



**Mapungubwe Annual Lecture  
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**The age of unreason and ignominy – can we judge the people’s judgement?**

**The case of Brazil.**

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**Introduction**

It is a great honour to be invited to deliver the *Mapungubwe Annual Lecture 2019*. Special thanks to Joel Netshitenzhe for the invitation.

I have worked for many years as trade union advisor and during the first decade of this century occupied positions in public administration, including in the Presidential Office during Lula’s first term. Over the last thirty years I have also been in regular contact with South Africa, organising exchange programmes and participating at several kinds of meetings and conferences in your country.

There was always an optimistic mood of mutual respect, inspiration and encouragement. Although very different, there were a lot of similarities in the struggles for a democratic and inclusive society with decent jobs, income and wealth distribution. We were able to learn from our conquests and move forward together. This cross-

identification was present in the relations between the CUT and COSATU and would express itself later on in the India-Brazil-South Africa (IBSA) initiative and in the strong support from Brazil to include South Africa in the BRICS.

Some years have passed since the last time I visited South Africa, which was in 2013 on the occasion of a conference on 'The Lula Moment for South Africa' which resulted in a publication with an article of mine. The diagnosis was that Lula had started carefully in his first administration (2003-2006) and made strong progressive steps in the second one (2007-2010). Who knows, was the idea, Zuma could make a similar kind of jump during his second term. My message was again of cross-optimism. I suggested not only Zuma, but also Brazilian President Dilma Rousseff could and should have her own Lula moment in her second term, which would start on the 1<sup>st</sup> of January 2015.

Unfortunately, we saw neither of this happening for several and different reasons. I do not feel qualified to comment on the dynamics in South Africa, but will focus on the question which is very common to ask for progressive people all over the world: what happened to Brazil? Why, instead of an inspiration, the country become a motive for despair for those who had admired Lula's trajectory from leader of the metal workers union at the end of the 1970s to become the first working class president of Brazil in 2003?

Since I got the invitation, I've thought a lot about the way I would try to answer this question. It is certainly a challenge and I will try to present the different viewpoints and analyses that exist. But I will do this using a four-level approach. At each level I will try to point out the existing constraints, opportunities and threats for a democratic and progressive development strategy.

- the international constraints and opportunities
- the level of the internal production structure
- the class and social relations
- the level of ideas and values

However, I suppose few of you are familiar with Brazil's history, and so to understand what happened I will begin by highlighting, in a nutshell, the main events that mark Brazil's struggle for political and economic independence.

### **Short historical context**

As far as I know there are only two countries whose name explains a lot about their integration in the world capitalist system. Brazil and Ivory Coast. The Brazil tree was a very useful primary product for the textile industry in Europe for its red pigment, a natural dye, *Pau Brasil*.

In fact over decades the social-economic structure of Latin America - and Brazil as a good example - would be determined by the production and export of primary products through cycles of demand from Europe: sugar, gold, cacao, rubber, coffee among others.

The political independence of 1822 would not transform this pattern, but it would consolidate the change from Portuguese to British capital during the 19<sup>th</sup> century, to be replaced later on by the dynamics of American expansionism. Note that contrary to our South American neighbours, the independence process was not led by liberal republican leadership, but by none other than the son of the Portuguese emperor, who decided to stay in Brazil and lead a conservative independent empire, where slavery would reign until 1888, the eve of the overthrow of the monarchy and start of the so-called old Republic (*Republica Velha*).

It was only in 1930 that nationalist forces under the leadership of Getulio Vargas would successfully overthrow the old oligarchy and political class fragilised by the 1929 international crisis and the political and cultural movements popping up in the 20s. Very soon Vargas felt the need to compromise with these same traditional elites, especially the "*latifundio*" the large-land property owners. Vargas would be in power from 1930 to 1945 and gave dignity to the urban workers with labour laws and recognition of unions although these were kept under state control. In 1946 Brazil elected a government that would ally itself to the US politically and economically.

But in 1950 Vargas came back, almost 70 years old, this time elected, and started a nationalistic-progressive government. The main pillars of Brazil's economic independence were created during this period, like the state oil company Petrobras and the National Development Bank, BNDES. He might not have had the full support of left, but certainly had the opposition of the right, the elites and the United States.

