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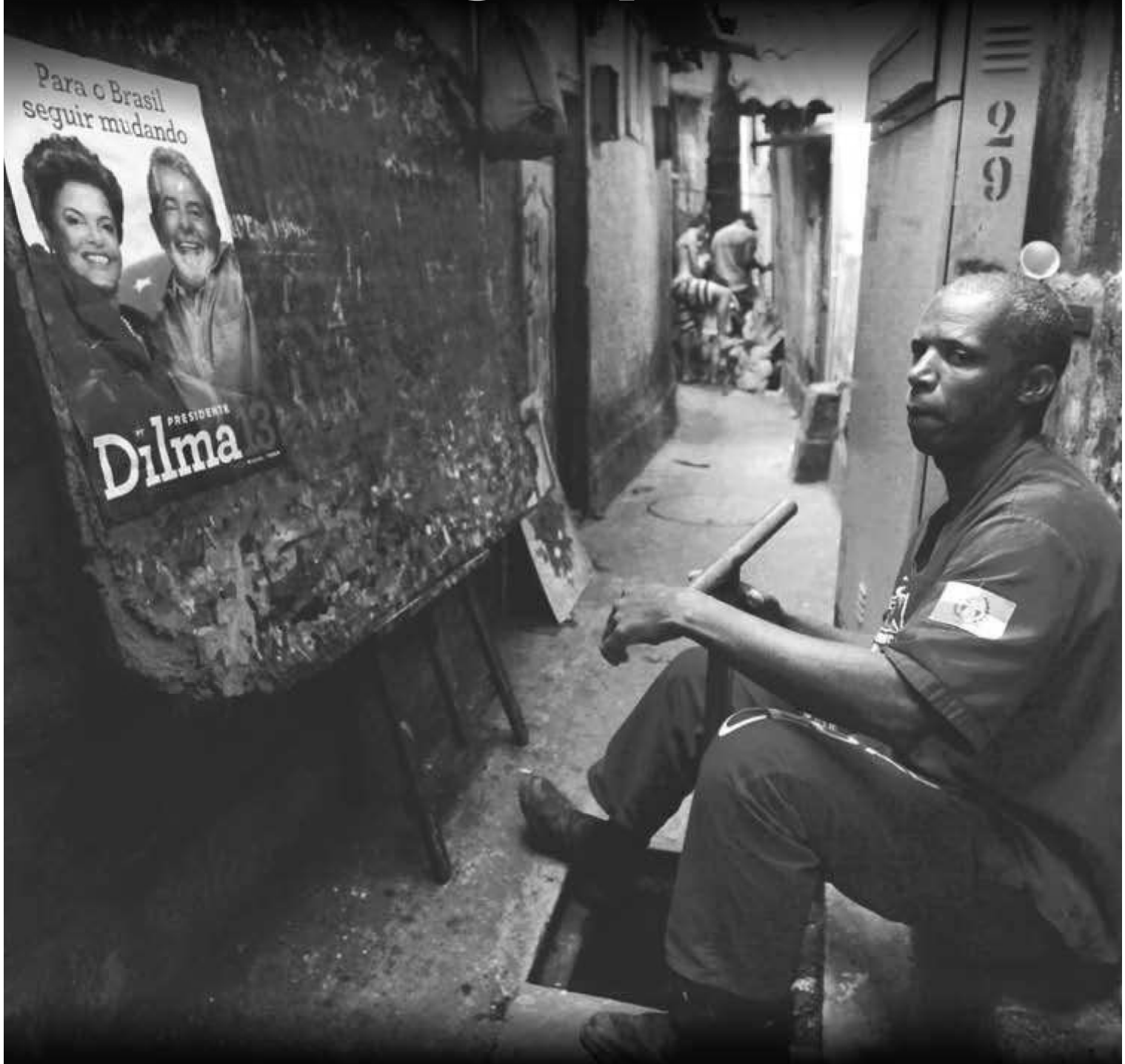
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Lula's Legacy in Brazil



plus

The University of Puerto Rico: A Testing Ground for the Neoliberal State

After Lula: The Brazilian Workers' Party in Transition



Presidential candidate Dilma Rousseff (left), President Luiz Inácio Lula da Silva, and his wife, Marisa (bottom), begin to caravan outside the ABC Metalworkers' Union building in São Bernardo do Campo on October 2, the day before the first round of the elections.

By Sílvia Leindecker and Michael Fox

THE DAY BEFORE THE FIRST ROUND OF THE 2010 elections, President Luiz Inácio Lula da Silva took his likely successor, Dilma Rousseff, home to where it all started—the ABC Metalworkers' Union building in São Bernardo do Campo, an industrial city to the south of São Paulo. Rousseff followed Lula out the doors of the building and into a packed crowd that roared with excitement. Climbing into a nearby car, they slowly caravanned through the streets, flanked on all sides by supporters who sang and danced to the campaign songs, and cheered for the homecoming and the future.

It was here that Lula got his start as a labor leader more than three decades ago, and where

he led hundreds of thousands in the first major strikes against the Brazilian dictatorship. At the time, this São Paulo suburb was the hub of Brazilian industry, and the ABC Metalworkers' Union was the heart of the labor movement, which by 1980 had founded a radical new movement that would give power to the people—the Workers' Party (PT).

The PT fought to end the dictatorship and democratize Brazil. Its activists prided themselves on their militancy, ethics, transformative politics, and practices of democratic internal debate. But in order to win elections, the party had to make concessions. Over the course of its evolution, the party dropped the word “social-

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ist” from its platform and embraced coalitions with rival parties. It even took kickbacks and paid for votes; scandals ensued. The largest was the *mensalão*, or “big monthly payment,” scandal, which broke in mid-2005. Representatives in the Brazilian Congress had been paid off for several years to support key projects introduced by the Lula administration. The crisis rocked the party to its very core just months before Lula’s bid for reelection in 2006. Now, after Lula’s highly successful second term, the party appears to have recovered from the scandals. But where is it headed?

AT THE ABC UNION BUILDING TWO DAYS AFTER Rouseff’s resounding 56% victory in the runoff presidential elections, union leader Silvio Nascimento was resolute.

“After all of the scandals, it lifted a curtain, and stirred a debate within the PT,” Nascimento explained. “It helped us to wake up in time. To learn from our own mistakes.”

The *mensalão* scandal led sectors of the PT to speak of refounding the party and the left.¹ Defections were inevitable. A current within the PT, the Socialist Popular Action, split from the party, carrying five congressional representatives to the fledgling Socialism and Freedom Party, which had been created the year before by another group of left-wing PT congressional representatives who had been expelled in 2003 for voting against Lula’s social security reform.

