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## **Continuity and Change in the PT Government**

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## 1. INTRODUCTION

On the day his election was announced, president Luis Inácio “Lula” da Silva declared “hope had defeated fear”. Lula referred to the fear of change, very palpable in a society that in its five hundred years of history had succeeded in avoiding revolutions or significant changes in its structure. In the 2002 elections, Brazilian society seemed to be finally ready for the changes proposed by the Workers Party (Partido dos Trabalhadores- PT) and for Lula, defeated in three previous runs for presidency.

In his eight years in office, Fernando Henrique Cardoso, Lula’s predecessor, sought to achieve higher growth rates and reduce poverty through an aggressive policy of commercial and financial liberalisation and reduction of the State apparatus. Cardoso’s neo- liberalism shared with national development theories the belief that high rates of economic growth were sufficient conditions to solve Brazil’s main social problems, poverty and iniquity. The divergence between these schools of thought regarded *how* to increase rates of economic growth: through market policies in the first case and through protectionism and interventionism in the second.

The new element contained in the PT’s programme of government was the suggestion that the solution of the Brazilian social crisis lay in measures aimed directly to alter the extreme inequity of Brazilian society, instead of delegating to economic growth the alleviation of social conflict. The PT’s diagnosis of the Brazilian social problem initially met with resistance from the electorate because it proposed the adoption of concrete measures of redistribution of income and assets. A second cause of fear, less concrete but maybe more insidious to the mind of the electorate, was the possibility that the PT’s reform-oriented policies degenerate into “populism” and endanger the economic stability (i.e., defeat of inflation) obtained by the Cardoso government.

This last motive, in particular, explains the widespread hostility of financial markets and some representatives of the international media to the PT’s proposals, and led to heavy speculation against the Brazilian currency in the months preceding the election. Financial markets thus provided an ultimate reason of fear for the electorate: that of a financial crisis generated by speculation against the Real.

It is interesting to note that, contrary to previous elections, as speculation increased, so did the consensus around the leftwing candidate. The fact that the Brazilian electorate voted for the opposition in the face of so many fears is indicative of the deterioration of social conflict and the change in the political environment that took place in the country in the years of the second Cardoso government. Conviction that social issues must be tackled as the government’s priority became widespread. With the overwhelming majority of votes gained by Lula, the nation signalled it was ready for social reform.

However, a few months into the new government, another fear began to take hold in some sectors of Brazilian society: the fear of continuity. In its first months in office, the government’s initiatives as regards social policy and institutional reform were timid, and economic policy seemed to follow in the footsteps of the previous government, with austerity measures that surpassed those contained in the agreements with the International Monetary Fund (IMF). The government argued that the economic conditions inherited from the Cardoso government were disastrous, obliging it to “put the house in order” with austerity measures aimed to regain the credibility of international financial markets.

Critics argue that, in maintaining the economic policies of the previous government, the conditions which led Brazil to economic and social crisis are reproducing themselves: high interest rates, recession and unemployment. Adding insult to injury, strong criticism was voiced regarding the social programmes of the new government such as Fome Zero, a project with which the president is personally involved.

It is natural that there should be a gap between the expectations raised by the democratic election, for the first time, of a left wing party in a large developing country, and the results it can possibly achieve, especially in its first months in office. However, the Brazilian experience offers an interesting case study of the restrictions faced by a progressive political project in a peripheral country. What degrees of freedom does the new government, elected by an overwhelming majority, possess to alter the country's social structure or its insertion in the international scene? What policy instruments does a developing country dispose of in a globalised world and after a decade under the Washington Consensus?

With this discussion in mind, but less ambitious objectives, this text seeks to make a preliminary assessment of the degree to which the PT government, in its first months in office, has effectively made a break with the past in different areas of public policy. In Section 2 there is a brief description of some internal and external restrictions on the implementation of the government's plan of action. Section 3 presents a synthesis of the main proposals of the PT government, as they appeared in the "Programa de Governo" and other documents prepared for the electoral process. Section 4 discusses the implementation of the government's plan of action in three areas: economic policy, land reform and family agriculture, and external policy. Section 5 contains some concluding remarks.

## **2. SOME RESTRICTIONS ON THE PT'S PLAN OF ACTION**

The results the PT government can achieve in carrying out its programme depend, clearly, on its political will and technical competence, but also on a series of objective restrictions constituted by the domestic situation inherited from previous governments (and especially the two Cardoso governments, which lasted eight years in all) and from the political and economic trends in the international arena, in which Brazil occupies a peripheral position.

From the political point of view, the international scenario is complex. On the one hand, the end of the Cold War has rendered the international environment more favourable to progressive political projects in developing countries. On the other, September the 11<sup>th</sup> has created a new polarisation between the allies of the United States of America and "others", posing Brazilian diplomacy the challenge of pursuing an independent foreign policy while avoiding direct confrontation with the superpower.

The economic restrictions on the PT's project seem presently to be stronger than the political ones, as regards the international sphere. Two characteristics of peripheral<sup>1</sup> economies appear to hamper these countries' ability to pursue paths of sustained growth that would guarantee a sustainable increase of income and employment: the lack of a solid domestic financial market and the absence of scientific and technological development that would allow the continuous increase of national value-added.

Dependency on international financial flows renders the peripheral economy extremely vulnerable to the movements of the economies of the centre. This vulnerability is enhanced by the dynamics of the balance of trade, because exports of commodities and semi-manufactured products are particularly sensitive to the declining phase of the economic cycle. Financing the current account deficit in the declining phase of the economic cycle implies maintaining high interest rates, with a negative impact on economic growth and therefore on employment and poverty.

From the economic point of view, the international situation was extremely unfavourable to Brazil in the years of the second Cardoso government. The slowdown of the American economy (main export market for Brazilian products), the collapse of the price of commodities after 1997 and the marked instability of international financial markets, together with a progressive reduction in the

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<sup>1</sup> As defined by the Economic Commission for Latin America (Cepal).

flows of foreign direct investment, had a heavy impact on the results achieved by the Brazilian economy.

