B. The Emergence of Brazil

Lula's Alchemy: Getting Brazil Back to the Future

Mark S. Langevin

Brazilians prefer to talk about their country's promising future, *grandeza*. Getting to this future is a constant test for Brazil and the periodic downfall of presidents and governments for nearly two centuries. Luis Inácio Lula da Silva, president of Brazil since 2003, has passed this fundamental test by convincing most Brazilians that progress should be expected and greatness can be achieved. Lula's alchemy is both a tempered reduction of sensible public policies forged from the trials and errors of the past coupled together with a relentless, heterodox brew of programs crafted to reach the poorest Brazilians, improve the competitive advantages of Brazilian companies, both private and state owned, and lift the country to the heights of international leadership. Brazil has a long way to go and few political analysts would bet that it can overcome the international constraints and domestic obstacles that keep most Brazilians down and out of the global economy. Yet even fewer would have bet that Lula, the son of a penniless family from the country's impoverished northeast, former labor union leader, and founder of the *Partido dos Trabalhadores* (PT) or Workers' Party, would win the presidency on his fourth attempt and get Brazil back to the future—back to Brazilians' favorite conversation, *grandeza.*

In many ways, President Lula's own biography reveals a haunting, but optimistic testament to Brazil's history. Growing up poor is common in Brazil, but Lula's rise from paucity to the presidency is unprecedented and the direct outcome of his conviction that Brazil's promise can only be attained through the practical political toil of incorporating all Brazilians in the work and prosperity of the nation.

Little was expected of Lula when he was first elected leader of a labor union representing auto workers in the State of São Paulo in the 1970s. Expectations changed when he led a series of strikes that defied the bureaucratic-authoritarian regime and demonstrated that the booming economic “miracle” of the late 1960s and early 1970s was a bust for workers and their families. In 1979 he spearheaded efforts to establish the Workers’ Party, inspired by democratic socialism, anchored to labor unions and other social movements, and dedicated to forging a participatory democracy in Brazil. During Brazil’s transition to democratic rule in the 1980s, Lula became both the symbol and leader of those brutalized by two decades of military dictatorship, yet still hopeful for the future. Lula’s vision of an inclusive political project, a *Brasil pais de todos* or “Brazil for all” (the Lula government’s official slogan), challenged the country’s political elite, large rural landowners, and the captains of industry and condemned their reliance on corruption and clientelism. Lula and the PT had to painfully work out the practical aspects of their political vision through three successive presidential election defeats in 1989, 1994, and 1998. Lula lost but the PT matured, expanded its electoral coalition and political alliances, won elections for local and state wide offices, crafted effective and innovative public administrations,[1] and demonstrated that its vision of a participatory, equitable democracy was not only viable, but increasingly preferred by a majority of Brazilians. By the presidential election of 2002, Lula and the PT were prepared to govern and Brazilians were more than willing to cast their ballots for the change they promised.

Getting Brazil back to the future would not be an easy task. In prior decades Brazil had suffered destabilizing bouts of economic populism, the dead end of military dictatorship, and a demoralizing lost decade of hyperinflation and economic instability. President Fernando Henrique Cardoso finally tamed inflation in the 1990s, but at a very high cost. His *Plano Real's* monetary policy ushered in economic stability, but stalled growth and bloated the already huge public debt. In the second half of 2002 a financial panic erupted as investors from Wall Street to the São Paulo Stock Exchange raced to bet against Brazil just as voters lined up to elect Lula. The crisis left one prominent observer to ask, "the key questions facing Brazil are whether the panic will subside or deepen, and whether the Lula administration's policies will advance the modernization of Brazil and accelerate its growth rate and social progress or turn the clock back to old-fashioned socialism."[2]

The panic rocked Brazil's national currency, the *real*, lowering its value by 40 percent in the six months preceding Lula's election. The São Paulo Stock Exchange also plunged and Brazil braced for yet another round of economic instability. Oddly, the crisis did not deter an overwhelming majority of voters from casting their ballots for Lula, but it did demonstrate Brazil's fragility and dependence upon the global financial system. Rather than repudiate the debt as some predicted and others preached, the Lula administration promised to pay the government's debt while also reaffirming that its number one priority was combating hunger. President Lula's pledge to pay down the public debt disappointed some supporters and underscored the limits to democratic development in Brazil.[3] His pledge was sobering, but it bolstered the nation's economic security just as the new government prepared to launch an aggressive series of policies and programs aimed at reducing inequality and poverty.

