

Reforming Brazil:  
The Fine Line Between Chaos and Stability

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## I. INTRODUCTION

President Lula has had a productive and ground breaking period in office to date, however he faces continuing pressure from radicals at either end of the political spectrum. Lula must refine and continue to balance his political support, social reforms and economic policies in order to facilitate progressive and meaningful change in Brazil at a pace which is sufficient to create tangible short term results, while at the same time permitting the Brazilian economy, as well as the Brazilian people, time to adapt. The principal purpose of this paper is to identify the opposition Lula will undoubtedly face as he continues to move forward with his ‘third way’ policies, followed by a framework of suggestions, both political and economical, aimed at maintaining support from across the political spectrum while carrying Brazil forward. Encompassed in this framework will be political, economic, and social suggestions through which Lula may expand and continue his current policies while maintaining the required political support.

Brazil has been through myriad of economic and political crises throughout its history and the past decade has been no exception. It was marked by a rapid succession of political and economic peaks and valleys which seemed ever revolving making any form of stability a distant dream. The most recent of these was the administration of Fernando Cardoso whose policies were centred around liberalization, in particular privatization, which produced some short term gains but failed to deliver on the promise of long term prosperity<sup>1</sup>. While Cardoso’s strategies were hailed internationally they were not overly popular at home as they became linked to high unemployment and slumping economic growth<sup>2</sup>. Amplifying the displeasure felt by the public was Cardoso’s aggressive pursuit of neoliberal policies which, in his attempt to restructure the

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<sup>1</sup> Datamonitor. *Brazil*. Country Profile, Datamonitor, 2007. 5.

<sup>2</sup> Petras, J et al. "Making Brazil Safe for Capital". Rowman & Littlefield (2003): 14.

economy, dismantled many of Brazil's traditionally stable economic actors through the privatization process<sup>3</sup>. These conditions led to the election of Luiz Inacio Lula da Silva of the Partido dos Trabalhadores, or PT, a centre-left government, in 2003<sup>4</sup>.

### III. THE DEVELOPMENT OF LULA'S THIRD WAY

Prior to the 2002 elections, where he ascended to power, Lula had made three unsuccessful bids for the presidency<sup>5</sup>. In an effort to garner more popular support Lula successfully shifted the PT's image from that of a leftist workers party to a far more centrist position in the campaign leading up to the 2002 elections<sup>6</sup>. This shift away from the purist left, if such a thing can be said to exist, is an extremely prevalent one as it has played a significant role in dissent within Lula's own party and among his allies. Lula's centrist attitude led to the maintenance of many of Cardoso's neoliberal economic policies while attempting to push forward gradual social reform. As a whole the economic and social conditions in Brazil have improved since Lula's ascendancy to the presidency<sup>7</sup>.

Lula has delivered on a third way, and it has been relatively successful. While tentative, his policies have established direction for a unique combination of social and fiscal policies which have sought to achieve an equilibrium between neoliberal economic ideals and leftist social reforms, specifically the reduction of the wealth gap. Lula's election was historic not only in that it brought to power a leftist party with strong ties to trade unions, but in that it brought a former labourer to power in a society where wealth and status at birth is often conducive to career opportunities<sup>8</sup>. The initial years of power for Lula have proven his commitment to a

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<sup>3</sup> Petras, 16.

<sup>4</sup> Economist Intelligence Unit. *Brazil*. Country Profile, Economic Intelligence Unit, 2006. 4.

<sup>5</sup> Economist Intelligence Unit, 9.

<sup>6</sup> Economist Intelligence Unit, 6.

<sup>7</sup> DataMonitor, 1.

<sup>8</sup> Economist Intelligence Unit, 4.

centrist path, surprising opponents on the right and raising the ire of supporters from the left through policies which have entailed financial orthodoxy while implementing pro-poor policies geared towards alleviating the burden on the poorest citizens<sup>9</sup>. The combination of these policies has created new rifts, as well as new allies, which in combination with several corruption scandals led to a fragile period of governance in 2004 and 2005. Despite this fragility, Lula's popularity rebounded in 2006 as several of his policies came to fruition though his support is considerably weaker than it was at the time of his initial election in 2002<sup>10</sup>.

