

Lula's Government in Brazil: A New Left or the Old Populism? **

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I. Introduction

The election of Brazilian President Luis Inacio Lula da Silva in 2002 was surrounded by a diffuse but very strong expectation of change. In fact, the new president himself, in his inaugural address, opened his speech stressing the word *change*. Lula's voters expected him to take the necessary steps to resume economic growth, after almost 25 years of semi-stagnation, and to take steps to achieve some measure of income and wealth redistribution. A few segments of his electorate seemed to expect him to move even beyond these goals, to promote some form of radical structural change in the Brazilian society, although different groups could entertain different ideas as to which structural reforms should be given priority. At a minimum, both Lula's voters and opponents seemed to expect (or to fear) a change in the macroeconomic policy mix implemented by President Cardoso's in his second term, particularly in relation to the maintenance of high interest rates and of a fiscal policy that privileged financial transfers over public investment.

Lula's administration, however, was characterized, in his first year, by an over-cautious behavior, maintaining and in fact intensifying Cardoso's monetary and fiscal policies. To signal that his choice to persist with Cardoso's policies was not temporary, Lula placed

** Prepared for the special issue of the French journal *Tiers Monde* dedicated to the debate of policy choices in Latin America.

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conservative economists in posts of the highest authority in the economic ministries, in complete disregard of the economists historically associated with the Workers' Party (PT, in Portuguese). Still, the president's rhetoric was ambiguous in this period: in the first year as president, Lula frequently explained the maintenance of Cardoso's policies as a result of the latter's *damned legacy*, the 2002 balance of payments crisis, which forced him to adopt policies destined to calm down financial markets rather than to satisfy his supporters. This ambiguity allowed a large number of his followers to keep faith, expecting that, once the crisis was over and financial markets had at last calmed down, the "PT style of government" would then prevail.

Lula's first term in government has now drawn to a close.¹ The rhetoric of the damned legacy is long gone, replaced by the idea that Lula in fact represents a new, modernized left. This characterization, often proposed by conservative analysts, opposes something like Tony Blair's combination of fiscal austerity with sensible social policies (providing public support to targeted vulnerable social groups), to Berlin Wall-types of leftist thought which would bring back the nationalization of firms, fiscal irresponsibility (and, in South America, complacency with inflation), disrespect for the law (as in the cases of invasion of private property), and so on. Lula is praised by local conservatives as well as by foreign entities and politicians for his *social sensibility*, which allied to his *fiscal responsibility*, would define him a man of the "modern left".^{2,3}

¹ Brazilian law allows sitting presidents to run for a second term. Lula was re-elected president in a run off ballot after missing a first-ballot victory by less than 2% of the vote.

² Castañeda (2006), for instance, proposes the existence of two "lefts" in Latin America. On the one hand, one would find Lula and the Chilean Socialists, professing a modernized left, defined as politically moderate, macroeconomically prudent, aiming to combine the concern with economic efficiency through the adoption of market-friendly policies with "social" concerns attempting to improve the lot of the poorer segments of society. In contrast, there would be an old left, led by people like Evo Morales, closer to Cuba's Fidel Castro.

This characterization has suited Lula very well. Beginning in 2005, a succession of corruption scandals has plagued his administration. PT's first, and so far the most important, line of defense has been to acknowledge some guilt but to argue that Cardoso's politics, during the latter's presidency, was no better. Thus, the focus of the political debate was displaced. A very dear argument to PT in the past, that it was a *different* political organization, compared to the other parties (and the derived argument that PT administrations were different from the others), had to be abandoned. Most of the debate now in Brazil is reduced to wholesale comparisons between the quantitative results achieved by Lula's and Cardoso's administrations. Thus, consciously or not, Lula and his supporters came to accept implicitly the thesis that his policies are the same as Cardoso's. The question that has to be settled is which one has been more successful (and which one has been less corrupt or less complacent with corruption).⁴

The impossibility of essentially distinguishing both leaders' policies was in fact reaffirmed during the 2006 electoral process. Lula's opponent ran under the slogan "the same policies, but better managed", which is essentially Lula's own point when he compares his own performance with Cardoso's. The campaign rhetoric changed somewhat between the two

Castañeda includes in this last group Lopez Obrador, the defeated candidate in the last Mexican presidential election. Castañeda approaches the issue of the nature of the political with the eyes of a Mexican analyst: one of the criteria he proposes to classify the existing left-wing groups as modern or old is the degree of friendliness shown to the Bush administration in the US.

³ It is very interesting that politicians like President Bush, widely associated to extreme conservatism, actually seem to support Lula's policies, even as they call his government leftist. The same comment applies to institutions such as the IMF which seems happy to be able to show support to a supposedly leftist administration.

