



TAKING LULA'S MEASURE

THE MAIN LOCUS of resistance to neoliberalism over the past decade has been in Latin America. The Zapatistas' call to arms was sounded in 1994, as NAFTA came into force. Since then, the continent has witnessed a series of left or centre-left victories—Chávez in Venezuela, Kirchner in Argentina, Lula in Brazil, the overthrow of Sánchez de Losada and Mesa in Bolivia and of Lucio Gutiérrez in Ecuador—and a resurgence of social movements, often led by peasants and indigenous peoples, from Chiapas and El Alto to the *piqueteros* of Argentina and Sem Terra farmers of Brazil. Eleven Latin American presidents have been ejected before the end of their mandates over the last fifteen years—not by the traditional process of us-backed military coup but through the action of popular movements against the neoliberal policies of their governments. The one old-style coup attempt of the period, against Chávez in 2002, was defeated. Chávez's government has proved the most important—and unexpected—development on the continental left, moving rapidly from democratic and national platforms to embryonic anti-capitalist positions, in strategic alliance with Cuba. The latter has managed to overcome the appalling hardships of the Special Period after the fall of the USSR in 1991, and its economy is once again on an upward trajectory.

One reason for this wave of rebellions is the extremity of the economic restructuring that the continent has undergone since the 1980s. Latin America was a favoured laboratory for neoliberal experimentation: Pinochet had applied the formulas of the Chicago School in Chile years before they were taken up as a global banner by Reagan and Thatcher; Jeffrey Sachs' shock therapy was tested out by the former nationalist Paz Estensoro in Bolivia well before its implementation in the former Soviet bloc. Introduced by the right, the neoliberal format was subsequently adopted by traditionally nationalist forces (Peronism in Argentina, the

PRI in Mexico) and then by the Centre Left: Chile, with the Socialist-Christian Democratic alliance, and now under Ricardo Lagos; Venezuela under Carlos Andrés Pérez; Brazil under Fernando Henrique Cardoso.

The continent became a model for the application of Washington Consensus policies: development would be led by foreign capital, attracted by the privatization of industry and natural resources, import liberalization, high interest rates, fiscal austerity and, in many cases, pegged currencies. Predictably, after an initial period of euphoria in the late 80s and early 90s, crises ensued. Imports surged as tariffs were cut; overvalued currencies stymied exports; current-account deficits and foreign-debt payments rose; high interest rates choked off domestic investment and consumer demand, leading to recession, unemployment and worsening inequality. By the mid-90s, rising US interest rates made foreign debt burdens unbearable, bringing about currency collapse: Mexico in 1994, Brazil in 1999, Argentina in 2001.

But—unlike in Southeast Asia or West Africa—in Latin America the visible crisis of the neoliberal model intersected with longstanding traditions of radical mass movements and political upheavals. Over the past half century the continent has experienced three major cycles of popular mobilizations and revolts by the Left. In the first, nationalist currents were usually hegemonic, with the communist parties often playing a central role: the regimes of Getúlio Vargas in Brazil (1930–45 and 1950–54), Perón in Argentina (1945–55), the Bolivian revolution of 1952 and the governments of Juan José Arévalo and Jacobo Arbenz in Guatemala dominated the 1950s, often ushering in a phase of intensive industrial development. The victory of the Cuban revolution in 1959 inaugurated a new period, which lasted through the 1960s and 1970s: socialism and armed struggle against the dictatorships became the order of the day, in the form of rural and then urban guerrilla warfare. The end of the dictatorships of the Southern Cone by the 1980s, followed by the West's victory in the Cold War, saw an unprecedented extension of representative democracies on the continent. This is the context for the third—still ongoing—cycle for the Latin American Left, one marked both by institutional practice and social resistance, within the framework of global liberal hegemony.

In some respects, the victory of the Partido dos Trabalhadores's Luiz Inácio Lula da Silva in Brazil's 2002 presidential elections has marked

the high point of this process. Brazil's 177 million people make up nearly half Latin America's total population. The PT is generally judged the largest left party in the capitalist world, and the Movimento dos Sem Terra one of its most vital social movements. At city level, PT administrations had already introduced path-breaking participatory budgets and hosted the Porto Alegre World Social Forum, a meeting place for the 'movement of movements' of the globalized era. The direction taken by the Lula government would inevitably have a significant impact on the dynamics of Latin American politics. Brazil's weight could add critical mass to a continental programme for socially redistributive policies, similar to those undertaken by Chávez in Venezuela. Or the economic model of Cardoso could be maintained, whether due to the global influence of liberalism, to the Left's inability to articulate strategies for a rupture with Washington Consensus programmes, or to the lack of sufficient strength—social, political and ideological—to carry that rupture through.

Brazilian development

Any assessment of Lula's record in power must start from an analysis of the origins and context of the Partido dos Trabalhadores's formation. Until a few decades ago, Brazil's left forces were relatively weak in comparison to those of other countries in the region. Their special place on the present world stage is due to a combination of factors which have given the country what Trotsky called the 'privilege of backwardness'. This trajectory is essential to any understanding of the significance of the PT's rise to power, as well as of its limits and contradictions.

