

Economic policy and social movements in Brazil

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Night mass protests in Brazil.

Brazilian ISI was driven by the sequenced expansion of manufacturing industry, starting with non-durable consumer goods, and it subsequently deepened to include durable consumer goods and simple basic goods. At a later stage, ISI deepened further into capital goods and advanced machinery. Agriculture declined from 36% of Gross Domestic Product (GDP) in 1910 to 10% in 1980, and the share of manufacturing increased from 14% to 41% of GDP.

Per capita income growth rates exceeded 8% per year between 1950 and 1980. This pattern of development created high demand for labour, leading to an increase in formal employment and a marked decline in unemployment, informal employment, unpaid labour and own-account work. At the same time, income inequality increased, especially during the military

dictatorship (1964-1985). At the end of this period, the richest 10% of the population captured 50% of national income.

The two oil shocks in the 1970s and the international debt crisis in the early 1980s triggered mounting balance of payments, fiscal and exchange rate troubles, and a slide towards hyperinflation, which peaked in the mid-1990s. In the early 1980s, it was widely agreed that political and economic changes had become essential.

The first significant change was the collapse of the military regime. A mass movement for democracy led to the transfer of power to a civilian president in 1985. The democratic transition was completed in 1988, when a new constitution secured significant advances in basic freedoms and social entitlements. The political transition to democracy was followed by the economic transition to neo-liberalism.

The context of social movements and economic problems in Brazil are found in its 20th century import-substitution industrialisation (ISI) and the transition to neo-liberalism that followed. However, this transition has led to class conflict, writes

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Successive waves of 'economic reform' led to the liberalisation of trade, finance and capital flows, the 'flexibilisation' of labour law, permanently contractionary fiscal and monetary policies, central bank independence and inflation targeting, the overvaluation of the exchange rate, and a large programme of privatisations leading to the dismissal of half a million workers.

The promotion of alliances between foreign and domestic capital in several manufacturing sectors brought efficiency gains through new production methods, labour-saving technologies, large-scale subcontracting and a change in specialisation including the shift of the product mix towards lower value added goods. Manufacturing productivity rose by 7% per annum during 1990-97, while manufacturing employment declined by 40%. Over 1.5-million manufacturing jobs were lost in the 1990s.

Low aggregate demand reduced economic growth which, in turn, depressed investment, in a vicious circle: per capita income rose only 2.7% per annum between 1981 and 2003, and Brazil fell from being the world's 8th largest economy, in 1980, to 14th place, in 2000. There was also a large shift in employment towards the informal sector.

During the 1990s, 54% of the jobs created were either informal or unwaged, and, by 1997, the informal sector employed 25% of the urban workforce. Unemployment in the metropolitan areas increased from 9% in 1989 to 18% in 1998, and the average length of unemployment increased from 15 to 36 weeks. The result was the decline of the labour share of national income from 50%, in 1980, to 40%.

WORKERS' PARTY

The Workers' Party (PT) was organised between 1978 and 1980, based on the alliance between the political and the trade-unionist wings of the Brazilian left. The former included many groups struggling against the military regime, and the liberation theology wing of the Catholic Church. The latter included the so-called new unions, most prominently Lula's metalworkers' union. They were concentrated in the durables and capital goods industries developed in the second stage of ISI, but also included other formal sector unions across the country.

The early PT was a mass democratic party. It was not overly centralised like the old communist parties, it was internally democratic, and welcomed tendencies and even whole organisations. It also aimed to be an independent party of the working class. This led the PT to reject political alliances in its early years, and discourage anyone without the right social and economic profile from joining the party. The PT became the hub of an alliance of social movements, including CUT, the largest trade union confederation in Brazil, MST,

the landless peasants' movement, and many organisations and movements around the country. The party grew rapidly, reaching 800,000 members in less than 10 years. CUT represented up to 20-million workers, and the PT was very successful in electoral terms.

This early growth of the PT was based on two platforms. First, the political demand for radical democracy, which included political democracy plus the demand for greater economic democracy in one of the most unequal countries in the world. Second, the economic demands of the categories closely associated with the PT, especially the metal and bank workers, rural sector workers, civil servants, teachers, and other formal sector workers.

The restoration of democracy changed profoundly the terrain in which the PT operated. For example, democratisation satisfied the political demands of the left, like civil rights, free elections and pluralism, but only through their disconnection from the economic demands of the majority. Democracy also legitimised the state institutions. The PT increasingly had to operate strictly within the bounds of legality, and it had to accept the logic of campaign finance, coalition-building, piecemeal reforms and efficiency in local government.

These difficulties became worse in the early 1990s, with the economic transition to neo-liberalism. Neo-liberalism hit especially hard the sectors that were the backbone of the PT, that provided most of its strength, and that were affiliated to the most active trade unions. The problem for the PT was how to reconstruct its political platform and sources of support. The party leadership realised this, and moved the PT towards the centre, to make it electable and be able to govern effectively. This required the marginalisation of the party's Left, and making alliances with other political forces.

This move eventually led to Lula's election to the presidency in 2002, after three consecutive defeats. However, although the election had created the expectation of change, President Lula did not have a mandate for radical change, and he was not committed to specific outcomes or even processes of change. To understand why, we must realise that Lula was not elected by the constituency of the 'early PT'. He was elected, instead, by an alliance of losers: four social groups that had in common only the experience of losses under neo-liberalism. These were the unionised working class, that was the backbone of the Left and that had suffered the heaviest losses under neo-liberalism; the informal working class; a large group of industrial capitalists; and a group of right-wing oligarchs who spotted an opportunity to capture influence and resources in exchange for their support in Congress and in the state legislatures.

