

The Third Way in Brazil? Lula's Presidency Examined

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DECLARATION

By submitting this thesis, I declare that the entirety of the work contained therein is my own, original work, that I am the sole author thereof (save to the extent explicitly otherwise stated), that reproduction and publication thereof by Stellenbosch University will not infringe any third party rights and that I have not previously in its entirety or in part submitted it for obtaining any qualification.

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ABSTRACT

This study identifies the way in which Brazil was able to achieve significant economic and social development during the Presidency of Luiz Inácio Lula Da Silva from 2003 to 2010. The element which makes the achievement of this development extremely interesting is the fact that it was engineered by a traditionally radical Leftist party, the *Partido dos Trabalhadores* (PT – Workers’ Party) within the context of the globalized world economy. Throughout much of its existence, the PT has called for a radical socialist transformation of Brazilian society. However, once it came to power, it not only rejected radical positions, but acquiesced fully with the constraints placed upon it by global capital. Thus, in addition to describing the process of development in Brazil, this study also attempts to account for the way in which it was achieved. This is done by postulating that the Lula (as he is commonly referred to) administration was successful in solidifying Brazilian economic fundamentals, as well as in significantly reducing poverty and inequality in one of the most unequal societies in the world, because it adopted Third Way economic and social policies. It is argued that, even though there were few clear indications from the government that it regarded itself as following the Third Way, a practical examination of Lula’s economic and social policies indicate that they overwhelmingly conform to the prescripts of the Third Way.

OPSOMMING

Hierdie studie identifiseer die manier waarop noemenswaardige ekonomiese en sosiale ontwikkeling in Brasilië plaasgevind het gedurende 2003 tot 2010, onder leiding van President Luiz Inácio Lula Da Silva. 'n Faktor wat hierdie ontwikkeling besonder interessant maak, is die feit dat dit plaasgevind het binne die konteks van die globaliseerde wêreld ekonomie, onder die bewind van 'n tradisionele radikale Linkse party, die *Partido dos Trabalhadores* (PT – Arbeiders Party). Die PT het tradisioneel gestreef na 'n radikale sosialistiese transformasie van die Brasiliaanse samelewing. Teen die tyd dat dit egter aan bewind gekom het, het dit radikale beleide verwerp en ten volle saamgewerk met globale kapitalisme. Hierdie studie beskryf dus nie slegs die proses van Brasiliaanse ontwikkeling nie, maar poog ook om te verklaar waarom hierdie ontwikkeling plaasgevind het. Daar word aangevoer dat Lula (soos hy algemeen bekend staan) se bewind suksesvol was in pogings om die fundamentele aspekte van die Brasiliaanse ekonomie te versterk, en terselfdertyd armoede en ongelykheid aansienlik te verlaag in een van die mees ongelyke samelewings ter wêreld. Die rede vir hierdie sukses is te vinde in die feit dat die PT regering “Third Way” ekonomiese en sosiale beleide toegepas het. Die studie voer aan dat, alhoewel daar weinig verwysing gemaak is na die “Third Way” deur Lula se regering, 'n praktiese ontleding van hul ekonomiese en sosiale beleide toon dat Brasilië 'n geval verteenwoordig van 'n ontwikkelende land wat die “Third Way” prakties geïmplementeer het.

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LIST OF ABBREVIATIONS

ARV	Antiretroviral Therapy
BNDES	<i>Banco Nacional de Desenvolvimento Economico e Social</i> (National Development Bank)
CNI	<i>Confederação Nacional da Indústria</i> (National Confederation of Industry)
FUNDEB	<i>Fundo de Manutenção e Desenvolvimento da Educação Básica Pública</i> (Fund for the Development of Basic Public Education)
IBGE	<i>Instituto Brasileiro de Geografia e Estatística</i> (Brazilian Institute of Geography and Statistics)
IBOPE	<i>Instituto Brasileiro de Opinião Pública e Estatística</i> (Brazilian Institute of Public Opinion and Statistics)
IMF	International Monetary Fund
INSS	<i>Instituto Nacional de Seguridade Social</i> (National Social Security Institute)
IPEA	<i>Instituto de Pesquisa Econômica Aplicada</i> (Institute of Applied Economic Research)
MST	<i>Movimento dos Trabalhadores Rurais Sem Terra</i> (Landless Workers' Movement)
PAA	<i>Programa de Aquisição de Alimentos</i> (Food Procurement Program)
PAC	<i>Programa de Aceleração do Crescimento</i> (Growth Acceleration Program)
PFL	<i>Partido da Frente Liberal</i> (Liberal Front Party)
PNAE	<i>Programa Nacional de Alimentação Escolar</i> (National School Meals Programme)
PSDB	<i>Partido da Social Democracia Brasileira</i> (Brazilian Social Democratic Party)
PSF	<i>Programa Saude da Familia</i> (Family Health Service)
P-Sol	<i>Partido Socialismo e Liberdade</i> (Socialism and Freedom Party)

PT	<i>Partido dos Trabalhadores</i> (Workers' Party)
PTB	<i>Partido Trabalhista Brasileiro</i> (Brazilian Labour Party)
ProUni	<i>Programa Universidade para Todos</i> (University for All)
SELIC	<i>Sistema Especial de Liquidação e Custodia</i> (Special System of Clearance and Custody)
SPD	<i>Sozialdemokratische Partei Deutschlands</i> (German Social Democratic Party)
UN	United Nations
UNICEF	United Nations Children Fund
UNHDI	United Nations' Human Development Index
WB	World Bank

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CHAPTER ONE

CONTEXTUALISING THE FOCUS OF THE STUDY

1.1) Background and Rationale

The decade between 2000 and 2010 proved to be one of the most successful in Brazilian history. This success can be measured not only from an economic standpoint, where impressive growth levels and solid fundamentals were achieved, but also from a social standpoint, owing to the significant reduction in poverty and inequality in a country where these have historically posed significant challenges. The most important question arising from this development is how it was achieved in a country that, barely more than a decade ago, was still ruled by a military dictatorship?

This study proposes that economic and social development took place in Brazil under a social democratic, Leftist government. However, the particular model of social democracy implemented in Brazil during this period is fairly unique in the developing world, as it is postulated that the government of Luiz Inácio Lula Da Silva followed the approach of the Third Way in order to achieve this development. A commonly held notion is that this political approach, developed during the 1990s and popularized by Tony Blair in Great Britain, has little relevance to the developing world. Its rise has been criticized as a Western European phenomenon which has lost even its general appeal in those societies (Qobo, 2010). However, when examining the case of Brazilian economic and social development during the period under review, it becomes clear that the policies pursued by the Lula (as he is commonly referred to) government strongly resemble the measures proposed by Third Way theorists during the late 1990s and early 2000s.

The findings of this study have the potential to have a wider ranging impact than only the Brazilian case (for example, even though South Africa is a potentially relevant case, space constraints make comparisons impractical). It is already being noted that a rise in *Lulismo*¹ is taking place across other Latin American countries, as political leaders hope to mimic the success achieved by Lula's administration during its time in power (*The Economist*, 2011). However, the aim of this study is not to debate the merits of the Third Way as a theoretical approach. The goal is merely to demonstrate that the evidence suggests that Brazil achieved

¹ A popular term referring to Lula's governance style.

economic and social development partly because it implemented Third Way policies. The important point is that this study can be justified due to the fact that it has the potential to be highly relevant in providing fresh insights to the development discourse, which has perhaps not paid as much attention to what, according to the outcomes of this study, appears to be an interesting approach.

1.2) Problem Statement and Research Question

The problem statement flows from the recognition that Brazil was able to achieve significant economic and social development during Lula's Presidency. It is important to note just how massive the problem of poverty and inequality was in Brazil at the time that Lula became President: the poverty rate was above 35% and the Gini coefficient stood at 58.7, which made it one of the ten most unequal societies in the world (World Bank, 2011). When placing this poverty and inequality within the context of the globalized economy, where massive capital flight can occur whenever investors are dissatisfied with government policy, it becomes clear just how significant the challenge was. The natural follow-up question is: how did Brazil achieve this development? Subsequently, this study is guided by the following research question: **how did a traditionally "radical" Leftist party, such as the PT, succeed in increasing growth and reducing poverty and inequality in Brazil within the context of the globalized economy?** The study will attempt to answer this question in two ways.

The first factor which enabled the formerly radical *Partido dos Trabalhadores* (PT – Workers' Party) to engineer growth within the context of globalization is based on the way in which it was able to moderate away from its radical earlier positions and towards the Third Way. It will be argued that this moderation was only achieved through the systematic restructuring of the party. Crucially, the study will identify the way in which this restructuring took place, pointing out that it was not imposed from the "top-down", but that moderation occurred from the "bottom-up". This was achieved through the active involvement of the labour base of the PT in the process of restructuring the party, based on the eventual realisation by the majority of party constituents that radical positions had become untenable. The study will show that even though this evolution was a tumultuous process, it was a key factor in positioning the PT to take advantage of the opportunities offered by globalization and its eventual adoption of more orthodox economic policies.

Furthermore, the second factor which helps account for the PT government's success rests on its particular approach to development. Reducing poverty and inequality was its ultimate goal. However, it is argued that the government adopted a sequential approach in order to accomplish this: the initial focus of the Lula government was on solidifying economic fundamentals, followed by an intensification of poverty and inequality reduction strategies. The order in which this took place is of central importance: **strong economic fundamentals and growth had to be ensured first, while inequality and poverty reduction would follow.** The Lula government did not believe that it would be possible to significantly reduce poverty and inequality if the solidifying of economic fundamentals did not precede intensely targeted poverty and inequality reduction strategies.

The study attempts to answer the research question by arguing that Brazil was able to achieve economic and social development at least partly due to its implementation of Third Way policies. This does not mean that the Brazilian state necessarily overtly voiced its adoption of the Third Way in the process, but rather that a practical examination of its economic and social policies suggests that it overwhelmingly conforms to the policy prescriptions of Third Way theory. The essence of the argument rests upon the two basic arguments identified above.

1.3) Research Design and Methodology

This study is qualitative in nature and, as such, “involves an interpretive approach” – it aims only to interpret the Brazilian case within its overall context (Denzin & Lincoln, 1994: 3). The events surrounding Brazilian social and economic development are studied “within its particular context, [while an attempt is made to] interpret the phenomena” (Denzin & Lincoln, 1994: 3). The particular interpretive practice used throughout this study is the case study approach. The most obvious defining feature of a case study is based on its emphasis on an individual unit of analysis (Babbie & Mouton, 2001: 281). This is certainly also true in relation to this study, as the Brazilian case is the relevant unit of analysis. As such, the analysis takes place at the macro level, incorporating macro-level theorising in order to “explain [the] events, processes, patterns, and structures” which operated amongst the large social unit of the Brazilian case over a long period of time (eight years) (Neuman, 2005: 61).

The following are identified as important features of case studies: the selection of only one case (although it is also accepted that several may be covered); the fact that the study is

detailed and intensive; and the fact that the phenomenon is studied in context (Ritchie & Lewis, 2003: 52). These features are all applicable to the case study carried out in this thesis. Previous research (Ritchie & Lewis, 2003) has placed a great deal of emphasis on the incorporation of multiple perspectives (focusing on the “broader picture”) which are rooted in a specific context into a case study, and this central feature is also recognisable in the case study material contained within this study. Another factor which played a role in the selection of the case study approach for this thesis is the fact that “case study research raises questions about the boundaries and defining characteristics of a case. Such questions help in the generation of new thinking and theory” (Neuman, 2005: 41).

The case study approach will be used in an attempt to explain how a country with high levels of poverty and inequality such as Brazil sought to address these problems by adopting a Third Way approach. This means that the research will be both descriptive and explanatory in nature. Descriptive research is concerned with “describing the form or nature of what exists...it attempts to identify what exists in the social world and the way it manifests itself” (Ritchie & Lewis, 2003: 27). Descriptive research is useful in the context of this study because it identifies the way in which economic and social development took place in Brazil. However, this analysis is extended through the use of explanatory research, with the aim of building upon the description of the Brazilian case. In order for the analysis to move from descriptive to explanatory, an attempt is made to identify “patterns of association within the data, [combined with an] attempt to account for why those patterns occur” (Ritchie & Lewis, 2003: 215). As such, explanatory research is “concerned with why phenomena occur and the forces and influences that drive their occurrence...[it] provides a unique tool for studying what lies behind, or underpins, a decision, attitude, behaviour or other phenomena” (Ritchie & Lewis, 2003: 28). In the context of this study, the phenomena that occurred includes the adoption of specific socio-economic policies in Brazil.

A literature review will also be undertaken as part of the case study. The aim is to review the critical points of current knowledge in relation to the Third Way as a derivative of social democracy and its possible relevance to the context of the Global South. The review will contextualise and bring the reader up to date with the state of the current literature on these topics, aiming to highlight the existence of a particular niche for the undertaking of the research contained within this study.

The approach to the research is inductive. The initial process involved an observation of the empirical world, followed by a reflection on what had taken place. This was followed by “thinking in increasingly more abstract ways, moving toward theoretical concepts and propositions” (Neuman, 2005: 60). The theorising was built “from observations on the ground toward more abstract thinking” (Neuman, 2005: 60). Finally, the research was primarily conducted using secondary sources (as most primary sources are in Portuguese), including books, journal articles, newspaper articles, databases and conference papers.

1.4) Limitations

It is recognized that there are some limitations associated with the study. Regarding the research process, it should be noted that it is possible that some relevant studies may have been omitted, due to the simple fact that much of the academic work related to Brazil is published in Portuguese. However, this challenge was not as pronounced as initially anticipated, as Brazil’s increasing relevance in development discourse seems to have led to a general increase in the availability of academic work in languages other than Portuguese, including English.

A second limitation relates to the theoretical approach employed by the study. It is recognized that the Third Way has become a rather controversial approach within academia and has been subjected to rigorous criticism and interrogation, especially since the ousting of its most vocal proponents, Britain’s New Labour Party. Cognisance is taken of the criticism, and the literature review in chapter two discusses many of the most salient criticisms against the Third Way, from both the Left and Right of the political spectrum.

There is one general caveat that needs to be applied in this regard: the aim of the study is not to judge the merits of the Third Way. **The ideological merits and demerits of the Third Way in general is not the subject of interrogation²**. Instead, the Brazilian development case study is the subject of this interrogation, based on the argument that the Third Way is the theoretical approach which most accurately explains the policy direction of the Lula government.

1.5) Structure of the Thesis

² However, it is worth acknowledging that the thesis does contain an implicit defense of the Third Way, as Lula’s successes are at least partly attributed to the adoption of Third Way policies.

The structure of the study is largely informed by the two operationalized features discussed in chapter two, namely the economic policies related to the liberalization of the economy, and social policies related to poverty and inequality reduction strategies. Chapter two provides the theoretical background, literature review and finally, the framework for analysis. It is divided into three main sections, with the first one providing the reader with a literature review and social history of the Third Way. The second section discusses the central characteristics of the Third Way in combination with the most important criticisms levelled at it. In the final section, these characteristics are operationalized into the two features which will be contextualised against the Brazilian case in order to assess the accuracy of the central proposition.

Chapters three and four examine the case study material and is not primarily organised according to chronology, although an attempt has been made to ensure chronological logic is preserved. Chapter three mainly analyses the economic policies adopted by the Lula administration. However, the first section of the chapter explicitly examines the historical evolution of the PT away from a radical socialist party towards the Third Way, through a discussion on the shifts which occurred within its labour base. Hereafter, the economic analysis is carried out through a systematic examination of the policies which were adopted throughout Lula's two terms to liberalise the economy, as well as the results of these policies. The foreign policy of the PT administration is also included in this section. The main aim of economic policy during this period was to liberalise the Brazilian economy and this liberalization relied heavily upon the government acquiescing with the largely neoliberal international order. Brazilian foreign policy was a key instrument through which this was achieved. It also reflected the domestic goals of the administration, as globalization was embraced concurrently with the pursuit of greater global poverty reduction and equality at home, resulting in an adoption of a Third Way foreign policy by the Lula administration. Central to the analysis of economic policy is the factors which shaped its trajectory, including the influence of political scandals and the global financial crisis which began in 2008. The chapter concludes with a discussion about the significant success achieved by the PT government's economic policies, setting the stage for an evaluation of its success in relation to its main aim: reducing poverty and inequality.

Chapter four analyses the implementation of poverty and inequality reducing social policies. The first part of the chapter principally discusses the *Bolsa Família* program, which was

the most important social program implemented by the administration during its first term. This analysis is then extended to examine the effects which this program had on reducing levels of poverty and inequality. Flowing from this analysis is a section discussing the results of the 2006 election where Lula was re-elected, which illustrates the political success of first term poverty reduction strategies. This section also explicitly continues the examination of the way in which the PT's relationship with its labour base constantly evolved. The Lula government's second term social policies are then examined, followed by a section discussing the success of these policies in achieving the PT's core goal of reducing poverty and inequality.

The final chapter concludes that Brazil incorporated many of the features of the Third Way into its economic and social policies. Through the implementation of these policies, the country achieved impressive levels of economic and social development. This finding has some noteworthy implications for development discourse, as it makes a significant contribution to the debate regarding the relevance of the Third Way in the twenty-first century. Further developing this point, the findings of the study also have implications for the broader project of social democracy, where the Third Way is regarded as one of the main offshoots (Sandbrook, Edelman, Heller & Teichmann, 2007). The chapter concludes on this point by examining areas of further research which have emerged as a result of the findings of the study.

CHAPTER TWO

THEORETICAL FRAMEWORK

2.1) Introduction

This chapter will focus on discussing the theoretical underpinnings of the study. The goal of this chapter is to provide an overview of the way in which the Third Way developed and to demonstrate how it can be operationalized to examine the case study material. This will be done by firstly providing a social history of its development in an attempt to illustrate how it became a popular, yet controversial offshoot of social democracy, and socialism more broadly. The literature review will also be incorporated into this section, contributing to the effort to illustrate the Third Way's contemporary position within academia. Thereafter, its key characteristics will be discussed, while the final section will operationalize these characteristics into features which will be applied throughout the case study.

2.2) The Development of the Third Way

Given the Third Way's somewhat controversial position within academia, the study's literature review will be undertaken in conjunction with an overview of the social history of the Third Way. The justification for such an approach is based on the way in which the development of the Third Way is closely tied to the broader social democratic project. Any review of the Third Way would be incomplete without explicitly linking it to the crisis experienced by the Left after 1989, as well as to subsequent developments. This means that a thorough literature review is combined with a focus on broader developments. This is done in the hope of insightfully illustrating the contemporary position of the Third Way and prior studies undertaken on the subject.

2.2.1) The Third Way: a Social History

On 9 November 1989, socialism was thrown into the most serious crisis in its history. With the fall of the Berlin wall, a symbol for the collapse of the Soviet Union and along with it global communism, socialism headed into an uncertain time where there was a very real possibility that it could become obsolete. Many commentators within the West anticipated that it would fade into obscurity, even declaring that the world had reached "the end of history"

(Fukuyama, 1989), based on the assumption that liberalism had won the battle of ideologies and that its continued rise was all but assured. It was anticipated that it would take time and that adjustments would be made, but that ultimately socialism had nothing more to offer the globalizing world. This set of circumstances – the collapse of old-style socialism and communism – provided the first incentive for the Left to develop “something new”.

However, this collapse did not represent the story in its entirety. The Left had to take an even deeper look at the crisis and determine **why** communism had failed so spectacularly. It was not enough to merely accept that it had failed and that something new was needed – the root causes needed to be examined. It is now considered common knowledge that the technological, social and economic superiority that the West enjoyed because of capitalism provided them with an insurmountable lead in the Cold War race, but in the years after 1989 it was not an easy task for the Leftist establishment to concede this – a concession that those on the Old Left³ are sometimes still hesitant to make today. But this common knowledge about the Cold War still does not get to the root of the problem in 1989. The true reason for the crisis of the Left was not the collapse of communism, nor was it the inherent superiority of the West – these were largely the consequences of the real cause of its prophesied demise. Indeed, the reason for the crisis of socialism by 1989 would become the buzzword for the late twentieth and early twenty-first centuries: globalization.

Changes brought on by globalization created the crisis of socialism. The key driving force behind globalization was also the one area in which the West was unquestionably superior to socialism, namely the development of technology. By the 1970s (and even earlier), the pace at which new technologies were being developed and adopted was accelerating in the West, while socialist economies were unable to match the innovation and productivity of its capitalist adversaries. The result was that socialist and communist economies were falling behind Western economies. This process accelerated gradually until, by the early 1990s, socialist economies collapsed entirely due to their lack of competitiveness, inflexibility and lower productivity relative to capitalist economies. Technological development lay at the heart of this collapse, and at the very heart of globalization itself.

In the West, technological innovation was proletarianizing (granting poorer societal groups access to) services which had previously been either too expensive or inaccessible,

³ Defined in this context as the classic communism and socialism of the Cold War era.

including in the areas of communication, transport, travel and access to information.

Globalization in the West

made isolated places and impoverished peoples eager for modernity's allurements. Almost everyone everywhere want[ed] all the things they [had] heard about, seen or experienced via the new technologies (Levitt, 1993: 249).

As this revolution was taking place in the West, citizens in socialist economies were becoming ever more isolated. However, the most crucial impact of globalization was even more fundamental. Due to the technological innovation in capitalist economies, socialism was simply no longer economically viable. Communist countries could not compete with the higher levels of productivity, lower costs of manufacturing and greater levels of diversification of capitalist economies. The most important impact of globalization on socialism is in essence a very simple one: it produced a model of production that bankrupted socialist and communist economies which were not equipped to effectively manage the profound changes brought on by technological innovation in the West. Capitalism had changed the rules of the game, and socialism was seemingly disqualified.

The failure of the Old Left to address the changes which were taking place in the world because of globalization was the single most important reason for the existence of the crisis conditions of 1989. Since the 1970s, the Left failed to articulate an effective response to globalization. Meanwhile, the West was harnessing its power. This power would eventually lead it to victory in the Cold War. But how lasting would this victory be? Could the Left adjust to these new conditions in a way that would make it relevant again? Many on the Right also failed to ask these questions at a time when it was enjoying its most famous conquest.

It is important to note that an early alternative to Soviet-style communism was already well established by the early 1990s. Social democracy and the welfare state was operating successfully in some countries, most notably the countries of Scandinavia. However, it was widely recognized that this version of the New Left⁴ offered little in the way of flexibility and applicability to situations outside these wealthy states. However, an in-depth analysis of the reasons for the limited relevance of European welfare states to the development discourse, and thus its limited potential to provide a true alternative to neoliberalism is not possible here.

⁴ A term encompassing Leftist projects such as the Third Way, as well as modern social democracy, as opposed to classic Cold War socialism.

Suffice to note that these welfare states mostly focused on precisely that – welfare – and it had very limited potential to deal with the core problem – globalization. The implication of this consensus was that something more was needed to keep socialism relevant. But there was already a political and economic approach that was successfully, even seemingly spectacularly, harnessing the power of globalization: neoliberalism. This meant that whatever alternative was developed by the Left, it could not simply be another incarnation of neoliberalism, as this would be a futile exercise. The New Left also had to stay true to the ideals of its Leftist tradition. It could not simply sell-out to globalization. The Old Left was always extremely sceptical of globalization, in some cases outright defining it as an enemy. This meant that even though globalization's rationale could no longer be questioned by 1989, there was certainly still no admission that its consequences would always be favourable to creating a more equal and just world. In fact, even as the Right was basking in the glory of victory, it was already becoming clear that globalization would pose new challenges. This realization by the Left that globalization had negative effects which needed to be addressed, provided it with a potential future advantage.

To summarize the position of the Left after 1989: it was experiencing a profound crisis, one largely brought on by its failure to respond to the challenges and opportunities of globalization. It was widely recognized that a new approach was required, but it had to offer something more substantial than traditional social democracy was offering. This new approach had to be able to effectively respond to globalization. But it also had to be more than a mere response if it was going to truly provide an alternative to neoliberalism. It would have to be able to exploit the weaknesses of neoliberalism at the same time as being effective in the age of globalization. These weaknesses represented the areas that the Left had always been concerned about: equality, welfare and social justice. Thus, the challenge was that a New Leftist approach had to incorporate an effective response to globalization, while still maintaining a focus on traditional Leftist areas of concern. The Third Way was born out of this crisis as it attempted to stand up to the challenge.

The Third Way originated out of the milieu of 1989, making it difficult to determine exactly when it came into being, and who is principally responsible for its inception. However, the cases of the New Democrats and New Labour in the US and UK serve as the most widely recognized examples of its first successes. One of the earliest pieces of evidence for the adoption of “something new” comes from a 1996 declaration by the Leadership Council of the Democratic

Party in the United States. It was entitled *The New Progressive Declaration* and it “argued that a fresh beginning in politics was called for to cope with a world in fundamental change” (Giddens, 2000: 2). One important reason for the adoption of this strategy by the so-called New Democrats in the US was based on the need for greater electoral appeal. Bill Clinton had won the 1992 presidential election through a combination of a focus on the economy and the declining appeal of incumbent President Bush. In the 1996 elections, Clinton was running for re-election at a time when the Democratic Party moved towards a Third Way position. The above-mentioned declaration clearly attests to the way in which some Third Way approaches were being adopted. And it resulted in great electoral success, with Clinton becoming the first Democratic Party President to be re-elected since Franklin Roosevelt.

Across the Atlantic, a similar process was taking place. In the 1992 general elections, the Labour Party had lost to the Conservatives after initially being ahead in the polls leading up to the election. In the same year that the New Democrats had adopted the Third Way, in 1996, the Labour Party also released a very significant political manifesto entitled *New Labour, New Life for Britain*. Under the leadership of Tony Blair, the party referred to themselves as the “New Labour” Party and explicitly adopted the Third Way. The manifesto stated that “the reason for having created New Labour is to meet the challenges of a different world” (Labour Party, 1996). Blair’s Labour Party intended to address these challenges using the centre-Left policies of the Third Way. Since its defeat in 1992, the Labour Party had undergone a complete transformation, scrapping its commitment to nationalization, modernizing and seizing the political centre. This shift was signified in Tony Blair’s declaration that “the presumption should be that economic activity is best left to the private sector” (Wickham-Jones, 2003). The adoption of the Third Way resulted in electoral success. The Labour Party won in a landslide, obtaining their largest parliamentary majority ever. The trend continued with the 2001 general election. There was very little change in the results when compared to the 1997 election, with the 2001 election being dubbed the “quiet landslide” by the media (Parkinson, 2010). Blair clearly indicated that New Labour intended to continue governing according to the principles of the Third Way, summarized in the quote: “we’re a Left-of-centre party pursuing prosperity and social justice” (Toynbee, White & Wintour, 2001). The appeal of this position ensured that Blair would become the first Labour Prime Minister to serve a full second consecutive term.