Brazil's military coup of 1964 took place earlier than those of Latin American countries where the left was stronger, such as Chile, Argentina or Uruguay. Here the fragility of popular opposition, combined with firm support for the Army from the us—with strategic interests in Brazil's oil and other natural resources—meant that the generals were able to topple the government of João Goulart with a lesser degree of repression than was later required in the Southern Cone. The judiciary and Congress were untouched by the dictatorship, but the unions were closed down and the left hit hard—making plain the class character of the coup. The final years of the long postwar boom, and an influx of Eurodollars, enabled the military regime to preside over an economic expansion from 1967 to 1973, with growth rates of over 10 per cent per year; thanks to a rigid wage policy and foreign capital, growth continued at 7 per cent

even after the world economy entered recession. But overseas capital increasingly came to Brazil not as investment, but in the form of loans at fluctuating rates of interest—a time bomb that was to explode after 1979 with the global rise in interest rates.

The dictatorship brought to a close the historic period of Communist hegemony over the Brazilian left. Both the Partido Comunista Brasileiro and the union leaderships allied to it were blamed for the impasse of the mid-20th century popular movement and the failures of resistance to the coup. But the economic expansion of the late 60s and early 70s brought about a shift in the composition of the labour force, laying the basis for the emergence of a new left movement. Much as in Argentina, injections of foreign—above all American—capital had led to the establishment of an automobile industry centred on São Paulo. At the same time, in the wake of severe droughts on the *sertão* hundreds of thousands of northeasterners gravitated to the south-central region, and especially metropolitan São Paulo, now the country's economic and financial centre.

Since the regime's economic model was based on exports and the luxury-goods sector, much of the growth of the late 60s was concentrated in automobile and domestic appliance manufacturing—which in turn increased the weight of working-class fractions in the 'ABC' zone, consisting of the districts of São André, São Bernardo and São Caetano do Sul, on the periphery of São Paulo. It was here that a grass roots trade unionism developed during the 1970s, despite the military ban, and at the end of the decade—under the leadership of a new generation of trade-unionists, including the northeasterner and former car-worker Lula—carried out a series of strikes that broke the regime's wage policy.

Dictatorship and opposition

The PT, founded in 1980, grew principally from a base in this new trade unionism, as activists in São Paulo's automobile industry were joined by unionists from the oil and banking sectors, and by a range of social movements—women's groups, ecologists, indigenous peoples, Afro-Brazilians—and former militants from the armed struggle of the 1960s. The Catholic Church also played a key role, in community organizing inspired by liberation theology. Initially confined to São Paulo, the PT extended its influence into the countryside through the activities of the two largest social movements linked to it, the MST

and the CUT (Central Única dos Trabalhadores, the more dynamic and radical of the country's two major labour federations). Its heterogeneous origins notwithstanding, the party's ideological identity was from the outset largely conditioned by the outlook of its Paulista trade-union core. This cohort had been educated politically by the struggle against the dictatorship, with the repressive guise in which the state primarily appeared to them informing their anti-statist line. (Though Brazilian trade unionists had criticized the state in the past—notably after Vargas's introduction in 1943 of a corporatist Labour Code, borrowed from Mussolini's Italy, which blocked off union autonomy.) Indeed, the new union leaders had less antagonistic relations with business groups, with which they conducted negotiations—often broken up by police raids, after tip-offs from the entrepreneurs themselves—than they did with the state, whose rigid national security doctrine labelled the strike movement as 'subversive'.

Liberal ideology grew to dominate the opposition to the dictatorship after the defeat of armed resistance movements in the late 1960s. A leading role was played by the legal opposition party, the PMDB (Partido do Movimento Democrático Brasileiro), flanked by social and civil movements and NGOs of a liberal-democratic stamp. The ideology of this oppositional front was provided by the theory of authoritarianism, in the version propounded by Fernando Henrique Cardoso. Common to all these elements was a strong anti-state sentiment, founded on the concept of an antagonism between state and civil society. It was in this period that the Brazilian left began seriously to address the question of democracy, previously marginalized by the PCB in favour of national and social concerns. Yet the left's re-evaluation of democracy took place within the framework of the liberal hegemony over the anti-dictatorship opposition, which also affected the PCB. As a result, democracy was incorporated into left debates at the expense of its class nature; capitalism as a general historical scenario disappeared altogether.

Eurocommunism in the tropics

The key ideological text of the Brazilian left in this period was written in Italy by the exiled PCB intellectual Carlos Nelson Coutinho. 'Democracy as a Universal Value' was the most influential product of the PCB current that had been brought into direct contact with Eurocommunist ideas.¹ Coutinho took his cue from Enrico Berlinguer's interpretation of the fall

of the Unidad Popular coalition in Chile as a demonstration of the need to incorporate Christian Democrat forces, in order to prevent them from destabilizing a socialist government. The emphasis was placed on preserving democracy, rather than on the anti-capitalist dimensions of the struggle. Coutinho also sought to articulate the links between democracy and socialism, citing Lenin and Gramsci, but reading the latter in much the same way as had the PCI, resulting in similar contradictions.

Coutinho's text had broad repercussions on debates within the PCB, but its principal effect was on the eventual configuration taken by the PT. In a sense, he foretold the identity the party would adopt, notably when he affirmed that 'Brazilian *modernity* demands the creation of a secular, democratic, mass socialist party, capable of taking up what is valid in the heritage of Brazilian communism, but at the same time of incorporating the new socialist currents originating from different political and ideological horizons.'² Several others of Coutinho's statements were echoed by the PT. He was harshly critical of Jaruzelsky's 'military coup' of 1981 which the PT also condemned, identifying itself with Lech Walesa's Solidarity movement.³ Coutinho argued that Eurocommunism was the 'contemporary representative of the best traditions of the communist movement', in search of a 'third way' between 'the bureaucratic method of the Stalinists and neo-Stalinists' and the 'limited reformism of social democracy'.⁴ The PT would seek the same equidistance, and later even proclaimed itself the 'first post-social-democratic party'.

