

Lula: Father of the Poor?

Frédéric LOUAULT

Lula had promised to be the president of the poor, and with the help of favourable economic conditions, he was able to reduce poverty by raising and broadening social minima. However, unable to get to grips with the roots of social imbalances, he left his successor a country still riven by inequality.

When Lula became Brazil's head of state in January 2003, he faced expectations that were as pressing as they were contradictory. After two terms of Fernando Henrique Cardoso (1995-2003) that had been basically dedicated to strengthening economic indicators and modernizing the state, Lula's electoral base expected him to reverse the priorities and to get to grips with the country's social inequality. More than a third of Brazilians then lived in poverty, while 10% of the population held 46.9% of the wealth (UNDP, 2003). Fed by electoral promises – such as the commitment that all Brazilians would have three meals a day (the Zero Hunger Project) – hopes for a government “for the poor” also had a strong symbolic dimension because of Lula's life story. This first president from a disadvantaged background had been brought to power by the largest Latin American party of the left: the Workers' Party (*Partido dos Trabalhadores*: PT). In the collective consciousness, his election symbolized the masses for the first time ever barging into the presidential office. However, in order to be elected, Lula had also committed to maintaining the macroeconomic balances and international financial commitments of his predecessor. “Hope had conquered fear”, but business circles still distrusted the new president, who had previously been virulently opposed to the market economy. They wanted some short-term collateral. And Lula knew that in any direct confrontation the political and economic elites had the means to make him give in. Caught up in an encumbering political structure, he held no reform cards in his hand. With a

fragmented Congress,¹ winning the presidency did not amount to a real control of power. So Lula had to resort to political compromises in order to find a balance between economic pressures and social expectations. Based on his past experience in trade unions, he made pragmatism the main pillar of his governmental activity. While it disappointed many militants, this conciliating reformism was not surprising. It had even been publicly embraced by Lula during the electoral campaign, in his “Letter to the Brazilian People” of 22 June 2002.

In his first term (2003-2006), Lula put into practice his main commitment: “to teach Brazilians to be patient”. Faced with a social emergency, it was not the moment for deep reforms. Rather than introducing a social rupture, the government reorganized, harmonized and adjusted several of the redistributive programs that had been created by Cardoso. Thus, the School Allowance, the Food Card, Gas-Aid, and the Food Allowance were merged into a single program, the Family Allowance. On the condition that they send their children to school and look after their medical needs (especially vaccinations), the poorest families receive between 20 and 182 reais per month (from 8 to 76 euros), based on their needs and the number of children. Targeting the neediest people, this program of conditional income transfers became the spearhead of Lula’s social policy. Family Allowance is inexpensive (0.4% of GDP), and in 2006 it benefited more than 11 million families, compared to 3.6 million in 2003. It had real political effects, making almost invisible the fact that the significant reduction of poverty (26.9% of the population in 2006) was also the result of other kinds of measures, such as the adjustment of the minimum wage (see below), in a climate of sustained economic growth.² In October 2006, Lula was easily re-elected. Many analysts emphasize the strong correlation between the distribution of the Family Allowance and the vote in favour of Lula.³ His re-election is even seen as a vote of personal gratitude directed at the president, since the PT was embroiled in corruption (the *Mensalão* scandal erupted in 2005). For his second term, Lula committed himself to giving social policy a new impetus. In a burst of enthusiasm, he announced that the time had come to harvest the fruits of stability.

¹ In January 2003 no fewer than 21 parties were represented in the federal Chamber of Deputies. Although the PT was the largest party in the legislature, it had only 18% of the seats (91 out of 513), so it had to weave a complex – and fragile – web of alliances. Moreover, Deputies are elected by proportional representation with open lists, which makes politics more fragile and governing mandates more contingent.

² Between 2003 and 2009, the average growth in GDP was 3.4% per year (compared to 2.3% between 1995 and 2002), while the GDP per person increased on average by 2.7% per year (compared to 0.7% between 1995 and 2002).

³ Sonia Luiza Terron and Gláucio Ary Dillon Soares, “Dois Lulas: a geografia eleitoral da reeleição (explorando conceitos, métodos e técnicas de análise geoespacial)”, *Opinião Pública*, vol. 14, no. 2, 2008, pp. 269-301.