Rocha<sup>2</sup> shows how the economic policy carried out during the two Cardoso governments rendered the Brazilian economy increasingly vulnerable to the trends of the international economy, leading to a reduction of growth rates and the increase of poverty and social conflict.

In 1994 Cardoso, first as finance minister of the Itamar Franco government and then as president of the Republic, implemented a stabilisation plan which succeeded in defeating an inflationary process lasting over three decades and which in 1993 had exceeded 2,000%. However, the *Plano Real* was much more than a stabilisation plan: the Cardoso government considered it as the first and necessary phase of a new model of development, along the lines of the Washington Consensus<sup>3</sup>. Through the privatisation of public enterprises, the deregulation of the economy and the liberalisation of commercial and financial flows, the Cardoso government intended to harness the international capital widely available in the 1990s to the modernisation of national productive sectors, setting off a new cycle of growth.

In its first phase, the Plan's objective was to create a stable macroeconomic environment, rendering the country attractive to foreign direct investment (FDI). To guarantee the stability of the new currency, the *Real*, the government sought to attract flows of hard currency by keeping real interest rates at very high levels. However, the continuous appreciation of the *Real*, combined with an aggressive policy of trade liberalisation, had a negative impact on national industry. Furthermore, tight monetary policy led to explosive growth of public debt.

The flows of FDI, which should have formed the basis for the new model of development, were channelled to the privatisation of State enterprises or to the acquisition of pre-existing plants, without bringing about the expected effects on productive capacity and competitiveness. Multinational firms' preference for external suppliers had a devastating effect on small and medium enterprises, and therefore on employment. A structural deficit of the trade balance arose from this switch of demand towards imports.

The current account deficit rose continuously, fed by the trade deficit and by the growing outflows related to the remittances of interest payments and the profits of multinational firms. These remittances practically doubled between 1994 and 1998, while the current account deficit grew from 0.3% to 4.25% of the GDP in the same period<sup>4</sup>.

The situation was perceived as unsustainable by foreign investors, especially after a series of international financial crises (the Asian and Russian crises in 1997 and 1998, respectively). In the months preceding the presidential election of October 1998, only an agreement with the IMF was able to avoid a financial crisis and guarantee Cardoso's re-election. However, Cardoso's credibility in the eyes of the creditors was insufficient in the face of the evident frailties of the Brazilian economy. In January 1999 there was a new wave of speculation against the *Real*, which the government was unable to contain. In a few days, the *Real* lost approximately 40% of its value against the dollar.

The devaluation and subsequent floating of the *Real* was a turning point that differentiated the economic policy of the second Cardoso government from the first. However, the improvement in the trade balance was insufficient to contrast items such as the remittance of profits and interests, which continued to burden the current account. With the substantial reduction of the flow of FDI after the year 2000, the government depended increasingly on short-term flows to finance the

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<sup>2</sup> Rocha, G.M. (2002), *Neo-Dependency in Brazil*, New Left Review, July- August.

<sup>3</sup> Ozorio de Almeida, A. (1998), *Brazil's Real Plan: a Survey of the Literature*, Master's thesis for degree in Latin American Studies, ILAS, London.

<sup>4</sup> Cepal (2002), *Balance preliminar de las economías de América Latina e Caribe*, Santiago.

current account deficit. The dependence on these flows of speculative capital led the government to maintain very high real interest rates, with negative effects on production and employment.

The rates of inflation rose with the devaluation of the Real, with negative effects on real wages, which in 2002 were, on average, lower than in 1995. Unemployment rose continuously during the Cardoso governments, from 5.4% in 1993 to 7.3% in 2002<sup>5</sup>. These indicators hide the increasing precariousness and informality of work conditions, and the difficult situation of some metropolitan regions, such as São Paulo where unemployment exceeded 20% in the second Cardoso government<sup>6</sup>.

According to different sources, after an improvement following the Plano Real the indicators of income distribution and poverty worsened during the Cardoso government, due to the low (or negative) growth rates of employment and income and to the restrictions on social expenditure generated by the agreements with the IMF.

One of the clearest indicators of the social crisis faced by the Lula government is that of the rate of homicides. This indicator grew by over 100% percent between 1980 and 2000, reaching 26.7 homicides per 100,000 inhabitants, about four times world average and high even for Latin American standards. The rate of homicides among young people increased 77% between 1990 and 2000, and is almost certainly a result of the increase in unemployment<sup>7</sup>.

The increase in violence is also attributed to the expansion of organised crime, and especially to the traffic of drugs. Brazil has become a major channel for the traffic of drugs from the Andean countries, *en route* to Europe and North America. The consolidation of organised crime has not only led to an increase in “common crime”, but to the creation of “parallel powers” in metropolitan areas, Rio de Janeiro especially, capable of challenging State authority and creating no-go areas for the police.

The social situation also deteriorated in the countryside. The mechanisation of agriculture contributed to increase the reduction of rural employment, but the main factor causing a huge increase in the mass of landless peasants was the high interest rate maintained by the government. According to the Brazilian statistical agency, IBGE, approximately 100,000 peasants lose their land each year in Brazil, affecting what is already a particularly unequal structure of land tenure (3.5% of land owners own 56% of the land<sup>8</sup>). This rural exodus contributed to creating what has become one of Brazil’s most organised social movements, the Movimento dos Sem Terra (MST), which through land invasions and political pressure is seeking to obtain a substantial program of agrarian reform.

The worsening of the social crisis contributed to Lula’s election but also generated strong expectations as to the rapid achievement of visible results. The next section illustrates the main lines of the PT’s plan of action, in order to make a brief assessment of the government’s achievements in selected areas of policy.

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<sup>5</sup> Cepal (2002), *Ibid.*

<sup>6</sup> These statistics are published by the Fundação Seade and include “hidden” unemployment, i.e., unemployed workers who abandon the search for work in the formal job market in moments of crisis and return when the situation improves. Unfortunately, this data is available only for the State of São Paulo and does not allow comparison with other regions. In any case, the discrepancy with the average national data published by IBGE/ Cepal is striking.

<sup>7</sup> O Estado de São Paulo (2003), “Número de jovens assassinados cresce 77%” (05/07/03).

