

Political, Financial Crisis Rocks Brazil

With the global economy hanging by a thread, international financial sharks are panicking over how quickly Ibero-America—particularly the debt-laden giant Brazil—could explode. In presenting their annual report on June 27, executives at the Bank for International Settlements fretted about the size of Brazil's debt and its vulnerability to "external shocks," while the International Monetary Fund's renewed bludgeoning of Argentina reflects fear that President Néstor Kirchner's continued defiance of IMF austerity demands will have international as well as regional repercussions.

The panic is justified. Brazil's \$500 billion debt bubble has become highly unstable as a result of the insane IMF austerity policy imposed by Finance Minister Antonio Palocci, with President Lula da Silva's blessing. Interest rates are fixed at 19.75%—the highest in the world.

The political crisis rocking the Lula government, which implicates leaders of the ruling Workers' Party (PT) in bribing allied Congressmen, has less to do with corruption than it does with the existential question facing Brazil right now.

Challenge From Argentina's Kirchner

As the world economy blows apart, will the government dump its suicidal commitment to wrecking the economy through IMF policies, as President Kirchner has been urging it to do? Time is short—the word "impeachment" has already been floated. Lula agreed to the forced resignation of his Chief of Staff Jose Dirceu, a vocal critic of Palocci's policies, but the scandal is snowballing, and the country is deeply polarized. Lula is being squeezed by his base, which is demanding lower interest rates and greater public spending and infrastructure investment, while Palocci and his international banker allies are maneuvering to impose even deeper austerity.

In a May 31 meeting with leaders of Ibero-American political parties in Buenos Aires, President Kirchner challenged his Brazilian counterpart to abandon his dangerous pragmatism toward the IMF. Kirchner is angry that Brazil's support for Argentina in its own brutal fight with the IMF has existed in words only, but his point was a broader one. Given the problems of poverty, unemployment, and underdevelopment which afflict the region, he said, "we have to have an absolutely clear approach, and not be fearful of multilateral lending agencies and those who lead globally and are a reference point for the world"—the United States. There are no individual solutions to the current regional and global crisis, Kirchner stated. But neither can there be integration and building of regional organizations, unless everyone is operating from the same standpoint.