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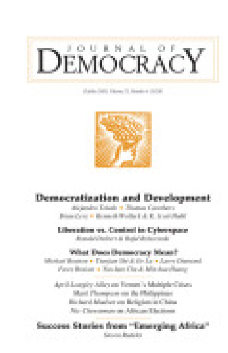


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# POLITICS, MARKETS, AND SOCIETY IN LULA'S BRAZIL

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Latin America and especially Brazil—whose 190 million people make it by far the region's largest country—have been enjoying new economic and political prospects whose full measure theorists of democratization have yet to take. Theory, by and large, is still stuck in the 1980s and 1990s—decades when external shocks buffeted the region and a generally restrictive international environment limited democracy's horizons. It assumes that the responses to economic crises followed a similar pattern in the relevant countries, with economic stabilization and market-friendly reforms preceding social reform and often at odds with it. Lately, however, an unprecedented liquidity bonanza, sustained hikes in commodity prices, the rising global weight of newly industrializing powers such as India and China, and the entry of tens of millions of new consumers into the world economy have brought fresh growth and possibilities and changed the strategic incentives facing elected leaders across the region.

As structural economic changes widen politicians' scope for discretion, a shift in analytical focus is needed. What happens when the economy becomes an *enabling* rather than a disabling factor for politicians in democratizing countries? Will the processes associated with democratization become more rather than less predictable? Will their quality rise or fall? How much did the specific mix of market discipline and social reform that Brazil adopted during "hard times" affect that country's chances to profit from the current international environment? Will Brazil soon find itself in a virtuous circle that links growing prosperity to greater equity and more robust, broad-based, and effective democracy?

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Or does such a question betray too great an emphasis on material factors, perhaps even amounting to economic reductionism?

The weakness of such reductionism becomes clear from a glance at current developments in Latin America, where different countries are taking various paths amid the new possibilities. In Bolivia, Ecuador, and Venezuela, elected politicians are turning back to an amply funded state as their preferred engine of transformation, with large doses of economic nationalism and illiberal constitutionalism added to the mix. By contrast, Chile even under Socialist presidents Ricardo Lagos and Michelle Bachelet has stayed faithful to both markets and liberal constitutionalism—the very model, as it were, of a happy match between economic liberalization and political democratization.

Brazil has been following a more convoluted path, although it appears to be managing a similar confluence, satisfying both investors and the voters who put the left-of-center Workers' Party (PT) into office. In Brazil's case, the market disciplines adopted by President Luiz Inácio "Lula" da Silva upon his 2002 election were meant to address the crisis of confidence that had accompanied his win, as investors feared a break with the macroeconomic policies and the moderately market-friendly reforms of his predecessor, Fernando Henrique Cardoso of the Brazilian Social Democratic Party (PSDB), who served as president from 1995 to 2002.[1]

Keeping investors happy was a political as well as an economic necessity, and explains why Lula and the PT—long the standard-bearers of Brazil's leftist opposition—chose continuity with Cardoso's macroeconomic and social policies. On the social front, continuity was eased by certain unique features that had characterized Brazil's previous responses to the adverse international environment. For in contrast to the dominant theoretical consensus, Brazil's 1980s drive toward social reform had *preceded* the adoption of market disciplines. In the 1990s, Cardoso's administration then pressed market-friendly reforms and a renewed drive toward social reform at one and the same time.

The contrast between the restrictive economic conditions of 2002 and the more prosperous ones that prevailed four years later, when Lula won a second term, provides a window onto the ways in which his administration's strategic decisions have changed while he has been in office. Among other things, this window can help us to assess how the strengths and weaknesses of Brazil's democratic institutions figured in the calculations of the new governmental elites. With the economic strains that once backed market discipline now lessening, we can ask: How firmly embedded are these elites' twin commitments to representative democracy and to market-friendly policies? Could it be that an improving economy—usually taken to boost hopes for democracy—is actually helping to expose and even to reinforce the constitutional weaknesses that beset Brazil's political system?