As a result of the scandal, according to Francisco Menezes, co-director of the Brazilian Institute of Economic and Social Analysis (IBASE), in Rio de Janeiro, the party began to lose its diversity. “Of course everyone was still rooted in the principles of the party,” Menezes said. “But you lost important figures who would make the internal debate more dynamic.” With the majority of the party defections coming from the left-wing currents, the PT was pushed toward the political center.

The *mensalão* scandal also forced the resignation of top PT figures, including the last two presidents of the party and the treasurer. Lula responded by replacing several ministries with non-PT ministers from among the governing coalition. Lula also distanced himself from the party, even decreasing the size of the PT star in his 2006 electoral propaganda. In some ways, electorally, his steps were rewarded. The middle-class voters who defected over the scandals were replaced by poor voters, largely from the impoverished Northeast, who cared more that for the first time the government was looking out for them. In 2003–4, Lula had launched a subsidized residential electricity program, a literacy campaign, and

Zero Hunger—a package of social programs including soup kitchens, water cisterns for rural communities, and Bolsa Família (Family Stipend), a monthly cash support for low-income families with children in school. By the end of 2006, more than 11 million families received Bolsa Família benefits.² This contributed to a huge shift in electoral support, giving Lula and the PT the voters who had eluded them for decades.

A central theme in Rouseff’s 2010 electoral strategy was convincing these voters that she would “stay the course” and continue the policies initiated by Lula and his government. Bolsa Família and other social policies were so important in the 2010 electoral campaign that Rouseff and her closest challenger, José Serra of the Social Democrat Party, fought over who would best implement these programs to ever growing numbers of people.

Rouseff’s place as Lula’s chief of staff since 2005 helped her to win the day. This was clear at the final rally in São Paulo before the first round elections. Beneath a thick rain, thousands of PT supporters packed into the massive samba stadium. Rouseff was applauded, but the real hero was Lula. Cheers for the outgoing president echoed over the crowd when he took the stage. It took several minutes for them to quiet enough for Lula to speak. Some of Lula’s fans that night were longtime PT supporters, but many were new converts from the poor communities outside the city who had come by the busload to see their hero and his likely successor. This is the shifting face of the PT.

With the help of Lula’s social programs, the PT has won over a lower-class electorate that is traditionally used by politicians for their votes and then ignored once in office. Lula made good on his promises, and voters responded. In 2006, Lula won between 60% and 86% of the valid votes in the impoverished North-Northeast. This was the same region that had voted overwhelmingly against Lula (55% to 70%) in his first presidential run in 1989, in part because of the media spin that Lula would socialize what little they had. The charismatic young neoliberal candidate Fernando Collor de Mello was portrayed as poised to carry them into a new era of success.³

While these voters came out in droves for Lula in 2006, they did not necessarily vote for the PT across the ticket. In 2006, for the first time, the PT actually lost seats in both the Senate and the Chamber of Deputies. This points to two trends: (1) Low-income voters identified with Lula—born to a poor family in the Northeast—although they did not necessarily connect with the PT, and (2) poor PT supporters cared more



Workers' Party president and presidential candidate, Lula da Silva speaks at a protest against the privatization of public companies, in front of the Petrobras building in Rio de Janeiro, Brazil, on September 27, 1989. Less than three months later, Lula lost in his first of four runs at the presidency.

about social benefits, like Bolsa Familia, than the leftist political ideology that invigorated supporters in the party's early years.

With this shifting electoral base, under the Lula government, the PT became both more populist and personalist, but nowhere near Brazil's historic Getúlio Vargas or Argentina's Juan Perón. While Lula has always been the shining star, the PT itself remains too important. Now out of office, Lula will take a backseat.

"Lula will only be called upon if there is really a moment of crisis, and Dilma is attacked by the opposition. Then it is possible that he will be called to support Dilma. But on the other hand, Rousseff is going to follow his lead," said Igor Fuser, a political scientist at the Cásper Libero University in São Paulo.

Fortunately, Rousseff's election opened the window of opportunity further for change. Although she also came from the grassroots struggle against the dictatorship, she did not emerge through the unions or the PT. She is a new figure and an outsider. So much so that ABC's Silvio Nascimento believes that her candidacy would have been

rejected by the PT party leadership had Lula presented her in his first term, before the corruption scandals.

She is also the figure who perhaps best characterizes the PT's new face, having been appointed as Lula's chief of staff after top party officials were forced to resign following the mensalão scandal. Her candidacy and presidency marked a shift away from the personalism of Lula, and a point of unity for the PT.

Already in December there was more cohesion than ever before from the various PT currents jostling for political power in the new Rousseff government. This is at least partially due to the "maturity" Nascimento spoke of shortly after Rousseff's victory. "It is important for the people to try to resolve their problems inside the party, to resolve their issues in the debate," he said.

According to Bernardo Cotrim, director of political education of the Rio de Janeiro State PT, there is more space for dialogue and synthesis today within the party than before. "The crisis of 2005 played a role of opening this up," he explained. "Principally from 2002 to 2005, the majority of the decisions were very centralized, with

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Porto Alegre residents at a participatory budgeting assembly in 2002. Many Workers' Party members are now pushing to reinvigorate grassroots participation in the party and local government.

a position that at times could even be considered authoritarian. This has improved a lot.”

IN THE 1980s, THE PT REVOLUTIONIZED LOCAL GOVERNMENT, opening democratic space to the community through processes like participatory budgeting, and popular councils. But slowly the party slid into the games of everyday Brazilian politicking—adapting to the tough realities of getting elected and holding offices across the country.

Since at least 1995, internal party power had been dominated by a faction known as the Majority Camp, which prioritized winning elections over grassroots activism. Led by Lula, José Dirceu, and their São Paulo allies, the majority coalition won all but one of the party's national internal elections.⁴ Meanwhile, Lula consolidated the lessons learned from previous PT elected offices. In the presidency, he only took on the political fights he knew he could win, which explains why his foreign policy was much more progressive than the rest of his platform. The PT tabled some of its historic demands, such as urban and agrarian reform.

“The PT bet on institutionalism,” said José Batista de Oliveira, a leader of Brazil's Landless Workers' Movement (MST) in Brasília. “We respect their decision. On one hand it has been a victory and they have been able to carry out some social reforms. On the other hand it has

been really bad. In the sense of grassroots organization, it was a defeat. It weakened the social struggle, and it didn't truly alter the institutionalism of inequalities, agrarian and urban reform.”