Even though these two cases provide the most striking examples of a movement towards the Third Way, there are other important practical examples as well. The most prominent continental European country to explicitly adopt the Third Way was Germany under Gerhard Schröder. Schröder was elected as Chancellor of Germany in the 1998 federal elections and immediately adopted Third Way positions on issues related to economic and social policy. By 1999 it was clear that Schröder and Tony Blair shared a Third Way vision for Europe. This led to the publishing of a manifesto entitled *The Third Way/Die Neue Mitte* which was jointly by the two leaders (Blair & Schröder, 1999). This document defined many of the Third Way principles which were developed in the years since 1989 – both in practice and within academia. Schröder was also heavily involved in the drafting of an agenda of reforms for Germany entitled *Agenda 2010*. He had won re-election in the 2002 federal elections and announced *Agenda 2010* on 14 March 2003. The aims of the reforms were to cut unemployment and to boost economic growth, partly by “lowering Germany’s staggering non-wage labour cost” (*Deutsche Welle*, 2003). The reforms were aimed at drastically changing the German welfare and unemployment systems, with wide-ranging changes implemented according to Third Way principles. The last step of the reform process was implemented in 2005. However, the reforms were met by wide-spread criticism from within Schröder’s own *Sozialdemokratische Partei Deutschlands* (SPD – German Social Democratic Party) due to the cuts made to the welfare system, while industrial leaders and economically liberal opposition parties reacted more favourably. Even though it appeared as if some successes were achieved, Schröder was forced to admit defeat to growing opposition from within the SPD by calling for a general election in 2005, a year ahead of schedule. Following these elections, Schröder stood down as Chancellor in favour of Angela Merkel after three weeks of negotiations.

It is clear that these three cases illustrate the way in which Third Way policies were adopted by very prominent countries following the crisis of socialism in 1989. Some other examples of administrations that at least partially adopted Third Way principles include Thabo Mbeki of South Africa, Wim Kok of the Netherlands, José Luis Rodríguez of Spain, Helen Clark of New Zealand, Michelle Bachelet of Chile, Massimo D’Alema of Italy, Fernando Henrique Cardoso of Brazil, Paul Keating of Australia, and Juan Perón of Argentina. The practice of having Progressive Governance Conferences and summits for Third Way leaders has also become an institution. Previous host nations to these events include Chile, India, the United

Kingdom, the United States, South Africa, Germany and Norway, and have been attended by many notable Leftist heads of state, including Luiz Inácio Lula da Silva of Brazil (Policy Network, 2011).

This section has provided an overview of the development and social history of the Third Way. This will subsequently be combined with a literature review in order to refine the focus towards dealing with the aspects which are relevant to this study, while also discussing the most important academic contributions to the development of the theoretical approach.

2.2.2) Literature Review

This review will briefly discuss the position of social democracy within the developing world. Thereafter, the scope will be narrowed in order to focus on the position of the Third Way within this discourse, as well as on the most important studies which have established the theoretical underpinnings of the approach. Finally, previous studies where the Third Way has been applied within the context of developing countries will be briefly discussed.

The piece of academic literature which played the most significant role in stimulating my interest in undertaking this study is the 2007 book by Richard Sandbrook, Marc Edelman, Patrick Heller and Judith Teichmann, entitled *Social Democracy in the Global Periphery*. In the book, the authors analyse four case studies of developing countries and regions to demonstrate that social democratic practices do exist in the Global South, and that such approaches can be successful in bringing about significant economic and social development. Crucially, the authors identify three different types of social democratic regimes in the periphery: radical, classic and Third Way (Sandbrook et al., 2007: 26). Of the four cases discussed in the book, the authors only identify Chile as an example of a peripheral country which implemented the Third Way. However, the controversial nature of the Third Way within the Left once again becomes apparent, as Chilean social democracy is regarded by the authors as “diluted” for adopting Third Way approaches (Sandbrook et al., 2007: 148). The elements of doubt regarding the manifestation of the Third Way and a seeming lack of cases illustrating the potential of the approach to function successfully within the developing world created the academic niche for the contemporary study. Furthermore, the book does identify the Brazilian case as one potentially

warranting future research⁵. Due to the fact that the authors had been working on the book since 2002 and had published it in 2007, the opportunity to assess Brazil's performance in a similar manner went a begging. Clearly, by the time Lula's two terms came to an end in 2010, a much more substantial argument could be developed.

Brazil's potential (at the time) to follow in the footsteps of the four cases analysed in the book is recognised by the authors. The way in which the PT was able to overcome seemingly "insurmountable obstacles" during its first few years in office is acknowledged, and it is noted that the PT had "established a basis for class compromise by delineating the limits of social reform and exercising discipline upon its militants" (Sandbrook et al., 2007: 239-240). The authors propose that, by 2005, the PT government had "failed to install a social-democratic regime", but that it did illustrate that "the obstacles to an effective social-democratic politics are not insurmountable...the PT [was] changing the face of Brazilian politics" (Sandbrook et al., 2007: 241). I would like to suggest that by 2010, the PT had built on this earlier position and had not only implemented a regime which was undoubtedly social democratic in nature, but overwhelmingly conformed to that most underestimated incarnation of social democracy: the Third Way.

When examining the nuances of the text, it becomes apparent that the authors do not regard the Third Way to be equal to other forms of social democracy⁶. In its drive to prove the existence and viability of the classic and radical versions of social democracy in the periphery, the study underestimates the potential of the Third Way as an equally important incarnation of social democracy. This fundamentally stems from the authors' unease with the Third Way's insistence on the primacy of the market. In essence, the thesis at hand significantly adds to this debate by attempting to prove that the Lula administration achieved significant economic and social development (arguably even more so than some of the cases analysed by Sandbrook et al.) according to Third Way principles. This could lead to a tentative re-evaluation by social democratic (as well as other) scholars about the relevance of the Third Way to development discourse.

⁵ Even though the authors do discuss Lula's Brazil in positive terms, much of the PT government's successes were achieved after the book had already been published.

⁶ One example emerges on page 231, where the authors refer to "full social democracy" in contrast to the Third Way. This implies that the Third Way is not regarded as "fully" social democratic (Sandbrook et al., 2007: 231).

When attempting to understand the development of the Third Way, the most important academic voice is undoubtedly that of Anthony Giddens. By only following the developments and evolution of the approach through Giddens' work, one can already form a well-rounded impression of the core features of the Third Way; and also the ways in which it has progressed since its inception. He authored the first truly authoritative piece on the approach in 1998; a book entitled *The Third Way: The Renewal of Social Democracy*. In it, he articulates the position of social democracy at the turn of the millennium, while also providing much of the theoretical base that later practitioners would build upon. By the year 2000, criticism against the project had mounted to such an extent that Giddens attempted to address it directly. He did this by publishing *The Third Way and its Critics*, where he seeks to address some of the most salient criticisms levelled against the Third Way. In 2001, he edited a volume entitled *The Global Third Way Debate*, a collection of chapters by a diverse group of authors who have all contributed to the evolution of the idea. In a reflection of the change in rhetoric surrounding the Third Way, by 2003 Giddens had entitled his latest book on the subject *Neoprogessivism: A New Social Agenda for Social Democracy*. In it, he discusses some of the most important evolutionary shifts that had taken place within the paradigm. In essence, these four books serve as the academic backbone of the Third Way. Giddens was also closely involved in the practical side of the project, as he was a trusted advisor to Tony Blair throughout his years as British Prime Minister. Indeed, there are remarkable similarities in the positions taken by Blair and those advocated by Giddens, leading one to suspect that he had a significant amount of influence over Blair. In a sense, this close relationship provided the Third Way with a continuity that it may have lacked within other national contexts.

Another very important contribution to the theoretical debate was made by Jane Lewis and Rebecca Surender. They served as the editors for a volume entitled *Welfare State Change: Towards a Third Way*. The various authors address a range of diverse issues, including the pragmatic and changing nature of the Third Way project as well as issues of governance and philosophy. Additionally, respected academics such as Joseph Stiglitz, Timothy Power and Michael Temple have all made important contributions to the debate.

It is clear that many important studies have been undertaken about the theoretical underpinnings of the Third Way. In contrast, there is a general lack of studies examining case studies of instances where the Third Way was practically implemented. This is especially true of

case studies involving developing countries, and these are obviously very important to this study. However, two highly relevant studies were undertaken by Jos de Beus and Tom Koelble, and Timothy Power, respectively. An article by De Beus and Koelble makes the compelling argument that there were many similarities between the Third Way approaches being implemented in Western Europe and South Africa at the time, both in principle and in practice (De Beus & Koelble, 2001). Importantly, it also highlights the way in which these similarities came about due to the fact that Leftist governments in vastly different contexts were dealing with similar challenges brought on by globalization.

The study by Power was also published in 2001 and is entitled *Blairism Brazilian Style? Cardoso and the Third Way*. Similar to the current study, it also highlights the way in which dismissiveness regarding the Third Way has led to it being significantly understudied and perhaps underestimated. This study is clearly a highly relevant piece of literature as it provides some initial guidance on the way in which a study of the Third Way in Brazil could be undertaken. Its explicit focus on the Cardoso government also enables one to contrast and compare it to the PT government of Lula.

This literature review has taken the approach of initially discussing the position of general social democracy in the developing world. The emphasis then shifted to focus on the Third Way's position as a specific incarnation of social democracy, and it was made clear that a need exists for greater research being undertaken regarding its potential to be successfully implemented in the Global South. In further narrowing the analysis, the most important academic works about the theoretical underpinnings of the Third Way were discussed next. Finally, previous studies about the Third Way's relevance and manifestations within the developing world were discussed. In combination with the social history section, this review illustrates both the general and academic position of the Third Way – globally, as well as within the context of developing countries.

2.3) Main Characteristics of the Third Way

The Third Way combines certain elements of political philosophy in a unique way. These particular combinations are part of the reason for the significant amount of criticism that is often levelled against the approach. This section will examine the five central characteristics of the

Third Way in combination with some of the most salient criticisms that are often made of its particular policy combinations.

The first and arguably most important characteristic of the Third Way is that it attempts to **transform the nature of state-market relations**. The traditional approaches of neoliberalism and socialism have very rigid views about the dominance of one sphere over the other. Indeed, it is the attitude that political approaches have with regards to state-market relations that often define it, almost in its entirety. So, what is the position of the Third Way with regards to these relations? It would seem obvious to assume that it lies somewhere between the two other “ways”. However, throughout the literature it is stressed that this is not the case. It is claimed that the Third Way does not intend to merge the Old Left with the New Right⁷, but that it hopes to transcend both (Giddens, 1998: 26). In this sense, the Third Way aims to stand above traditional political models: “...the Third Way is a new politics that transcends the old categories, making them redundant” (Bonoli & Powell, 2004: 49). This is certainly an ambitious claim, as the old categories are extremely entrenched in political discourse. So, what prescriptions are offered by advocates of the Third Way in order to achieve this fundamental transformation? Firstly,

[it] is at ease with the **primacy** of the market (emphasis added). It has no wish to gut its growth potential by moving closer to a planned economy. It does not see itself as some kind of economic commissar surrounded by five-year industry plans. Without the productivity and prosperity of a market-based economy, it is simply not possible for government...to redistribute the benefits of abundance (Latham, 2001: 30).

Thus, from this perspective, the market is no longer seen as the enemy of the Left. There is no sense in continuing to question the market rationale of the globalized world and instead of continuing to fight against it – and in an attempt to avoid further crises like that of 1989 and to remain relevant – the Left simply has to adapt and accept that markets are here to stay. However, this does not mean that the Third Way simply surrenders to the market. There should be no betrayal of socialist ideals, as the pursuit of these ideals plays a central role in humanizing the market – an important feature that distinguishes it from neoliberalism. In effect,

socialism and communism have passed away, yet they remain to haunt us. We cannot just put aside the values and ideals that drove them, for some remain intrinsic to the good life that it is the point of social and economic development to create. The challenge is to make these values count where the economic

⁷ The conservative political movement which developed mainly in the United States during the 1960's.

programme of socialism has become discredited...Political life is nothing without ideals, but ideals are empty if they do not relate to real possibilities (Giddens, 1998: 1-2).

The politics of “real possibilities” are at the centre of the Third Way and it clearly offers something new with regard to state-market relations. Instead of the Old Left’s traditional doubts about the ability of the market and its ideals of replacing the market with the state, and instead of the New Right’s almost religious belief in the ability of the market to address all problems and inequalities, the Third Way accepts the goals of the Left at the same time as acknowledging the superiority in the methods of neoliberalism. Instead of defining which one of the two is superior, in the style of traditional political and economic approaches, it attempts to harness the power of both political spheres. In this sense, it is clear that there is a pragmatic element to the Third Way, a feature that is of central importance to the contents of this study. However, this pragmatism is limited by both the goals of the Left and, at the same time, by the means of the Right.

The transformation of state-market relations is an aspect of the Third Way which has come under particularly intense criticism, as it is often charged that proponents of the approach have betrayed their socialist roots. Giddens summarises some of these criticisms that others have levelled against the Third Way: it is argued that through the attempts to transcend the old divides, the Third Way:

fails to sustain the proper outlook of the Left and hence, whether deliberately or not, lapses into a form of conservatism. The advocates of the Third Way define themselves as ‘centre-Left’, but in fact have simply moved towards the Right. A preoccupation with the political centre is manifestly not compatible with the goals of the Left (Giddens, 2000: 22-23).

Leftist critics have continually accused supporters of the Third Way of betrayal. This stems from the Third Way’s insistence that the role of the state in markets and civil society should be limited to regulation and intervention, whenever required. However, it should not dominate markets or civil society. This is based on the belief that while a strong state is required to steer and promote social development, a state which becomes too large through excessive intervention overrides the freedoms of markets and the citizens of the state (Giddens, 2001: 6). But, crucially, the same goes for markets. The criticism against the Third Way’s approach to state-market relations overlooks the fact that markets are not given free rein either. Even though the Third Way accepts that “an effective market economy is the best way of promoting social prosperity and economic efficiency”, its role should also be confined (Giddens, 2001: 6-7). Focused government intervention and regulation is necessary in order to prevent the insecurities and inequalities

which is often created when markets interlude too far into the social sphere (Giddens, 2001: 7). This clearly illustrates that the Third Way has a balanced approach to state-market relations, but this often entails an unacceptable level of compromise for its Old Left critics.

The Third Way redefines the **nature of welfare** (when compared to traditional social democracy), and this is another important feature. Being an approach that largely developed within the Anglo-Saxon and continental European welfare states, this is of central concern. The first question that needs to be asked of an approach that accepts market rationale as one of its key features, is whether it is still concerned about the creation of an egalitarian society, based on the widely-held assumption that markets tend to create unequal societies. Traditional Leftists have largely been in favour of an equality of outcome approach and the aims of welfare provisions have generally been to achieve exactly this. However, this is an important area where the Third Way is distinct: "...proponents of the Third Way clearly reject the equality of outcome position" (White, 2004: 34). Instead, there is a shift towards a position of **equality of opportunity**. This means that Third Way advocates are also "prepared to accept greater income inequality as a market and policy outcome" (Merkel, 2001: 53).

While this may resonate strongly with neoliberal ideology, there is one important difference between neoliberalism's approach to welfare and the approach of the Third Way. For neoliberals, there is an often intrinsic belief that the market can correct for all inequalities. This same belief does not exist in its entirety under the Third Way. The state still has an important role to play, but it should not continue to act as a guarantor of an equality of outcome position. Instead, the welfare focus shifts towards a position of equality of opportunity. It should provide equal opportunities to education and health, while eliminating all forms of discrimination. The state should play an active role in ensuring that everyone receives the same high level of basic services. However, access to education and health related services do not serve as an "outcome". These form part of the provision of equal opportunity, with the "outcome" being seen as the ultimate quality of life experienced by an individual, based on their own abilities and efforts. This position thus ensures an equal base (opportunity), while the responsibility rests with the individual to achieve the standard of living desired (outcome). Clearly, there is an important, well-defined role for the state to play in the provision of welfare under the Third Way.

However, this is only one side of the equation when it comes to welfare. The Third Way reserves a particularly important role for the individual, in stark contrast to traditional approaches

to welfare, such as Scandinavian social democracy, which focuses extremely narrowly on the role of the state as a provider. White explains this position:

welfare provision is seen in the Third Way as one side of a contract between state and citizen. The other side of the contract is that the citizen should meet certain behavioural standards, for example in relations to job search or training (2004: 25).

This clearly shifts the emphasis away from passive welfare recipients. The objective is to link rights to responsibilities – summed up in what has almost become a Third Way slogan: **no rights without responsibilities**. The trappings of open ended, top-down welfare include a culture of deceit, as well as the risks of moral hazard (Giddens, 2001: 8). Thus, the Third Way aims to address the problems that are often faced by contemporary welfare systems by establishing a new social contract. However, this should not be confused with the neoliberal approach to welfare or the “American dream”. Under the Third Way, welfare provision is intended to go much deeper than merely correcting for racial discrimination under the belief that equality is intrinsic to American society, as assumed by the “American dream” (Bresser-Pereira, 2001: 361). The state still assumes the responsibility to support those in need, but “...benefits for the out of work should be made conditional on active job search and retraining” (White, 2004: 30). This means that part of the responsibility shifts to the individual. However, the state again needs to provide the means through which people can retrain, marking a shift towards lifelong learning (Giddens, 2003: 24). This means that welfare is a much more dynamic process under the Third Way than it was previously believed to be. Instead of passive welfare recipients that move into a state of welfare support which flows in one direction, welfare can now be seen as a process that involves two active sides of a social contract that would hopefully result in a move out of welfare and into active employment for any recipient.

An interesting piece of criticism against the Third Way in this regard comes from Ralf Dahrendorf. He asserts that there is an “authoritarian streak in Europe’s new centre” (Dahrendorf, 1999). He initially states that the Third Way supposes a Hegelian view of the world and that the authoritarianism does not only manifest once a move is made towards implementation. He argues that

one word almost never appears – and never in a central place – in all [the] speeches and pamphlets and books about the Third Way: liberty...This is no accident. The Third Way is not about either open societies or liberty. There is, indeed, a curious authoritarian streak in it (Dahrendorf, 1999: 15).

The argument then turns to welfare, and he makes the compelling assertion that

Third Way reforms of the welfare state not only involve compulsory savings but, above all, the strict insistence on everyone working, including single mothers and the disabled. Where normal employment – let alone desirable employment – is unavailable, people have to be forced to work by the withdrawal of benefits (Dahrendorf, 1999: 16).

Giddens notes that one of the reasons for this perceived authoritarianism in the Third Way is based upon the perception that the state will largely be responsible for the determining of responsibilities through the “no rights without responsibilities” approach (Giddens, 2003: 16). However, he states that the intention is rather to create a citizenship of co-production. Instead of the state defining the welfare system in an authoritarian manner, there needs to be a new “social effort-bargain” under the Third Way in the field of inequality and welfare (Giddens, 2003: 25). The citizenship of co-production which is to be produced through a new social contract will limit the extent to which the state is purely responsible for setting the welfare agenda, thus limiting authoritarianism.

The Third Way takes a rather unique **approach to globalization** within the Left. In many ways, the Third Way articulates a certain response to globalization. This is characterized by Giddens’ use of the term “New Times” to symbolize the “shift from manufacturing production to information technology” (on a global scale) (Giddens, 2000: 27). The rationale for the importance of globalization has already been examined through an evolutionary trajectory in an earlier section, but its significance cannot be overstated. With its acute rise accelerating after 1989, globalization added to the woes of the Old Left. Socialism was exposed as being unable to cope with globalization, and in many cases the reaction was to attempt to fight against it. In his first book on the Third Way, Giddens identifies certain “dilemmas” for social democracy and articulates the response of the Third Way. Unsurprisingly, globalization is the first and most emphasized “dilemma” (Giddens, 1998: 64) and later it is identified as possibly the key feature in the development process of the Third Way: “we live in a world marked by rapid and dramatic transformations – globalization being the most important – and it is the role of Third Way thinking to seek to show how to cope with them” (Giddens, 2003: 2). Globalization not only serves as a partial reason for the existence of the Third Way, but also as a distinct policy area in which the Third Way professes its superiority when compared to other Leftist approaches. This stems from its belief that globalization offers very real and positive opportunities that should be embraced. However, it also cautions that important adjustments are bound to arise from the “accelerated transformations in the world economy” brought on by it (Pisani-Ferry, 2008: 3).

Giddens stresses that “Third Way politics should take a positive attitude to globalization – but, crucially, only as a phenomenon ranging much more widely than the global marketplace” (Giddens, 1998: 64). Once again, the Third Way takes a rather pragmatic approach to globalization – viewing it as a distinct opportunity to enhance growth, while being acutely aware of its potential negative impacts and the need to guard citizens from these impacts.

The final important feature of the Third Way which will be discussed is its focus on the **rejuvenation of civil society**. The Old Left had a history of distrusting civil society organizations, traditionally fearing its ability to undermine the power of the state (Wood, 1990). It is here, too, that the Third Way attempts to distance itself from socialism. There is a realization among Third Way advocates that civil decline is an important problem in the age of globalization. This is another policy area where a balanced approach is favoured: civil society should act as a control upon the state, however there also should not be “too much” civil society, implying that the role of interest groups and non-governmental organizations should in-turn be checked by the state (Giddens, 2001: 7). This seems to indicate that, according to Third Way principles, civil society should play an important agenda-setting role, but not necessarily an important executive role. Giddens also introduces the concept of the civil economy, which extends the watchdog role of civil society to the traditional economic sphere through proposing that business activity be monitored by civil society (Giddens, 2003: 15).

These characteristics represent the most important elements of the Third Way. This section has attempted to clearly define them, including through juxtaposing them to some of the most important criticisms which have often been levelled at the Third Way. The following section will operationalize these characteristics into features which can be applied to the Brazilian case study.

2.4) Operationalization

Space constraints limited the extent to which all five key characteristics identified above could be tested in this study. This meant that a choice had to be made between a superficial analysis of all five features, and an in-depth analysis of the most important features. It was decided that the second option would enable the strongest possible argument to be formulated. This meant that only the features of the Third Way which lay at its very essence needed to be identified and operationalized. However, it should also be noted that, owing to the overall

approach of the Third Way, most of the other aspects discussed in the section on its main characteristics do manifest at times throughout the case study chapters. These include aspects related to equality of opportunity, “no rights without responsibilities” and the role of civil society.

Drawing on the conceptual approach adopted by Sandbrook et al., the study will focus on key features of the Third Way. These relate to the Third Way’s approach to state-market relations, welfare and globalization and are operationalized into two features: 1) **the liberalization of the economy** and 2) **poverty and inequality reduction strategies**. Firstly, the economic policies of the Lula administration will be analysed in order to see whether they followed the prescripts of the Third Way. Central to this analysis will be the government’s approach to globalization. Through its approach to globalization and state-market relations, the Third Way clearly advocates the opening-up of markets, the strengthening of economic fundamentals through the adoption of responsible fiscal and monetary policies and the integration of national economies into the global economy. This means that this study will assess whether Lula’s PT government followed these fairly orthodox economic policies as the first part of the operationalized analysis.

However, the most important aim of the Third Way and of the Left more generally, is to create societies which are more prosperous, egalitarian and equal. This means that within the Brazilian context of great inequality and poverty, the most important goal of a Third Way approach should be to reduce poverty and inequality. This will be the second operationalized feature – consistent with the approach followed by Sandbrook et al. (2007) – to be measured against the Brazilian case study and incorporates the features of the Third Way’s approach to welfare discussed above, including “no rights without responsibilities” and equality of opportunity through the equal provision of basic services. The aim is to assess whether the Lula administration implemented poverty and inequality reduction strategies according to the recommendations made by the Third Way.

There is a crucial point which needs to be highlighted here. The Third Way clearly articulates a position which emphasises the need for economic policy to be utilized in order to create advantageous economic conditions within a country. However, the strengthening of economic fundamentals and the achievement of high levels of economic growth is not regarded as an end in itself if it does not translate into poverty and inequality reduction. This means that

the Third Way necessarily advocates a sequential approach to poverty and inequality reduction: economic fundamentals need to be solidified and economic growth needs to be achieved **first**. Thereafter, this economic performance should be transformed into a significant reduction in levels of poverty and inequality. The importance of this point cannot be overemphasized: according to the Third Way, improved economic performance is not an end in itself and should be used to reduce poverty and inequality through the adoption of a linear approach, where the solidifying of economic fundamentals takes place first, followed by a significant reduction in levels of poverty and inequality.

Accordingly, the next chapter will analyse whether the Lula government followed the Third Way's approach in relation to the liberalization of the economy, while chapter four analyses whether its poverty and inequality reduction strategies correspond with those of the Third Way.

2.5) Conclusion

This chapter has provided an overview of the theoretical approach drawn from Sandbrook et al. on the Third Way, which will guide the study. This was done by discussing the social history of the Third Way to showcase the way in which the approach developed. The literature review further contributed to this illustration by highlighting previous studies about the Third Way, which have focused both on developing the theory and applying it to real-world scenarios, including in the developing world. A discussion about the main characteristics of the Third Way ensued, followed by a crucially important section where these characteristics were operationalized to establish applicable features. The following case study material will be analysed according to these features in the hope of proving that they clearly manifested in the case of Brazilian economic and social development.

CHAPTER THREE

ECONOMIC POLICIES

3.1) Introduction

The following two chapters will analyse the case study material in order to demonstrate that the Lula administration did in fact follow a Third Way approach in Brazil. This chapter will commence with a discussion on the way in which the PT had evolved from a radical socialist party at its inception to become a party governing according to Third Way principles by the time it came to power. The crucial factor in this evolution was the changing role of labour within the organization, and this will be a key theme throughout the following two chapters. Once it has been demonstrated that the PT had moderated significantly by the time it came to power, the emphasis will be shifted towards analysing the economic and social policies followed during Lula's two terms.

This chapter will discuss the economic policies of the PT government. The analysis will not only discuss the policies that were adopted, but will attempt to determine the success of said policies. This is of crucial importance, as Lula's government adopted a linear approach towards achieving its ultimate goal of bringing about effective poverty and inequality reduction in Brazil. Economic fundamentals had to be solidified first. This meant that especially the first half of Lula's first term would feature extremely conservative economic policy initiatives. Through actively promoting fiscal austerity and solidifying Brazilian fundamentals, the PT government hoped to achieve significant economic growth. In order to maximize the country's chances of achieving this growth, the Lula government engaged extensively with globalization. This is an important point, as the PT was initially heavily opposed to globalization and extremely reluctant to engage with it, much less did they view it as a phenomenon offering significant opportunities for economic growth (as well as eventual poverty reduction). The government's foreign policy is highly relevant in this regard, as foreign policy was used by Lula as an extension of the pursuit of economic goals. It offered the PT government an opportunity to both satisfy its labour base through attempts at global reformation and inequality reduction, while also enabling the country to take advantage of the economic opportunities offered by globalization.

