Report from Rio by Silvia Palacios

Brazil surrenders to IMF austerity

Finance Minister Bresser gouges wages, suspends development, and gives up sovereignty to foreign bankers.

On July 12, the Brazilian government, in hopes of reaching an agreement with the international banks, ordered a brutal austerity program. Finance Minister Luiz Carlos Bresser Pereira is willing to dismantle the debt moratorium decreed Feb. 20, the great infrastructure projects which are Brazil's pride, and sovereignty over internal credit—all in order to please Brazil's creditors.

Called "The New Cruzado," the program gives in to demands which the International Monetary Fund (IMF) had made for years. It postpones every major public investment for six months: the north-south railroad (which had already been vetoed by World Bank technocrats), the east-west "Production Railroad," 25% of the general railroad and port program, 60% of the steel program, the second nuclear plant, and petrochemical complexes in Rio Grande do Sul and Rio de Janeiro.

The social democrat Bresser aspires to halve the public deficit from its estimated 7% of Gross National Product, at the expense of killing the productive economy. The wheat subsidy was eliminated and public utility rates raised an average of 30%. Prices will hypothetically be frozen for 90 days, while wages certainly will be. As was done at the start of Argentina's Austral Plan exactly two years ago, real wages will never be allowed to recover what was lost to the 30% price increases which took place during the first half of June.

Further wage-gouging will take place after the price freeze ends; at the end of September, wages will be increased for only a third of that month's expected abrupt price increases. "The New Cruzado is causing the biggest wage theft in our country's history and the lowest minimum wage of all times," labor union economist Walter Barelli concluded June 16.

With the combining of all government budgets into one, the decade-long dream of the World Bank and IMF has come true. As central bank president Fernando Milliet put it, "For the first time in history, by having only one budget, the government will only invest what it collects in taxes." The central bank was granted its "independence," so that it, like the U.S. Federal Reserve, can act with contempt toward the elected government.

"It is a highly recessive plan, especially for the northeast," Miguel Arraes, the governor of the state of Pernambuco, declared June 13. Arraes, who supported ex-Finance Minister Dilson Funaro's policies of debt moratorium and nationalist development, explained, "There is no so-called 'repressed demand' here, because, for 90% of the inhabitants of this region, 'demand' simply does not exist."

The perennial conditions of misery in the northeast have been amplified by this year's drought and high interest rates. Last week, Bresser told representatives of thousands of farmers going bankrupt, "I was invited to visit, not to provide solutions. I cannot subsidize interest rates, because that increases the public deficit. . . . I can tell you in advance that the government has no money."

Bresser's only solutions are capitulation to the bankers. His austerity packet was launched to show "good will" to Henry Kissinger and to an IMF delegation, both of which will be in Brazil by June 22. Kissinger will present the Brazilians with his IMF-style "macroeconomic plan," which is Brazil's informal "letter of intent." Bresser still pretends that his plan was not imposed by the IMF, but that he would welcome its approval. An IMF nod would serve as a green light for the Club of Paris and private bankers to renegotiate Brazil's debts.

Labor Minister Almir Pazzianoto broke his image as a lobbyist for labor, by defending the intended wage gouging, attacking the moratorium and defending Brazil's going to the IMF: "I don't see sovereignty threatened by that. We stopped paying the debt; and what happened? The country's problems got worse."

Bresser promises the banks that he will suspend the moratorium if they refinance $7.3 billion of the interest due them during the next 18 months, at rates equal or less than those recently obtained by Mexico and Argentina.

In contrast to Bresser's hopes for leniency from the IMF, Dilson Funaro, who is leading a growing nationalist movement, wrote in his column in *Folha de São Paulo* June 13, "The Venice summit left it clear, at least as far as Brazil is concerned, that nobody should wait for the creditors to provide a solution. We have no option other than sticking to a position which assures our economic growth, no matter what. That is the only way we can preserve our negotiating capacity and our right to decide our own destiny."