

Lula da Silva's Brazil. A genuine third way and New Economic Model (NEM) for the Latin American continent?

Whenever the BRIC nations are mentioned, arguably the one most often overlooked by English language sources is the one with the greatest hemispheric influence, Brazil. Although Evo Morales in Bolivia and Hugo Chávez in Venezuela may grab the most news headlines with their policies of indigenism or 21st century Socialism respectively, it is Lula's Brazil, given its size and economic importance which many in and outside the American continent perceive as being the new role model, post Washington Consensus, for the developing nations of the region, striking a balance between social reform, State intervention of the economy, and free market policies. When Lula Inacio da Silva of the Workers Party (PT) was first elected President by an overwhelming majority of Brazilians in November 2002, the financial markets and Western economic media reacted with fear. Six years on, his blend of policies have reduced poverty, caused a split within his own party, and made Brazil a safe haven for foreign investment (\$35-45 billion in 2008 alone) in these turbulent economic times. This paper proposes to examine the Lula third way effect on Brazil and hopefully seeks to address one of the main themes of the conference, can the BRICs, in this case Brazil, regenerate capitalism, albeit in a paternalistic form?

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Even the UK television media were aware that something big had happened on the non-English speaking American continent (an increasingly rare occurrence) when the BBC's Economics Correspondent, Stephanie Flanders, gave a brief report on the reaction of the financial markets to the previous day's election of Luiz Inacio Lula da Silva of the Workers Party (Partido de os trabalhadores) from a Samba bar in London. Amid the usual warnings from well paid JP Morgan market analysts in New York that residual doubts over the Workers Party commitment to fiscal discipline still prevailed and that the new government's unsustainable promise to increase the minimum wage were still on the table, the report commented that at least some of Lula's more radical proposals had been toned down during his campaign. The basic dichotomy of his presidency, walking a political tightrope between the expectations of the majority of the population that had voted for him and the need to keep foreign investors and institutions happy, was clearly highlighted.

As she sipped her *carpirinha*, Ms Flanders ended her piece conspiratorially by adding that, as one City expert had told her, an awful lot would have to go right for things not to go badly wrong in Brazil. Nobody in the IMF would be celebrating that night. Investor confidence in the latest neo-populist American regime would evaporate, interest rates would have to be raised as a result, budget targets would suffer and growth forecasts would not be met.¹

Seven years on and the man originally viewed by many as the natural ally of President Hugo Chávez of Venezuela, representing the inexorable rise of a new left alternative in South America that would turn its back on the Washington Consensus, market orientated, neo-liberal socio-economic policies of the 90s, is challenging the economic hegemony of the IMF and post-Bretton Woods legacy, but not in the way that those initial pessimists could have foreseen. At the recent first summit meeting of the Heads of State of the so-called BRIC nations (Brazil, Russia, India and China) held in Ekaterimburg, Siberia, in June 2009, the Brazilian leader did indeed call for a new economic post recession world order to rise from the ashes of the IMF and WB led crash, based on speculation and excessive individualism. As the leader of one of the four countries that had seen a 500% cumulative economic growth since 2003, as well as 65% of all world economic growth in that period, he was the one lambasting the recklessness

of the boom years of the developed nations.² He enjoyed comparing them to badly performing children at school, trying to hide their weak scores from their parents. Now, with the world economic crisis, nobody could conceal how badly they were doing.³ Brazil, alongside fellow BRICs, was hungry for change: according to Lula, the removal of the dollar as the international currency, the dissolution of the IMF as in the new 2009 economic reality and the time for dependency on the IMF to get you out of trouble had ended. Far from faltering, collapsing or moving toward a traditional Latin American leftist or Cuban communist regime, putting a further nail in the coffin of economic neo-liberalism as many Washington based observers feared, the Brazilian president, leader of a buoyant economy, with \$45 billion of direct foreign investment in 2008, 5.8% growth in GDP, a strong currency (the real) and a reduced public sector borrowing deficit, was warning them that their time of economic ascendancy was over. Yet he was doing so, not as the leader of a neo-populist, authoritarian regime, but as the working class President of a solidly democratic and still capitalist country. The new economic order, he declared in Moscow, with Brazil at its head would no longer be dictated to by the *ancien régime*. The City analysts' prediction that an awful lot had to go right seemed to be accurate in the Brazilian case, whilst much had gone wrong elsewhere.