In August 1954, under heavy pressure and all types of attempt to undermine his government, he committed suicide and left a letter to Brazil's workers urging them to continue the struggle for an independent country. His suicide is considered one of the most dramatic and powerful political events in Brazil's history. The workers, who he was not able to mobilise in defence of his government while alive, would come out in millions. And by this they blocked any possibility of a right wing coup. During the next ten years moderate progressive forces would give continuity to Vargas's legacy. But when the workers, including this time the land workers, pushed for more rights and income distribution, the military coup would come after all: in 1964, with the full support of the Johnson administration, the national industrial bourgeoisie, multinational capital and the landowners.

From 1964 to 1980 authoritarian government and concentration of income and wealth would go hand-in-hand with economic growth. After that, economic collapse - with the explosion of the debt crises and high inflation - would undermine the military dictatorship and give rise to democratic forces: on the left led by Lula, and liberal democratic forces on the centre-right. The latter would unite to govern Brazil till the beginning of the 21<sup>st</sup> century following basically the neoliberal agenda, although in a slightly more moderate way than was done in the neighbouring countries, like Argentina. Petrobras and the state development bank were not privatised, for example.

During the eighties and the nineties, the left, although in the opposition at national level, gained experience and pragmatism by governing local and state administrations. Social movements grew and gained power not only to mobilise but also to propose alternative policies, especially to respond to the huge income and social differences.

The moderate neoliberal government led by Fernando Henrique Cardoso (FHC) had been able to end high inflation but was not able to sustain growth. By following the globalisation fairy tale, opening the economy had led to unemployment, negative trade balance, current account deficits and financial fragility.

The financial turmoil at the end of the 1990s with the Asian crises and the Russian moratorium would have a huge impact and force the government into a major emergency loan with the IMF. On top of this, the lack of planning provoked serious problems in the electricity sector with nationwide black outs.

After three defeats as a presidential candidate (1989, 1994, 1998) the people started to see in Lula the symbol of change that they were looking for. However, at the same moment Lula got the majority as president, the people's vote for Congress gave only a quarter of the seats to the left and centre-left. Maybe another quarter could be qualified as real political opposition and the others would be available for deal-making. Lula could also not count on sympathy from the establishment in state bureaucracy, both in the executive and legislative branches.

The social and political situation in Brazil in 2002 and 2003 was not a revolutionary scene of workers mobilising for radical change. The option to mobilise popular classes against the resistance for social change from the majority in Congress, the elites and the majority of the upper middle class, simply did not exist. Although some radical left analyses would point out that Lula should have created the conditions for this. The fact is that on the Sunday evening after the announcement of Lula's victory, tens of thousands went on the street celebrating, not millions.

#### **I. The international constraints and opportunities**

I will divide this part in two: international economics and international politics.

Economically, Lula had good luck. The same year he began his term, prices of practically all of the commodities Brazil exported went up.

We could make our lives simpler and make a three-minute presentation to explain what happened in Brazil: the windfall profits from exports of commodities gave Lula the possibilities to finance popular programmes; then, when Dilma was re-elected in October 2014, prices started to fall, unemployment started to rise, PT's popularity disappeared: people got frustrated and voted for an aggressive right-wing candidate. The liberals would add to this that the fall in commodity prices showed the left's lack of capacity to run the economy.

However, this would be vulgar and not very nuanced analysis, although there is some basic truth in it. The wave of progressive governments that were voted in all around South America was a reflection of neoliberal politics that did not deliver. And, of course, the rise in prices of commodities, the *fortuna*, was crucial. But so was the *virtú*. To put this wealth at the service of the poor was a political decision which has to be credited to progressive policies conducted, in the case of Brazil, by the PT governments. Now, these pro-poor politics were made possible without attacking privileges because of the boom in export prices.

And these were linked to China's demand. As the economy was growing and the Lula administration implemented several pro-industry policies, there was not yet a problem with the increase in Chinese manufacturing exports to Brazil.

The far-reaching impact of the 2008 crisis would change this, although its real impact would be felt only a couple of years later. We had first a short six-month crisis, after the Lehmann Brothers collapsed, but in March 2009 the economy started to stabilise again and in 2010 we had a 7,5% increase in GDP. Lula argued that the thunderstorm in New York had produced just small waves in Brazil.