In contrast to Coutinho, liberal opposition currents stressed the relationship between democracy and liberalism, rather than democracy and socialism. The principal exponent here was Cardoso, whose theory of authoritarianism became hegemonic during the transition from military dictatorship in the 1980s. In this version, democratization would consist of the 'de-concentration' of economic power from around the state, and of political power from around the executive. Brazil's first post-dictatorship civilian government in 1985, and new constitution of 1988, marked the

¹ Carlos Nelson Coutinho, *A democracia como valor universal*, Rio de Janeiro 1980.

² Coutinho, *Democracia*, p. 13. Coutinho identified the PT as this force, and along with other PCB militants joined it in 1989. He was to leave it in the first year of the Lula government.

³ Lula's first international trip was to meet Lech Walesa, at the prompting of the then international secretary of the PT, Francisco Wefort.

⁴ Coutinho, *Democracia*, p. 114.

onset of political de-concentration; its economic aspect would be set in motion by Cardoso himself, as president of Brazil from 1994–2002, with his neoliberal programme.

The triumphant advance of liberalism on the international plane in the 1980s was echoed in Brazil, above all in the strictly institutional nature of the passage from dictatorship to democracy; there were no significant social or economic reforms. The PT opposed this conservative model of transition, calling for citizens' rights and social policies; but it did not put forward any alternative conception of democracy, or question the notion that 'democratization' was the answer to the country's problems. Moreover, it failed to attend to the fact that the fall of the dictatorship also brought with it the end of a specific model of capital accumulation, inaugurated by Vargas in 1930—and with it, a particular form of the state. The dominant liberal view, emphasizing political and juridical processes, obscured the deeper-lying socio-economic crisis subtending that historical moment. The PT identified itself with democracy; although it did mention socialism, the latter was never precisely defined, except to announce a distance from the Soviet model. Indeed, the PT often emphasized 'democracy' over 'socialism'—thus not only altering the meaning of the latter, but also plunging headlong into the contradictions liberal democracy was now installing in Brazil. Strikingly absent from the PT's founding manifesto and documents from the 1980s was capitalism: an indispensable reference for re-thinking socialism.

The Cardoso years

Symbolically, it was in 1989 that the PT began to emerge as a genuine alternative for national government, with Lula's near victory in that year's election—he obtained 44 per cent of the vote in the second round, to Collor de Mello's 50 per cent. It was also at this moment that the PT began the process of ideological and political transformation that would bring it to office in 2002. The international context for this conversion was the consolidation of neoliberal hegemony, with the collapse of the USSR, the first Gulf War and the sweep of market ideology across Russia and Eastern Europe followed by the 'Third Way' governments of Clinton and Blair, giving fresh impetus to the Washington Consensus. In Latin America, the extent of neoliberal hegemony was revealed in the embrace of its prescriptions by both 'socialist' and nationalist forces, from the Chilean PS to the Mexican PRI, from the Peronists to Venezuela's Acción

Democrática. In Brazil, Cardoso introduced the Plano Real in 1994 which pegged the currency to the dollar, cut tariffs and raised interest rates to attract foreign capital. The subsequent wave of privatizations, mergers and acquisitions of Brazilian firms by foreign multinationals resulted not only in the displacement of national capital, but a real measure of deindustrialization.⁵

The PT's traditional base was devastated by the reforms. Much of the automobile industry of São Paulo's ABC zone was dismantled, with car manufacturers moving operations to factories located elsewhere in the country or, more often, scattered across the globe. Official unemployment figures for São Paulo, generally assumed to be flattering, rose from 13 per cent in 1995 to over 20 per cent in 2002. Informal labour expanded in all sectors of the economy, weakening trade unionism further. Yet Lula's charisma as an outspoken working-class presidential candidate, and the dynamism of PT militants, ensured the party's growing presence within the country's political institutions. The PT's representation in Congress rose from 16 deputies in 1986 to 35 in 1990, mostly returned from the south-central region—São Paulo, Rio de Janeiro, Minas Gerais—but also from Rio Grande do Sul in the south. By the end of the decade it had gained mayoralties in Rio Grande do Sul and Minas Gerais, and was later to add cities in Goiás in the centre of the country, and Pará in the north.

The character of the PT was altered by its progressive insertion into Brazilian institutional life. The weight of the social movements affiliated to it decreased as its parliamentary representation rose; by the end of the 1990s it was congressmen, municipal governments and an expanded national structure who had the decisive influence on its orientation. The first World Social Forum, which took place in Porto Alegre in 2000, enjoyed the support of the Rio Grande do Sul PT, a state in which the party's left tendencies had long been dominant. But the national PT leadership did not participate directly, forging international links instead through the São Paulo Forum and alliances with European social-democracy—principally the French PS, as distinct from Cardoso's Third Way ties. Lula and members of the leadership gave speeches at the WSFs of 2000 and 2001, but took no part in their organization and did not sign up to their theses.

⁵ See Geisa Maria Rocha, 'Neo-Dependency in Brazil', NLR 16, July–August 2002, pp. 14–15.

