

Lula's Government: Brazil in Transformation

By Luiz Dulci

The election of President Lula awakened grand expectations and coincided with a deep desire for change in Brazil. Lula promised a new course for the country, a new national development plan based on eight ideas, through the strength of eight programmatic promises. After almost three years of Lula's administration, the program evaluation has only just been completed and can and should shed some light on these promises.

The first was a promise of economic growth for Brazil, after almost 10 years of stagnation. This period of mediocre economic growth or none at all in Brazil, created a feeling that the country would always be stuck in the same place economically and on the social front would even be moving backwards.

The current economic strategy is one of growth with stability, overcoming the dichotomy that has prevailed in Brazil during the last 20 years, which can be summed up as growth and no stability or stability and no growth. During the majority of Fernando Henrique Cardoso's administration, stability without growth prevailed. Growth was sacrificed for a rigid and paralyzing concept of stability that led our country to waste the opportunity for growth.

Opposition parties and some of the Brazilian media are in the habit of saying that President Lula has only continued the political economy of the previous administration, but that is not true. The monetary policies have been similar: a rigorous fight against inflation using the interest rate, the primary available instrument. But the similarities end there. The fiscal austerity of Lula's government is much greater and more sincere. Cardoso's "exchange-rate populism" has completely become a thing of the past. Most importantly, one must consider the

combination of the political economy, specifically, the innovative "popular credit" policies and productive investment, which was virtually nonexistent during Cardoso's terms.

In 2004, the Brazilian economy grew 5 percent. This could not have happened if our political economy was the same as it was under Fernando Henrique; that is to say, if we were limited by monetary precautions and fiscal rigor.

In order to reduce inflation, Lula introduced several initiatives to speed up economic growth. He injected a true positive shock to popular consumption, mostly through paycheck-backed loans (*crédito consignado*), which channeled more than \$8 billion into the Brazilian economy. He tripled the financial backing for family farms, benefiting two million families and adding more than \$3 billion to the economy. Programs that directly transferred money to families living in poverty, lead by the Zero Hunger program (Fome Zero), have already benefited almost nine million families. The Social Development Department is applying \$7.5 billion to programs for the poor that directly contribute to the stimulation of the national market, above all in food, clothing and other necessary items. In the same vein, Lula significantly increased the amount of credit available to small and medium-sized businesses through BNDES, the Brazilian Development Bank and Banco do Brasil, Brazil's largest state-owned bank. At the same time Lula forcefully freed up exports.

This year national growth will be at least 3 percent more than last year. Inflation, which was 12.53 percent in 2002, dropped to 7.6 percent in 2004 and should remain under 6 percent this year. The nominal deficit related to the GNP decreased from 5 percent in 2002 to 2.1 percent. We are also adopting a series of institutional and legislative measures that favor the expansion of



public and private investment. These Public-Private Partnerships (PPP) have already been approved. We passed a new Bankruptcy Law along with a package of measures that benefit the furniture market and civil construction, especially popular housing. In other words, measures have been taken that assure sustained growth. The economist Celso Furtado calculates that historically we have needed an investment rate of at least 22 percent of our GNP to assure sustained growth. Today, we have already reached 20 percent from a level of 18.3 percent in 2002.

The second promise was large-scale job growth, which is gradually being fulfilled. After the loss of 700,000 jobs in 1998-99, the creation of jobs in the 2000-03 period was 650,000 a year, on average. Lula's government generated more than 3.5 million jobs in the formal labor market with *carteira assinada* (officially registered jobs guaranteeing certain worker's rights) in less than three years. In 2004 alone there were 1.5 million new jobs. In addition, these gains need to be combined with the impact of the informal labor

market and family farming. According to some calculations, 300,000 jobs are created in the informal sector for every one million new jobs in the formal job market. The unemployment rate in the six largest urban centers fell from 12.8 percent in July 2003 to 9.4 percent in July 2005.

The third promise was that growth would take place along with the effective distribution of income, since Brazil has already experienced important periods of economic growth in the 20th century without balanced income distribution. There has been an expansion of wealth, but there has been no improvement in its distribution. Brazil is among the top 15 countries with the highest GNPs in the world, but it is second to last in income distribution. Brazil has a more unequal distribution of wealth than Bolivia, Paraguay and almost all other countries, even the poorest African nations. Needless to say, Brazil needs a much more equal distribution of income.

The Lula government's strategy was centered on the direct transfer of income to the poorest families, those living below the poverty line.

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President Lula with the Minister of Social Development and the Fight Against Hunger, Patrus Ananias.