However, the post 2008 world would be different and not so friendly anymore. When Dilma came in, her Minister of Economy would speak about a financial tsunami. The

FED's *Quantitative Easing* (QE) had increased liquidity in the markets. Brazil had no capital controls. These were taken away in the 1990s and the Lula administration had not seen any need to reintroduce them. High growth figures with income distribution, and structural high interest rates, made Brazil very attractive as a destination for part of this liquidity. This provoked a new round of appreciation of the local currency. However, by then the margin to absorb these flows without heavy costs was gone. From 4 real<sup>1</sup> per dollar when Lula came into office in 2003, now Dilma had to face a reality of 1,5 real per dollar in 2011. That makes import of manufacturing too easy and investment in local manufacturing not very attractive at all. So industrialists become importers.

There was another component to this: the post 2008 economy resulted in a slowdown in demand in the main markets which provoked an increase in competition. China was determined to keep its growth figures and started to become more aggressive in the international markets with huge impact in Brazil, but also in other South American markets which used to be the main export destinies of Brazils manufacturing.

The world economy would go through a new round of rivalry with China challenging the US, and the latter looking for ways to keep its leadership. One battleground is the so-called Fourth Industrial Revolution, which will change the way production and distribution is organised. Brazil which considered itself at some point in 2010 a natural leader of a South American bloc in a more multipolar world, found itself faced with the brutal reality of being a peripheral country.

In **international politics** Lula started to make changes in an early stage. This has to do in part with the realities that his government was faced with right from the beginning in 2003: first, the invasion of Iraq just a couple of months after he took office. He reacted by starting, with the presidents of France and Chile, an 'International Action against Hunger and Poverty', backed by Koffi Annan, as an alternative to war. Secondly, Brazil had to position itself in the Doha round of World Trade Organisation (WTO) negotiations in Cancun, also in 2003. It ended up leading a group of 20 countries, including South

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<sup>1</sup> Brazilian currency

Africa, that would not accept the usual dictates of the US and the European Union. Soon, Brazil's foreign policy became incredibly active and innovative, projecting the country on to the international scene with multiple initiatives, like the IBSA<sup>2</sup> coalition.

So far so good: the US administration might not have liked Brazil's new foreign policy approach, but Lula invested a lot in maintaining a dialogue with the US, and with President George W Bush in particular. Lula presented Brazil as a reliable interlocutor.

Things changed, however, when Brazil dared to engage with Iran. It is a complex story, but in 2010 Lula, together with the Turkish President Erdogan, started direct talks with Iranian President Ahmadinejad. Although at some point prompted by US President Obama himself to do so, once Lula - to everybody's surprise - managed to negotiate a deal on the nuclear issue, Hilary Clinton (US Secretary of State), the *deep state* and Israel were furious. In their eyes, Brazil had gone one step too far. Thank God, they thought, Lula was leaving office; the US had invested a lot in Brazilian President Dilma Rousseff in the beginning, offering her a state visit, something Lula had never been given.

However, Dilma reacted strongly once it became public knowledge that the US was hacking her mobile phone and also spying on Petrobras, the state oil company that had found a huge amount of new oil reserves. She cancelled the state visit. And then, although she was not very interested in foreign policy in general, she invested a lot in the BRICS. Not exactly a pro-American partnership. She had already upset the foreign relations establishment in the US in 2012: when a coup was carried out, with support of the US, to overthrow president Fernando Lugo in neighbouring Paraguay, Dilma reacted immediately by allowing Venezuela to become a member of the Southern American Common Market (Mercosur). The US did not like that at all.

But there was more: in 2007 Brazil had discovered gigantic offshore oil reserves. In December 2010, the laws regulating exploration and production in these areas were changed, giving strong preference to Petrobras at the expense of foreign companies,

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<sup>2</sup> IBSA is a forum which brings together India, Brazil and South Africa.

like Exxon and Chevron. I consider these new laws one of the most courageous acts of the Lula administration and he was only able to get them through Congress in 2010 because of the enormous popularity he had gained over the years.

We know now through Wikileaks that these companies were very active in trying to block these new laws and, once they were approved, in undermining them. Dilma was even more keen on giving priority to setting up national production chains around the offshore oil.

Lula himself has said in all the interviews he gave over the last three years that the US interests in the oil reserves are for him a key to understanding the so far basically invisible movements that undermined the Dilma government, and put a pro-US and pro-market government in place.

In any case, there is no doubt that the US government, that was able to co-exist in a constructive way with the Lula government till 2009, started to have strong reasons to help to undermine and later celebrate the overthrow of the elected government.

I have to mention also the strong involvement of Dilma in guaranteeing the success of the 2014 BRICS meeting in Brazil with the setting up of the New Development Bank and the Contingency Reserve Arrangement (CRA). This was just after the Putin administration had annexed Crimea.