To embed democracy and secure economic stability takes time, patience, planning, and good leadership. This is all the more so in an extremely unequal society such as Brazil's, where democratic institutions are still consolidating, experience with citizenship is limited, and rights are poorly secured.[2] Looking back over the last two decades allows us to survey the distinctive democratization path that Brazil has followed as it has simultaneously sought to reduce inequality, pursue social reform, and open itself to the demands and promises of markets. Brazil's experience belies the notion that the debt crisis of 1982 and its consequences (including economic liberalization and stabilization) produced an "assault on the state" and socially regressive results everywhere.

## The Distributive Dimension

Even as Brazil's "developmentalist state" headed toward a crisis of legitimacy and solvency in the 1980s, the country was witnessing a shift, eventually enshrined in the 1988 Constitution, toward the fuller social and political incorporation of those—such as rural workers—who had long been left on the system's edges. Macroeconomic instability and hyperinflation eventually passed thanks to structural adjustment and other reforms, but the extension of rights via detailed laws and the intense efforts of successive presidents endured.[3] In short, the socioeconomically conservative tenor that modernization had long assumed in Brazil was giving way to something more liberal, more thoroughly republican in spirit, and more friendly to the cause of democratization.

Yet broad currents of statism and economic nationalism continued to run strong. For example, the inclusion of rural workers in the 1980s took place through corporatist structures that had been devised fifty years earlier with organized urban workers in mind. Such arrangements, moreover, enjoyed a constitutional status that made them formidable barriers to economic liberalization and slowed Brazil's ability to respond to external economic challenges.

The broad social reforms that began in the 1980s gathered momentum and moved toward a tipping point in 1993,[4] even as the embrace of market-friendly changes in economic policy was growing stronger. Cardoso's administration oversaw the expansion of universal public programs in health, education, and assistance to the elderly and disabled, as well as the implementation of such conditioned cash-income transfer programs as Bolsa Escola, Bolsa Alimentação, and Projeto Alvorada. The Comunidade Solidiária program targeted the poorest municipalities with basic social programs to help provide more and better health care, primary schooling, and (later) job training for people living there. Other targeted land-reform and poverty-relief efforts sought to assist rural dwellers.

This transformation of the welfare system appears all the more remarkable considering the external economic shocks that Brazil was feeling from the Mexican peso crisis of 1994–95, the Asian currency crisis of 1997, the Russian bond default of 1998, and the crisis of confidence surrounding Lula's election. And yet the engineering of new and elaborate institutions to make real the social rights declared by the 1988 Constitution went forward in tandem with the deepening of trade liberalization; the end of constitutional restrictions on capital mobility; the privatization of certain public enterprises as well as bankrupt state and private banks; and a Fiscal Responsibility Law that disciplined the relationship between the federal and subfederal governments while heightening transparency and accountability.

Although branded "neoliberal" by its foes, Cardoso's administration saw social spending rise more than ninefold, from US$1.3 billion in 1995 to $12.3 billion in 2002. The social-policy gains, moreover, appear to be sustainable. Brazil's Gini coefficient (a standard gauge of income inequality) showed a trend toward equality by dropping from 0.63 in 1989 to 0.56 in 2004, while the number of Brazilians living in poverty declined by a quarter over the same period.

Even as Lula has stood by his commitment to macroeconomic stability, favorable structural changes in the economy from 2004 on have enabled the growth of the conditioned income-transfer programs that began under Cardoso, and which are known collectively as the Bolsa Familia (Family Stipend). In just three years beginning in 2004, the number of Brazilians benefiting from these programs more than doubled. By 2006, 11.5 million households would be included. For the decade beginning in 1996, the overall impact of *all* conditioned income transfers was a 21 percent reduction in the Gini coefficient.

Lula's commitment to macroeconomic stability and to meeting Brazil's international financial obligations surprised many. The months leading up to his landslide 61 percent victory in the 27 October 2002 presidential election saw investors become so worried that he would reject market discipline and repudiate Brazil's debts that the country's currency lost half its value, while its Gross Domestic Product (GDP) shrank 6 percent and its borrowing costs spiked.

