

Will Lula wake up and reverse course, at the point the banks provoke a showdown in mid-2003? That question still cannot be answered, because the political battle inside Brazil over economic policy is far from settled.

There are, however, political forces in Brazil who are already quite clear about the nature of the problem, and what needs to be done about it. This is the case with Dr. Enéas Carneiro, Lyndon LaRouche's friend who was just elected to Brazil's Congress with the largest number of votes in the country's history. Dr. Enéas used his historic, first address to the Congress on Feb. 18, to draw the battlelines.

### **Enéas: 'Time To Declare Brazil's Economic Independence'**

"Exactly 14 years ago, I wrote the 'PRONA Manifesto,' in which I warned the Brazilian population about the dangers of the neo-liberal winds which had begun to blow here in the Southern Hemisphere. . . . In almost all corners of the world, the fashionable word became globalization. The world was transformed into an immense casino where, at the simple touch of a computer key, fabulous fortunes were transferred from one point to another on the planet, at the speed of light, without there having to be any corresponding wealth in the real, or physical world.

"Whoever dared to speak of the sovereign nation-state immediately earned the epithet of troglodyte, dinosaur, or something similar to a being from a more primitive era. . . .

"Our public debt grew from 87.8 billion reals in December 1994 (25.13% of GDP) to the astounding figure of 1.1 trillion reals in December 2002 (80.94% of GDP). . . . I now assert, that is the central issue from which all others flow. This is the real cancer that eats away at the bowels of our nation.

"I am profoundly uncomfortable at the discussion of superficial issues. . . .

"In 2002 the astronomical amount of 114 billion [reals] was paid out. . . . I ask you, how is it possible to survive a hemorrhaging of this amount? How can you talk of the need to attain a fiscal surplus of this or that amount, when it is publicly recognized that the payment of that monstrous sum in interest is to feed the vultures who thrive only on speculation? How can you still consider cutting budgets if you don't have the courage to say 'enough' to this criminal process in which the economy of the Brazilian people is bled to the last drop? . . .

"The entire national productive system loses in this obscene game. In reality, the only winners are those who participate in the speculative process, who have behind them the international financial system. . . . This is the central question, gentlemen. Everything else is a waste of time, is secondary. . . .

"Today, for my first time from this rostrum, into which I was thrust by the will of more than 1.57 million voters, expressed at the polls, I say to you here, as I have always said at every opportunity, and in every place, inside Brazil and

abroad, that it is not possible for us to continue being harnessed to this model of submission to the hegemonic powers. It is time to say 'enough' to that putrid, infected, and nauseating model, which is driving our people into slavery. It is time to declare Brazil's economic independence!"

## **What Follows Brazil's 'Great Expectations'?**

by Adriano Benayon

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With the elections held at the end of 2002, the vast majority of Brazilians ousted a government that, for eight long years, had presided over the most dramatic deterioration of every aspect of the economic, political, and social life of the country. Great expectations were placed upon the opposition candidate Lula da Silva, to change course and build a recovery. Has he? Will he?

Year after year, Brazil has been looted by interest payments. Not only on account of the foreign debt, which affects mainly private companies, but because of the public domestic debt, 40% of which is pegged to the dollar, although technically denominated in the national currency, the real. The devaluation of the real in 2002 by more than 52% gave a windfall to the holders of indexed notes. On top of the exchange rate variation, they received interest ranging from 12% to 16% per annum.

The "basic" rate of the Central Bank is only a reference for overnight interest on public securities not indexed to the dollar. That rate averaged 20% per annum during 2002. Toward the end of the year, it had been raised to 25% by the outgoing Cardoso government. The new government headed by President Lula da Silva not only approved that increase; it raised it by a further 0.5%, to 25.5% during January 2003.

By comparison, only Turkey and Poland are estimated to have higher real interest rates than Brazil, which is understandable, since those two economies have also been stifled by International Monetary Fund (IMF) conditionalities. Third place is impressive enough; but the real facts are even worse. Brazil's effective interest rate was much greater than the basic official rate taken into account in the statistics. There are two reasons for this:

1. The stratospheric yield of the dollar-indexed securities, due to the devaluation; and



Brazilian President Luiz Inácio Lula da Silva (left), after campaigning against the International Monetary Fund, is implementing all of its policies. But the debt crisis he faces is about to get much worse, thanks to the IMF and megaspeculator George Soros' (right) "wall of money" policy.

2. Sizable spreads were added to the basic rate on the other bonds and notes. In all, the effective cost of the Brazilian domestic debt in 2002 amounted to nearly 45%, that is, more than double the basic rate. This means that Brazil was not third, but actually first in that dubious honor, even allowing for a yearly inflation from 12% to 22.8%, according to various official indices.

The strain on the economy resulting from the incredible interest costs is heightened by endless budget cuts imposed in order to pay the interest bill. To welcome a new IMF visit, Lula's Ministers of Finance and Planning announced that the goal for the primary budget surplus would be raised from 3.75% to 4.25% of the GNP. This accountants' concoction measures the budget surplus, *excluding* interest payments—i.e., it measures how much money can be ploughed back into payment on the debt. Nevertheless, the debt continues to climb all the time, as the *primary* surplus and interest costs steadily increase.

Gross public debt jumped to 1.132 trillion reais (\$320 billion, at a rate of 3.4 per dollar) at the end of 2002, from 886 billion reais (\$250 billion) a year earlier. *Net* public debt grew to 881 billion reais (\$249 billion). The difference between *gross* and *net* is that the latter subtracts out the amount owed to the federal government by the various states. But because the states are all clearly insolvent, the gross public debt figure

should be viewed as more relevant than the net one. Moreover, the Central Bank itself holds nearly 300 billion reais (\$80 billion) in Treasury securities, which public accountants do not include in the official debt. The money supply, however, has been increased by a corresponding amount.