However, economic growth was not the main priority for the administration, and was never to be viewed as an end in itself. Through the analysis carried out in the following two

chapters, it will become clear that a strong economy which produced significant levels of growth was viewed as the most effective way through which redistribution could take place. The intensification of poverty reduction measures during the latter part of Lula's Presidency will form the core of chapter four – an analysis of the Lula government's social policies. With regards to poverty reduction, various innovative policies were adopted by the government – policies which drew on some of the core features of the Third Way, including a focus on equality of opportunity and instilling responsibilities along with redistributive rights.

3.2) The Evolution of the PT

The active role of labour is perhaps the key reason for the establishment of the PT in Brazil in the first place. In particular, the trade union movement provided much of its initial ideological focus, while much of its leadership also originated within the unions. However, the relationship of the PT with labour was not static since its founding and changes in this relationship had a tremendous impact on the eventual trajectory of the party. These changes also had an impact on the policy outcomes later pursued by the Lula government. This discussion of the changing role of labour within the organization will be interwoven into an initial illustration of the historical background of the evolution of the PT. An attempt will be made to demonstrate how much of an evolution there was within the PT on an ideological level leading up to its election victory in 2002. However, a brief discussion on the evolving personal role of Lula within the PT will be the first topic covered.

The PT was founded on 10 February 1980 in São Paulo. Amongst the founding Left-wing intellectuals, Catholics and other union leaders was Luiz Inácio Lula da Silva, a former lathe operator who had gained prominence as the President of the Steel Workers' Union of São Bernardo do Campo and Diadema. These cities are part of Brazil's ABCD (Santo André, São Bernardo do Campo, and São Caetano do Sul and Diadema) region, the industrial heartland of the country. Lula had grown up in a poor family of eight children under tumultuous circumstances that included his mother moving from the impoverished Northeast of the country to São Paulo in a now famous journey of thirteen days in the open cargo hold of a truck. At age 19, while working in an automobile factory, he lost his little finger in an accident and had to run to several hospitals before receiving medical attention (Bourne, 2008).

One of Lula's first important political speeches took place in 1975, even before the founding of the PT and with the military dictatorship still governing Brazil. He "argued that the moment through which Brazilians were living was 'one of the blackest for the individual and collective destinies of the human being'" (Bourne, 2008: 28). This was based on his assessment that, in the West, people had become the slaves of capitalism and the materialistic greed of capital owners. This forced them into lifestyles based on never-ending production rhythms. He contrasted this to the oppression suffered by people under the crushing power of the state in the Soviet bloc, including restrictions on their freedom to demonstrate and think freely. Lula implicitly rejected both the kind of capitalism adopted by the military regime as well as a Soviet-style communist alternative (Bourne, 2008: 28). These early musings provide insight into the way in which Lula contemplated a rejection of the established patterns of political rule from the very beginning. Bourne discusses another such statement made by Lula in 1985:

[he] said that he felt that the great challenge for socialism was to see a society in which everyone produced for the benefit of everyone else but individual creativity was not restricted. This should be a society that did not curtail freedom of the spirit or the desire of a citizen to progress in life. Lula thought that to define socialism merely in terms of education, health, and work was too narrow (Bourne, 2008: 67).

This demonstrates that the search for an alternative informed his political development from the start. In fact, thinking along these lines was not uncommon in the broader PT, as from its very inception it sought to dissociate itself from the models of Soviet and Chinese communism that it saw as unsustainable. Thus, the PT, along with the person that would become its most prominent leader, is anchored in a socialist tradition. This will become clear in the sections to follow. However, it was never "just another" socialist party. These distinguishing characteristics would only grow more influential as the political landscape changed, both in Brazil and globally.

By 1985, the military dictatorship was about to come to an end. The final Brazilian elections to be held through the indirect voting system of the Electoral College took place in that year and, as such, the PT did not take part. Through a series of bizarre events, José Sarney eventually became the first civilian President of Brazil in 21 years. However, the PT did compete in the 1986 legislative elections and Lula was elected to Congress after having lost in the state elections of São Paulo in 1982. The PT played a role in the drafting of the country's civilian Constitution of 1988 and the next Presidential elections were scheduled to take place in 1989 – by then the PT had started to build a strong organizational character.

Lula was still a member of Congress during the 1989 Presidential elections. He was nominated as the PT candidate and was initially considered to be in a strong position to become the first democratically elected Brazilian President since 1960. Lula was regarded as being more radical than his only Left-wing opponent, Leonel Brizola. The PT's campaign theme was "work, land, and liberty" (Bourne, 2008: 57). It aimed to improve the lives of rural workers through better wages and the provision of land, to promote access to healthcare, to end the dictatorship, to end hunger, to define access to education and culture as a right, not a class privilege, to promote equality and an end to discrimination, to prevent the stealing of public money, to end the exploitation of public contracts by private companies, and, "in a rhetorical flourish, to claim 'power to the workers and the people – the workers' struggle is the same all over the world – only socialism will solve our problems once and for all'" (Bourne, 2008: 57).

Statements such as these unsettled the elite and they decided to mobilize behind a relatively unknown candidate, Fernando Collor de Mello. The positions he articulated were much more favourably predisposed towards business and he espoused a radical anti-corruption position. The first round of the election took place on 15 November 1989 and featured twenty-two candidates. Lula received the second largest amount of votes at 16.08 percent, while Collor got 28.52 percent (Electoral Geography). As such, no candidate achieved a clear majority, and a run-off election was held with Lula and Collor as the two candidates. The Collor camp embarked on a fierce media campaign that even dug into Lula's private life, while the general media often came close to providing biased campaign coverage in favour of Collor (Porto, 2007). On 17 December 1989 the run-off was held and Lula got 44.23 percent of the votes, while Collor received 49.94 percent (Electoral Geography).

The reasons for the failure of the PT in its first election are manifold. As noted above, an intense media campaign, combined with the support of the elite, certainly strengthened the position of Lula's main rival. However, the determination of the PT to continue to favour radical socialist positions at a time when socialism was experiencing its most profound crisis ever also played a very important role. This was due to the radical nature of the labour base that still largely determined the direction that the party was taking. Just as the project of socialism started to lose credibility, this radical base continued believing that socialism was possible. This belief was backed up by a sense that the large and diverse economy of Brazil provided a solid foundation for the implementation of socialism. The PT also believed that the fact that Brazil

was going through such a profound time of transition provided them with an opportunity to gain support for its socialist project. This belief did not take into account the constraints posed by the country's political institutions, such as the entrenched power of political elites, but was exclusively based on the high levels of poverty and inequality (Hunter, 2007: 444). This meant that during the 1989 campaign the PT focused more on their ideological position than on vote maximization, due in large part to the active role of organised labour within the party.

Simply put, at this stage, the PT was more concerned with being radical than with being in power. Indeed, so deep was the radicalism of the labour movement within the PT that they did not even see democratic elections as completely legitimate. The party repeatedly emphasized that it hoped to achieve a total socialist transformation of society:

[during the] 1982 campaign...the party's platform affirmed that 'elections represent only part of our long-term goal, which is constructing a socialist society without exploiters or exploited', [and in] 1993...the national convention approved a resolution affirming that 'our struggle relies on increasing the tension and strain on the existing order' (Samuels, 2004: 999).

However, this invites the question: why were party leaders more committed to this radicalism than to achieving more meaningful electoral gains? Why did the PT consciously attempt to not become just another Brazilian political party, turning to patronage, forming alliances and deemphasizing ideological commitments? The answer lay in the individual make-up of PT members. These *petistas*⁸ were people who had risked their lives in defiance of the military dictatorship and were determined to never betray their ideological beliefs. They were wholly committed to achieving redistributive development and were radically opposed to the corrupt nature of Brazilian politics (Hunter, 2007: 452). As already noted, *petistas* came from a radical labour background that had fought against what they saw as the entrenched privileges of the capitalist elite during the dictatorship. This meant that radical labour opposition had provided the PT with much of its initial rationale and at this stage they were not willing to sacrifice the radical elements of their socialism for electoral gain.

However, the position of uncompromising radicals within the PT was about to become even more tenuous. Immediately after assuming office, President Collor de Mello launched the First Collor Plan with the aim of stabilizing Brazil's rampant inflation. It temporarily subdued the inflation rate, but it soon returned to high levels. Subsequently, the Second Collor Plan was

⁸ The Brazilian label for supporters of the PT.

launched but, due to the loss of prestige of the government because of a succession of corruption scandals, it quickly collapsed. Collor resigned on 29 December 1992 and was impeached by the Senate on charges of corruption in an influence peddling scheme on 30 December 1992. This chaotic state of affairs opened the door for Itamar Franco, Collor's Vice-President, to assume office and he was President from 29 December 1992 until 1 January 1995. His Presidency was relatively subdued when compared to the tumultuous Collor years and Franco succeeded in bringing some stability back to Brazilian politics. However, his biggest success, and also the most important catalyst to the future evolution of the PT, came when he appointed Fernando Henrique Cardoso as his finance minister. Cardoso went on to launch the very successful *Real* Plan in order to stabilize the economy and combat inflation.

It is essential to briefly discuss the principal features of the *Real* Plan, not just because it provided Brazil with monetary stability for the first time in decades, but also because it is an important point of reference for the Lula government. The *Real* Plan represented proof that fiscal and monetary austerity had the ability to effectively improve conditions in Brazil. The success of the *Real* Plan meant that Lula and the PT were unable to question its logic if they were determined to maximise votes (despite their initial political opposition during the time of the Plan's implementation). The *Real* Plan was also the culmination of an era, as all throughout the 1980s and 1990s, successive governments had launched anti-inflationary plans. This started with the *Cruzado* Plan in 1986 and ended with the *Real* Plan in 1994. These plans signalled the end of the industrialization strategy of import substitution and marked a shift towards neoliberalism in Brazil (De Oliveira & Nakatani, 2007: 39).

After the 1989 Presidential elections, Lula decided not to run for re-election as a Congressman in 1990, instead focusing on expanding the operations of the PT around the country. By 3 October 1994, the date of the next Presidential elections, Cardoso had been buoyed by the success of the *Real* Plan⁹ and had the formal support of incumbent President Franco to

⁹ The *Real* Plan was undoubtedly the most successful Brazilian economic stabilization plan ever. It ran from July 1994 to January 1999. Between June 1994 and December 2001 it reduced the inflation rate from 5 150 percent to a mere 10 percent (Ferrari-Filho & De Paula, 2003: 58). The Plan also managed to quickly achieve these reductions in inflation rates. Crucially, it contained very little disruptive measures and relied on the improvement of fiscal fundamentals, the creation of a new currency and the removal of supply-side impediments. However, the plan was also quite innovative when compared with earlier Brazilian attempts at inflation control. It employed a "big bang" approach towards the opening of the economy, including the creation of a new foreign exchange policy and

succeed him in office. Lula's share of the votes increased from the previous election, but his overall position regressed. Cardoso won as the *Partido da Social Democracia Brasileira* (PSDB – Brazilian Social Democratic Party) candidate in the first round by gaining 54.27 percent of the votes, while Lula came in second with 27.04 percent.

By this time, it was clear that the PT's radical socialist position was becoming untenable. However, its dedication to these radically alternative policies had provided it with a rare commodity in Brazilian politics: the logic of difference. The PT had been able to demonstrate that it was wholly committed to its goals and that it was not a party lacking substance. Its commitment to only forging alliances on the Left of the political spectrum demonstrated this, while its intense opposition to practices of patronage and corruption, running rampant within the Brazilian political establishment, had enabled it to be seen as an honest party. Thus, in addition to largely accounting for the founding of the PT, radical labour had been able to provide the PT with a core identity throughout the first 14 years of its existence. However, from the mid-1990s the party had begun to alter its trajectory. The emphasis was shifted from building the organization to maximizing votes. José Genoïno, future party President (2002–5), alluded to this in his statement that “it is now time to win, not just to stake out our ground” (Hunter, 2007: 456). The goals were clearly shifting, with a new emphasis on winning elections.

These were ambitious goals and it required that the PT soften its image and moderate its platform (Hunter, 2007: 456). A newfound commitment to achieving exactly this first emerged in a meeting that Lula held with twenty-five industrialists and bankers in São Paulo on 1 March 1993. Fifty-two PT candidates had been elected as mayors across the country, including in important cities like Porto Alegre and Belo Horizonte. At the meeting, Lula showed that he was not a man that capitalists should fear. He was not the radical socialist of the past, but was now a politician with whom they could do business. This demonstrated Lula's ability to appreciate the reality of Brazilian economics while aligning it with the views of the Left (Bourne, 2008: 82). This period represents the start of the flourishing of the genius with which Lula would lead the PT into the future and provides the means through which he was able to balance the desires of the Left with economic realities.

aggressive trade liberalization. It introduced the *Real* as the new currency and created the Social Emergency Fund through a constitutional amendment to implement its fiscal strategy (Franco, 1996: 3).

But before Lula's abilities could be harnessed, enormous internal changes had to take place within the PT, specifically with regards to the influence of labour. The first step in this transformation was that party leaders came to the conclusion that the socialism espoused by the influential labour groups during the 1980s was no longer tenable. This was based on a fresh interpretation of key economic and political factors, both internally and externally. The influence of these factors was due to the role of globalization internationally, along with the domestic impact of the *Real Plan*. Additionally, a shift had taken place towards accepting the legitimacy of elections and democracy, with a renewed focus on gaining representation in office. In a sense, this signals a belief by the PT that Brazilian democracy was legitimate, in stark contrast to its radical earlier positions. This means that a shift on the ideological level was taking place in the form of a programmatic movement to the centre, while an acceptance of participatory structures was occurring (Hunter, 2007: 457).

However, this shift to the centre depended on more than a mere abstract realization about the suitability of socialism. Political space had to open up in the centre of the political spectrum in Brazil before the PT could move into it and away from the extreme Left. This meant that parties which had previously occupied a moderate position would have to move along the scale, preferably towards the Right. Just such a shift occurred during the PSDB's time in office when it moved to the Right during the 1990s. The PSDB had gone into an alliance with the conservative *Partido da Frente Liberal* (PFL – Liberal Front Party) in 1994 and was advocating market reform. The PSDB went on to govern the country for the following eight years and it would continually demonstrate that it was engaged in a pronounced Right-ward drift, including through its adoption of clientelistic tactics. The PT was delighted at the space which had opened up in the centre because of this (Hunter, 2007: 459). They were also assured of the continued support of the far-Left. This meant that the PT was enticed into a more mainstream, centre-Left position because of the recognized opportunities that this offered, combined with the spatial dynamics created by the PSDB's moderation. This ultimately resulted in the PT adopting a more mainstream trajectory (Hunter, 2007: 459).

A second factor that forced the PT to reconsider its position actually came along with its popularity. The PT was in control of various municipalities and states, which meant that the practicality of actually governing became more important than mere ideological posturing. The party now needed to produce tangible results where it governed in order to prove to the electorate

that it was more than a mere opposition party based on ideology. However, the measures needed to produce these results were not imposed unilaterally by party leadership, because the PT had a very high level of rank-and-file participation when compared to other Leftist parties (Samuels, 2004: 1010). The PT had a high level of internal democracy, which limited the autonomy of party leaders. This meant that even though party leadership long favoured moderation, they could not enforce it without popular support from within the PT (Samuels, 2004: 1010). An overlap in the realization that was needed between regular members and party leadership only occurred after 1995, which enabled moderation to take place. The influence of pragmatists grew as the PT achieved more electoral success, and eventually they had been able to move towards a more centrist position. The recognition that such strategic change was needed illustrates the way in which pragmatism became a virtue during the PT's adjustment years, a virtue that Lula certainly possessed.

It is here then that the first important shift took place with regard to the role of labour within the organization. Due to the participatory nature of the PT, moderation was not imposed upon the party by the leadership, a move that would most certainly have angered its traditional supporters from within the labour camp if unionists and social movements still truly believed in a socialist route. Instead, the direction of the party depended to a large extent upon the wishes of these participants at the base (Samuels, 2004: 1006). Instead of a situation where moderation ended up alienating labour, the continuing evolution of labour itself provided an important incentive for moderation. Trade unions and social movements did not remain static while moderation was imposed. Instead, transformations were taking place within the rank-and-file labour supporters because of economic (the success of the *Real Plan* and the influence of globalization) and political (the fall of communism) developments, both globally and domestically. This enabled the PT leadership to adapt strategically towards becoming more electorally competitive, while still holding on to its more radical, traditional support from within the labour camp.

The combination of spatial changes in Brazilian politics, the changes in the global political economy and the new logic of the Brazilian economy introduced by the *Real Plan*, the electoral incentives provided by moderation as well as the pragmatism and willingness of leaders like Lula and rank-and-file activists to moderate, enabled the PT to hold onto its traditional base on the far-Left, while also taking over the moderate Left. This was a truly striking case of a far-

Left party adapting to the new rationale of the post-Cold War world. This rationale stemmed both from domestic politics and changes in global economic structures (Hunter, 2007: 440). This resulted in a clear articulation of the PT's position by the late 1990s that overwhelmingly conforms to a Third Way position:

by 1997 the National Meeting Resolution redefined the PT's version of socialism as a 'democratic revolution', emphasizing a political rather than economic vision of socialism as 'democratizing the State' that aimed to make the State 'more transparent and socially accountable' (Samuels, 2004: 1002).

However, this does not mean that it was a smooth process, as there were certainly supporters from within the labour camp that were appalled by the new direction that the party was taking. Additionally, political scientists were baffled by the party's transformation as strategic flexibility is not usually observed in mass bureaucratic parties like the PT (Samuels, 2004: 999). The most important factor in this puzzling transformation is that a considerable majority of the PT's supporters also recognized the need for moderation.

But there were serious disagreements during the time of adjustment within the party. This led to criticisms that are still levelled against the PT to this day – criticisms of the betrayal of its roots. There were intense factional battles throughout the 1990s and radicals certainly continued to participate vigorously within party structures. Samuels notes that militants did not sit the 1990s out, but instead "lost ground to moderate leaders' mobilization of now-moderate activists and militants" (Samuels, 2004: 1013). This is a clear indication that democratic processes within the party led to the adoption of a more moderate trajectory. This was a highly contested process, but one in which radical positions ultimately fell out of favour, to the dismay of some within the labour camp. But these dissidents were merely a vocal minority (who would later become totally disaffected and leave the PT altogether to found an opposition party), as the majority of groups within labour continued to support the PT. In a sense this is a rather unique situation, because the PT was clearly a trade-union-dependent party. This meant that it relied heavily upon fickle labour groups that are generally less concerned with long-term economic stability and broader societal interests than with immediate gains based on narrowly defined interests (Qobo, 2010). To a limited extent, this is certainly true in the case of the PT as there was some dissatisfaction. However, the damage was mitigated to a large extent because of the bottom-up democracy of the party that meant that any shift in its position would have to be endorsed by the majority of labour groups, which necessarily means that these groups were able to focus on the collective societal interests and keep the broader picture in mind.

However, the process was not yet complete and even though significant changes had taken place within the PT by 1998, it was not yet enough to derail the momentum that Cardoso had built up over his four years in office. During this time, the Cardoso government had enacted a constitutional amendment which allowed for a second term in executive office. On 4 October 1998, Cardoso received 53.1 percent of the votes, while Lula got 31.7 percent. The PT would have to wait four more years for another opportunity to gain executive office.

By the time that Lula was running for President for the fourth time in 2002, the shift in ideology that had been taking place within the PT was nearly complete. This meant that Lula was able to fully incorporate fresh positions into his campaign. He ran on a fairly contradictory platform; one which illustrated the continued importance of historical *petista* ideals such as equality and an improvement in the living conditions of the lower classes, while also demonstrating a newfound commitment to maintaining the economic stability that Cardoso's government had been able to achieve (Samuels, 2006 :7).

The single most important event of the entire campaign took place on 22 June 2002 when Lula published a *Letter to the Brazilian People*. However, the vast majority of the Brazilian electorate was not the true target of the declaration. Instead, its target audience was global capital. The letter stated that, should he become President, Lula would honour the contracts set up with the IMF in order to service the country's debt. This represented a spectacular shift away from earlier positions where the PT had openly called for a default on Brazil's debt. Indeed, the single biggest concern of the capitalist class, both internally and abroad, was that a PT government would have no commitment to "sound" economic practices. A study by Miller, Thampanishvong and Zhang (2005: 227-257) illustrates the intense panic created on international markets once it became clear that Lula was the favourite to win the 2002 Presidential election. It is concluded that the initial fears were based on possible contagion from Argentina, where only a year earlier the departure of President De La Rúa had led to debt repudiation; combined with angst over the radical Left-wing stance that Lula had taken from the opposition benches in previous governments. These two sources should not be viewed in isolation, as they were mutually reinforcing: "the main fear among investors was that the Lula government would imitate the Argentine default" (Miller, Thampanishvong & Zhang, 2005: 230). The panic was especially intense in the United States, where Goldman Sachs had set up the "Lulometro" during the 2002 Brazilian election campaign, a popular analytical tool that was used

by investors globally to forecast the value of the Brazilian *Real* based on Lula's position in electoral polls throughout the campaign (Chavez, 2002). The effects on the Brazilian economy were significant. Already negatively impacted by the Argentinean financial crisis in 2001, the *Real* lost a further 40 percent of its value in the six months leading up to the election. Government bonds were negatively affected, while the stock exchange in São Paulo fell by a third in those same six months (Williamson, 2003: 106).

However, even worse panic was averted because of Lula's adoption of market-friendly positions as espoused through the *Letter to the Brazilian People*. It was a brilliant political move as it consolidated Lula's position atop the opinion polls. It also played an important role in preventing attacks on his candidacy through the media as was the case during previous elections, while it probably also led to some stabilization within the economy. Facing the very real possibility that Lula would be the next President of Brazil, the neoliberal opposition aimed to undermine his popularity by attempting to expose his fresh commitment to neoliberal economics as a sham. It was insisted that institutional guarantees should ensure the independence of the Central Bank as well as a commitment to "responsible" monetary policy" (Morias & Saad-Filho, 2005: 10). Additionally, the International Monetary Fund (IMF) demanded that a new agreement be drawn up to consolidate what it saw as a shaky commitment to fiscal austerity. Lula agreed and a new IMF agreement was drawn up in record time and signed on 4 September 2002. The agreement consisted of a loan of US\$30 billion, with only US\$6 billion being immediately available. The availability of the rest depended upon the Fund's approval of the new government's economic policies. This was the first step in making financial institutions and conservative governments accessible to a PT government (Morias & Saad-Filho, 2005: 10). The role played by the controversial 2002 IMF loan is of great importance. In a sense, it ended up backfiring on the neoliberal opposition as it extended the time available for the market to learn to trust the Lula government. Once this market-learning had taken place and Lula had revealed his more moderate Left-wing side, fears from international credit sources subsided.

Even when taking into account the fact that there had been a tremendous amount of acquiescence from the labour groups that formed part of the PT's most important constituency, the *Letter to the Brazilian People* still represented an extremely significant shift in the direction that the party was taking. It left very little doubt as to the degree that a Lula administration would stick to economic orthodoxy. How was the PT able to transform to such a drastic extent without

too much alienation of its labour base? The answer lies in the particular distortions that accompanied the evolution away from the radical Left. Even though the letter and its implications were extreme, the PT held on tightly to its ideological past, because its historical legacy determined the extent to which PT leaders could adapt to changing circumstances. The radical base of the party shaped the manner in which it responded to institutional pressures. In short, “adaptation took place, but with a *petista* twist” (Hunter, 2007: 445). It is this *petista* twist which accounts for the continued cooperation of labour.

On a more individualistic level, Lula had built up a wealth of experience and connections through his three previous campaigns. Bourne makes a relevant comparison when he notes that Lula “[took a somewhat] parallel path to that taken by Tony Blair and ‘New Labour’ in Britain” (2008: 98). An important factor in this comparison is that Lula decided that in order to win over the voters who had already rejected him three times before, moderation had to take place (Bourne, 2008: 98). Another similarity between the campaigns of Blair and Lula is that both had only made rather vague commitments in the area of social policy. Indeed, Lula offered few of these and promised little in the way of specific significant targets for welfare and social policy. This lack of an overt social commitment implies that the parts of the electorate primarily concerned about social policy implicitly understood that it would be a priority, based on the coherence of the PT, its solid relationship with labour and its socialist history, thus subverting the need for direct promises. This gave Lula the additional advantage of not providing “ammunition to his enemies” and ensured a tremendous amount of flexibility in this regard once he assumed office (when compared to issues relating to economic policy) (Saad-Filho, 2003: 16).

Beyond the personal level, a comparison between New Labour and the PT of the mid-1990s points to a more general development. The above analysis clearly demonstrates the way in which the PT moderated from the ground up, due to the new rationalities imposed by globalization. The power of global capital, combined with the impact of the *Real* Plan on the economy, clearly demonstrated the entrenched power of capital. It is striking how much this resembles the discussion about the social history of the Third Way in chapter two. Clearly, these developments ran parallel to one another. Even though they were developed within vastly different contexts, a type of “spirit of the 1990s” permeated the process and the Third Way took root in Brazil at about the same time as it emerged in Europe. Thus, a general trend clearly

emerges by the late 1990s, with the PT undoubtedly developing along the same lines as New Labour in the UK, as well as the broader Third Way movement.

The first round of the 2002 Presidential election was held on 6 October. Lula chose José Alencar as his running mate in a further attempt to demonstrate his commitment to maintaining “prudent” economic policies. Alencar was the honorary President of the centre-Right Liberal Party at that stage, and was also a successful businessman. Lula’s main opponent was José Serra, the nominee for the incumbent PSDB. Lula’s pre-election political moves paid off. In the first round he received 46.4 percent of the votes. This meant that a second round of elections had to be held because no candidate got the required 50 percent-plus-one, but in the second round Lula obtained his majority by getting 61.3 percent of the votes, while Serra got 38.7 percent. After four campaigns and 13 years, he was the President of Brazil.