To one degree or another, the business community, the middle class, and voters in the smallest and poorest municipalities *(grotões)* shared investors' anxieties. Yet most Brazilians remained even more upset over the mediocre 2.3 percent annual economic growth that their country had struggled to achieve on Cardoso's watch, and they rated job and income growth as their top economic concerns. By mid-2002, as Lula's lead over Cardoso's designated successor José Serra was coming to seem ever more solid, the PT's strategists reached out to centrist and center-right voters with a platform promising to abide by the terms of a $30-billion bailout agreement between Cardoso's government and the International Monetary Fund. The platform also vowed to devote

3.75 percent of GNP to pay the interest on Brazil's foreign debt, to hit inflation-reduction targets, and to honor existing contracts. Marketing guru Duda Mendonça devised a communications strategy designed to win over various resistant groups in the electorate. Investors remained largely unpersuaded, however, and market skepticism prevailed.

Throughout 2003, Lula's young administration strove to close the critical gap between soaring electoral performance and abysmal economic credibility. The PT's strategists accepted the market's demands in the areas of macroeconomic policy, relative (but nonstatutory) autonomy for the central bank, and vowed to take further steps toward the restructuring of the public-sector pension system. Yet they refused to embrace microeconomic reforms to strengthen independent regulatory agencies and corporate governance in the public sector.

This early atmosphere of crisis was long gone by the time Lula faced reelection in 2006. Strong foreign demand for commodities and Brazilian-made goods plus the effects of structural adjustment had turned the country from a debtor into a creditor. Starting in 2004, the inflow of direct investment ran strong. Changes in the global economy—along with moderate economic liberalization—enabled Brazil to reap the benefits of rising exports, particularly in the commodities sector. As of 2007, Brazil's government was seeking to accelerate growth even further through the expansion of investment opportunities and credit.

## A Tale of Two Elections

At first glance, the presidential elections of 2002 and 2006 seem remarkably similar. In each case, Lula won a runoff with slightly more than 60 percent of the vote, while his PSDB rival was stuck in the high 30s. Yet the commonalities mask critical differences. Not only did economic conditions change sharply, but so did the ways in which different regions and classes voted. In 2002, Lula won first-round victories in all but a trio of Brazil's 27 states, two of which voted for "favorite-son" candidates. In the 2002 runoff, he won every state except Alagoas in the Northeast. In 2006, by contrast, Lula lost the first round in eleven states, while the PSDB's Geraldo Alckmin, a little-known governor, finished the runoff having won seven states, mostly in southern, southeastern, and west-central Brazil.

The socioeconomic composition of the PT vote changed as well. In 2002, Lula had fared best in the more developed areas of the South and Southeast, and among the wealthiest and best-educated urban voters. In 2006, the Bolsa Familia helped him to win the poorest municipalities, most of which cluster in the North and Northeast, the traditional redoubt of conservative parties. But the size of the record tallies that he compiled in those regions shows that his appeal there went beyond the poor to reach the middle and upper classes as well. The Bolsa plus a 15 percent hike in the minimum wage had, it seems, exerted a multiplier effect on local economies. Retirees and nonunion workers in the cities also benefited from Lula's wage and pension reforms.

Even as Lula was winning about the same share of the total vote (while losing in more states) from 2002 to 2006, his party was reeling from scandals and watching its losses pile up. Since much of the immediate fallout rained down on the core architects of the winning 2002 strategy and the first-term policies, the PT's troubles left the president with more autonomy vis-à-vis his party than ever.

What do these recent shifts imply about the prospects facing democracy in Brazil? Do the changing socioeconomic and geographic contours of Lula's base provide further evidence for the popular "two Brazils" thesis and its portrayal of a society sharply split between rich and poor?[5] Are we witnessing the birth of *lulismo,* a new political phenomenon based on Lula's popularity and his skilful creation of a direct relationship—largely outside the channels of a weakened PT and Congress—with unorganized interests and the poorest? Can Congress shake off the effects of scandal and executive dominance long enough to pass overdue tax reform as well as political and electoral reforms?