Confronting Inequality and Poverty

Lula's vision, and possibly his legacy, rest on his government's success in rectifying the sharp and divisive inequalities that plague Brazil and undermine its development. Past inequities based on income, gender, race, and region divide Brazilians, marginalize millions from the resources of the nation, and prevent them from escaping inter-generational poverty. The monetary stability achieved through former President Cardoso's *Plano Real* eliminated inflation as an important cause of inequality and poverty, but created few opportunities for the working poor. Lula's administration retained the anti-inflationary monetary policy, but also amplified existing programs and developed others to provide direct assistance to those most in need and applied a series of measures to ensure that workers benefited from economic growth.

Under the banner of *Zero Hunger*, the government has implemented a series of cash and benefit assistance programs for the poorest Brazilians. At the heart of this effort is the *Bolsa Familia* or family stipend program that currently serves 11 million families, 25 percent of the population, at a government expense of nearly 0.8 percent of the gross domestic product.[4] This cash assistance program qualifies families based on low income; then conditions aid on the vaccination of children up to six years of age and regular school attendance thereafter. The assistance is normally granted to mothers in order to maximize the welfare of their children. In addition, the Brazilian federal government continues to provide non-contributory pensions to meet the basic needs of the old age poor. The expansion of both the *Bolsa Familia* and non-contributory old-age pensions has quickly reduced poverty among children and the elderly since 2003. Moreover the Lula government has amplified, coordinated, and financed a series of in-kind benefits, such as *Smiles for All* and *Lights for All*, that build upon past programs to greatly expand access to dental services, electricity for the rural poor, and other services that visibly enhance the standard of living among the poorest.

President Lula’s government has also targeted policies to increase the rewards for work. First, the government clamped down on inflation while strengthening the value of the *real* to protect the purchasing power of wages. This lesson, learned from the *Plano Real*, serves as the cornerstone of the government’s economic policy. Second, the Labor ministry has worked to ensure that more and more Brazilians, especially young workers, are incorporated into the formal labor market with all the legal protections, including the federal minimum wage and mandatory contributions to retirement and unemployment insurance among other entitlements. Third, the government has regularly increased the minimum wage, gradually augmenting the income of most workers whose wages are pegged to its federally regulated value. The minimum wage increased by 23 percent in the first four years of the Lula administration[5] and has continued to rise since. Steady economic growth since 2004, notable job creation, and a significant decline in unemployment have all deepened the positive impacts of these labor policies.

Taken together these efforts provide for the basic needs of the poorest, expand employment opportunities to the youngest, and raise the wages of most workers. They have led to a measurable reduction in poverty and redistributed the national income toward the poorest. Between 2002 and 2006, the median income in Brazil rose 18.0 percent, adjusted for inflation, and the poverty rate decreased from 26.7 to 19.3 percent.[6] The relative number of Brazilians living in abject poverty fell from 7.92 in 2001 to 4.69 percent by 2006.[7] This reduction of poverty is also accompanied by a lessening of income inequality. Nearly all Brazilians have increased their household incomes since the resumption of economic growth in 2004, but the poorest have enjoyed the largest relative gains. Since 2004 the poorest half of the Brazilian population increased their incomes annually by over 8.0 percent and nearly 12 percent in 2006.[8] These gains were the highest for the poorest 10 percent of the population who increased their incomes by 26.6 percent from 2005 to 2006. The richest 10 percent of the population also gained measurable increases since 2004, but these relative gains trailed the rest of the population.[9] This new trend in income distribution has brought significant decreases in income inequality—a pattern initiated under former President Cardoso's monetary policy and now reinforced by the Lula government.

These policies are not without their critics. *The Economist* argues that Lula's policies have strengthened an "overbearing state" and that the *Bolsa Familia* program, while effective in reducing poverty, may not contribute to national development.[10] Wendy Hunter and Timothy Power propose that these policies served to coax Lula's re-election in 2006 because the poor voted their "pocketbooks," but that they may fail to lift Brazilians out poverty in the long run.[11] These criticisms point to the critical intersection between policymaking and politics under democracy and the impact of income redistribution upon electoral results. In this sense, Lula's critics recognize that his alchemy stirs up equal doses of pragmatism, effective policy making and implementation, and a relentless desire to win elections after having lost so many.

The country's social debt, as some understand the legacy of slavery, exclusion, and poverty, was present long before Lula finally won the presidency and will certainly exist after he finishes his second term and leaves office at the end of 2010. However, Lula's winning alchemy, his vision of a participatory, equitable democracy that holds out the promise of *grandeza*, or at least affords more opportunities and economic security for most Brazilians, cannot be reduced to his social and labor policies alone. President Lula's agenda reaches far beyond the politics of poverty reduction. His government's pro-poor growth policies are dependent upon a broader, bolder strategy to harness Brazil's vast comparative advantages, leverage a determined diplomacy, and strive to maximize Brazil's returns from the global economy.