Almost immediately after assuming office on 1 January 2003, Lula was faced with the first harsh reality of the Brazilian political establishment – a reality that would impose even further uncomfortable measures on the labour base of the PT. Brazilian politics are dominated by coalitions and for a highly ideological party like the PT, this reality posed a challenge. If the events on the campaign trail demonstrated a true commitment to moving away from the extreme Left, forming coalitions with parties that had radically divergent views would be the first test of resolve for the new PT and especially its labour supporters. The PT received the largest amount of votes within the Chamber of Deputies, but it was nowhere close to the 50 percent required to govern. The PT had obtained 17.7 percent of the seats, and along with its election coalition partners it controlled 25.3 percent. This meant that Lula confronted a delicate balancing act: he had to obtain a majority (not to mention the 60 percent required to pass constitutional amendments) without alienating his base (Samuels, 2006: 12). The reality was that Lula and the PT had to reach out to parties outside his coalition, even though those parties had supported the Cardoso administration and were fundamentally different in their outlook. In the end, eight diverse political parties were incorporated into the governing coalition. In order to govern, Lula had to rely on the tradition of *governismo*¹⁰ and sacrifice much of his remaining fundamentalism.

This section has focused on the role of labour during the establishment of the PT in the 1980s. It has examined how this role had evolved and the way in which, by the mid-1990s, the

¹⁰ A pragmatic desire to obtain the clientelistic benefits of being in government, rather than remaining in opposition (Samuels, 2006: 12).

labour base of the PT had shifted to such an extent that it was able to move into the moderate centre and eventually got into power. It has been made clear that this was a rather tumultuous process and that by the time the PT had to govern Brazil, the party did not strongly resemble the radical socialist organization of the 1980s anymore. Additionally, the practicality requirements of governance would place further strain on the labour base. In order to effectively examine this process, the emphasis will now be shifted to include all the other outcomes identified in the final section of chapter two.

3.3) Economic Policy

3.3.1) Focusing on Economic Fundamentals

There can be no doubt that the PT government followed a Third Way approach when it came to economic policy. The following section will demonstrate how committed Lula and his government were to solidifying Brazil's economic fundamentals through an extreme fiscal austerity program, especially during the PT government's first term. This was regarded as a crucial precondition for achieving the greater societal change and upliftment that the PT had traditionally strived for. However, it was recognised that the rationale of global capitalism could not be questioned anymore and that it would be a futile exercise to utilize the radical means historically espoused by the PT to attempt to overcome Brazil's inequalities. This meant that the PT was committed to the primacy of the market, but only because it provided them with the best means of achieving the social transformation they desired. This mirrors the exact approach of the Third Way, and the ensuing sections on economic management will attempt to illustrate this. Significantly, a discussion of Lula's foreign policy will also be briefly included in this section, as foreign policy acted as an extension of the economic agenda of the PT government. Lula recognised the potential that foreign policy had in enabling the Brazilian economy to take advantage of global conditions. His pragmatic nature also stood out in this regard, as he attempted to appease his global labour allies at the same time as engaging with the representatives of global capitalism. This stood in stark contrast to the traditional hostility of the Left towards global institutions and reflected the way in which the global arena mirrored the domestic challenges, priorities and goals of the Lula government: using global capitalism to create a more equitable global, as well as domestic, distribution of wealth.

The Lula administration's distinct approach to economic management manifested early on during its first term in power. The commitment that the government had made to the IMF placed tremendous constraints on the availability of the resources that were required to implement its social programs (discussed in chapter four). This meant that the budget allocation for these programs were disappointing to many of the PT's supporters. The government had agreed to maintaining a budget surplus of 4.25 percent of Gross Domestic Product (GDP) (instead of the original 3.75 percent) as a condition for the IMF loan, which meant that a further 14 billion *reais* (R14 billion – plural of *Real*)¹¹ had to be cut from the federal budget, including R5 billion that was originally earmarked for spending on social programs. This resulted in R34 million being cut in 2004 from the budget of the high profile social program, *Fome Zero* (Zero Hunger) (Amann & Baer, 2004: 12-13).

Another indication of the route that the Lula government intended on taking in the area of economic policy was the appointment of Antonio Palocci as the Minister of Finance. Palocci had been a Trotskyite in his youth and was qualified as a medical doctor. He grew up in a middle class family and had been the PT mayor of Ribeirão Preto, in São Paulo state. Additionally, Lula appointed Henrique Meirelles to run the Central Bank. He had previously been an international banker with BankBoston and was the elected PSDB Deputy for Goiás. These two important figures made clear their intentions to enforce a conservative economic approach which rested upon the pursuit of high interest rates, an export surplus, a reduction of public debt and sound currency management. They would not allow Brazil to become Argentina by throwing the country into economic crisis (Bourne, 2008: 103).

The impact of this determination to avoid a situation similar to the Argentinean crisis was felt almost immediately. Once the cabinet had been appointed, the Lula government had clearly shown that it was committed to monetary and fiscal austerity. One of the first financial items on the agenda of the PT administration would emphatically demonstrate its dogged determination to implement orthodox economic measures. During the first half of 2003, the government introduced an extensive tax reform¹² program. This move resulted in the unification and

¹¹ The abbreviation "R" is used to refer to the Brazilian currency, the *Real*, and not to the South African Rand. Throughout the study, monetary amounts are indicated only in Brazilian *reais* and United States Dollars.

¹² This tax reform consisted of the cessation of state tax breaks to inward investors; reductions in the incidence of the ICMS sales tax and the industrial products tax; a gradual shift towards a consumption-based tax and away from a

consolidation of the tax system in an attempt to achieve structural change while also focusing on promoting capital goods sales and exports (Amann & Baer, 2004: 13-14).

But reforms to the social security system would prove to be the most controversial. The government was faced with a considerable overhang from the Cardoso administration in this area and from a monetary standpoint, reform was desperately needed. *Previdencia Social* (Social Security) spending on benefits for civil servants and some rural workers amounted to R39 billion, with 3.5 million civil servants employed throughout the country. This stood in stark contrast to the R17 billion that was available to the state-run social security system for workers in the private sector, the *Instituto Nacional de Seguridade Social* (INSS – National Social Security Institute), which had to finance the benefits of 19 million workers (Amann & Baer, 2004: 13-14). This clearly meant that these designated groups within the civil service were receiving disproportionate benefits which were unsustainable from an economic standpoint, as it was adding to the deficit and was clearly structurally unsound. However, the beneficiaries of this system were a very powerful group and included retired judges and military officers, while the legislation went as far back as the Vargas era.

Nevertheless, the reform bill was passed by both the Senate and the Chamber of Deputies in December 2003. Its stipulations increased the minimum retirement age for civil servants to sixty, while it limited the pensions paid to widows and orphans of civil servants. Additionally, it placed caps on the wages and retirement earnings of civil servants as well as for the entire service, and capped the pensions paid to private sector retirees. Retired civil servants also had to contribute to the system if they earned more than R1440 per month. Additional stipulations were also included to control the spiralling social security costs imposed by the system, effectively privatizing large segments thereof (Amann & Baer, 2004: 13-14). The reactions to the measures were fierce. Large demonstrations and protests were held in Brasília. More importantly, for the first time in the history of the PT, there was a truly large-scale public outcry from its labour base against measures implemented by the leadership. This represents a tipping-point in the PT's relationship with labour, as some of the dissatisfaction which had built-up during its era of adjustment finally manifested in practice. Many traditional labour members of the party took the

production-based system; the unification of the ICMS tax across states; the transformation of the financial transactions tax into a permanent tax; a reformation in the methods employed in the collection of the COFINS social security tax and federal compensation for states which issued tax credits to exporters (Amann & Baer, 2004: 13-14).

opportunity to use the controversy over the social security reforms to vent their anger. The group of dissidents included a small number of Leftist Senators and Deputies that went on to accuse the PT of betraying the poor and its roots (Bourne, 2008: 104-105). Their intense criticism resulted in the expulsion of a number of PT members, including Senator Heloísa Helena, who would later challenge Lula for the Presidency. The PT's relationship with labour had clearly become somewhat fractured at this point, while the government had shown that it would not hesitate to alienate some of its traditional supporters in order to implement the economic reforms that it deemed necessary in order to achieve significant social transformation.

By now it was clear to most observers that the main focus of Lula's first years as President would be to solidify Brazilian economic fundamentals. However, economic policy did not quite amount to a simple continuation of Cardoso's policies. A good example of an important difference is observable with regards to the role played by regulatory agencies. Previously, their role had been to set tariff conditions that were favourably predisposed towards private domestic and foreign stakeholders. Under the Lula government, there was much less sympathy towards private entities. The expanding intrusion of foreign companies into Brazil was slowed when the government put a stop to Cardoso's privatizations in 2006. During Lula's predecessor's term, the telecommunications and certain important state banks were privatized, but the focus was now shifted towards public-private partnerships. There was also an explicit focus on narrowing the disparities between the Northern and Southern regions of the country. An influential measure which was passed early in the Lula administration set the tone for this approach: the New Energy Model explicitly envisaged that the future awarding of public utility concessions would benefit poorer societal groups by setting lower tariffs (Amann & Baer, 2004: 15). The Lula government also attempted to deepen the financial liberalization processes by adopting regulations that impacted global as well as domestic financial transactions. Measures that impacted the outward flow of capital included the elimination of limits on the amount of *Real* convertible to foreign currencies, due to the effective termination of CC5¹³ accounts (Arestis & Ferrari-Filho, 2007: 16). In a clear measure to attract global capital into the country, fiscal incentives were provided to foreign investors to purchase Brazilian public securities. Additionally, as mentioned above, the fiscal surplus was increased from 3.75 percent to 4.25 percent of GDP. This was partially

¹³ These accounts had been a feature of the Brazilian capital outflow system for many years and were effectively a mechanism that made capital transfers expensive and complicated (See Prates & Paulani, 2007).

done in order to completely remove global doubts about the government's commitment to fiscal austerity, but it also reflected a genuine desire on the part of the administration to assure fiscal solvency. This drastic move definitively demonstrated the extent to which fiscal policy would feature within the broader macroeconomic policy setting in Brazil. It had become the most important aspect thereof, and was regarded by the government as the cornerstone from which many additional benefits would flow. Global conditions also differed significantly from the latter part of the Cardoso administration. The previous President had to deal with external crises from Asia, Russia and Argentina and had to limit the damage caused from the subsequent contagion of the latter.

Despite these differences, the broad policy framework amounted to a continuation of Cardoso's general neoliberal direction. Three main priorities that were initially partially introduced by the Cardoso government would be intensified by the Lula administration. They involved a focus on achieving a low inflation rate, free-floating exchange rates and the generation of a primary surplus in order to avoid chronic indebtedness (De Oliveira & Nakatani, 2007: 40-41). This framework was based on New Consensus Macroeconomics (NCM), regarded by some as not being substantially different from the Washington Consensus (Arestis & Ferrari-Filho, 2007: 10). Indeed, it includes measures to liberalize and privatize large segments of the economy; stimulate foreign direct investment (FDI); liberalize the financial sector; implement tax, labour and social security reforms; stabilize prices and secure the independence of the Central Bank (Arestis & Ferrari-Filho, 2007: 10). However, it incorporated a defining feature which made it different from the *laissez faire* approach of the Washington Consensus: it required a clear and well defined role for the state in order to facilitate economic integration and assure price stability and satisfactory market performance. Indeed, the Lula government regarded the creation of these conditions as essential in order to achieve the broader socio-economic changes that it envisaged. This meant that the general approach of the first Lula administration consisted of two main goals:

the pursuit of a macroeconomic policy orthodox enough to win the approval of the international financial community and the achievement of a greater degree of socio-economic equity (Amann & Baer, 2004: 15).

This was to be done by using economic policy orthodoxy to lay the foundation for the eventual redistributive role that the PT government still strived for. Through the many years of difficult adjustment during the 1990s, the party had reached a broad consensus that the best way to

achieve such redistribution involved solidifying Brazilian economic fundamentals before any sustainable societal transformation could take place. This resulted in the sequential nature of the pursuit of these goals: economic fundamentals had to be enforced **first** in order to win the trust of global capital, and only then would a renewed focus on redistribution be truly effective. This approach was certainly risky. The fact that a number of unsatisfied members had left the party due to its adoption of this stance illustrated in no uncertain terms that a continuation along such a path could have a potentially disastrous impact on the PT's relationship with its labour constituency. This approach also contained a fundamental path-dependent source of risk. The initial adoption of macroeconomic orthodoxy could send the government down a road which leaves it with little choice but to continue implementing those policies indefinitely, which would effectively inhibit its redistributive aspirations. In effect, the adoption of a certain set of policies at an initial point in time had the potential to determine subsequent policies (Amann & Baer, 2004: 15).

3.3.2) Lula's Third Way Foreign Policy: an Extension of Economic Goals

This economic approach also manifested clearly in the foreign policy of the Lula government. Brazilian foreign policy during this period should not be examined in isolation, but should rather be seen as an extension of the economic goals set out above. Indeed, the administration was to use foreign policy as a tool to contribute to the improvement of economic fundamentals by, for example, attempting to attract greater foreign investment and boosting trade levels. But this goal was not an end in itself, as the ultimate aim of foreign policy was also to improve local social conditions. With regards to Lula's policies in this area, one can speak of the pursuit of a Third Way foreign policy. Foreign policy is one area where traditional *petista* ideals clearly manifested. If direct economic policies required significant compromises from labour groups, foreign policy during Lula's first term amounted to compensation for these concessions. While most other policies related to economic development were subject to varying levels of internal disagreement, traditional PT supporters rallied around the government's foreign policy (De Almeida, 2007: 6).

Much of this support was due to the revisionist element that was implicit to Lula's foreign policy. It stemmed from the critical attitude that the government was taking about Brazil's growing external vulnerability at the time that Lula came into power. It was believed

that the neoliberal economic model of previous governments was directly responsible for creating this unsustainable situation, combined with the “inflection it gave to foreign policy” (Costa Vaz, 2004: 2). The Lula government aimed to reverse this state of affairs by aligning its foreign policy with the political platform of the PT. However, the desire to not create too much instability once again reared its head, resulting in a fairly balanced approach that did not amount to a complete departure from established practices, although there was certainly an important shift towards a more activist role in the global arena.

The initial focus of Lula’s foreign policy was on achieving greater integration in its own region. It invested significant resources in an attempt to reinvigorate MERCOSUR (Southern Common Market), an economic and political agreement intended to promote free trade and the fluid movement of goods across the borders of member countries. Brazil also wanted to broaden the organization “as the basis of political integration and consolidation of a unified economic space in South America” (De Almeida, 2007: 3-4). But the government did not limit its expanding foreign policy to South America. Brazil intended to play a leading role in “changing the relations of power in the world”, to transform the “axis of world politics” (De Almeida, 2007: 4). In order to achieve this, it aimed to create a new trade geography that involved a much greater degree of South-South trade and exchange than was the case with the status quo. This desire stemmed from the assessment made by PT supporters that trade relations based on a North-South flow were largely unequal and reinforced the Global South’s dependence on the North. The Lula government sought to engage with strategic global partners that shared this outlook and aspiration. It identified these partners as China, Russia, India and South Africa, while it renewed economic ties with the Middle East and Africa (Costa Vaz, 2004: 2-3). Relations and interactions with these countries would reach very high levels by the end of Lula’s first term.

However, it was certainly not merely smooth sailing for the Lula administration with regards to foreign policy during its first term. An important source of the government’s commitment to an expanded foreign policy and a change in global relations was its anti-hegemonist stance. It openly advocated a more multilateral global order where the interests of developing countries were taken more seriously. Lula made various international trips in order to promote this agenda. This brought him and his administration into direct opposition with the US unilateralism which characterized this period. One of the earliest manifestations of this trend occurred at the Group of 20 (G20) summit in Cancun, Mexico in 2003. Events at the summit

demonstrated Brazil's commitment to multilateralism as it took a hard-line stance regarding agricultural subsidies, resulting in the collapse of the trade negotiations. However, Lula managed to avoid too much hostility from the United States largely thanks to the good relationship he enjoyed with US President George W. Bush and his pragmatic ability as a negotiator rather than an ideologue. This meant that he was able to push his multilateral agenda without too much fear of alienating an important investment partner or undermining the goodwill that his economic policies had built up in the US.

But the Brazilian government was not content with merely playing a rhetorically critical role. Once it had strengthened its relations with various strategic Southern partners, Lula asked them to support Brazil in a bid to obtain a permanent seat on the United Nations Security Council (UNSC). The government embarked on an intense lobbying campaign that included a leading role for Lula himself. He articulated his position in a speech to the UN General Assembly in 2003:

reform of the United Nations has become an urgent task...The security council must be fully empowered to deal with crises and threats to peace...Above all, its decisions must be seen as legitimate by the Community of Nations as a whole. Its composition – in particular as concerns permanent membership – cannot remain unaltered almost 60 years on. It can no longer ignore the changing world. More specifically, it must take into account the emergence on the international scene of developing countries...Brazil believes that it has a useful contribution to make (Lula in Schirm, 2007: 8).

By 2005 he was driving home the message in the State of the Union address by emphasizing the need for “a higher ‘representativity and legitimacy’ of the UNSC through the inclusion of emerging powers” (Schirm, 2007: 8).

One of the main ways in which the Brazilian government attempted to demonstrate the capacity it had for engaging in international matters was through its peacekeeping mission in Haiti. The Brazilian peacekeeping presence in Haiti was extended in 2004 for two years by the UN, after Brazil had been the leading force in the United Nations Stabilization Mission in Haiti (MINUSTAH) since 1 June 2004 (United Nations). Brazil's role in the mission served to improve relations between Washington and Brasília as it demonstrated the Lula government's commitment to acquiescing with the aims of influential existing Security Council members. However, domestically, there was significant criticism against Brazil's involvement in Haiti. Additionally, other countries of the Global South, who also aspired to achieve permanent Security Council status, deduced that Brazil had been purely motivated to engage in the mission

by the ulterior motive of gaining the Council Seat. This undermined some of the Lula government's efforts at especially regional integration, as Venezuela emerged as a challenger for the leading role in South America.

This did not deter the Brazilian government. Ever since its involvement in Haiti began, every bilateral statement that included Brazil made reference to the quest to achieve permanent Security Council status. In order to gain support, the government made significant debt concessions to various African and South American countries. They also pledged to increase development cooperation and reached out to cooperate on development with almost all of the speakers from less developed countries (De Almeida, 2007: 7). However, the campaign was unsuccessful and Brazil did not obtain a permanent seat on the UNSC. The two most important focus areas of Lula's foreign policy – namely a return to the “Third World” and emphasis on Brazil's integrationist role in South America – were partly negatively interpreted by other developing countries: even though Brazil claimed to be striving for multilateralism, it was in fact seeking greater global power; and while it claimed to be pushing for regional integration in order for all member countries to benefit, it was merely trying to “imprint the mark of Brazilian economic interests on South America” (De Almeida, 2007: 4). The results after Lula's first term with regards to regional integration and obtaining a UNSC seat were mediocre, despite the sizable investment that Brazil had made in an attempt to achieve these dual goals. But Brazil's overall global standing had improved.

Brazilian foreign policy during Lula's second term continued to act as an extension of his administration's domestic goals. During its second term, the aims and approaches of the government broadly continued along the same trajectory that was followed during 2003-2006, with a focus on deepening global multilateralism and the integration of developing countries. However, there was one crucial difference between Brazil's global position in 2003 and 2007. By 2007, the country had been able to achieve unprecedented levels of global legitimacy. This was due to its impressive economic and social performance domestically: “Brazil can speak with greater confidence and authority abroad because of what has been achieved at home” (Hurrell, 2010: 2). Roett (2010: 144) measures this achievement based on the emergence of a strong and apparently permanent Brazilian middle-class during Lula's first term. The ability of the government to guide millions of people out of poverty and into this emerging middle-class served as proof to developing countries that Brazil should be taken seriously in its efforts to fight

global poverty and, by extension, what it continued to see as the exploitation of the poor by the rich. This newfound global legitimacy would enable the government to be relatively more successful in the achievement of its foreign policy goals from 2007 onwards than it had been previously.

This was especially true with regards to its relationship with Africa, as the continent became ever more receptive to Brazilian overtures. Lula and his Foreign Relations Minister Celso Amorim intensified their focus on Africa during their second term, continuing to establish a variety of ad hoc agreements with various countries (Visentini, 2009: 1). The results of this intensification of relations were already becoming clear by 2006, with trade levels reaching US\$7.5 billion, up from US\$2.4 billion in 2003. By 2008 this figure had increased to US\$10.2 billion, representing an increase of 500 percent in trade flows between Brazil and Africa since the start of Lula's first term (Visentini, 2009: 7-8). South Africa, Angola and Nigeria emerged as Brazil's biggest African trading partners, accounting for 48 percent of Brazilian exports to Africa (Visentini, 2009: 7-8). In all, Lula visited twenty countries during the eight African trips he had made during his Presidency.

Brazil was also more successful in its efforts to achieve regional integration during Lula's second term than it had been during his first. Once again, this was largely based on the legitimacy the administration had been able to achieve globally. The first sign that these integrationist efforts would pay-off appeared at a summit in Brasília in 2005 where South American heads of state agreed to formalize the South American Community of Nations (SACN). This resulted in the creation of the Union of South American Nations (UNASUR) on 23 May 2008 in another summit hosted by Lula. This organization replaced the SACN in an effort to enable the integration of immigration policies and regional energy and transport networks, hoping to eventually achieve a level of integration similar to that of the European Union (EU) (Roett, 2010: 130). The achievement of this level of integration represented a significant victory for the Brazilian government as its leadership role in South America had always been contested. This was also the case during 2003-2006. However, with the creation of UNASUR, the country was finally able to solidify its leading position on the continent. The initiative was predominantly driven by the Brazilian government and the overwhelming acceptance thereof by other South American countries, even reluctantly so by Hugo Chávez's Venezuela (which had always regarded itself as the potential leading country in South America),

signified the confidence that its regional partners now had in Brazil's vision of continental integration (Roett, 2010: 130).

The most prestigious achievement of the Lula government's foreign policy was its inclusion in the BRIC bloc of countries. This group, consisting of Brazil, Russia, India and China (and, more recently, South Africa), represents the top tier of developing countries and is regarded as a very influential group of nations with the potential to significantly influence and reconfigure the future global balance of power (Ahmed, Kelston & Wilson, 2010). Lula played a leading role in establishing dialogues with these influential countries, starting with the establishment of the India, Brazil and South Africa (IBSA) forum shortly after he came to power (Roett, 2010: 133). The government took very proactive measures through organizations such as BRIC and IBSA to nurture and strengthen its relationships with what it saw as important strategic partners. However, during Lula's second term, China emerged as the most important trading and strategic partner of all. The relationship between the two countries went back to the 1990s, but unprecedented levels of cooperation were achieved during the second period of the Lula administration. Despite the impact of the global financial crisis (discussed below), the China-Brazil trading relationship was flourishing by 2009, with Brazilian exports benefitting the most. Following a visit by high-level delegates to Brazil at the beginning of the year, Lula visited Chinese leader Hu Jintao in May 2009. During this visit an agreement was reached which enabled Brazil to obtain a US\$10 billion loan from the China Development Bank (CDB) in exchange for offering 100 000 to 160 000 barrels of its newly-discovered oil reserves to China on a daily basis at market prices (Roett, 2010: 135). China also officially became Brazil's largest trading partner in 2009, eclipsing the long-standing position of the United States. Russia is another prominent BRIC member that had deepened its ties with Brazil during Lula's second term, including an undertaking by Russian President Dmitry Medvedev to double trade between Brazil and Russia to US\$10 billion from its 2007 level (Roett, 2010: 135).

This focus on its fellow BRIC countries stemmed in large part from the internal PT consensus about the shortcomings of global neoliberal capitalism and its manifestation as the domination of Cold War-era Western nations over developing countries. There was a belief within the Lula government that power was shifting away from the outdated Group of Eight (G8) nations, and that Brazil had an important role to play in encouraging this development. This trend was underlined by the 2008 financial crisis – a crisis that both originated and manifested

most profoundly in developed countries. In contrast, powerful developing countries such as the BRICs proved to be more structurally sound and were able to recover much more rapidly. Brazil manoeuvred its foreign policy to take strategic advantage of the fact that “both the international political system and the structures of global capitalism [were] in a state of flux and uncertainty” (Hurrell, 2010: 3). Following the financial crisis, Brazil’s Foreign Minister declared that “the G8 is dead, of that there is not the slightest doubt” (Hurrell, 2010: 4). Its “death” gave Brazil further confidence that it had been correct in its assessment of global power shifts. This provided the country with the impetus that led it to play a crucial role in the instituting of the Group of Twenty (G20) “as the most important forum for the management of globalization”, effectively replacing the G8 (Hurrell, 2010: 4). The G20 went on to replace the Financial Stability Forum with the Financial Stability Board in April 2009, granting full membership to Brazil and the other BRICs in an indication that serious restructuring of the global financial system had become a real possibility. This amounted to a resounding victory from the Brazilian perspective.

With regards to the Bretton Woods institutions, Brazil was a leading voice in the demand for voting reform: “the end to hereditary claims on the top post at the International Monetary Fund...and at the World Bank...is a first and necessary step in ensuring that emerging economies and developing countries generally have a greater say in decision-making” (Brazilian Government Statement in Hurrell, 2010: 3). Brazil had also played an important role in the negotiations at the World Trade Organization (WTO). It had been able to reposition itself at the heart of the Organization, replacing the dominance of the US, EU, Canada and Japan with what it saw as a more representative group including the US, EU, India and itself. But Brazil’s active role in these negotiations placed an important constraint on the country. It illustrated the government’s commitment to trade rules and revealed its belief that they represented an opportunity to create favourable trading conditions and to once again limit the power of the traditionally powerful blocs (Bourne, 2008: 175). This meant that the PT government, including Lula, could no longer engage as actively in the anti-globalization rhetoric of the World Social Forum, a platform that he and the PT had used in the past to severely criticize global capitalism. This represents another example where the PT had substantially reduced its radicalism, even though the party never officially rescinded its support for the Forum.

This alludes to another important feature of Brazilian foreign policy during this period. Despite the country’s clear commitment to regional integration, South-South solidarity,

reforming global institutions and improving its relations with and raising the profiles of the BRIC group, Brazil continued to prove that it was very adept at not substantially undermining its relationship with the United States, and the West more generally. One reason for this was because Brazil was the only BRIC that was not perceived to be a threat to the West:

unlike China, Russia, or even India, Brazil is a Western power, securely and nearly inevitably allied with the United States and Western Europe. Though geography does not fully determine a country's strategic options, as illustrated by the case of Cuba and more recently by the overtures of Venezuela's President Hugo Chávez to Iran, Belorussia, and Russia, it clearly limits them...A nation that shares the culture and values of the Western world, Brazil is the only one of the BRICs in the area of influence of the sole remaining superpower (Sotero & Armijo, 2007: 48).