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These transfers are coordinated by a government agency created this term, the Ministry of Social Development and the Fight Against Hunger. Compared to 2002, the amount of resources dedicated to this end has increased by 195 percent. The minimum wage has increased and, more importantly, this began a permanent increase in the value of work negotiated between social sectors. The minimum wage is very important in Brazil because there are millions of people who earn only the minimum salary, and more than half the work force earns less than three times the minimum. We have also reduced the income tax for middle-income workers. In addition, there has been a policy of appreciation implemented for civil servants, with significant salary raises above all for those in the lower ranks. We can still argue that our advances in the area of job creation and sustained economic growth strengthens the positions of unions, that in fact, they have managed to guarantee salary increases above inflation in the vast majority of collective bargaining negotiations.

The concentration of income and wealth has historic roots in Brazil and social mechanisms still exist that work against government policies. The economic “elites” frequently talk about income distribution but never accept any distributive measures. We still need to advance in this area. Even so, there has been one important step in the right direction. The National Household Sample Survey published by the Brazilian Institute of Geography and Statistics in late November 2005 showed that during Lula’s second year in office the country had a significant reduction of income inequality among workers and a higher number of people with formal employment. For the first time since 1997 workers’ incomes stopped declining. Income participation by the poorest half of the population increased between 2002-04 from 14.4 percent of total income to 15.2 percent, and the Gini index went from .563 (2002) to .547 (2004).

The fourth promise was growth in combination

with vast social inclusion, providing the basic rights of citizenship. For the 48 million people in Brazil that live below the poverty line, we adopted a minimum income policy funded with public resources. The Family Fund (Bolsa Família) is part of the Zero Hunger project launched by President Lula. Of these 48 million people, 6.5 million families, close to 28 million people were already included in the program at the end of 2004. This year we should reach 8.7 million families, which represent 38 million people.

We are talking about an average transfer of \$R65 per family each month. Families in the program must have a per capita income of no more than \$R100 and must prove that all children in the household attend school regularly and receive all of the vaccinations stipulated by the Federal Government. It is a modest amount of money, but at the very least it prevents people from starving. By the end of our administration, 11.2 million families, 48 million people or, in other words, all the people living in poverty will receive this minimum income from the federal government, which will, at the very least, assure the right of basic nourishment. This is why it is considered the lead policy of the Zero Hunger program, made up of 30 additional social inclusion policies. Without a doubt, the success of Zero Hunger, specifically of the Family Fund gives true sustenance to Lula’s government. We are not talking about supporting the poor based on populist principles. Fighting extreme poverty is not populism; it is the government’s obligation.

The fifth promise: Carrying out all of these policies will increase popular participation in the creation and execution of public policies. President Lula was elected with the strong support of Brazilian civil society, unions, NGOs, churches, environmentalists, the indigenous movement, the feminist movement, the movement against racism, the movement against sexism and others. The Worker’s Party



Photo by Meg Salarp.

(PT) took advantage of its experience governing municipalities like Porto Alegre, Belo Horizonte and São Paulo and states like Rio Grande do Sul, when we implemented new ways for citizens to participate in the creation, execution and oversight of public policies. From the moment of President Lula's swearing-in until now, more than one million Brazilians have directly participated in conferences to create public policies. Examples include the First National Cities Conference which mobilized close to 350,000 people in municipal and state conferences, the First National Conference on Policies for Racial Equality which mobilized 90,000 and a conference addressing Policies for Women which mobilized 120,000.

President Lula, who often uses soccer metaphors, said the following: "For a government like ours, civil society cannot be in the upper deck because the conservative 'elites' do not stay on the sidelines, they play the game right on the

field." It is necessary that civil society's popular movements also participate directly in the game in order to create a combined force favoring transformation. Our idea is not to substitute representative politics with direct politics, but to create a new dialog in between these two dimensions. Economic, social and political forces that defend the status quo, that defend the maintenance of an unfair social order, have a lot of power over the State. If we do not free up new social energy and establish a combination of forces more favorable to change it will be very difficult to guarantee change.

It is important to remember that all of those on the left represent only 20 percent of the total Parliament. Eighty percent of the Chamber of Deputies is not leftist. Adding together all of the parties that support President Lula, they represent, at most, 35 percent of the Parliament. In order to assure governability, we have to form alliances with parties that do not share a

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A Brazilian family farmer works his land.

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Photo by Ricardo Stuckert/PPR.

President Lula and Chief Minister Luiz Dulci participate in 15th anniversary of the São Paulo Fórum.

programmatic identity with us. If civil society does not mobilize and also democratically pressure the institutions of representative democracy, an elected government with huge hopes for change may be blocked by a center-right majority in the Parliament. Today we are living through an intense example of this contradiction.

