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# Lula Not Pleasing Anyone

Guest Author

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[The author is the Rio de Janeiro-based correspondent for Business News Americas.]

When Luiz Inacio Lula da Silva from Brazil's leftist Partido dos Trabalhadores (PT) was elected president of Brazil in October 2002, progressives throughout the world believed that a new social and economic model would be forged and the failed neoliberal recipes of the past discarded. Those hopes that some had for a more socially oriented government were the concern of others.

Investors, nervous that the new government in South America's largest country would enact radical changes, began to bet against the country's currency and ability to rollover its monstrous debt. To calm the waters, Lula and his economic team promised that they would respect the previous government's commitments.

But not until new Finance Minister Antonio Palocci assiduously put these promises into action with neoliberal solutions even more rigorous than Lula's predecessor Fernando Henrique Cardoso (1995-2002) did the economy begin to stabilize. The bitter recipe, however, did not come without its costs.

## *Towing the IMF's party line*

While campaigning for office, Lula repeated that he would respect the former government's financial commitments and the economic reforms enacted to date. The PT, once "the party of workers for workers," made political alliances with members of the national bourgeoisie and even accepted Jose Alencar, a textile magnate from the Partido Liberal (PL), to be Lula's running mate as a way to convince the political center that it would not make any radical changes (see NotiSur, 2002-12-20).

Nonetheless, Brazil's economic situation when Lula assumed office on Jan. 1, 2003, looked bleak, with firms cutting back investments and inflation creeping up to 20% per annum. The culprit was the loss of confidence in the Brazilian economy by international investors and local savers who sought out dollars to protect themselves. Not even an International Monetary Fund (IMF) package amounting to US$30 billion the fund's largest loan made to date signed by Lula and other presidential contenders was enough to end 'hyperdevaluation' of the real against the greenback (see NotiSur, 2002-08-09).

Action had to be taken. Henrique Meirelles, a former head of BankBoston picked to command Brazil's Banco Central, slammed the brakes on the economy by boosting basic interest rates to 26.5% for four months. And Palocci began implementing an austerity plan amounting to a fiscal surplus of 4.25% of GDP higher than the 3.75% the IMF had initially demanded the previous year.

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Lula recently commented that his team's economic policies have attracted capital back into the economy. "As a result, the exchange rate has stabilized, inflation has dropped below 9%, the country's credit rating has improved, the debt burden has fallen. Export credits have been re-established and this year the balance of trade will run a US$20 billion surplus. In six months, conditions for a return to growth and a boost to employment have been achieved," Lula said in an op-ed piece published by the UK's Guardian newspaper on July 22.

## *Finances spared but business thwarted*

But not everyone is celebrating. "2003 is a lost year," said Vice President Alencar, who as a representative of the productive industries constantly berated the high interest rates. Mainstream economists like former finance minister Antonio Delfim Netto as well as PT-affiliated academics like professor Reinaldo Goncalves believed that Lula's economic team went too far in their economic policies.

Both believe the Banco Central's inflation target of 8% by year's end to be too drastic given the impact of the foreign-exchange rate on domestic prices. And businesspeople complain that the exchange rate's rapid return to below 3.00 reais to the US dollar has made planning investments difficult. Most believe that the domestic economy will only begin to grow again by the last quarter of the year and sustained growth will not return until next year.

Even with the Banco Central's decision to cut rates by 2.5% to 22% on Aug. 20, economists' GDP growth forecasts for the year range from 0.1% to 1.4%. The only bright spot in the economy is exports. Brazil celebrated an accumulated trade surplus of US$14.36 billion by the third week of August, almost three times higher than for the same period in 2002.

"In the third quarter, it's already possible to see a modest rebound," said Juan Pedro Jensen, an economist at Tendencias consulting firm. "Some data for July have showed that the economy is breathing again, but the outlook will only improve more significantly in the last quarter."

On the domestic front, investments have been shelved and use of installed productivity remains low because of sluggish demand. Because of thwarted expectations in the Brazilian economy, economists say there has been foreign disinvestment, with foreign companies pulling up stakes and selling assets to local rivals. The main reason is that expectations of a growing consumer market were never met.

## *Workers Party not serving workers*

Most businesspeople grudgingly accept the policies imposed by the PT's economic team, but activists on the left are becoming more impatient and outspoken. Cesar Benjamin, a coordinator for the Movimento Consulta Popular, considers that the anti-cyclical policies remove larger amounts of resources from society to create fiscal surpluses that benefit creditors. "[The policy] produces stagnation, unemployment, and misery as well as large speculative fortunes," he wrote in the leftist magazine Caros Amigos. Official statistics bear this out.