The strategies that Lula's government has favored since 2002 shed light on these questions, and also on the structural weaknesses from which Brazil's political system suffers even as certain of its institutions show a heartening degree of resilience. At the outset of his time in office, Lula laid down a pattern of political communication that has endured beyond its initial use in helping him to "triangulate" the complex challenge of simultaneously satisfying skeptical investors, his own left-wing base, and the wider electorate. Improving the market's expectations and checking renewed inflationary pressures—the key economic demands of 2003—required him to stick with orthodox macroeconomic measures, tighten monetary policy, and reform the public-pension system. These were all steps of the sort that Lula and the PT had long denounced while in opposition.

In order to draw attention away from the policy continuity underlying these measures—which were overseen by a PT-led coalition government that contained centrist and center-right parties—Lula and his team sought to project the image of an epochal departure from the past. This political strategy has received far less attention than its results in the form of improved economic governance. The strategy required trade-offs between responding to investors and satisfying the hopes of domestic constituencies that had voted for change.

Three mechanisms figured prominently. The first was the intensive use of symbolic assets and other political resources available to the presidency in a country whose constitution makes the executive the dominant branch of government. Duda Mendonça's communications strategy relied heavily on Lula's effective daily radio broadcasts to the nation as well as on his television exposure. The second was the crafting of a coherent governing coalition out of a heterogeneous electoral coalition. The third was the carefully engineered compliance of the president's party with an unpalatably "neoliberal" change of gear in economic policy. With some modifications due to changing circumstances, the interplay of these three mechanisms has remained highly influential to this day.

## The Uses of Legitimacy

Economic stability underwritten by fiscal and monetary discipline serves the interests of both international investors and Brazil's poorest citizens, who have the fewest defenses against runaway inflation. The electoral rewards that President Cardoso had reaped by embracing currency stabilization in the form of the Real Plan made this point clear to PT strategists. Their task was to brighten the markets' gloomy expectations about Lula while winning over an electorate that had begun to take stability for granted and that wanted more growth to go hand-in-hand with greater equity and welfare. The strategists' answer was to employ lessons learned during the 2002 campaign by stressing the symbolism attached to the election of a working-class president who had quit school after the fourth grade: "He is one of ours!" ran the slogan they devised. Lula, fortunately for his advisors, had the personal flair and political acumen to make this proactive approach work. And he not only had the help of saturation media coverage that reached even the farthest corners of his vast country, but could also call upon a thoroughly modern and well-funded marketing and opinion-polling machine.

Other proactive tactics included the use of rhetoric designed to obscure any links or likenesses between Lula's economic policies and those of his predecessors, and even to create the impression that the country was being comprehensively refounded. The crisis of investor confidence was blamed on the "accursed legacy" of the Cardoso administration. Meanwhile, not merely Cardoso's but all past governments were lumped together with "the elites," while Lula was pictured as a father figure. The slogan "Never before in this country!" sought to underscore his government's responsiveness to the underprivileged. These appeals proved credible and effective, notwithstanding well-publicized evidence that Lula's policies were allowing bankers and other private interests to make large profits of the sort that the president and his party had strongly decried while in opposition.

Another of the administration's arguments sought to persuade citizens to use an extended timeline when weighing the costs and benefits of economic policy. The president and his allies dwelt on the noble long-range aspirations of the iconic Zero Hunger Program to great effect both at home and abroad, despite this ambitious scheme's poor results. Moreover, effective appeals for voter patience rested on realistic estimates by administration economists, who predicted that growth would get seriously underway by 2004. Opinion polls showed that Brazilians were indeed ready to extend their horizons of judgment much as the president had asked. In early 2003, majorities were telling pollsters from CNN and the Instituto Sensus that they would give Lula six months to make good on his economic promises. By the final quarter of that year, this self-reported grace period had tripled to eighteen months. The role of such strategies in assisting a smooth exit from the crisis years of 2002 and 2003 should not be underestimated: Lula's indices of popularity remained high notwithstanding a 13 percent fall in real average income, a significant increase in unemployment, and GDP that grew by a barely detectable 0.1 percent.