Incontestable Social Progress

At the end of 2010, when his second term ended, Lula was gloating. His strategy seemed to have succeeded, at least as far as poverty indicators were concerned. Family Allowance is now received by more than 12.6 million families (a quarter of the population). Another program of social transfers, the minimum pension for age (for persons over 65) and disability, has also been extended. More than 3 million people receive a supplement raising their monthly income to the minimum wage level, compared to only 1.3 million in 2002 before Lula came to power. In addition, 12 million jobs were created in the formal economy between 2003 and 2010, i.e. an average of 1.5 million per year. From now on, so many more people can exert their right to work and join – or rejoin – the formal economy. Most importantly, job creation has been accompanied by a sharp increase in the minimum wage. While it was only 87 euros in 2002 (200 reais), it is now 219 euros (510 reais). Beyond the effects on employees in the formal sector, this rise has led to an automatic increase in the minimum old-age pension and other kinds of income indexed to the minimum wage, such as retirement pensions. In this way the increase in the minimum wage indirectly benefits some 45 million people. Thanks to inflation being under control (averaging 6.6% per year from 2003 to 2009), the minimum wage enables Brazilians to buy 2.3 baskets of goods, compared to 1 to 1.5 in 2002. Purchasing power has not been that high since 1979. With the combination of the inherent effects of growth⁴ and the political effects of redistribution, a third of Brazilians have seen their income go up, consolidating their participation as consumers in the domestic market. The poverty rate has now fallen to 17.4% of the population. The number of families disposing of a monthly income lower than 348 euros has fallen by 35% since 2006. No fewer than 25 million individuals have escaped from poverty to join the middle classes. For the first time in its history, Brazil has become a middle class country. The middle classes represented 53.8% of the population in 2009 (100 million people), compared to 43% in 2003. However, the levels of income behind the label “middle class” are quite disparate. In Brazil, the population is classified into five income categories (from A for the richest to E to the poorest).

⁴ For example, see Pierre Salama, “Pauvreté, le bout du tunnel?”, *Problèmes d'Amérique latine*, no. 66/67, Autumn-Winter 2007, http://www.univ-paris13.fr/cepn/IMG/pdf/texte_salama_010208.pdf.

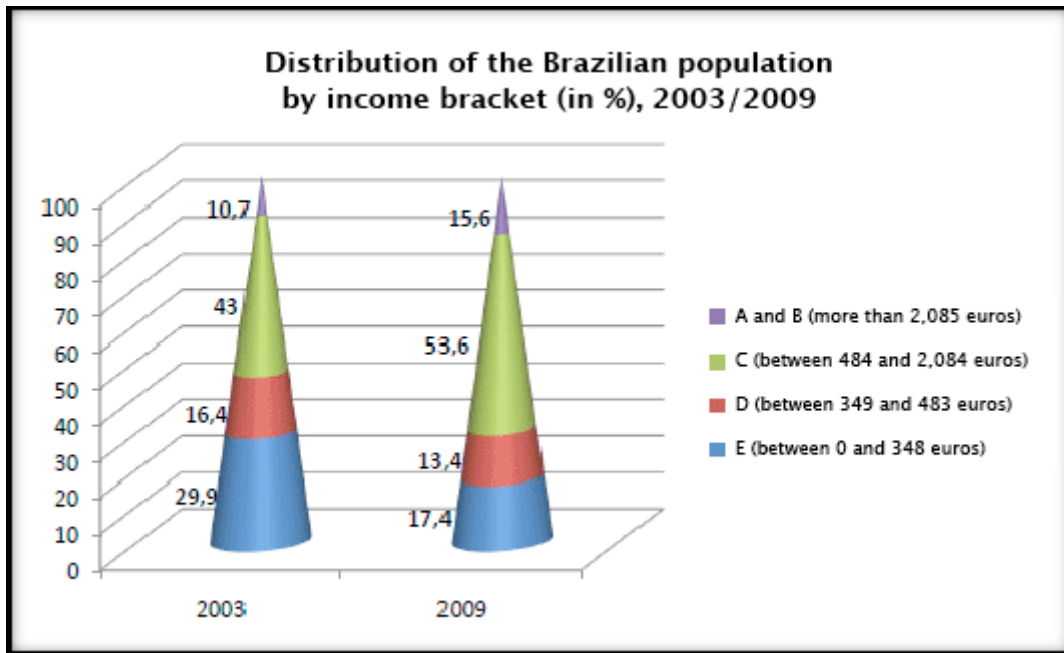


Figure created by the author. Source of data: Dabène and Louault, *Le Monde*, 28 September 2010

The level of income in category C – which in Brazilian terms corresponds to the middle classes – is between 484 and 2084 euros, i.e. a disparity of 1 to 4 between the floor and the ceiling. Deconstructing the indicators thus encourages putting into some perspective the “middle-classification” of Brazilian society. The social record of the Lula period remains no less impressive, quantitatively speaking. The numbers alone seem to explain Lula’s outlandish popularity after eight years in power (81% with a favourable opinion, according to a poll published by the Datafolha Institute 18 October 2010) and his ability to influence the electoral decision in 2010. No one dares to dispute the crucial role of the outgoing president in the victory (which looked almost certain some days before the second round of voting) of his “heiress” Dilma Rousseff.

