

# Underlying Brazil's Corruption Scandal: A Drive for a Coup?

by Gretchen Small

Think, for moment, about Brazil as if you were part of the international financial oligarchy:

Your financial system, globally, is crashing, and American statesman Lyndon LaRouche, who has prepared for this crisis for decades, as the opportunity to revive your deadliest enemy, the American System of Economics, is playing a leading role within the U.S. Democratic Party, and gaining strength in the increasingly active "Eisenhower wing" of the Republican Party, too. Forces in Europe are rallying under the same banner. The Italian Parliament has adopted a resolution calling upon its government to organize for an international conference on the way out of this crisis (along the lines of LaRouche's New Bretton Woods proposal), and now LaRouche's wife, Helga Zepp-LaRouche, has launched an aggressive campaign for the Chancellorship of Germany on a New Bretton Woods program. Representatives of the Eurasian giants (Russia, India, and China) just held a closed-door strategy session in Berlin with LaRouche and representatives of other Asian and European nations.

The last thing you need now, is for a group of nations in the Americas to come together around LaRouche's New Bretton Woods, too. Argentina's President Néstor Kirchner, having just won a battle with the International Monetary Fund and the vulture funds, has sparked renewed optimism in other nations, but there is hope you can isolate and overthrow him—as long as you can keep Brazil in your camp.

Brazil has played ball, so far—but there remains that nagging memory of the extraordinary reception Lyndon and Helga LaRouche received when they visited São Paulo, Brazil in June 2002.

And, despite its unenviable position of being the largest Third World debtor, sinking under at least \$430 billion in public sector debt alone, Brazil remains the strongest nation in Ibero-America, with key national institutions as yet unbroken. It handed over \$67 billion in state assets to international financier interests between 1988 and 1998, through the "privatization" scam, but much wealth remains in national hands. The continuing state control over the oil sector (only partially privatized) and the state banking system, particularly the National Economic and Social Development Bank (BNDES), provides the Brazilian State with a capability for sovereign action, should its national elites decide, under conditions of global crisis, to break with the dominant prag-

matism which cripples it generally.

The financier party worried when President Lula da Silva was elected in 2002, with an unprecedented mandate of more than 50 million votes, on the basis of his promise that his administration would create 10 million jobs, and place financial interests second to the urgency of bringing about a recovery of Brazil's industrial and agricultural capabilities. In his two-plus years in office, Lula has done none of that, bowing instead to those advisors who insist that Brazil has no alternative but to play by the financiers' rules, thereby *increasing* the rate of looting of the domestic economy. That same Lula government, however, has carried out an aggressive foreign policy of establishing close relations with key nations in every part of the globe, including the Eurasian giants mentioned above. Brazil's desire to be a sovereign nation still lurks around the premises.

## A Political Tsunami Against the Brazilian State

Only from that standpoint, can one understand the current corruption scandal which threatens to bring down Lula's ruling Workers Party (PT) and its allies, such as Vice President José Alencar's Liberal Party (PL). The scandal began with charges of kickbacks within the postal system, but quickly escalated to accusations that the Workers Party (PT) was bribing Congressmen with suitcases of money. The heads of cabinet ministers and leaders of Lula's PT party have begun to roll, and cries of "impeachment!" have been heard.

This is a war against the Brazilian State which has begun, behind the sordid charges and counter-charges which occupy the public's attention. Foreign financial interests are moving in for the kill, to finish off the coup they began in November 2004, when they succeeded in ousting Carlos Lessa and his nationalist team from the leadership of BNDES. Lessa's team had declared war on "free market" thinking, and revived long-term "strategic planning of the economy." In an April 2005 interview, Lessa told *EIR* that he was challenging "the financial dragon"—the principal enemy of Brazil, as of all nations.

Financier pressure upon the Lula government only intensified after Lessa's ouster, and last May they made their move. Economics Minister Antonio Palocci went public on May 9 with what Brazil's enemies are demanding. He announced at a forum in Rio de Janeiro that Brazil needs "at

least a decade more of fiscal effort”—after how many decades already!—to restore investors’ confidence. The former-Trotskyite turned Wall-Street lackey demanded that the Brazilian Congress pass legislation mandating automatic cuts in public expenditures by the same amount which tax revenue falls—not for one year, as is currently the case, but for ten years, so that whoever is elected to govern the country in the 2006 general elections, cannot change the rules.

Opposition to any such scheme was fierce within Lula’s PT party, for electoral reasons as much as for principled reasons: Lula does intend to run for re-election in 2006. Included in the opposition was PT heavyweight José Dirceu, then still in the powerful post of head of Lula’s cabinet.