That has not necessarily meant a decline in the social movements, but a change in their demands. While there are contradictions between the PT platforms and the realities once the PT gets into office, for Brazil's major labor federation, the Unified Workers' Central (CUT), the PT has opened the door of opportunity.

“It's a different context now with the PT in government. We went from a period of resistance to a period of achievement,” said Anderson Campos, youth adviser to the CUT Executive Council. “We no longer had to fight against the privatization of the public sector. Instead, we fought for a minimum wage increase. Now that employment has risen, our demand for 2011 is work with dignity. So the agenda is much more favorable today than 10 years ago.” According to Campos, Brazil's labor movement was “far more victorious” under the Lula government than in the 1990s, winning increased salaries and workers' rights. But on the streets during election time, the PT has followed the lead of the more traditional parties that pay “volunteers” to wave banners and hand out flyers for their candidates.

“That would have been unthinkable 20 years ago,” said former PT member, now Rio de Janeiro state legislature

with the Green Party, Rogerio Rocco. “The PT is no longer a party of the street. It is no longer a party of activists. It is a party in power.”

This shift in the party has been noted by scholars. University of Texas political science professor Wendy Hunter, for example, told the *Folha de São Paulo* in November that “the PT changed to the point of almost being unrecognizable.”⁵ Pedro Floriano Ribeiro, a political scientist at Federal São Carlos University in São Paulo State, explained that these changes largely took place as a result of Majority Camp policies and the fact that “the state ties became central to the survival of the organization.”

“As the PT won elections, this brought changes to the party,” Ribeiro said. “Elected representatives in the Congress, Senate, mayors, and governors, all acquired more and more power within the party, because they control the sources of funding and they control positions that are held by the activist base.” According to Ribeiro, this process “came from the 1980s and principally the 1990s” but “increased” with the Lula government, because there were thousands of positions to be held. “So this changed the balance of power within the organization,” he said.

For Ribeiro, the PT has become a type of “cartel party” or an “electoral-professional party”—in other words, a 21st-century version of a “catch-all,” appealing to a broader base with vague proposals, like the U.S. Republican or Democratic parties, but with radical roots.⁶ Hunter points out that the party’s decision to increasingly contract professional consultants, publicists, and media experts “represented a break with the party’s historical aspiration to *lead* rather than to *follow* the masses,” another core characteristic of the electoral-professional party.⁷

In short, the PT has shifted far enough to the center to attract mainstream voters. In 2006, social programs like Bolsa Família helped to ensure the support of poorer communities, regardless of political affiliation. Meanwhile, the PT’s elected officials hold power over party leaders. Money and power largely come from the state and large corporations. This is especially important in Brazil, where political campaigns are expensive and corporations provided, on average, 11 times more money to right-wing congressional candidates than the PT in 1994, and six times more in 1998.⁸ With unions barred from contributing to electoral campaigns, and with the need to raise cash, Lula began in 2002 to receive off-the-book donations from big investors that did not want to “have all their eggs in one basket,” according to political philosopher and former PT voter Ruy Fausto.⁹ The move lifted Lula to the presidency, but it further diluted the PT platform and ultimately led to the corruption schemes that would plague the first term of his government.¹⁰

“We changed. The PT changed,” admitted PT founder and Rio Grande do Sul PT president Raul Pont. “It transformed into a more electoral party, throwing all of its effort at institutionalism. We can say it was inevitable, but on the other hand, we can’t lose our militancy, our origins, and our political identity. We run the risk of transforming ourselves in one more party of the establishment.”

That is exactly what many critical voices fear has happened, and what others within the party are fighting by returning power to the *núcleos de base*—the community- or issue-based party cells that were once the heart of the PT, where members went to debate and organize.

THE IMPORTANCE OF THE NÚCLEOS WANED AS THE PT won elections, consolidated, and institutionalized.

They still exist, but they are largely debilitated, especially after a 2001 reform to the PT statutes installed direct elections for party representatives. In most parties, the move would be seen as positive step toward increasing democracy, but for the PT, it stifled debate and grassroots participation. Before, the *núcleos* would choose delegates to go the PT conventions on the municipal, state, and national levels. Issues and electoral candidates were debated in lively assemblies until they could come to a decision. “All of this was lost because the meetings are worthless now,” says Ribeiro. “The members vote to elect their representatives. The meetings still happen, but they are worthless, because when you have a meeting, you already know who won majority.”

Fully aware of this, the PT in Brazil’s southernmost state of Rio Grande do Sul decided in 2009 to go back to its roots, holding vibrant municipal meetings across the state with local delegates. The move came after several years of the right-wing governor Yeda Crusius, who cracked down on social movements and helped to outlaw the itinerant schools of the MST.

“We returned to our origins in 2009 with the same methodology we had used before 2001,” explained Ubiratan de Souza, the former state coordinator of participatory budgeting. The day of the state conference in Porto Alegre, there was standing room only in the Dante Barone Theater of the Legislative Assembly, where hundreds of PT members were actively debating their next steps. The move helped to consolidate the organization around the governor’s candidacy of Tarso Genro, a former Porto Alegre mayor and minister of education and justice under Lula.

Genro won the governorship overwhelmingly in the first round of the 2010 elections. His administration is now discussing plans to reinstall participatory budgeting throughout the state, and the Rio Grande do Sul PT has

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launched a commission to discuss an official return to the pre-2001 statutes.

Rio Grande do Sul is not the only place that has kept the grassroots spirit of the PT alive. In 2009, 700 PT members from 28 núcleos in the São Paulo municipalities of Carapicuíba and Osasco joined forces to form a grassroots network that they call the Fórum dos Núcleos. The first experience of its kind, the fórum is helping to reignite grassroots activism in the region, holding several local meetings, trainings, and political and cultural activities.

However, Angela Donda, a longtime PT member who helped to organize the fórum admitted that having Lula in office has been a real drain on the núcleos, since their strongest leaders were picked for positions in the government. Under the Lula administration almost 23,000 positions were filled by appointees—slightly more than previous administrations.¹¹ “This was a shock,” Donda said. “We’re still trying to overcome the lack of their leadership with the development of new activists.”

While the PT has grown tremendously in recent years—now to nearly 1.7 million members—many of the new affiliates have signed up without the political commitment of the traditional PT party activists. This was a conscious shift, promoted by PT leaders like José Dirceu in the Majority Camp, in order to make the party more palatable to the mainstream. Many at the heart of the PT believe that it was a mistake to weaken the núcleos, but there is now a debate over the next generation of organizing.