### **III. CHALLENGES TO LULA'S THIRD WAY**

Lula's third, centrist, way has led him down a rocky political path. The political unbalance he has caused, primarily by splitting existing parties on a myriad of issues, is undoubtedly the trickiest problem Lula must solve. He must forge allies in unlikely places and keep his cards close, playing extremely smart politics to continue and expand his current policies. With divisions within his own party and several corruption scandals tainting his administration, the PT will face a number of political challenges, likely in the immediate future. Lula must prepare to deal with, and overcome, challenges from outside of his political coalition, within his political coalition, and within his own party in order to continue his centrist policies with any degree of success.

#### **i. The Direct Opposition**

The challenges presented to Lula's administration from the opposition have been relatively weak. They, along with members of Lula's own coalition pressed the corruption scandals extremely hard, but such allegations are far more damaging coming from within Lula's ranks than from external forces. In addition, while corruption is obviously a major issue, it is an

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<sup>9</sup> DataMonitor, 7.

<sup>10</sup> Economist Intelligence Unit, 6.

historic one, and often seen as something which is present in all parties from the public perspective<sup>11</sup>, thus making it poor grounds for singling out a party for criticism. The one area where the opposition has struck powerful blows against the PT as a whole is in the municipal arena. In particular the wresting of the mayoral seat of Sao Paulo from the PT struck a profound blow, which had used its record of successful municipal governance as part of its primary election strategy<sup>12</sup>. Though Lula's PT have faced corruption allegations at the federal level and political challenges at the municipal level from opposition parties, their main worries lie within the PT and the coalition which allows them to maintain a functioning government.

## **ii. Coalitional Opposition**

The coalition supporting the PT administration is the weakest aspect of Lula's government. Lula's coalition is comprised of five primary parties: PT, PL, PCdoB, PMN, and PCB in combination with some support from members of the PMDB<sup>13</sup>. All of these parties are distinctly left or centre-left. However, though his coalition is comprised of left leaning elements, due to his fiscal orthodoxy, Lula has received support on numerous financial issues from other, more right leaning parties. Regardless of this support, Lula has needed of the full strength of his coalition to pass social reform policies. Lula's administration has survived a grievous vote purchasing scandal, through which Lula lost several of his closest advisors and administrators<sup>14</sup>, lowering the credibility of the PT and creating divisions within its ranks. This scandal generated extensive criticism from within the PT's coalition amid already growing calls that Lula lacked a national framework<sup>15</sup> and had failed to implement promised social reform.

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<sup>11</sup> Economist Intelligence Unit, 8.

<sup>12</sup> Economist Intelligence Unit, 7.

<sup>13</sup> Flynn, Peter. "Brazil and Lula, 2005: crisis, corruption, and change in political perspective," *Third World Quarterly*, vol. 26, No. 8 (2005): 1234.

<sup>14</sup> Economist Intelligence Unit, 4.

<sup>15</sup> Flynn, 1226.

The PMDB represents the most established political party which led Brazil out of military rule and helped facilitate democratic rule and they are divided in their support for Lula<sup>16</sup>. In order to maintain its coalition, Lula's PT have to ensure that the PMDB do not become united against them, as, should Lula sour with other members of his coalition as well, a united PMDB would have the ability to lead a coalition with the ability to block Lula's ideas. In order to maintain PMDB support concessions to at least part of their membership will have to continue, as they did even under Cardoso<sup>17</sup>. This is not likely due to the PMDB's less than perfect relationship with numerous other parties, however it is essential that Lula and the PT retain a healthy respect for the PMDB's strength and size (see Table 1)<sup>18</sup>, particularly due to the weak party lines which are conducive to sudden power shifts. The ease with which Deputies move between parties is the most destabilizing factor in Brazilian politics, and Lula must be constantly be aware of the shifts within not only his own party, but all of the parties within his coalition.