⁴ The old ghost of the reformist left, that it aims to manage instead to change capitalist economies, seems to have staged a comeback, not without some irony, in the debate about who was the best manager, Lula or Cardoso. It is ironic because PT has always expressed publicly its rejection of the reformist left and the social democracy!

ballots. Feeling the pressure to be more affirmative in his attempts to differentiate himself from the candidate running for Cardoso's party, Lula radicalized his discourse, focusing, however, on one point: his opposition to any new privatization initiative. But even here, one can doubt the relevance of the apparent shift: his opponent had not, in fact, defended new privatizations. He was forced by Lula, however, to defend Cardoso's privatizations that are, in fact, quite unpopular. Be it as it may, the important point was that by focusing on something that was not in fact under discussion, Lula could exhibit a radical campaign rhetoric without actually committing himself to any change of ways with respect to the conservative policies he adopted in his first term.

One should not underestimate, though, the importance of being able to present oneself as representing the "left" in Brazilian politics. No political group in Brazil dares to present itself as right wing, because the right is still heavily identified by voters as those nostalgic of the military regime. Cardoso, before Lula, had already tried to advance the concept of a *modern left*. In fact, he had invested heavily in the construction of this notion through his participation in the Clinton/Blair's "Third Way" meetings, which had also involved politicians like Lionel Jospin and Massimo D'Alema. The "third way" seems to have been forgotten once most of its sponsors lost power. Lula now claims to be the true heir to the notion of a modern (more responsible, perhaps?) left.

Whether Lula's recent adhesion to a policy strategy characterized by the combination of fiscal austerity with targeted social spending is sincere or not, his administration has deeply disappointed many (if not necessarily most) of his voters. This paper tries to evaluate his government's policies. To do it, in section II we present the most important achievements

of Lula's administration so far, trying to identify his successes and failures in a rather matter-of-fact, descriptive way. Section III presents an assessment of these results, having in mind the expectations created by Lula's election. Section IV discusses whether Lula could have made different choices. Section V concludes. It is important to have in mind that the discussion in this paper is mostly confined to economic problems. The political dimension is taken mostly as an element of the context within which policies were selected and, as such, it is sometimes, but not always, explored in more detail.

II. Achievements and Shortcomings

In one of the first speeches delivered after his inauguration, already under criticism for nominating conservative economist for all the key posts in the Finance Ministry and in the Central Bank, for raising the primary surplus target to 4.25% of GDP (from 3.75% maintained by the Cardoso administration), and for the steep increase in interest rates decided by the Central Bank, which would certainly choke whatever impulse to growth could have from the turbulences of 2002, Lula replied to his critics that his past rhetoric should be disregarded as "bragging" (*bravatas* in Portuguese), which one is free to do when in the opposition, but which were inadequate to a responsible politician as he had become when he was finally successful in getting elected president.

In terms of macroeconomic policy, Lula maintained second term Cardoso's second-term mix of inflation targeting (monetary policy), primary surplus targeting (fiscal policy) and floating exchange rates (exchange rate policy). Lula did resurrect other policies, such as

industrial policies, but they were implemented in a way that has been usually described as *erratic*, in which some good ideas are advanced but are seldom consistently implemented.

The general results achieved are presented in table 1. Data for Cardoso's second term are added for comparison.

Overall macroeconomic performance, measured by the growth rate of GDP has not changed. Under Lula, the economy exhibited the same stop-and-go pattern it showed during Cardoso's term. The stop-and-go cycle has been explainable since the 1990s by the behavior of the interest rate. In fact, after initiating a protracted process of reduction of the basic interest rate in the second semester of 2003, the Central Bank reversed course, choking the recovery that began in 2004. Having its monetary policy oriented exclusively by an inflation target, the Central Bank didn't seem to care for the negative impact its policies would have on the rate of growth of GDP, pulling it down in 2005.⁵ Inflation, however, did respond to the slower economy, falling continuously since its upsurge in 2002.

Turning to fiscal policy, Lula's government overshot the primary surplus target (4.25% of GDP) in the first three years of his term. For 2006, the last of his first term, all indications are that the target is going to be reached but without any overshooting, given the increase in government expenditures resulting from electoral pressures. Nevertheless, public debt

⁵ The chairman of the Central Bank of Brazil, Henrique Meirelles, recently stated: "And I mentioned that this is a successful process. Because the inflation rate, which is the main measure, *practically the only measure in fact to assess the performance of the Central Bank*, has gradually approached the center of the target, which demonstrates that it is a successful monetary policy". Statement reported by Folha-online, April 03, 2006, emphasis added.

reduction targets were missed because the Central Bank kept interest rates too high, to the point of generating deficits in the overall budget. Be it as it may, management of the federal public debt can be counted among the successes of Lula's administration, given the adverse context in which the Treasury operated, there included the policies of the Central Bank.