<sup>8</sup> Weber, L.A. and Lírio, S. (2003), “Timido ou Realista?” in: *Carta Capital* Ano X n. 268, 26th November.

### 3. THE PT'S GOVERNMENT PROGRAM<sup>9</sup>

The feature which distinguishes the PT's programme from those of preceding governments is the absolute priority conferred to social development, i.e., the establishment of the struggle against poverty and social iniquity as the ultimate aim of national development. The PT's diagnosis is that poverty in a relatively rich country such as Brazil is, above all, a political problem, and that by offering economic solutions to social problems the Brazilian State has connived with the reproduction and increase of poverty.

The social agenda is oriented to strengthening citizenship and promoting the social inclusion of "a non-organised multitude, which has not achieved citizenship and is often excluded from production and consumption"<sup>10</sup>. The programme considers the need to go beyond traditional social policies to alter the structural factors which determine the appropriation and distribution of income and wealth, such as access to land and capital, labour relations, the organisation and international insertion of productive capacity, the forms of State intervention.

Changes in the distribution of income and wealth must be accompanied by the orientation of investment and production towards an ample market of mass consumption for essential goods. The programme considers, therefore, the change of the Brazilian economic model as the ultimate instrument for the promotion of social development.

Here the social axis intercepts the so-called national development axis. The PT considers the strengthening of the State and of national industry complementary to the struggle against poverty. The sustainable reduction of poverty can only be achieved through recovery of economic growth and expansion of the formal sector, which rely on the co-ordination of the State and the promotion of national industry, especially of small and medium enterprises.

The national axis has two important features. The first regards Brazilian foreign policy and the country's insertion in the international context. Brazil has traditionally sought to follow a foreign policy coherent with its condition of regional power and global trader. The government's programme points to the continuation and deepening of this policy, through the strengthening of regional integration and of bilateral relations with different countries and blocs. The objective is to assure outlets for Brazilian exports and political alliances aiming to democratise international relations and multilateral institutions.

Independent foreign policy requires a reduction of the country's vulnerability to the movements of international capital through an increase in exports and in investments in R&D on the part of Brazilian firms, in order to increase value-added in Brazil. Reducing vulnerability also requires increasing long term savings and channelling them towards investment activities, so as to reduce dependency on international markets. The government counts on institutional reforms, such as the reform of Social Security, and on the reduction of basic interest rates to increase the amounts of resources available and create favourable conditions for investment.

The second aspect of the national axis refers to the articulation of different actors around the national development project. In this process, the State takes on the roles of regulator of economic activity and co-ordinator of public policies among the different levels of government, both of which have resented from the fiscal crisis and arbitrary decentralisation in recent years.

The proposals for reinforcing the national economy include the reconstruction and expansion of infrastructure. The investments in physical infrastructure have a double function in the government's programme. On the one hand they lay the basis for sustainable economic growth and

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<sup>9</sup> This section is based on the documents *Programa de Governo do PT*, *Concepção e Diretrizes do Programa de Governo do PT para o Brasil*, and *Vida Digna no Campo*, all to be found at the site [www.lula.org.br](http://www.lula.org.br).

<sup>10</sup> *Concepção e Diretrizes do Programa de Governo*, § 69. My translation.



**Table 2- The National Axis**

Objectives	Strategies/ Instruments
<p><b>a) Foreign policy aiming to reduce the country's vulnerability and enhance political leadership</b></p>	<ul style="list-style-type: none"> <li>• Emphasis on regional integration, especially in South America and Mercosul (creation of a common foreign policy and of common political and juridical institutions in Mercosul)</li> <li>• Defence of Brazilian interest in the Free Trade Agreement of the Americas (FTAA) negotiations (elimination of US non-tariff barriers and the creation of funds to support poorer countries in the integration process)</li> <li>• Strengthening of ties with NAFTA, the European Union and the Asian countries, but also with India, China, Russia, South Africa, and Portuguese- speaking African countries</li> </ul>
<p><b>b) Reinforcement of domestic sources of finance</b></p>	<ul style="list-style-type: none"> <li>• Reinforcement of public financial institutions to capacitate them to finance high- risk activities (agriculture, technological innovation, SMEs), or activities with long- run returns (infrastructure and housing)</li> <li>• Increased involvement of the banking sector in productive activities, through the reduction of the basic interest rate</li> <li>• Strengthening of domestic saving capacity, through the reform of Social Security and of forced saving schemes</li> </ul>
<p><b>c) Technological development of firms and export incentives</b></p>	<ul style="list-style-type: none"> <li>• Industrial policy directed to strengthening national productive chains (i.e., reverting the trend towards importing inputs) and firms' R&amp;D activities</li> <li>• Incentives to the food and agriculture complex, seeking to increase value- added in Brazil</li> <li>• Tax and credit policy aiming to stimulate exports and improve infrastructure</li> </ul>
<p><b>d) Reconstruction of economic infrastructure</b></p>	<ul style="list-style-type: none"> <li>• Recovery of the federal government's capacity for strategic planning and co-ordination</li> <li>• Adoption of partnerships with the private sector and between different levels of government</li> <li>• Reinforcement of the capital market's role in the financing of infrastructure</li> <li>• Recovery of investments in the production and transmission of electric energy</li> <li>• Emphasis on the integration of energy production and consumption in South America</li> <li>• Telecommunications policy aiming to universalise access to services and implement a competitive model</li> </ul>
<p><b>d) Redefinition of the federative pact</b></p>	<ul style="list-style-type: none"> <li>• Recovery and redefinition of the federal government's role in the co-ordination of national development and social strategies</li> <li>• Creation of a national policy for regional development</li> <li>• Political reform to assure proportionality of representation in the Chamber of Deputies</li> </ul>

## 4. PARTIAL RESULTS ACHIEVED IN SELECTED AREAS OF POLICY

In this section some of the results achieved by the PT in different areas of policy will be examined. The first of these is economic policy, because criticism of the economic policy carried out by the Cardoso government and the need to change the Brazilian economic model in order to promote social justice were some of the main themes of Lula's electoral campaign. Economic policy also creates the background for the other policies being carried out.

