PART THREE

CAPITALIST CRISIS AND LEFT RESPONSES IN THE GLOBAL SOUTH
CHAPTER 6

BRAZIL: FROM NEOLIBERAL DEMOCRACY TO THE END OF THE ‘LULA MOMENT’

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This chapter examines the context and implications of two transitions in Brazil: the political transition from a military regime (1964–1985) to democracy (1985 to the present), and the economic transition from import substitution industrialisation (ISI) (1930–1980) to neoliberalism (1990 to the present). These transitions have shaped the contemporary Brazilian political economy and the policy choices available to recent federal administrations. The chapter also reviews how neoliberal economic policies were implemented in a democracy, first under the centre-right administrations led by Fernando Henrique Cardoso (1995–1998, 1998–2002) and then under the centre-left presidencies of Luís Inácio Lula da Silva (2003–2006, 2007–2010) and Dilma Rousseff (2011–2014, 2015 to the present).

In this context, it is especially important to examine the policy shifts introduced during the second Lula administration. These shifts did not signal a decisive break with neoliberalism, but they inaugurated what became known as the ‘Lula moment’: a decade of significantly higher growth rates than had been achieved previously, and remarkable advances in employment, distribution and poverty alleviation. The chapter examines the economic and social policies underpinning the ‘Lula moment’, and reflects on the limitations of their policies, and those of neoliberal democracy, which have emerged through the political crisis of the Rousseff administration.
Following are eight sections. The first outlines the process of ISI and its limitations. The second describes the transitions from the military regime to democracy, and from ISI to neoliberalism. The next three review the first and second Lula administrations and the Rousseff administration. The sixth examines the distributional achievements under these administrations. The seventh considers the challenges now posed for the Brazilian Left, after the exhaustion of the 'Lula moment'. The eighth section presents the main conclusions.

IMPORT SUBSTITUTION INDUSTRIALISATION

ISI is a system of accumulation based on the sequenced expansion of manufacturing industry, with the primary objective of replacing imports.¹ Manufacturing expansion usually departs from the internalisation of the production of non-durable consumer goods (textiles, processed foods, beverages, tobacco products and so on). It later deepens to include the production of durable consumer goods (especially household appliances and automobile assembly), simple chemical and pharmaceutical products and non-metallic minerals (especially cement).

In the larger countries, including Brazil, ISI can reach a third stage, when the manufacturing structure includes the production of steel, capital goods (for example, industrial machinery and electric motors) and technologically complex goods, such as electronic machines, shipbuilding and aircraft design and assembly. This ‘deepening’ of the manufacturing base is accompanied by backward, forward and horizontal linkages between the established firms. As a result of these processes, in the 1950s, primary exports were no longer the driving force of the Brazilian economy. Brazil offers a particularly striking example of these processes: agriculture declined from thirty-six per cent of gross domestic product (GDP) in 1910 to only ten per cent in 1980, while manufacturing increased from fourteen to forty-one per cent of GDP (Abreu, Bevilacqua and Pinho 2000: 162). Although ISI often starts spontaneously, international experience shows that its success requires activist industrial, financial and trade policies, and state provision (or incentives for the private provision) of finance and infrastructure.

At the political level, Brazilian ISI was associated with the uneasy coexistence of populism, nationalism, corporatism and statism, and by conflicts of interest within the elite, especially between agrarian and urban interests and between
manufacturing capital and finance, as well as between the elite and other social
groups, especially the urban workers and the emerging urban middle classes.
Stripped of their rich complexity, these conflicts essentially centred around the
extent to which resources should be transferred away from the primary export
sector and where they should be allocated. Conflicting demands were played
out in the media, in educational and research institutions, in state institutions
and on the streets, with outcomes contingent on timing, circumstances and the
constellation of forces mobilised on each side. These conflicts were displaced
by the 1964 military coup.

Despite its important economic achievements, Brazilian ISI was severely
limited. The six most important limitations were the balance of payments
constraint, the fragility and inefficiency of the domestic financial system, fiscal
fragility, high inflation, high inequality, and lack of policy coordination (see
further Saad-Filho, Iannini and Molinari 2007). These limitations were varied
but they can be attributed, in general terms, to the fact that the Brazilian state
was interventionist but it was also institutionally disarticulated and unable to
impose consistent priorities over conflicting interests, especially among the
dominant economic power blocs. In turn, those groups generally found detailed
planning and large-scale state intervention unacceptable because it upset the
political balance within the elite, and it sometimes promoted the interests of the
poor majority at the expense of those of the established social powers.

The structural constraints and fragilities of ISI and the strongly nega-
tive impact of the external shocks of the 1970s and early 1980s made macro-
economic management extremely difficult, culminating on a slide towards
hyperinflation which peaked only in the mid 1990s, when inflation rates
exceeded forty per cent per month. The social conflicts intensified, political
instability became endemic, and policy choices were limited by institutional
weaknesses and creeping political paralysis. The military government lost the
capacity to manage the economy. In the early 1980s, it became widely agreed
that political changes were imperative.

THE TRANSITIONS TO DEMOCRACY AND TO NEOLIBERALISM

The military regime disintegrated gradually after 1974 due to the political
exhaustion of naked repression, and the economic exhaustion of the regime's
growth strategy. Political contestation encompassed critiques of the regime's
corruption and lack of accountability, trade union militancy, the ballot box, and mass mobilisations for democratic reforms. Yet, Brazilian democracy did not emerge through the destruction of the dictatorship (as was the case, for example, in Argentina). Instead, the military and the traditional elites eventually reached a pact to secure political freedoms, in exchange for the preservation of elite privileges. Under these limited conditions, the democratic transition, achieved in 1985, established the most open and stable regime in the history of the republic.

