

# **Lula, 'New Left' in Brazil**

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At least since François Mitterrand was elected president of France in 1981, we have not seen, among the main countries, the coming to power of a left-wing party as clearly as we have seen now in Brazil with the election of Lula. The first steps of the new administration show us, however, that we should not expect political radicalism or economic populism from it.

Lula's government will be a success on two conditions: if it manages to resume economic growth after 22 years of near-stagnation, and if it manages to establish a society with fewer social injustices. The first condition is common to all ideological currents, the second is specific to a social-democratic perspective or a left-wing party. Both have as a precondition the establishment of macroeconomic stability, something that the previous government did not achieve. The FHC government kept inflation under control, but at the expense of high interest rates and an overvalued currency. When, in 2002, the real finally depreciated as it should, this was the consequence of a new balance of payments crisis, not of Central Bank policy.

To succeed, Lula and the PT will have to contradict the conventional wisdom of the right and the old left. The right or establishment assumes that the left is by definition populist and radical. Therefore, it declares that the new administration will only succeed if it denies itself and can conduct a fiscally sound economic policy and carry out market-oriented reforms while failing to protect workers and the poor. On the other hand, the old left, as well as the conventional view on the left, assume that a left-wing government is necessarily statist and spendthrift, and thus will be betraying its ideals if it promotes fiscal adjustment and reforms.

The Lula administration will be an ideal moment to prove that both points of view are biased and wrong, as the François Mitterrand and Felipe González governments have done before. You don't have to be populist, statist, or radical to be left-wing: you just have to be committed to the poor and social injustice.

What is the probability of a favorable outcome? The macroeconomic instability inherited from the previous government is heavy. Public debt has risen from 30 to 60 percent of GDP, while the ratio of external debt to exports has reached almost four times. A favorable result was the trade balance, which in 2002 reached 13 billion dollars. On the other hand, what we are seeing, since Lula's election, is that the exchange rate drops from 3.85 to 3.50 reals per dollar, while international credit is recovered. Statements by the new finance minister, Antonio Palocci, that the contracts will be maintained, that the fiscal target will be more severe and that reforms will continue to be carried out calm the market.

Recently, a reverse concern has arisen. Does this mean that there will be no change in macroeconomic policy, or are these statements strategic, trying to calm international markets? I believe in the second alternative: once the credit is recovered (which will be shown when the exchange rate is around 3.2 reals per dollar) it will be time to reduce interest rates. Probably the government does not know when or how to start lowering the interest rate that the Central Bank pays in order to escape the trap of the domestic interest rate, but one thing is certain: the representatives of the new government, including the Central Bank, are no longer committed only to the fight against inflation: balancing the external accounts, Jobs for all, and economic growth are now also legitimate goals.

It is difficult to predict what will happen with the reforms and the fight against poverty, but one thing is already clear: civil society organizations will play a more important role than in the Fernando Henrique government. The PT believes in participatory democracy. One of Lula's first initiatives was to create the Council for Economic and Social Development, whose first task will be to discuss social security reform and the zero hunger program. Workers will have more to say in the new government. The new informal social pact that is emerging, joins the businessmen, and the professional middle class (which is dominant within the PT), the working class.

The state should play a strategic role in protecting national labor and national capital. Does this mean that we will revert to the old protectionist, import-substituting nationalism? Such an alternative is unthinkable today in Brazil, even if there are still some who still believe in it. But also unacceptable is the message that developing countries have heard from the North: that globalization has made the nation-state less relevant.

Globalization has made nation states more – not less – strategic, because in practice it means global competition between companies backed by their respective governments. Globalization is inimical to protectionism, but it requires

an active government defining and protecting national interests. This point of view is very present among Brazilian diplomats and should become predominant in society with the arrival of Lula in power. Brazil's independent approach to the Venezuela crisis is a sign of this shift.

Am I being optimistic? I believe so. The administration of President Fernando Henrique Cardoso will be remembered for its social orientation, for its honesty, and for its commitment to a modern and democratic Brazil. The national election in which the opposition won was an extraordinary moment in Brazilian democracy. But I'm not the only optimist. In recent times, Brazilians are especially hopeful.