The PT's attitude towards Cardoso's economic reforms also underwent a shift. Initially it tried to take an independent line, organized through the São Paulo Forum which, from 1990 on, brought together parties unaffiliated to neoliberal governments—principally the PT, the Mexican PRD and Uruguay's Frente Amplia. However, this grouping was not immune to the dominant ideas. It took part in the 'Buenos Aires Consensus', convened around proposals by Jorge Castañeda and Roberto Mangabeira Unger, which implicitly aligned itself with the Third Way in advocating fiscal adjustment and monetary stability, albeit adding social policies. The PT took part in drafting the document, and only withdrew from signing it at the last minute because Lula was standing against Ciro Gomes, advised by Unger and directly identified with the document, in the 1998 Brazilian presidential elections. (Similarly, Castañeda joined the campaign of Vicente Fox in Mexico, competing with the PRD to oust the PRI in 2000.) But by this stage there were no essential differences between the PT and the Buenos Aires Consensus.

Cardoso had pushed through an amendment to the constitution in order to be able to stand for re-election in 1998, and was the clear favourite to win. Lula's campaign made no mention of the crisis of Brazil's bankrupt economy, nor of the impending devaluation of the *real*. The aim was to ensure that the eventual catastrophe did not taint his image. After a campaign in which he put forward no alternatives, Lula was defeated in the first round, obtaining 32 per cent of the vote to Cardoso's 53. The incumbent had effectively been negotiating with the IMF during the campaign, and desperately needed to win in the first round, before the crisis burst into the open. In January 1999, less than three months after the elections, Cardoso began his second mandate by decreeing a massive devaluation of the currency, renegotiating IMF loans and raising interest rates to 49 per cent.⁶

Preparing for 2002

After the 1998 defeat, Lula and his advisers moved to set up the Institute of Citizenship, a think-tank outside PT structures. It enabled Lula to become increasingly independent of the PT—expressing, in organizational terms, the far greater public projection he enjoyed compared to the party. The Institute organized seminars attended by economists

⁶ On the unravelling of Cardoso's economic strategy, see Rocha, 'Neo-Dependency', pp. 20–25.

and specialists in other areas—social policy, environment and political reform, among others—in order to formulate Lula’s campaign programme for 2002. The final version, which would be ratified by the PT, stressed what were to be the two key themes of the campaign: the ‘priority of the social’, and the resumption of development, as a precondition for the former. An opposition was established between productive and speculative capital—without distinguishing between foreign and national capital, big and small firms, industrial or other enterprises. Reviving the economy was to be the major objective, presaging a slow, gradual exit from the neoliberal model. Campaign publicity emphasized ‘change’ and the ‘priority of the social’. There were no concrete indications of what was meant by this priority, but the forms it would take once the PT was in government could already be seen: the ‘Zero Hunger’ campaign echoed Lula’s repeated statements in 2002, and in earlier electoral contests, that his aim was for ‘all Brazilians to eat three times a day’. Mention was also made of the need to maintain monetary stability, a programme which by implication already included many of the Lula’s government’s subsequent proposals—such as the reform of social security.

Cardoso’s campaign slogan in 1998 had been ‘He who puts an end to inflation puts an end to unemployment’. By 2002 his record on both fronts was clear. The economy had not recovered from the crisis of 1999, and monetary stability had not brought renewed development, still less any extension of social policies. Unlike in 1998, Lula now appeared a strong candidate, although opinion polls suggested voters wanted a president who would combine monetary stability with social policies—criteria effectively in line with the Buenos Aires Consensus and, among the main candidates, matched most closely by Ciro Gomes.

Two factors helped to determine the outcome of the election. The first was the candidacy of Ciro Gomes, the other the strong speculative attack on the *real* carried out by finance capital in the summer of 2002, a few months before the vote. At the start of the campaign both Lula and Gomes found themselves behind in the polls, led at that stage by Roseana Sarney, daughter of ex-president José Sarney. The government candidate José Serra, then Health Minister, was a distant fourth, before he orchestrated a string of denunciations that effectively removed Sarney from the race. But Serra still faced elimination in the first round, and so he began a new round of denunciations, this time aimed at Gomes. The latter’s standing in the polls dwindled, but Serra—as Cardoso’s man, vulnerable

to the same criticisms Gomes had made of the incumbent—failed to close the gap on Lula who, in turn, remained unable to break through the PT's historic threshold of slightly over 30 per cent of the vote. The attack on the *real* was a show of force on the part of finance capital, as if to underline both its potential stabilizing role and its ability to sabotage any new government to which it objected. The message was that the return of capital to the country would depend on the result. The 'Brazil risk' began to be known as the 'Lula risk', implying that in the event of a PT victory, monetary destabilization and uncontrolled capital flight would ensue—resulting in a sharp drop in the value of the *real* in July 2002.

Letter to Brazilians

But in June 2002 Lula, condemning the speculative attack, had released a document entitled 'Letter to the Brazilians', in which he pledged that, as president, he would keep to all the previous government's financial commitments. There would be no renegotiation of the external debt, nor any regulation of the movement of finance capital. The PT had gradually softened its position on external debt over the past decade; the shift from suspension of payments to renegotiation marked its first steps on the path to becoming a potential party of government, culminating in Lula's 2002 commitment to pay the debt in full. Monetary stability, too, had steadily increased in importance as a strategic objective after the 1994 election defeat; on Lula's accession it became a general filter for all government activity. But it was above all the 'Letter' that altered the Lula campaign's relationship with finance capital and, in the process, changed its social character and relation to the neoliberal model. The physiognomy of the future Lula government began to take shape.