The political transition to democracy was rapidly followed by an economic transition to neoliberalism. This transition followed from the slow convergence of the Brazilian elite, between the late 1970s and the late 1980s, to the view that ISI faced three insurmountable problems: the inefficiency of the financial sector, continuing industrial backwardness, and the difficulty of creating a dynamic national system of innovation. It was increasingly accepted that these obstacles could be overcome only if the state was ‘rolled back’ through expenditure cuts; the reform of the fiscal, tax and social security systems; and the privatisation of most state-owned enterprises (SOEs). It was expected that fiscal reforms would reduce inflation, while financial liberalisation would increase domestic savings and investment. Finally, it was hoped that the liberalisation of foreign trade and capital inflows and the resolution of the external debt crisis would bring direct and portfolio investment flows and facilitate industrial restructuring. Productivity would rise, followed by a structural improvement in the balance of payments. In sum, the strategic vision was that the integration of Brazilian productive and financial capital into transnational conglomerates would drive a virtuous circle of growth which would turn Brazil into a developed economy.

These policy prescriptions were implemented gradually and increasingly consistently by successive governments. In 1988, during the Sarney administration, the domestic financial system was reformed and, starting in 1989, international capital flows were liberalised. The exchange rate regime was made increasingly flexible in the following years. From 1990, during the Collor administration, Brazil reduced import restrictions incrementally. The Collor and Franco administrations adopted strongly contractionary monetary policies in order to control inflation, attract foreign capital and generate exportable surpluses. The Cardoso government fully implemented a neoliberal economic strategy, especially through the Real Plan of inflation stabilisation, and the first Lula administration pursued essentially the same policies as its predecessor (see below).
However, the neoliberal reforms did not resolve the shortcomings of ISI, and they destabilised the balance of payments and the country’s productive system. The reforms hollowed out the industrial chains built during ISI and reduced the local content of manufacturing production. Wages and profits declined because of competing imports, the rising share of interest in the national income (due to the financial reforms and higher real interest rates), and the difficulty of developing new competitive industries. Structural unemployment mounted. Neoliberalism discarded import substitution and promoted, instead, ‘production substitution’ financed by foreign capital.

The Brazilian experience shows that the neoliberal reforms can secure macroeconomic stability and growth in the short term. This is for two main reasons. First, they are part of the conventional wisdom of our age, and are embedded in the belief systems of most domestic and international institutions. Therefore, they are ‘credible’ by definition. Second, if international liquidity is high and interest rates are low, as was the case in the mid 1970s, in the early 1990s, and between the recovery from the 2000/01 slump and the end of the global boom in 2007, trade and capital account liberalisation seem to abolish the balance of payments constraint. They can bring capital inflows to finance a large trade deficit, allowing consumption, investment and growth rates to increase rapidly, in a virtuous circle that may last several years. However, if these foreign capital flows decline, as they did in the early 1980s, in the mid 1990s, in 2000/01 and in periods after the 2007 global crisis, countries following neoliberal policies can find themselves in a vulnerable position. The balance of payments constraint can reappear suddenly, either because of the scarcity of foreign exchange or because higher international interest rates push up the domestic interest rates, squeezing the economy both internally and externally at the same time.

In Brazil, the crisis of the Real Plan, in 1998 and 1999, led to the introduction of a new macro-economic policy regime including inflation targeting, large fiscal surpluses and the managed fluctuation of Brazilian currency, the real (the ‘neoliberal policy tripod’) (Morais, Saad-Filho and Coelho 1999). The main goal of the policy tripod was to preserve low inflation, stabilise the domestic public debt (DPD) and the exchange rate, and eliminate the current account deficit.

Permanently high real interest rates during the period of the real had perverse macro-economic implications which help to explain the country’s slow economic growth rates in the late 1990s and early 2000s. GDP growth rates picked up only after the trade balance shifted into a surplus in 2001 (the
current account moved into a surplus two years later). A large part of this uplift was due to the global commodity boom of the early and mid 2000s, which was associated with an increase in the share of primary commodities in Brazilian exports from forty to sixty per cent. However, this renewed modality of primary export-led growth is not easily compatible with the creation of quality employment and the improvement of social welfare in a large urbanised economy with a considerable manufacturing base.

The neoliberal reforms transferred state capacity to allocate resources inter-temporally (the balance between investment and consumption), intersectorally (the distribution of investment, employment and output) and internationally to an increasingly integrated and US-led financial sector. With the completion of these reforms, the Brazilian economy has become structurally more dependent on foreign trade, investment and technology. Brazil’s productive base has, then, shifted away from the long-term requirements of national accumulation and towards the short-term imperatives of global accumulation. By the same token, the Brazilian state became depleted in the areas of economic planning, control and policy implementation. In contrast, state capacity in monetary policy implementation and regulation of finance increased significantly. The financial reforms embedded private-sector interests into the policymaking process through the decisive role of finance in the pricing of government securities, the determination of interest rates and the financing of the public sector. The reforms also increased the role of the private financial institutions in the foreign exchange market and, therefore, in the country’s relationship with the rest of the world.

