10-8-1999

Brazil Announces New Austerity Measures Following Supreme Court Ruling

LADB Staff

LADB Article Id: 54128
ISSN: 1060-4189

Brazil Announces New Austerity Measures Following Supreme Court Ruling

by LADB Staff
Category/Department: Brazil
Published: 1999-10-08

Brazilian President Fernando Henrique Cardoso unveiled new austerity measures Oct. 7. The government needed to compensate for revenue losses resulting from two recent decisions by the Supremo Tribunal Federal (STF) that had jeopardized its efforts to reduce the budget deficit. Meanwhile, thousands of protesters converged on Brasilia to demand better education and to protest "IMF-imposed austerity."

On Sept. 30 the STF overturned two tax increases on the salaries and pensions of public employees, which had been challenged by civil servants. The decision declared unconstitutional a law raising pension-fund payments by public employees still in the work force and a law requiring more than 400,000 retired state workers to pay 11% contributions. The measures, a crucial part of the government's austerity drive, were passed by Congress earlier this year and went into effect May 1.

The ruling, which cannot be appealed, raised concerns about the government's ability to meet strict International Monetary Fund (IMF) budget targets set to facilitate a US$41.5 billion bailout for Brazil's troubled economy (see NotiSur, 1998-12-18, 1999-03-26).

The IMF-set goals included reducing the budget deficit, which is 13% percent of GDP. Pension spending, government payrolls, and interest payments on government bonds are considered leading causes of the deficit. The goals call for Brazil to post a budget surplus this year of 3.1% of GDP, excluding the costs of servicing its debt. Analysts said the court ruling should not threaten this year's target, but could endanger the 3.25% primary budget- surplus target for next year.

Analysts estimated the decision would cost the government 3.1 billion reais (US$1.6 billion) in lost taxes next year. The government faces an annual social-security deficit of US$10.32 billion. While revenues from the rejected taxes would have covered less than 10% of the social-security deficit, the government considered them an important step in pension reform. Brazil's 918,000 retired civil servants receive much larger benefits than private-sector retirees.

The court decision was "a surprise and very negative, not so much because of the sum involved but because of the signal it gives on fiscal reform," said Ian Campbell, head of Latin American research at BancBoston. "It means that an important fiscal reform that finally got through Congress has now been blocked by the judiciary."

New measures needed to satisfy IMF

An IMF team will arrive in Brasilia before mid-October, and Cardoso's government must convince the organization that the country will meet its fiscal targets. "It remains to be seen what new rabbits

ISSN: 1060-4189

can be pulled out of the social-security hat after this defeat," said political analyst David Fleischer of the University of Brasilia. The government was under pressure to quickly come up with alternative sources of revenues to make up for the shortfall. Government officials said congressional leaders would make fiscal reforms a priority. "Definitely the fiscal adjustment will not suffer at all," said President Cardoso. "Congress will decide what to do, because the adjustment is here to stay."

The financial community grew increasingly anxious as days went by without an announcement. On Oct. 7, Finance Minister Pedro Malan announced the government would cut spending in 2000 by about US$620 million and generate an equal amount in revenues through a provisional measure changing the rules governing payment of a corporate social-security tax (Contribuicao para o Financiamento da Seguridade Social, Cofins). It will also submit to Congress as yet unspecified legislation changing the rules for taxing interest-rate remittances sent abroad.

Reaction to the new measures was cautious. "The raise in Cofins is something that has already proved effective in the past. It is also good as it has the smallest impact on the society," said Odair Abate, chief economist at Lloyds Bank in Sao Paulo. "What remains unclear is what tax measures the government will send to Congress, and we also have to see if the government can actually stick to its promises to cut spending." "I do not see any reason for optimism as the measures are lousy," said Luiz Fernando Lopes, chief economist with Chase Manhattan Bank in Brazil. "Spending is being cut where it should not be, and additional funds are being raised when we should be cutting spending in pension funds."

Demonstrators fill Brasilia

Meanwhile, Brasilia was the scene of new demonstrations in early October as about 6,000 educators, parents, and students protested serious deficiencies in the education system. They were joined by workers and landless campesinos arriving for their own protest. The educators are demanding that the government spend at least 10% of GDP on education, saying the sector is grossly underfunded and is not meeting the country's educational needs. They want a threefold increase in funding for education over the next 10 years and a minimum monthly wage for teachers equivalent to US$460.

In a document delivered to lawmakers, the Confederacao Nacional dos Trabalhadores em Educacao said the education system is deeply flawed, suffering from violence, overcrowded classrooms, and low attendance rates. At the same time, about 1,000 people who had marched 1,500 km from Rio de Janeiro arrived in the capital to show their displeasure with the government's austerity policies, the IMF, and "the paralysis of agrarian reform." Thousands more arrived by bus to join the protest. The People's March for Brazil left Rio July 26. Groups backing the march include the Movimento Sem Terra (MST), various labor unions, leftist political parties, and Brazil's Catholic Church. The protesters made the IMF a primary target of their discontent with economic policies they say have caused recession and unemployment.

Demonstrators gathered outside the Central Bank to protest what Joao Pedro Stedile, the MST's chief coordinator, called "the economic policy of subordination to the IMF and international capital." The series of protests will culminate Oct. 12 with a large demonstration called the Latin American Cry of the Excluded. Protests will occur simultaneously in thirteen regions to call attention to the consequences of IMF and US policies for the region. Stedile said organizers hope to launch an open

LADB Article Id: 54128
ISSN: 1060-4189

dialogue among social movements, political parties, academics, and civic organizations to jointly draw up a "people's project" for Brazil as an alternative to the policies that led to the present crisis.

As marchers filled the capital, Cardoso defended his administration's record on social issues and said that interest rates were declining, growth was resuming, and officials hoped to bring down the jobless rate. "This is how you build a democratic society, it is not with shouting, it is with silent, difficult, arduous work," Cardoso said. But the MST said ordinary Brazilians' living conditions had worsened sharply in the last two years. "People are really indigent now," Stedile said. "If we are already talking about a new president three years before the election, it shows the seriousness of the economic crisis."

Stedile said by favoring export-oriented agribusiness, the government had displaced more families from the countryside than those it had settled on small plots of land through its agrarian-reform program. He said, "Agrarian reform will only be successful if economic policy encourages family farms, something that will only be possible with a change in the economic model." As protesters filled Brasilia's streets, Cardoso announced the creation of the Conselho Nacional de Desenvolvimento Rural, an interministerial body that will coordinate all government programs for rural areas. [Sources: El Nuevo Herald (Miami), 09/26/99; The New York Times, 10/01/99; Spanish news service EFE, 09/16/99, 09/19/99, 09/22/99, 09/27/99, 10/06/99; Associated Press, 10/01/99, 10/06/99; Inter Press Service, 10/05/99, 10/06/99; Clarin (Argentina), 10/06/99; Reuters, 09/22/99, 09/23/99, 09/30/99, 10/01/99, 10/06/99, 10/07/99]

-- End --