The Lula phenomenon

When the term BRIC was coined by economists at Goldman Sachs in 2003 to describe what they predicted would be the dominant global economies by 2030, their forecasts were based on the expectation that the economic policies implemented by previous Brazilian governments, most notably that of reformist Fernando Henrique Cardoso would continue. Cardoso's emphasis on fiscal reform, the reduction of the traditionally dominant state in the economy, and the move toward more market orientated policies married very well with the Goldman Sachs prediction. The fact that the Brazilian economy had suffered at the hands of the so-called Asian flu during that time in 1998, when a billion dollars a day were leaving the country's economy, bailed out by a 40 billion bridging loan from the IMF, that the government debt, which represented 30% of GDP at the start of Cardoso's presidency in 1995, had doubled by 2002, only seemed to confirm in the minds of many the impossibility of Brazil achieving BRIC status. It appeared to be another in a long list of false dawns, which had been predicted for the 8th largest economy in the world. The old

platitudes such as 'the country of the future, where the future never comes,' and 'God is a Brazilian, with a sense of humour' seemed to be more applicable than ever. Lula's election, at the fourth attempt, where he eventually overcame the cynicism of the *O Globo* media group as well as opposition from the Brazilian elites, his worker and trade unionist background seemed to seal the end of this buoyant forecast.

His electoral promise to immediately deal with the social inequality of his country, with the highest ratio gap between the wealthiest ten percent (18 million people) earning 32% of the country's \$1,300 billion/ 1.3 trillion dollar total GDP, whilst 54 million lived on less than a dollar a day, through measures such as his policy of zero hunger (*fome zero*), made the Goldman Sachs prediction even more fanciful to most western observers. The weight of popular expectation, the spectre of inflation, unemployment, poverty and crime would ensure that the paternalistic attitude towards Brazil as being nearly there, but not quite, would continue for some time. At best, if Brazil could overcome its economic difficulties it would be at the expense of its grudging embrace of the markets as the state would increase its paternalistic and hegemonic role within the economy to bring about economic well-being for the majority, but at the expense of financial discipline.

The Brazilian post war economic miracle of the 50s and 60s, where the economy grew at 5-6% rates of GDP, would be repeated, but with the same long term consequences of foreign debt, hyperinflation and the bitter experience of authoritarianism. Another lost decade, such as the one experienced post 1982 by Brazil and Latin America, would be the long term consequence of his presidency. This time the authoritarianism would be at the hands of a neo-populist in the style of an anti-US, anti-capitalist Brazilian Chávez, not the military which governed between 1964 and 1985.

This has singularly not been the case. The strong-arm tactics of the Latin American populist have not been evidenced. After winning in 2002, and again in 2006, with an increased percentage of the vote, (from just over 50% to over 60% second time around) Brazil under Lula finds its democratic status at its highest level since 1985. His electoral victories have been the most transparent since the return to democracy in 1985, unlike the shameful media and electoral manipulation to keep him out three previous times,

caught on record by an indiscreet pro-Cardoso minister in the 1994 campaign. Despite US fears to the contrary, Lula has rejected the populist path of other Latin American leaders of the early 21st century such as Morales of Bolivia, Correa of Ecuador, Ortega of Nicaragua, and to a lesser extent Vázquez of Uruguay, or the Kirchners of Argentina. He says he prefers to be known as a popular president, rather than populist.⁴ So with political and macro-economic economic success assured, it is no wonder that the Lula model for Brazil is being put forward as a viable ~~third~~ path for the emerging nations of the American continent, between the painful neo-liberal experience of the 90s under the umbrella of Free Trade for the Americas and the return to the previously tried and found wanting nationalising, anti-gringo populism, most typified by the über neo-populist Hugo Chávez. The secret of his success? At an *Economist* conference in Brasilia in the summer of 2008 Lula addressed another audience of business correspondents and leaders where he revealed his magic formula. He proclaimed that at last the ~~promised~~ future had arrived for his country and that it basically consisted of ~~economic conservatism~~ and ~~a~~ brave social policy.⁵ Certainly his detractors, such as those at the World Social Forum in 2005 who branded him a ~~traitor~~ would argue that there has been much more of the former at the expense of the latter during Lula's presidency.