The transformation was apparent even during Lula's electoral campaign, when decision-making was transferred to the marketing chief Duda Mendonça, who had previously run the campaigns of the prominent right-winger Paulo Maluf, and Antonio Palocci, former PT governor of Ribeirão Preto in São Paulo state, one of Brazil's richest cities, and the man behind Lula's economic programme and the 'Letter to the Brazilians'. Mendonça devised the slogan 'Lulinha, Peace and Love' in an attempt to soften his candidate's pugilistic image, forged in union organizing and polemical critique of the policies and corruption of the political elite. (In the 90s, Lula had said that there were 300 'pickaxes' in Congress—slang for shamelessly immoral characters.) The slogan and

'Letter' proved a winning combination—the former deployed so often as to virtually become the content of a campaign which was increasingly that of Lula and not of the PT. In addition, Lula had picked the textile magnate José Alencar as his running mate, and had the support of the conservative Partido Trabalhista Brasileiro. Street-level activism and public rallies played a far less prominent role than in previous elections, and the level of PT mobilization further diminished after 2002.

Entering office

This was the basis on which Lula won the presidency in the second round of the election, with 61 per cent of the vote to Serra's 39 per cent. In Congress, his government depended on a coalition that included the centrist PMDB, and later the right-wing Partido Popular, as well as the smaller parties of the left. (The official opposition thus consisted of the former Cardoso coalition parties, the Partido da Social Democracia Brasileira and the Partido da Frente Liberal.) Lula's rupture with PT traditions became still clearer with the announcement of his first government at the end of 2002. The most significant appointment was that of Henrique Meirelles as president of the Central Bank. Formerly head of the US-based FleetBoston Financial Group, Meirelles had returned to Brazil to begin a political career, spending his way into a seat as a deputy for Cardoso's PSDB in Goiás. Meirelles put together a team of young neoliberal cadres who had already served in previous governments. Not a single economist from the PT or any other left force was invited to join the cabinet.

The Lula government initially argued that, due to the 'accursed legacy' of Cardoso, it would not be able to change course immediately on the economy. A doctor by training, Finance Minister Palocci preferred the metaphors of his original profession: 'you don't change the treatment during the illness'. What was required was an economic policy of transition, in order to gain the 'confidence of the market' and attract capital; interest rates could then gradually be lowered, and development would resume. The discussion focused on two issues: the risks of default on external debt, and those of losing control over inflation. In the case of the former, there was indeed a marked deterioration in the external accounts under Cardoso.⁷ The untrammelled opening of the country to overseas

⁷ See especially Leda Paulani, 'Brasil delivery: razões, contradições e limites da política econômica nos primeiros seis meses do governo Lula', in João Antonio de Paula, ed., *A economia política da mudança: Os desafios e os equívocos do início do governo Lula*, Belo Horizonte 2003.

capital increased the country's dependence in strategic sectors—autos, banks, food, electronics—and put large amounts of prime national capital into foreign hands at low prices. Privatizations of state industrial services added to the trend. Deficits in the balance of services and revenues (profits, dividends and interest) increased—the latter from an average of \$11bn in the 1980s to \$19bn in 1997—due in part to the over-valuation of the *real*, but above all as a consequence of the doubling of external debt. It was external vulnerability that led the Cardoso government repeatedly to appeal to the IMF—in January 1999, June 2001 and August 2002.

Yet the level of reserves was unaffected, remaining stable throughout 2002—despite the financial turbulence—at around \$37bn. Brazil was still capable of meeting its external commitments, and the balance of trade was continuing its upward trend towards surplus. Overall, at the end of 2002, on the eve of Lula's assumption of power, the situation was much better than it had been a year before. There was nothing that would justify maintaining a policy of fiscal adjustment, still less the introduction of new measures such as raising the primary fiscal surplus target to 4.5 per cent of GDP, above the level recommended by the IMF. The second conservative argument concerned the risks of inflation, which would prevent the reduction of interest rates—raised in the first month of the Lula government from already high levels. The economy was stagnant and unemployment high, undercutting any justifications based on inflation of demand; there was nothing to indicate that inflation was out of control.

Cardoso's economic policy was not simply maintained but, with the hike in interest rates and raising of the primary fiscal surplus, taken a step further. In order to show that this was a strategic choice, in its first year the Lula government gave priority to two reforms in the style of World Bank 'packages' on social security and tax. The first had a clear privatizing slant. A new tax was levied on the retired—who had already been paying all their lives—to reduce the social security deficit; and public-sector workers' pensions were capped, forcing them to turn to private pension funds. The proposal met with strong resistance from the unions, and resulted in the expulsion of three PT deputies and one of its senators—indicating how far the PT was prepared to cut into its own flesh to advance its programme. The tax reform, meanwhile, aimed to simplify and reduce the tax burden on private investment.

If this had less directly harmful social consequences than the social security reform, its failure to address Brazil's staggering disparities in income distribution, regressive taxation system and large public deficit was cause for serious concern.

Palocci's reign

In its third year in office, how should Lula's government be characterized, and what has its record been? The administration has effectively evolved into two main axes: ministries in the social sphere—education, agrarian reform, health, culture, cities—and the Ministry of Foreign Relations on the one hand, and the central economic team on the other. While some good initiatives have been proposed on social issues, these have largely been stymied by the Finance Ministry's rigid fiscal austerity; as a result, the government's social record has been disastrous. The PT, rather than Lula, has taken the blame. Ministers in these fields have occasionally spoken out against the government line, though tepidly, owing to Lula's insistence on cabinet discipline.