At a further remove, the neoliberal transition contributed to the disorganisation of the workforce and to a significant shift in power away from the majority regardless of (and, to some extent, because of) the stabilisation of political democracy. Rather than relying on military force, the neoliberal consensus disciplined the working class through ‘economic’ policies, institutions and processes. They include contractionary fiscal and monetary policies, higher unemployment and labour turnover, personal debt, and the continuing threat of inflationary or balance of payments crises, should the distributive conflicts get out of hand. These limitations of democracy are sufficiently strong and pervasive to overwhelm marginal local initiatives initiated by the Brazilian Left, including, for example, participatory budgeting.

In sum, democracy has become established as the political form of neoliberalism in Brazil. In this country, the neoliberal transition and the democratic
transition were mutually reinforcing and, eventually, they became mutually constituting. They were associated with a shift in the mechanisms of social domination towards a combination of democracy and neoliberalism, which has fostered social fragmentation and the dismantling of the resistance movements that had emerged during the dictatorship. The symbiosis between neoliberalism and procedural democracy operates at three key levels (see Ayers and Saad-Filho 2014; Saad-Filho and Morais 2014). First, the neoliberal economic transition was achieved through, and validated by, democratic means. Second, neoliberal policies support the democratic regime because they fragment the workers through higher unemployment, faster labour turnover, the repression of trade union activity and the rise of economic insecurity. Under neoliberalism, the repression of working-class activity relies primarily on ‘economic’ rather than ‘political’ structures, as was the case under the dictatorship. Third, democracy is the best political regime for neoliberalism because it guarantees the stability and predictability of the ‘rules of the game’, making it more reliably managed by the moneyed interests.

THE FIRST LULA ADMINISTRATION

Lula was elected president in 2002 by an ‘alliance of losers’: a coalition of heterogeneous social groups that had in common only the experience of losses under neoliberalism (Morais and Saad-Filho 2005). These groups included the organised working class, the domestic bourgeoisie, large sections of the traditional oligarchy and sections of the middle class and the informal proletariat (see Boito 2012 for a description of the Brazilian class structure). This collection of disparate supporters had few objectives in common beyond more expansionary macro-economic policies and some redistribution of income, and it could not be relied upon to support radical policies leading, for example, to a serious break with neoliberalism. In this sense, the common complaint among the Left that Lula ‘betrayed’ his supporters is misplaced: in 2002, Lula neither sought nor received a mandate to introduce radical policy changes. In order to bring together the ‘losers’ and avoid a fourth consecutive defeat in the presidential elections, after his previous attempts in 1989, 1994 and 1998, Lula’s discourse emphasised a diffuse spirit of ‘change’, but he studiously avoided making specific commitments. The only exception is Lula’s ‘Letter to the Brazilian People’, issued under duress in June 2002, in the midst of a severe
currency crisis. In this document, Lula declared that his government would respect contracts (in other words, service the domestic and foreign debts on schedule) and enforce the policies agreed between the Cardoso administration and the International Monetary Fund.

Lula's administration maintained the neoliberal policy tripod introduced in 1999 by his predecessor, the Marxist sociologist-turned-neoliberal, Fernando Henrique Cardoso. In order to secure further his credibility with 'the markets', Lula appointed a prominent member of Cardoso's right-wing social democratic party (Partido da Social Democracia Brasileira, PSDB) president of the country's independent Central Bank, with carte blanche to raise interest rates to the level required to secure low inflation. The government also raised the primary fiscal surplus target from 3.75 per cent of GDP to 4.25 per cent, and cut fiscal spending by almost one per cent of GDP. The minimum wage was virtually frozen for two years, and the government pushed through Congress a harsh reform of social security that had eluded Cardoso for years, partly because of the opposition from the Workers' Party (PT) and its left-wing allies.

The conservative credentials of Lula's administration were tempered, first, by a significant expansion of the federal programmes of social assistance. In late 2003, the government consolidated four existing programmes into the *Bolsa Família* (PBF, or Family Grant) which, initially, reached 3.6 million households. The programme was scaled up rapidly, reaching 11 million families in 2006 and 14 million in 2014, with 50 million beneficiaries (one-quarter of the country’s population).

Second, the Lula administration appointed a large number of progressive political, trade union and non-governmental organisation (NGO) cadres to the federal administration, not always from the trade union arm of the PT. The president, a former metal worker, appointed five working-class cadres to ministerial-level posts; more than 100 trade unionists took other high-level posts in the public administration and in SOEs; in turn, they appointed hundreds of lower-level colleagues (Boito 2003; Singer 2010). Their elevation opened the floodgates to the election of an unprecedented number of poor candidates by parties across the political spectrum to all manner of posts since 2004. While these changes aligned the material interests of the leaders of many social movements (with the exception of the landless peasants’ movement, Movimento dos Trabalhadores Rurais Sem Terra, MST) with the government’s agenda and the interests of the state bureaucracy and effectively ‘nationalised’ them, they also changed the social composition of the Brazilian state. For the first time, poor
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citizens could recognise themselves in the bureaucracy and relate to friends and comrades who had become ‘important’ in Brasília. This change in the social composition of the state greatly increased its legitimacy, and it supported from inside the government’s distributive policy agenda.

In mid 2005, Lula’s first administration was paralysed by a furious right-wing and media offensive triggered by the mensalão corruption scandal, involving allegations that government officials paid deputies and senators a monthly stipend in exchange for votes. Although no firm evidence was ever provided, the mensalão led to the resignation of the president’s chief of staff, the president of the PT, and several high-ranking federal officials; years later many of them were imprisoned under various charges relating to the scandal.