Lula himself, on the campaign trail for re-election in 2006 admitted that during his first term of office he had only achieved ~~10%~~ of his social targets. Yet his second electoral victory was achieved precisely because he was able to count on the support of the most disadvantaged in his country, some 58 million Brazilians, who still believe he is the man most likely to improve their daily lot. Why? They tolerate the fact that his economic policy more closely resembles that inherited from his predecessor, Cardoso, and that his policies are now put forward as the ideology of *lulismo* (lulaism) rather than that of the PT workers party he nominally heads and founded in 1980. They have given their seal of approval to the macroeconomic success of his first tenure, which won the approval of the business and financial community, both at home and abroad, as well as his determination to implement real social change. This is still a long way from winning the ~~war~~ on hunger, guaranteeing three square meals for every Brazilian, but enough to carry the confidence of the more socially disadvantaged. Playing to his working class credentials, to his detractors, who accuse him of class betrayal, he claims that most ordinary Brazilians would

rather see a tangible, if small improvement, to their lives than hear the grandiose promises of the populist past, of which Brazil, in the Getulio Vargas years of the 1930s, has considerable experience. Practical, reformist measures have consolidated Brazilian worker confidence in him, rather than the proclamation of a Bolivarian inspired revolution of neighbouring Venezuela. Laws such as the granting of property deeds to 4.5 million *flavela* dwellers, allowing them to break the bureaucratic discrimination of not having a permanent residence which prevented them from applying for jobs or credit, have proved very popular and practical.⁶ His often repeated argument that economic prosperity brings real jobs, through direct internal and foreign investment, and that this is the best way to beat poverty, is one that has cost him over time, almost since his first day in office, the support of the Liberation Theology influenced section of the Catholic Church, leading left-wing intellectuals, sectors of his own party and brought him into direct conflict with the Landless Labourers movement *Movimento sem terra* (MST). Yet as his 2006 victory and moves currently afoot to change the Constitution to allow him to stand again next year (albeit as an independent without official PT endorsement) demonstrate, for all the criticism, as well as being the darling of the international financial press, he is still very much the candidate of the poor.+

The stability and economic orthodoxy of his seven year presidency have brought tangible change to significant numbers of the population, as well as improving Brazil's Standard and Poors' investment rating up to the 3 AAA developed nation standard. In February of 2008, the country became a net creditor for the first time, with \$190 billion in reserves and the stockmarket, *Bovespa*, also rose almost 5% from October 2007 to March 2008 placing it in the top ranking of Morgan Stanley's MSCI's emerging markets index. Public debt still accounts for 41% of GDP, but this is a significant decrease from previous years.⁷ Lula's macroeconomic reforms have brought sustained economic growth of, on average, 2.8% GDP a year which in turn bumped up the value of the *real* on the currency markets by 35%, making exports harder, but foreign investment in Brazil more attractive, as well as alleviating the debt burden in dollars. Although Brazilian bank profits have also doubled in that time, Lula prefers to emphasise that for the first time in thirty years manufacturing in the country has earned more than the banking sector.⁸ It is that sector that has created the jobs he promised his voters.

There is a faint irony in the fact that the country most associated with Import Substitute Industrialization in the region in the post war years, which took its economic lead from Raul Prebisch and Structuralist thinking regarding the superiority of the command economy, with strong state participation, should now be the one most fêted by US financial assessors. This is even more so, given the fact that the very reason the Brazilian economy has managed to weather the ravages of the current economic downturn better than its Latin American neighbours is down to the fact it did not privatise essential public services, transportation, health, as did, for example, Argentina during the neo-liberal, *markets rule* OK decade of the 90s.

The fact that macro-economic success has continued in spite of the world recession is due in part to the continued role of the state as well as the continued demand for Brazilian goods. Another substantive step has been taken under Lula whereby Brazilian economic success is not just founded on the back of the inflated prices commanded by the exportation of primary materials, most notably iron ore and soya, which has seen a doubling of export income in the seven years. Previously unheard of Brazilian companies such as Embraer, the aircraft manufacturer, have expanded their export business. The 1997 privatised company Vale (*Companhia Vale do Rio Doce*) originally based in the northern region of Minas Gerais is now the second largest mining concern in the world. One of the largest, most diversified industrial sectors in the world is losing its fear of the market. The fourth largest car manufacturers in the world, market leaders such as Fiat, and VW, have relocated much of their regional production there. New consumer electronics, computer and software companies, as well as traditional heavy industries make up the rest of Brazil's main manufacturing sectors. Agriculture continues to be the main industry in Brazil and a large contributor to the country's economy with meat and cereals forming the bulk of the business. In total, agro-business represents more than a quarter of the country's total 1.3 trillion dollars GDP. If China is the workshop, India the sweatshop, the Brazil is the farmer within the BRIC hierarchy.⁹ It may even challenge Russia as the superpower of fuel and energy. Oil reserves are abundant in the country and Brazil now possesses the second largest oil reserves in South America as well as being a net oil exporter. Recently, Petrobras announced the offshore discovery of the largest oil and gas fields

ever in the country. Ethanol is another main industry which has put Brazil on the international marketplace, as the world's largest ethanol producer and exporter, and production is expected to continue to increase rapidly. Unlike the corn-based ethanol produced in the US, the Brazilian sugar cane based product is efficient in both economic and environmental terms.