Also among the successes, one should count the very impressive turnaround in the evolution of trade balances. In fact, Brazil began showing surpluses in its trade balance still under Cardoso, when, at last, the change in the exchange rate regime implemented in 1999 began showing its effects more clearly. The rapid increase in the trade balance made it possible to reach significant surpluses also in the current account, reducing one important (although not the only one) source of external vulnerability. Of course, one cannot forget that this performance was favored by the intense growth of international trade and by the significant rise in the prices of commodities, including the ones exported by Brazil.⁶

The publication of the results of the 2004 Household Survey realized by the Central Statistical Office of Brazil (IBGE) brought some good news too with respect to social indicators. Table 2 shows that the proportion of the population living under poverty had

⁶ One feat widely commemorated by Lula's government was the liquidation of the debt with the IMF, established with the rescue package of late 1998 and renewed many times afterwards. One has to consider it carefully though. On the one hand, the possibility of paying the remaining debt should be welcome, and it was possible due to the good results obtained with the current account of the balance of payments. The government's commemoration, however, is overdone. The main gain a country derives from getting rid of an IMF rescue program is the possibility of choosing autonomous policies, free from the constraints posed by the Fund's conditionalities. Lula's government had no intention to pursue any other policy different of the one prescribed by the Fund. In fact, a large number of the key officers in the Ministry of Finance and the Central Bank were former IMF functionaries who made sure that the Fund's policies would be followed without interruption. Therefore, the liquidation of the debt should be welcomed because it reduced the country's financial obligations. The main benefit, however, the recovery of policy autonomy was never meant to be enjoyed.

fallen from 35.26% in 1999 to 33.57% in 2004. Those living under extreme poverty were 13.13% in 2004, down from 15.03% in 1999. In the case of people living in poverty, absolute numbers actually went up, because of growth of population, while those living under extreme poverty remained roughly the same absolute number. The Gini index of inequality fell from 0.594 in 1999 to 0.572 in 2004.⁷

These good news should be approached with some care. First, because the survey was realized in 2004, year in which the highest growth rate of GDP since 1999 was reached. What happened to these indices in 2005, with the slowing down of the economy is not yet known. Secondly, the Household Survey is a reasonably accurate source of data about labor income distribution. It is much less reliable with respect to other sources of income such as profits and interest. Therefore, one can be sure that intra-labor sources of inequality may have been attenuated but very little can be said with a minimum of certainty about the functional income distribution profile. In fact, available indications are that profits have increased considerably in the period (particularly in the financial sector) and interest payments, led by the service of the public debt at those rates appointed in table 1, have also been very high.

Finally, and also somewhat controversially, the government also counts among its successes the behavior of the labor market. In fact, one can see in table 3 that total formal employment (that is, of people hired under a formal labor contract) has grown monotonically, if not very quickly, since 2000. It has grown even in slow growth years,

⁷ Again, one has to be careful to allocate praise for these results. Critics point out that 2004 results are a continuation of a trend that comes from Cardoso's presidency. The point is also raised that the changes are very small for such a long period of measurement.

such as 2001 and 2003. There is some scattered evidence that the *net* expansion of employment has been in fact much lower, with formal employment expanding at the expense of informal jobs, as a result of monitoring crackdowns on employers. The behavior of the unemployment rate is also ambiguous, with some decrease in unemployment rates during 2005. Unfortunately the data in the table does not allow us to discriminate between reductions of the unemployment rate due to expansion of jobs and those due to discouraged workers abandoning the labor market.

Among the failures of Lula's government it is pointed out the inability to sustain a regular rhythm of growth for the economy. Even the most enthusiastic supporters of his modern left style, such as the IMF staff, stress that this is their one big disappointment: the inability of accelerating growth beyond the 2,5%/3,5% range. If one takes into consideration the exceedingly favorable external environment, with expanding trade, rising prices of commodities, and quiet financial markets for the last four to five years, Brazil has actually missed an important opportunity to accelerate its growth rate. In fact, the Brazilian economy has grown at some of the lowest rates of growth in the world in the last three years.⁸ In addition, the expansion of private investments, key to sustain long-term growth, has been aborted repeatedly. As to public investments, they have been continuously sacrificed in favor of financial transfers (servicing public debt) and current expenditures. Thus, one can make a favorable evaluation of Lula's option for "fiscal austerity", repeatedly overshooting the primary surplus targets, but when one checks out how public

⁸ The International Monetary Fund forecasts that the same will happen in 2006 and, possibly, in 2007. See IMF, World Economic Outlook, April 2006, table 1.1.

expenditure is being allocated it is inevitable the conclusion that expenditure cuts are entirely *ad hoc*, actually reducing the growth potential of the economy.

III An Examination of the Performance of Lula's Government

Even though the performance of Lula's administration has not been bright, it may be difficult, at first sight, to understand why some of his critics have been so harsh in their judgments. Even if one disconsiders the seemingly endless string of scandals that have been uncovered since mid-2005, which has shattered, perhaps fatally, the ethical image PT has cultivated for so long, Lula's policy choices have been the target of continuous and relentless criticism, coming particularly from his left.⁹ Of course, one should keep in mind that since Lula is widely judged to have moved significantly to the right, the critics in the "left" now cover a wide political spectrum, ranging from Keynesian "social democrats" closer to the political center to Marxists at the more extreme left, including left-leaning liberals and traditional leftist intellectuals disappointed with the performance of Lula and PT in regard to their "ethical" conduct.