The most important feature of the Lula period will prove to have been the strong resurgence of state intervention, along with an adjustment of government policies towards the disadvantaged. Paradoxically, economic policy decisions have favoured an increasing accumulation of capital by the economic elites. The Ministers of the Economy (Antonio Palocci, 2003-2006, and Guido Mantega, 2006-2010) and the president of the Bank of Brazil (Henrique Meirelles, 2003-2010) have pursued – and even deepened – the orthodox economic policy of the Cardoso period. Thus, keeping inflation under control has meant having very high interest rates (more than 10%), thereby enriching national (and international) financial investors. And large agribusiness firms have profited from policies aimed at stimulating the

export of Brazilian products. So while millions of people have seen their incomes increase by some tens of euros, several thousand well-off people have amassed millions. Between 2007 and 2008, the number of millionaires went from 131,000 to 143,000.⁵ In a speech in the state of Minas Gerais, Lula himself confessed: “it is the wealthy who have made the most money under my government.”⁶ This helps explain why Lula is just as popular in the wealthiest sectors as among the poor. The richest 10% still get 50% of the income. Between 2001 and 2009, their individual income actually increased on average by 1.49%.⁷ However, this trend reversed in 2008 and 2009, because of the international economic crisis (falling 7% between 2007 and 2008, then 8.7% between 2008 and 2009).⁸ As seen in the figure above, Brazil has more and more rich people. The wealthiest categories (A and B) went from 10.7% to 15.6% between 2003 and 2009.

Inegalitarian Inertia and Inability to Undertake Great Reforms

It is indisputable that the policy guidelines adopted by Lula made it possible to reduce poverty. But they did not at all challenge the inegalitarian social structures. Paradoxically, Lula’s social record is characterized by an astonishing inegalitarian inertia. On this point, his social policy can be considered inadequate. Yet it was here that most was expected of him. While the government could rely on good economic performance to amplify redistributive programs, its policy in the social sphere suffered from an inability to implement great political reforms, because it bore the stigma of the large social gap that Lula had to surrender to in order to govern by conciliation.

Thus, the project of an ambitious agrarian reform was abandoned, because it was decided that it was incompatible with the goal of developing agricultural exports. To avoid a confrontation with the powerful rural group in Congress, the distribution of cleared land on the frontiers was preferred to redistribution by breaking up large properties. This is a short-term solution with no effect on social and regional inequalities. Another example of non-accomplishment is fiscal reform, which should have made tax burdens less inegalitarian. This burden is high in Brazil (36.5% of GDP) in comparison with other Latin American states

⁵ Cap Gemini World Wealth Report 2009, Figure 4, p. 7: <http://www.ml.com/media/113831.pdf>. The number of millionaires had already increased by 10% from 2005 to 2006, then by 19% from 2007 to 2008.

⁶ Speech by Lula delivered 16 October 2010 at Belo Horizonte (Praça Sete), the capital of the state of Minas Gerais. Lula had already declared in 2009: “I govern the rich, too. I am sure that they are quite satisfied because they have made a lot of money under my government” (*Valor Econômico*, 17 September 2009).

⁷ Fundação Getúlio Vargas, 10 September 2010 : <http://www.fgv.br/cps/ncm/>.

⁸ Fundação Getúlio Vargas, 6 July 2009 : <http://www.fgv.br/ibrecps/clippings/lc1463.pdf>.

(average 18.7%);⁹ moreover, it weighs proportionately more heavily on the disadvantaged than on the well-off. That is partly related to the amount of indirect taxes on consumer products (two-thirds of the total) compared to progressive taxes (on income and property, one-third of the total). Besides, several kinds of exemption agreed on during the Cardoso presidency have now started reducing the tax burden of the well-to-do.¹⁰ The Lula government did not accept the political cost of such a reform, which required constructing a supermajority needed to support a constitutional amendment. As a second-best step, a slight increase in the top tax rate was adopted in 2004 (from 25% to 27.5%). A number of excessively modest reforms piled up: electoral reform (finance, alliances), government reforms, social security and health reforms, education reforms, and so on, constituting so many limits that denied to the politics of redistribution any structural basis.