This scandal triggered a catastrophic loss of support for the PT. After 25 years of growth, the PT had reached twenty-five per cent of voter preferences in early 2005; after the mensalão, these rates fell by half, and Lula’s bid for re-election seemed close to collapse. Yet, Lula’s share of first-round votes reached forty-nine per cent in October 2006 (up from forty-six per cent in 2002), and he maintained his second-round share at sixty-one per cent.

This surprising feat was due to the dissolution of the ‘losers’ alliance’ and the transformation of Lula’s support base. He lost the middle class after the mensalão, but conquered the unorganised poor because of the distributive programmes introduced in his first administration: PBF, university admission quotas, the formalisation of the labour market, mass connections to the electricity grid (the Light for All programme, or Luz Para Todos), and a forty-eight per cent real increase in minimum wages since mid 2005, which triggered automatic increases to most pensions and benefits.

For the first time since the PT was founded in 1980, support for the party became inversely correlated with income (Singer 2014). In households earning more than 10 times the minimum wage (roughly, the ‘middle class’), PT support fell from thirty-two per cent in 2002 to seventeen per cent in 2006. Lula’s rejection among voters with university education jumped from twenty-four per cent to forty per cent between August and October 2005; sixty-five per cent of these voters chose the opposition candidate in 2006. In 1997, the PT had 5.5 million ‘high-income’ and 3.1 million ‘low-income’ supporters, and only seventeen per cent of PT supporters earned less than twice the minimum wage. In 2006, the PT had only 3.3 million ‘high-income’ supporters but 17.6 million ‘low-income’ ones, and forty-seven per cent of its supporters earned less than twice the minimum wage (Singer 2010: 96–97).
Lula won in 2006 because of his massive majority among first-time voters, beneficiaries of transfer programmes, poor women (the main recipients of PBF) and low earners. Correspondingly, Lula lost in most rich states, but he received more than three-quarters of the votes in several poor states. In contrast, the PT elected only 83 Federal Deputies in 2006 (down from 91 in 2002), showing that the support of the poor was tightly focused on the president. Voting patterns between 1982 (just after the PT was founded) and 2006 suggest that the Brazilian poor have traditionally voted for the right, and they shifted to Lula only after he had been elected by other social groups, and had delivered to the poor higher incomes, benefits and considerable improvements to their living conditions.

The transformation in Lula’s base of support was part of a structural realignment of Brazilian politics. On the side of the government, we now find the domestic bourgeoisie, the organised working class and the informal proletariat, including most landless peasants (see below). The opposition is based on the alliance between the neoliberal bourgeoisie and the middle class, bound together by a rabid mainstream media.

THE SECOND LULA ADMINISTRATION

In Lula’s second administration, a number of elements of neo-developmentalism diluted the neoliberal policy tripod (Morais and Saad-Filho 2011, 2012). This inflection – the policy core of the ‘Lula moment’ – and the favourable global economic environment in the mid 2000s, led to a marked uplift in macro-economic performance and in employment creation, and supported an unprecedented reduction of inequality in the country. Brazil’s growth surge in the mid- and late 2000s was driven by consumption and state-led investment. The latter is easily justifiable. The fiscal and financial stresses experienced after the international debt crisis in the early 1980s, and during the neoliberal transition in the 1990s, followed by successive rounds of public spending cuts aimed at stabilising the DPD-to-GDP ratio contributed to a severe degradation of the country’s infrastructure. In order to release funds for investment without overtly confronting the neoliberal lobby, the second Lula administration changed the form of calculation of the primary fiscal surplus in order to exclude the SOEs (especially the oil and electricity conglomerates, Petrobras and Eletrobrás). This allowed SOE investment to quadruple
in nominal terms, rising from 1.8 per cent of GDP in the mid 2000s, to 2.2 per cent of GDP in 2010.

This investment spree was supplemented by private investment, mostly directly funded or at least guaranteed by the state-owned banks (especially BNDES, the Brazilian Development Bank, which became the largest development bank in the world). The government also launched a ‘growth acceleration programme’ in early 2007, focusing on energy, transport and infrastructure. This was followed by a large housing programme (‘My Home My Life’, or *Minha Casa Minha Vida*), increased funding for education, health and other public services, and the expansion of the civil service, together with significant pay increases, in order to recover policymaking capacity and reduce the number of subcontracted workers in the state sector. The government also supported diplomatically and through BNDES the transnationalisation of selected domestic firms (‘national champions’). They include Itaú and Bradesco (banking), Embraer (aviation), Odebrecht (construction), Vale (mining), Inbev (beverages), Gerdau (steel) and Friboi and Brazil Foods (processed foods) (Boito 2012).

In turn, consumption rose because of the rapid rise in the minimum wage; the increase in federal transfers to pensioners, the unemployed and the disabled from R$135 billion (US$50 billion) to R$305 billion (US$113 billion) between 2002 and 2009; and the quadrupling of personal credit, which rose from twenty-four per cent of GDP to forty-five per cent; while mortgage lending expanded from R$26 billion (US$10 billion) in 2004 to R$80 billion (US$30 billion) in 2009 (Pochmann 2011: 25–27).