Of course, with such a diversity of views, one would expect a wide variety of criticisms being leveled against President Lula, and actually this is precisely what happens. If one

⁹ It is interesting to note, however, how small was the influence of "ethical" factors on the 2006 election. Not only Lula maintained quite a comfortable lead over his opponents for the whole campaign (after a very difficult 2005), but PT itself fared very well in the elections for Congress and the Senate. It is still far from becoming a "majority" party, but with about 16% of the votes for Congress, PT was actually able to elect the largest group of deputies. In fact, among the reelected congressmen are included many of those involved in the scandals of Lula's first term, and that are now being criminally prosecuted. One should keep in mind that according to Brazilian law, members of Congress can only be prosecuted by the Supreme Court, no matter the nature of the crime they are accused of. It has long been a tradition in Brazilian politics that for some politicians the election for Congress is tantamount to obtaining an habeas corpus against criminal prosecution.

disconsiders criticisms coming from more radical quarters, it can be said that even a nominally left wing government in a developing country should pursue at least four goals: full employment of labor; economic growth; income and wealth redistribution; and the empowerment of dispossessed groups, spreading out citizenship rights. A leftwing administration should not be “generous”. It should advance, on the contrary, a redefinition of duties and rights, redistributing power away from those used to rule towards those in position of subordination. It is structural change that is to be sought, not “generosity” or even “social sensibility”.

The first and more widespread criticism directed at Lula relates precisely to the perception that growth opportunities have been lost because of wrong-headed macroeconomic policies. As already observed, the international economy has behaved in an extraordinary benign manner in the last few years. Although the Brazilian economy has grown at positive rates during the whole period, these rates have been consistently lower than those reached by the international economy and by most of the emerging economies. Also in contrast with economies like Argentina’s, most of the problems faced by the Brazilian economy have been self-inflicted.

In fact, the macroeconomic policy mix implemented by Lula’s economic authorities exhibits a strong anti-growth bias. The Central Bank sustains exceedingly high interest rates to keep aggregate demand under its control so to allow reaching its inflation target. The monetary authority does not acknowledge any responsibility for the “real” side of the economy, alleging that the best contribution it can give to ensuring fast growth is to make sure that inflation will be low. Most of inflation surges in the last years have been due to

supply shocks. Combating inflation as if it was caused by excess demand depresses the level of activity and keeps unemployment high.

In fact, the inflation targeting regime is generally biased against the level of activity and growth. Not only because it absolves the central bank of any responsibility for the negative impact its policies may have on employment, production and investment. In fact, this regime is asymmetric with respect to real production. If the central bank believes that the output gap (the gap between actual and potential output) is closing and the economy may become overheated, it will raise interest rates to cool down economic activity. However, in the opposite situation, if the output gap is opening because actual output is falling farther below its potential level, it does feel obliged to reduce interest rates unless inflation rates may fall below the floor of the acceptable range. In sum, interest rates tend to rise when output growth accelerates, but they do not fall when output falls.

In the Brazilian case, the extreme conservatism of the board of directors Lula appointed to the central bank made things even worse. As we just argued, the inflation targeting regime by itself may be biased against growth, but monetary policy action still depends on the evaluation of how far can output grow before the output gap reaches a dangerous value. One has to remember that the monetary authorities do not react to *actual* inflation but to *expected* inflation. To do it, the central bank builds a model of inflation to estimate the parameters for action econometrically. Although it may seem that this procedure is more scientific, appropriate for a neutral, technical body as the central bank likes to present itself, these models are in fact wildly simplified versions of how an actual economy really works. In other words, in policy-making, one should not attribute to models a degree of precision

that is not warranted either by the actual knowledge of the real economy detained by the model builders, or by the accuracy of the data with which the model is fed.¹⁰ In the case of Brazil, these common sense concerns are even more serious. Econometric models are built with data obtained from time series. The Brazilian economy has gone through deep changes even if we take only the last ten to fifteen years, be them a matter of policy regimes or of productive characteristics. When decisions are made without taking into appropriate consideration the uncertainty surrounding the adequacy of the models used, of the data on which they are constructed, among other problems, the policy-decision process is bound to be inefficient. The Brazilian economy has paid a high price for the behavior of Lula's central bank directors in term of lost output.¹¹

The fiscal component of the policy mix also exhibits an anti-growth bias. The biggest debtor in the Brazilian economy is the government itself. When the Central Bank keeps interest rates high, it is contributing directly to intensify fiscal disequilibria. A large share of current expenditures is protected by legal dispositions or by the action of strong lobbies. When the burden of the service of public debt is raised (or kept high) by the monetary authorities, the government can either raises taxes or to curtail public investments, most frequently both.

This combination of monetary and fiscal policies exerts a strongly regressive impact on income distribution, redistributing income from workers *and* productive firms towards

¹⁰ It has already become a legend how Chairman Alan Greenspan used to consult businessmen previously to the meetings of the FOMC so his decisions would not be unduly influenced by models' results.