The second sector is land reform and family agriculture. This sector was chosen because in it converge different policies that emerge as priorities of the government programme: redistribution of assets, strengthening the domestic market, generation of employment, and the struggle against hunger. Last but not least, the landless movement is one of the PT's most traditional supporters, and at the time of the election there were expectations that the PT would take strong measures to improve the land distribution.

Finally, we will take a brief look at the evolution of foreign policy. As outlined above, foreign policy is charged with the difficult task of loosening the external restrictions on the achievement of the PT's economic and social objectives.

### 4.1 Economic policy

The first document to indicate what the PT government's economic policy would be, at least in its first months in office, is the *Carta ao povo brasileiro* (Letter to the Brazilian people), presented by Lula during the financial crisis that preceded his election. As the following paragraph shows, the presidential candidate's aim was to widen his electoral base and, above all, calm financial markets:

“A judicious and lucid transition between what we have today and what society demands is necessary [...] The premise of this transition will be, naturally, respect of the Country's contracts and obligations [...] Economic policy's space for manoeuvre is, in the short run, small”.<sup>11</sup>

However, not even this warning prepared voters for the fact that the government's economic policy, at least in its first year in office, would be even more austere than that carried out in the second Cardoso government. It should be remembered that in the months preceding the presidential election the country was invested by a serious speculative crisis. The outflow of capital led the exchange rate to depreciate from 2.3 to 3.9 Reais to the dollar, between April and October 2002. The monthly inflation rate reached 3% in November of that year, with an accumulated rate of 11% since January.

On taking office in January 2003, the government announced it would seek to surpass the targets agreed with the IMF by the previous government. While the agreement set the achievement of a primary fiscal surplus (net of interest on debt) of 3.75% of the GDP, the government signalled it intended to reach a surplus of 4.25% of GDP. To reach this target, the government carried out an expenditure cut of 14 billion Reais<sup>12</sup>, of which around one third related to social expenditures.

In the same period, the Central Bank raised the basic annual interest rate from 25.5 to 26.5%, and the quota of compulsory bank deposits was increased from 45 to 60%, leading the cost of capital to firms (including the bank spread) to exceed 40%.

Table 3 below shows some of the effects of tight economic policy on some basic economic indicators in 2003, compared to preceding years.

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<sup>11</sup> *Carta ao Povo Brasileiro*. My translation.

<sup>12</sup> Approximately US\$ 5 billion, at the average exchange rate of 2003.

**Table 3- Basic Economic Indicators (1999-2003)**

	1999	2000	2001	2002	2003 <sup>(a)</sup>
<b>GDP growth (%)</b>	1,0	4,0	1,5	1,9	0,1
<b>Per capita income growth (%)</b>	-0,4	2,6	0,2	0,6	-1,2
<b>Inflation (%)</b>	8,9	6,0	7,7	12,5	11,0 <sup>(b)</sup>
<b>Average real wages (1995=100)<sup>(c)</sup></b>	105,9	104,8	99,6	97,5	88,3
<b>Gross investment in fixed capital (% of GDP)</b>	21,3	19,8	19,7	18,5	17,1
<b>FDI (millions of US\$)</b>	26.888	30.497	24.715	14.084	7.137

(a) Preliminary data

(b) November 2002 to November 2003

(c) Workers of the formal sector (covered by social and labour legislation).

Source: Cepal

Table 3 shows that economic indicators associated with consumption and production achieved, in 2003, their worst results in five years and, notwithstanding tight monetary and fiscal policy, inflation remained high, with a negative impact on real wages.

The impact of policy on economic activity was softened, on the supply side, by the good results achieved by agricultural production, which increased 5% in 2003, and by exports. The main difference between the economic results reached in the second Cardoso government and in the first months of the PT government are, in fact, associated with the positive performance of the trade balance, stimulated by the depreciation of the *Real*, the improvement of the international prices of commodities such as soy, coffee and iron ore, and by the vigorous growth rates sustained by China and Argentina, two of Brazil's main export markets.

**Table 4- Main Voices of the Brazilian Balance of Payments (2001-2003) - Millions of US\$**

	2001	2002	2003
a) Exports of goods	58.223	60.362	72.434
b) Imports of goods	55.572	47.219	48.396
c) Balance on goods (a + b)	2.651	13.143	24.038
d) Balance on services	-7.759	-5.038	-5.364
<b>e) Trade balance (c + d)</b>	<b>-5.108</b>	<b>8.105</b>	<b>18.674</b>
f) Balance on income account	-19.743	-18.190	-18.780
g) Current transfers	1.638	2.390	2.819
<b>h) Balance on current account (e + f + g)</b>	<b>-23.213</b>	<b>-7.695</b>	<b>2.713</b>
<b>i) Balance on capital and financial account</b>	<b>19.763</b>	<b>-3.483</b>	<b>991</b>
<b>j) Overall balance (h + i)</b>	<b>-3.450</b>	<b>-11.178</b>	<b>3.704</b>

Source: Cepal

Analysis of Table 4, above, shows the substantial improvement which took place in the Brazilian balance of payments in the year 2003. Practically all this improvement is due to the excellent results reached by exports, while there was a modest recovery of the capital account, compared to the disastrous results achieved in 2002. However, as shown in Table 3, this recovery is due to the

increase in portfolio investments, since foreign direct investments suffered a substantial reduction when compared to 2002.

In the first months of 2004, the picture remained substantially the same. The most important change, perhaps, regarding 2003 is the gradual reduction of the basic interest rate from 26 to 16% annually. This still yields a very high real interest rate (projections for inflation this year are of around 8%), especially considering world interest rates reached an all-time low. The new agreement with the IMF foresees an even higher primary surplus (4.25% of the PIL), and although the present agreement relaxes some restrictions on government spending<sup>13</sup>, the government has again indicated it will seek to exceed the targets agreed with the IMF.

The government and its supporters argue that the situation inherited from the Cardoso government and the financial crisis which preceded the election make it necessary to “clear up the house”, i.e., to create a stable macroeconomic environment in which reforms can be carried out. The government suggests that the transition to the new economic model is already taking place (notably through the increase in exports and the improvement of the balance of payments), and that the country will soon be set on the track to higher growth rates.

