

## Extract on Brazil from Political Report to COSATU Congress , September 2012

### A high road scenario: Creating our Lula Moment?

*Always bear in mind that the people are not fighting for ideas, for the things in anyone's head. They are fighting to win material benefits, to live better and in peace, to see their lives go forward, to guarantee the future of their children. **Amilcar Cabral***

4.1. The ANC is proposing to launch a second, more radical, phase of the transition, which will coincide, with the second term of the ANC post-Polokwane. This raises interesting parallels with the Brazilian experience, where the first term of the Workers Party (PT), led by President Lula from 2002-6 was fraught with all sorts of difficulties. In President Lula's second term (2006-10) he engineered a dramatic turnaround, which saw a series of amazing achievements in terms of improvements of the living standards of the working people of Brazil. These achievements continue to this day, under the leadership of his successor, President Dilma. We refer to this turnaround as the 'Lula moment' and pose the question as to whether we are able to drive our own Lula Moment, given the challenges, and possibilities we have outlined under the low road scenario.

#### 1.1.1 What is happening in Brazil

4.2. A revolution is taking place in peoples living standards in Brazil, and other parts of Latin America. Strides are being made in reducing poverty, creating decent work, and reducing inequality and unemployment, over a short period. At the heart of the gains in the labour market, is the consolidation of *national minimum wages and collective bargaining*, with a deliberate strategy driven by progressive governments, to substantially increase the real level of minimum wages, and address the plight of the working poor. The other key leg of this strategy to raise peoples incomes, is the introduction of *social protection measures* to ensure that all the poor, including the unemployed, have access to basic income. These redistributive policies have been effectively combined with state-driven industrial and investment strategies. How have these achievements been driven politically in Brazil<sup>1</sup>?

4.3. In the first term of his government (2002-2006), President Lula was tainted both by the adoption of neo-liberal economic policies, as well as a serious problem of corruption in the Party and in government: "During Lula's first administration, conservative fiscal and monetary policies prevented any significant improvement of the country's social indicators, and wages and employment stagnated. To cap it all, in the run-up to the 2006 elections the administration was battered by a relentless succession of corruption scandals backed up by media and political hysteria which suggested that Lula might be impeached or, at the very least, defeated in his bid for re-election."

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<sup>1</sup> The 2011 COSATU Central Committee discussion paper on the international situation (summarised in this report) reflects in more detail on the progressive Latin American experience. For the purposes of this section we focus mainly on Brazil.

- 4.4. Lula, together with his allies in the party, state, and the broader movement, acted decisively to turn this around, in his second term, moving to address these problems in policy and leadership, both in government and the party. Policies were implemented which radically increased the income of workers and the poor (see box below). Government and Party leadership was changed, and important policy shifts were engineered, regaining the support of worker and peasant organisations, and led to a huge increase in support from the masses. By the end of Lula's second term (2010), surveys put his support at 80%, making him the most popular leader in the world. An interview in November 2010 with Professor Alfredo Saad-Fihlo, a left critic of Lula's government who acknowledges the progressive impact of this turnaround, outlines how this was done, including:
- 4.5. "He recomposed his top team, decimated by the scandals. Heterodox<sup>2</sup> economists and nationalist diplomats aligned with the PT were appointed to head the Ministry of Finance, the Secretariat of Strategic Affairs and the National Bank for Economic and Social Development (BNDES), the largest development bank in the world... they have been able to implement activist and distributive fiscal and financial policies, and to moderate the Central Bank's orthodoxy....The administration pushed up the minimum wage gradually and consistently, and embarked on a reasonably ambitious 'programme of growth acceleration' focusing on investments in infrastructure, transport and energy. In the higher education sector, 14 new federal universities were created, staffed by thousands of new academics, to cater for 210,000 new students."
- 4.6. "The government's social programmes were also expanded, especially 'bolsa família' (an income support programme for poor households). The buoyant economy created 14 million new formal sector jobs... the social benefits paid in the poorest regions supported local production, rather than fuelling purchases of imported durable goods. The strengthening of the domestic market, the expansion of production and careful banking regulation helped to shelter the Brazilian economy from the ravages of the global crisis: GDP is poised to grow by 7.5% in 2010. The minimum wage rose by 67 per cent between 2003 and 2010 ... the Gini coefficient fell from 0.57 in 1995 to 0.52 in 2008, and salaries rose from 58% of GDP in 2004 to 62% in 2009... Lula's government has also played an important role in the political stabilisation of Latin America and, in particular, supporting the left-wing administrations ...None of these outcomes is revolutionary, but they are real enough. For these reasons ...Lula's popularity among the poor, and in the poorest regions, is overwhelming. .."<sup>3</sup>
- 4.7. These major advances in Brazil don't mean that it has solved its fundamental problems. It remains a capitalist society, with high levels of inequality, poverty, violence and landlessness. Even though it has begun to make huge strides in reducing some of the most negative features of Brazilian society, the Brazilian government continues to face criticism from the left *inter alia* for:
- Environmentally destructive policies, including the destruction of important environmental systems, and displacing of communities, particularly through large agro industry, energy exploitation and infrastructural developments;

<sup>2</sup> Economists who draw from various schools of thought, not just traditional conservative economics.