¹¹ Although the central bank refuses to engage in public debate, it is widely known that the bank's model assumes that sustainable yearly rates of growth (potential output growth rate) is only 3,5%. This means that if the Brazilian economy begins to accelerate beyond this threshold, it will be repressed by the interest rate policy of the central bank.

rentiers. Punishing, as it does, productive activities to favor purely financial investors and other rent-seeking groups that benefit from the inability of the government to change the profile of its expenditures, this policy mix is not only regressive but it is also anti-growth.

Finally, floating exchange rates is probably the best choice at the disposal of a relatively small economy under current international economic conditions. Fixed exchange rates could be conducive to better coordinated processes of international coordination, but if the conditions for these forms of organization do not exist, smaller economies do not have any choice but to keep their possibilities open and a flexible exchange rate system allows that. However, the Brazilian Central Bank oscillates between a pure floating exchange rate regime and some half-hearted intervention when overvaluation seems to break into particularly dangerous ranges. As a result, exchange rates are unnecessarily unstable, particularly because of the capital account liberalization processes initiated by F.H. Cardoso, and continued under Lula. Besides, volatility occurs around a sustained trend toward overvaluation. Although exports are still growing, due to strong world demand particularly for commodities, Brazilian manufacturing exports are losing strength at the same time in which imports of manufactured goods rise.

In sum, the macropolicy mix implemented by Lula's team allows opportunities to pass by unutilized, keeping growth rates at very low levels, much below the capacity to grow demonstrated in the past. The Keynesian lessons accepted by the democratic left in practically all Western countries in the post-war period as to how to set macropolicies

toward achieving full employment and maximum growth were simply forgotten both by Cardoso's self-titled social democrats and by Lula's socialists.¹²

Lula's government seems to operate under the assumption that macroeconomic policy is not important to determine growth rates. The concept of macroeconomic stability advanced by its economists is restricted to *price stability*, in the belief that if government is successful in ensuring price stability, the private sector (the "free" markets) will promote growth spontaneously. This was, in fact, the prevailing open view among the liberal economists that populated F.H. Cardoso's government. Although the liberal discourse was rejected by the *political* sectors of Lula's government, his former Finance Minister (who was fired amid a corruption scandal and power abuse early in 2006) brought to the ministry and to the Central Bank economists that shared the same liberal beliefs. In fact, some of Cardoso's economists remained in authority posts under Lula. On the other hand, some of PT's economists were also converted to the liberal position. A few hard-liners remained in the belief that the adoption of liberal policies had been forced on Lula by adverse circumstances (the 2002 balance of payments crisis), but that the anti-growth bias of the macropolicy could be countered by pro-growth structural policies, such as industrial policies.

This reasoning is flawed for various reasons. First, in a capitalist economy, investments on capital assets (on which growth depends) depend on favorable expectations of demand for the additional goods to be produced by the capital equipment to be added to existing

¹² In fact, as observed by James Tobin, not without sadness, these lessons seem to have been forgotten also in Western Europe, where economies are crawling since the nineties under the weight of contractionary policies and reactionary ideologies like the ones embedded in the Maastricht Treaty.

facilities. If expected demand is choked by contractionary macropolicies, industrial policy incentives are unlikely to be enough to induce investments. Secondly, industrial policies involve the allocation of current fiscal resources (as subsidies or revenue renunciation) which may be prevented by a fiscal policy oriented by short-term goals. Thirdly, it is naïve to think that liberal economists (and the interests they represent) will be satisfied with running the short term macroeconomic show. Liberalism is a long term political program. One cannot expect to enlist liberal economists to pursue short term policies and be free to implement interventionist long term policies. Liberals have their own ideas as to the reforms an economy needs to operate properly in the long run and will try to implement them through the so-called *microeconomic* reforms. PT's economists were deluded to think that they would be free to pursue their long term goals. Were it not for the weakening of the federal government political weight resulting from the revelation of scandals, Lula's former Finance Minister would likely be successful in pushing the long term liberal program of reforms his helpers had already formulated and made public.

Finally, and more importantly, to expect that entrepreneurs' *animal spirits* will be awakened by structural policies alone is only reasonable if the political leadership is able to point clearly the ways of the future, and to strongly commit themselves to their achievement. In the case of Brazil, all indications are that there is a significant leadership deficit with respect to both the ability to formulate clear strategies and, consequently, to commit to them. When the government announced, in very general terms, the principles of industrial policy it would pursue, it was widely (if not unanimously) praised. At the twilight of Lula's term, many of its previous supporters ask themselves whatever happened to that policy. Lula, as Cardoso before him, does not seem to conduct the country according

to some plan, with definite goals and definite instrument choices. In the case of Cardoso, this anomaly seemed to be rooted in his theory of dependence, according to which only by associating to developed countries a developing country could experience some “development situation”.¹³ In the case of Lula and the PT the reasons for the absence of strategic thought are unclear. The party had apparently invested for many years in the definition of an appropriate concept of development and of the instruments and ways to reach it. When in power (or in government, as Lula and his followers are fond to say), these efforts seemed to have been simply forgotten.¹⁴

In the absence of well defined strategies, Lula’s policies seemed to have consisted mostly in surfing on the favorable winds of the international economy that preserved the Brazilian economy suffering from any significant adverse shock. Some important institutions, such as the National Social and Economic Development Bank (BNDES), were able to focus their policies and actions, exercising efficiently their role. Others, such as the Central Bank, took advantage of the unheard of degree of autonomy that was conceded to them to define their own ways, strengthening the perception of absence of any strategic principle unifying and explaining the government’s actions.