### iii. **Opposition within the PT**

Adding to the challenges faced by any government holding together a fragile political coalition, politics in Brazil are focused on individual personality rather than general party policy<sup>19</sup>, which, while it undoubtedly helped the charismatic Lula win elections, has made it incredibly difficult for him to maintain a party line. Even more biting than the dissension in his coalition are the rifts within Lula's own PT. The centrist image Lula so carefully crafted in order to win the 2002 election, along with the orthodox fiscal policies he has practiced to date, has strained relationships throughout the PT<sup>20</sup>. While Lula made numerous promises to implement

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<sup>16</sup> Flynn, 1226.

<sup>17</sup> Economist Intelligence Unit, 9.

<sup>18</sup> Flynn, 1226.

<sup>19</sup> DataMonitor, 8.

<sup>20</sup> DataMonitor, 8.

social reform during his elections campaigns<sup>21</sup>, and thus pacify much of his party, his programs have been highly criticised as inadequate and sluggish<sup>22</sup>. Accusations of overemphasis on economic policy have been extremely vocal within the PT, leading some members to dissent. With the tentative hold the PT has on power Lula cannot afford to lose any more seats.

**Table #1****Composition of Congress (no. of seats)**

	Chamber of Deputies		Senate	
	2002	2006	2002	2006
<b>Partido do Movimento Democrático (PMDB)</b>	74	81	19	<b>21</b>
<b>Partido dos Trabalhadores (PT)</b>	91	81	14	<b>11</b>
<b>Partido da Frente Liberal (PFL)</b>	85	65	19	<b>16</b>
<b>Partido da Social Democracia Brasileira (PSDB)</b>	71	57	11	<b>16</b>
<b>Partido Progressista (PP)</b>	48	48	0	<b>0</b>
<b>Partido Trabalhista Brasileiro (PTB)</b>	26	44	3	<b>5</b>
<b>Partido Liberal (PL)</b>	26	36	3	<b>3</b>
<b>Partido Socialista Brasileiro (PSB)</b>	22	28	3	<b>2</b>
<b>Partido Democrático Trabalhista (PDT)</b>	21	20	5	<b>4</b>
<b>Partido Popular Socialista (PPS)</b>	15	15	1	<b>0</b>
<b>Partido Comunista do Brasil (PCdoB)</b>	12	12	1	<b>1</b>
<b>Partido de Reedificação da Ordem Nacional (PRONA)</b>	6	2	1	<b>0</b>
<b>Partido Verde (PV)</b>	5	7	0	<b>0</b>
<b>Partido Social Cristão (PSC)</b>	0	7	0	<b>0</b>
<b>Partido Socialismo e Liberdade (P-Sol)</b>	-	7	-	<b>1</b>
<b>Partido Republicano Brasileiro (PRB)</b>	-	2	-	<b>1</b>
<b>Partido Trabalhista Cristão (PTC)</b>	0	1	0	<b>0</b>
<b>Others</b>	11	0	1	<b>0</b>
<b>Total:</b>	<b>513</b>	<b>513</b>	<b>81</b>	<b>81</b>

Source: Economist Intelligence Unit, Country Profile 2006, Brazil<sup>23</sup>

The depth of the rifts within PT was revealed as Lula tried to push forward a social security bill. Three of his PT deputies voted against the bill and eight abstained from voting. To his credit Lula took a hard line with the dissidents, expelling those who voted against and

<sup>21</sup> Economist Intelligence Unit, 27.

<sup>22</sup> DataMonitor, 9.