“People say, ‘We need to revitalize the núcleos!’ Then you ask, ‘Are you an activist in a núcleo?’ No. I think we need to construct other spaces to organize the masses,” Cotrim said. He pointed to the thriving blogosphere, which helped to counter the right-wing electoral media campaign and lift Rousseff to victory. “We are going to have militants over the next period that are activists over the Internet, and they are never going to come to a meeting here—ever. Principally with the youth, we have to be aware of the changing times. We have to construct new cultural environments,” Cotrim said.

On Friday, November 26, the same day the PSOL held a demonstration in downtown Rio de Janeiro, and the Rio Green Party was organizing their own núcleos, Rio’s PT organized an event called Youth and Union Action, simulcast live over Twitter. It was their first such attempt and dozens of people participated in the talk through their computers. The PT is also still working on the ground. In 2010, the party launched a series of rallies and teach-ins across the country. They plan to get more than 100,000 members involved through next year.

The second round of the elections also reinvigorated exciting new grassroots activism in support of the PT.

Popular musician Chico Buarque, the theologian Leonardo Boff, and architect Oscar Niemeyer, together with hundreds of other intellectuals, actors, militants, and artists publicly displayed their support for the Rousseff candidacy in a way that hadn’t been seen in years. Important Afro-Brazilian figures held an event in Rio, while social movements sprang to life faced with the possibility of a right-wing upset.

“In the second round we were able to organize across an even larger and more important sector of society than we did with Lula in 2006,” Cotrim said. “We need to take advantage of this.”

POLITICAL REFORM IS ALSO ON THE LIPS OF MANY ACTIVE PT members. Even the PT executive council has put it high on the 2011 agenda for the next Congress, with the goal of creating a system of public financing for electoral campaigns, thereby circumventing a major cause of the PT corruption scandals.

It’s been a long time coming. The PT “paid a very high price” when Lula won in 2002, with the wind at his back “he could have pushed harder then for a political reform,” explains IBASE co-director Menezes. “The PT didn’t confront the system then, and they became prisoners to it.”

This is something Rousseff undoubtedly hopes to avoid. But at the helm of a politically diverse, 10-party coalition, she has an uphill battle before her. Although the coalition has more control over the Congress than under either of Lula’s presidential terms, finding cohesion across the political spectrum will not be easy. Moreover, Rousseff lacks Lula’s charisma and the direct connection with the people. Cotrim, for one, thinks she was a great choice because she represents what was best in the government in recent times.

“But the Dilma government will need party support for mediations which Lula didn’t need,” he said, “so the PT will need to be up to the challenge.”

And PT activists seem to believe that both the Rousseff government and the party are ready.

“I thank God that the mensalão and the other scandals happened,” said Silvio Nascimento, back at the ABC Union building in São Bernardo do Campo, where the halls are lined with posters of the union’s vibrant past. “Why? Because it was from there that we could fix things and come back to this project. To see what we want. To see what our activists want.”

But with a shifting electorate, the loss of key party activists, and the influx of non-political supporters, that “we” is changing, and with it, the definition of Brazil’s most important political movement. ■

Lula's Political Economy: Crisis and Continuity



Traders on the floor of Brazil's stock exchange, BM&F Bovespa, in São Paulo on October 2, 2008—the day it lost almost 7% of its value. Lula's counter-cyclical measures later helped stave off the effects of the global financial meltdown in Brazil.

By Paulo Kliass

FOR MOST OF HIS TWO TERMS IN OFFICE (2003–10), Brazilian president Luiz Inácio Lula da Silva followed the same economic policy imperatives established by his neoliberal predecessors. He prioritized the fight against inflation with raised interest rates, assuring investors high returns while settling accounts with the International Monetary Fund (IMF), and he committed to maintaining a high budget surplus. In the second half of his last term in office, however, the global financial crisis of 2007–9 forced a last-minute change in direction. Lula broke from the mold—he invested locally, raised the minimum wage yet again, and quickly lifted Brazil out of the meltdown as no one had expected.

In a March 30, 2009, op-ed in *Le Monde*, Lula hit out against the crisis. “Unlike the crises of the last 15 years—in Asia, Mexico, and Russia—the current storm that has struck the planet has its origins in the center of the world economy, the United States,” Lula wrote. He added: “I never tire of repeating that it is time to restore the policy and the role of the state. The leaders have to assume the responsibilities bestowed upon them to society. It is important to save banks or insurance to protect deposits and Social Security. But it is more important to protect jobs and stimulate production.”¹

With the neoliberal model in crisis across the planet, even Brazilian economists aligned with

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the establishment were willing to change their positions on important issues. From then on, the government looked not only to pursue economic growth, but also to maintain stability. The search for economic development—as opposed to just economic growth—returned to the government agenda, with a focus on reducing social and economic inequality.

The government began to adopt Keynesian countercyclical policies in order to prevent Brazil from being seriously hit by the effects of the crisis. These policies included tax breaks and fiscal stimulus in important sectors in order to maintain the level of employment and the supply of goods such as cars and appliances. The government also allocated significant resources to the National Bank for Economic and Social Development (BNDES), to provide investments and loans at subsidized interest rates through the National Treasury. The strategy, which meant some degree of a break with the traditional recipes of economic orthodoxy, showed positive results: Although GDP fell into a mild recession in 2009, the Brazilian economy was already growing again the following year.

The Lula government also played an important role in strengthening the internal market. It raised the minimum wage, which directly affects roughly half of formal employees, and also indirectly affects those in the informal sector where wages are often determined by the minimum wage. Pensions and social security benefits were also strengthened, affecting the more than 50% of retirees who receive social security benefits that amount to the value of up to one minimum wage. The government also expanded the network of cash-grant beneficiaries in the Bolsa Família (Family Stipend) network, now reaching over 40 million people and roughly 25% of the population.² The cash grants vary according to the situation of each family, but the monthly stipend can reach almost 15% of the equivalent of a monthly minimum wage.³ These three instruments—the minimum wage, social security, and cash grants to poor families—were essential to maintain demand and cut short the recessionary effects of the crisis.

Brazil has now experienced an unprecedented process of recomposing income levels. The monthly income of many households at the base of the social pyramid—the so-called D and E classes, composing 30% of the population—increased, and many have now joined the C class. This group has been called the “new middle class,” because it seems to have helped boost general demand for popular

consumer goods.⁴ Vehicle sales have hit record highs every year since 2009. The sale of motorcycles has also boomed, which has resulted in an increase in accidents and motorcycle fatalities. In 2010, for the first time in Brazilian history, the number of passengers traveling by plane overtook the number of passengers by bus. There are endless examples of how this new pattern of income and consumption has contributed to maintaining aggregate demand.