The lack of clarity as to what would constitute an effective alternative to the liberal ways of the Cardoso presidency seems to have been perceived by Lula and the political leadership

¹³ The consistency between Cardoso’s theses on dependence and the general orientation of his policies when president was pointed out by Professor Yoshiaki Nakano in a lecture given at the Institute of Economics, Federal University of Rio de Janeiro. See Cardoso and Faletto (1970).

¹⁴ One is not judging here the *quality* of the strategies designed by PT militants and sympathizers. Interestingly enough, most of these studies were developed by the Citizenship Institute, a NGO created and led by Lula himself, as a supporting element of his persistent attempts to reach the presidency. Nevertheless, these studies were never given any privileged status as government programs or strategies once Lula was inaugurated.

that support him. As already pointed out, in the electoral campaign for the presidential election of October 2006 Lula defended his bid for reelection mostly by proposing a comparison between his results and those exhibited by Cardoso, instead of by pointing out how different objectives could (or should) have been proposed.

It is interesting to notice that criticism of the government's social policies has also been somewhat severe. Lula's leading social program is the "Family Grant" (*Bolsa Familia*), through which money transferences are made to families that fulfill a certain number of conditions. The Family Grant program unified previously existing money payment programs that attended different groups according to particular criteria, including perhaps Lula's most famous social program, the Zero Hunger Initiative (*Fome Zero*).

Criticism leveled at Lula's social policies are often not directed at the policies themselves, but at the lack of complementary policies that would consolidate the gains obtained by the money transfers. The first and most obvious criticism is raised against the inconsistency between economic policies that prevent the economy from growing at its true potential (with damaging effects on welfare such as maintaining high rates of unemployment) and social policies protecting the most vulnerable groups. A second criticism refers to the lack or inadequacy of supporting policies that would not only attenuate vulnerability or poverty but would also strengthen the position of the dispossessed. Public education, particularly primary and secondary schooling is widely considered to be gravely inefficient. Children go to school mostly to get meals instead of getting an education and to improve their chances of raising their life standards. A similar situation is found with respect to public health services. As it is, meritorious as any program to feed the malnourished is, the main

social policy does not offer the beneficiaries the possibility of rising definitively above poverty levels. Offering subsistence for a large number of people is certainly needed, but as a social policy it does not go far enough.

A particularly problematic aspect of Lula's social policy is its *political* form. For most defenders of money transfer programs, a minimum income program should serve to empower citizens, to ensure that the right to live is not a *market* problem, but a *citizenship right*, to be recognized and guaranteed by society itself. Money payments should not be confused with charity. It is a duty of a civilized society to guarantee the survival, in as dignified conditions as possible, of its citizens.¹⁵ Lula's government, however, and the president himself frequently seem to approach social programs in a completely paternalistic fashion. The President's language is always full of family metaphors in which Lula is the *pater familias* and society his (not always well behaved or endowed with good sense) children. Criticisms and demands are not taken as the exercise of citizenship rights but the complaints of "adolescents" unable to see the bigger picture, or to understand that the family head cannot give them everything they want and so on. President Lula may be personally innocent of the authoritarian vice that accompanies this posture, but under these conditions social policies do not serve a liberating function, but its opposite, as it was frequently the case with populist leaders of the past.

Lula's reelection seemed to have re-kindled the expectations of his supporters in the left. Partly because of the already mentioned radical rhetoric used by Lula between the two ballots, many of his supporters tried to spread the notion that a second term would be

¹⁵ See Davidson and Davidson (1996).

radically different from the first. Many reasons are adduced to defend this view. They range from subjective factors, such as some supposed concern of Lula to go down to history not only as a continuation of F.H. Cardoso, but as an authentic left-wing leader, from more objective reasons such as the increasingly undeniable inability of his government's policies to promote growth.

In fact, many PT leaders advanced the idea that, after being reelected, Lula would finally be able to begin governing as a PT leader. One of his ministers has publicly declared that “the [former Finance Minister] Pallocci era is over”, only to be immediately rebuked by the president himself. This group seems to want to revive the “damned legacy” thesis, now in an extended version. Lula is supposed to be finally free from the need to stabilize the economy, so he could at last dedicate himself to make the economy grow and change so the country could finally resume development. This argument is sometimes strengthened by a supposed realization by Lula that no matter how conservative the policies he implements, the ruling “elite” will never support him.¹⁶ So, he might as well begin governing for his constituency rather than to the benefit of the “elites”.