In spite of all that, since the beginning of the 2000's there has been a slow but steady reduction in inequalities. The Gini coefficient – a measurement of income inequality – went down from 0.59 in 2003 to 0.54 in 2006, then to 0.521 in 2003 and finally to 0.518 in 2009.¹¹ Nevertheless, Brazil is still one of the ten most inegalitarian countries in the world. Furthermore, as Pierre Salama has demonstrated, social programs have played only a small part in the reduction of inequalities. Although social transfers help lower the level of poverty, they have only a marginal impact on inequalities: “The difference between Gini coefficients before and after redistribution is only two hundredths in Brazil, while it is fifteen hundredths in Europe (from 0.46 to 0.31).”¹² In fact, the impact of social transfers in the fight against poverty and inequality is modest. According to a survey by the Brazilian economist Sônia

⁹ Economic Commission for Latin America and the Caribbean (ECLAC): <http://www.eclac.org>. Consulted 24 October 2010 (<http://websie.eclac.cl/infest/ajax/cepalstat.asp?carpeta=estadisticas>).

¹⁰ See Unifisco Sindical and François Gobbe, “Brésil, Un système d’injustice fiscale à réformer”, in *Evasion fiscale et pauvreté*, Alternatives Sud (CETRI), vol. XIV, no. 1, 2007: <http://www.alterinfos.org/spip.php?article1233>.

¹¹ Source: Institut Brésilien de Géographie et Statistique (IBGE), Pesquisa Nacional de Amostra de Domicílio (PNAD): http://ibge.gov.br/home/presidencia/noticias/noticia_visualiza.php?id_noticia=1708&id_pagina=1. The value of this coefficient is between 0 (every individual has the same income) and 1 (one individual has all the income). Note however that only earned income is considered by the PNAD surveys. Taking into account other income (capital gains from financial investments, rents from property, and so on) would have the effect of increasing the index level.

¹² Pierre Salama, “Lula a-t-il vraiment fait reculer la pauvreté?”, *Alternatives internationales, l’État de la mondialisation*, no. 7, December 2009, pp. 112-113: http://www.alternatives-internationales.fr/lula-a-t-il-vraiment-fait-reculer-la-pauvrete-_fr_art_266_46751.html. See also OECD, *Latin American Economic Outlook*, 2008.

Rocha, even though targeted social programs have reduced the extent of poverty, they have lowered the number of the poor in Brazil by only 6.4%.¹³

Lula and Brazil's Social Liabilities

Lula's social record leaves a bittersweet aftertaste. While progress is undeniable, the dearth of great reforms is a source of frustration and concerns. To understand these limitations, it is helpful to put Lula's record into a wider historical and institutional framework. Eight years (or even sixteen if we count the Cardoso years too) is simply not enough to overturn inegalitarian structures and mentalities built up over five centuries. As Alain Rouquié has stated, "in Brazil, the map of poverty is based not so much on geography as on history"¹⁴. And the history of Brazil is distinguished by continuity. As long ago as 1955, Roger Bastide emphasized the particular pace of Brazilian social, economic and political changes:

The old is present in the brand new, the old political structure is visible in the new urban parties, and in the dictatorships as well as in the constitutional regimes. ...And conversely the new is in the old. The factory continues the plantation, the new machine is guided by old hands, and the crucifix in the corridor extends the life of the chapel in the old mill. While the germ of the modern plantation is visible in the old *fazenda*, as that of stock market speculation is in the game of lottery. A cutting for the future, taken from the past. Exhilaration with speed, but good brakes too.¹⁵

Brazil's history is characterized by compromises and suppleness, and this is true even in those moments interpreted a posteriori as ruptures (like the abolition of slavery, the last stage of which, in 1888, froze inegalitarian structures by neglecting the social integration of the former slaves). The transformation of contemporary Brazil is gradual, controlled by its elites and never innocent of contradictions. This was the situation in the 1980s during the agreed transition to democracy,¹⁶ the main actors in which (those still alive) continue to occupy the electoral scene, both onstage and backstage. Lula himself is not free from contradictions. His learning curve in power led him to adapt to the system – which he had long denounced – and

¹³ Sônia Rocha, "Transferências de renda e pobreza no Brasil", *Revue Tiers-Monde*, forthcoming, cited by Pierre Salama, "Brésil: bilan économique. Succès et limites", *Problèmes d'Amérique Latine*, no. 78, Autumn 2010, http://pierre.salama.pagesperso-orange.fr/art/bresil_bilan_economique_succes_et_limites@fr.pdf (p. 10 of the online version).

