EIR Economics

Brazilians See 'FDR' New Deal As Alternative to New Fascism

by Gretchen Small

As Brazil heads towards an Argentina-style social and financial blow-out, that nation's Vice President, José Alencar, and his Liberal Party (PL), took the lead in urging the Brazilian government to adopt, now, a dramatic change in economic policy, before the nation disintegrates. In a manifesto addressed to President Lula da Silva, issued on May 18, the PL warned that to save the nation, the government must break with the speculators, and return to the production-oriented, regulated economy which Franklin Delano Roosevelt proved in the 1930s can provide jobs and security to a nation's people, while preserving freedom.

The PL asserted with confidence, that should the Lula government do so, Brazilian society would provide the government the support needed to defeat the speculators.

Comparing Brazil's record unemployment today—which reached an unprecedented official rate of 13.1% in the six largest municipal centers in April—to the crisis which struck the industrialized countries in the Great Depression of the 1930s, the PL manfiesto points to the two alternatives adopted by those countries at that time: either fascism and Nazism, or FDR's New Deal. It is the latter "model of society, and of the State, that interests us, taking as its point of departure a new economic policy, based on production and not speculation," the PL wrote.

The manifesto, published in full In *Documentation* following, spells out the framework of measures required: Reduce interest rates "drastically;" increase public investments in infrastructure and job-creation programs. In order to defend the nation from the capital flight such measures would likely provoke, short-term capital controls must be imposed. As if that were not enough to panic Wall Street, the PL document says Brazil would have no problem paying for the needed growth, were it to use its primary budget surplus—which now exclusively goes to pay the debt—to finance this program.

The manifesto sent shockwaves through the Wall Street faction within various governments. Vice President Alencar had been vociferous about the urgency of lowering interest rates, but the PL proposed far more than mere adjustments in current policy. Brazilian officials scurried to imply that Alencar did not support the manifesto, which was only the work of the "firebrand" head of the PL, Congressman Valdemar Costa Neto, and the head of the party's Congressional delegation, Sandro Mabel, who signed it. But Costa Neto quickly informed the press that he and Alencar had finalized the text of the document—which all 44 PL Congressmen support—in the Vice President's office. Alencar confirmed Costa Neto's report.

LaRouche's Warnings Come True

The Liberal Party initiative reflects the thinking of far greater forces than merely the party per se. While issued in the PL's name only, the manifesto came out of the "National Forum for a State Project" sponsored by that party in the nation's capital on May 10. Opening the conference, Vice President Alencar had emphasized the importance of the PL's initiative to promote a debate on the central issues of the Brazilian economy. Speakers at that day-long conference were not limited to the Liberal Party, but ranged from the president of one of the country's trade union federations, *Forca Sindical,* Paulo Pereira da Silva, to the president of National Federation of Industry (CNI), Armando Neto, and the president of the Brazilian Association of Textil and Clothing Industries (ABIT), Paulo Skaf. Prominent economists reflecting a range of national opinion, also participated.

One of those panelists was Marcos Cintra, Vice President of the Getúlio Vargas Foundation. Cintra was one of many members of the Brazilian elite who had an opportunity to hear U.S. stateman Lyndon LaRouche, during the latter's weeklong visit to São Paulo in June of 2002, elaborate his warning that Brazil could not survive, did it not face up to the fact that the dying system of the International Monetary Fund (IMF) and free trade, as a whole, must be replaced by a return to American System economics as typified by Franklin Roosevelt.

Cintra, then a prominent Congressman, was one of two commentators invited to respond to LaRouche's address to the São Paulo state Alumni Association of the Superior War College (ADESG) of Brazil. Cintra did not agree, by any means, with everything LaRouche said, and specified, in particular, that he had differences with what LaRouche had presented as to the causality of the crisis. But, Cintra stressed more than once that LaRouche "taught us that we can't stick only to small, transitory, immediate day-to-day questions," but we must develop a long-term, strategic analysis of our situation. (See EIR, July 26, 2002).