There is a feeling of renewed confidence in the country that a line has been drawn with the past, and that something real has changed. For all his courting of the business elites, Lula still remains ~~one~~ of their own+ to the majority of Brazil's poorer citizens. Their confidence in him has grown, and his success is viewed as their own. The red campaign t-shirt of yesteryear has been replaced by suit and tie, an aspiration that many feel is theirs as much as Lula's. In the past, development excluded the poor of the country. Now, for the first time in generations, they feel part of that process, they are no longer out of luck, out of development. Unlike the 60s and 70s, which saw economic growth without investment in education and welfare, growth is now seen as addressing this basic need.¹⁰

Early on in his presidency, one of the main areas of difficulty was perceived to be the actual definition of who the poor in Brazil actually were, where they lived, and who would benefit from his war on hunger. Definitions and distinctions between the poor, on 2 dollars a day, and the extreme poor on below a dollar a day were potential bureaucratic obstacles which further delayed the implementation of aspects of his social policy.¹¹ Such considerations did not unduly hamper his main aim to reduce unemployment, which has dropped from 12 to 8 million, and which has in turn reduced the number living in extreme poverty by 17%, and the poor by 5%. Some 11 million Brazilian families (60 million plus Brazilians) have benefited from the social benefit system known as the family fund (*Bolsa Família*): mothers are encouraged to take their children to school, where as well as an education, and health care, they receive at least one meal a day and a small token state payment. Not surprisingly the numbers attending have risen and now approximately 70% of all Brazilian children complete their secondary education.

The macroeconomic crumbs from the wealthier tables have also started to trickle down to the majority, something singularly absent

from previous reformist leaders in Brazil. The increase in wages, better job prospects, as well as the tight fiscal hold on inflation, has increased the real purchasing power of the poorest sectors by some 8% (even if the richest 10% also saw their real earnings rise by 3.7%). It has been estimated that the real purchasing power of the minimum legal salary is at its highest level in over twenty-six years. United Nations agencies operating in the country have highlighted the dramatic improvements made by Lula's social policies in helping the extreme poor of the country, even if the number still remains stubbornly high.¹² According to US financial assessors McKinsey, the number of Brazilians that could be classified as middle-class rose by around 8 million families, or 40 million people in the period 2000-2005.¹³ Other observers have compared the tangible improvements in the livelihood of the ordinary Brazilian under Lula with the great social reformist movements in London or Berlin at the end of the 19th and beginning of the 20th centuries.¹⁴

With his popular credentials at an historic high, macroeconomic success and social policies initiated, the Lula of 2009 also enjoys the luxury of the support of two thirds of the 27 federal governors of the country, although ironically only 5 are PT candidates. The distance between leader and party has grown to the extent that one no longer appears to need the other, almost paralleling the Blair-New Labour relationship witnessed in the UK. Both leaders have been described as being made of non-stick Teflon, such has been their ability to remain politically undamaged despite accusations of bribery and corruption within their own party. In Lula's case, the accusations against his son and the monthly payments scandal that rocked the PT and led to several high-profile sackings of leading PT figures, has not dented the President's approval ratings. Even though recent accusations (2006) of a Watergate type scandal in the last presidential election, whereby private information about the opposition PSDB candidate to the governorship of Sao Paulo was purchased illegally, may have cost Lula's campaign manager and ex-Minister of Employment, Ricardo Berzoini, his career, it did not tarnish the image of the leader domestically. Internationally, Lula is now revered, not feared by the new Washington administration that sees in him a powerful counterbalance to the outrageously rhetorical anti-American Hugo Chávez, and as such a leader and political role model for the Latin America of the 21st Century. His continued support of the Free Trade Association of the Americas,

stronger American regional integration facilitated by trading associations such as Mercosur, which Brazil dominates, and greater dialogue between the southern hemispheres mean that his sympathies for Cuba and activities in pro-Venezuelan fora are more than tolerated. If Lula, through his election and subsequent reformist policies to improve the living conditions of his people, achieves nothing more than removing the US's fear of left leaning, popular working class figures being democratically elected in their backyard, then he will have achieved something truly historic within the context of US-Latin American relations, that would transcend the context of the BRIC nations. A modern day Arbenz, with no need to worry about CIA inspired plots to overthrow him.