What we can conclude here is that there were powerful forces not really interested in Brazil occupying, in an autonomous way, a strong position in world politics; and the PT administrations may have underestimated these forces.

## **II. The level of internal production structure**

Unlike most of the other Latin American countries Brazil had been able to build up a diversified industrial park, including a capital goods sector. In 1980 industry accounted for 26% of GDP. Debt crises and neoliberal politics provoked over the following two

decades a process of what is called precocious deindustrialisation. So when Lula came into office, participation of industry in GDP had dropped to 14%. And, much worse, Brazil had missed the Third Industrial Revolution.

The Lula administration defended a multifaceted approach.

First, agribusiness should not be seen as a problem, but the government would set up policies to boost also the smallholders. Second, Brazil would continue to support agricultural production and export, but would also need also a strong industrial base. And third, Brazil should at least try to build up an endogenous technological infrastructure. Part of this would be heavy investments in federal universities, but also in specific hi-tech military projects, like nuclear-driven submarines and using the acquisition of fighter aircraft for technology transfer. (This is particularly relevant seeing the surprisingly strong anti-Lula sentiment among the military later on).

Government procurement policies, local content requirements, credit from the state development banks, among other instruments were mobilised in this effort. And it looked like it was going well. Gross fixed capital formation (GFCF) went up and came close to 20% of GDP (still very low but increasing). Participation of industry increased from 14% to 18%. Petrobras, the BNDES and other state banks (that had not been privatised in the 90s) were given the task to lead this process and at the beginning of the second term Lula would announce the Growth Acceleration Program (called PAC). That was a powerful and symbolic framework for a new development phase. Central to the PAC were the investments in infrastructure, both fiscal and social. The latter one referred to slum upgrading and urban mobility.

The goals for the infrastructure projects were set high. Over the years a growing frustration over the lack of progress arose. Enormous delays went hand-in-hand with heavy cost increases.

How to explain this? Common sense would argue that corruption is the main issue. Radical anti-PT liberals would even argue the government had developed these projects

in order to practice corruption. The insistence on corruption in the PT governments was not invented by the extreme right of Bolsonaro; it was almost daily exposed, especially since 2012, by the liberal mainstream media, in particular the TV/radio and newspaper monopoly Globo.

For sure there was corruption involved in the construction works. But this does not explain at all the problems faced. Neither does it makes sense to speak about the incompetence of the PT government. We can see similar problems in states like São Paulo, governed for decades by liberal oriented governments. So what was the problem?

We have to understand the double process of democratisation and neoliberalism. The crisis that created the conditions to end the military dictatorship also disorganised the developmental state. That was the liberal trick: people wanted to get rid of the authoritarian state, and the liberals put the developmental state in the same basket. So there was widespread support for creating a lot of control mechanisms around the Executive. And these were expanded overtime, gaining more independence and more power. In fact, it was the left that always defended this while in opposition. And in government it was the Lula administrations that reinforced the structure and independence of federal police investigations to the public prosecutors, and many others. This was thought to be part of increasing democratic control over the Executive powers. The problem is that it got out of balance. The capacity of the developmental state had been eroded by a decade of debt crises, followed by a decade of neoliberal policies. So when the PAC had to be put on track there were more engineers working for the control mechanisms than for the Ministry of Transport.

This combination of a weak implementation capacity on the one hand and powerful control mechanisms created an anti-developmental mentality. So a public employee would prefer to not involve himself, not to sign anything, rather than risk being involved in some process and having to account for all kinds of supposed irregularities. And guess what: all this did not prevent, at all, large-scale corruption from taking place.

It is very common on the left to defend more state interference in the economy. The problem is: what kind of state do we need? Now, looking back, I would argue the administration in a way underestimated this lack of implementation capacity. Imagine someone who wants to run the marathon but has not been active for years. He has the will but not the power to reach the finish. The solution should be building up stronger state capacity. For this you need a long-term view, as China's experience shows us. However, the discourse that prevailed was to blame corruption. And to fight corruption, the liberals argue, you have to diminish the state.

One major component of the development efforts was the offshore oil and gas.