This was illustrated throughout by Lula's good relationship with US President George W. Bush. With Barack Obama's inauguration in 2009, it was generally anticipated that relations between the two countries would improve even further. Lula met with Obama in March 2009 and showed that Brazil was determined to proactively redefine itself and its continent in the eyes of the US: "I'm going to ask the United States to take a different view of Latin America...We're a democratic, peaceful continent, and the United States has to look at the region in a productive, developmental way, and not just think about drug trafficking or organized crime" (Roett, 2010: 143).

However, from a Western perspective, there were unsettling incidents during Lula's second term. The Lula government's reaction to two international controversies led many to question its ability to successfully assume a stronger international position. Brazil chose to ally itself with the radical nationalist governments in the region and did not seek to serve as a mediator during the Honduran crisis in 2009. On a more global scale, its decision to receive and sign agreements with Iranian President Mahmud Ahmadinejad and Lula's stated opposition to sanctions against Iran resulted in an embarrassing loss of face within some important sections of the global community: "the general impression [in the wake of the controversy] is that Brasília is in danger of weakening the expectations many countries have of Brazil as an increasingly relevant world player" (Roett, 2010: 148). This illustrates that the government was forced to tread a very fine line in order to protect the legitimacy it had built up in the developing world, while also ensuring the continued sympathies of Western powers.

In fact, this point reflects the broader approach of Lula's foreign policy. Brazil clearly pursued a very activist route during this period, using foreign policy as a means of compensating

for its fairly orthodox economic policies. Foreign policy continued to be an arena that generally pleased the traditional labour base of the PT as it demonstrated the party's continued commitment to its traditional goals (Hurrell, 2010: 2). This was expressed through the desire to construct a new global financial structure, reflected in efforts to achieve greater Southern integration and reform global institutions. Some of the government's goals in these regards were achieved. However, even in attempting to reform these structures, it was implicitly acknowledging that the structures themselves were indeed legitimate and that they did not merely amount to the tools of a capitalist conspiracy. Through its foreign policy, the Brazilian government demonstrated its willingness to engage with the structures of global capitalism. This leads one to the conclusion that the Lula government followed what can be termed as a Third Way foreign policy, one where the Brazilian government "sought to play at both Davos (the World Economic Forum) and at Porto Alegre (the World Social Forum). It sought – and succeeded to a significant extent – to be both the favoured son of Wall Street and to claim to speak for the progressive Global South" (Hurrell, 2010: 6).

It is worth re-emphasizing the significance of Brazilian foreign policy to this study. The foreign policy of the Lula government reflected the fact that it was prepared to engage extensively with globalization. It shows that the PT administration no longer questioned the legitimacy of globalization – a crucially important distinguishing feature of the Third Way. In fact, Brazilian interaction with the agents of globalization – including the IMF, World Bank and UN – reached unprecedented levels during the period under review. At the same time, the PT was not prepared to betray its Leftist roots. It was determined to use its interactions with globalization as a means to bring about greater social equity – both domestically and globally. The Lula government used its interactions with global capital, as expressed through its foreign policy, in much the same way that it used its domestic economic policy. Where economic policy was used with the aim of enabling greater domestic poverty reduction and equality, foreign policy was used both to strengthen domestic economic policy and, crucially, also with the aim of bringing about greater global poverty reduction and to create a more equitable global system. This makes foreign policy highly relevant to a Third Way analysis of Lula's government. The following section will examine the initial combined results of the PT government's foreign and economic policies.

3.3.3) Initially Mediocre Economic Results

For the Lula government, there was one crucial factor that would play a determining role in the sequential approach that it employed in relation to economic and social development. It was absolutely essential that the conservative economic policies lead to significant adjustment, as well as to some meaningful economic growth. After all, the entire initial premise was based on the goal of creating favourable economic conditions in order to pursue greater equity. But what if these favourable conditions never materialized? This meant that the political stakes were incredibly high. The government was counting on fiscal austerity paying-off if it were to respond to the mandate it had been given, particularly by the labour groups within society. Initially, the results were not encouraging. Real interest rates during 2003 were still very high at 46.9 percent, while GDP expanded by a mere 1.1 percent. Investment remained lacking, leading to declines in the productive capacity of some sectors. Unemployment levels had not improved and were static at 9.7 percent, while the distribution of income had deteriorated and workers' average real income had decreased by almost 15 percent (Arestis & Ferrari-Filho, 2007: 15-17).

Table 3.1: Economic indicators

Year	GDP per Capita (Current US\$)	GDP Growth (Annual %)	Foreign Direct Investment (Current US\$)	Real Interest Rate (%)
2001	3 133.6	1.3	22 457 353 372.3	44.6
2002	2 814.9	2.7	16 590 204 293.1	47.3
2003	3 043.3	1.1	10 143 524 671.0	46.9
2004	3 610.1	5.7	18 165 693 855.3	43.4
2005	4 741.0	3.2	15 066 291 735.0	44.9
2006	5 787.2	4.0	18 782 215 423.1	42.1

Source: World Bank, 2011

The situation improved slightly over the next two years, but it was still not particularly clear that the period of economic adjustment would enable the type of social change the government wanted to achieve. By 2005, the country's external vulnerability was indeed reduced by the new focus on fundamentals (see Table 3.2). The trade surplus grew from \$2.6 billion in

2001 to \$46.1 billion by 2006, led by export growth. The current account also showed a noteworthy improvement, achieving a surplus by 2003, which increased to \$13.5 billion by 2006. These improved fundamentals enabled the government to decline a renewal of its agreement with the IMF by 2005 (Roett, 2010: 114). However, progress during the period of 2002 to 2006 had as much to do with favourable international conditions as with prudent macroeconomic policies (De Oliveira & Nakatani, 2007: 41). As noted above, Lula came into power at a time when the crises of the late 1990s and early 2000s had largely subsided. During early 2002 he still faced some of the effects of the bursting of the dotcom bubble and the fall-out from 9/11, but global markets were soon on much more stable footing. By 2004 the economy had rebounded from the anaemic growth of the previous year, with GDP expanding by 5.7 percent. However, this was still lower than the growth experienced in the rest of Latin America, a situation that clearly illustrates the way in which economic growth was generally expanding globally (Tavolaro & Tavolaro, 2007: 427). The trend continued for the rest of the administration's first term, with a subpar 3.2 percent in 2005 and 4.0 percent in 2006. This meant that while the region was growing at the world average during this period, Brazil only managed to outperform civil war-torn Haiti, a fact that was seen by observers as confirmation of a failure by the country to use its improved fundamentals to its advantage (De Oliveira & Nakatani, 2007: 42). The Brazilian *Sistema Especial de Liquidação e Custodia* rate (SELIC – Special System of Clearance and Custody or basic interest rate) also remained the highest in the world, but fell from 19.75 percent in September 2005 to 14.25 percent by September 2006 (Bourne, 2008: 116). Unemployment had also fallen slightly during Lula's first term but remained above 8 percent by 2006.

Table 3.2: External Vulnerability – Debt

Year	External Debt Stocks (% of GNI)
2001	42.7
2002	47.2
2003	43.1
2004	33.5

2005	21.6
2006	18.0

Source: World Bank, 2011

3.3.4) Political Scandal Engulfs the PT

This economic underperformance created serious problems for the PT. Its labour base was forced to accept significant concessions throughout Lula's first term and from an economic standpoint they had very little to show for it. But it was about to get even worse, and the PT would have to endure the greatest test of its institutional integrity due to a scandal that threatened to bring down the entire Lula government. The logic of difference had always been a virtue which the PT had exploited to its advantage and a large part of this logic depended on the popular perception that it was not just another Brazilian political party, subject to rampant fraud and corruption. The PT was seen as an ethical political party, a rarity in the country's political landscape (Cason, 2006: 74). There were rumblings about minor corruption issues since the party came to power but on 6 June 2005 a political tsunami began to sweep over the PT.

It started with an allegation by Congressional Deputy Roberto Jefferson that the PT was bribing Deputies from the *Partido Trabalhista Brasileiro* (PTB – Brazilian Labour Party) in order to pass legislation that the ruling party had drawn up. Jefferson had been implicated in a corruption scandal involving the Brazilian postal administration, which motivated him to blow the whistle on what would become known as the *mensalão*¹⁴ scandal. It was alleged that the PT had paid R150 000 to each Deputy in order to secure their vote, but that the PTB had not held up its end of the deal – this led to the initial corruption allegations in May 2005 which were subsequently confirmed by Jefferson. But the situation got even worse when the *caixa dois* (second cash till) scandal was revealed. This resulted from the practice whereby PT mayors illegally collected income for the party from trash collection and bus companies in cities where they governed. This behaviour took the party's supporters by surprise, as it was not expected from an "ethical" party like the PT, even though it had been happening since 1994 (Hunter & Power, 2007: 2-3). This further compounded the crisis. The subsequent investigations into the scandals opened a can of worms for the PT, as an ever increasing number of people came forward to accuse the party of corruption, cronyism and illegal financial practices. The

¹⁴ A neologism meaning "big monthly payment".

Congressional Council of Ethics conducted the investigations and it identified a list of influential political leaders from various political parties, including many from the PT, as having participated in illegal and unethical activities. The highest ranking member of the PT that was fingered in the *mensalão* investigation was Lula's Chief of Staff José Dirceu, while none other than Finance Minister Antonio Palocci was heavily implicated in the *caixa dois* affair. The scandal clearly illustrated the pitfalls of governance in the Brazilian political establishment. It was a vivid example of the fact that the party which controlled the Presidency had many problems in implementing its policies, because it did not have a majority in the legislature. As a consequence, coalition governments had to be formed within a highly fragmented political system. This, combined with the tradition of *governismo*, almost inevitably led to the use of corrupt practices of patronage and clientelism (Cason, 2006: 75).

Lula's response to the crisis was ambiguous. His initial reaction was to deny that he had any knowledge about the illegal and unethical activities that many of his close advisers were involved in. However, Lula himself undermined his position to a certain extent during an interview with TV Globo in Paris in July 2005. On the program *Funtastico* he took a different approach, deciding to shift the blame for PT members' misdeeds onto the Brazilian political establishment. He argued that the PT had merely conducted itself in a manner that was required of it if it intended to survive within the corrupt environment of Brazilian politics. Lula argued that the PT acted no differently from previous ruling parties and that Brazilian political institutions were ultimately at fault and, by extension, to blame for the PT's behaviour. Further evidence that Lula had changed his strategy from the initial denialism is to be found in the fact that he went on to unsuccessfully advocate political reform during 2006, seen as a further "tacit admission of wrongdoing and a clumsy attempt to shift blame onto the 'rules of the game'" (Hunter & Power, 2007: 11). Expelled former PT Senator Heloísa Helena used the opportunity created by the scandal to harshly criticise the PT and presented it as evidence that the party had indeed betrayed the ideals of socialism, its focus on the plight of the poor and its roots. This notion that the PT had now fully transformed into just another Brazilian political party deepened the crisis for Lula and the PT, as it led to further alienation amongst its labour supporters. The scandal undermined the PT's image as being honest, while the perceived lack of progress with regards to social issues led many Brazilians to doubt whether it was truly progressive.

If it could not manage to accomplish much in either the progressive or the honesty department, a number of people began to question why they had voted for the PT in the first place (Cason, 2006: 74).

Political posturing aside, the *mensalão* episode clearly illustrated the institutionalized corrupt nature of Brazilian politics. It also resulted in more than merely rhetorical changes. On 16 July 2005, José Dirceu resigned as Lula's Chief of Staff due to his involvement in the scandal. Antonio Palocci survived until 27 March 2006 when he resigned as Finance Minister due to another political scandal that had hit the administration because of him. The resignation of these two hugely important figures from the cabinet had enormous repercussions. The scandal had hit the Lula government at a time when it was consolidating its economic agenda, and Palocci had played a crucial role in implementing and pushing fiscal reforms, while Dirceu had an important agenda-setting role. Policy proposals resulting from a document published in 2003 by Palocci's Ministry entitled *Economic Policy and Structural Reforms* were in the process of being discussed when the scandal hit the administration. The "Zero Nominal Deficit Program"¹⁵ contained these proposals, which aimed to impose even more stringent fiscal austerity measures on the economy. Public discussions on the document could not have come at a worse time, as it coincided perfectly with the unfolding of the corruption scandals. The effect on the government's plans was enormous, as the public focused almost exclusively on the scandals, resulting in the proposal gradually disappearing from the agenda. By the time Dirceu and Palocci had resigned it was clear that significant change was taking place in the area of economic policy. The results of the corruption scandals were summed up perfectly by the then-Minister of Institutional Relations in October 2006 when he said that the "Palocci age was over" (Loureiro, Dos Santos & De Ávila Gomide, 2009: 14-16).

By the time the Palocci age was coming to an end, it was almost time for Lula to embark on his fifth Presidential campaign. He had replaced Palocci with Guido Mantega, an economist, PT stalwart and the former Minister of Planning. Earlier he had appointed Dilma Rousseff as his new Chief of Staff. Both appointments were extremely significant, as Mantega would remain the Minister of Finance during successive administrations, while Rousseff would become Lula's

¹⁵ It proposed a reduction in union spending on education and health to free up revenues to the tune of 35 percent of the budget, and to increase the primary surplus target to 5 percent of GDP. It was also proposed that a freeze should be imposed on public apparatus spending, while a new round of social security reforms had to be implemented (Loureiro, Dos Santos & De Ávila Gomide, 2009: 14-16).

eventual successor as Brazilian President. In a sense, the corruption scandals represented a great opportunity for Lula and the PT. The resulting departure of some of his early cabinet Ministers liberated Lula, as it gave him much more freedom to pursue his own agenda more intensely. The appointments of Mantega and Rousseff also consolidated Lula's leadership, especially that of Rousseff, as she was supported by both Palocci and Dirceu and carried very little political baggage. It proved to be a masterstroke. However, at the time, there was a significant amount of uncertainty about the future direction of the PT and about Lula's ability to even secure a second term as President. It was uncertain how the political scandals, the extremely orthodox economic policies of the Palocci years and the popular perception about a lack of progress on social issues would influence voters, and whether they would end up punishing Lula for this state of affairs (Cason, 2006: 74).

The succession of political scandals is also highly relevant to an analysis of the Brazilian government's economic policies, as it marked the beginning of a period that would see the intensification of redistributive policy initiatives. Indeed, instead of adopting more conservative economic policies as envisioned by the Zero Nominal Deficit Program, the scandal diverted the Lula administration onto a path focusing less on economic austerity and more explicitly on poverty reduction. A counter-factual best expresses the relevance of the scandals to the Brazilian economic arena of the time: if the scandals had never taken place and the incumbent Ministers retained their positions during Lula's second term, it is highly doubtful that initiatives like the *Programa de Aceleração do Crescimento* (PAC – Growth Acceleration Program) (discussed below) and more lenient economic policies would have been adopted when they were. The fact that less dogmatic Ministers were appointed as the Chief of Staff and the Finance Minister as a result of the scandals played a crucial role in enabling a more explicit focus on poverty reduction during Lula's second term.

3.3.5) A Shifting Second Term Economic Trajectory – The Growth Acceleration Program

Lula's second term as President began on 1 January 2007 (the reasons for his re-election and an analysis of the 2006 election results are carried out in chapter four). In the economic policy arena, the developments surrounding the political scandals manifested in a pronounced shift when compared to the PT government's first term. The "Palocci age" focused on aligning policy with the prescripts of NCM and placed an absolute premium on fiscal austerity, but this

had begun to change with the appointment of Guido Mantega as Finance Minister in 2006. To the PT's disgruntled labour base, this change signalled a long-desired move away from the economic rationale of the Cardoso administration and towards a more redistributive approach. However, this did not mean that the underlying logic of the importance of market-driven capitalism was abandoned, and the importance of the foundation that was laid during Palocci's years should not be underestimated. This foundation had enabled the acceleration of wage reforms and the successful implementation of programs like the *Bolsa Família* (Family Basket) (discussed in chapter four) by 2006, which means that it had contributed to Lula's re-election and the progress that was achieved on the social front during the government's first term. Its influence would now be extended, as the solidity of Brazilian economic fundamentals which it had ensured was an absolute necessity from the government's point of view if it was to pursue a less rigid and conservative economic policy during its term from 1 January 2007 to 31 December 2010.

A mere 21 days after Lula returned to office, the *Programa de Aceleração do Crescimento* (PAC – Growth Acceleration Program) was launched. Over the ensuing four years the program would achieve the same flagship status that social programs such as *Bolsa Família* and *Fome Zero* had attained during Lula's first term. The rhetoric surrounding the program continued to include a focus on financial and commercial liberalism, floating exchange rates, primary surpluses and inflation targeting. However, the purpose of economic policy was expanded by the PAC in order to include a more explicit commitment regarding its role in poverty reduction through focusing on expanding investment, credit, rules to make public indebtedness more flexible and stimulating domestic demand. Loureiro, Dos Santos and De Ávila Gomide allude to this new dualist character of Brazilian economic policy that was heralded by the PAC:

the government's [new] discourse cast fiscal policy in a new role besides the one that revolves around reducing the debt-to-GDP ratio. The program attempt[ed] to reorient the role of fiscal policy as an instrument of a growth strategy in addition to its previous purpose of merely assuring the public sector's solvency (2009: 6).

The administration had clearly decided that the conservative approach of the first term had served its purpose in shoring up economic fundamentals and that the time had come to relax economic policy, in order to attempt to pursue more rapid growth and redistribution. This shift was highly publicized in the media, while academic and governmental discourse paid a great

deal of attention to its perceived significance (Loureiro, Dos Santos & De Ávila Gomide, 2009: 4-5). However, this new direction did not mean that redistributive social policies were now regarded as more important than fiscal austerity. There was a natural limit placed on the extent to which redistribution would be pursued according to the PAC: the point at which redistribution would begin to undermine the credibility required by the financial sector. This reflects the way in which Lula's administration regarded the relationship between economic and social policy to be a symbiotic, interdependent one, attempting to define neither as more important than the other.

The policy directives of the PAC reflected this shift in rhetoric. It set forth tax cuts, further changes to the tax system, introduced long-term fiscal steps and prioritized public investment in infrastructure and other strategic priority areas. It called for an investment of R504 billion (US\$236) in order to grow the GDP by half a percentage point every year (IHS Global Insights, 2007). Economic fundamentals had improved drastically over the previous four years, but disappointing GDP growth remained a problem. This made the government anxious to improve it, and the administration believed that the time had come to improve this situation in order to speed up redistribution. The key was to improve the investment-to-GDP ratio as this figure was stuck at 15 percent, with predictions for greater GDP growth requiring it to be in the 20-21 percent range (IHS Global Insights, 2007). Finance Minister Mantega had indicated that the government intended to maintain a primary surplus of 4.25 percent of GDP (the figure agreed upon with the IMF four years earlier and one which the government had maintained successfully even after the expiration of its agreement with the Fund (*BBC*, 2005)) but, should infrastructure projects require it, the target may be lowered to 3.75 percent. This was the first time since Lula became President that there were indications that the figure could be adjusted downward.

The policies of the PAC consisted of five main elements: investment in infrastructure, credit and financing promotion, enhancing the investment climate, tax exemptions and improvement of the tax system, and long-term fiscal measures (IHS Global Insights, 2007). The R504 billion would be invested entirely into upgrading infrastructure, with R171 billion allocated for social infrastructure, R275 billion for energy related projects and R58 billion for logistics. The aim of this was to correct the long-standing problem of infrastructure under-investment, with the 2001 energy crisis¹⁶ being the most prominent example of the problems that

¹⁶ At this time, Brazil was experiencing its worst energy crisis in three decades. This resulted in laws being introduced which mandated that electricity consumption be reduced by between 15 and 30 percent. Government

Brazil experienced in this regard. Upgrading of the road network and ports was also required to accommodate growth in especially agricultural exports. The *Banco Nacional de Desenvolvimento Economico e Social* (BNDES – National Development Bank) was to play a key role in providing credit to undertake these and related projects. Besides infrastructure improvements, continued tax reforms and exemptions would amount to R11.5 billion by 2008 in order to attract additional investment. In order to better facilitate the desired investment, the government aimed to reduce bureaucracy and red-tape, enabling easier access for potential investors.

With the introduction of the PAC, Lula came under intense criticism from orthodox economists for the first time during his Presidency, especially regarding the lack of structural reforms proposed by the PAC. João Sicsú, head of the Macroeconomic Studies Division of *Instituto de Pesquisa Econômica Aplicada* (IPEA– Institute of Applied Economic Research) during the second Lula administration, accused the government of using the PAC to remove “the ‘invisible hand of the market’ and replace it with the ‘visible hand of the State’”(Loureiro, Dos Santos & De Ávila Gomide, 2009: 17-19). This criticism, combined with the overwhelming support the program enjoyed from Leftist economists, provides perhaps the best evidence that an important shift had taken place with regards to economic policy. It was not socialism, but it was closer to the type of redistributive policies that the PT had favoured during all its years in opposition, an approach that soothed the tensions between the PT and its labour base to some extent.

Social security reform provided the most striking example of the government’s fresh economic trajectory. As discussed in section 3.2.1, this was an extremely controversial topic in Brazil. During Lula’s first term, reforms were deemed necessary and the government was determined to enact them at any cost. This led to significant resistance from different groups, including some traditional PT supporters and was accompanied by big protests. Despite all of this, the government stuck to its fiscal conservativeness and passed the reforms. The situation could not have been more different during Lula’s second term. He established the National Forum for Social Security in early 2007, and tasked it with discussing social security reform. The

underinvestment in the sector has been blamed for creating the crisis, with generation capacity expanding by 25 percent between 1990 and 1999, while demand grew by 55 percent (Wadia, 2001).

forum included labour, business and government representatives and it was expected that the discussions would be potentially tumultuous. However, a surprising consensus was achieved:

it was decided that retirement funding should continue to be an integral part of the concept of social security, funded with contributions from workers and employers and with its redistributive elements financed with social security budgetary funds, as set forth in the Federal Constitution. This [went] against the fiscally inclined reformist proposals. Even in the absence of a consensus as to minimum retirement age and minimum contribution period to gain access to benefits, the members of the forum were able to agree on retaining the connection between social security benefits and minimum wage – an item whose modification orthodox economists consider fundamental (Loureiro, Dos Santos & De Ávila Gomide, 2009: 17-19).

This provided the clearest indication that Lula's second term would be one during which orthodox economists could expect to be disappointed about various important issues, and there was indeed widespread criticism from investors regarding the lack of social security reform (IHS Global Insights, 2007). In contrast, the negotiations represented a victory for the labour supporters of the PT and reflected a desire by the government to rebuild its relations with this group. Observers have noted this and have concluded that the main aim of the forum was to gain the approval of disgruntled labour groups for the reforms enacted in 2003 as a way of improving the PT government's relationship with them (IHS Global Insights, 2007).

One aspect of economic management that excelled during Lula's second term was the Brazilian fuel industry. The state-controlled oil company, Petrobrás, was able to achieve complete self-sufficiency in petroleum and natural gas exploitation by 2006. In 2007, Petrobrás discovered huge deposits of natural gas and petroleum reserves off the Southeast coast of the country¹⁷. This meant that the country suddenly faced the prospect of becoming a fossil fuel exporter within a few years if it could successfully develop the required infrastructure. This should be viewed in combination with Brazil's world-leading biofuel program. The program had been in place for more than thirty years and Lula took an active role in strengthening it once he came to power. Not only did he heavily market its potential around the world, championing the fact that it was more environmentally friendly and efficient than the fuel which is produced by

¹⁷ According to one estimate, the Tupi oil field, named for one of Brazil's indigenous populations, holds 5 to 8 billion barrels of recoverable oil and natural gas reserves. This discovery could boost Brazil's 12.2 billion barrels of proven reserves by nearly two-thirds, putting Brazil ahead of Canada (17.1 billion barrels) and Mexico (12.9 billion barrels). The discovery makes Brazil one of the five or six countries with the highest estimated petroleum reserves, falling between China and Nigeria on a world scale (Roett, 2010: 119-121).

Brazil's biggest competitor in the industry, the United States, but the government also played an integral role in creating the appropriate conditions which enabled the industry to flourish (Sotero & Armijo, 2007: 59-61). It provided loans with favourable interest rates to firms producing ethanol, guaranteed purchases by Petrobrás and provided a

fixed-price schedule that set the price of hydrous ethanol at 59 percent of the price of gasoline at the pump.

These policies have helped Brazil to become the world's second largest producer of ethanol and the world's largest exporter of the sugar-based fuel (Roett, 2010: 119).

In addition to exporting the fuel, Brazil had also developed advanced refining capacity, enabling it to export biofuel as well as the technology to refine it (Bourne, 2008: 173). Clearly, the strength of Petrobrás, the availability of ample gas and oil reserves as well as the ethanol industry had enabled Brazil to become a powerful global energy player.

3.3.6) The Global Financial Crisis and the Second Growth Acceleration Program

Despite the shift away from extreme fiscal austerity brought on by the PAC, the economy performed well during 2007 (refer to Table 3.4). As has been noted throughout, the Lula administration's approach to economic development depended entirely on ensuring solid fundamentals to achieve growth, combined with innovative redistributive measures. This meant that a disruption undermining the ability of the government to achieve economic growth had the potential to undermine the entire program of the government. Just such a disruption took place during 2008 and 2009, as the world was plunged into a deep financial crisis. The crisis had devastating effects on the global economy, but developed economies experienced the worst of it due to heightened levels of external vulnerability. In general, developing countries were not quite as badly hit, even though none of them could afford the deepening unemployment and poverty created by the crisis.

Brazil was one of the last countries to be affected by the crisis. Even though its economic indicators show that the crisis certainly had a noteworthy impact, the effects were not nearly as devastating as in other countries (Roett, 2010: 2). An analysis of the reasons for this limited impact are extremely illuminating in the context of the current study as it illustrates the extent to which economic fundamentals were transformed under Lula, a feature which severely limited the suffering of those living in conditions of poverty when compared to the effects suffered by the impoverished in other countries. Interestingly, the government measure that served as the most noteworthy counter to the crisis was adopted more than a year before the credit crunch struck.

The measures included in the PAC represented a coherent economic plan that, almost coincidentally, provided structured responses that offset the impact of the crisis. By the end of 2008 it had effectively improved the purchasing power and employment levels of the lower classes. This unintentionally prepared the country to deal with the crisis effectively and resulted in Brazil spending the least amount of money on combating the crisis out of all the economically significant countries in the world (Chadarevian & Novelli, 2010: 8).