Within days of Palocci’s announcement, the corruption scandal blew up. The press warned of a “political tsunami that could shake the foundations of the Republic,” if the charges were proven. Talk of Lula following in the footsteps of the impeached Fernando Collor de Melo began. By June 16, Dirceu was out of the cabinet (although not out of the internal party fight). Other heads quickly followed, and more have yet to roll.

If there were any doubt that the issue at stake in the scandal was never ethics but economic policy, the real issue was made starkly clear by “the markets’ ” gleeful response to Dirceu’s ouster. Two of Brazil’s leading dailies, *Folha de Sao Paulo* and *Jornal do Brasil*, rejoiced in print that with Dirceu out, Palocci has no strong rival left in the cabinet. The question now, is how far the bankers’ team can go, both papers crowed on June 17. Can the IMF’s so-called “third generation of reforms” be rammed through now, to bring about a “radical restructuring of the state?”

### **A Strange Alliance—Or Prelude to War?**

Enter Antonio Delfim Netto, the “Man with The Plan.” Delfim is the “Chicago Boy” with friends in the right places abroad, who, as Finance, Planning, and Agriculture Minister in successive military governments from 1967 into the mid-1980s, was key to imposing the destructive monetarist and labor-recycling policies which now-President Lula spent 30 years fighting as a trade union and political activist. Serving his fifth term as a Federal Deputy, and still bowed to as one of Brazil’s leading economic magicians, Delfim proclaimed that “the Brazilian State needs to be subjected to a ‘management shock’ ”—and that Lula is prepared to implement it.

Few politicians in Ibero-America would dare call openly these days for an economic “shock” policy, given the hatred against such policies in the region after two decades of devastation under IMF “shocks.” Not so Delfim. This latest of his many shock programs proposes to reduce the federal government’s budget deficit to zero before ten years are out—he argues for doing this within four to six years, if possible—by freezing current account expenditures for the next seven to eight years at the miserable levels of 2005. For “markets” to believe Brazil will stick to this, the government must pass

an amendment eliminating the Constitution’s earmarking of specific levels of expenditures on categories such as health, education, pensions, and so on. Under Delfim’s proposal, the government would reduce the total earmarked payments—except debt payments, of course—by 5% a year.

The key is to reduce the State, and adopt a “competitive policy,” by reducing remaining tariffs and obstacles to foreign direct investment in Brazil. The sacrifices will be worth it, says Delfim, because Brazil’s resulting “credibility” with international markets will “awaken the animal spirit” of private businessmen.

The plan had been worked on secretly for months, but was kept quiet until the right “tsunami” came along to ride it ashore. Painting himself as Lula’s friend, who can save his political career at this critical moment, Delfim hit the campaign trail to organize a political consensus behind the plan. Whether he has really sold the President on the plan has yet to be seen, but Lula’s economics team is certainly pushing it. Planning Minister Paulo Bernardo assured the press in early July that the government is in the last stages of drafting a Constitutional amendment implementing Delfim’s “management shock” program. Delfim hosted a dinner in Brasilia on July 5, for 13 of Brazil’s top businessmen, 12 Congressmen, 5 Senators, and Planning Minister Bernardo and Economics Minister Palocci; the plan was discussed for four hours.

To make sure Lula understands that he has been given an ultimatum by the financiers and their Chicago Boys—play the game our way, or you’re out—PT Senator Cristovam Buarque announced on July 3 that Lula’s only remaining political option to avoid impeachment, is to announce that he would not run for re-election in 2006, but instead sponsor a Constitutional amendment to extend the Presidential term from four to five years, and prohibit re-election after 2006. Buarque just happens to be speculator George Soros’s leading financial and policy channel into the PT party.

Will Lula go for it? The brutality of the fiscal austerity these genocidalists are demanding in this country of 180 million—where more than half the people live under the poverty line—boggles the imagination. There are reports that 10,000 federal workers may be fired and 300 government programs cut or put on hold, and a proposal has been floated for the government to hire private-sector management specialists to run the “Enronization” of the Brazilian State! Everyone agrees that Social Security is to be the focus of the “saving money” attack.

And if attempted, the plan could blow up the country. Lula’s base in the PT is furious that Lula is even considering striking an alliance with their historic enemy, Delfim Netto. Two days after his ouster, Dirceu told the PT leadership that this is a “class struggle,” and he is “prepared for war”—no small threat, given the millions which can be mobilized by the PT and its related “social movements,” such as the Landless Movement (MST) with its ties to Colombia’s narcoterrorist FARC.