As I mentioned in 2007 Petrobras discovered huge oil and gas reserves on the coast of Brazil. The decision was made to use these discoveries not just to increase government rent. The offshore production was seen as an opportunity to boost national industries. The demand from Petrobras would be enormous and would be stretched over a long period of time. There was of course a trade-off between importing the equipment faster and cheaper from Asia, or building up national production capacity, which would take more time and be, especially in the beginning, more expensive. The PT administrations opted for the latter. The speed of the exploitation would be determined by the capacity of local industry to guarantee the necessary supplies. So, for example, the whole shipbuilding industry that had gone away would be reconstructed. Not only for oil tankers and support boats, but also for drilling and production platforms. In the shipbuilding sector alone, tens of thousands direct jobs were created. Several new, complete shipyards were built.

This is medium-term policy. Petrobras had to contract debt to make enormous investments, and these would show results and payback only years later. To give you an idea, in this period around 50% of all new industrial investment was related to the oil and gas industry. (In part this is very sad, because it shows the lack of investment in other industrial sectors).

Now, it takes between 8 and 10 years between the discovery of oil and putting the oil into full production. In the meantime, the demand for petroleum products had exploded because of economic growth and income distribution. Which means further importing of petroleum products, while Petrobras showed a high rate of indebtedness. Easy to criticise the government. It was even suggested the whole story of the oil and gas wealth had been just one more manifestation of Lula's megalomania.

The anti-Lula forces knew that if Petrobras succeeded it would give political capital to the PT for many years. So undermining Petrobras would be essential. The opposition was lucky: by the end of 2014 international oil prices dropped and the company lost in value. At exactly the same time the corruption scandal around Petrobras became daily news. So, it was very easy to mix up the impact of the sharp drop in oil prices with losses that one could attribute to corruption. On top of this in 2015 the recession and political instability would provoke devaluation. Good for other tradable sectors, but not for Petrobras whose debt was in dollars and whose revenues were still basically in local currency.

With the attack on Petrobras, one stone would kill several birds. First, it was the symbol of state intervention and state-led development. Second, the so called *almost-bankruptcy* of Petrobras was explained by corruption, mismanagement and wrong policies of the PT. Solution: get rid of the PT, reduce drastically the role of Petrobras (privatisation of its subsidiaries) and open up for international capital, which would be much more efficient and faster. The liberals would even use the environmental argument: we need to explore the oil and gas as fast as possible because very soon there would be no demand anymore. No time to build up local capacity.

All in all, the first Dilma government was not a disaster at all. The international environment had become complicated and she was determined to defend the jobs of the workers and their salaries. Even with economy slowing down, she would keep significant increases in the minimum wage, for example. She would defend Lula's legacy at all costs. The Brazilian Development Bank (BNDES) was used at full speed to keep the

economy dynamic and the Treasury would put in the funds. This led, however, to an increase in public deficit and wrong public price policies.

These policies were short term and it would not be possible to maintain them over a long period. In 2015 after her re-election she decided to take one step back by adopting restrictive economic measures which would immediately increase unemployment by millions. The liberal opposition started to criticise the whole idea of the BNDES as a tool to defend and boost the economy. It was suggested again that public financing was used for corruption and to finance left-wing governments in Venezuela and Cuba. Recently Nobel prize winner Joseph Stiglitz published an article defending the BNDES, and explaining how important it is for countries like Brazil to have public finance for long-term projects, as private banks only engage in short-term ones.

Last but not least, we can identify a lack of coherence between the industrial policies on the one hand and the macroeconomics on the other. And this has to do with the decision taken by Lula at the beginning of his administration to not attack the powerful financial interests from the start. Interest rates and exchange rates were left to the markets. You will not be able to find any comments from Lula on these two basic macroeconomic prices. Brazil would continue to be in the world ivory league in interest rates, and would not introduce capital controls. Due to the very specific conditions during the Lula government this was not a problem, but in order for Dilma to continue to defend jobs and workers income she started to interfere in both interest and exchange rates with little success. And that brings us to the third level of analysis.

### **III The class and social relations**

From a political point of view, the most difficult task for a progressive and democratic development strategy is to create a stable social base. This means broad alliances with different social groups while at the same time keeping the aspirations of the working classes at the centre. Not easy at all.

There is a discussion in the left about when the coup that led in May 2016 to the overthrow of Dilma started. The question is, in my opinion, related to another one: how did the different fractions of the ruling classes and the upper middle class react to the election of Lula in 2002?