The maturity of this debt makes things even worse. At the end of 2002, the Treasury acknowledged that short-term securities grew to 39% of the total, and were estimated to be almost \$200 billion. Over half of the total is due this year.

### Tax Burden

Brazil was awarded another third place in the world, for the size of its tax burden, which rose to 35.5% of the GNP in 2002. Because multinational and other big corporations are undertaxed, Brazil's middle class certainly qualifies for the distinction of suffering the greatest tax burden in the world, of more than 55% of their gross income (indirect and other taxes included). Perhaps the greatest tragedy is that the vast majority of those taxes are used to pay for interest on government expenditures. So, Brazil has become an unprotected protectorate, where people not doomed by unemployment, work to pay tribute to the banks and multinational corporations. Besides being unable to meet the ever-growing tax burden, local businesses and citizens, already in financial trouble, are further squeezed by interest rates of as much as 60-120%

per annum.

The Lula government as a whole might be considered less monolithic than its predecessor, but to date, it has been largely compliant with the wishes of the international financial community (bank creditors and the IMF). It started with the appointments of Antonio Palocci as Minister of Finance, and of Henrique Meirelles as president of the Central Bank. The former, an ex-leftist physician, has no other credentials than the fact that he was mayor of Ribeirão Preto (300 kilometers from São Paulo), where he showed leanings toward privatization, and allegedly offered tenders for public services tainted with irregularities. The latter is a banker retired from the Bank of Boston. His campaign to be a Congressman from the state of Goiás was unusually expensive, and was described by some as a “purchase.” Once named to be Central Bank head, Meirelles resigned his Congressional seat.

### **Central Bank ‘Autonomy’**

Immediately after being appointed by Palocci during a New York trip, and before his appointment was approved by the Brazilian Senate, Meirelles did not hesitate to declare his intention—attributed to the Lula government—to propose amending the Constitution to make the Central Bank independent from the government, a long-standing IMF demand. The result of such an amendment would be to establish fixed terms for the board of directors, so that they could not be removed, even should the President realize that the monetary and credit policy of the country must be changed. This alignment with the IMF and the defiant display of authority by Meirelles are illustrated by the fact that he confirmed in their posts all the incumbent Central Bank directors from the outgoing Cardoso administration.

If approved by the Congress, the “independence” of the Central Bank would deprive President Lula of the power to define economic policy for Brazil—that is, would be tantamount to resignation. The words “independence” and the more euphemistic “autonomy,” are misleading, because the decisions of the Central Bank, if not determined by the interests of the nation, are bound instead to serve the interests of the international and other big banks operating in Brazil. The fact of the matter is, that these interests have been defining Central Bank policy for a long time. The reversal of that condition is long overdue. And yet the new government is not only adhering to the status quo, but is intentionally pleasing the bankers and the IMF, to the point of trying to make it a permanent condition, sanctioned by the Brazilian Constitution.

### **Unemployment and Interest Rates**

How long will it take for Brazil to follow the path of Argentina? Not long, if one realizes that more than 60% of the economically active population is not earning enough to feed itself, its children, and its senior citizens. Unemployment has already reached 20% in the industrial city of São Paulo, the largest and richest urban area of the country. There is

probably another 20% in disguised unemployment. More IMF austerity and budget cuts under the Lula regime, together with interest rates approaching genocidal levels, mean that collapse isn’t far down the road.

In the foreign accounts, there was a significant increase in the trade surplus (goods), to more than \$12 billion in 2002, thanks entirely to a collapse in imports, which resulted mainly because disposable income is shrinking, and, secondarily, the devaluation of the currency. That surplus contributed to lessen the current account deficit to \$8.5 billion, which may be temporarily covered by foreign direct investment.

How might the economy unravel? 1) Absurdly high interest rates produce worsening impoverishment, which in turn means shrinking productive investment, so that even privileged foreign capital will shun it. 2) The current account deficit is constantly fed by imports of overpriced and even fictitious services by the subsidiaries of multinational corporations (through remittances of profits reaped from the captive domestic market and foreign trade operations). That deficit in the last six years has totalled \$145 billion. 3) As soon as “doubts” about the country’s ability to meet its foreign debt payments begin to snowball, the banks will drive up Brazil’s “country risk” rating, forcing domestic rates unimaginably high, and the national currency through the floor.

In the face of this looming reality, the government has attached itself to the same IMF prescriptions that have led to past crises. Its “reform” agenda is in fact nothing but an IMF agent: raise taxes, cut social security, gut protective labor legislation.

As long as the current economic policy is carried out, Lula’s so-called “Zero Hunger” program has not the slightest chance of meeting the needs of Brazil’s poor. The number of those poor should be calculated as at least 65% of the population, and growing daily, spurred on by each new fulfillment of Lula’s IMF-scripted “goals.”

Providing \$1 a day for Brazil’s 120 million hungry people would cost 150 billion reais (\$43.8 billion), which amounts to more than 10% of the GNP. Besides being clearly insufficient to alleviate the poverty in Brazil, that amount would be better employed in public works to build and improve urgently needed infrastructure and to enhance productivity through technological improvements. This, in turn, would have a multiplier effect on income and employment, providing the people with both security and dignity.

Is that \$43.8 billion a lot of money? Taken by itself, yes, but in fact it’s a paltry sum for a country that is wasting multiples of that amount—about 25% of its GNP—on the unproductive expense of interest payments. Compare 10% of GNP with 25% of GNP, just in terms of interest rates paid by the government. An additional impressive amount is being disbursed as interest payments by private firms and individuals, which should be added to determine Brazil’s current interest bill.

Who says Brazil is a poor country? If it becomes so, it will be clear where the fault lies.