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The Instituto Brasileiro de Geografia e Estadistica (IBGE) said July's average monthly wage slumped 16.4% from year-ago levels and 1.7% from June to 833.5 reais (US$278) in inflation-adjusted terms. Labor unions that were fighting for wage increases to keep pace with inflation at the start of the year are now struggling to keep from losing jobs.

The IBGE also reported that the July unemployment rate was 12.8%, only slightly below June's 20-month high of 13% and above the 11.9% registered in the same month last year. "We didn't support Lula for him to maintain the policies of the previous government. Lula's alliances have to be with the workers, not with the bankers," said Eleno Jose Bezerra, president of the Sao Paulo metal workers union (Sindicato dos Metalurgicos de Sao Paulo, Mogi, e Regiao, SMSP).

Lula and his economic team say that needed tax and pension reforms must be approved by Congress so that interest rates can fall and public investments be made. But the reforms, especially pension reform, have led to strikes by 400,000 workers in the public sector. The changes to the country's pension system, while addressing the worst abuses to the system, increase the age for retirement as well as taxes and reduce payments for retired workers (see NotiSur, 2003-01- 10, 2003-02-21).

## *Burning the candle on both ends*

In comparing Lula's rise to power with that of Nelson Mandela in South Africa, sociologist Immanuel Wallerstein said that both regimes' first worry is to remain in power and that is the reason for the degree of prudence in their policies. The logic goes that, if the conquests of the past, such as overcoming hyperinflation, are lost, the PT would never be voted back into power. But the same prudence has also alienated the PT's backers. "Today in Brazil some of them are saying that if Lula's government does not change its course in six months it will be difficult to obtain anything meaningful," Wallerstein said.

Because of the country's slow-acting political system and future elections, which take legislators' attention away from passing bills, Lula has a short window of opportunity to promote changes. Meanwhile pressure from Brazil's excluded groups has begun to resurface, with widely publicized takeovers of land owned by General Motors by homeless families. The conflict was resolved peacefully but the underlying social problems persist.

One of the most active groups representing the country's excluded is the Movimento dos Trabalhadores Sem Terra (MST). The movement has begun a wave of land invasions after being quiet during the presidential campaign. Although the number of land invasions is no greater than in past years, pressure from the left is mounting on the new government to enact social reforms.

But right-wing leaders and media have warned that law and order are being threatened because of Lula's acquiescence to those promoting the land invasions and that a civil war is brewing in the countryside.

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"It seems like Lula is alienating everyone. By moving toward the center, Lula becomes more distant from the PT's rank and file. And by supporting social movements, he loses the support of the right," said Paula Rios, a lawyer based in Sao Paulo.

Lula and his backers say that the PT cannot make changes happen overnight and that even with fiscal austerity it is possible to resolve social problems.

"The fight against poverty is in the budget not in economic policies that have little to do with reducing poverty but a lot to do with increasing wealth," said Education Minister Cristovam Buarque. He advocates a 'tropical Keynesianism' that would direct money to help poor people produce goods and services and allow them to lift themselves out of poverty.

Next IMF challenge

Nevertheless, tropical Keynesianism would work better if Brazil's economy were growing and public funds were more available. In September, Brazil's US$30 billion IMF contingency loan will expire and without it the country's reserves will fall to about US$16 billion, or roughly enough to finance three months of imports. But this time, PT leaders insist that changes must be made.

"It is indispensable that the country return to growth. For this, there are two options: either we don't sign a new accord with the IMF or we make one under new parameters. But always the basis of negotiation will be economic growth with responsibility," said the PT's leader in the Senate, Aloizio Mercadante.

Some changes with the IMF that Lula's economic team desires include untying investments made by federally owned companies from government budget targets. There is also talk of creating an anti-cyclical fiscal surplus, which would be smaller in times of recession and greater during periods of economic expansion. Both measures would allow the federal government to make larger investments in infrastructure.

Former finance minister Netto believes Lula and his team have a lot of bargaining power since the IMF needs the country to succeed after betting so much of its finances on Brazil and after experiencing so many failures elsewhere.

Former World Bank economist-turned-critic Joseph Stiglitz believes that Brazil should consider Argentina's path, where an IMF accord was not signed but the country's economy began to grow again. In his view, an IMF accord should only be signed if economic growth is included. "If it is a program that strangles the economy, then it would be better to be without the funds," he said in an interview with local business daily Valor Economico.

Meanwhile, average Brazilians have mixed views on Lula's management. Some believe that he needs time to make changes, while others have become less patient. "I believed in Lula in the beginning and believed that major changes would be made. Now I don't think any major changes are going to be made," said Antonio Carlos de Silva Melo, a janitor in Rio de Janeiro.

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