The Ministry of Foreign Relations, meanwhile, has been building a series of international alliances—both regionally, through Mercosur and the South American Community of Nations, and internationally, with the G20 and links to China, South Africa and India, as well as Arab countries—which have sometimes clashed with the Finance Ministry's desire for good relations with Washington and the global financial institutions. Nevertheless, the Lula administration has given its backing to the Franco-American coup which overthrew the constitutional government of Jean-Bertrand Aristide in Haiti in February 2004. Under Brazilian leadership, Argentinian, Chilean and Uruguayan troops are now propping up a regime of ex-generals and former death-squad leaders in Port-au-Prince.

But it is the Finance Ministry that has been consolidated as the government's centre of gravity. At the beginning of 2005, Lula announced that he considered his economic policy to be 'the best of his government'. In April he reaffirmed his 'hand-in-glove' relation to the man principally responsible for it, Finance Minister Palocci. Other key figures in the economic sphere include Meirelles, the Central Bank president, and the ministers of industrial development and agriculture, Luis Fernando Furlan—a businessman who made his fortune in the food export sector—

and Roberto Rodrigues, an agribusiness entrepreneur. Together with Palocci, these men constitute the nucleus of the Lula administration, determining the resources available to all other branches of government. The dominance of this bloc was established early on, as it stamped its authority on discussions over the minimum wage and monthly decisions on the interest rate. In February 2003, the government announced to the IMF its commitment to a draft law giving the Central Bank autonomy; the economic team ensured that it would include cast-iron provisions to protect its president from scrutiny of his financial dealings.

The Lula administration has moved from initial suggestions that it was adopting a transitional policy to the assumption, by its second year, that the present economic course would be permanent. Vice was turned into virtue. At the beginning of 2005, Lula triumphantly announced that 'the predicted catastrophe did not take place', stressing that his government had 'reversed a process that was leading us to the abyss'. Despite all evidence to the contrary—and the admissions of his own finance minister—Lula insisted that 'we are not continuing the policies of the previous government . . . we are rebuilding the economy, strengthening institutions and, above all, gaining credibility in the country and abroad.' He emphasized the importance to economic growth of Brazilians 'recovering their self-esteem', and cited GDP growth figures beyond the most optimistic assessments, the healthiest economic indicators in a decade, the largest increase in employment since 1992, spectacular successes in foreign trade. This was no sudden spurt of growth, he said, but a 'stable and consistent' process; inflation had been controlled, and the public finances had been run in a responsible manner.

Economic performance

Palocci's ministry has largely been able to shrug off criticism—thanks in part to the early marginalization of José Dirceu, the initial overseer of the transition, from the economic policy team. But the principal reason has been the mini-recovery of 2004, which the government claims as proof that it is on the road to sustainable growth. After stagnating in the previous two years, the economy grew by 5 per cent in 2004, giving the Lula government an average of 2.7 per cent growth per annum, compared to Cardoso's average of 2.3 per cent over 8 years. Excess capacity is being taken up, and primary export products—genetically modified soya in particular—have acted as levers for the recovery.

However, the concentration of profits and the emphasis on exports has resulted in a drop in incomes for both employees and the self-employed of 2.3 per cent, compared to a fall of 0.7 per cent under Cardoso. This despite an increase in the exploitation of labour: 6 million retired people continued to work in 2003, compared to 4.9 million in 1996; the number of workers with two or more jobs rose from 3.4 million in 2001 to 3.8 million in 2003—from 4 to 4.3 per cent of the labour force. The numbers working extra hours also went up, from 27.1 million in 1996 to 29.3 million in 2003, while unemployment went from 5.1 million (6.7 per cent of the working population) to 8.5 million (9.6 per cent) in the same period. Between 1996 and 2003, 17.5 million jobs were created with remuneration of up to 3 minimum wages, but 6.3 million posts paying higher salaries were cut, with the balance insufficient to meet the demand for new jobs. The trend also reflects a serious deterioration in the quality of employment, with the increasing prevalence of 'Asiatic' working patterns—long hours, low salaries and few labour rights. Brazil's historic tendency towards the concentration of income continued: where employees and the self-employed accounted for 51.4 per cent of national income in 1993, by 2003 this proportion had fallen to 40.1 per cent, continuing its downward trend. Between 2002 and 2003, 3.3 million people with a monthly household income of between 1,000 and 5,000 *reais* (\$300–\$1,500) saw their purchasing power decrease, while the number of people with a household income below 500 *reais* (\$150) grew to nearly 3.5 million.⁸

The 'priority of the social' promised during Lula's electoral campaign was thus foreclosed by the priority given to financial targets—the public deficit and inflation. However, this did not reduce the economy's external fragility: budgetary restrictions were counterbalanced by high interest rates—in real terms, the highest in the world—which only increased the size of Brazil's debt. The public debt, which stood at 623 billion *reais* (\$257bn at current exchange rates) in 2002, had risen to 812 billion *reais* (\$335bn) two years later, with almost half the debt falling due at the term of a year. The fiscal surplus obtained—at 4.6 per cent of GDP, above the target Palocci had set for 2004—was equal to less than half the amount by which the debt increased. Comparing the levels of investment and debt-servicing payments, in 2003 6.9bn *reais* were invested, but interest payments on the debt were more than ten times larger—77bn *reais*. The

⁸ See 'Número de dois gumes', *Revista Carta Capital*, 15 December 2004 and 'No torniquete', *Revista Carta Capital*, 17 November 2004.

trend continued in 2004, with 1.7bn *reais* in investments and 50.8bn in debt interest payments. The Brazilian state thus continued in its role as a mechanism for channelling resources from the productive sphere—through taxes—to the speculative.

