Financial markets and corporate media call for “Milei model” in Brazil

Guilherme Ferreira
13 January 2025

The year 2024 ended in Brazil with representatives of the financial markets and the corporate media calling in unison for the government of President Luiz Inácio Lula da Silva (Workers Party - PT) to radically deepen its austerity measures. To this end, they advocate that Brazil follow the example set by Argentina’s fascist President Javier Milei: a combination of massive social cuts, extensive corporate-financial deregulation, and widespread police repression against growing social protests.

Since mid-October, Finance Minister Fernando Haddad had been promising a set of austerity measures with the PT government’s “new fiscal framework” and “zero deficit goal” for the 2025 budget. Approved in mid-2023, the “new fiscal framework” limits the growth of government spending, including on social services, to up to 2.5 percent of state revenues.

Evoking the concerns of the financial market, Haddad said in an interview with the daily *Folha de S. Paulo* at the time: “Faria Lima [Brazil’s Wall Street] is rightly worried about the dynamics of spending going forward. And it’s legitimate to consider this seriously. ... It could impact the debt. And the government must take action.”

At the end of November, the government announced its new set of budget cuts that were almost entirely approved in parliament at the end of December. The cuts will have a brutal impact particularly on Brazil’s poorest. It is estimated that the measures will cut the federal budget by around 70 billion reais (US$ 12 billion) over the next two years, and by almost 330 billion reais (US$ 55 billion) over the next five years.

Around a third of the cuts will derive from limiting the rise of the minimum wage, which will fall in real terms under the restrictions of the PT’s “new fiscal framework.” This measure will have a wide-ranging impact on the working class, since the minimum wage is the income benchmark for 59.3 million of the 103 million people in Brazil’s labor force. The monthly minimum wage in Brazil is 1,518 reais (less than US$ 250), one of the lowest in all Latin America, the most unequal region in the world.

The restriction on the minimum wage’s adjustment will also have a cascading effect on a series of benefits, such as pensions; the Continuous Provision Benefit (BPC), offered to the elderly and disabled living under extreme poverty; salary allowances that guarantee an extra annual minimum wage to around 25 million formal workers in Brazil who receive up to two minimum wages; and unemployment insurance.

A study by Professor Denise Lobato Gentil, from the Federal University of Rio de Janeiro (UFRJ), concluded that “this measure will break a social contract established in previous decades and will fail to fulfill one of the most fundamental goals of the 2022 electoral pact.” By the “2022 electoral pact,” Gentil is referring to Lula’s promises to repeal the series of anti-labor reforms imposed by the previous governments of Michel Temer (2016-2018) and Jair Bolsonaro (2019-2022), which the PT is in fact continuing.

The study showed that if the rules for the minimum wage increase proposed by the PT government had been applied since 2003, the income of workers receiving salaries and social benefits would have been 19.1 percent lower in 2023, and social inequality, according to the Gini index, would have increased from 0.518 to 0.546 in the same year.

The measures to supposedly combat fraud in Brazil’s two most significant social assistance programs, Bolsa Família and the BPC, are the most ruthless. These programs serve 21 million families and 6 million people in extreme poverty, respectively. The government expects to save 44 billion reais (US$ 7 billion) by implementing biometric registration and updating the beneficiary’s records every two years. Numerous experts have warned that creating such obstacles for the most vulnerable populations to access benefits such as the BPC is unconstitutional.

In addition, Lula’s austerity measures attack the budget for the National Fund for Basic Education, from which the government expects to get 13 percent of its total cuts.

Exposing the PT government’s class orientation, Minister Haddad has stepped back from sending to Congress previously announced proposals to exempt those earning up to 5,000 reais (US$ 800) a month from income tax, to tax the super-rich who earn more than 50,000 reais (US$ 8,000) a month, and to raise the minimum retirement age for the military. The measures also kept intact the more than 500 billion reais (US$ 83 billion) a year in tax exemptions for big corporations, mainly in agribusiness, and ignore the more than 40 percent of the federal budget that goes towards paying interest and amortizing the public debt.

Summarizing the origins and implications of the PT’s austerity measures, Élida Graziane, Public Finance professor at the Getúlio Vargas College (FGV), declared in an interview with *TV Fórum*: “This is, in a way, a continuation of the agenda that [Bolsonaro’s Finance Minister] Paulo Guedes had proposed to Congress in 2019.”