Overall, however, the Lula administration implemented measures that were more geared toward satisfying the needs of financial capital than the great majority of the population. Among several examples, Congress in 2005 passed a new law, long demanded by banks and large corporations, in which labor and the state would be primarily liable in

cases of bankruptcy. The administration also pushed to end the public monopoly on the reinsurance sector, in which insurance companies take out policies on themselves as a means of risk management. Lula opened this strategic market in order to open the door for large international conglomerates interested in working in the country. Preparations were made to privatize the state reinsurance company, the Brazil Reinsurance Institute; it was never sold only because Finance Minister Antonio Palocci resigned in 2006, after he was implicated in a series of corruption scandals.⁵

The growing financialization of the economy strengthened the role played by banks and other financial institutions. Never in Brazilian history had this sector earned so much money. Along with the record profits,

capital was further concentrated into large financial conglomerates.⁶ Banks maintained the spread charged to clients in their transactions, and it remains one of the largest in the world. Despite owning two of the largest banks in the system, the Bank of Brazil and Caixa Economica Federal, the federal government did almost nothing to change their behavior in the market, such as providing better-quality services or lower tariffs to the majority of the population.

As has been reported widely, inequality in Brazil has decreased between the richest 10% and poorest 10% of the population, improving Brazil’s Gini coefficient, which is commonly used to measure inequality. However, the net worth of the richest 1% of the population has grown more than proportionately to the improvement of the lower classes. This is because during Lula’s eight years in office, the transfer of resources from the federal budget to the financial system and the Brazilian elite occurred in the

Three instruments—the minimum wage, social security, and cash grants to poor families—were essential to cut short the recessionary effects of the crisis. Brazil has now experienced an unprecedented recomposition of incomes.

form of interest payments on the debt—about \$600 billion worth.⁷ That is 10 times the amount of resources allocated to programs aimed at the low-income population.

LULA'S FEALTY TO THE NEOLIBERAL IMPERATIVES OF HIS predecessor should be understood in context. In the run-up to the 2002 presidential elections, the financial markets were nervous that Lula, perceived as a radical, might actually be elected. The influential financier George Soros cautioned that a Lula victory would plunge Brazil into economic "chaos," and the corporate media warned of rising inflation.⁸

Less than four months ahead of the election, Lula attempted to reassure investors by publishing a "Letter to the Brazilian People," in which he declared: "There are no miracles in the life of a people and a country. A clear and sensible transition between what we have today and what society demands is what will be necessary."⁹ He added that he would respect "the country's contracts and obligations"—meaning that he would maintain the essential elements of the political economy developed by the preceding government of Fernando Henrique Cardoso (1995–2002) of the Brazilian Social Democratic Party (PSDB), the PT's staunch opponent both in the National Congress and on the streets.

The "Letter to the Brazilian People" set the tone for everything that followed. Lula's appointee to the Finance Ministry, Antonio Palocci, had implemented orthodox neoliberal policies while serving as mayor of the Ribeirão Preto, where he had privatized the public sanitation and telephone companies. Upon taking office Palocci placed important figures from his previous team in key ministry positions and convinced Lula to name Henrique Meirelles—who until the eve of the elections had served as president of the International Bank of Boston, one of the country's largest creditors—as president of the Central Bank (BC). After building his entire professional career as a well-behaved member of the private international financial system, Meirelles ran for a congressional seat with the PSDB. He won, but quickly traded congress for the BC. Lula promised him total political and administrative autonomy, a promise that was fulfilled. Meirelles left office eight years later, in December, when Lula ended his second term.

The goal was to continue Cardoso's economic policies, coupled with a generic discourse of "respect for contracts" to appease the so-called market forces. Politically speaking, the idea was to remove any doubt among investors that Lula would pursue economic stability, following the basic contours of the anti-inflation program established in 1994 known as the Real Plan. The central elements of the stabilization plan, which Lula promised to ensure, were (1) to combat inflation

with high interest rates, (2) maintain a free-floating exchange-rate regime, and (3) build the national surplus.¹⁰

Early in the government, amid contacts with the international financial community and missions from the IMF, Lula unilaterally announced his willingness to increase the goal of generating an already high primary surplus from 3.75% to 4.25% of GDP.¹¹ This emblematic measure meant, however, that the government would have to radically commit to contain budget expenditures in infrastructure and social services, in order to direct even more public resources to pay the interest on the federal debt.

Meanwhile, the government's orthodox monetary policy kept official interest rates high. During the 96 months of the Lula government, Brazil had the highest rates in the world. Adjusted for inflation, Brazil's real interest rate hovered between 6% and 12% per year between 2003 and 2010. Inflation remained relatively under control. In 2002, before Lula took office, prices grew at a rate of 12.6% a year. During Lula's first term (2003–6), the average annual price growth was down to 6.3%; during his second term (2007–10), annual inflation averaged 5.2% a year.¹²

In achieving this, Lula benefited from the international prices on commodities and quickly looked to Brazilian exports to boost economic growth. Within only a couple of years, Brazilian exports had already broken successive records. In 2002, total exports were worth about \$60 billion. During Lula's first term, the annual average jumped to \$106 billion. During his second term, exports continued to climb to an average of \$178 billion a year. In March 2004, the government celebrated the milestone of exporting \$100 billion of commodities in 12 months. Just under six years later, in January 2010, Brazil reached the symbolic landmark of \$200 billion in annual exports.¹³

This impressive performance enabled Brazil to significantly improve its international solvency—in December 2005, Brazil paid off its debts to the IMF and other creditors, although this was coupled with an increase in domestic debt, which is now over \$1 trillion, or about 40% of GDP.¹⁴ The boom also helped Brazil build up its national reserves, which went up every year during the Lula government. Shortly before his inauguration, Brazil had \$38 billion of net international reserves. In December 2006, that figure had risen to \$86 billion. At the end of the Lula government reserves had jumped to \$290 billion.¹⁵

The export boom also had an impact on GDP growth. During the period 1999–02, GDP had grown at an annual average of 2.2%. During Lula's first term (2003–6), the annual average rose to 3.5%. During his second term (2007–10), Brazil's GDP grew at an annual average of 4.5%. Although these numbers show improvement, critics have

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pointed out that they are well below growth figures for the countries that occupy a comparable position in the new dynamic international economy—Russia, India, China, and South Africa, which together with Brazil are known as the BRICS. Just for comparison, during the Lula's first term, China and India grew at average annual rates of 9% and 7% respectively. During Lula's second term, they grew at 10% and 9% a year. In other words, once could conclude that Brazil is actually losing the opportunity to take a true and necessary leap toward development.