Maintaining the primary fiscal surplus at such a high level deprived the government of resources to drive growth. In late 2004, therefore, the Lula government decided to opt for public–private partnerships as an alternative means of securing investment—a form of financing which guarantees such risk-free returns to capital that it constitutes a significant further step in the privatization of the state. A raft of other reforms—relating to labour, unions, universities and political parties—fell foul of Congress, whether because the proposals themselves were incoherent, or because the government could not obtain support for them given the increasing political tensions in the run-up to municipal elections in the autumn of 2004.

Losing the cities

The 2004 municipal elections were the first electoral test for the Lula government and the PT since winning the presidency two years earlier. Overall, the PT obtained an increased number of votes—as one might expect for a party fresh from success in a presidential contest. But there were also qualitatively significant defeats, including the loss of the mayoralties of Porto Alegre, Belém and São Paulo, which had been run by the party for 16, 8 and 4 years respectively, as well as Campinas, Caxias do Sul and Pelotas. Both the city and state of São Paulo were lost to José Serra, Lula's opponent in 2002; the country's political and economic centre of power are now in the hands of the PSDB.

If the first year of the Lula government was marked by opposition from the Left—and in particular from social movements mobilizing against the reform of social security—the second saw a resurgence of its right-wing antagonists. This is not the corollary of any leftward shift on the government's part, but rather a sign of its political weakening—itself the consequence of a string of other reverses. It has failed to enact effective social policies, significantly raise the minimum wage or reduce unemployment. Agrarian reform has ground to a halt and the government's environmental policy—including concessions to firms planting GM crops—has been strongly opposed by ecological movements. The PT has

been unable to consolidate and broaden its support base, or to establish a media policy that would ensure it was no longer hostage to private press lobbies.

Corruption allegations against members of the government—increasingly frequent since January 2004—have also taken their toll, as did the defeats in municipal elections later that year. Victories over the PT, especially in São Paulo, where Lula was more directly involved in campaigning, breathed new life into the Right, centred around the alliance between the PSDB and the PFL. Its principal spokesmen, including Cardoso, were afforded generous press space as debate began on who would succeed Lula in 2006, with various proto-candidates put forward.

For the Right has realized that, though it is quite capable of living with Lula—since it recognizes his economic policy as its own—it is not condemned to do so. The focus of their criticism is the government's supposed 'excessive spending', which they hold responsible for the country's high interest rates. They have attacked the progressive aspects of the PT's tenure, demanding repression of the MST, resisting all attempts at regulation contained in the government's media and cultural policies, and denouncing as 'out of control' any social policies aimed at helping the poor. Their future strategy—with encouragement from the US—is likely to involve further reductions of the tax burden and the use of state structures to provide jobs for PT cadres. For the 2006 elections, the Right will aim to prevent Lula from winning in the first round by putting up several candidates, from the PSDB, PFL and possibly the PMDB, who can then, in the second round, swing behind the one who secured most votes in the first. The PT, meanwhile, will attempt to secure support from parties of the centre and right—the PMDB and PP—to avoid political isolation and shore up Lula's bid for re-election. A polarization between the PT and PSDB is the most favourable situation for both, since it restricts the available alternatives to variants of a 'social-liberal' model.

The Brazilian Left faces a serious dilemma with regard to the Lula government. In power, the PT has not fulfilled any of its historic aspirations, and cannot even be described as a government of the left. The municipal elections of 2004 brought significant defeats for the Party's left wing, most notably in Rio Grande do Sul, where it had previously been dominant. There was a marked decline in social mobilizations, too, except in the case of the MST, which maintained pressure on the government with

marches, land occupations and media campaigns, notably including the 'Red April' of 2004. Overall, however, the Left suffered an increasing tendency towards fragmentation. After the expulsion of the four PT deputies who voted against the social security reform in 2003, several militants left the party and founded the PSOL (Partido Socialismo e Liberdade). It intends to put forward the senator Heloisa Helena, formerly of the PT, as its presidential candidate in 2006. But since she will have to give up her seat to run in a contest she will surely not win, the PSOL could end up with no voice in the Congress. Internal struggles have weakened its attraction to those discontented with the government, and the haste in which the PSOL was set up prevented it from developing a comprehensive alternative to the PT; as a result, it has become yet another small group, limited to reclaiming the historic positions of the PT that were abandoned by the Lula government.

Those on the Left still in the PT are in a no less difficult position. Critical of the federal government, they nonetheless belong to the party in power, share its general orientation and feel a sense of loyalty to its leader. They are hence unwilling to pursue an open political and ideological struggle within the PT or social movements. No important tendency refused to participate in the government once invited—though it would have been possible to remain in the party without doing so. Members of the government come under pressure to keep quiet about their differences.

Rule and resistance

During the current cycle of popular mobilizations in Latin America, marked by the institutional rule of centre-left parties in a period of global liberal hegemony, the widespread social resistance to neoliberal restructuring has had difficulties in translating itself onto the political plane. The first-generation proponents of free-market reforms, or their chosen successors, were defeated in elections—Menem in Argentina and Fujimori in Peru (both, together with the ex-presidents of Mexico and Venezuela, Salinas and Pérez, pursued by the judicial authorities of their countries for corruption), Cardoso in Brazil, Battle in Uruguay. Yet the leaders who have taken their places—Toledo in Peru, Fox in Mexico, Lula in Brazil, Kirchner in Argentina, Tabaré Vázquez in Uruguay—have by and large maintained the same economic model. Chávez is the notable exception.