Even with these aggressive spending initiatives, the fiscal deficit remained stable and the domestic public debt declined from fifty-five per cent of GDP in mid 2002 to forty per cent in 2010, because of the rapid growth of GDP, the increase in fiscal revenues due to economic growth and the programme of formalisation of the labour market, which brought in new social security contributions. The average rate of growth of real per capita GDP rose from 0.75 per cent per annum between 1995 and 2002, in the Cardoso administration, to 2.4 per cent between 2003 and 2006, and to 3.5 per cent between 2007 and 2010, in Lula’s second administration, despite the adverse impact of the global crisis.
DILMA ROUSSEFF’S ADMINISTRATIONS

Lula’s approval rate touched on ninety per cent towards the end of his second term. He hand-picked and secured the election of his successor, former Chief of Staff Dilma Rousseff, who won fifty-six per cent of the ballots in the second round. Rousseff was a technocrat; she had never fought an election before, and had no support base. Having been anointed by Lula, she inherited both his voters and his detractors and, unsurprisingly, the voting pattern in 2010 closely mirrored that of the 2006 elections: Dilma won in the poorer states of the north and northeast and in most of the southeast, except São Paulo state. In each state, her vote was concentrated in the poorer areas and among the least educated voters. Her main rival, from the nominally social-democratic PSDB, won in São Paulo and in the richer states in the ‘arch of agribusiness’ across the south and the centre-west and, nationally, among higher-income and more educated voters.

After Dilma’s inauguration in January 2011, the government expanded further its social programmes, aiming to eliminate absolute poverty which still impinges on 17 million people, and tilted economic policy a bit further toward neo-developmentalism, but without formally abandoning the neoliberal tripod. Monetary and exchange rate policies were aligned more closely with the government’s industrial policy, in order to limit the current account deficit and support the internalisation of strategic production chains. Real interest rates fell to their lowest levels in 20 years (from an average of twenty-two per cent in Cardoso’s first administration, to less than three per cent), and the Central Bank started extending the maturity and lowering the costs of the domestic public debt. The government introduced successive rounds of tax rebates in order to incentivise production and control inflation (in a significant departure from the single-minded focus on the manipulation of interest rates under neoliberalism), and strong-armed the private operators into reducing the price of electricity. Finally, the government sought to attract private investment into infrastructure and transport through concessions, public-private partnerships and regulatory changes, in order to bypass budgetary constraints and legal limitations to state funding, and to commit the domestic bourgeoisie to the government’s investment programme.

Despite these policy changes, the Brazilian economy has slowed down significantly, with GDP growth rates tumbling towards two per cent per annum. It has become clear that the government has failed to kick-start a virtuous circle
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of growth driven by private investment, despite the increase in fiscal spending, SOE investment, loans by state-owned banks and the profusion of incentives and tax rebates. The country has also experienced a deteriorating balance of payments due to the slowdown in Brazil’s main markets (China, the European Union and the US), sluggish commodity prices and the aggressive devaluations and export-led recovery strategies in several large economies. Moreover, low interest rates and quantitative easing in the advanced economies triggered capital flows to Brazil in the early years of the global crisis. They led to the appreciation of the real, and worsened the country’s competitive position. The country’s current account deficit rose from 2.1 per cent of GDP in 2011 to 2.7 per cent in 2012, 3.7 per cent in 2013 and 4.2 per cent in 2014.

This worrying trend was tempered by the reversal of capital flows, anticipating the unwinding of quantitative easing in most advanced economies. This outflow sucked the life out of the São Paulo stock exchange, which tumbled from 62 000 points in January 2013 to 46 000 in July, and triggered a rapid devaluation of the real between May and June. For this reason, and because of poor food crops, inflation edged up in the first half of 2013.

Under severe pressure from the media, the financial markets, its parliamentary base, the middle class and most economists, and given the apparent failure of its attempt to kick-start growth through domestic investment, the government changed course: it reaffirmed the commitment to the inflation targets and signalled to the Central Bank that it was time to start raising interest rates. At the same time, the Ministry of Finance announced cuts in public spending. Inevitably, wage income and the level of employment started a gradual decline despite the exceptional spending associated with the 2014 FIFA World Cup and the 2016 Olympic Games. These policy adjustments do not necessarily signal the return of naked neoliberalism, but they illustrate the limits of governmental power in a globally integrated middle-income capitalist economy.

In the first months of 2013, the opposition media was trumpeting the ‘failure’ of every aspect of government policy, and the ‘imminent threat’ of runaway inflation. Their negative campaign shifted the popular mood, and Dilma’s popularity fell by 8 to 10 percentage points, although starting from an extraordinary level of seventy per cent, which had never been achieved by any Brazilian president at that stage in their administration.

The government’s economic difficulties were compounded by political limitations. Lula was a charismatic leader, and he excelled at the conciliation of differences. Dilma lacks these virtues. Although she is an accomplished
manager, she is said to be abrasive and intimidating, and her government has deliberately turned away the trade unions, left-wing NGOs and the MST in order to pursue a progressive technocratic agenda, which has created a sense of despondency even among her strongest supporters. On top of it all, the entire – badly divided – Left controls less than one-third of the seats in Congress, of which only half (around fifteen per cent of the seats in the Chamber of Deputies and in the Senate together) are held by the PT. This makes it impossible to govern without volatile alliances with undisciplined parties and grubby individuals, which have to be managed under the gaze of a hostile press and the scrutiny of a right-wing judicial system. After 10 years in federal office, the PT seems to have political hegemony without the substance of power; at the same time, it seems to engage in the same dirty political games as everyone else, belying its historical claim to hold the moral high ground.