Lula and his advisors faced a fresh test of their communications acumen in May and June 2005, when news broke of political scandals involving key government strategists and leading figures in the PT. Throughout the rest of that year, the new communications strategy became essential in averting the defeat of Lula's 2006 reelection bid. This time around, the administration used a panoply of devices that varied from audience to audience. Long televised interviews, aimed at the best-educated citizens, depicted political corruption as part of "the system," a banal practice used to fund elections. Ignored were the distinctive aspects of the Lula administration's scandals, including their centralized nature and the use of public resources to serve a national political party rather than to buy votes on a particular bill or to enrich an individual.[6]

Poorer neighborhoods benefiting from the Bolsa Familia and the higher minimum wage and served by federally controlled or influenced local media heard reassuring daily messages asserting that "never before has a government been so engaged in investigating corruption." The Lula administration's sophisticated marketing and communications efforts were like nothing ever before seen in Brazil. They allowed the president to decouple his own image from his party's, and to keep his distance from the PT's problems despite a Federal Police investigation that uncovered well-funded maneuvering by close Lula advisors against José Serra's (eventually successful) candidacy for the São Paulo state governorship. Lula's winning of a second term owes much to these novel (for Brazil) public-relations methods. They added to the aura of the Brazilian presidency and helped to magnify the effects of both the symbolic assets and the political skills that are essential to Lula's mode of leadership.

In a democracy, the crafting of even a modestly coherent policy consensus depends in no small part on the political and institutional framework within which an electoral alliance must go about turning itself into a governing coalition. Brazil's political system is host to a structural tension between the majoritarian presidency and the power-sharing requirements of the other political institutions that make up the country's "coalitional" form of presidentialism. Moreover, given the executive dominance that is embedded in both constitutional text and political fact, devising a consensus approach to economic policy also depends on more contingent conditions, such as leaders' capacity to work with existing institutions in resourceful new ways. In the recent past, a modicum of policy stability and effectiveness has proven attainable so long as the federal executive respects the different electoral weights of the various parties and bargains with representative state governors.

## Coalition Building Since 2003

How has Lula met this challenge? What new power resources has his administration created from existing institutions, and to what ends? Since Lula took office, the executive branch has applied its considerable discretionary powers to the delicate task of cementing a ruling coalition of eleven parties around an economic agenda of solvency and market discipline that many of these parties find less than congenial, even if they once grudgingly recognized the temporary need for it during the crisis of confidence. The coalition included small parties of the right and center-right known for clientelism and corruption, as well as parties to the left of the PT. Lula's coalition, moreover, at first held only 45 percent of the seats in the Chamber of Deputies (a figure that increased to 65 percent after the large Party of the Brazilian Democratic Movement [PMDB] split and most of its members decamped to the government). Cardoso, by contrast, had needed to manage a coalition of just four parties that together controlled 75 percent of the Chamber seats.

Given the opposition's preexisting commitment to economic stability and market-friendly reform, did Lula have to govern by means of such a large, mixed, and often-undisciplined coalition? This question became all the more pointed in the wake of news that certain rightist and center-right legislators were each receiving unprecedented payments *(mensalãoes)* thought to be worth about $12,000 per month in return for backing the administration. Although these lawmakers' parties may have disagreed with the administration's economic policies (the small clientelistic parties of the right and center-right tend to favor the expansion of state-controlled jobs and opportunities), the legislators themselves might have been expected to vote with the government in exchange for control over public-enterprise or executive-branch posts. However, discontent may have arisen from both the relatively scarce number of posts to be filled, and the preference shown to PT members when filling them.

