform of the pension system.

Antonio Palocci, the economics minister, is a medical doctor well known and trusted by Sao Paulo banking circles. Henrique Meirelles moved over to take the helm of the Central Bank from First Boston Bank, where he was a top executive in charge of the bank's international business. Rounding off the economic team are industrial executives Luiz Fernando Furlan, from a food conglomerate, and Roberto Rodriguez from the Brazilina Agribusiness Council.

Lula did propose a program to end hunger. A so-called "zero hunger" initiative was described by Lula as a way of making it possible for all Brazilians to "eat breakfast, lunch and dinner." The plan would hand out vouchers to indigent families, worth between \$16 and \$80 a month (for a family of five).

The vouchers would be used to buy limited categories of foodstuffs. In return, these families would have to participate in community jobs programs. In effect, the "zero hunger" proposal involves the creation of a sub-minimum wage for the nation's 54 million poor and unemployed in which recipients would undercut minimum wage workers—Brazil's minimum wage has been frozen at about \$60 a month.

Making workers labor for as low as \$16 a month would principally benefit Brazil's bourgeoisie, while widening the gap between the rich and poor. In any

case, \$16 per person a month is not enough to provide a minimum caloric intake in Brazil.

The banks, according to the *Los Angeles Times*, celebrated Lula's 100 days in office: "'The [government's] macroeconomic policy is very clear, coherent and solid,' said Paulo Leme, director of Goldman Sachs in Brazil.

"Fiscal solvency and [budget] reductions were essential for stabilizing the economy and returning to growth. This has been accomplished in a firm and decisive manner, and the effects were seen very quickly."

The vast majority of Brazilians, however, are worse off. Officially, unemployment stands at 12 percent, with pockets of up to 20 percent in some industrial cities. Real incomes have declined for three years in a row, falling 3.8 percent in 2002.

For unemployment not to continue growing, Brazil's Gross Domestic Product needs to grow at a rate of 4 to 6 percent per year. Economic growth in 2002 was 1.5 percent. For 2003 the growth rate is expected to be between 1.4 and 1.8 percent and is not expected to increase in 2004.

Lula has sought to portray himself to the public as a pragmatist who will make capitalism work for the average Brazilian, if he is given a chance. From the standpoint of the IMF and the international banks, however, his task is to ensure the increasing exploitation of Brazil's resources and labor in order to pay off Brazil's debts.

In February negotiations with the Bush administration, government envoy Aloizio Mercante declared that Brazil was in urgent need of short-term credit, for which the banks are demanding harsh conditions. Government sources warn that without those credits Brazil faces increasing unemployment and a fall in real wages.

Lula's ability to carry out his austerity measures has so far depended on his securing the agreement of Brazil's biggest trade union, the CUT, not to organize protests or strikes. Last month tens of thousands of metal workers struck over wages in Sao Paulo and Parana states, an indication that sections of the working class have already lost patience with Lula and his policies.

To combat the worst effects of the economic slowdown, the government has tried to move forward

on its "zero hunger" program—only to stumble on numerous bureaucratic obstacles.

Checks written to the program by Brazilian celebrities remained uncashed for months because the government was slow to open a bank account. Now the government is moving to scale back the program, which has yet to begin feeding the poor.



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