It is common knowledge that the president is deeply dissatisfied with his inability to begin what he once called the “spectacle of growth”. It is also common knowledge that his government does not have any strategy that could lead to the resumption of growth. Most of the liberal economists in his administration are now gone. After about twelve years of hegemony in policy-making, it became clear that the notion of spontaneous growth as it

¹⁶ The evidence for this would be the voting maps that show that Lula lost in all southeastern and southern states, where per capita income is higher.

was believed in the Cardoso period is doubtful at the very least. The president still refrains, however, from making any risky decision, insisting that any other policy mix than that he implemented is “magic”. Lula remains as the prince of Denmark and runs the risk of making decisions when it will be too late anyway, if at all.

IV Could It Have Been Different?

In itself, asking whether it all could have been different takes us from the strict economic field to the political debate, where the notions of limits and of possibilities are usually treated in a more flexible way, since they perforce incorporate the idea of conflict and, with it, the uncertainty of its results. One does not question whether something can or cannot be done as much as what is necessary to make a given alternative viable. Therefore, it may not be worthwhile to discuss whether there were alternatives as such (because there always are) but, keeping in mind that alternatives create different configurations of winners and losers, how could one make sure that a preferred alternative would be politically feasible.

From this point of view, many analysts debate whether the so-called “modern left” or the third way represents a true alternative for progressive politics or is it is just a surrender to the current dominance of markets (in particular financial markets). In its “pure” form, which was actually pursued in Brazil during the Cardoso presidency, the modern left would combine orthodox economic policies giving support to the unfettered operation of free markets with sensible social policies, with the goal of protecting the more vulnerable social

groups.¹⁷ Of course, some residual tension remains given the conflict between the attempt to curtail fiscal expenditures and the objective of increasing social protection, making the boundaries between the two objectives somewhat fluid. Lula's, for instance, seems to have taken some distance from the pure model adopted by Cardoso, although in an ambiguous way. The orthodox character of his government's macropolicies was in fact strengthened but, at the same time, some interventionist rhetoric was adopted, as in the already mentioned case of industrial policy. In addition, social policies supporting the most vulnerable groups were extended and intensified.

Be it the result of the persuasion that past economic policies were wrong or just a simple act of surrender to conservative liberalism and to market pressures, one can raise some hypotheses to explain the sudden and drastic about-face of Lula and the PT and its apparent complete conversion to the Thatcherian motto that "there is no alternative".¹⁸ On the one hand, we can point to two possibly relevant subjective factors in operation. The first may relate in fact to an "optical illusion". Since its creation, PT has attracted some of the brightest intellectuals in the country, fascinated by an organization formed in the union battles of the late 1970s. Even though the party has lost considerably its past shine, especially after the accumulation of corruption scandals since 2005, it was out of doubt that a large number of Brazil's finest thinkers and intellectuals could be counted in its ranks at the moment of Lula's inauguration as president in 2003. Many analysts have been surprised by the inability of Lula's government to propose any strategic goals to the country because

¹⁷ One should notice that institutions like the IMF and the World Bank are very supportive of this kind of "leftist" program. The Fund was candid enough, however, to admit that the protection of vulnerable groups was necessary to maintain the political viability of liberalizing reforms. Cf. Carvalho (2003).

¹⁸ Prime Minister Thatcher's motto is translated to Lula's language as "we can do no magic".

PT's intellectuals in the past had been able to produce diagnostics and proposed solutions for virtually all ailments of Brazilian economy and society. The party, however, was not its intellectuals. The party that went to Brasilia in 2003 was the other "half", that of professional politicians and former unionists, many (or most) of which were now simple bureaucrats. The highest authorities of the Republic under President Lula showed no ability to formulate strategic thinking, and therefore no ability to lead and to mobilize toward any development project. They were consumed by the bureaucratic routine of the federal administration and seemed to be happy with it. As it was already mentioned, the "federal" PT is happy to run for reelection on the basis of being just better administrators than Cardoso's team.

Another subjective factor is harder to measure up. It is only in part related to the preceding argument and refers to the quality of political leadership. FH Cardoso was for decades one of Brazil's most important intellectuals, his works being required reading for those willing to understand how the Brazilian society was formed and how it worked. He was also an influential progressive politician after his return to the country in the final years of the military regime. Lula, on the other hand, was perhaps the most influential union leader to emerge in the country, leading workers' movements that helped to change the face of the country while also becoming an important progressive politician after he led the process of creation of PT. However, as presidents, both Cardoso and Lula showed themselves to be indecisive, unable to formulate and pursue strategic goals and to transcend everyday petty politics. Both Cardoso and Lula have actively tried to present themselves as the heirs to the late President Kubitschek, but these attempts were received derisively because the one

quality generally attributed to Kubitschek was precisely his ability to design a future for the country and to forcefully move the country towards that future, “fifty years in five”.¹⁹

One can legitimately ask whether, if the two preceding hypotheses are true, the adherence to the modern left, by combining orthodox free-market economic policies with social sensibility, was not just the *default solution* to two governments led by former progressive leaders unable, however, to offer any substantive vision of a different future.