However, it is difficult to perceive this transition and to note, in the sphere of economic policy, aspects that substantially differentiate this government from the preceding one. It is true that exports have had a spectacular recovery, but the other components of demand, investment and domestic consumption, have collapsed, eroded by high interest rates and high inflation, respectively.

Another indicator that shows how far the government is straying from its proposed “new model” is the evolution of the minimum wage. The minimum wage is, in Brazil, a key determinant of income distribution, and the increase in the minimum wage is a lever for the expansion of the domestic market, on which the PT’s model rests. However, in 2003 and 2004, the government decreed an increase of the minimum wage equivalent to a real increase of approximately 1% per year, due to its impact on the deficit of the social security account<sup>14</sup>.

Finally, the improvement in the balance of payments is not necessarily sustainable. The recovery of the trade balance is, to a certain extent, due to external factors, such as the improvement in the price of commodities and the dynamism of specific markets. The recovery based on commodity exports eases the pressure on Brazil’s current account, but is far from promoting the change in Brazil’s international insertion and the reduction in vulnerability that the PT considered an essential element of the new economic model. It is only in the diversification and expansion of Brazil’s foreign markets that the government’s policy can be seen to be achieving clear results in coherence with its initial objectives, as will be seen in Section 4.3.

The situation in the capital account is even less tranquil, as shown by Table 4. Foreign direct investment has reached the lowest level in the last ten years, and the inflows of capital basically regard short-term, portfolio investments. The dangers inherent to this kind of financing were clearly shown in April, when fears that the US Central Bank would increase interest rates caused a depreciation of the Real and an increase of country risk.

It seems unclear, not to say improbable, that the PT government is succeeding in carrying out the transition to the new economic model, based on the domestic market for essential consumption goods. With interest rates still high and the public sector running huge primary surpluses, the government seems to expect the impulse towards growth to come from exports. However, export expansion based on commodities does not have a strong dynamic effect on such a large and basically urban internal market.

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<sup>13</sup> For instance, government investments in sewage systems, up to a certain amount, will be excluded from the calculation of the deficit.

<sup>14</sup> Public pensions are linked to the minimum wage.

An increase in production and employment would clearly create a favourable environment for the institutional reforms and distributive policies the PT intends to carry out. However, as indicated by the government program itself, the focus on social policy must be set above the economic variables, in the realm of political will. The economic achievements of the PT government have not been brilliant, but creative achievements and re-arrangements, in the area of social policy, could contribute to bring about a change in expectations and, so, to the increase in investment and expansion of the internal market, on which the PT's model rests.

#### **4.2 Land Reform and Family Agriculture**

The Cardoso government's "inheritance" and the economic policy carried out by the PT government in its first months in office lay heavy restrictions on the latter's capacity to achieve its social goals. Most of these objectives depend either on the economy's capacity to generate employment and income, or on the government's capacity to carry out social expenditure, which is not independent of the former.

At the same time, the strength of the PT's proposals lies, as has been shown above, on its intention to improve the quality of social expenditure and carry out income distribution programmes.

From the outset, the government made it clear that social policy would gravitate around the struggle against hunger. The concept of hunger is used both in its acute sense, as a symbol of indigence, and as a representation of poverty and vulnerability. The *Programa Fome Zero*, announced in the first months of government, is an umbrella programme that gathers both traditional social assistance programmes, such as the distribution of food, and long run, structural policies, aiming to attack the causes of hunger and poverty, such as education and employment-generating policies.

The PT's diagnosis attributes different causes to the problem of hunger in Brazil, which can be summarised as: a) insufficient demand for food, arising from unequal income distribution, poverty and unemployment; and b) problems relating to agricultural production and distribution, leading to an high in food prices. The improvement of food security<sup>15</sup>, therefore, rests on three different lines of action: a) increasing effective demand for food; b) reducing the price of food products through increases in food production for the internal market and improvement of the distribution systems; and c) carrying out emergency programs for sectors of the population which are excluded from the food market.

The set of policies that make up the *Fome Zero* programme can be seen in Table 5, below.

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<sup>15</sup> The concept of food security, in the PT's interpretation, is indissociable from that of food safety.

**Table 5- Policies of the Programa Fome Zero**

<b>Structural Policies</b>		
<ul style="list-style-type: none"> <li>• Generation of employment and income</li> <li>• Universal social security</li> <li>• Incentives to family agriculture</li> </ul>	<ul style="list-style-type: none"> <li>• Intensification of land reform</li> <li>• <i>Bolsa Escola</i> and Minimum income guarantee programmes</li> </ul>	
<b>Specific Policies</b>		
<ul style="list-style-type: none"> <li>• Food stamp programme</li> <li>• Emergency donations of food</li> <li>• Maintenance of safety food stocks</li> <li>• Security and quality of food</li> </ul>	<ul style="list-style-type: none"> <li>• Expansion of the Programa de Alimentação do Trabalhador</li> <li>• Struggle against infant and maternal denutrition</li> <li>• Reinforcement of school dinners</li> <li>• Education for food consumption</li> </ul>	
<b>Local Policies</b>		
<i>Rural Areas</i>	<i>Small and medium cities</i>	<i>Metropolitan areas</i>
<ul style="list-style-type: none"> <li>• Support for family agriculture</li> <li>• Support to production for self consumption</li> </ul>	<ul style="list-style-type: none"> <li>• Food banks to coordinate food donation</li> <li>• Partnerships with small distributors</li> <li>• Modernisation of supply systems</li> <li>• Regulation of supermarkets</li> <li>• Urban agriculture</li> </ul>	<ul style="list-style-type: none"> <li>• Low-cost restaurants</li> <li>• Food banks to coordinate food donation</li> <li>• Modernisation of supply systems</li> <li>• Regulation of supermarkets</li> </ul>

Source: Projeto Fome Zero, [www.lula.org.br](http://www.lula.org.br).