Brazil and the Global Economy

The Lula administration has renewed the role of government as a catalyst for growth and modernization. As Ben Ross Schneider notes, Lula's policymakers borrow from the national development policies of the past, including the promotion of state owned enterprises (SOEs), tariff protection, subsidized credit, government contracts, and research support among other measures to push the national economy forward.[12] Yet, unlike the past politics and programs associated with import substitution industrialization (ISI), the Lula administration's economic coordination and international diplomacy drives Brazil's economic development outwards to obtain global economies of scale for its commodities, manufactured goods, and services. Under Lula, government now works to promote exports, hone the competitive advantages of the nation's largest public and private companies, boost investment returns, and capitalize on the trade surpluses that come from greater participation in the global economy.

In agriculture, Brazil is now one of the most important producers for the global marketplace. In the past, agricultural production served to support the urban based ISI projects of both democratic and military governments. Today, the Lula government features agricultural and agro-energy production as pillars of economic development. Agricultural productivity tripled in the past three decades and accelerated as the government eliminated producer subsidies in the 1980s. This remarkable productivity in agriculture has led to growing exports and contributed toward the nation's trade surpluses in recent years. Brazil now ranks first in world exports of sugar, ethanol, chicken, beef, coffee, tobacco, orange juice, and second in soy products. The mounting success of Brazil's agribusiness giants, including JBS in meat production and COSAN in sugar and ethanol, is accompanied by the dynamic, outward oriented growth of Brazil's mining and manufacturing sectors that are now responsible for large portions of the country's exports and serve as important centers of technology development and capital accumulation.

Nearly half of Brazil's exports come from mining and manufacturing. The former government-owned and now privatized enterprises, Vale (formerly known as the Companhia do Vale do Rio Doce or CVRD) and EBX, are two of the most important mining companies in the world. In 2008 Vale was the largest producer of iron ore and second in nickel.[13] In manufacturing, Brazil's transport equipment and metallurgical product sectors are the largest Brazilian exporters, producing 14.9 and 10.7 percent of all exports respectively in 2006.[14] The Brazilian aircraft producer, Embraer, is now a world leader in aviation and the third largest producer of commercial aircraft behind Boeing and Airbus. Embraer, a former state-owned enterprise that was privatized in the 1990s under President Cardoso, produces mid-size regional jets for a booming global market.

Vale and Embraer are now privately owned, but directly benefit from the government's persistent efforts to open and expand markets abroad. The Lula administration has extended its commercial diplomacy to open up new markets for Brazilian commodities and manufactured goods in Africa, Asia, China, India, Russia, the Middle East, and throughout Latin America. It has aggressively pressed both the United States and the European Union to open markets and shut down subsidies to agricultural exports through the Doha round of the World Trade

Organization negotiations. Under Lula, Brazil has doubled its efforts to strengthen the Common Market of South America, spearheaded the formation of the Union of South American Nations (UNASUL), and galvanized a commercial and political partnership between India and South Africa. Lula's international leadership on both commercial and political matters is now unprecedented for a Brazilian statesman and fully demonstrated by the key role he plays in the ongoing efforts of the G-20 to solve the global financial crisis and economic downturn. This resolute but pragmatic diplomacy, an important ingredient in Lula's alchemy, has moved Brazil toward the leadership hub of the global political economy.

There may be no better illustration of President Lula's down-to-earth alchemy than his efforts to cast Brazil's economic and political power outward through promotion of renewable energy and bio-fuels around the world. Brazil has always been a world leader in sugar and ethanol production, but since 2003 the nation's bio-fuel industry has taken off and risen to new levels. The Lula administration has developed a complex web of domestic and foreign policies, coordinated through the ministries of Agriculture, Energy and Mines, Science and Technology, and Foreign Affairs, to advance the cause of bio-fuels. Today the government works in concert with sugarcane and soy producers, ethanol and biodiesel refiners, technology and capital goods firms, automobile manufacturers of flex-fuel vehicles (cars that can run on any blend of gasoline and ethanol), the state owned oil company that distributes ethanol and biodiesel, Petrobrás, and the government's Economic and Social Development Bank, known as the BNDES, to plan investments and expand production. Since Lula's first inauguration, the production of flex-fuel cars has grown exponentially and now represents nearly 90 percent of national passenger vehicle production. During the past decade both sugarcane and ethanol production have nearly doubled while the industry's co-generation capacity (whereby electricity is generated as a by-product of refining) has gradually increased. Moreover, the Lula government established a progressive, national biodiesel blend mandate for the country and has developed an innovative program to assist family and small producers of this bio-fuel.