The negative side of this boom, however, was that it was anchored in products of low aggregate value—primary products, especially agricultural commodities and extractive goods like oil and iron ore. These products represented up to 57% of all exports, including iron ore (14.3%), oil (8%), soybeans (5.5%), sugar (4.6%), chicken (2.9%), and coffee (2.6%). As opposed to manufactured products, which can generate additional value for the Brazilian economy across the chain of production, these products, with little value added, had almost no multiplier effect.¹⁶ Meanwhile, imports grew, predominantly manufactured goods like automobiles and auto parts, circuits, micro-electronics, pharmaceuticals, steel products, transmitters and receivers, motors, generators, pumps, bearings, gears, and so on. In other words, Brazil remains clearly deficient in terms of intensive technology and value-added production.

Lula's policy of high interest rates only further reinforced Brazil's status as an exporter of low-value goods and importer of high-value products. The high rates attracted a major influx of international finance capital, which hit the market without exchange controls. As a result, the Brazilian currency, the real, appreciated. The higher currency immediately harmed the export of manufactured products, which were unable to offer competitive prices abroad. Meanwhile, the very same currency appreciation stimulated the import of manufactured goods from abroad. Because of the difficulty of competing with imports—especially from China and other Asian countries—many sectors reduced their investments in the expansion of domestic productive capacity. In the controversy over the currency issue, there was clearly a division, even in the business sector. Those who produced goods demanded a devaluation of the real, while the representatives of finance capital called for the continuation of the facade of free exchange.

With Lula's support for the export sector, his government became politically dependent on groups related to agribusiness. He even stated in 2007 that the sugar mill owners were the "true heroes" of the country—a sadly ironic statement, considering the dark stain of slavery and its legacy that these groups still carry from the 18th and 19th centuries. The Brazilian sugar industry is still char-

acterized by poor working conditions, low wages, and a record of workplace accidents.¹⁷ In terms of agriculture and land policies, Lula made little progress in expanding land reform and stimulating family farms. The movements organizing around these issues were frustrated by the Lula administration, especially with the expectations they had when he was elected to office.¹⁸

THE ECONOMIC POLICIES OF LULA'S HANDPICKED SUCCESSOR, Dilma Rousseff, have thus far shown little difference. Perhaps it is a matter of time. But it is noteworthy that she chose Lula's former finance minister, Palocci, for the strategic post of chief of staff. In a sign that there could be some continuity of the heterodox approach, she maintained Guido Mantega at the Finance Ministry. The Central Bank was handed to Alexandre Tombini, a career economist at the institution. The economic policy decisions, adopted during the first months of government, maintain the trend of elevating official interest rates with a priority on fighting inflation.

The foundation of the orthodox model of monetary policy remains intact, and little has been done to counteract currency appreciation. Moreover, in Rousseff's first week in office, she announced a significant budget cut for 2011, which is weakening the government's ability to act.¹⁹ The Central Bank continues to increase the official interest rates as an instrument to combat inflation.²⁰

In March and April, the government announced some measures—to little effect—to try to curb the appreciation of the Brazilian currency in the exchange market. However, the results were not efficient, largely due to the high interest rates that continue to attract a steady flow of speculative capital. There is an urgent need to establish control mechanisms for the entry and exit of foreign capital.²¹

According to what we have seen in the first months of the Rousseff government, there is an intense political dispute over the direction the government's economic agenda. On one side are powerful forces aligned with the financial system that don't intend to give up the benefits they have acquired from the conservative economic policies. They support a model based on macroeconomic adjustments accomplished by raising official interest rates, cutting public expenses, and maintaining the policy of the appreciated exchange rate of the real. On the other side, there are those who favor again embracing the developmentalist agenda, in which the state's most essential role is to improve the profound social and economic inequalities of country. They propose confronting the economic questions with industrial policies and distribution, recognizing that the magic solution of the market is not always the best option for the country. ■

Brazil's Social Safety Net Under Lula



In the northeastern Brazilian state of Pernambuco, Renilda Oliveira (32) and her family receive \$77 a month from the state-run Bolsa Família program. "He saved us," said Oliveira, referring to Lula. "If it wasn't for him, I wouldn't have a way to take care of my children."

By Aaron Ansell

A WIDELY CITED NUMBER OF 20 MILLION Brazilians were lifted out of poverty under the administration of Luiz Inácio Lula da Silva (2003–10). Overall, according to the Brazilian government, extreme poverty in Brazil decreased from 12% in 2003 to 4.8% in 2008.¹ Much of the credit for this achievement should go to three key social policies of Lula's administration: cash-transfer programs to the poor, aid to small farmers, and labor and pension reforms. Most prominent among these was the cash-grant program, Bolsa Família (Family Stipend), which expanded an already existing welfare system established by Lula's predecessor. The Lula government also cre-

ated stronger mechanisms for promoting transparency and accountability in the distribution of these grants in areas, such as the Northeast, where traditions of clientelism in the distribution of benefits were strong. By 2006, Bolsa Família had reached 11 million families (about one quarter of Brazil's population), most of them in the Northeast.²

Without diminishing the importance of these programs to Brazil's poor majority, we must nonetheless recognize that they function within the neoliberal framework established before Lula came to power. The cash-transfer programs, for example, embody the neoliberal values of efficiency, privatization, and individu-

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alization. Social policy experts classify them as “targeted” policies because they take aim at specific segments of the population. Lula’s policies targeted people living in extreme poverty, indigenous and rural Afro-Brazilian communities, farmers faced with drought, urban people who live by rifling through trash, and other afflicted groups. In this way they differ from policies that reach all citizens, like price controls on foods, national food production and distribution programs, universal health care, and so on. Targeting is “efficient” in the sense that it maximizes poverty reduction by excluding anyone who is not poor.

Cash-transfer programs also support privatization because they channel capital in its most liquid form (cash) and thus require far less bureaucracy than federal development institutions. These programs emphasize individual choice by increasing consumers’ buying power, rather than offering them cheap government-subsidized foods. In fact, even framing social justice in terms of “poverty alleviation,” rather than the achievement of economic equality, already takes a page from the playbooks of the most famous neoliberal thinkers of the 20th century. It is telling that in 2004, one quarter of Lula’s funding for his main cash-transfer program came from the World Bank and Inter-American Development Bank.³ Yet, even though his cash-transfer programs were paradigmatically neoliberal, they have succeeded in reducing poverty and inequality. He certainly did a better job with these policies than did his predecessor, Fernando Henrique Cardoso.