The question, while understandable, was also naïve in a way, for much more than the economic agenda was at stake. The PT was carrying out a long-term power-building strategy designed to make it Brazil's perennially dominant party. The assets to be used in this approach included the PT's control over the largest single bloc of seats in the Chamber, its organizational roots and discipline, and Lula's 82 percent popularity rating. The first asset was less valuable than it seemed, however, for the PT's own share of the Chamber was not even 18 percent, and in Brazil only one party has ever held more than 20 percent of the legislature. This 20 percent ceiling explains why, by 2003, Lula was reaching out so vigorously to the center—and particularly to lawmakers from the fractured PMDB—in a bid to gather to his side at least a nominal legislative majority.

The government used its discretionary powers to insulate economic policy from the pressures of competitive politics, a standard move in cases of macroeconomic structural adjustment. In Brazil, this meant shielding the authority of liberal economists in the Finance Ministry and the Central Bank against attacks by economists within PT ranks.

At the same time, in a clear and novel politicization of public administration, PT members (mostly labor unionists) were given government posts and executive jobs in state-run companies, federal banks, and regulatory agencies. The upper reaches of the federal executive branch were turned into a virtual nest of defeated PT election candidates. This wave of personnel moves and its implications for effective and honest governance would loom large after February 2004, when various political scandals began to come to light. Brazil's federal executive still decides who will fill about twenty-thousand jobs that are kept exempt from merit-based selection criteria—a fact that those who decry the "neoliberal assault on the state" seldom if ever note. By boosting the number of ministries from 27 to 35, and by staffing the state bureaucracy, public enterprises, and state-run banks with PT members, the administration was acting on a "winner-takes-all" basis that was at odds with the unspoken rules of coalitional presidentialism.

Among the leading devices for padding a majority has been the practice of drawing opposition politicians to the ruling coalition's smaller parties (never to the PT) by taking advantage of the executive's control over state patronage as well as an electoral law that allows floor crossing. The PT's tactics have significantly drained opposition parties and undermined the positive trend, dating from the late 1990s, toward the distillation of electoral competition into five or six parties. Even though the PT held only two governorships, Lula commanded the partial cooperation of most governors. This was not surprising. Their states depended on federal approval to gain foreign loans as well as to share in the welfare gains expected in upcoming years.

The political costs of that power-building strategy became clearer in mid-2005, when the monthly-payments scandal broke. Congressional hearings led to the resignations of José Dirceu, the president's chief-of-staff and top political strategist; PT leader José Genoíno; and Luiz

Gushiken, Lula's communications director. The hearings uncovered the complex network that had been set up to pay for the PT's power-building strategy. Large sums from state-owned companies had been funneled to selected legislators and other key figures through a little-known public-relations executive named Marcos Valério. Investigation also revealed that Duda Mendonça, Lula's top ad man, had been paid through illegal overseas accounts. The evidence that Eduardo Azeredo, the president of the major opposition party (the PSDB), had received cash from a subsector of the Valério network to fund his 1998 run for the governorship of Minas Gerais state helps to explain why the opposition refrained from consistently harping on the ethical shortcomings of the dominant party.

In March 2006, another crucial resignation—that of PT member and finance minister Antonio Palocci—ripped the veil off the PT's long-standing practice of using padded municipal contracts to fund its election campaigns. This turned a spotlight on the prevailing values of PT leaders, who reckoned illegal practices and the abuse of public funds morally acceptable so long as the goal was to serve the party rather than individual interests. The underlying illiberal assumption—that the Workers' Party is above the law—stood in sharp contrast to the long-held impression among educated Brazilians that the PT is somehow "exceptional." Sensing the value of this image, Lula (who as of this writing has not been personally implicated in the scandals) had earlier sought to obscure the novel nature of the Valério network by telling a television interviewer that such behavior was somehow "inherent in the system."

Such developments bring to center stage the issue of horizontal accountability. How effective are the institutions constitutionally empowered to check the powerful executive branch? The courts and the Federal Police played prominent roles in investigating the *mensalão* affair. Media scrutiny was intense. Much-publicized congressional hearings played a pedagogic role, albeit at the cost of further damaging the already low public standing of the Chamber of Deputies. The investigations, the coverage, and the hearings were all encouraging signs that horizontal accountability is alive in Brazil. On the disheartening side was the evident tolerance with which PT leaders viewed their colleagues' malfeasance, as well as the cavalier attitude that the PSDB had shown by not requiring the resignation of its president after it came out that he had availed himself of the same illegal network as the PT in order to support a campaign of his own.