Strategically, the collaboration between Cuba and Venezuela has been one of the most important developments of the past decade, demonstrating the possibility, however limited, of a social alternative to free-market rule. This axis risks isolation from an arc of centre-left alliances uniting Brazil, Argentina, Uruguay, and on occasion Bolivia and Peru. On this front, the Lula government has not been Washington's ally of choice. The recent joint denouncement of the Chávez government by Cardoso, Kissinger and former members of the Clinton Administration demonstrated the type of Brazilian interlocutor the us would ideally prefer. In virtually every other respect, however, the praises heaped by Washington on the Lula government's policies have been all too well earned.

The youngest of Latin America's left parties, the Brazilian PT has also made the swiftest transition to economic orthodoxy. Formed under the liberal ascendancy of the 1980s, against the current of world political developments, the party was institutionalized during the 1990s even as Cardoso's reforms were eroding its industrial working-class base. Nevertheless, even bearing in mind the stranglehold mercantile relations have on states—the movements of the market, as Chomsky has observed, now taking the place of military coups—the fact remains that on his election, Lula enjoyed a degree of domestic and international support that would have enabled him to create the conditions for a departure from the neoliberal model, inaugurating a transition to a system in which social priorities were central, as he had promised during his electoral campaign. He could have renegotiated Brazil's debts, subordinating financial targets to the need to tackle the social deficit—citing, as justification, his own manifesto's commitment to ensure that all Brazilians can eat three times a day.

But the transformation of the PT into a party capable of government—and in particular the compromise with finance capital in the 'Letter to the Brazilians' that helped him secure victory at the fourth attempt—blocked off that possibility. In effect, Lula governs in accordance with the 'Letter' and not his campaign commitments, still less in line with the original promise of his party. The result has been to deepen the insecurities and inequalities of Brazilian society: figures for violent crime and homicide continue to rise. Halfway through its mandate, the Lula government has lost its way politically and is plagued by allegations of corruption.

The broader effect of this trajectory has been to undermine the forces resistant to neoliberalism across the continent as a whole. Lula's government has supported the Bolivian political elite in its attempts to fight off popular demands for the nationalization of gas (Petrobras has a major stake in the field). The trade bloc led by Brazil, Argentina and Uruguay has embraced tariff-cutting reforms and is now pressuring the core capitalist powers to open their markets. The result will be to accelerate the continent's regression to a primary export phase, with agroindustry leading the way. Industrial activity will decline still further, and the possibilities for regional integration will decrease—ultimately furthering the project of the FTAA.

In June 2005 further corruption charges, coming at the same time as declining economic indicators and diminishing popular support, have brought about the Lula's government's worst crisis so far. They centre on the resources of the postal service, run by the PTB, one of the PT's coalition allies. The president of the PTB, Roberto Jefferson, counter-attacked by accusing the government—in particular, José Dirceu, minister of the Casa Civil, and his PT aides—of buying Congress deputies' loyalty with a monthly sum. Dirceu resigned, after a sustained attack from the media, in order to be able to defend himself and to deflect the centre of the storm away from the government. The Congress has set up a commission of inquiry, with considerable press coverage, putting the government further on the defensive. The process has polarized the PT, with the CUT, MST and other social movements demanding a break with conservative coalition partners in Congress and a shift away from neoliberal economic policies (see overleaf). The likelihood, however, is that the latest crisis will only serve to strengthen Lula's Bonapartist tendencies as he distances himself still further from the party, governing entirely on the opposition's policies with an eye to the election of 2006. It is the PT that will pay the price for Lula's accursed legacy.

Letter to the Brazilian People

From the Movimento dos Trabalhadores Rurais Sem Terra, Central Única dos Trabalhadores, Coordenação dos Movimentos Populares, União Nacional de Estudantes and 38 other organizations, working together in the Coordenação dos Movimentos Sociais.

In the 2002 elections the Brazilian people voted for President Lula, in the hope of changing the neoliberal system in place since 1990. Little has altered since then. We are witnessing a mandate full of contradictions. On the one hand, the government has continued with the neoliberal economic policy demanded by its conservative allies. On the other, it has adopted social priorities and a sovereign foreign policy.

With the 2006 elections in mind, the Brazilian elite has initiated a media campaign to weaken the Lula government. Allegations of corruption have left the population stunned and confused. We oppose any attempt to destabilise the legitimately elected government. At the same time, we demand a thorough and rigorous investigation into the corruption charges made in the press and the National Congress, and proper punishment of those found guilty.

Faced with the present crisis, the Lula government now has the option of resuming the project for which it was elected: to transform Brazilian politics and society, a society currently divided between those who can have and do anything and those who can have and do nothing. We advocate the following measures:

1. Implementation and support of a wide-ranging investigation into all the allegations being discussed in the National Congress and punishment of those responsible.
2. Exclusion from government of the conservative elements, and the construction of a new social and political majority on an anti-neoliberal platform.
3. An economic policy to prioritise the needs of the people. Our society cannot support the highest interest rates in the world, on the pretext of combating inflation, or a primary surplus that only serves to increase bank profits. Public resources should be invested to guarantee constitutional rights; among them employment, a reasonable minimum wage, health, education, agrarian reform, the environment and the demarcation of Native lands and *quilombolas*.

21 June 2005.

The full text can be found at www.cut.org.br