That shift to a strategic approach, is what is now occurring in Brazil. Anger at the Lula government's fervent continuation of the IMF policies of the Cardoso government which preceded it, has been building, but until recently, the government could quiet some of the opposition by claiming these policies enabled Brazil to pay its debts. The new phase of the global financial crisis which began April 2, triggering a run out of Brazilian paper by international financiers, shredded that delusion.

As *EIR* warned would happen the moment that international conditions shifted, Brazil—the largest debtor in the Third World—is now heading toward default on its estimated $500 billion in foreign obligations. On May 19, the Brazilian Treasury Ministry was forced to tap into its cash reserves in order to meet an exceptionally large debt payment of $10.6 billion that came due. Because the government had been forced to cancel three bond auctions during May—when investors demanded interest rates of over 18%—it had to pay with its reserves instead of covering the debt payment with new bonds.

Wall Street's Bloomberg wire service then reported on May 24, that Brazilian private companies are also paying off dollar debts as they come due with cash, rather than pay the interest rates demanded to roll them over. How much longer will they have the cash to do that?

Any thinking Brazilian recognizes, that the issue is no longer *if* Brazil will default, but *how* it will do so: Can sufficient institutional forces be brought to bear to force the government to impose an orderly bankruptcy reorganization in time? Or, will the government continue its suicidal committment to paying a debt which cannot be paid, until it blows out like Argentina's did in December 2001, taking the government, the banking system, and the nation down with it?

Brazil's Own Roosevelt Tradition

Other sectors have moved beyond calls for specific adjustments in the country's suicidal policy (lowering interest rates, lowering the primary budget surplus extracted to pay debts, etc.), to planning how to effect the radical, Rooseveltian change in strategy required.

On April 19, Brazil's National Bank for Economic and Social Development (BNDES) held a seminar on "Vargas and the Mission of National Development," to mark the 50th anniversary of the death of Gertúlio Vargas, President of Brazil from 1930-1945 and again from 1950-1954.

Despite everything the neo-liberals and globalizers have done to stamp out Vargas's legacy in Brazil—the self-proclaimed goal of President Fernando Henrique Cardoso in his two terms in office in the 1990s was to "de-Vargas-ize" Brazil—the legacy of this great President lives on. Vargas and FDR worked closely together on matters of war and development after their first meeting in 1936—so much so, that U.S. Senator Edward Burke reported some years after FDR died, that FDR had said "the New Deal had two creators. I'm one of them, and the other is President Vargas of Brazil." Brazil's state oil and steel industries, and BNDES itself, were established by Vargas, whose team collaborated with FDR's people on the great task of industrializing Brazil.

BNDES's announcement of the seminar was itself a pointed intervention into Brazil's crisis: "The cycle of seminars intends . . . to provoke a broad reflection on the present and future of Brazil, taking as a reference the Vargas Era, the wellspring of the great social and economic transformations of the country in the 20th Century. It will be an opportunity to revive that which is contemporaneous and inspiring for new generations in his vision of Brazil, in light of the relevance of his basic themes, such as the necessity of a rigorous national mission, the defense of sovereignty, the defense of territorial integrity, and industrial development as the basis for the material progress of the Brazilian people."

BNDES's mission, its president Carlos Lessa told *Jornal do Brasil* on May 5, is "to build the future." The future has no relationship to the market, which is only for the present. "What backs up the BNDES? The future of the country. The market doesn't do this. Does the market have any interest in the poor person who doesn't have money for anything?" What the country needs to grow, Lessa insisted, is public investments. The government must increase its rate of investment to a minimum of 20% of its Gross National Product, focusing on such areas of high social return as sanitation, civil construction, and infrastructure.

Documentation

'Change Economic Policy To Save Brazil'

This manifesto was issued on May 18 by the Brazilian Liberal Party (PL), addressed to the President of Brazil:

Brazil at present is experiencing the worst social crisis in its history, caused by unprecedented rates of unemployment, underemployment, and social marginalization. This has forced millions of Brazilians to resort to survival strategies that rest on the fringes of legality, if not outright illegality, and are reflected in intolerable levels of criminality and lack of security for our citizens, especially in large urban centers. Social stability is compromised, and, should the situation not be reversed in the short term, our very political stability will be at risk. Having held a seminar with its most articulate leaders, as well as invited guests, to evaluate the situation and propose alternatives, the Liberal Party is convinced that we hold in our hands the solution to overcome this crisis, in the form of a change in the current economic policy, inherited from the previous government, to lead us once again back to economic and social prosperity.