Lula also travels the world to promote bio-fuels, bringing with him representatives from such firms as COSAN, General Motors, Petrobrás, and the BNDES. He scolds the United States for its protective tariffs levied against Brazilian ethanol imports, but sat down with former President George W. Bush to hammer out a bilateral accord to expand technical cooperation and develop joint ventures for the production bio-fuels in the Caribbean and Africa.[15] At the United Nations Food and Agriculture Organization (FAO) and in the pages of the *Washington Post*, President Lula has been forceful and convincing in his claims that bio-fuels do not represent a threat to the environment or food production, but instead offer partial solutions to rural poverty and global warming. Today, Brazil offers a model for expanding renewable energy production precisely as governments around the world try to lower their greenhouse gas emissions and dependence on oil imports. More than any other policy, Lula's adept embrace of ethanol and biodiesel, both at home and abroad, reflects his alchemy; a powerful brew that has distinguished Brazil as a frontrunner in the race for renewable energy. Paradoxically, just as Brazil has taken the lead in bio-fuels the government-owned oil company, Petrobrás, has made major off-shore oil discoveries that could lead the country to become a major exporter of petroleum products in the coming decades. Lula has good luck too.

Lula's political economy or good luck cannot overcome centuries of boom and bust economic cycles, late industrial development, the social debt inherited from slavery and social exclusion, nor the very real international constraints that complicate and occasionally undermine

Brazil's national development. Indeed, the prevalence of corruption at all levels of government, even within Lula's own governing coalition, and the devastating violence associated with drug trafficking continue to pose grave threats to continued progress. Nonetheless, his personal resilience, his political leadership, and his government's successful policies and programs have convinced most Brazilians that life is better now than before. Mindful of their present troubles, Brazilians are now back to the future and once again talking about their nation's *grandeza*.

Mark S. Langevin, Ph.D., is Director of BrazilWorks (www.brazilworks.org), Adjunct Associate Professor of Government and Politics at the University of Maryland–University College, and Associate Researcher at the Laboratório de Estudos Políticos (LEP) at the Universidade Federal de Espírito Santo, Brazil.

[1] For a short analysis of the PT's innovative participatory budgeting experiences in Vitoria see Mark Langevin and Marta Zorzal e Silva, "The Challenges of Institutionalizing Participatory Budgeting: Experiences and Lessons from Vitoria, Brazil," *International Budget Partnership* 48 (May-June 2009) and accessible at: http://www.internationalbudget.org/resources/newsletter48.htm#Vitoria<http://www.linkedin.com/redirect?url=http%3A%2F%2Fwww%2Einternationalbudget%2Eorg%2Fresources%2Fnewsletter48%2Ehtm%23Vitoria&urlhash=0eDK&_t=mbox_mebc>

[2] John Williamson, "Lula's Brazil," *Foreign Affairs* 82, 1, 105.

[3] Kathleen Schwartzman, "Globalization from a World-System Perspective: A New Phase in the Core–A New Destiny for Brazil and the Semiperiphery?" *Journal of World-Systems Research* 12, 2.

[4] Marcelo Neri, "Income Policies, Income Distribution, and the Distribution of Opportunities in Brazil," in *Brazil as an Economic Superpower? Understanding Brazil's Changing Role in the*

Global Economy, ed. Lael Brainard and Leonardo Martinez-Diaz (Washington, D.C.: The Brookings Institution, 2009), 242.

[5] Wendy Hunter and Timothy J. Power, “Rewarding Lula: Executive Power, Social Policy, and the Brazilian Elections of 2006,” *Latin American Politics and Society* 49, 1, 16.

[6] Neri, “Income Policies,” 236–237.

[7] Ibid., 234.

[8]Ibid, 230.

[9] Ibid.

[10] *The Economist*, “Land of Promise: A Special Report on Brazil,” April 14, 2007.

[11] Hunter and Power, “Rewarding Lula.”

[12] Ben Ross Schneider, “Big Business in Brazil: Leveraging Natural Endowments and State Support for International Expansion,” in *Brazil as an Economic Superpower?* 180.

[13] Schneider, “Big Business in Brazil,”165–167.

[14] The Economist, “Land of Promise,” 9.

[15] Mark S. Langevin, “Renewable Cooperation? Reflections on United States-Brazil Cooperation on Biofuels,” *American Diplomacy* (November 25, 2008) and accessible at: http://www.unc.edu/depts/diplomat/item/2008/1012/comm/langevin_biofuel.html