<sup>23</sup> Economist Intelligence Unit, 10.

disciplining those who abstained<sup>24</sup>. The leftist elements within his coalition will only accept a finite amount of neoliberal policies before they abandon Lula's PT, party line or not. Considering the remaining members (after an initial exodus) are still there, despite Lula's liberal measures, Lula must concern himself with this weakness, the weakened state of the PT after the corruption scandal gives him a chance to rebuild much of the party, appointing new individuals who can accept a more centrist line, and perhaps, through coalitions, slowly wean what was once known as the PT into something of his own design, much as Nestor Kirchner has done in Argentina. Creating cohesive, unified, political parties is essential for any and all politicians in Brazil, Lula in particular, if he is to continue to fight for the centrist path, needs to be confident in having the support of his party. Brazil needs strong governance which can only be accomplished through united parties which can focus on governance and not infighting. However no amount of good governance will account for the greatest problem affecting Lula's social programmes, a lack of capital.<sup>25</sup>

#### **IV. EXTENDING POLICIES: CONTINUEING WHAT LULA HAS STARTED**

In order to extend and expand the policies he has begun Lula must carefully formulate an agenda to deal with domestic, social, and foreign policy which is clearly defined through an integrated policy framework.

##### **i. THE SOCIAL**

In order to pacify both his own party and the members of coalition Lula must address key social issues, many of which he promised to address as election promises. While he has implemented some social programs, such as Fame Zero, he has received plenty of criticism (as

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<sup>24</sup> Flynn, 1230.

<sup>25</sup> Flynn, 1229.

discussed in section III) as to the adequacy and depth of these programs. He has continued the country's neoliberal policies to pacify investors, however under his predecessors regime neoliberalism failed address the country's most prevalent social problem, wealth disparity<sup>26</sup>. In support of these policies he has passed some controversial legislation which has increased his unpopularity with the left, such as limiting the increase in minimum wage.<sup>27</sup> While the trade unions of Brazil have lost much of their power as the economy has continued to liberalize, they maintain significant public influence and have traditionally supported the PT<sup>28</sup>. Alienating them further by failing to address wealth disparity will prove disastrous for Lula's administration.

As can be derived from a number of wealth disparity measures (see Table #2), wealth disparity in Brazil has remained largely stagnant throughout recent history, with successive regimes failing to address the problem with any success.

**Table #2**

Indicators of Income Distribution and Poverty					
Year	Gini Coefficient	Theil Index	Gap between the richest 20% and the poorest 20%	Gap between the richest 40% and the poorest 40%	Poor as a percentage of the population
1979	0.60	0.74	31.3	25.2	38.8
1983	0.60	0.73	25.7	23.5	51.1
1986	0.59	0.72	24.0	22.1	28.2
1989	0.64	0.89	34.3	30.4	42.9
1993	0.60	0.77	28.8	24.5	41.7
1996	0.60	0.73	29.8	24.6	33.5
1999	0.60	0.72	27.2	23.3	34.1

Source: Amann and Baer, 952.

Throughout the previous decade of neoliberalism, wealth disparity did not significantly worsen, nor did it improve by any significant measure<sup>29</sup>. Lula garnered significant support from his promises to address this issue and, with party and coalition support crumbling around him, it is

<sup>26</sup> Amann, Edmund and Werner Baer. "Neoliberalism and its Consequences in Brazil," *Journal of Latin American Studies*, vol. 34 (2003): 951.

<sup>27</sup> DataMonitor, 9.

<sup>28</sup> Economist Intelligence Unit, 11.

<sup>29</sup> Amann and Baer, 957.

one he must act decisively and swiftly on. If left unaddressed the high levels of crime, illiteracy, and environmental degradation, which stem directly from massive wealth disparity, act as major hindrances on economic growth<sup>30</sup>. While hunger and shelter programs are essential parts of any social program, Lula must strive to develop greater human capital<sup>31</sup> in order to address wealth disparity directly. He is treating the symptoms not the root cause with his current social programs. The problems plaguing the labour market mirror those disparities present in the education system, vast pool of uneducated workers and small, highly educated, elite<sup>32</sup>.