Financial market and corporate media demand a Brazilian Milei

The ruthless austerity program advanced by Lula's administration, however, was deemed insufficient by the financial markets, generating a so-called "crisis of confidence" widely echoed by the corporate media in Brazil. This mood was summed up by the CEO and publisher of *Forbes Brazil*, Antonio Camarotti, who wrote in mid-December: "Brazil Can't Stand Two More Years of Lula Government."

Throughout November, even before the fiscal package had been announced, banks like Morgan Stanley, JPMorgan, and HSBC downgraded Brazilian stocks. Last year, the Brazilian stock market witnessed an investment flight of 24 billion reais (US$ 4 billion), the largest since 2016, and the country recorded the third-largest net outflow of dollars since 2008. The flow was directed mainly into the United States and was boosted after Donald Trump's electoral victory.

As a result, the Brazilian real was one of the most devalued currencies in the world in 2024, with the dollar going from 4.85 reais to 6.18 reais throughout the year. The Brazilian Central Bank increased the interest rate from 10.25 percent in June to 12.25 percent in December, with the prospect of reaching 14.25 percent by March of this year.

This situation was answered by the financial elite with a massive media campaign advocating Brazil's immediate adoption of the Milei model, placing the entire weight of the growing economic crisis on the backs of the working class.

In December, Maílson da Nóbrega, former finance minister in the government of José Sarney (1985-1990) and a leading spokesman for the financial markets, told *Jovem Pan*: "If he manages to [do] everything he's proposing, Milei will be a revolutionary. ... I think he can be an example." A few days later, he told *UOL* that "there is no way out in Brazil without attacking compulsory spending," proposing to end the tie between "the increase in the minimum wage and social security" and to end the constitutional floors for health and education spending.

Similarly, the three prominent Brazilian dailies—*O Globo*, *Estado de S. Paulo*, and *Folha de S. Paulo*—wrote editorials contrasting the Lula government's fiscal adjustment with Milei's policies in Argentina.

In one of the most emphatic pieces, *Estadão* wrote: "A wave of optimism has swept Argentina in recent months." It continued: "The country has taken courageous steps in the right direction, an attitude that contrasts with the hesitation of the Lula government. Now, Argentina is teaching Brazil something: the longer fiscal rebalancing is postponed, the more bitter the medicine to be adopted."

More significantly, the mouthpieces of the Brazilian bourgeoisie threatened the Lula government, claiming it risks the same fate as former PT president Dilma Rousseff, who in 2016 was subjected to a fraudulent impeachment process that opened the way for the intensification of the pro-big business attacks under the interim administration of her vice-president, Michel Temer.

On December 17, *O Globo* said in an editorial: "The last time the Selic [interest rate] was raised to such a level [of 14.25 percent] was in 2015 when Dilma Rousseff was president, the country was debating the urgency of a fiscal adjustment, and the economy was about to register two very tough years of recession. We cannot repeat the same mistakes." Five days later, *Folha* wrote: "Encapsulating itself in the free lunch theory [i.e., unlimited expansion of government spending] will lead [Lula's government] to a fiasco similar to Dilma Rousseff's."

In cowardly bowing to these threats, the PT government is indicating it will pursue a shift even further to the right in the course of 2025 to appease the financial markets. The predictions are that Brazil will face increasing economic difficulties, with lower growth; higher inflation, particularly in food and fuel; higher interest rates; and a possible recession in the second half of the year.

On December 19, minister Haddad declared in a press conference that the package presented at the end of the year "is not enough." In a video released the following day to calm the financial markets, Lula said: "Economic stability and fighting inflation are the most important things to protect Brazilian families' wages and purchasing power. We have taken the necessary measures to protect the new fiscal rule and will continue to be attentive to the need for new measures."

The global crises seen last year will likely intensify, fueled by Trump's return to the US presidency. Trump and his fascist allies, like Milei in Argentina and Bolsonaro in Brazil, will be a destabilizing factor for Lula's and other "Pink Tide" governments in Latin America, a region Trump has vowed to prioritize in a global fight against China.

The attraction of the capitalist ruling class in Brazil and around the world to Milei's wild austerity policies—being adopted as models by Trump's oligarchic government in the US and across Europe—has deep implications. As the history of Latin America demonstrates, such a program (having its direct antecedents in the economic policies of Chilean dictator Augusto Pinochet) leads inexorably to the imposition of brutal dictatorial regimes needed to suppress the mass opposition of the working class.

The working class must answer this threat by uniting its struggles for better wages and conditions with a fight for the socialist and internationalist perspective advocated by the International Committee of the Fourth International (ICFI).