Brazil's government vows "huge cuts" as economic crisis intensifies

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Brazil's embattled Workers Party (Partido dos Trabalhadores—PT) President Dilma Rousseff this week promised US financial news agency Bloomberg that her government "will carry out a huge cut" in spending this year in an effort to placate the financial markets and credit rating agencies.

Rousseff is embroiled in a massive kickback and bribery scandal surrounding the state-run Petrobras energy conglomerate and has faced right-wing demonstrations by hundreds of thousands of people, predominantly from the country's middle class, calling for her impeachment and even a military coup. The latest polling has shown her approval rating falling to just 13 percent.

As Rousseff's interview with Bloomberg makes clear, her response is to turn even further to the right, implementing austerity measures that will deepen the country's economic slump and have the harshest impact upon workers and the poor, whom the PT fraudulently purports to represent.

"I will do everything to meet" the government's fiscal target for a primary surplus (amount of revenue exceeding total spending, excluding interest payments on debt), Rousseff said.

That target has been set at 1.2 percent of Gross Domestic Product, equivalent to roughly $20.8 billion.

Brazil reported a primary budget deficit of 2.3 billion reais (US$721 million) in February despite tax hikes on imports, fuel and financial transactions as well as budget cuts implemented just the month before. With interest payments on the country's debt included, the budget deficit has ballooned to 7.34 percent of GDP, the highest rate since at least 2002.

Brazil's total public debt as a percentage of its GDP is expected to rise to 62 percent by the end of 2015. By comparison, US total public debt stands at over 102 percent of US GDP.

According to the Brazilian daily *Folha de S. Paulo*, an unnamed presidential advisor predicted that the government could be compelled to slash $25 billion in spending—substantially more than the $18 billion initially projected—as well as raise taxes in order to meet the surplus target.

One of the first actions taken by Rousseff's predecessor and mentor, the former metalworkers union leader and first PT president, Luiz Inacio Lula da Silva, when he came to power in 2003 was to set the primary budget surplus above the rate demanded by the International Monetary Fund. Rousseff has essentially continued these policies in a bid to satisfy world financial markets and foreign capitalist investors.

Following her narrow election victory last October, she brought on board as finance minister Joaquim Levy, the same free market advocate who set Lula's financial policy.

Levy is a product of the University of Chicago, the bastion of neoliberal policies that produced the economic advisers who set policies for the Pinochet dictatorship in Chile. He did a stint at the International Monetary Fund and, before being tapped for Rousseff's second administration, he was chief of asset management at Banco Bradesco SA, Brazil's second-largest private banking group, overseeing a portfolio of more than $130 billion. In other words, Rousseff brought in a representative of the IMF and Wall Street to dictate her government's financial policies.

Remarks made by Levy to a group of University of Chicago alumni and reported by *Folha de S. Paulo* last weekend stirred a brief political controversy. The newspaper reported that Levy told the private audience that, while Rousseff has a "genuine desire to get things right," her methods are not the most effective. He also reportedly referred to already implemented austerity measures as a "joke."

Levy claimed his remarks had been taken "out of context," adding that "there is mutual, very solid trust" between himself and Rousseff. The PT president, meanwhile, dismissed the report as a "storm in a tea cup" and suggested that the media was trying to "create an intrigue." She added, "Levy is very important for Brazil today and he stands very firm." If anything, the incident served to prove that it is Levy who is in charge.

The next round of austerity measures are to be implemented as unemployment is rising and the economy is shrinking, conditions that these policies will only worsen. The latest jobs report showed that Brazil's official unemployment rate rose to 5.9 percent in February, the steepest increase in almost two years. Meanwhile, the country's central bank estimates a 0.1 percent decline in GDP in 2014, and projects a deeper contraction of 0.5 percent this year.

Hardest hit are the manufacturing and construction sectors. There are also growing fears that the Petrobras scandal will have a ripple effect throughout the economy as the energy firm, Latin America's largest corporation, is responsible for roughly 10 percent of all business investment in Brazil. Revelations about companies paying kickbacks to the ruling PT in exchange for inflated contracts have already led to two major industrial construction firms, OAS and Galvao Engenharia SA, filing for bankruptcy.

Rousseff, who chaired Petrobras from 2003 to 2010, told Bloomberg that neither she nor other board members "even saw a sign" of corruption. She added that the Petrobras board "was made up of quite qualified entrepreneurs—it wasn't just me."

Prominent among recent layoffs have been those in Brazil's auto industry, which have provoked strikes and protests by auto workers. Some 13,000 jobs have been wiped out in the industry over the past year. Auto sales in Brazil fell 7 percent in 2014, and projections that they would stabilize this year are being called into question by the deepening slump.

Workers at the Ford engine plant in Taubaté, about 140 kilometers northeast of São Paulo, walked out on strike April 1 after the company announced the permanent layoffs of 137 workers. The workers were told that they had lost their jobs after they returned from a temporary furlough. They initiated a protest at the factory gates beginning on Tuesday, March 31, and by Wednesday the rest of the workforce joined them.

The action follows a February strike by 5,000 General Motors workers in São Paulo's ABC industrial belt against the threatened layoff of 800 workers. Some 13,000 Volkswagen workers carried out a similar action in January, and 11,000 Mercedes Benz workers staged a 24-hour strike and protests blocking a highway after 250 layoffs were announced during the same period.

While in the past, the PT government had warned against layoffs and indicated that tax cuts and other favorable economic policies could be curtailed if the foreign automakers continued putting workers in the street, there has been no such threat during the latest, and deepest, round of job cuts.

The Brazilian central bank has also projected an increase in the inflation rate to 7.9 percent, ravaging the living standards of the working class, which has already borne the brunt of tax, utility and transit hikes as well as steadily rising food and housing costs.

In her desperate bid to placate her critics on the right and secure the approval of Wall Street, Rousseff is putting into motion policies that must inevitably lead to an explosive development of the class struggle in Brazil.