During Cardoso’s second term in office (1999–2002), he initiated several targeted cash grants. The Bolsa Escola (School Benefit) program was his most important; it promoted school attendance by sending parents about \$8–\$10 in 2000 each month for every child who attended school. This compensated parents for the loss of their children’s labor during the day. Three smaller cash grants aimed to subsidize food and gas purchases, and to increase the income of families hit hard by natural calamities. (By U.S. standards, Cardoso can hardly be called “right-wing.”) When Lula took office, he retained and supplemented these grants with a new cash program called Food Card, which his administration conceptualized as part of a broader food security initiative, Zero Hunger. The Food Card gave indigent families about \$17 per month in 2003. This essentially doubled the amount of federal money that a family could have received from all of Cardoso’s grants combined. The

following year, Lula merged all the cash grants into Bolsa Família, and then slowly increased the allowance throughout his two terms. By 2009, families in extreme poverty received up to about \$116 each month.⁴

Bolsa Família reached many more people than any of Cardoso’s grants. When Cardoso left office in 2002, Bolsa Escola, his largest cash grant program, benefited 4.6 million families.⁵ The difference was due to two factors: First, Cardoso’s Bolsa Escola worked through a quota system, limiting the number of families that could receive the grant, whereas Bolsa Família went to all households with a combined income of less than \$60 (90 reais) per month per resident. This technical distinction is important for understanding how cash grants are distributed at the municipal level (more on this below).

Second, Bolsa Família targeted not only “extremely poor” families, but also “moderately poor” families (though the amount was adjusted). This meant that Lula’s cash grant included a broader swath of the working poor than those of his predecessor. As a result of these changes, by 2006, Bolsa Família had already reduced extreme poverty in Brazil by 19% and moderate poverty by 12%.⁶

Lula’s initial cash program, Food Card, quickly came under fire from both the political right and left because it initially required its beneficiaries to spend the grant exclusively on food. Right-wing neoliberals claimed that enforcing this measure required wasteful administrative costs, while left-wing advocates within the food security

movement claimed the measure was a form of state paternalism that denied poor people the right to spend their money as they chose. When Lula merged all of the grants into Bolsa Família he replaced spending restrictions with grant conditions, such as mandatory school attendance, child vaccinations, child health exams, and perinatal medical exams for expecting mothers. These conditions more closely mirrored the Cardoso government’s policy requirements. But Cardoso’s followers from the Brazilian Social Democratic Party accused the Lula government of not enforcing requirements that grant recipients comply with these conditions. After a rocky start involving a reorganization of the social welfare ministries (and the replacement of the head minister overseeing social policy), the Lula government redoubled its enforcement. By 2007, Lula’s enforcement of school attendance outpaced that of Cardoso, and beneficiary compliance with the health conditions has been consistently high and nutritional studies

Even though Lula’s cash-transfer programs were paradigmatically neoliberal, they succeeded in reducing poverty and inequality. Bolsa Família has reduced extreme poverty in Brazil by 19% and moderate poverty by 12%.

indicate that malnutrition among beneficiaries was reduced from 14% to 7% between 2004 and 2006.⁷

In addition to improving the economic and educational standing of poor families, Bolsa Família has improved the transparency and accountability of local democracy in Brazil—a relevant criterion for evaluating policy in a country still reeling from military dictatorship (1964–85). One of the biggest problems with decentralized cash-transfer programs is that municipal politicians often co-opt them for their own political interests. They gain control over the distribution circuits, channel funds to their friends and electors, and withhold the stipends from the local opposition. Under Cardoso, mayors had full authority to appoint the members of the local councils that controlled the dispensation of the cash grants.⁸ Frequent manipulation of these councils and general confusion about the process of beneficiary selection led to a resource “leakage” rate of up to 36% (in the case of Bolsa Escola), i.e. 36% of the people who received the grant did not really qualify.⁹ Moreover, Cardoso’s quota system all but presumed that some eligible families could not possibly receive Bolsa Escola. This made political favoritism practically inevitable, especially in small rural towns.

Lula rearranged the municipal procedure for “targeting” the poor. He initially short-circuited the mayors’ offices by creating openly elected municipal committees to select the beneficiaries.¹⁰ But his move against the (mostly conservative) mayors was costly. Without the mayors’ support, the new elected committees had no place to work, no computer to use, and no transportation to do the groundwork. When Lula launched Bolsa Família to synthesize the existing cash grants in 2004, he returned control over the enrollment to the mayors’ offices, but he created fraud hotlines and “social control” committees to monitor the municipal government.¹¹ Studies suggest that these procedural changes made Bolsa Família better at avoiding mayoral interference than the preceding programs.¹² There is little doubt among analysts that Bolsa Família shored up Lula’s reelection in 2006 by winning him the support of many poor people who previously voted conservatively.¹³

LULA ANNOUNCED HIS CREATION OF THE ZERO HUNGER program during his campaign in 2002. His cash grants would initially comprise only one component of the more comprehensive Zero Hunger, which would also include initiatives in land reform, housing, health, nutrition, sanitation, water resources, education, and other areas of development. But these development-oriented initiatives received less media attention than the

cash grants, and poor Brazilians seemed to prefer cash to these other initiatives. While Lula quickly stopped talking about Zero Hunger, he continued to expand many of those unpublicized initiatives, including those that supported food production on Brazil’s poorest family farms.

Before the 1990s, Brazilian agricultural policy focused on improving the production of an already privileged class of industrial farmers. Cardoso lifted restrictions on foreign agribusiness, and thus accelerated the concentration of rural landownership to the detriment of small family agriculture. Yet Cardoso deserves some credit for initiating the National Aid to Family Agriculture Program (PRONAF), which channels rural credit to the poorer strata of small farmers. At its peak under Cardoso, PRONAF benefited 953,000 families, but much of its resources never reached the poorest farmers.¹⁴

By 2005, Lula had nearly doubled the number of beneficiaries receiving PRONAF credit and tripled the overall federal investment in PRONAF.¹⁵ He also redirected credit to the poorest segments of the rural population. After 2005, the Lula government reconceptualized the objectives to rural development, moving away from the straightforward increase in cash income and towards the more complex goal of food security, which includes factors such as economic diversification and environmental sustainability.¹⁶ These measures increased subsistence farmers’ food production, though their effect on rural income remains unclear. Even under Lula, PRONAF had real shortcomings that pointed to some of the fundamental problems with neoliberal restructuring. In 1990, the Collor administration extinguished the parastate Rural Extension and Technical Assistance Company (EMBRATER), which funded and coordinated rural development of small family agriculture in all 27 states. Nearly overnight, the state-level technical assistance companies lost roughly 40% of their resources, reducing government assistance to small farmers.¹⁷ President Cardoso exacerbated the problem by extinguishing the Superintendency for the Development of the Northeast (SUDENE), the main federal institution that had implemented many large-scale development projects (e.g., dam construction) in the northeastern countryside. Lacking labor opportunities on big projects and technical assistance with various small-scale economic projects, small farmers often find themselves unable to pay back the microfinance loans.¹⁸ Lula has partially tried to address this issue by resurrecting SUDENE, but it is not yet clear what role it will play in promoting rural development in the Northeast, Brazil’s poorest region.