¹⁴ Alain Rouquié, *Le Brésil au 21^e siècle*, Paris, Fayard, 2006, p. 47

¹⁵ Roger Bastide, "Trois livres sur le Brésil", *Revue Française de Science Politique*, vol. 5, no. 1, 1955, p. 118.

¹⁶ Controlled by the military junta, Brazil's transition to democracy resulted from a pact between the junta and moderate civilian political forces. Launched in 1974, the process went on for more than ten years before a civilian became President of the Republic in 1985.

to ally with yesterday's enemies, preferring pragmatism to confrontation. As Roger Bastide rightly says, "the old is present in the brand new". Lula's supple politics rested on a reconciliation of opposites, strengthened by his negotiation skills. If, as Bastide suggests, governing Brazil does indeed mean managing the simultaneity of opposites, Lula will certainly prove to have been the finest leader in the nation's history. And his social policy will prove to be one of his most accomplished works.

After Lula: Building Up Expectations and Risking Frustration

Dilma Rousseff proposes to pursue Lula's policy commitments, for which (in her capacity as government coordinator) she has been the right-hand person since 2005. She will have to respond to the growing expectations of the disadvantaged and the new middle classes, without alienating the elites – especially the agricultural exporters – on whom the bulk of economic development relies. Will she perform the same balancing act as Lula, to extend this impressive reconciliation of opposites? Will she keep the multisectoral enrichment formula going? In the months following her taking office in January 2011, there have been two short-term pressures on her. The first can be considered natural, in the sense that it is connected to the socio-economic record of the Lula period. If we accept the paradox expounded by Tocqueville, popular dissatisfaction and frustration tend to increase when everyone's living conditions are getting better. The redistributive policies that have now been implemented have created new dependencies on the state. Will the new president have the means to respond to growing demands? Will she absorb or contain any expressions of dissatisfaction arising from short-term recession, or indeed crisis? The second pressure was artificially (and perhaps imprudently) stoked up by Lula himself and by Rousseff's campaign staff. At the beginning of 2010, Rousseff still had low recognition in public opinion. To improve her popularity as the PT candidate, Lula adopted a clever but dangerous strategy of connecting their images, which actually cost him several thousands of euros when he was fined for premature electioneering. First, Rousseff was personally identified with the main economic and social steps of Lula's second term: the Growth Acceleration Program (*Programa de Aceleração do Crescimento: PAC*),¹⁷ with its programs of "Light for Everyone", "My Home", "My Life", and so on. After

¹⁷ Launched in January 2007, this countercyclical program relates mainly to infrastructure construction projects, particularly in urban areas; it had a budget of 225 billion euros for the period 2007-2010. In March 2010 the PAC took on new dimensions. In the middle of that election year, Lula and his head of government Dilma Rousseff announced the launch of "PAC 2", which targeted six priority areas: Better City, Community Citizen, My Home, My Life, Water and Light for Everyone, and Transport and Energy. See the PAC website: <http://www.brasil.gov.br/pac/>.

having publicly introduced her as the modern “Mother of Brazil”,¹⁸ Lula was publicly displayed alongside Rousseff. He appeared at most of her campaign events, where he deployed fusion rhetoric, explaining to the voters that “Dilma is Lula”. While this strategy enabled him to impose his candidate, it also led to an expansion of popular expectations of the future leader. Brazilians who identified with Lula placed an almost blind confidence in Dilma Rousseff.

This build-up of expectations took on a particularly large dimension in the sphere of social policy. In response to this, Rousseff will have to bring Lula’s record to fruition. What margins will she have at her disposal to introduce added social value? At first sight, the presidential succession seems smooth. Economic indicators are good, reinforcing the dynamic of social integration in a virtuous circle of economic development. However, there is a fragile balance. Although during the world crisis of 2008-2009 Brazil demonstrated a new resistance to exogenous destabilizing forces, the risks of economic overheating should not be underestimated. And the social provisions of the Lula era are very dependent on economic fluctuations. Lula did not get to grips with the roots of social imbalances. He offered palliatives that were undeniably effective in the short term, but their long-term viability is uncertain.

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¹⁸ *Jornal do Brasil*, “Lula chama Dilma de ‘mãe do Brasil’ e a classifica como especial”, 18 août 2010 : <http://jbonline.terra.com.br/pextra/2010/08/17/e17088256.asp>

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