## Lula's Second-Term Prospects

Tarnished by scandal and looking into the jaws of defeat in 2006, Lula's administration responded with: 1) an expansion of Bolsa Familia coverage from 8.5 to 11.5 million families; 2) a 13 percent real increase in minimum wages and retirement pensions; and 3) steps to make it easier for poorer Brazilians to get bank loans. These policies helped the administration to make inroads into the *grotões* and secure reelection, but could not stop the significant shift away from Lula's camp by better-educated citizens in the southern, southeastern, and west-central parts of the country.

The "two-Brazils" thesis, according to which the elections reflect a split between rich and poor, needs qualification.[7] First, the severe economic crises that hit the Center-West and South hurt *all* social sectors. Second, Lula's commanding 2006 performance in the North and Northeast, where he gained 65 percent and 85 percent of the vote, respectively, included the support of local elites. The Northeast's entire economy benefited from the Bolsa Familia, the minimum-wage hike, low inflation, and the decline in value of the U.S. dollar (which made imports cheaper). During 2006, consumer spending in the Northeast grew at a Chinese-style pace of 13 percent (almost double the rate at which it grew nationally).

Finally, the partial shift of the better informed and educated away from Lula's camp needs closer scrutiny. Discontent among the middle classes of the wealthier regions had many causes other than higher unemployment rates. The share of national income going to these Brazilians has been shrinking even as their tax burden has been growing. They enjoy wide exposure to multiple and competing sources of information regarding rights abuses and corruption, including the recent PT scandals. Compounding their sense of disillusionment over the PT's lack of its once-vaunted ethical "exceptionalism" has been that party's poor follow-through on its campaign promises regarding health and education. The failure to spend money in these areas has galled well-informed citizens who are aware of the government's broad taxing powers and the bonanza that has been going on in areas such as the spectacularly profitable financial sector.

In the *grotões,* by contrast, local authoritarians run the show while media competition barely exists. Local television and radio stations dominate the airwaves in these impoverished areas, and local-broadcasting licenses have long been treated as "pork-barrel" concessions from the central government. The national media can cover whatever they like, but the local media will always act as a filter determining how national coverage "plays" in the poorer localities. There, the administration's official line that it was doing "more than ever before in this country" to fight corruption was the dominant story.

As Lula's second term approaches its 2008 midpoint, the question of how favorable economic circumstances and Brazil's new role in world trade and investment markets will affect the administration's strategic thinking remains open. Judging by recent developments, one can speak of mixed results and see reasons for anxiety. Good economic-growth prospects and proactive policies such as the Bolsa Familia, the higher minimum wage, and easier credit access have reduced poverty and inequality and helped many once-poor Brazilians to become members of a rising new middle class. These promising socioeconomic trends are vital to the spread of political equality, but in and of themselves they still do not guarantee that the stubborn problem of limited citizenship is being adequately addressed.

## A Renewed Rise of the State?

There is also reason to worry whether the idea of market-based, representative democracy is really taking hold—not among the populace at large, but among policy makers themselves. Even as a dynamic private sector, led by a modernized financial system and Brazilian firms that are going global, spreads optimism in markets and the pages of the foreign press, existing political elites are relying ever more heavily on the state not only to change society but to help them cement an allegedly more stable governmental coalition. The traditional politics of pork is swelling in scale because Brazil is richer, and because politicians and party leaders have decided to reshape "coalitional presidentialism" in a way more consistent with the power-sharing logic already inherent in that model. The incentives for opposition deputies to migrate to the smaller parties in the government's coalition have been mounting, though the Supreme Federal Tribunal's September 2007 ruling that congressional mandates belong to parties rather than individuals could arrest that trend. In the face of congressional reluctance to vote for political reforms that would promote party discipline, the courts are acting in ways that promise to bolster the stability of Brazil's rather fluid party system, but which also threaten to further the "judicialization" of politics.