Sixth, all of the five previous points will promote the systematic fight against corruption and the increase in transparency of public administration in the Brazilian state. This is

possibly the biggest challenge for the Brazilian Government today. Brazil has never before seen so many important and powerful people going to prison for corruption and defrauding the public coffers: businessmen, judges, congressmen, politicians, police officers and public officials who have gone for years, sometimes even decades, unpunished. This may give the false impression that corruption has increased, when the truth is that what has increased is the fight against corruption. The result of this, naturally, is an increase in the number of arrests and police investigations that appear in the newspapers and on television almost every day. At the beginning of Lula's administration there were more than 1,000 people under arrest, accused of corruption. It is also the responsibility of the government to anticipate corruption, by creating oversight and control mechanisms that prevent it from happening in the first place. This is why, soon after taking office, President Lula gave an assessment of the Office of the Controller General which, under the direction of Minister Waldir Pires, had already completed more than 7,500 audits of federal agencies. Also, they put in place official oversight of the funds transferred to Brazilian municipalities to prevent any corruption, something that had never been done before in Brazil. The result has been surprising: of the 700 municipalities that have already been audited, a large number of town councils committed serious irregularities regarding the misappropriation of money and have been condemned by government lawyers and prosecutors. We also created a "transparency portal" on the Internet, which allows every Brazilian citizen 24-hour access to important information about their cities, including how much federal money was transferred for local education, housing and healthcare and the number and names of recipients of the Family Fund. If you are interested in this information, all you have to do is log on to the site on the Internet right now. You do not even need a

password.

Three Parliamentary Commissions are investigating the recent accusations of corruption involving federal government agencies and congressmen concurrently.

The seventh promise was to recover the republican role of the state. During the two previous neoliberal administrations the Brazilian state atrophied and was left unqualified. The state-run banks, in particular the Brazilian Central Bank, the Federal Savings Bank and the Brazilian Development Bank have been virtually privatized. They have lost their character as banks that foster development and have begun to act with the same logic as private banks.

The final promise was to recover our national sovereignty which has been compromised in part by the international position of the two previous neoliberal administrations. This is more than just an attempt to recover our sovereignty; it is also an effort to make a more creative contribution to the struggle for a new economic and political order in the world. We believe that developing countries should receive more than just financial assistance from wealthier countries. This type of assistance is welcome and useful; the solidarity is also welcome, but what we need are development opportunities analogous to those that today's rich countries received in the past. These opportunities have much more to do with access to markets, fighting protectionism, new trade regulations and changes in the policies of the multilateral economic organizations, such as the International Monetary Fund, the World Bank and the World Trade Organization (WTO). We proposed the consolidation of the G-20 along with India, China, South Africa and Argentina — who together make up more than 60 percent of the world's population — to negotiate more equally in the WTO. Each of these countries alone cannot establish a more balanced relationship with the G8. Our goal is not to create an alternative power block, but rather, to unblock trade negotiations that are incredibly unequal. With the same goal in mind we created the G-3 with India and South Africa, rescued MERCOSUR and proposed new ways to fund the fight against poverty and world hunger

along with France, Spain, Chile, Germany and Algeria. We toiled to strengthen multilateralism. The United Nations needs to be strengthened and we cannot support the current structure of power in the UN which has remained unchanged since 1946. It is not an ideological problem; it is a problem of an outdated power structure.

Conclusion

According to public opinion surveys, President Lula is the favorite to be democratically reelected to a second term in October 2006.

To move forward we need to face the following challenges with courage and determination: first, to make sure that our growth is sustainable for several years. Second: to ensure political governability with ethical standards, carrying out party negotiations, but from now on, with ethical standards that the Brazilian society can endorse and support. Finally, we must deepen pro-development international policies.

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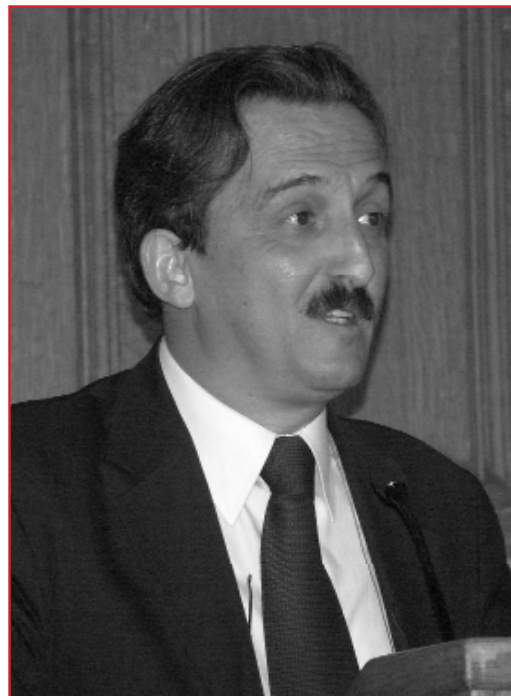


Photo by Dionata Ramos.

Luiz Dulci speaks at UC Berkeley, April 2005.