<sup>3</sup> <http://www.lab.org.uk/index.php/news/57-focus/688-brazil->

- The absence of an agrarian reform programme, and a high concentration of land ownership;
- While fiscal policies have become more progressive, and the Treasury given a developmental thrust, Central Bank monetary policies remain conservative, with high interest rates. This is countered by the use of state facilities which provide finance at very low interest rates;
- Growing dependence on the export of primary commodities, despite its industrial policy;
- Persistence of relatively high levels of corruption;
- The transformation of society has tended to be driven from above, popular forces remain relatively fragmented, and there is an over-reliance on the state, unlike other Latin American countries like Venezuela and Bolivia, which have entrenched popular participation, and promoted the deepening of democracy.

Nevertheless the achievements of the last decade have been dramatic...

### Transforming peoples lives: how this was achieved

**More pay and more jobs: How Brazil got both<sup>4</sup>** From 61.4 million people in 2003, the number living in poverty dropped to 41.5 million in 2008 (a decline from 34.3 per cent to 21.9 per cent of the total population). *The recovery in the purchasing power of the minimum wage has been crucial here. It really gained momentum from 2005 on, when the federal government made an explicit commitment to promoting it. Between 2003 and 2008, the minimum wage rose faster than inflation, providing workers at the base of the income pyramid with significant real gains (38.3 per cent).* There has also been an important, though smaller, increase in the real median wage. Its purchasing power rose by 23.5 per cent.

The **proportion of formal employment** in the whole economically active population (including the unemployed) aged 15 and above increased from 36.1 per cent in 2004 to 40.9 per cent in 2008. There was an especially significant increase in the formalization of jobs for youth. This is important, as formalization brings workers within the effective scope of labour law and social security provisions. Recent Brazilian experience **contradicts the assumption that a minimum wage will lead to net job losses** and inflationary pressures. One of Brazil's greatest successes since 2003 has been the **creation of 15.3 million formal jobs**, which has led to growing **formalization of the country's labour force**. Indeed, during the 2000s, formal job creation outpaced informal job growth by a three-to-one ratio. The **unemployment rate** when Lula took office in 2002 was 12,6%. By December 2011 it had been reduced to 4.7%<sup>5</sup>.

**The role of trade unions** Although it has seven recognized trade union centres and more than 1,600 unions, the Brazilian labour movement has been demonstrating greater unity in action in recent years. Even during the crisis of 2008–09, a large proportion of occupational categories bargained up the purchasing power of their wages. The negotiating climate has changed significantly since 2003. *Rights are no longer being bargained away in exchange for the maintenance of employment.* Recently, with the relaunch of the development agenda, increasingly the trade union movement's focus has shifted from simply defending jobs to winning back lost rights and broadening out its demands. Among the main issues around which the unions and the trade union centres are currently

<sup>4</sup> This is based on the paper by Paulo Baltar et al., *Moving towards Decent Work. Labour in the Lula government: Reflections on recent Brazilian experience*, GLU Working Paper No. 9, 2010

<sup>5</sup> [en.wikipedia.org](http://en.wikipedia.org) It has subsequently increased slightly in 2012, with the economic downturn.

mobilizing are: i) reducing weekly working hours to 40; ii) regulation of subcontracting; iii) the minimum wage revaluation policy<sup>6</sup>; and iv) defending a development model that distributes income.

**ILO & G20 policy brief on Brazil, September 2011** During the 2000's Gini coefficient measure of inequality was reduced from 0.58 to 0.54. *Two-thirds of the fall in inequality is attributed to increases in wages, of which one-third stems from earnings equivalent to the minimum wage (between 2003 and 2010, the real value of the minimum wage increased by 81 per cent).* The remaining distributional gains stem from the social safety net, in particular the rural pension, which provides benefits equal to the minimum wage to 8.4 million rural workers; the Continued Benefit Provision, which provides social assistance pensions equal to the minimum wage to 3.5 million elderly poor and disabled; and the flagship *Bolsa Família* conditional cash transfer programme, which provides modest benefits to a quarter of the population, at the low cost of 0.4 per cent of GDP.

The increase in incomes of the poor and middle classes has fuelled **domestic demand**. Because Brazil retains an important manufacturing base, the growth in consumer demand has benefited the economy and spurred job creation, particularly in manufacturing and distribution as well as among large retailers, where jobs are predominantly formal.