Naturally, subjective factors do not exhaust the possible explanations of the shortcomings of Lula’s government (or Cardoso’s for that matter). Some objective obstacles to the pursuance of progressive politics are in place. The most important of them is certainly the liberalization of the capital account of the balance of payments promoted in the mid-1990s. The key element of these liberalizing reforms was to allow residents in Brazil to make financial investments abroad. Although the Brazilian legislation did not in fact allow it (it still doesn’t), the Central Bank broke the limits of its authority in 1996 to remove, for all practical purposes, barriers to outflows of domestic financial capital. As a result, wealth-holders can now supersede domestic political processes, voting, as the Americans say, with their feet. A policy or government decision that does not meet with the favor of wealth holders and their financial agents may lead them to leave the country (*or to threaten to do it*), generating a balance of payments crisis through capital flight. In fact, this was precisely what happened during the electoral campaign of 2002. By mid-2002 it became clear that Lula’s lead in the presidential campaign could not be overcome by Cardoso’s candidate.

¹⁹ The argument about the quality of leadership is explored in more detail in Carvalho and Ferrari Filho (2005).

Financial markets became agitated by the fear of a default on the public debt and other “leftist” policies when Lula became president. Some financial agents engineered an episode with the characteristics of a capital flight (even though actual capital outflows remained relatively subdued). The exchange rate rose quickly from around R\$ 2.50 to the US dollar to R\$ 4.00 to the dollar in two to three months. Private investors refused to accept public securities maturing after inauguration day. The crisis went on until Lula accepted to address directly the financial market’s worries issuing a “Letter to the Brazilian People” committing to respect the rules of the game. After his election, Lula nominated, as already noted, a conservative team to run the Finance Ministry and the Central Bank.²⁰

The removal of capital controls in the mid-1990s ensured the dominance of financial markets over the formal political process in Brazil. Policies are now explained to the markets rather than to the people. Voters elect the politicians but the markets define what the latter have to do.

In sum, the combination of low-quality political leadership, poor (or non-existent) strategic thinking and weaknesses in the face of financial markets made the adoption of “a liberal capitalism with a human face” a done deal. It is not a step in any direction, it is the very end result itself.

V. Conclusion

²⁰ See Carvalho and Ferrari Filho (2005).

Progressive or leftwing thought in some places, particularly in Latin America, came to equate conservative or right wing governments with unnecessary meanness or cruelty. It is thought that a conservative government *has* to embody some sort of social Darwinism, where each one has to fight for him(her)self. If one believes that, any demonstration of generosity or solidarity is, by elimination, “leftwing”. This allows any government with social sensibility to call itself progressive or left-leaning. Although capitalism seems in fact to have adopted of late a mean face in some countries (the US inevitably comes to mind, even if the characterization may not be entirely adequate), this simplistic dichotomy could not explain the behavior of Christian Democrats in Germany or even the conservatives in France, among many other cases. Lula’s government has been in fact more *generous* than preceding administrations in Brazil, even though the expression of solidarity for the dispossessed has been the mark also of Itamar Franco’s and Cardoso’s presidency before Lula.

What should be, at the end of the day, the mark of a leftwing administration? We would risk the suggestion that it would be the empowerment of the classes and groups in subordinate positions in society. This is the true meaning of changing structures. It is not just improving living conditions of the poor (although this is supremely important) but is also, and mainly, to recognize their *citizenship rights* and the *society’s duties*, to acknowledge their right to participate and to influence the fundamental choices made by society. Power, however, is largely a zero-sum game. Dominated groups are empowered when the dominant groups are weakened. That is why “social sensibility” may be a necessary but is certainly not a sufficient condition to characterize a progressive government. In what relates to the economy, it is not enough to make money transfers, for

instance, it is also necessary to implement progressive taxation, so as to not only make the burden of the provision of the public goods that will empower the dispossessed to fall on those who benefited the most in the past but also to engrave the principle in society's laws. You cannot change a hierarchical structure just by raising the bottom, it is necessary also to lower the top. The absence of any serious proposal to implement progressive taxation is one of the most eloquent evidences of the essentially conservative character of the Brazilian governments of the 1990s and 2000s.

In an objectively conservative government like Lula's, money transfers are not entitlements explained by the duty of society to guarantee a dignified subsistence of its citizens but are the result of the sensibility of a particular leader and can disappear when the leader is eventually replaced.

In sum, Lula's first presidency did not represent any substantial change in the conservative ways of Brazilian politics. His personal history is a novelty, but the character of his administration is not. One need not join his detractors (who are, many of them, guilty of the very same shortcomings they accuse Lula of) and exaggerate the limitations of his administration. In fact, it is very much likely that, all things considered, his administration has indeed been the most generous to low income groups in recent Brazilian history (possibly remaining so even if we consider longer periods of Brazilian history). This, however, is not the point. Lula's government, like the nominally social democrat administration of FH Cardoso before him, did not promote full employment, did not push for growth, did not push for structural changes that would empower the dispossessed and reduce the power of the ruling groups. It is not an accident that we approach the next

presidential election having the leading candidates vying for the “best manager” prize.

After all the missed opportunities of the last ten to twelve years, it definitely has a ironical ring around it.

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