Brazil's current crisis of un- and underemployment, which is unparalleled in our history, and can only be compared to the Great Depression of the 1930s in the industrialized countries, is the direct consequence of the economic policy adopted at the beginning of the previous government, and intensified by the current government. In the past, social crises caused by high unemployment, in the context of the old liberalism, resulted in dramatic options for nations. Some followed the fascist or Nazi path. Others, on the other hand, followed the route of social democracy, through regulated capitalism, so passionately drawn upon by the United States of America with President Roosevelt's New Deal. It is to this [latter option] that Western civilization owes the principle and the reality of the social welfare of the State, reconciling political freedom with material progress and social well-being. It is this model of society, and of the State, that interests us, taking as its point of departure a new economic policy, based on production and not speculation.

His Excellency Luís Inácio Lula da Silva:

In the face of high unemployment, and the depreciation in workers' wages, it is therefore fundamental that a policy of full employment be adopted, along the lines of that implemented over the past four decades, during the New Deal, and throughout the post-war period, by advanced industrialized nations. To do so, it is first necessary to drastically reduce interest rates; and, secondly, that the State increase its expenditures so as to expand effective demand and stimulate private investment and employment. Public expenditures are crucial to mobilize productive capacity and generate employment without increasing the tax burden. In the Brazilian case, deficit spending won't be necessary to launch a recovery program. It were sufficient only to reduce the primary budget surplus, now at R$70 billion annually.

These resources, in addition to current budget funds, would be more than sufficient to provide financing for basic public services, such as transportation, energy, education, health, sanitation, housing, agrarian reform, defense and public safety. It should also be clarified that the use of the primary surplus for this program to rebuild the State would not be inflationary, once the expenditures were covered by current tax revenue. Moreover, the depressed levels of consumption stemming from high unemployment and low wages, would, at the beginning of the program, carry no risk of inflation in demand. The combination of lower interest rates, and increased public funding (financed by the reduction of the primary surplus), would guarantee the immediate takeoff of the economy, through higher demand and private investment, and the creation of hundreds of thousands and millions of new jobs. In the meantime, to insure that this were done without capital flight, it would be necessary to adopt capital controls for the short term.

A full employment policy would not be to the liking of the speculators and financiers who benefit from unregulated capital flows. The Liberal Party therefore believes that we are facing a situation in which, either we continue to please the speculators—as has been the case since the previous government, thus aggravating the social crisis—or we confront the social crisis caused by high unemployment, by regulating capital flows in some fashion, to permit an expansive fiscal-monetary policy. In all of this, it is important that we indicate clearly to investors that we are committed to meeting all of our internal and external obligations.

Our message to the world must be: Yes, we shall meet our obligations; but, we shall do that through an increase in production, in employment, of exports, and not through the reduction of internal consumption or the mass unemployment of Brazilian citizens. This must be the firm message to the multilateral agencies, most notably to the International Monetary Fund and World Bank. Eventually, it will be necessary to obtain the support of these agencies to confront speculative attacks against the new economic [policy] we adopt. But, this shall have to be in accordance with the development strategy that we adopt, and not with the failed macroeconomic criteria imposed on us for almost a decade, and which instead of producing solid economic results, led us to disastrous social consequences.

The PL, which was President Lula's partner in the elections, and wishes to continue to be his loyal ally, understands that the time has come to change economic policy to save Brazil. The economic policy we are proposing is the one we promised during the election campaign: a shift from the axis of capitalist accumulation of the speculative financial system to the productive system. The PL is confident that it reflects the aspirations and objective interests of the majority of the Brazilian people, when it proposes this new policy. We recognize that there are powerful interests opposed to such a change, and that many of those interests may try to sabotage an alternative program. President Lula must know that he can count on our support and that of Brazilian society, to implement this new policy despite the resistance, the opposition, and the sabotage. He may always rest assured, as we do under his firm leadership, that he is applying a policy of the people, by the people, and for the Brazilian people.