It is not yet possible to evaluate the general results of the Fome Zero, due to the wide range of programmes that it covers, some of which can only produce significant outcomes in the long run. This paper will therefore focus on a group of policies that play a central role within Fome Zero—those related to land reform and family agriculture.

Strengthening family agriculture increases both demand for and supply of food, can contribute to reducing the price of food products, and is strongly intertwined with land reform, a central piece of the PT's election campaign.

The PT's objectives in the field of agriculture and land reform are set out in the document *Vida digna no campo*<sup>16</sup>, prepared for the presidential elections. The document finds that the historical concentration of land property and its direct consequences—mechanisation and concentration of agricultural production in few, export cultures—are the direct causes of the lack of food production for the internal market and the rapid expansion of the mass of landless workers. The latter phenomenon was also aggravated by the economic policies maintained by the previous governments, because high real interest rates and the lack of specific policies contributed to render family agriculture unviable. The document concludes that the intensification of land reform, the strengthening of family agriculture and the improvement of social services (especially education) in rural areas are the key to reducing social exclusion in the countryside and increasing food production for the internal market.

Once the new government took office, it became clear that the cuts in social expenditure required by its macroeconomic objectives would impair its initial objective of settling one million landless

<sup>16</sup> To be found on the site [www.lula.org.br](http://www.lula.org.br).

families in four years. The estimated cost of this plan, 24 billion *Reais* over four years, contrasts with the budget allocated to land reform in the year 2004, of slightly over one billion *Reais*. The new government target, taking account of budget restrictions, is to settle 335 thousand families in four years, which is approximately the amount of settlements carried out by the Cardoso government between 1995 and 2001<sup>17</sup>.

Alongside budget restrictions, other obstacles to carrying out a significant land reform program are presented by the evolution of land prices and legal problems related to the expropriation of idle land. The Cardoso government's land reform program (or settlement program, as its critics prefer to call it) benefited from an unprecedented collapse of land prices, brought about by the government's economic policy that penalised agricultural exports. On the other hand, the first months of the PT government coincided with a recovery of international commodity prices and the devaluation of the *Real*, leading to an increase in land prices of over 15% in 2003.

The government also faces barriers in its intention to reform the legal process for expropriating land. In the early 1990s, the Collor the Mello government sought to render the *Títulos de Dívida Agrária* (TDAs)<sup>18</sup> more attractive by conferring them an annual remuneration and rendering them negotiable on the financial market. The PT government would like to abolish monetary correction of these bonds and exclude them from the general public debt accounts but it faces the resistance of the IMF and of the Judiciary, which has more often than not ruled in favour of land owners in land confiscation disputes<sup>19</sup>.

With these obstacles to overcome, the government has decided to centre on the "quality" of land reform, which cannot be measured solely by the number of settlements. The plan aims to improve the infrastructure of previous settlements, many of which are still devoid of electricity, schools and health centres. The idea is to promote the integration of settled landless workers into the urban areas of reference, through reinforcement of infrastructure and social services that tend to be put under pressure by the population increase.

Alongside the lack of infrastructure, the viability of earlier settlements was hampered by the lack of specific policies in support of family agriculture, which the present government intends to implement. Family agriculture, strongly associated with food production for the domestic market, has been threatened by workers' insufficient access to credit, technology and markets.

In the PT's first year of government, one of the main actions of the Programa Fome Zero regarded support for family agriculture, in the form of the *Programa de Aquisição de Alimentos da Agricultura Familiar*- PAAAF (Programme for the Acquisition of Food from Family Agriculture). The Program's aim is to guarantee minimum prices for the production of family agriculture, through government acquisition of food to be distributed in schools, nurseries, hospitals and public restaurants. These operations are carried out by the Companhia Nacional do Abastecimento-CONAB (National Supply Company), through acquisition centres set up in different producing regions<sup>20</sup>.

Previously to this programme, the CONAB could only purchase food at the minimum prices established by the law, which were very much lower than market prices. With the present program, CONAB can purchase food at a price which lies between the minimum price guaranteed by the law and market prices, creating new distribution channels for small producers and rebuilding public food stocks at lower-than-market prices.

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<sup>17</sup> Weber, L.A. and Lirio, S. (2003), "Tímido ou realista?" in: *Carta Capital*, Ano X, n. 268, 26th November.

<sup>18</sup> Agrarian Debt Bonds, used by the government to pay for land expropriated for the purpose of agrarian reform.

<sup>19</sup> L.A. Weber and S. Lirio, (2003), *Ibid*.

<sup>20</sup> The Programa de Aquisição de Alimentos da Agricultura Familiar is directed to support family agriculture in general, not only production resulting from settlements.

The acquisition of food products by CONAB has two modes of operation: direct purchase (subsequent to harvest) and anticipated purchase (previous to harvest). The latter method, more widely used, has the advantage that the farmer can avoid recourse to bank credit to finance production, as the government anticipates the sale value.

The PAAAF has presented good results as regards the increase in food production for the internal market and in income earned by small farmers. It has been noted that the mere opening of acquisition centres in certain areas is often sufficient to lead to an increase in sale prices, benefiting the small farmers of the region<sup>21</sup>.

The PAAAF is a good example of how a well-designed program can contribute simultaneously to different objectives: increasing the production of food, lowering the price of government food stocks and improving the income of small farmers. The improvement and reorganisation of social programs was one of the great achievements of the PT in its municipal and state administrations, and there is much expectation regarding the implementation of other “qualitative” social expenditure programs.

However, it is also clear that the main objectives set out by the PT government as regards social inclusion cannot be carried out solely through creative public policy. To remain in the theme analysed in this section, not only land reform but also the “quality” policies aiming to improve social inclusion in the rural areas (infrastructure, education, health) will need a substantial increase in resources if concrete results are to be reached.

Furthermore, rural areas present some of the greatest sources of tension that the PT has to administer. The PT must accommodate one of its most powerful supporters, the Movimento dos Trabalhadores Sem Terra- MST, but it does not want to be associated with the frequent land invasions carried out by the latter and, above all, it greatly needs the foreign currency generated by agricultural exports, generally produced by the large, mono-culture estates.