These limitations came to light in early 2015, after Dilma’s tight re-election against the PSDB candidate, Aécio Neves. Despite the essential role of left mobilisation in this victory, the government immediately shifted economic policy further towards the neoliberal policy tripod, leading to a sense of abandonment among Dilma’s supporters. At the same time, the media, finance and the upper middle class have risen in strong opposition against the PT and the administration through a series of mass demonstrations and a relentless campaign online and on mainstream media demanding Dilma’s impeachment or her removal from office.

**DISTRIBUTIONAL SHIFTS UNDER LULA AND DILMA**

The pattern of growth under Lula and Dilma was unquestionably pro-poor (Saad-Filho 2007; Saad-Filho and Morais 2014). It has led to the reduction of poverty and inequality in Brazil across a broad spectrum of measures.

In the 2000s, 21 million jobs were created, in contrast with 11 million during the 1990s. Around eighty per cent of them were in the formal sector, which expanded from forty-five to fifty-one per cent of the workforce (Pomar 2013: 42). Significantly, around ninety per cent of those jobs paid less than 1.5 times the minimum wage (in contrast with fifty-one per cent in the 1990s). Unemployment fell steadily, especially in the lower segments of the labour markets, reaching, in 2014, less than six per cent of the workforce for the first time in decades.
After a decade-long stagnation, average real wages grew 4.2 per cent per year between 2003 and 2012, and real per capita household incomes grew 4.6 per cent per year. The real minimum wage rose seventy-two per cent between 2005 and 2012 (8.6 per cent per year), while real GDP per capita increased by a more modest thirty per cent. Rising minimum wages lifted the floor of the labour market and triggered simultaneous increases in federal transfers and pensions. Between 2001 and 2011 the income of the poorest ten per cent rose, on average, 6.3 per cent annually, in contrast with 1.4 per cent per annum for the richest ten per cent (Paes de Barros, Grosner and Mascarenhas 2012: 15). These gains have been concentrated in the poorer regions, with average real wages in the northeast rising at twice the national rate (see Morais and Saad-Filho 2011). Incomes rose faster in the periphery than in the centre of São Paulo, and more in rural than in urban areas. Female income rose by thirty-eight per cent against sixteen per cent for men (sixty per cent of the jobs created in the 2000s employed women), and the income of blacks rose forty-three per cent against twenty per cent for whites (Bastos 2012; Pochmann 2010: 640, 648; 2011: 38; 2012: 32; Tible 2013: 68).

Poverty has fallen rapidly. The country had 60 million poor people in 1993 (41 per cent of the population) and the same number again in 2003 (thirty-five per cent). Poverty subsequently fell rapidly, to under 30 million (fifteen per cent of the population) in 2012. The number of extremely poor individuals touched 29 million in 1993 (nineteen per cent of the population), and 26 million in 2003 (fifteen per cent), but fell under 10 million in 2012 (five per cent). The proportion of poor households fell from thirty-five per cent in 1993 to twenty-eight per cent in 2003, and twelve per cent in 2012.

Federal social spending increased 172 per cent in real terms (125 per cent per capita) between 1995 and 2010, rising from 11.0 per cent of GDP to 15.5 per cent (16.2 per cent in 2011) (Castro et al. 2012: 29; Chaves and Ribeiro 2012: 11). These growth rates were especially rapid after 2003. Higher spending permitted the expansion of existing programmes, the creation of new ones, such as PBF, higher payments (two-thirds of which are fixed at one minimum wage, and rose in real terms by 130 per cent), and an increase in the number of beneficiaries from 14.5 million to 24.4 million (seventy-seven per cent of citizens above the age of 60 now receive benefits). However, the informal workers remain largely excluded from social security coverage, including maternity pay, illness cover and pensions in case of retirement, illness or death (Castro et al. 2012).
The outcome of these processes has been a significant improvement in the distribution of income. The Gini coefficient fell from around 0.60 at the turn of the century to 0.53 in 2012, while the income ratio between the top ten per cent and the bottom forty per cent fell from 23 to 15.

The improvements outlined above have not been driven primarily by changes in social policy or public transfers, but by the labour markets: higher labour income (due to labour market shifts, greater labour demand and rising minimum wages) was responsible for sixty-five per cent of the decline of the Gini coefficient between 2001 and 2008, while the social benefits paid by the government were responsible for only 34 per cent (Hall 2008: 812; Mattei 2012: 167–168). It follows that the main drivers of poverty and exclusion in Brazil are the lack of secure and well-paid employment, and the insufficient provision and quality of public services. In order to break these structures of reproduction of poverty, government policy should clearly focus on labour markets and the expansion of public services. These can be supported, but not replaced, by the further expansion of social transfers.

Higher wages, the distribution of income, the expansion of social programmes and the growing availability of consumer credit have benefited tens of millions of people. For the first time, many poor people can visit shopping centres, fly across the country and buy a small car. Nevertheless, rising incomes at the bottom of the pyramid have not been accompanied by improvements in infrastructure, leading to a generalised perception of deterioration in the quality of urban life. The ensuing tensions may have contributed to the social explosion in the country during June and July 2013, and they have influenced significantly the outcome of the 2014 elections, in which Rousseff won by a very narrow margin. They were also in the background of some of the 2015 protests, even though the latter were mostly driven by the right-wing upper middle class.