Along with increased investment to PRONAF, Lula also created a new rural food policy: the Food Acquisition

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Program. Through this program the state purchases crops from poor farmers at near-market prices. It then redistributes the crops to local schools and private charities in order to improve local nutrition. Studies of this program's effects on local production, nutrition, and social mobilization have been generally positive.¹⁹ But while the program steadily increased its beneficiaries throughout Lula's second term, by 2009 it still only reached 98,340 rural families.²⁰ It will need to expand its scope in order to truly transform the countryside. Moreover, in the absence of a comprehensive land reform that ensures a decent quantity of arable land to farmers, one wonders how effective crop purchases and microloans can ever be.

BRAZIL'S POPULATION IS ABOUT 86% URBAN, AND MOST adults living in urban areas are unemployed, underemployed, or informally employed, according to the *CIA World Factbook*. Formal employment declined considerably during the 1990s, as did the strength of organized labor. Cardoso aided this decline. He increased "flexibility" to labor contracts (i.e., lower benefits and easier terminations), broke a major strike at the state oil company (Petrobras), and proposed legislation that would allow agreements reached through collective bargaining (with weakened unions) to prevail over legislation that ensured baseline rights and benefits to workers. In the face of longer hours and less job stability, labor activism declined during the 1990s. Even Brazil's left-wing labor conglomerate, the Unified Workers' Central (CUT), which has been intimately tied to the Workers' Party, split, and a more conciliatory conglomerate emerged that supported Cardoso's reforms.

Lula, who once led Brazil's labor movement, passed legislation that enshrined some protections for the CUT, curtailed the power of the labor courts to declare strikes illegal, and squashed Cardoso's proposal to allow collective bargaining to undermine the protections enshrined in labor legislation. He also raised the monthly minimum wage (used to calculate all salaries) from 200 to 540 reais throughout his two terms in office.²¹ (Inflation during that same period has generally remained less than 10%.) But his legislation created barriers to collective bargaining for small unions, angering a combative sector of the workforce that previously supported him. Moreover, Lula did not reverse Cardoso's basic flexibilization measures.²² Thus, many in both the working class and the professional middle class blame Lula for their heightened experience of job insecurity.

Together with these largely conservative labor policies, Lula implemented pension reforms that generally continued Cardoso's cutbacks, and that turned a

specific segment of the government workforce against him. Brazil's pension system is organized into two main branches, the government-run "public" branch that covers all state employees and most workers in the formal private sector, and the "private" branch that covers mostly high-salaried private-sector workers. Cardoso created new investment opportunities for private pension funds that grew very lucrative under his administration. He reduced the pensions of the public system, which by 1997 was operating at a \$2.8 billion deficit because of Brazil's aging population, fraud, and other problems with employee contributions.²³

Lula continued to roll back the public pension system. In 2003, he passed social security reforms that taxed the pensions of retired bureaucrats at the high end of the pay scale. This group of privileged retirees then mobilized opposition among other government workers who aspired to high pensions. Lula also phased in reforms that would readjust the formula for calculating pensions to the detriment of all formal workers. In 2007, however, Lula pushed through legislation that extended pension benefits to informal laborers who make up more than half of Brazil's workforce. Thus, while many formal workers had their pensions reduced, 28 million informal laborers who previously had no social security will now be entitled to pensions, which will be largely subsidized by the contributions of their formally employed counterparts.²⁴

Enough of the unionized workforce continued to oppose these measures for President Dilma Rousseff to announce in November, before taking office, that she would not implement any further pension reform.²⁵ It seems that solidarity with high-paid workers outweighed the workforce's solidarity with the informal laborers—most of whom have little job security, wage protection, or benefits. This question points to a broader problem in interpreting Lula's administration: Lula's policies were guided by principles of social justice other than those of traditional working-class leaders or socialist parties. Instead of nationalizing industries, reducing interest rates, and ensuring job protections, Lula fought hunger and poverty, decreased patronage-based interference in welfare, and extended pensions to unorganized informal workers.

Just how progressive were Lula's social policies? Did they differ substantially from those of his predecessor? For the most part, it seems Lula's policies successfully responded to the challenges presented by Brazil's neoliberal political economy. He did not try to upset the neoliberal foundation itself, and Lula proved himself to be a genuinely left-wing neoliberal. That position may seem like a contradiction in terms. But it may be described as a qualified form of progressivism. ■

Lula and the Meaning of Agrarian Reform



A girl carries water at a Landless Workers Movement (MST) camp in the northeastern Brazilian state of Pernambuco in 2004. Since 1984, more than 370,000 families have acquired land through MST occupations that have continued to force the Brazilian government to carry out agrarian reform.

By Cliff Welch

UNTIL LUIZ INÁCIO LULA DA SILVA'S VICTORIOUS 2002 campaign for president, Brazil's Workers' Party (PT) had consistently supported a radical definition of agrarian reform. Seen as a crucial tool for building socialism, agrarian reform would weaken the ruling class fragment that secured its power by controlling large swaths of Brazilian territory and help pave the way for the victory of a PT-controlled government. In the years before he was elected president, Lula went out of his way to participate in land occupations, marches, and forums organized by the Landless Workers' Movement (MST) and other peasant groups. He visited jailed leaders like José

Rainha Júnior, who was regularly persecuted by the state as a gang leader for successfully organizing thousands of families in land occupations. Lula also joined the MST in arguing that Rainha and other jailed landless militants were political prisoners who should be released.

By 2002, however, the PT position had changed: Agrarian reform was no longer part and parcel of the fight for socialism, but rather an essential economic development policy. "The agrarian reform question," as official PT literature put it in 2003, "is a problem that interests all workers, in the countryside and city, because it contributes to a developmental model that generates employ-

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