Consequently, the Lula government had limited scope to break with neo-liberalism from the start. Lula had no clear support to attempt a serious policy shift, and the PT commitment to avoid economic instability compelled it to manage the neo-liberal compact under the continuous threat of balance of payments crises.

During Lula's first administration, investment and GDP growth rates remained as weak as they had been since the neo-liberal transition. This was tempered by marginal income distribution, mainly through the expansion of government's social programmes and moderate increases in the minimum wage. When finance minister Antonio Palocci and several PT leaders were forced to resign in 2005, because of a major political scandal, there was an opportunity to reset Lula's economic policies in his second administration. The government introduced a strategy of 'national economic development' structured around four axes, which remain the policy drivers under Lula's successor, President Dilma Rousseff.

These axes include:

1. More expansionary fiscal and monetary policies and lower interest rates.
2. Rising minimum wages and higher transfers to address inequalities and expand the domestic market.
3. A stronger regulatory and planning state.
4. Higher public investment and stronger support for large domestic firms ('national champions').

These policies did not replace the earlier neo-liberal policies; instead, they were added to them. Consequently, since 2006 Brazil has had hybrid economic policies, with national developmentalist and growth-accommodating policies placed uneasily on top of inflation targeting, floating exchange rate and high fiscal surpluses.

CLASS STRUCTURE

Brazil's class structure is made up of two main social groups: the *élite*, or the bourgeoisie and the middle class, and the broad working class, or the proletariat and the informal proletariat, which, in turn, includes the semi-proletariat and the lumpen-proletariat. As a rough approximation, the 2010 Census suggests that the capitalists comprise 1% of a population of around 200 million, of which 100 million are in the labour force; 70% of them are workers, 16% in the middle class, and 11% in the informal proletariat.

The Brazilian bourgeoisie includes two factions, distinguished by their relationship with the form of accumulation and, specifically, with neo-liberalism, international integration and financialisation.

The neo-liberal bourgeoisie is closely aligned with foreign capital and globalised finance. It includes most banks, insurance companies, large consultancies and accountancy firms, internationally-integrated manufacturing capital, and the media. Its policy priorities are the financialisation and international integration of the Brazilian economy,

and it rejects a 'national' development project. This is supported by central bank independence and inflation targeting, the liberalisation of capital flows, privatisations and market liberalisation, the dismantling of state capacity to allocate resources and steer development, and the reversal of state-led mechanisms of distribution.

The internal bourgeoisie includes most manufacturing conglomerates, construction, agribusiness, state capital, and most domestic industrial groups. This fraction wishes to expand their scope for global accumulation, which can be done only with state support. They need low real interest rates, state investment in infrastructure and research and development, diplomatic assistance, subsidised loans, preferential state procurement, and restrictions against foreign capital. This faction of the bourgeoisie supported the election of Lula in 2002, and the PT's developmentalist programme since 2006.

The conflict between the two factions of the bourgeoisie has expanded greatly the political space of the PT, precisely when its traditional base in the formal working class had been eroded by neo-liberalism. Conversely, the PT's developmentalist policies have brought together the interests of the internal bourgeoisie and those of the broad working class.

Moving to the working class, it is clear that, while the class created under ISI was centered around a fast-growing manufacturing sector, today's workers have a much more diversified employment pattern centred in services. The working class also includes a larger proportion of young, low-paid, poorly educated subcontracted workers, who have difficulty accessing stable and well-paid jobs both because there are fewer of those jobs, and because these workers are badly prepared to apply for them.

In the absence of a prospect of socialism, the working class shares with the informal proletariat an interest in policies leading to the

reduction of poverty and inequality, and with the internal bourgeoisie an interest in expansionary macro-economic policies and domestically-centred capital accumulation. These ambitions can best be secured through a democratic and pro-poor development strategy, including activist industrial policies, low interest rates, exchange rate management and controls on finance and on capital flows. This should be supported by employment and wage growth, the formalisation and regulation of the labour markets, improvements in working conditions and the limitation of working hours. They would also benefit from the consolidation of the civic rights in the constitution, including public health, education, transport, housing, sanitation and security, and the expansion of federal transfer programmes.

The informal proletariat has strong reasons to support the distribution of income and assets, especially land, the social provision of basic goods and services and government income transfer programmes, making it a natural ally of the working class around a pro-poor development strategy. In turn, the working class has a vital interest in the improvement of the lot of the informal proletariat, not only out of solidarity, but also to prevent the employers undercutting their pay and conditions.

However, the implementation of this progressive economic programme is limited by the inexperience of this 'new' working class in social struggles. During the 1990s, trade union activity declined sharply, measured by the number of strikes, the fragmentation of collective bargaining and the decline in trade union-led agreements. Yet, there was a recovery of strike action in recent years. In the second half of the 1980s there were around 2,200 strikes per year in Brazil. Strikes fell below 1,000 between 1991 and 1997, and then fell even further. Numbers started climbing again in the mid-2000s, from 300 strikes per year between 2004 and 2007 to nearly 900 in 2012.