In summary, the improvements in poverty and distribution during the last decade are due to several mutually reinforcing drivers. They include the creation of large numbers of jobs at the low-paid end of the labour markets, the formalisation of employment, the increase of the minimum wage, and the expansion of federal income transfer programmes. However, subcontracting continues to rise in services, in large private companies and even in SOEs. These workers earn forty to sixty per cent less than their peers in formal employment performing similar tasks. This might help to explain the extremely high proportion of very low-paid jobs created during the 2000s and the slow
recovery of the wage share of national income, which rose only from thirty-eight per cent in 2000 to less than fifty per cent today (the same level it had been 30 years ago, at the end of ISI and still under the military dictatorship) (Pomar 2013: 42). Further non-marginal gains in poverty and distribution will require a change of approach.

CHALLENGES FOR THE LEFT

The emergence of mass protests in mid 2013 and again in early 2015, and the challenging outcome of the 2014 elections have posed difficult challenges for the Brazilian Left. Most radical left parties, trade unions and mass organisations were disabled long ago by the neoliberal reforms; the mass base of the Left has been extensively decomposed, collective action has become harder, and the Left has been both supported and tainted by association with the PT federal administrations. The cultural identifiers and political expectations of the formal and informal working class and the middle class have been transformed, and the internet has changed radically the modalities of social interaction among the youth. For many workers and students, the military dictatorship is ancient history, and the PT is the only party they have ever seen in office in Brasília. The demands and expectations of the formal and informal working class have shot up in the last decade, while the upper middle class, stuck in opposition for years, has become embittered, leading to the emergence of a ‘New Right’ in the country. The press devalues the political system and harasses the Left relentlessly, and the economy has been slowing down since 2010. Suddenly, the streets seemed to explode: every social group paraded its own frustrations, unprecedented rioting took place, and the government – already disconnected from the organised Left and the middle classes – was clearly bewildered. Then came the narrow victory in the presidential elections in October 2014, accompanied by a significant shift of Congress to the Right. This was rapidly followed by a shift of economic policies towards neoliberalism, and by a new wave of bitter demonstrations against the government. What now?

The first challenge for the Brazilian Left is to appreciate what has been achieved in the last decade. The second challenge, inseparable from the first, is to recognise the shortcomings of the PT administrations and identify where progress is most urgent.
The economic, social and political achievements of the administrations led by Lula and Dilma are in no way revolutionary, but they are real enough, both for the workers and for the national economy. The fragilities of Dilma’s administration are due, in part, to her personal style, the increasing fragility of her parliamentary base, her isolation from the organised workers and the middle class, the dysfunctionalities of the political system, widely held perceptions that politics is inherently corrupt, the legal straitjacket that makes it painfully difficult to spend public money, the growing activism of a conservative judiciary, media hostility, and the depth and extent of the remaining inequalities in the country. Dilma’s fragilities are also due to the achievements of the PT administrations, which have raised the expectations of the workers and the poor much faster than their income or the state’s capacity to deliver public goods. The economic slowdown has also created the impression – likely well founded – that the cycle of prosperity which started with Lula has become exhausted, leading to a pervasive sense of dissatisfaction.

It follows, in summary, that the new wave of social protests is the outcome of three distinct processes. First, it results from a confluence of dissatisfactions. The upper middle class has lost much through the recent improvements in income distribution and the democratisation of the state, and finance has lost because of the policy inflection towards neo-developmentalism. Finance is clear about its own losses, and it seeks to rebalance the books through the perpetuation of a ‘fear of inflation’ leading to fiscal contraction, higher real interest rates and better returns on its assets. In contrast, the upper middle class has no clear understanding of its predicament, and it has projected its discontent onto the state and the political system (‘corruption’, ‘inefficiency’, and the ‘domination of politics by the PT’), and the threat posed by inflation to its standard of living. These are purely negative platforms. In contrast, the formal and informal workers want to protect what they have achieved, and they also demand more right now. This confluence of frustrations is a recipe for social and political volatility.

Second, the PT has been unable to manage the demands emerging through the success of its own policies, and it is, in this sense, a victim of its own success. For example, economic growth, income distribution and the wider availability of credit and tax breaks to domestic industry have led to an explosion in automobile sales (see above), while woefully insufficient investment in infrastructure and in public transport has created traffic gridlocks in many large cities. Rapid urbanisation has overwhelmed the electricity, water
and sanitation systems, leading to power cuts and repeated disasters in the rainy season. Public health and education have expanded, but they are widely perceived to offer poor-quality services. There has been virtually no progress on land reform, condemning millions to a life of marginality while agribusiness prospers. The press remains heavily concentrated, and it attacks the government insistently. In this sense, the protests in 2013 and 2015 were not primarily due to perceptions of losses, except by the upper middle class (which poured into the streets en masse). Instead, the 2013 protests were sparked by popular demands for the improvement of services that are already available but that have become completely unsatisfactory in the light of the growing expectations of the workers and the poor, while the 2015 protests have been ideologically driven by the emerging New Right. As the economy has stagnated and social and distributive conflicts have picked up, the government has found it increasingly difficult to juggle these contradictory pressures, and it shows signs of running out of steam.

It is impossible to address these challenges purely institutionally, without the aggressive deployment of public resources for strategic ends and the mobilisation of the working class to confront the traditional elites. However, these destabilising options were never considered by the PT administrations, and the scope for their deployment has narrowed down significantly since the 2014 elections. Instead, the PT has systematically chosen a gradualist strategy including minimal legislative and regulatory changes and, until recently, as little involvement by the popular organisations as possible. The recent protests suggest that this strategy may be exhausted, and it may even help to paralyse the government.