This may be one of the reasons why the PT government has shown determination in expanding markets for Brazil’s export products, both through bilateral agreements and through the coordination of a group of countries seeking for the liberalisation of multilateral agricultural trade, the G-20. This has been a central issue for Brazilian foreign policy under the PT government, as will be shown in the following section.

### **4.3 Foreign policy**

It has been said that “it is in international relations and foreign policy that President Lula’s government most resembles the PT’s discourse”<sup>22</sup>. There appears to be much truth in this observation. The first months of the PT government have been marked by an aggressive foreign policy, which was clearly one of the objectives set out in the government’s electoral program.

Two events that took place in 2003 gave huge international publicity to the PT government. The first was President Lula’s participation in the World Social Forum at Porto Alegre, followed a few days later by his participation at the World Economic Forum in Davos, where he repeated the same speech, criticising the unequal results of globalisation and urging the world to unite in a struggle against hunger.

Later the same year, the PT government made headlines as it succeeded in creating a coalition of developing countries to defeat the proposal for (very moderate) liberalisation of agricultural markets

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<sup>21</sup> Balsadi, O.V. (2004), “Programa de aquisição de alimentos da agricultura familiar- os primeiros resultados obtidos em 2003” in: *Informações Econômicas*, vol.34, IEA, São Paulo.

<sup>22</sup> Almeida, P.R. (2004), “Uma política externa engajada: a diplomacia do governo Lula” in: *Revista Brasileira de Política Internacional*, vol. 47, nr. 1, janeiro-junho. pp. 162-184. My translation.

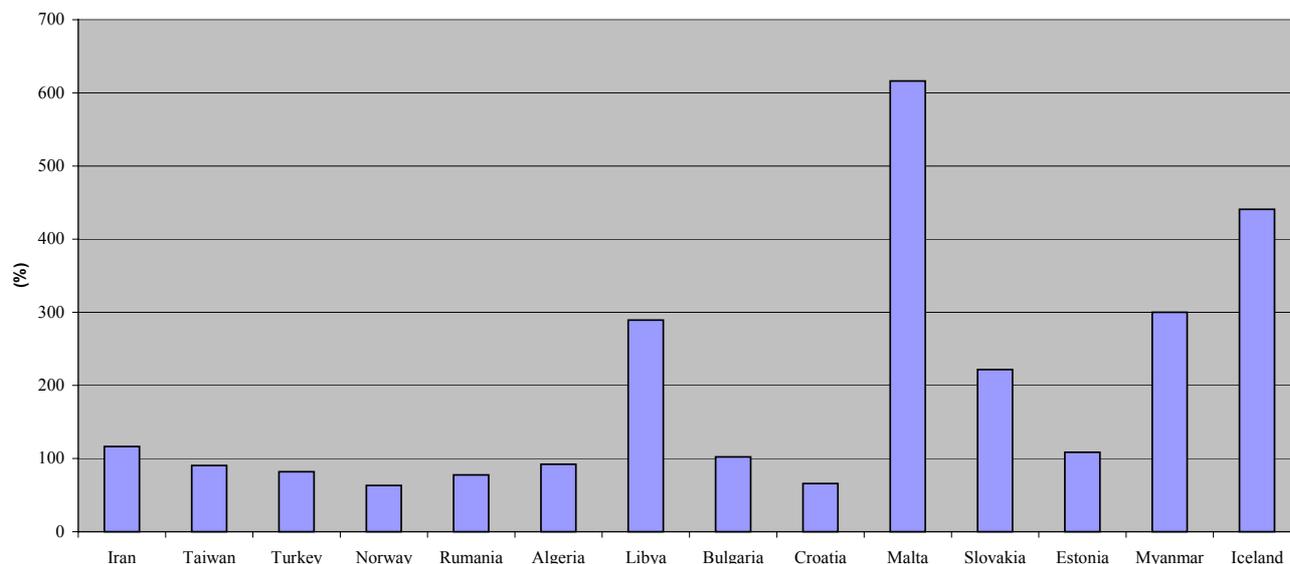
presented by the United States of America and the European Union at the WTO. Brazil has subsequently been considered, rightly or wrongly, as one of few developing countries capable of standing up to the world powers.

Although these episodes are well known, they represent only the tip of the iceberg of Brazilian diplomatic activity during the PT government. Besides participation in diverse multilateral forums, the President and his foreign minister have carried out an unprecedented number of bilateral visits and meetings. The objectives of this intense agenda stand out clearly. The first is to create political alliances with other developing countries, especially large regional powers such as China, India and South Africa. With the last two countries, also allies in the G-20, Brazil has created a Trilateral Forum (India, Brazil, South Africa- IBSA) to discuss co-operation in matters ranging from trade and transport to energy and education. Brazil has also asked its new allies to support its now unveiled ambition to a permanent seat in the UN Security Council, in the eventuality of its reform.

The second objective has been to diversify export markets. As regards the promotion of South American integration, an old aspiration of the PT, the government is making use of two new instruments: an increase in its participation in the Andean Development Corporation, to finance infrastructure projects, and an increase of credit lines from the BNDES (Brazilian National Development Bank) to finance exports to South American countries. Furthermore, the bank has created two special credit lines for Venezuelan and Argentinean firms exporting to Brazil.

The Arab countries constitute another region that has received marked attention from Brazilian diplomacy, having been the object of a presidential tour in late 2003. Some results of the government's efforts to diversify export markets can be observed in the Figure 1<sup>23</sup>, shown here below.

*Fig. 1- New Markets: Growth of Exports  
2002/3*



Despite the need to expand its export markets in the face of economic depression and external restrictions on growth, the government's foreign action seems to be essentially of a political nature,

<sup>23</sup> From Lirio, S. (2003) "Pequim, Cabo, Moscou", in: *Carta Capital* Ano X, n. 260, 1 October.

seeking to create and maintain a regional and international leadership, with a view to increasing developing countries' participation in international decision-making processes<sup>24</sup>. This aspect of Brazilian foreign policy is most visible in its relations with Mercosul, where the election of Nestor Kirchner created a favourable environment for re-launching the integration process. In contrast with the Cardoso government's attention trade, the Lula government has conferred greater priority to social and political aspects of integration, such as the creation of governing institutions.