However, this does not trivialize the very real impact that the crisis had on Brazil. By March 2009, 800 000 jobs had been lost as a result of the crisis, with the economy shrinking at the fastest rate in twelve years during the final quarter of 2008 (Colitt, 2009). This was reflected in Lula's popularity ratings. Before the onset of the crisis he had been the most popular President in Brazilian history, with a record high rating of 84 percent. This dropped to 78 percent by March 2009, according to an *Instituto Brasileiro de Opinião Pública e Estatística* (IBOPE – Brazilian Institute of Public Opinion and Statistics) poll, while a poll published in the *Folha de São Paulo* newspaper indicated a drop of 5 percentage points to 65 percent (Colitt, 2009). This represented the most significant decline in the Lula government's popularity since April 2007, when it was dealing with the aftermath of the corruption crises. The unemployment figure mentioned above was the driving force behind the drop, with 59 percent of respondents indicating that they expected unemployment would rise, up from 44 percent according to the *Folha de São Paulo* poll. Respondents also indicated that they now regarded unemployment as the country's biggest problem, ahead of issues of health and security. Additionally, the majority of respondents in the IBOPE poll disapproved of the government's employment policies. This was the case for the first time since December 2007 and showed that the "one thing that causes anxiety in society and stands out in the poll is unemployment", according to Marco Antonio Guarita from the *Confederação Nacional da Indústria* (CNI – National Confederation of Industry) (Colitt, 2009).

Globally there had been much rhetoric regarding a return to revisionist Keynesian policies since the onset of the crisis in September 2008, as countries attempted to deal with its effects. Indeed, Lula did not miss the opportunity to criticize the Western capitalist establishment. In a speech reminiscent of the rabble-rousing Union leader of the 1980s, Lula blamed the crisis on "white, blue-eyed people". He made the remark during a news conference

along with British Prime Minister Gordon Brown in Brazil during March 2009, going on to explain that

‘this was a crisis that was fostered and boosted by the irrational behaviour of people who were white and blue-eyed, who before the crisis they looked like they knew everything about economics, but now have demonstrated they know nothing about economics’ (Elliot, 2009). Referring to them sarcastically as the ‘gods of wisdom’, Lula was adamant that ‘the part of humanity that is responsible should be the part that pays for the crisis...As I do not know any black or indigenous bankers, I can only say it is not possible for this part of mankind, which is victimised more than any other, to pay for the crisis (Duffy, 2009).

Apart from trademark rhetoric flourishes such as these, Lula and his administration did not implement any radical Keynesian policies to deal with the crisis. When examining the measures which were imposed in reaction to it such as tax incentives, liquidity provisions and the extension of unemployment assurance, one may at first glance get an impression of Keynesianism at work. However, when viewed within the broader economic context of the PT government, it becomes clear that this did not amount to a Keynesian revision of Brazilian capitalism (Chadarevian & Novelli, 2010: 1). These measures did not amount to the reintroduction of state capitalism in Brazil, even though it provided a perfect opportunity for it if Lula’s government still had any doubt about its commitment to neoliberal economics. Instead, it amounted to a continuation along the path established by the PAC, a path which has been described as “a kind of Brazilian reformist neoliberalism” but that could perhaps more simply and appropriately be described as a Third Way economic policy (Chadarevian & Novelli, 2010: 1).

On the psychological level, Lula remarked that while the Wall Street crash led to a “tsunami” in the United States, it would amount to a mere “ripple” in Brazil. Even though this was regarded by the press as proof of his economic ignorance, Anderson (2011) hypothesizes that statements like these played a functional role in limiting the crisis in Brazil. Crucially, the trust that Brazilians continued to have in their President translated into a belief in his optimism regarding the crisis, which meant that they did not overly restrict consumption. This resulted in levels of demand being propped-up by consumer spending.

The crisis also vividly illustrated the value that foreign policy had to the Brazilian economic arena. The Lula administration viewed foreign policy as an extension of economic policy due to the overwhelming potential an effective foreign policy had to provide advantages to the Brazilian economy and, ultimately, to Brazilian social policy through poverty reduction

strategies. The many years of hard work that had gone into the foreign policy sphere paid off during the crisis, as MERCOSUR and trade partners like China provided Brazil with an alternative to the US and EU. America and Europe were the hardest hit by the crisis and if Brazil was still as heavily dependent on these regions in relation to trade as it had been in 2003, it would have been inevitable that the significant recessions in these countries would have had a devastating impact on Brazil. However, due to the activist role of the government in reviving South American regional integration and diversifying its trade partners, Brazil was able to avoid dependence on the US and EU in nationalizing its external debt and maintaining its good relationship with global financial institutions (Chadarevian & Novelli, 2010: 1).

In summation, the Brazilian government responded to the crisis by further developing economic policy along the same route that it had been following for the previous seven years by implementing the PAC in 2007. This turned out to be a fortuitous move, but one that would not have provided as many structural advantages in minimizing the impact of the crisis if it were not preceded by the fiscal austerity measures that were implemented during Lula's first term. A good example of the role played by general fiscal policy in combating the crisis is to be found when examining the state of the Brazilian banking sector during the financial crisis. The imposition of strict regulations and monitoring since Lula came to power enabled the banks to survive the crisis and remain well capitalized. The emphasis on strictly monitoring and implementing capital requirements meant that the Central Bank did not have to bail-out or liquidate any Brazilian banks during the crisis (Roett, 2010: 124). Additionally, all the measures which were adopted purely in reaction to the crisis (such as an increase in social transfers despite falling tax revenues and a lowering of reserve requirements) fit in with the broader direction of the PAC, which meant that it did not amount to significant disruptions in the area of economic policy. Finally, the government had been proven correct in assessing the potential that foreign policy had in offsetting the country's external vulnerability through maximum diversification along a "Third Way foreign policy" route. This means that Brazil was able to mould its reaction to the crisis in order for it to form part of the coherently planned strategy of reform which the Lula government had adopted since its first day in office.

Once the worst effects of the crisis had been largely overcome, Lula announced the second phase of the Growth Acceleration Program (PAC 2) on 29 March 2010. By this time, the first phase of the program had achieved 63.3 percent of the R504 billion investments it had

called for in 2007, and the unfinished projects (defined as projects that would conclude after 2010) would roll-over into the next phase (World Bank, 2010). PAC 2 called for investments to the tune of R958 billion (US\$526 billion) on projects for the period 2011 to 2014, as well as thereafter. For the period following 2014, the government intended to invest R631 billion (US\$346 billion), with the combined total reaching R1.59 trillion (US\$ 872 billion) (World Bank, 2010). PAC 2 continued the focus on investments in social development, energy and logistics. It would direct investment according to six main elements, organized under colourful monikers: Better Cities (urban infrastructure), Bringing Citizenship to the Community (safety and social inclusion), My House, My Life (housing), Water and Light for All (sanitation and access to electricity), Energy (renewable energy, oil and gas) and Transportation (highways, railways and airports) (World Bank, 2010). Table 3.3 provides further details for each of these six initiatives.

Table 3.3: Initiatives of the Second Growth Acceleration Program

Initiative	Objective	Areas of Focus	Estimated Investment (2011-2014)
Better Cities	Tackling the major challenges facing large urban areas in order to improve quality of life.	Sanitation, crime prevention in high-risk areas, urban mobility, paving.	R57.1 billion (US\$ 31.3 billion)
Bringing Citizenship to the Community	Increase the availability of State services in poorer districts.	Emergency care units, basic health clinics, day-care and pre-school centres, school sports facilities, community police stations.	R23 billion (US\$12.6 billion)
My House, My Life	Reduce the housing	“My House, My	R278.2 billion (US\$

	deficit, stimulate the civil construction sector and generate jobs and income	Life” program, SBPE financing (Brazilian savings and loans system), urbanization of informal settlements	152.5 billion)
Water and Light for All	Improve general access to water and electricity	“Light for All” program, water supply in urban areas, water resources	R 30.6 billion (US\$ 16.6)
Energy	Secure reliable supply of energy through a mix of clean, renewable sources; expand production of oil in pre-salt region	Electricity, oil and natural gas, shipbuilding, renewable fuels, energy efficiency, mineral research	R465.5 billion (US\$255.3 billion)
Transportation	Consolidate, expand and integrate logistics network to ensure quality and safety	Highways, railways, ports, waterways, airports, local roads	R104.5 billion (US\$57.3 billion)

Source: World Bank, 2011

By this time, the PT was clearly looking to the future. Lula indicated that he intended PAC 2 to be implemented as a valuable resource by the administration that would succeed him: “I consider PAC 2 as a portfolio of projects that the next administration can build from rather than starting from scratch, as there is no time to lose” (World Bank, 2010). The consultation process leading up to the announcement of PAC 2 was criticized by opposition parties as being a publicity stunt for the upcoming elections. Lula’s Chief of Staff, Dilma Rousseff, attended many

of these meetings. It was widely speculated (correctly) that she would be the PT's 2010 Presidential candidate, and media watchdogs and opposition parties accused the PT of illegally conducting an election campaign (Olson, 2010).

3.4) Economic Performance: Two Terms of Achievements

Throughout its two terms in office, the Lula administration had regarded economic performance as an important priority. It was focused on achieving high levels of real economic growth and to strengthen economic fundamentals in its ultimate quest to achieve social equity through its Third Way approach. By 2010 it was possible to assess the overall economic successes and failures of the Lula government. This is of crucial importance, as a failure to achieve significant economic stability and growth would have undermined the entire approach of the PT government. This also makes such an analysis highly relevant to this study, as affirming the role of economic growth as a catalyst for greater redistribution and equity lies at the heart of the Third Way.

Starting at the most basic level, the figures for annual GDP during Lula's entire Presidency indicates that steady growth had been achieved, despite the challenges posed by, initially, the Argentinean default and, later, the global financial crisis (see Figure 3.1). This economic expansion had accelerated during the administration's second term as the initial focus on fundamentals as well as the shift to the PAC started to pay-off. This translated into unprecedented levels of foreign investments flowing into the country (see Table 3.4). The only meaningful capital flight during Lula's two terms occurred at the end of 2008 as a result of the financial crisis, but even this negative situation was short-lived as Brazil rebounded with an inflow of \$2.44 billion in equity investments during October 2009 alone, double the level of investment in China (Roett, 2010: 122). Thirty-six Brazilian companies were listed on the New York Stock Exchange by March 2009, which meant that Brazil was the largest Latin American issuer in the United States (Roett, 2010: 124). FDI is one area of exceptional strength for Brazil, as it significantly outperforms its BRIC peers. The reason for this is fairly straightforward and was expressed through the illuminating sentiment of one investor: "[Brazil] may have slower growth than China, but it's a lot easier to invest in" (Roett, 2010: 122). Combined with the impressive growth in FDI, the Brazilian balance-of-payments situation improved significantly during Lula's two terms. By January 2008 the country had become a net foreign creditor for the

first time in its history, with international reserves standing at \$180.3 billion by the end of 2007, up from the level of \$49.3 billion in 2003 (Roett, 2010: 117-118). Concurrently, the level of external debt had decreased from 42.7 percent in 2001 to 17.9 percent by 2009 (see Tables 3.2 and 3.5). These were truly remarkable achievements for a country that was once the world’s largest emerging-market debtor (Roett, 2010: 117).

Figure 3.1: Annual GDP Growth

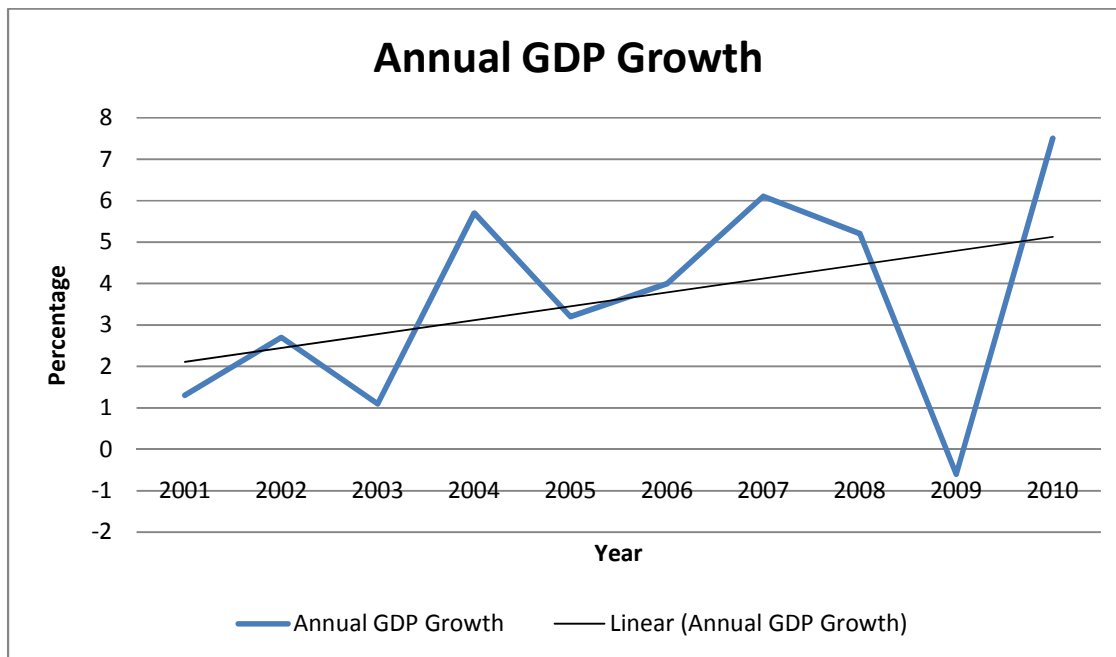


Table 3.4: Second Term Economic Indicators

Year	GDP per Capita (Current US\$)	GDP Growth (Annual %)	Foreign Direct Investment (Current US\$)	Real Interest Rate (%)
2007	7 185	6.1	34.6 billion	35.8
2008	8 609	5.2	45.1 billion	35.9
2009	8 230	-0.6	25.9 billion	36.8
2010	11 289	7.5	48.5 billion	No info

Source: World Bank, 2011; Bloomberg, 2011; IMF, 2011

Table 3.5: External Vulnerability – Debt

Year	External Debt Stocks (% of GNI)
2007	17.6
2008	16.3
2009	17.9

Source: World Bank, 2011

One event that vividly signified the economic achievements of Brazil since 2001 occurred on 30 April 2008, when Standard's and Poor's became the first rating agency to assign an investment-grade rating to the country for its foreign currency debt (Roett, 2010: 117-118). This meant that Brazil became one of only fourteen sovereign states to achieve a rating of BBB or higher. A crucial factor in this prestigious designation, as emphasised by Standard's and Poor's, was that despite political change, Brazil had been able to achieve significant continuity in its inflation-targeting policies and floating exchange-rate regime (Roett, 2010: 117-118). Practically, this lowered the cost of borrowing for the country as well as granting Brazil access to a more diverse and larger group of institutional investors who only sought to invest in countries with a high credit rating. On a more abstract level, this amounted to recognition by investors and global observers that investment risk in Brazil was low, meaning that the fiscal austerity measures imposed since the start of Lula's first term had, from an economic standpoint, been a success.

By the end of Lula's second term, the Brazilian economy had been transformed. It had achieved investment-grade credit status, GDP growth was strong, inflation was under control and its external debt had been paid-off. However, there were still some areas of concern by the end of Lula's Presidency. As a result of the changes in the economic structure of the country, a marked shift towards services and away from manufacturing had taken place. This translated into significant deindustrialization, as the labour-intensive companies in the greater São Paulo area either shifted production to other parts of Brazil, or left the country entirely (Bourne, 2008: 172). This resulted in a significant reduction in manufacturing exports. By 2009, it had declined to 44 percent of Brazil's total exports, down from 55 percent in 2002. Relatedly, the share of raw

material exports increased from 28 percent to 41 percent (Anderson, 2011). These raw material exports largely consisted of natural resources such as steel, iron ore and agricultural products (Bourne, 2008: 172). In effect, this meant that Brazil had experienced a reduction in its value-addition capacity as the significance of primary exports increased and that of secondary exports decreased. Symptomatic of this situation was the decline in the significance of the automobile industry – the most important in the Brazilian manufacturing sector – as the controlling multinationals withheld investments in expansion (Anderson, 2011).

There was also still room for improvement in the financial sector. Despite the many achievements discussed above, corruption and poor contract laws continued to undermine the integrity of the sector (Roett, 2010: 124). And even though the banking sector performed remarkably well during the financial crisis as a result of its structural integrity, its ratio of nonperforming loans rose to 4.3 percent by 2009, an alarmingly high figure (Roett, 2010: 124). Access to credit, especially for small and medium enterprises, also remained a big problem. A lack of access to financing for these companies resulted from the dominance of state-run banks in development and long-term financing, with another potential result of this situation being the continued prevalence of high interest rates (Roett, 2010: 124). These rates were still above 10 percent at the end of Lula's second term, the highest figure amongst all significant economies. In contrast, Brazilian savings rates were amongst the lowest in the world at merely 17 percent of Gross National Income (GNI), only a third of the Chinese figure and less than half that of India (Anderson, 2011).

Despite the persistence of these problems, the economic success of Brazil during Lula's Presidency cannot be questioned. Unprecedented levels of stability had been achieved within the economy, while the above analysis indicates that robust growth according to all important economic indicators accompanied the solidifying of fundamentals. Impressive as this was, it was not an end in itself for the PT government. As discussed throughout, achieving economic growth was not its ultimate goal, but provided a means to an end. Even though economic growth was an enormously important aim of the Lula government; poverty reduction, reducing inequality and improving the living conditions of the millions of impoverished Brazilians remained its most important priority. The economic growth achieved during Lula's two terms served to provide them with the ability to address this priority.

3.5) Conclusion

This chapter has illustrated that the Lula government clearly followed a Third Way approach when it came to its economic policies. Just like Third Way theory suggests, the PT administration adopted conservative economic policies with the aim of solidifying Brazilian economic fundamentals. These austerity measures were especially severe during Lula's first term. Along with ensuring stronger fundamentals, the government wanted to achieve high levels of economic growth. The government's commitment to achieving this spilled over into the foreign policy arena, with foreign policy acting as an extension of the administration's domestic economic goals. A Third Way foreign policy was followed by the Lula government, with the aim of using it effectively to create greater global poverty reduction and equity, in addition to its role in strengthening Brazilian economic policy.

However, as the Third Way suggests, economic growth is not to be regarded as an end in itself. This was the exact view adopted by the PT, as the aim was always to use economic fundamentals and growth to achieve poverty reduction and greater societal equality. Thus, even though the Lula government was able to solidify economic fundamentals and achieve impressive economic growth, this was not their ultimate goal. The eventual aim was to have this economic growth translate into meaningful poverty and inequality reduction. The following chapter will focus on the success of the social policies adopted by the Lula government in order to determine whether they were able to utilize the significantly improved economic situation to bring about widespread poverty reduction.

CHAPTER FOUR

SOCIAL POLICIES

4.1) Introduction

As illustrated in chapter three, the Lula government had succeeded in creating solid economic fundamentals and growth. This was done in accordance with Third Way prescriptions by taking advantage of the opportunities offered by globalization and through implementing conservative economic policies. However, the ultimate aim of the PT government was to reduce poverty and inequality in Brazil. This was to be done by utilizing the economic conditions which were created through conservative economic policies to implement social policies that would enable people to move out of poverty. Crucially, these would not simply amount to traditional welfare policies. The Lula government used a Third Way approach of tying social grants to strict conditions in order to create a society where responsibilities came along with rights, a central Third Way prescription. In contrast to the aims of the old PT, the goal of Lula's social policies was not to create complete equality of outcome. Instead, an equality of opportunity position was pursued, based on the granting of equal access to basic services to all Brazilians.

The ensuing sections will illustrate how this was done. The first part of the chapter will analyse the social policies which were implemented in accordance with the most significant social programs, the *Fome Zero* and *Bolsa Família* programs, along with the impact that these programs had. Thereafter, the shift in Lula's constituency, as brought about by these social policies, will be discussed. Next, policies related to education, healthcare and agrarian reform will be analysed and, finally, poverty reduction and related policies will be assessed in order to ascertain how successful the PT government was in addressing its top priority during Lula's Presidency – reducing poverty and inequality.

4.2) Social Policy: the *Bolsa Família*

4.2.1) Poverty Reduction Strategies

As discussed in section 3.1, obtaining a majority in the legislative branch of government after the 2002 election had proven to be a challenge which had required further concessions from labour. Lula's appointees in governmental Ministries related to social issues for his first cabinet demonstrated an attempt to reaffirm his commitment to social change. Benedita da Silva and

Gilberto Gil, both black Brazilians, were respectively given a social welfare portfolio and made Minister of Culture. Olívio Dutra, a former union leader and PT governor of Rio Grande do Sul, became the Minister for Cities, while Crístovam Buarque, who had run the University of Brasília and gone on to be governor of Brasília, was made the Minister of Education (Bourne, 2008: 103-104).

Additionally, in his first press conference as President, Lula continued to affirm his concern for the poor. He did this by announcing the *Fome Zero* program as an effort to end hunger in Brazil. The goals of this program were to fight hunger by expanding the demand for food, lowering food costs and to find a way to feed those who were excluded from the market (Costa, 2009: 701). It had the added advantage of making rural coordination easier by organizing individuals into groups, while most of the food would come from agrarian reform settlements. Cheap “people’s restaurants” would be established, along with food banks, food cards, support for family agriculture, greater access to social security benefits and income guarantees for children (Bourne, 2008: 127). This would initially be done by giving poor families who qualified coupons worth an amount up to R250 that could be used to purchase food at certain shops. However, during initial attempts at implementing the program, the government ran into significant problems. The program was a bureaucratic nightmare and the various governmental roles were poorly defined. Various logistical problems also emerged in the effort to provide food aid to the 4 million most impoverished Brazilians, including the fact that many of them had no Identification Documents, lived in areas with no electricity, roads, telephones or fixed addresses and that many of them were illiterate. Consequently, the *Fome Zero* program was subjected to various cases of corruption and administrative blunders (Amann & Baer, 2004: 12-13). These initial difficulties meant that adjustments had to be made if the government was determined to improve social conditions.

By 2003 the government responded to the struggles of *Fome Zero* by creating the *Bolsa Família*¹⁸ program, which became the largest component of the *Fome Zero* project. Crucially, the *Bolsa Família* required families to demonstrate that children between the ages of 0 and 6 years

¹⁸ Families with a monthly per person income below R50 qualified for the right to receive a complement of income equal to R50.00. In addition to this, families were entitled to a sum of R15.00, R30.00 or R45.00 depending on the amount of children in the household. A second threshold was established at a monthly per person income between R50.00 and R100.00, granting such a family only the right to receive the child grants (Suplicy, 2005: 249).

were getting the recommended vaccines, in accordance with the Health Ministry's calendars. Families were also required to regularly weigh their children in addition to following nutritional instructions. For children between the ages of 7 and 15, parents were required to show that the children were really going to school, and that the adults were enrolled in literacy or skills-building courses (Suplicy, 2005: 249). The aim of the program was to increase the incomes of poor families, while tying it to strict conditions. These conditions included that parents of children under 7 years old should ensure that the children received all the basic vaccinations and regular medical check-ups. Parents with children between 6 and 15 years old had to enrol them in school and the children had to attain a minimum attendance rate of 85 percent. Pregnant women were required to receive prenatal care and to attend classes on maternal and child health. The money was usually transferred to the mother in the family through an electronic account and eligibility for the program depended on a family earning less than R120 per month. Families with an income of less than R60 were adjudged to be "extremely poor" and could earn up to R95 per month, while families with incomes between R60 and R120 could earn up to R45. This meant that the *Bolsa Família* was a highly targeted program (Hunter & Power, 2007: 18). Additionally, the application process was simplified, including a toll-free telephone service and simple instructions accompanied by illustrations. Significantly, the process of qualifying and signing up for the *Bolsa Família* program was also entirely apolitical, partially insulating it from fraud and exploitation (Hunter & Power, 2007: 18).

The program consisted of four subcomponents¹⁹ that provided for educational stipends, maternal nutrition, food supplements and a domestic gas subsidy. These programs incorporated some of the pre-existing projects that were instituted during the Cardoso administration, such as the *Bolsa Escola* (Schooling Allowance) and the *Bolsa Alimentação* (Food Allowance). However, it is important to note that the program is not a simple expansion of Cardoso's policies as some critics have postulated²⁰. Even though these programs were instituted under Cardoso,

¹⁹ The following four programs were unified: the *Auxílio Gás* (Gas Help Program); the *Cartão Alimentação* (Food Card Program); *Bolsa Alimentação* (Health Grant) and the *Bolsa Escola* (Education Grant). The latter two programs amounted to a benefit of R15.00, R30.00 or R45.00 per family based on the assessment criteria. The *Auxílio Gás* provided a monthly benefit of R7.50, while the *Cartão Alimentação* initially provided qualifying families with R50.00 to be spent only on food. However, this final provision was removed after eight months, and families gained the freedom to spend their *Bolsa Família* grants as they wished (Suplicy, 2005: 251).

²⁰ See Samuels, 2006: 9.

they originated with the PT. The PT Senator Eduardo Suplicy of São Paulo originally placed the issue of basic provisions on the political agenda in 1991. He proposed a negative income tax for citizens earning less than US\$150 in the form of an income supplement between 30 and 50 percent of the difference between US\$150 and his or her income. The aim was to introduce the program gradually from 1995 to 2002 and it was unanimously approved by the Brazilian senate in December 1991. Furthermore, the agenda-setting role of the PT in this regard led to a debate around the idea of a Basic Income Guarantee (BIG), which eventually resulted in programs such as the *Bolsa Escola* and the *Bolsa Alimentação*. Suplicy continued to play an influential role once Lula was elected as President. He proposed the institution of a BIG for all citizens of Brazil by 2005, and it was unanimously approved by the senate in December 2002 and by the Chamber of Deputies in December 2003 (Suplicy, 2005: 250). On 8 January 2004 Lula signed the bill into law, making Brazil the first country in the world to institute a BIG. The way in which the process developed clearly demonstrates that the PT is rightfully credited with the implementation of general income transfer programs in Brazil, as well as those related to the *Bolsa Família*.

A strong indication of Lula's general intentions in the area of social policy came with his attendance of the Progressive Governance Summit in 2003. The conference represented the highest point for the Third Way project, as various centre-Left leaders attended it. It also provides further evidence that Brazil actively took part in the global Third Way movement. Just like the other Leftists in attendance, Lula was also constrained by the triumph of capitalism after 1989 and the conference gave him an opportunity to be comforted in the knowledge that many other leaders were facing the same dilemmas as him. He came away from the summit comforted in the knowledge that the compromises he intended to make in order to support economic policy, as expressed through his *Letter to the Brazilian People*, were similar to those of an influential leader like Tony Blair of Britain (Bourne, 2008: 165).