Third, the protests have revealed a deep disconnect between most social classes and fractions and their political structures of representation. The demonstrations were, generally, against politics as a whole, rather than focusing on specific administrations or political leaders. It is also sobering for the radical Left to realise that there were no mass demands for socialism: discontent is high, but revolution remains off the working-class agenda, and the recent waves of demonstrations have done little to bring the idea of radical changes to the table.
CONCLUSION

This chapter has reviewed the economic and political transitions in Brazil, and traced their macro-economic implications during the ‘Lula moment’. The two transitions have largely dismantled the production systems established during ISI and the corresponding social structures and patterns of employment. The Brazilian economy has become structurally more dependent on foreign trade, investment and technology, and the country’s productive base has shifted away from the long-term requirements of national accumulation, and towards the short-term imperatives of global accumulation. These outcomes were tempered but not fully reversed by the federal administrations led by the Workers’ Party and, in this important sense, the ‘Lula moment’ has been limited and it may be exhausted.

Despite their limitations, the Lula and Dilma administrations have achieved significant gains for the workers and the poor. Such progress has been important, but it remains insufficient to satisfy the distributive and democratic aims of the Brazilian workers and the Left. Brazil remains one of the most unequal countries in the world and, clearly, more could have been achieved since 2003. However, the severe obstacles faced by Lula’s and Dilma’s administrations suggest that a more ambitious agenda would have been feasible only through the mobilisation of the working class to confront the traditional elites and the aggressive deployment of public resources to fund faster welfare gains and deliver strategic investments. These transformative options were never considered by these administrations, which have chosen, instead, a gradualist strategy supported by minimal legislative and regulatory changes. The scope for continuing along this path has narrowed down significantly since the 2014 elections, and it remains unclear how the second Dilma administration will respond to this constraint.

A new policy agenda for the Left can be based on the government’s recognition that it has failed to improve living conditions in urban areas sufficiently rapidly, and that further improvements in these areas, and in growth and distribution more generally, require not only technocratic solutions with a progressive character, but the integration of left social movements into the policymaking process. This could help to strengthen and radicalise the political agenda, increase the legitimacy of the administration’s policies, and expand the mass base of the government. This would also incorporate the most significant lesson of the recent protests for the Left: that the careful choice of targets,
organisation, and dedication to the struggle and persistence can bring important successes. The mass demands for the reduction of transport fares have put public services at the top of the political agenda. This is a massively popular area of struggle, directly affecting tens of millions of people. However, and beyond that, the demonstrations have been a political school for a new generation of workers, with potentially far-reaching consequences.

NOTES

1 The system of accumulation is determined by the economic structures and institutional arrangements that typify the process of capital accumulation in a specific region, in a certain period of time. This is a relatively concrete concept, with no direct relationship with relatively abstract concepts such as mode of regulation (Aglietta 1979; Boyer 1990).

2 For an overview of the ways in which neoliberalism imposes a particular modality of social discipline, see Brown (2003) and Dardot and Laval (2013).

3 For a critical review of participatory budgeting and its limitations, see Santos (1998) and Souza (2001).

4 Neo-developmentalist draws upon several heterodox traditions, especially the evolutionary, post-Keynesian and structuralist schools. It suggests that economic policies should aim beyond the neoliberal goal of monetary stability and focus, instead, on a broader concept of macro-economic stability supported by growth-promoting monetary, fiscal, financial, exchange rate and wage policies (Morais and Saad-Filho 2011, 2012).

5 The case of the MST is especially significant, because this is the most important radical left-wing mass organisation in Brazil. In contrast, the far-left parties are relatively small, and they have been largely ineffective in terms of their own programmatic ambitions. The MST has been frustrated and alienated by the administrations led by Lula and Dilma, which have made very little progress toward land reform. Nevertheless, the MST maintains its critical support to the PT because of the political spaces opened at the federal level by these governments, and because of the threats posed by the return to power of the PSDB and its allies.

6 For a detailed analysis, see Saad-Filho and Boito (forthcoming 2016).


8 These are people in households with per capita income below the poverty line, which is defined as twice the line of extreme poverty. The latter is determined by the cost of a food basket including the minimum calories recommended by the UN Food and Agriculture Organization (FAO) and the World Health Organization (WHO) (see www.ipeadata.gov.br). Note that ‘[i]f Brazil were to implement a poverty line at the level currently used in the European Union – 50 per cent of median per capita income – the current poverty rate would soar to 40 per cent … In 2011, median per capita income in Brazil amounted to only 466 reais a month, around $240; this … means that two-fifths of the … population lives with a per capita
monthly income of less than $120’ (Lavinas 2013: 31).

9 Former president Lula has famously insisted that, during the last decade, much has changed in the homes of the poor in terms of access to consumer goods. However, once they step outside, they find that nothing has changed in terms of public goods and services; see Saad-Filho (2013).

10 For contrasting left-wing analyses of the elections, see the interview by Maria Orlanda Pinassi at http://www.correiocidadania.com.br/index.php?option=com_content&view=article&id=10128:manchete081014&catid=25:politica&Itemid=47, and Emir Sader’s analysis at http://www.cartamaior.com.br/?/Blog/Blog-do-Emir/Por-que-a-Dilma-quase-perdeu-E-o-que-fazer-para-nao-correr-mais-esse-risco/-2/32201. The Brazilian Left generally agrees that the government suffered the consequences of 12 years in power and the adverse turn of the global economy, and it was penalised for having failed to push through more radical reforms of the economy and the media. It is not clear how these challenges can be overcome, especially given the right-wing shift in the composition of Congress in 2014.

REFERENCES