As part of the BRIC phenomenon Brazil may also participate in the increased blurring of the divisions between developed and developing countries. The predictions are that there will be as many poor and low-income groups in existing industrialised countries as there are lagging regions in developing countries. The current recession is clear evidence of the inevitable process of shifting economic global power that will allow the BRICs to assume their economic ascendancy even before the 2050 deadline predicted by Goldman Sachs in 2003. In much the same way that the end of communism in 1989-1991 changed the shape of the world, the rise of the BRICs will also redraw the map of global economic power. They will have more weight in the economic world of Bretton Woods in terms of IMF and World Bank membership.¹⁵

Without question China and India's rapid economic growth have aided countries like Brazil, which are exporters of commodities, allowing the latter to impact on the international marketplace and global economy. In the Brazilian case this has been achieved by arguably the most robust and dynamic democracy of the four BRIC nations. Some critics argue that because the current Brazilian boom has been based on a democratic consensus that it is the most sustainable in the long term future.¹⁶ Others might argue, that that is precisely the reason why it is perhaps the most volatile. Should another PT candidate be elected, more allied to the Bolivarian vision of development being touted by Hugo Chávez, who is to say whether much of Lula's pro-market reforms might not be done away with. Certainly that cannot be ruled out. Not for the first time in the region, an entire economic model is being so

strongly vinculated with one individual, there must be some question mark over whether one can survive without the other.

Whenever US economic analysts discuss the success or otherwise of their American neighbours they tend to do so through very constrained, macro-economic criteria. To describe the changes taking place within Brazilian society as being equivalent to those in Europe at the end of the 19th and early 20th centuries is an indication that the country has much ground to cover in the conveniently overlooked micro-economic sphere. Violence, frequently associated with drugs, means that the natural beauty of Rio and São Paulo is marred by the fact they are some of the most dangerous cities on the planet. The judicial system is slow and often ineffective. Although 36% of Brazilian GDP is recouped and spent by the government, a level similar to that of a westernised developed nation, public services are at nowhere near the same level. All the disadvantages of modern urban society are there, but very few of the benefits.¹⁷ That would need to change. Corruption at local and national level remains one of the main characteristics of Brazilian political and economic life, a trait shared with fellow BRICs. The gap between the wealthiest and poorest sectors of the population continues to be one of the widest in the world. Property rights to a slum with some street lighting and the occasional pavement on the outskirts of Rio would suggest that the prediction of the BRICs becoming the dominant world powers, on the evidence of Brazil, is one that should be viewed with concern. For all their current disadvantages, would it not be preferable to be with the PIGS (Portugal, Ireland, Greece and Spain) rather than the BRICs?¹⁸ To what extent can the B continue to expand without the continued prosperity of the C in the BRIC community? Certainly the man behind the Brazilian experience is confident that the B can step up to the role being demanded of it, of providing leadership and growth on a global scale, new answers to old problems, and inspiration instead of inertia and indecision.¹⁹ It would appear that an awful lot has gone right for Brazil, since Lula's election in November 2002, but that much more needs to be done by him in the domestic arena before he can seriously claim to provide such leadership on the international stage.

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- ¹ BBC Newsnight, Stephanie Flanders, 28 October 2002
 - ² Lula da Silva, *Los países BRIC llegan a la mayoría de edad*, *El País*, 16-6-09
 - ³ Gionta Chatillard, *El Mundo*, 9-6-09.
 - ⁴ Maitena de Amorrortu, *Cambio 16*, 20-1-03
 - ⁵ Michael Reid, *El País*, 19-6-09
 - ⁶ Maitena de Amorrortu, *Cambio 16*, 20-2-03
 - ⁷ *The Economist*, 23-10-08
 - ⁸ Ana Zarzuela, *Cambio 16*, 13-11-06
 - ⁹ Michael Reid, Ya es mañana en Brasil, *El País*, 19-06-09
 - ¹⁰ Thomas Skidmore, Open University, BBC 1991
 - ¹¹ Carlos Pio, *La Vanguardia*, 19-6-03
 - ¹² Ana Zarzuela, *Cambio 16*, 13-11-06
 - ¹³ Michael Reid, Michael Reid, Ya es mañana en Brasil, *País*, 19-06-09
 - ¹⁴ Norman Gall, from Peter Day, BBC News, 4-10-05
 - ¹⁵ Peter Day, BBC News, 23-9-05
 - ¹⁶ Michael Reid, Ya es mañana en Brasil, *El País*, 19-6-08
 - ¹⁷ Tessa Cubbit, Latin American Society,
 - ¹⁸ Fernando González Laxe, Entre los BRIC y los PIGS, *El País*, 30-8-08
 - ¹⁹ Lula da Silva, *Los países BRIC llegan a la mayoría de edad*, *El País*, 16-6-09