Brazil's economy beset by inflation, lagging production

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Brazil's statistics agency, IBGE, announced Wednesday that the country's inflation rate has broken through the government's target ceiling last month, hitting 6.59 percent over the previous 12 months. It marked the first time since November 2011 that the rate has exceeded the upper limit of the government's targeting band.

The inflation spike has been driven by a sharp rise in the price of food and other consumer items, with the impact felt far more acutely by Brazil's working class and poor than the official figures would suggest.

Compared to last year, tomato and potato prices roughly doubled, while rice has gone up 30 percent and beans nearly 28 percent.

Underlying the food price increases are both commodity speculation and the increasing concentration of Brazil's agricultural sector in the hands of agribusiness producing commodities for export—principally soya—rather than for domestic consumption.

Brazilian finance minister Guido Mantega responded to the latest figures by stating that inflation is "harmful to the entire economy," and that the government "won't spare efforts so that inflation isn't propagated."

The inflation figures were bad news for the Workers Party government of President Dilma Rousseff, which has been seeking to utilize tax cuts and low interest rates to stimulate nearly stagnant economic growth in Brazil, whose $2.2 trillion economy is projected to become the fifth largest in the world by 2015.

Economists predict that the inflation rate will compel Brazil's central bank to raise interest rates from their current all-time current low of 7.25 percent to 8.5 percent as early as the next meeting of the bank's monetary policy committee on April 15.

Brazil has instituted repeated interest rate cuts since August 2011 to reverse falling industrial production, which last year plunged by more than 20 percent and has continued downward over the first few months of this year. Gross domestic product, meanwhile, rose an anemic 0.9 percent in 2012, the lowest for any of the so-called emerging nations joined in BRICS (Brazil, Russia, India, China and South Africa).

Falling growth has been attributed to a sharp drop in both foreign and domestic investment as well as a steep decline in the rate of growth of trade with China, Brazil's largest trading partner as well as its biggest foreign investor. Iron ore, petroleum, steel and soybeans make up nearly 80 percent of Brazil's exports to China, and falling commodity prices have hit hard as China's own economic growth has fallen to the lowest level since 1999.

Brasilia is initiating formal negotiations with the European Union this summer on a free-trade agreement with the aim of lessening its dependence on China.

Rousseff's government has sought to implement a series of measures aimed at sparking increased investment and growth through the development of the domestic market, but with seemingly little effect. Previous initiatives have included cheap interest rates, slapping taxes on financial transaction to curb speculative inflows of foreign investment capital, imposing cuts on electricity rates—primarily to benefit the mining and industrial sectors—and repeated interventions to adjust Brazil's exchange rate.

Since taking office at the beginning of 2011, Rousseff has championed privatizations, particularly in the transportation sector, including airports, ports, highways and railroads and directed tax cuts to business, while taking a hard-line, confrontational approach to a mass strike of some 400,000 federal employees last August.

She is reportedly holding regular meetings with top Brazilian business executives and organizing "CEO forums" at Palacio do Planalto, Brasilia's presidential palace, to better adapt the policies of her government to the profit interests of the country's financial aristocracy.

Among the government's latest initiatives, it announced earlier this month that it is extending payroll tax breaks to 14 more sectors of the economy, including construction, engineering, railways and shipping. Previously, such tax breaks were granted to the auto industry and durable goods manufacturers. The new concessions are expected to bleed some $2.7 billion from federal revenues.

After a decade in power, the first eight years of them under the former metalworkers union leader turned president, Luiz Inácio Lula da Silva, the core economic policies of the Workers Party (Partido dos Trabalhadores—PT) are entirely pro-capitalist and largely in continuity with the so-called neo-liberal agenda introduced by previous governments.

At the same time, it has sought to quell social unrest with a set of minimal social assistance programs, the principal one being *bolsa familia* (family allowance), which provides small cash stipends to the country's poorest families.

While the government boasts that these policies have lifted 40 million Brazilians out of poverty, this is largely a matter of people being lifted just above the poverty line, gains that sustained inflation could rapidly erode.

Increasingly, capitalist sectors in Brazil are insisting that the only means of restoring growth is to drive down costs, meaning slashing wages and social benefits for Brazilian workers. Such a course will inevitably pit the so-called Workers Party government into a direct confrontation with the Brazilian working class.

There are growing signs that the combination of inflation and economic stagnation are creating the conditions for just such a clash.

In the southern city of Porto Alegre, a series of protests that have included direct confrontations between demonstrators and military police broke out in response to an attempt to raise bus fares. The latest of these demonstrations on April 1 saw at least 6,000 students and workers paralyzing the city's streets. Shortly afterward, a court intervened with an injunction blocking the fare hike.

And in the northwest of the country in the Amazon region, the Rousseff government sent in armed troops to suppress a strike by some 25,000 workers building the Rio Madeira hydroelectric complex. The military unit from the Força Nacional was deployed on the pretext that previous walkouts had led to violent confrontations.

"The goal is to ensure the safety of people, property and the maintenance of public order, protecting infrastructure works of the plants," a statement from Brasilia read. The projects are being built by the Camargo Correa and Odebrecht construction conglomerates, both of which have forged close ties to the PT government.

The companies have begun firing strikers. More than 450 were dismissed last Saturday, with the military forcing them to hand over their identification badges.

In addition to fighting for improved wages and conditions, the workers are demanding disaffiliation from their union, which they charge with failing to support their struggle.