## ii. THE ECONOMICAL

Lula has been, quite legitimately, accused of not having a concrete economic framework with which he is guiding the country. Rather he appears to be simply advancing Cardoso's policies while increasing social reform. While this strategy has been somewhat effective so far, as in other areas, Lula needs to project his economic vision in a clear concise fashion in order to lend some legitimacy to his economic decisions. It is understandable why Lula may not wish to reveal any concrete economic policies. In his fragile coalition his economic policies has been deepening rifts, and should he lay down a concrete economic framework he may lose some key coalition members, should it prove to be centrist or even centre-right. In comprise a tentative but a unique combination fiscal planning with spontaneity seems to be the only course. Laying down a concrete framework would likely collapse Lula's coalition, keeping the economic decisions relatively spontaneous, at least to those outside his immediate circle, would promote stability through ignorance, but weaken his government's legitimacy.

Throughout the 1990s the role of the state decreased with the single minded advancement of neoliberal policies, under Lula the opportunity for state to re-enter the equation as a promoter

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<sup>30</sup> DataMonitor, 15.

<sup>31</sup> Amann and Baer, 958.

<sup>32</sup> Economist Intelligence Unit, 18.

of growth and equity<sup>33</sup>. Lula is in an ideal position to implement his third way, from a governance perspective. The economy has been rapidly liberalized and now sits awaiting a directional and formational push, which Lula has begun to provide. A departure from purist neoliberal policies is essential, as in the early twenty-first century it became apparent that industry had not been given the necessary time to absorb the negative effects of liberalization<sup>34</sup>. Addressing the problems it generated through a policy of balanced reform will continue to be Lula's principle challenge.

In order to combat inflation Lula ratcheted the interest rate up above 19.5% in an attempt to create a positive investment climate and stabilize the currency. Results have been positive with the real gaining 25% between November 2004 and November 2005<sup>35</sup>. Maintenance of this tight monetary policy is essential as Brazil's economy is still fragile after the 2002 crisis. While the economy stabilizes under Lula's monetary reforms he has the chance to implement further stabilizing social reforms, as the instability cause by social inequity contributes directly to economic instability. The process of liberalization drove much of those previously employed in public corporations into poorly paid service sector jobs reinforcing the wealth gap<sup>36</sup>. Lula has to utilize this labour, taking advantage of the human capital available to him in order to strength the economy while addressing social issues.

From the beginning, Lula has progressed down the right path in terms of international economic relations. He has made friends everywhere striving to take advantage of all of the relationships available to him, including establishing stronger ties with China, India, and

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<sup>33</sup> Amann and Baer, 959.

<sup>34</sup> Veiga, 224.

<sup>35</sup> DataMonitor, 10.

<sup>36</sup> Amann and Baer, 956.

Russia<sup>37</sup>. In 2004 alone Lula visited thirty-five countries, opening new markets<sup>38</sup> and laying the foundation for new and future trade agreements. While accessing these new markets is an extremely positive step for Brazil, Lula must be extremely careful not to get drawn into some of the pitfalls of international trade which have haunted his predecessors, such as dollar-denominated liabilities<sup>39</sup>. Lula's friendly international stance and his tight monetary policies at home have led to positive reactions from international financial institutions highlighting to investors that Brazil is a positive place invest<sup>40</sup>. Despite this, the greatest challenge Lula, and his potential successors, face is that of boosting real investor confidence<sup>41</sup>. The crisis of 2002 shook investors thoroughly, and while Lula has brought considerably credibility back to Brazil, the foundations is far from concrete.

#### IV. CONCLUSION

In order for Lula to continue down the fragile path he has chosen he must build party cohesion within his own PT while building support not only within the coalition which currently supports him but with all those whose policies align with his centrist ideas. Lula has thrived on being unpredictable, his pro-poor policies combined with liberal economic ideas have created a blend of politics to which both his allies and enemies are unaccustomed. Through careful manoeuvring he can keep both sides off balance and use the economic benefits of liberalisation to help close the wealth gap which has plagued Brazil for decades, however he must be careful not to push the PT to point of internal collapse with over strong liberalization policies, unless such a collapse is carefully, intentionally, orchestrated, in order to reshape the PT.

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<sup>37</sup> DataMonitor, 11.

<sup>38</sup> Flynn, 1223.

<sup>39</sup> DataMonitor, 5.

<sup>40</sup> Flynn, 1249.

<sup>41</sup> DataMonitor, 15.

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