Foreign policy seems to be the area in which the PT government has achieved its most important results until now, surprising both national and international observers in its capacity to enhance Brazil's role in the international arena. Although there have been some accusations of populism, there seems to be a certain consensus that the Brazilian government has clear foreign policy objectives and has been skilful in its diplomatic action. This positive view is probably helped by the fact that, despite its aggressive rhetoric, the government has stuck to the rules of the game, i.e., is maintaining its debt payments and its agreements with the IMF.

This does not mean that the PT's foreign policy is free of weak points. For instance, Almeida (2004) points out that

“the possibility that Brazil take on a role of leadership was seen, by Cardoso, as the gradual result of the country's economic pre-eminence and should, in principle, be limited to the region, in view of the limited resources effectively available for the State's foreign action (in financial terms, of course, but also in military and diplomatic terms). The Lula government considers [leadership] as one of its great political objectives, not to be limited necessarily to the region. [...] Lula seems to believe this role can be conquered through diplomatic action and strategic alliances [...]”<sup>25</sup>.

The costs of leadership emerged clearly when Brazil, in its bid for a seat at the UN Security Council, was chosen to lead peacekeeping troops to Haiti, after a dubious coup overthrew president Jean-Bertrand Aristide. The political implications of Brazil's role in Haiti also opened a flank for criticism from leftwing observers, such as Sader, who argues that military contingents from Brazil

“could end up performing a role of regional police for an imperial policy that considers some regions and countries incapable of governing themselves, thereby justifying their placement under permanent tutelage”<sup>26</sup>.

The results achieved by the government in two important fronts, the Free Trade of the Americas Agreement (FTAA) and the EU- Mercosul negotiations have been less than brilliant. The latter suffers from ups and downs, especially associated with the difficult negotiations on agricultural markets, and will probably be further delayed by the change of European Commissioner later this year. In the FTAA the Brazilian government achieved a victory of sorts when, in the aftermath of Cancún, it managed to have its “FTAA light” proposal for hemispheric integration approved. According to this proposal, also known as “FTAA *à la carte*”, there will be a core of obligations common to all participating countries, and a series of optional agreements on delicate themes such as intellectual property, conflict resolution, competition policy, antidumping, agriculture, investment, services and government procurement. This solution represents a step backward from the Cardoso government's defence of multilateralism and the principle of single undertaking<sup>27</sup>, but also on the PT's electoral threat of calling a referendum on the FTAA.

Finally, it is to be noted that Brazil's export boom has been based on low- value added products (iron ore and soy exports to China, which has become Brazil's second trade partner after the USA, account for an important part of the increase in exports in 2003). Furthermore, no important

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<sup>24</sup> Almeida, P.R. (2004), “Uma política externa engajada: a diplomacia do governo Lula” in: *Revista Brasileira de Política Internacional*, vol. 47, nr. 1, janeiro-junho. pp. 162-184.

<sup>25</sup> *Ibid.*, p. 171.

<sup>26</sup> Sader, E. (2004) “What is Brazil doing in Haiti?” [www.americaspolicy.org/commentary/2004/0406brazil.html](http://www.americaspolicy.org/commentary/2004/0406brazil.html).

<sup>27</sup> Almeida, P.R. 2004, *Ibid.*

breakthroughs have been made in the agricultural sector in any of the negotiations in which the country is currently engaged.

## **5. FINAL REMARKS**

The analysis carried out in this paper cannot, of course, make a definitive balance of the PT government's accomplishments: Lula's mandate is less than half way through, and only a few selected areas of policy have been considered. However, it is already possible to make some observations on the government's achievements, keeping in mind that it may still change its course.

Firstly, it seems clear that the choice of maintaining an austere mix of macroeconomic policies is hampering the government's achievement of its social goals. However "political" the PT's electoral message may have been, the government's programme made it clear that investment and job creation, especially in labour intensive sectors, were the key to improving the living conditions of a mass of people living under the poverty line. Although the economic situation has improved from the beginning of Lula's mandate, impacts on social indicators will be slow to appear, and the next presidential election is only two years away.

It is hard to evaluate whether strict economic policy was a necessary consequence of the Cardoso government's "inheritance", i.e., how much choice the PT government had in its selection of policy instruments. Although it is doubtful whether a rupture with the IMF would have been beneficial to the country, the decision to "exceed" IMF targets remains incomprehensible to many left wing critics, given the PT's background.

Social policy, on which so much attention concentrated in the first months of government, has become less prominent, due to cuts in government spending but also to criticism directed to some aspects of Fome Zero, such as the food stamp programme. The government probably realized there was a large gap between its rhetoric (which included an attempt to create an international fund to combat hunger) and the resources it could channel to such a goal. This is not to say that some policies contained in Fome Zero, such as the attempt to promote family agriculture, will not produce interesting results in the long run.

Finally, foreign policy seems to emerge as the most successful element of the PT government's actions. It has been said that foreign policy is a national unanimity, and that the government seeks abroad the consensus it cannot obtain at home, either through action or inaction. This seems a simplification in a complex society such as Brazil, where the radicalisation of foreign policy is bound to create economic losers, as well as winners.

Although the PT's foreign policy is undoubtedly popular in Brazil, the reasons for its success are probably simpler. Firstly, it is a policy area well suited to the PT government's combination of high ideals and scarce resources, allowing the PT to "remain faithful to itself". However, as shown above, the very success of foreign policy may augment its demand on resources. Secondly, it is an area where the PT's idealism is matched by a technically qualified ministry basically constituted of career diplomats, whereas posts in other ministries are often more politicised, at least as regards the higher echelons.

The equation between political will and available resources will be altered by the results of the institutional reforms the government is pushing through, and which should increase capacity for social expenditure. The proposals presented so far for social security and tax reform were considered timid by many observers, and have subsequently been watered down in their passage through Congress. The final impression is that, if the government had thrown its political weight behind institutional reforms as it did with its foreign policy, prospects for improvements would now be brighter, notwithstanding the restrictions laid down by economic policy.