On the politico-economic front, meanwhile, badly needed structural changes languish, with no chance of being enacted. New moves from the government point to renewed restrictions to competition within major areas. Thus, the duopolistic structure in petrochemicals is being strengthened as the state increases its participation as Petrobras's main shareholder; and competition in telecommunications may be significantly restricted by means of a state-funded merger of two private firms, with the resulting new entity to be controlled by the state. The deliberate politicization of regulatory agencies compounds the picture. Among the necessary changes being ignored are not only tax reforms but also measures intended to foster better corporate governance and to reduce the regulatory and juridical uncertainty that limits long-term investment and with it Brazil's ability to compete in the global economy. Short-term calculation has been crowding out sound, long-range strategic thinking, and few elected officials seem to have reflected that now—while the economic bonanza is in full swing—is the best time to adopt politically costly reforms. The politically insulated central bank is maintaining monetary discipline, but the government remains fiscally profligate, spending at a much faster pace than its income is increasing. The central bank may remain staffed by people who respect markets, but other organs of economic policy making are seeing a "changing of the guard," with advocates of greater state interventionism and state-funded employment gaining preponderance. In the major planning institute, for instance, economic liberals critical of fiscal profligacy have been purged as never before.

On the political-institutional front, the PT and government-aligned lawyers have been calling for a constituent assembly and laying emphasis on plebiscites. One aim appears to be a set of constitutional amendments facilitating a third term for Lula. Given Lula's strong personal popularity and the deep mistrust with which most voters view "politicians" (meaning especially members of Congress), this is hardly out of the question.

The president and members of his administration often give voice to a plebiscitary conception of democracy. For example, Luiz Dulci, the secretary-general of the presidency, claimed that the Supreme Federal Tribunal's acceptance of the prosecutor-general's accusations against the forty persons involved in the *mensalão* scheme "has nothing to do with the government. . . . The government was judged at the voting booth, democratically, and received the consecrating approval of the Brazilian people. . . . The sovereign people are the judges in a democracy [and they] reelected President Lula."[8] Finally, the launching of the cabinet-level Communications Ministry and the well-funded TV-Brasil network (with its presidentially appointed guiding council) give additional cause for concern.

Contrary to what a reader of the dominant theoretical work on democratization might expect, Brazil's experience of political democratization and economic liberalization under the adverse economic conditions of the 1980s and 1990s did not bring about a neoliberal "assault on the state." On the distributive, socioeconomic side of things, the story of how democratization processes and social reforms have taken hold in Brazil under the novel political-legitimacy criteria laid down by the 1988 Constitution shows us how a definite departure from the "modernizing conservatism" of the past has gone forward hand-in-hand with moderately market-friendly reforms.

By comparing how Lula's 2002 and 2006 election bids unfolded, we can study a test case that reveals how shifting economic conditions (which we might sum up as "demanding in 2002, permissive four years later") affected the strategic decisions that Lula's administration made. As we peer farther ahead into the opening decades of the twenty-first century, we note with worry how democratization seems to be breeding (among key elites, at least) an ever greater reliance on the state not only as an engine of social transformation, but as a trough of party-political resources. We also feel concern, finally, as we note how the Brazilian polity's plebiscitarian leanings—checked somewhat so far by the judicial system and the media—have begun to emerge not amid crisis, but even as the good times roll.

## NOTES

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3. Sônia Draibe, "Social Policies in the Nineties," in Renato Baumann, ed., *Brazil in the 1990s: An Economy in Transition* (Houndmills, England: Palgrave, 2002); and "Social Policy Reform," in Mauricio Font and Anthony Spanakos, eds., *Reforming Brazil* (Lanham, Md.: Lexington Books, 2004).

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8. Dulci's comments appear at *www.agenciabrasil.gov.br/noticias/2007/08/29/materia.2007-08-29.1997689595/view.* Author's translation.