By 2004, the Lula government had launched a blizzard of initiatives aimed at appeasing its traditional labour supporters, as well as the scores of impoverished Brazilians who did not belong to organised labour groups. These were largely welfare policies related to the reduction of poverty and ensuring the provision of training and education. As discussed above, the main aim of the *Fome Zero* program, as implemented through the channels of the *Bolsa Família*, was to reduce poverty in Brazil. This was to be done through the transfer of income and by providing the poor with certain basic living conditions such as access to healthcare and schooling.

However, these were tied to conditions which linked-up with training and education. These conditions shifted certain important elements of the welfare equation away from government and onto citizens. These amounted to responsibilities such as ensuring that children were receiving medical attention and attending school, as well as complying with requirements related to adult retraining and skill-building. The creation of the Ministry of Social Development and the Fight against Hunger in 2004 represented an attempt to further intensify efforts directed at poverty reduction. This Ministry was directly subordinate to the President and incorporated the *Bolsa Família* (Costa, 2009: 701).

4.2.2) Light at the End of the Tunnel: First Term Results of the *Bolsa Família*

The results of the social policies introduced through the *Bolsa Família* enabled Lula to overcome the problems which were dogging his administration by 2006, including the corruption scandals and the unimpressive economic performance of the Brazilian economy at the time (discussed in chapter three). By 2006, it was finally becoming clear that progress was being made on social issues. The *Bolsa Família* had proven to be tremendously popular. Households benefitting from it rose from 4.1 million in June 2004 to 11.1 million by July 2006, three months before the Presidential election (Zucco, 2007: 6). This figure represented more than the total number of families that were considered poor, according to the Ministry of Social Development's criteria. This meant that almost 20 percent of all households in the country received *Bolsa Família* benefits. Measured in other terms, the program was reaching 100 percent of eligible families by 2006, up from 59 percent in 2004 and 77 percent in 2005. According to Hunter and Power (2007: 19), approximately a quarter of the entire Brazilian population was covered by the *Bolsa Família* at that time.

Table 4.1: Poverty reduction indicators

Year	Poverty Rate (% of population living below poverty line)	Unemployment Rate (% of total labour force)	Life Expectancy (years)	Gini Coefficient
2001	35.2	9.3	70.5	58.7
2002	34.4	9.1	70.8	58.2

2003	35.8	9.7	71.1	57.6
2004	33.7	8.9	71.4	57.0
2005	30.8	9.3	71.6	56.4
2006	26.8	8.4	71.9	55.8

Source: World Bank, 2011

It is important to analyse the effects of the government's poverty reduction strategies during Lula's first term in order to ascertain how meaningful the improvements were that it had achieved. The *Bolsa Família* undoubtedly played the most significant role in this regard. It is estimated that, by 2006, 50 to 60 million Brazilians had been lifted out of poverty, according to a definition of poverty as living on less than one Dollar a day (Bourne, 2008: 128). The achievements of the *Bolsa Família* also came relatively cheaply, encompassing only 2.5 percent of all government expenditure, or 0.5 percent of GDP (Roett, 2010: 112-113). Additionally, the overall poverty rate had declined significantly since Lula came into office: at the beginning of 2002 it stood at 35.2 percent and by 2006 it had been reduced to 26.8 percent. Unemployment rates provide further insight into the success of the government's poverty reduction strategies. It was down to 8.4 percent by 2006, representing a significant improvement in relation to earlier statistics. The administration had also succeeded in creating "2.5 million jobs in the metropolitan areas of São Paulo, Rio de Janeiro, Belo Horizonte, Salvador, Recife and Porto Alegre by the end of 2006" (Tavolaro & Tavolaro, 2007: 427).

A study carried out by the Social Policy Centre of the Getúlio Vargas Foundation in 2006 concluded that "every *Real* spent on the *Bolsa Família* reduce[d] poverty by two-and-a-half times more than a [comparable] increase in the minimum wage" and that extreme poverty had declined by 19.2 percent between 2003 and 2005, translating to about 10 million people. These improvements were also not related to growth without redistribution, as the annual income of poor groups grew by 8.4 percent, while the income of rich groups grew by only 3.7 percent. The Director of the Foundation, Marcelo Neri, concluded by postulating that "[the] *Bolsa Família* is the big rising star in the fight against poverty" (*Associated Press*, 2006).

Lula's 2006 election campaign was initially rather subdued. He did not partake in the early television debates, most likely feeling secure in his position as incumbent. He entered the debating arena just before the second round of elections, appearing on all four televised debates.

The focus was on the government's social agenda, and Lula emphasized that the fiscal austerity measures imposed during his first term never amounted to a surrender to neoliberalism. He juxtaposed this with his more conservative rival's alleged "privatizing program", implying a lack of commitment to social transformation on his part (Tavolaro & Tavolaro, 2007: 437). The most significant event of the campaign was the publishing of a book entitled "*Brasil: Primeiro Tempo*" (*Brazil: First Time*) by Alizio Mercadante. It amounted to a propagandist evaluation of facts and statistics with the goal of illustrating that Lula had significantly outperformed Cardoso (Bourne, 2008: 123). The intention was clear: to remind the electorate that despite the political scandals, the Lula administration was delivering on its social promises.

Voters clearly agreed with this sentiment and the popularity of the *Bolsa Família* played an important role in the election results. The first round was held on 1 October 2006, with Lula receiving 48.6 percent of the votes while his main rival, Geraldo Alckmin of the PSDB got 41.6 percent (BBC, 2006). Heloísa Helena, representing much of the disgruntled former labour base of the PT, and running as the candidate for the newly-formed *Partido Socialismo e Liberdade* (P-Sol – Socialism and Freedom Party), came third with 6.8 percent of the votes. The second round was held on 29 October 2006 between Lula and Alckmin, and Lula received a majority of 60.8 percent, meaning that he had been elected to serve a second term as President of Brazil.

4.3) 2006 Election Results: Lula's New Constituency

Lula had been able to obtain a majority of nearly 61 percent in the 2006 election, maintaining the margin he had initially achieved in 2002. However, when closely examining the election results it becomes clear that there had been a significant amount of change in Lula's voting base since his first election victory. Issues regarding the voting base of the PT relate to the role of labour within the party, as well as having a positive relation to poverty reduction strategies, meaning that an analysis of this change is important and highly relevant.

The role of poverty reduction strategies in shaping the election results cannot be overemphasized, as they at least partly account for the sweeping victory that Lula achieved in the North and Northeast of Brazil. These geographic regions are the most impoverished parts of the entire country, with states in the region scoring very low on the United Nations' Human Development Index (UNHDI) (Hunter & Power, 2007: 4). This means that any effective strategy to reduce poverty would have its most direct influence in these areas. As a result, the greatest

amount of families benefitting from the *Bolsa Família* resided in these regions. In a crude sense, the 2007 election represented an opportunity for impoverished voters to judge the effectiveness of the government's poverty reduction strategies. And they responded with a resounding affirmation as 60 to 85 percent of all voters in these areas voted for Lula. Hunter and Power succinctly sum up the dynamic which informed this process:

the poor [were] significantly better off [by 2006] than they were when Lula assumed the government in January 2003, and this group exerted the most influence in re-electing him (2007: 20).

However, this only represented one side of the situation. Accompanying the high levels of support in the poorer North and Northeast was the significant decline in support from the middle-classes in the South and Southwest of Brazil. Lula lost ground amongst voters with higher income and education levels. This represents a very significant shift for the PT, as the South and Southwest is home to its traditional support base. During all of his other campaigns for the Presidency, progressive and educated voters from these areas strongly supported Lula and formed his voting base. These voters represented the initial labour base of the PT in the 1980s, forged within the context of the industrial heartland of the country. As discussed in earlier sections, the PT was a party of organized interests during its early years, with organized labour groups being its most influential supporters. These groups largely consisted of intellectuals and progressive middle-class urbanites, but by 2006 they were overwhelmingly turning their backs on the PT (Hunter & Power, 2007: 4). This represents the next important shift in the PT's relationship with its organized labour constituency. Traditional labour supporters of the PT were disillusioned with the party due to the highly embarrassing corruption scandals which had unfolded during Lula's first term. They were also unhappy about the degree to which the government had acquiesced with the demands of capital, and many of them found it impossible to agree with what they saw as the PT's moderate approach to social issues. Resultantly, the pressure on these groups was enormous and by 2006 it appears as if, to many of the organized labour groups which had played such an important role in the establishment of the party, the old PT was dead. To them, the PT had become a dishonest and a disingenuous party and this was reflected in the election results. The loss of support in these areas was so significant that "having to face an entire electorate with demographics similar to those found in the wealthier states of the South and Southeast would have put Lula's re-election at risk" (Hunter & Power, 2007: 12).

It is also important to assess why voters from poorer areas were more willing to vote for Lula in spite of the highly publicized corruption scandals. This should be contextualized by noting that merely one year before the elections, opinion polls indicated that voters preferred both of the potential PSDB candidates, Geraldo Alckmin and José Serra, instead of Lula, and by a significant margin. So why did the more impoverished voters enable Lula to go from losing by a considerable margin in the polls in October 2005 to winning the election by a landslide a year later? The first reason is clearly related to the somewhat clientelistic benefits which resulted from the improvement in the living conditions of poorer voters. However, there was more to it. Voters in the South and Southeast were more educated and informed about the corruption scandals, which meant that they had greater access to information and probably also lower levels of tolerance for corruption. This meant that more impoverished voters found it easier to forgive the government for the scandals, as long as they experienced an improvement in living conditions and had their basic needs met. Additionally, a study conducted by Zucco (2007: 12-15) identifies a tendency among poorer Brazilian voters to be more favourably predisposed to the incumbent Presidential candidate, regardless of which party is in power. Impoverished voters have a high level of reliance on government grants and programs enabling income transfers, and as these are often their only sources of income, voters do not want to jeopardize their position by voting for an opposition candidate (Zucco, 2007: 12-15). As the *Bolsa Família* is easily the largest income transfer program in Brazilian history, Zucco's hypothesis suggests that impoverished voters' tendency to vote for the incumbent would have been strengthened to levels never experienced before and the results of the 2006 election certainly appears to confirm this.

Lula was able to exploit these features to his advantage by ensuring the support of the poorer regions through effective poverty reduction strategies. It was a win-win situation, as it resulted in electoral victory for the Lula government while also achieving real, significant social improvements. These improvements were experienced by the voting public at an advantageous time for Lula. In April 2006, six months before the elections, the minimum wage had reached R350 (US\$162) per month, up from R200 in 2003. This was accompanied by a 23 percent increase in the purchasing power of the minimum wage since the start of Lula's term. This is of great significance, as almost all Brazilian salaries are "linked to the minimum wage as a unit of reference, so increases in the minimum wage have a ripple effect in consumer spending and throughout the economy" (Hunter & Power, 2007: 16). The combined effects of this wage hike

and the *Bolsa Família* enabled especially the poorer regions of the country to experience growth in purchasing power, combined with a reduction in poverty. This meant that Lula had been able to increase the effectiveness of social measures in an election year and at a time when his administration was reeling from the corruption scandals. This was thanks in some part to the government's complete commitment to fiscal austerity during its first two years, enabling greater economic flexibility (combined with the political flexibility that Lula was afforded by the resignation of officials implicated in the *mensalão* and *caixa dois* scandals and the resultant weakening of the fiscally conservative bloc within the PT) during the second half of the Presidential term. The administration was able to use this situation to create social mobility and reduce absolute poverty in Brazil's poorest regions. Combined with the factors discussed above, this resulted in overwhelming support from the North and Northeast, as people were experiencing improvements in living conditions which made a big difference in their lives.

However, it was not all good news for the PT. Traditionally, governing parties in Brazil are able to increase their majority in the legislature quite significantly from their first term in government to the second, as had also been the case with Lula's predecessor, Cardoso. However, the PT had failed to increase its support in the legislature when compared to its performance in 2002, the first time in its history that it had failed to do so (Hunter & Power, 2007: 7). When this is viewed in combination with its decline among the middle classes and its traditional labour supporters, it represented a significant source of concern for Lula and the PT. If the party was determined to outlive Lula's significant personal appeal, it would have to improve on its first term performance in an effort to appease its newfound voting base through effective welfare management, while also making an effort to convince its now-sceptical traditional labour base that it was not the "dishonest and disingenuous" party that many within this group had assumed it was, following the corruption scandals and fiscal austerity measures that were imposed during Lula's first term.

4.4) Second Term Social Policy

Even though the *Bolsa Família* continued to be the most important aspect of the government's social policy approach and had played a crucial role in getting Lula re-elected, other focus areas of the government's social policies included education and healthcare. Policies implemented in these areas had one important feature in common: they were aimed at creating a

position of equality of opportunity (as opposed to equality of outcome). This is a very important point, as the Third Way explicitly regards equal access to services such as basic education and healthcare as fundamental in achieving equality of opportunity. The Third Way stresses the need for creating equality of opportunity instead of equality of outcome, and the PT government followed a similar approach. It used the conditionality, which is a characteristic feature of the Third Way, to create social conditions which were conducive to achieving equality of opportunity by significantly extending the provision of basic services.

4.4.1) Education

Many of the incentives of the *Bolsa Família* program were created with the intention of ensuring that children attended school regularly. Additional programs were also started to assist young children, while the quality of the tutelage they received was addressed through various other schemes. A key tool which was to be used in the establishment of these programs was the *Fundo de Manutenção e Desenvolvimento da Educação Básica Pública* (FUNDEB – Fund for the Development of Basic Public Education), a fund that would serve as a revenue source for the improvement of schools and the wages of teachers (Tavolaro & Tavolaro, 2007: 430-431). But the government did not only focus on childhood education. As part of the Lula administration's push for the continued retraining of impoverished groups, educational programs were initiated which focused explicitly on the thirty-three million illiterate Brazilian adults. Improving access to tertiary education was another priority for the PT government. It aimed to increase university and college enrolment numbers from 10 percent in 2003 to 30 percent by 2010 in the 18 to 24 age group (Tavolaro & Tavolaro, 2007: 430-431). The first step towards achieving this goal came when Lula founded ten new federal universities around the country. Secondly, various new positions were created by the Education Ministry for professors who were already active at existing institutions. Finally, and perhaps most significantly, the Ministry also launched the *Programa Universidade para Todos* (ProUni – University for All). The program aimed to provide entire or partial remission of student fees for students who could not afford it. This effectively amounted to a subsidy for low-income students. Fees were paid in full for students whose families earned less than 1.5 times the minimum wage and in 2005 a total of 112 000 scholarships were granted. This figure covered more than 1 100 tertiary institutions (Bourne, 2008: 146) (Tavolaro & Tavolaro, 2007: 430-431). During the first semester of 2006 alone, more

than 800 000 students were enrolled in the program; with 200 000 of them enrolled in private universities (Bourne, 2008: 146). Along with all of these measures, the government paid special attention to minority groups through advising tertiary institutions and creating quotas for public and private universities.

Education has an extremely problematic history in Brazil. The simple fact is that Brazilians have traditionally not regarded education as being very important. The reasons for this are varied but generally included reference to the fact that there was very little opportunity for the scores of impoverished citizens to use skills acquired through education (Cabral & Throssell, 2010). Why bother being educated when one will end up unemployed or working menial jobs anyway? This was an important reason for education not being regarded as a priority. Lula personally experienced this as a child, with his father beating some of his siblings for going to school instead of working. In fact, Lula dropped out of school after the fourth grade and, when he was inaugurated in 2003, emotionally declared that he had finally gotten his “first diploma” by becoming President (Barrionuevo, 2010). His lot growing up was no different from the vast majority of Brazilians who either had no access to educational opportunities or were hampered by extremely poor educational standards and a societal disregard for the importance of education.

Lula’s government indirectly addressed an important educational concern by creating more economic opportunities for many Brazilians through successful economic management. At least in theory, the expansion of the economic sector would have provided greater incentive for citizens to seek to improve their education levels as this could now directly enable them to achieve higher living standards through better employment. They were no longer quite as trapped by poverty. Additionally, government spending on education had tripled between 2005 and 2010 (Anderson, 2011). But a far more effective measure to get people to actually force their children to attend school was the *Bolsa Família* program. This was because of the program’s strict conditionality which shifted some important responsibilities onto individual families. If they did not meet the requirement of ensuring that their children were attending school, they would not receive the grant. This aspect of the *Bolsa Família* proved to be highly effective, with school attendance at the basic education level for ages 7 to 14 achieving an attendance rate of close to 100 percent by 2010 (Cabral & Throssell, 2010).

Access to higher education was also significantly expanded, with enrolment in universities doubling from 2005 to 2010. This was largely thanks to the opening of new

universities combined with the government's scholarship program. This program had awarded scholarships to more than 700 000 low-income students to attend private colleges by 2010 (Anderson, 2011). The government also opened more than 180 vocational training centres during Lula's eight years in office – compared to the 140 that were opened during the previous 93 years. By the final year of Lula's Presidency he had developed an "obsession" with expanding access to education, according to his Minister of Education, Doctor Fernando Haddad (Barrionuevo, 2010). According to him, Brazil was clearly "trying to make up for lost time...While other countries were investing in education, we were wasting our time here saying that education was not that important". Shortly before the end of his second term, Lula stated that he "want[ed] every child to study much more than I could, much more...And for all of them to get a university diploma, for all of them to have a vocational diploma" (Barrionuevo, 2010).

The Lula government was clearly committed to expanding access to education. But expanding access did not necessarily translate into improving education in Brazil. Even the fact that school attendance had improved was not entirely positive, as independent analysts as well as teachers themselves have noted that many parents only sent their children to school because they wanted to receive the *Bolsa Família* benefits (Cabral & Throssell, 2010) (Barrionuevo, 2010). They were content with the mere fact that their children were now attending school and placed no greater emphasis on the need for them to excel and on the general importance of education. This had led to a situation where access to education had improved significantly, while education levels remained dismally low.

This is reflected in the statistics. Brazil became part of the Organization for Economic Cooperation and Development's (OECD) Program for International Student Assessment (PISA) in 2000 when only half of Brazilian children finished primary education. The PISA test assessed science, mathematics and reading skills. Brazil got the worst results out of all the countries that were assessed (*The Economist*, 2010). By 2010 the situation had improved somewhat. Brazil came in 53rd out of 65 countries in science and reading, with the OECD published a case study on Brazil entitled "Encouraging Lessons from a Large Federal System" (*The Economist*, 2010). Even though Lula and Cardoso were both praised for their efforts with regards to improving education, the situation was still bleak. Brazil had effectively improved its position in the assessment from a disastrous baseline position to a rating of "very bad". More than 66 percent of fifteen-year-olds could not do basic arithmetic, while half had very poor comprehension and

science skills. Brazil also had one of the highest first-grade repetition rates in the world, standing at a staggering 28 percent, while only 33 percent of the population completed secondary education (Barrionuevo, 2010) (*The Economist*, 2010). On average, Brazilian workers received only 7 years of basic schooling, almost half the amount of developed countries. On the positive side, the government claimed that middle school graduation levels had improved by 13 percent to 47 percent overall since Lula became President (Barrionuevo, 2010).

Thus, even though access to education was improved during Lula's Presidency, the quality of education lagged behind significantly. The poor quality of teachers was the biggest stumbling block. The traditional labour base of the PT played a role in the creation of this situation, as labour unions imposed extremely strict terms on the government. Schools were hampered by the massive amounts (about half of their entire budgets) they were spending on teachers' pensions, who could retire after as little as 25 years of service. Additionally, teachers were also entitled to be absent on 40 of the school year's 200 working days while receiving their full remuneration (*The Economist*, 2010). This could perhaps have been justified if the instruction pupils were receiving was generally of a high quality, but this was not the case at all (Cabral & Throssell, 2010).

Lula's administration was to blame for some of the on-going problems, as its educational program really only got underway by 2007. Between 2003 and 2005 Lula had dismissed two Education Ministers, causing significant governmental disruption (Barrionuevo, 2010). Lula had unmatched personal leverage when it came to his ability to inspire learners and parents to place greater emphasis on education, but he did not use this effectively. He missed the opportunity to use his tremendous personal influence, based on his own experiences growing up, to demand higher standards from learners and teachers. Instead, quite to the contrary, Lula often undermined the position of education further (Barrionuevo, 2010). For populist political reasons, Lula often pitted the educated elite against the uneducated masses in order to undermine the power of these elites. He regularly referred with pride to his own lack of education when criticizing the educated elites that had ruled Brazil for so long before he had come to power. In summation, inadequate policy implementation combined with Lula's populist rhetoric undermined the ability of his administration to achieve far greater educational transformation in Brazil. Efforts to improve **access** to education produced significantly positive results, but the **quality** of education remained very poor.

This situation was very serious, as it posed a significant threat to Brazil's future economic development. By the end of Lula's second term, 22 percent of the 25 million workers that joined the country's labour force in 2010 failed to meet even the most basic requirements of the rapidly expanding labour market (Barrionuevo, 2010). Brazilian businesses were increasingly complaining about the lack of skilled workers and there were fears that this was undermining the country's growth potential (Cabral & Throssell, 2010). Due to the poor education system, it is clear that there is a significant risk of the impressive economic successes achieved by the Lula government being undermined by a tremendous skills shortage. In effect, the failure of the government to solidify and improve the quality of the education sector could stop Brazil from achieving its future growth potential.

Despite the persistence of these problems, the focus on the improvement of education and the continued training of illiterate and unskilled adults clearly correlates strongly with the measures prescribed by the Third Way. Through its educational policies, the government of Brazil was clearly committed to upholding this end of its social contract by attempting to create an equality of opportunity position. The conditionality of the *Bolsa Família* in this regard is also of vital importance to the study, as it shows that the government had adopted a no rights without responsibilities position, in-line with the Third Way's approach to education and welfare.

4.4.2) Healthcare

As discussed above, infant healthcare was also part of the conditionality of the *Bolsa Família* program. But the government implemented further significant measures to improve both the quality of, and access to, healthcare. The policies pursued by Brazil in the fight against AIDS during this period gained worldwide recognition as they were intensified to levels never seen before. This included the government's campaign – together with South Africa – to improve the availability of generic medicines. During the Lula government's second term, the battle against HIV/AIDS intensified and became a significant priority. Within Latin America, Brazil had been the country that was the most severely affected by the disease, with a third of all HIV positive persons from the region living in Brazil. Interestingly, Brazil's geographic HIV distribution shows that the more impoverished North and Northeast of the country had a lower infection rate than the wealthier Southern parts. By 2007, 730 000 people were HIV positive in Brazil (USAID, 2010). The Lula government's firm commitment to ensuring access to prevention and

treatment services resulted in the national adult prevalence rate stabilizing at 0.61 percent since 2000 (USAID, 2010). Mother-to-child transmission of the virus also decreased dramatically, with the rate falling from 16 percent in 1997 to 4 percent by 2004. By 2007, the healthcare network for people living with HIV/AIDS consisted of 2 211 services that included medical dispensing units, day hospitals, homecare, convention hospitals, testing and counselling centres and specialized care services (USAID, 2010). This amounted to an increase of 33.5 percent in the rendering of HIV services between 2005 and 2007, reflecting an intensification of the government's healthcare strategy. This was also reflected by the fact that healthcare spending had reached 9 percent of the country's total GDP by 2009 (WHO). This was enormously successful, as 80 percent of the Brazilian population that required treatment in 2007, received it. The United Nations Children Fund (UNICEF) deemed this an "extremely impressive achievement by worldwide standards" (USAID, 2010). Brazil's active role in ensuring the wider distribution of generic antiretroviral therapy (ARV) paid-off during Lula's second term, as it enabled the government to provide patients with low-cost versions of most ARVs.

Lula's administration also intensified the fight against other serious diseases such as TB and malaria, but this did not mean that it paid less attention to less publicized medical issues. Dentistry was a huge problem in Brazil, where ten million people either had no teeth or dentures, and this became an important focus area of healthcare policies. This is clear when assessing investment levels in dentistry; it increased by more than 600 percent between 2003 and 2006. A vaccination campaign for people over sixty was also launched in April 2005, resulting in the vaccination of 84 percent of eligible people. The serious problem of influenza was not ignored, with the government significantly increasing its vigilance. Units tasked with investigating the types of flu viruses and its spread at the state level was established. With regards to improved access to medical services, the *Programa Saude da Familia* (PSF – Family Health Service) covered half of the country's population by 2004, with districts under the coverage of the PSF experiencing a drop in infant mortality rates from 31.1 per 1000 births in 2002 to 26.7 by 2004. Even though the achievements in these areas were not exceptional, it did illustrate the Lula government's commitment to the social well-being of Brazilians, with a special focus on the most vulnerable members of society.

The *Bolsa Familia* program continued to play the most important role in reducing poverty, and it was also an instrumental part of the government's healthcare approach. By 2007

it was becoming clear that the program should be credited for its role in combating child malnutrition, virtually eliminating it. When measured according to the “height-for-age deficit” formula, poor nutrition was reduced from 13.5 percent in 1996 to 6.8 percent by 2007. The most significant gains were made in the impoverished Northeast of the country, where the figure dropped from 22.2 percent to 5.9 percent (Monteiro, 2009: 951). This means that the government’s social policies had completely wiped-out the region’s relative disadvantage when compared to national malnutrition rates. Monteiro analyses this improvement and concludes that 25.7 percent of the decline is thanks to an improvement in maternal schooling; an improvement in purchasing power accounted for a further 21.7 percent; the expansion of primary healthcare led to 11.6 percent of the decline, while 4.3 percent thereof is accounted for by the increase in coverage of sanitation services: “in short, the causes of the impressive decline in child malnutrition in Brazil appear to lie in the improvements in coverage of essential public services and increases in family income, both particularly favouring the poor” (Monteiro, 2009: 951). Another testament to this decline is the rate of child mortality per 1000 children – this declined from 26 in 2001 to 21 by 2010 (World Bank, 2011). This is a clear example of the positive effects which redistributive policies and improved access to basic services had on the most vulnerable members of Brazilian society. Apart from the *Bolsa Família*, the *Programa Nacional de Alimentação Escolar* (PNAE – National School Meals Programme) played a crucial role in this regard and served over 36 million children by the end of Lula’s Presidency. It aimed to improve children’s learning capability through the entrenching of healthy food habits by covering at least 15 percent of every child’s daily nutritional needs. It stipulated that 70 percent of federal funding should be spent on basic products such as fruit and vegetables, milk, bread and other largely unprocessed foods, with a focus on integrating the program into localized patterns of production and consumption, resulting in the effective support and promotion of localised food production (Rocha, 2009: 56-57). During Lula’s first year in office, R850 million was spent on the PNAE. By 2007, this figure had grown to R1.5 billion, with funding per child having increased to R0.22 from R0.13. Additionally, this figure was increased to R0.44 per child living within indigenous population groups (Rocha, 2009: 57).