Changes to **labour inspection** methods in Brazil have improved labour law compliance while contributing to increased formality.

The recent economic crisis did not halt the trend towards a greater share of formal employment in Brazil's labour force. When the international economic crisis hit the country in 2008, GDP contracted by 4.4 percentage points and GDP declined by 0.6 per cent in 2009. Yet in 2009, the country was able to generate 1.7 million formal jobs, an increase of 4.5 per cent over 2008. The strong labour market performance was due in large part to the Government's effective **response to the economic crisis**.

### 1.1.2 Lessons from Brazil

4.8. These achievements are important, because they show that, with the necessary political will, and strong and capable leadership, a turnaround can be achieved, from an apparently desperate situation. It therefore contains important lessons for SA. We need to analyse how the progressive movement achieved this under President Lula's leadership, and whether, we can learn from that experience, even if we can't copy it.

4.9. A more detailed study is required of the Brazilian experience, but some initial lessons include:

- Decisive political leadership enabled the Brazilian leadership to navigate out of an emerging crisis, and use the need for change to chart a new path. They were not blackmailed by pressure from the conservative establishment, or problems in their own ranks, to abandon their programme of social transformation. Instead they became more focused and decisive.
- They put key people into strategic positions (Treasury, Industrial Development Bank- the BNDES etc) to drive the policy shifts they wanted to implement.

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<sup>6</sup> The policy according to which the minimum wage is increased at a level above inflation every year. Currently the increase is calculated as, inflation plus the combined GDP growth of the 2 previous years

- They were not afraid to take on the markets where necessary, for example through implementing taxes on capital flows, or introducing more effective regulation of worker rights.
- The Brazilians were very practical in their approach, and avoided getting stuck at the level of political rhetoric. They focused on interventions which were high-impact and transformative in improving the material realities of the majority of people, particularly in relation to key challenges of poverty and inequality. They launched simple high-profile campaigns which would have a concrete impact, and everybody could relate to, such as the 'zero hunger' campaign.
- They asserted a central role for the state in the economy in terms of driving and financing development. They reversed privatisation, drove a state-led industrial strategy, with the involvement of key state corporations in strategic sectors, and provided affordable finance on a massive scale to promote industrial development, through the state bank.
- They defied conventional economic prescriptions, and instead advanced economic strategies which put redistribution of incomes and stimulating demand at the centre of their approach, especially through raising wage levels and social protection. This was deliberately linked to an industrial policy which promoted local procurement and production, and which fed off growing demand. Increased consumption was based on rising incomes, rather than credit.
- This national economic strategy was linked to a broader economic development strategy in the region which was aimed at asserting an independent development path.
- They set out to deliberately formalise the labour market, and demonstrated that increased worker rights, combating of atypical and unregulated work, rising wages and improved conditions of employment, are consistent with large-scale job creation. They took on employer lobbies who were opposed to such changes, but also put in place incentives for employers to comply, as well as acting firmly against those who violated legal protections.
- Strategic focus meant that they put in place the measures required to build state capacity to drive these changes, e.g. through strengthening their labour inspectorates, and massively increasing training in tertiary institutions to ensure sufficient qualified people were available to staff key state institutions.

4.10. These developments in Brazil are part of the resurgence of left alternatives throughout the continent, particularly over the last decade. Seven of the ten major Latin American countries<sup>7</sup> now have left or centre left governments: namely Venezuela, Brazil, Argentina, Bolivia, Uruguay, Ecuador, and Peru. Increasingly this bloc of progressive states (despite some differences between them) is characterised by: a rapidly expanding state role in the economy, with strategic ownership of key sectors; active promotion of social ownership, particularly through a huge increase in co-operatives; pursuit of expansionary macro economic approaches; and lastly, progressive interventions to transform the labour market, by formalising employment, combating atypical work, raising wage levels and promoting collective bargaining. In the case of the more left governments, such as Venezuela, Bolivia and Argentina, governments have actively promoted popular participation, and the growing assertiveness of the working class and peasantry. This has led to new forms of popular democracy.

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<sup>7</sup> Down from 8 after the left leaning Paraguayan president was recently removed by a right wing congress.

- 4.11. At a regional level, these countries have pursued strategies to build the continent's independence from US domination, and are putting in place various regional institutions to strengthen their ability to achieve this. An innovative approach has emerged to create continental economic integration, using the creation of a new regional financial architecture, and by harnessing natural resources as economic leverage, and a springboard for development. Further detail on this emerging Latin American alternative are contained in the international section of this report.
- 4.12. What are the political lessons we can derive from this Brazilian and Latin American experience? In the next section we look at some of the interventions which could be pursued in South Africa, during this second phase of the transition, which could help us to create our own *Lula Moment*. This strategic path is not an option, but a *necessity* for the working class, if we are to play our role as the leading motive force, putting the NDR on track, and keeping it there.