This analysis continues to demonstrate that the Lula government was committed to creating equality of opportunity in Brazil. The Third Way regards equal access to basic education and healthcare as fundamental in achieving this, and the PT administration clearly made

significant gains in extending access to both of these essential services, while utilizing the conditionality approach characteristic of the Third Way.

4.4.3) Agrarian Reform

Despite these efforts, there was one major area where the Lula government failed entirely to meet the expectations of its supporters during its first term. The agricultural sector is a major source of inequality in Brazil, which means that any analysis of social policies needs to include an explicit focus on agrarian reform. This is because both the Third Way and the PT itself regards poverty and inequality reduction as central to social policies. It is also important to discuss the shift which took place regarding the PT's position on land reform – from radical proposals to simply seize the land to a more moderate position once it came to power. This situation clearly ties into the broader Third Way moderation which took place within the party and warrants further assessment.

Agrarian reform was a major election issue for the PT and it had always had a good relationship with the most important social movement in this regard, the *Movimento dos Trabalhadores Rurais Sem Terra* (MST – Landless Workers' Movement). During the 2002 election campaign, the PT was adamant about the need for large-scale land reform. This was based on the assumption that agriculture was controlled by a small, yet extremely powerful, grouping of landowners who severely underutilized the available agricultural land in their possession. The PT claimed that these landowners were entirely dependent upon government support in order to maintain their dominance and that a PT-led government would summarily withdraw such support. It was argued that the entrenchment of this political support was the reason for the historical failure of well-organized landless movements such as the MST to achieve significant land reform, but with a PT government in power, this situation would be rectified. During the election campaign the PT relied on the simple, powerful message that all preceding administrations had been on the side of the landowners. The accuracy of this position has been questioned, as especially the Cardoso administration achieved “unprecedented” levels of redistribution (Mueller, 2004: 16). Nevertheless, this government conspiracy was regarded as the reason for the continuation of Brazil's enormously unequal land ownership patterns. The PT's proposed solution seemed brilliant in its simplicity: the government would simply expropriate the large, unused parts of the farms that were currently under the control of the

landowners (leaving the productive parts untouched) and redistribute it to the landless classes. The PT claimed that this would reduce unemployment as well as improve food security, as it would expand the existing amount of land under production (Mueller, 2004: 1).

Once the PT came to power, there was an initial push to implement certain policies related to the land issue. The government gave support to family agriculture, attempting to re-establish the small-scale farms that had come under tremendous pressure from the vast ranches. In 2003, the government set up a program in this regard and by 2006 it had lent more than R9 billion (US\$4 billion) to farmers in five thousand different districts across the country, with most of the support being focused on the impoverished Northeast. Additionally, the debts of some 825 000 farm families had been renegotiated. The state-run oil company, Petrobrás, also bought biofuel from these small-scale farmers.

However, this basically amounted to the sum of all achievements by the Lula government with regards to land reform during its first term. The PT had ruled out the seizure of productive agricultural land during its election campaign, based on the assumption that there were still large tracts of unused land available for redistribution. But they were in for a rude awakening as, by 2004, it was becoming clear to both the PT and the MST that there were not many unproductive pieces of land available for expropriation. This was in contrast to earlier periods when the PT's assessment that a large quantity of land was lying fallow would have been accurate. However, by this time, the reality of the situation had changed. Cardoso's impressive redistribution numbers relied heavily on these unproductive parts of farms and by the time Lula came to power, these previous policies had swallowed-up virtually all of the available land. In addition, the pieces of land which were still unproductive and available were often infertile, located in drought-ridden areas or extremely far away from markets (Mueller, 2004: 19).

This situation meant that, after a year in office, very little had been achieved by the PT administration. This led to the MST becoming the first organ of the PT's traditional labour base to become openly hostile towards the party as it embarked on a massive protest action during April 2004, dubbed "red April" (Mueller, 2004: 18). The MST proceeded to invade farms, federal offices and banks while also blocking access roads to farms. These acts were obviously illegal and the MST would only relent in cases where it became clear that legal action would be taken. However, the MST was also confronted by the new reality that there were not many available pieces of land. Instead, they openly focused on productive and fertile areas as targets

for invasion. This clearly meant that the MST had become more hostile and radical, as it implied a call for the redistribution of these productive farms – a call that would have been in contravention of the Land Statute which only authorized the expropriation of fallow land (Mueller, 2004: 19).

Further compounding the situation from the perspective of the MST was the Lula government's good relationship with commercial agriculture. Indeed, by 2004 it was becoming clear that Lula had made an ally in commercial agriculture. This stood in stark contrast to the traditionally hostile position of the PT and MST towards this important societal sector. The evidence for this is abundant, with the most striking example being the vigorous way in which the government pursued the removal of trade barriers to agricultural exports that were maintained by the United States and the European Union. In fact, by the end of Lula's first term, the federal government's relationship with commercial agriculture was at an all-time high, as the President repeatedly praised the strong performance of the sector: in 2003 alone the trade surplus of the agribusiness sector was US\$25.9 billion (Mueller, 2004: 20).

This clearly illustrates that the Lula government had not been able to meet the expectations of its supporters with regards to agrarian reform during its first term. During his 2002 election campaign, Lula had promised that this issue would be an absolute priority, with the goal of resettling one million landless families during his first term. The results indicate that he came nowhere close to reaching this figure and that he had in fact fared worse than his predecessor (Mueller, 2004: 12). The government also provided inadequate support to those families who were resettled, including those resettled during Cardoso's Presidency. Crucially, the reasons for this state of affairs are inexorably linked to the reasons for Lula's entire Third Way project: policies were significantly influenced by the circumstances affecting Brazil, combined with the rationale of global capitalism. Lula's government could not afford to undermine the economy by implementing radical land reform policies. A counterfactual offered by Mueller provides some illuminating insight: "if Lula had been elected in 1989, when he first ran, it would perhaps [have been] easier for him to adopt a more radical agricultural and agrarian strategy" (Mueller, 2004: 1). But Lula and the PT were not operating under the rationale of 1989, and this was reflected in the government's approach to agrarian reform.

The situation changed very little during Lula's second term. The PNAE created an opportunity for the government to support small-scale farmers, as it led to increases in the

incomes of 80 000 family farmers through the *Programa de Aquisição de Alimentos* (PAA – Food Procurement Program). This program focused on sourcing food locally for both the PNAE as well as the *Bolsa Família*. However, this is one of very few positive developments with regards to agricultural reform from the perspective of PT supporters. Any lingering hopes that agrarian reform would be revived during his second term did not materialize. In a very real sense, agrarian reform was the most significant victim in the PT's shift away from the extreme Left towards the Third Way.

In fact, land reform became even more stagnant during Lula's second term than it was from 2003 to 2006. One of the causes for this was the fact that legal proceedings challenging the constitutionally mandated redistribution of unproductive land increased during this period. Another factor which severely compounded the situation was the financial crisis that occurred in 2008, as it resulted in investors buying land in Brazil as a way of protecting their funds (Ortiz, 2011). These two factors, combined with the general lack of progress with regards to land reform, meant that very little progress had been made with regards to this highly controversial and emotional issue by the end of Lula's Presidency. The figures act as a testament to this. According to data released by the *Instituto Brasileiro de Geografia e Estatística* (IBGE – Brazilian Institute of Geography and Statistics) in 2009, 56 percent of Brazil's arable land was still owned by 3.5 percent of the population. This stood in contrast to the 1 percent owned by the poorest 40 percent of the population. Additionally, 46 percent of Brazil's farms were covered by properties larger than 1000 hectares, while only 2.7 percent was occupied by smaller holdings (Ortiz, 2011). Based on these figures, almost no change had taken place in Brazilian landownership patterns during Lula's two terms. In fact, João Pedro Stédile, a leading activist for the MST, claimed that "agrarian counter-reform" had taken place during Lula's Presidency (Ortiz, 2011). He based this conclusion on a "perverse logic" where legal proceedings were blocking redistribution at the same time as the financial crisis had caused ownership patterns to become more concentrated (Ortiz, 2011). This situation angered social movements like the MST and in 2010 it launched a fresh campaign aimed at pressuring the government to enable faster land redistribution. Protests took place in all but six of Brazil's 26 states, while 100 invasions of idle pieces of land took place.

Nevertheless, there were measures taken by the Lula government in support of *campesino*²¹ agriculture. Loans made available to small-scale farmers had tripled since 2001, accompanied by an expansion of income and employment insurance against natural disasters (Stedile, 2007). A requirement was also enacted as part of the government's biofuel program that benefitted these farmers, as 2 percent of the volume of diesel fuel had to be produced from vegetable matter. The government also supported the expansion of the availability of family-sized water-capturing cisterns in the arid Northeastern regions, while additional areas were demarcated as native historical zones. The federal government's general attitude towards *campesino* farmers also softened as social movements were not widely repressed (Stedile, 2007). Furthermore, the benefits of the *Bolsa Família* proved especially effective in the rural areas. This meant that areas which traditionally experienced the most unrest regarding agricultural reform benefitted greatly from the government's social policies which were unrelated to land reform, possibly partly compensating people in these areas for the lack of agrarian reform.

Despite this, the overwhelming majority of governmental measures were more favourably predisposed towards the capitalist interests of agribusiness. These businesses were financially supported through public banks to the tune of between R20 billion and R42 billion every year, in addition to the granting of credit through the BNDES (Stedile, 2007). Agricultural exports were encouraged through the application of tax-exempt status for the acquisition of supplies. In addition to direct measures, the government's inaction with regards to agrarian reform also indirectly benefitted landed elites. This included its general failure to settle landless families and to update the index used for nationalizations. It also failed to pass a law to expropriate farms that secretly used slave labour and accepted the conclusions by a House and Senate Investigative Committee that declared land occupations to be a major felony (Stedile, 2007).

Based on the analysis carried out here, it is clear that the Lula administration failed miserably in its attempts to address Brazil's gaping agrarian inequalities. In fact, extremely limited attempts were made in the first place to address these inequalities. The reasons for this are twofold. Firstly, it is clear that there were significant structural constraints placed on the government, which limited their scope for action from the very beginning. The need to secure food supplies and ensure export growth meant that radical measures could not be adopted. This

²¹ A term commonly used to refer to rural or peasant agriculture.

clearly stemmed from the government's commitment to Third Way economic management, which placed a premium on ensuring economic stability. Additionally, the redistribution undertaken by previous administrations had placed a burden on the state in terms of providing support for newly resettled rural farmers. This was perhaps the one area where significant efforts were made by Lula's team. Previous redistributive measures also consumed much of the remaining available productive land.

However, structural constraints do not account for the obvious lack of commitment from the Lula government towards agrarian reform. The administration was clearly not willing to challenge the entrenched power of conservative landed elites in Brazil. Such a move would surely have led to a political power struggle that had the potential of heightening capitalist hostility towards the government. Based on the importance the government had placed on economic stability and growth, Lula could ill-afford such a situation, which would have undermined the profitability of the agricultural sector and may have had other unforeseen negative consequences for his relationship with capital. But the PT government still had to appease its voting base (which now included poor rural workers). This appeasement took place through the intensification of cash-transfer programs like the *Bolsa Família*. Thus, instead of tackling the structural inequalities of the Brazilian class structure directly by enacting significant agrarian reform, Lula focused on more short term vote-capturing measures aimed at appeasing impoverished groups. This resulted in a structurally unaltered situation that provided no real solutions to the country's agrarian inequalities.

4.5) The Results of Lula's Poverty Reduction Strategies

The traditional supporters of the PT, and Brazilian labour groups, would not have been satisfied with the government's performance during Lula's two terms based only on the vastly improved economic and financial situation. Similarly, Lula's new constituents, the millions of impoverished Brazilians that assured his government of a second term in office, would not have been focused on GDP figures in judging the success or failure of the PT government's eight years in power. Instead, poverty reduction and improved living conditions were central to Lula's support among the latter group, while a strong showing in this regard would have served to prevent the further intensification of criticism levelled at the PT by organized labour. Programs like *Bolsa Família* had been successful to a limited extent during Lula's first term, as it had

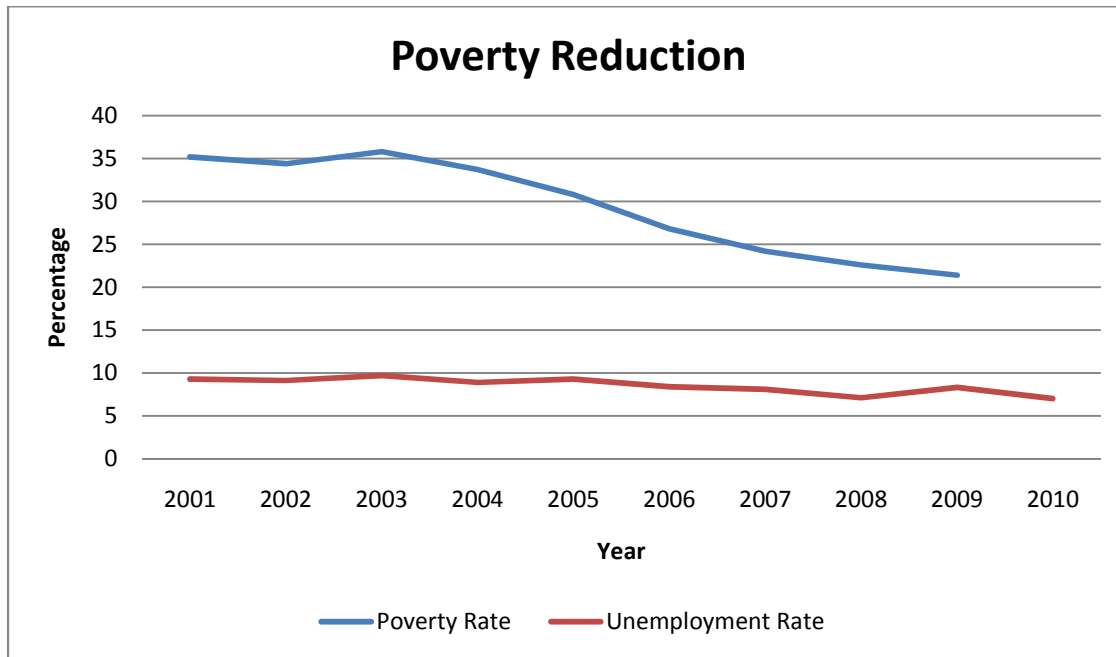
largely only become effective by 2006. The poorer voters who returned Lula to power in that year would have expected the trend to continue, with poverty reduction strategies improving in their effectiveness throughout the PT government's second term. Crucially, based on the distribution of votes during the 2006 election, any attempt by the PT to stay in power after the 2010 elections would also depend in large part upon its effectiveness. The prospect of contesting an election without Lula as the Presidential candidate for the first time in the history of the PT placed further pressure on the government to deliver, as it was still unclear just how much of the PT's support depended on the considerable charismatic appeal of Lula himself. It is against this background that the success of social policies by the end of Lula's Presidency will be evaluated.

The ensuing section will analyse the most crucial aspect of Lula's two terms in office: the success or failure of the PT government in reducing poverty and improving the living conditions of impoverished groups. The results with regards to education and healthcare were discussed above, and it was clearly demonstrated that greater access to these basic services had been achieved, in order to create greater equality of opportunity. The analysis of the results of social policies will be broadened in this section to assess the overall impacts of the Lula administration's poverty reduction strategies. These strategies were the core aims of the Lula administration, with the focus on economic policy being utilized as a means to this ultimate end. Thus, how effective was the government's Third Way policy approach in achieving its social goals? As discussed above, the results regarding healthcare, agrarian reform and education were mixed. But what about the most fundamental aim of the PT administration – reducing poverty and inequality? Perhaps even more significantly, did the Lula government's focus on economic fundamentals as a means to reduce poverty through innovative social policies actually result in significant poverty reduction? What were the broader effects of the government's social policies from 2003-2010?

At the most basic level, the poverty rate declined significantly from 2003 to 2010 (see Figure 4.1). When Lula came into office it stood at 35.8 percent; by 2009 it had fallen significantly to 21.4 percent. The unemployment rate also fell: from 9.7 percent in 2003 to 7.0 percent by 2010. Inequality also declined, as the Gini coefficient stood at 58.7 in 2001 and by 2010 it was down to 53.8, while life expectancy had increased from 70.5 to 73 during the same period. These figures clearly illustrate that the government's poverty reduction strategies had

indeed been successful. Lula’s administration had engineered significant social upliftment during its eight years in office.

Figure 4.1: Poverty Reduction



In general, the effectiveness of social policies had accelerated during the PT government’s second term (see Table 4.2). This vindicated the belief of Lula’s new constituency, as the impoverished groups that voted for him in 2006 had hoped for just such an acceleration after it became clear from the end of 2005 that programs like the *Bolsa Família* were working. It is no coincidence that this acceleration took place during the same period that the PAC was being implemented. When keeping in mind the negative impact that the global financial crisis had on the economy, it is truly remarkable how effective both the PAC and poverty reduction strategies were.

Table 4.2: Second Term Poverty Reduction Indicators

Year	Poverty Rate (% of population living below	Unemployment Rate (% of total labour force)	Life Expectancy (years)	Gini Coefficient
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	poverty line) ²²			
2007	24.2	8.1	72	55.0
2008	22.6	7.1	72	No info
2009	21.4	8.3	73	54.0
2010	No info	7.0	73	53.8

Sources: World Bank, 2011; CIA World Factbook, 2011; Anderson, 2011

How effective was redistribution in addressing inequality? It appears as if a turning point was also reached after 2005 in this regard. Since then, the income of the poorest 25 percent of the population grew at nearly double the rate of the top 25 percent (Anderson, 2011). This is a crucial figure, as it delegitimizes the fears that were still abundant during Lula's first term that the government was merely engineering "growth without redistribution". Furthermore, continuing the trend established during Lula's first term, more than 25 million people moved into the middle class, demonstrating an astonishing amount of social mobility²³. This was a truly remarkable achievement because, in 2010, the middle class became the demographic majority in Brazil for the first time in its history (Anderson, 2011). This was clearly not a case of growth without redistribution.

As noted above, the *Bolsa Família* had proven to be two-and-a-half times more effective in reducing poverty than minimum wage increases (*Associated Press*, 2006). Despite this, the minimum wage also increased by 50 percent between 2004 and 2010 to US\$300 per month. This increase was not only advantageous for workers earning a minimum wage, but indirectly benefited at least 18 million people (Anderson, 2011). This was because it had enabled informal sector workers to also demand higher wages, while the Statute of the Elderly, which was passed by the Lula government, had indexed pensions to the minimum wage. Access to credit was also expanded to include people who never had bank accounts before through the system of *crédito consignado* (Payroll Loans) (Anderson, 2011). This granted people access to loans and automatically deducted repayments from monthly wages and pensions.

The achievement of this social upliftment was not expensive to the Lula government. Lula often remarked that "it is cheap and easy to look after the poor" (Anderson, 2011). This

²² Poverty headcount ratio at \$2 a day (Purchasing Power Parity).

²³ For an insightful criticism of the methods used to determine these statistics see Anderson, 2011.

certainly appears to be true when considering that the *Bolsa Família* program only cost 0.5 percent of GDP in 2009 (Roett, 2010: 113). And herein lays another significant achievement of his administration's social policy: it altered the discourse of poverty reduction. In 2001, improving the living conditions of Brazil's 50 million impoverished citizens was seen as a challenge almost too enormous to overcome. By 2010, Lula had demonstrated that poverty reduction did not need to be an expensive, complicated and seemingly impossible task. His administration proved this because the significant poverty reduction it had achieved had been inexpensive; not only in financial terms (as it certainly had been), but also in political terms. This was because Lula's strategies required concessions from wealthier societal groups which generally came at very little cost to them. In fact, the opposite is true. Wealthier groups also benefitted enormously during the Lula years – perhaps more than during any other period in Brazilian history – because the government's commitment to the economy was unwavering and this had created conditions under which capitalists were able to thrive. This demonstrated to wealthier societal groups that they need not fear the costs of poverty reduction. Social upliftment did not have to be a threat to elite interests anymore. The establishment of this view was a profoundly influential social achievement.

The piece of evidence that most vividly shows that this view had in fact been adopted by Brazilian society relates to the *Bolsa Família*. The rationale of the program had become unquestionable. This emerged clearly during the 2010 election campaign as candidates from all parties swore their commitment to maintaining the *Bolsa Família* and further expanding its scope (Roett, 2010: 3). The fact is that, regardless of which political party was successful in producing Lula's successor, there was no way that the logic of poverty reduction strategies could be questioned anymore. The Lula administration had secured a lasting place for serious social upliftment measures as part of any future governmental policy.

Ultimately, there is no doubt that the Lula government's social policies were successful in achieving a significant reduction in poverty levels, and this was reflected in Lula's unprecedented approval rating of 73 percent by the end of his Presidency (Author Unknown, 2010). More directly, the number of impoverished Brazilians dropped from 50 million to 30 million in the space of six years, undoubtedly representing the greatest poverty reduction in Brazilian history. But the most crucial aspect of this reduction for the purposes of this study is the fact that "half of this dramatic transformation can be attributed to growth, half to social

programmes – financed by higher revenues accruing from growth” (Anderson, 2011). This quote clearly captures the methodology employed by Lula’s government – prioritizing economic growth, not as an end in itself, but as undoubtedly the most viable means to its ultimate end – reducing poverty and inequality. Perhaps the most apt description of Lula’s approach is to be found in the motto of the country: *Ordem e Progresso* (Order and Progress) – in that order. Economic order had to be established first, followed by an acceleration of social progress.

4.6) Conclusion

This chapter has attempted to convincingly demonstrate that the Lula government followed a Third Way approach through its social policies. This was done by analysing these social policies, including welfare and redistributive programs such as the *Bolsa Família*; in addition to education, healthcare and agrarian reform policies. It was also established that these policies were successful in achieving the most basic aim of the PT government: to reduce poverty and inequality.

However, of even greater importance is the fact that these successes were achieved through the government’s adoption of Third Way policies. The Lula government was firstly able to achieve economic stability and growth through the imposition of conservative economic policies. This was followed by an expansion and deepening of social policies, resulting in the extremely impressive poverty reduction discussed in section 4.4. Even though there were undoubtedly some significant differences owing to the developing context of the Brazilian society, there is little doubt that the approach of the Lula administration closely mirrors the precepts of the Third Way and that it is possible to conclude that the impressive development which took place in Brazil from 2003-2010 is at least partly thanks to the adoption of this position.

CHAPTER FIVE

CONCLUSION

5.1) Summary of Findings

The research question which this study has attempted to answer is: how did a traditionally “radical” Leftist party, such as the PT, succeed in increasing growth and reducing poverty in Brazil within the context of the globalized economy? The answer to this question was based on two interrelated arguments. Firstly, it was postulated that the PT’s ability to moderate away from its radical earlier position towards the Third Way was crucial. The party was able to systematically restructure itself, but it was the way in which this restructuring occurred that partially enabled it to successfully adapt to globalization. Moderation occurred through a “bottom-up” approach, as the internal democracy of the PT did not enable significant restructuring being imposed from the “top-down”. This meant that the labour base of the party was actively involved in the shift away from radical positions and towards the Third Way. The process of moderation was a tumultuous one, but it was ultimately successful because party leaders as well as labour constituents at the base of the movement recognized the need for restructuring the party if it was to effectively deal with the challenges posed by globalization. This restructuring was a key factor which enabled the PT to implement orthodox economic policies during Lula’s administration.

The second factor which accounts for the success of the PT government is reliant on the first, as significant moderation enabled the government to adopt its particular approach to development. The ultimate aim of Lula’s administration was to significantly reduce poverty and inequality, but the government recognized that this could not be achieved through radical means within the context of the globalized economy. Instead, the government adopted a sequential approach to development by initially focusing on solidifying Brazilian economic fundamentals and achieving significant economic growth, followed by the intensification of poverty and inequality reduction strategies. Lula’s government fundamentally believed that it would not have been possible to significantly reduce inequality and poverty if the solidifying of economic fundamentals did not precede intensive poverty and inequality reduction strategies. This makes the order in which these two strategic objectives were implemented of crucial importance: strong economic fundamentals and growth were ensured first, while inequality and poverty reduction

followed. This study found that these two factors do indeed explain why the PT was able to achieve significant levels of economic growth, as well as poverty and inequality reduction, within the context of the globalized economy during Lula's Presidency.

5.2) Significance of the Study and Opportunities for Future Research

Essentially, the findings illustrate that Brazil under Lula represents a case where the Third Way was successfully adopted within the context of a developing country. This is of clear significance to the broader Leftist project, as it provides evidence which suggests that the Third Way may be a more valuable approach than is commonly assumed. This means that, within development discourse, the position of the Third Way potentially needs to be at least partially re-evaluated. The model used to achieve Brazilian economic and social development during the period under review adds newfound weight to the Third Way's relevance (even though it should be noted that every country faces unique problems and that there is probably no "one size fits all solution" to achieving economic growth and reducing poverty and inequality).

This point sets the stage for identifying possible future areas of research. Future research needs to establish whether other countries have implemented similar Third Way policies in order to achieve some significant economic and, ultimately, social development. The challenge is to do additional research in order to ascertain whether any discernable pattern emerges which indicates that Third Way reforms can consistently be quite successful. If no such pattern emerges through future research, the possibility exists that Brazil is an exceptional case and that the lessons which can be drawn from its development are limited. This would obviously undermine the viability of the Third Way in developing countries. In essence, future research should attempt to establish whether the Third Way is truly as relevant to developing countries as this study suggests through its examination of the Brazilian case study. Future studies along these lines would also add to the broader development discourse, where the domination of the Washington Consensus still lingers, even after the failures of structural adjustments and the devastating impact of the recent global financial crisis. Future research building upon the findings of this study could potentially illustrate that the Left in general (as the custodian of the Third Way) has a lot more to offer in the era of globalization than is often assumed, even by Leftists themselves.

5.3) Concluding Remarks

Through this study, a potential blueprint has emerged for the conducting of future research regarding the relevance of the Third Way, especially for developing countries. If a trend emerges within Latin America, as well as in the broader developing world, of countries attempting to implement the measures of *Lulismo* in the hope of achieving economic and social development similar to Brazil, then the relevance of this study will increase even further. It should be kept in mind that this is one of very few studies which have attempted to assess the applicability of the Third Way to developing countries. This is because the Third Way is generally regarded as being relevant only within the context of the countries where it emerged – including Great Britain and continental European states. However, this study has shifted the analysis into an unfamiliar context, with encouraging results emerging regarding the applicability of the Third Way to the Brazilian developmental case.

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