Here I would like to refer to the concept of **counter-revolution** as used by Walden Bello in his recent publications. The ruling classes have many ways to react to real or potential threats to their privileges, not limited to the use of brutal force, although all options are always on the table. Other options are co-option; corrupting; engagement or compromise to give a small part of the cake to be able to keep the bulk of it and, more importantly, to keep control over the bakery.

So, in my view, in this case, the counter revolution started in mid-2002 when the polls showed a real possibility for Lula to win the election. The financial markets voted in advance by transferring capital out of Brazil. Country risk went up, as did the US dollar which went from 2,3 BRL in December 2001 to 3,5 BRL in December 2002. The message was clear and Lula reacted by raising the white flag a couple of weeks before the election with a public and written declaration known as 'Message to the Brazilian people'. It was actually aimed at the national and international financial markets and committed the government to respect all contracts.

No doubt for some on the left the message meant watering down PT's historical mission. But Lula showed his understanding of the quote misattributed to the saint of the poor, Francis of Assis 'Lord grant me strength to change the things I can, the serenity to deal with the things I cannot change, and the wisdom to know the difference'. The idea was, however, that by changing the things you can, new strength is given, new power relations develop and what yesterday needed serenity to accept might become possible to change tomorrow. The Lula moment.

This is not the place to go into details about the two Lula administrations (2003-2010). What we can say is that Lula was capable of gaining the support of the poor and winning the elections in 2006 notwithstanding the outbreak of the first corruption scandal the

year before. Brazil gained investment grade from credit rating agencies and was able to resist in the short-term the impact of 2008 financial crises - millions of jobs were created. At the same time Brazil gained major international projection and started to be seen as part of the solutions and not just of the problems. Lula left office with a record 85% approval rate and a 7,5% GDP increase in 2010. With this he was also able to make his successor Dilma Rousseff, a relatively unknown woman who never had run any election in her life, the first female president in the history of Brazil. The optimistic mood was not limited to the left. Even the IMF and private banks foresaw a bright future for the country.

Now, Brazil historically has huge income differences and a concentration of wealth. It was one of the last countries to give up slavery and the race issue is very present in the pattern of class of domination. Historically the political and social bases of Lula were the industrial workers, especially in the formal and unionised sectors; progressive middle classes; intellectuals, and a section of the Catholic movement inspired by liberation theology.

Brazil is a highly urbanised country (more than 85%), but a large part of the population is in the informal sector. Among the poor, identified as having a family income up to three times the minimum wage, Lula did not win the election in 1989, nor in 1994, 1998 and not even in 2002. But they would guarantee his victory in 2006 and the elections of Dilma in 2010 and 2014. By putting the poor in the budget and on the map he got strong support from among those classes. Some describe this phenomenon of Lula winning the support of the poor as *Lulism*. This had also regional implications, as the poor regions in the Northeast began, and continue, to support Lula. It is in these regions, for example, that the PT won four governorships in the 2018 elections, while being massacred in the South and the Southeast.

The elite has always been extremely authoritarian, and the upper middle class determined to live like the upper middle class in the US or Europe. Now to make that possible they need to appropriate a much higher percentage of the national income than their counterparts in the highly industrialised world. So huge income inequalities are

being reproduced constantly following a logic that is very profoundly rooted in the social, race and economic structures of the country.

Lula decided to operate carefully in this minefield.

The most powerful fraction of the ruling class in Brazil are those in the financial sector. Lula signalled to them immediately after his first election, to their surprise, that he would not attack their privileges. In exchange they would let him use the state banks to implement his policies. Part of this compromise was not imposing capital controls and not interfering in interest rates. The president of the Central Bank during Lula's government was someone from the private sector who had been president of Bank Boston, a subsidiary of the Bank of America in Brazil. The financial sector even started to see opportunities in credit lines for the poor, for example in student loans or in the housing sector. This compromise worked during the two Lula administrations, although, of course, it was heavily attacked by the radical left. But Dilma understood that under the circumstances she had to face that it was not possible any more to defend jobs and workers' incomes without attacking at least part of the financial sector's privileges. In 2012 she pressed openly for a reduction of basic interest rates, and after that she called publicly for the banks to diminish their world record spreads. This was seen as a declaration of war and the financial sector started to understand they had to get rid of this woman. At the same time Dilma boosted the state banks, as said before, to the limit with funds from the Treasury. In 2009 Lula had used an increase in public credit to fight the impact of the global crises, but now with Dilma this seemed to become a permanent new policy. I have explained already how the US started to see Dilma as a problem. Now the financial sector shared this view.

Let us look at the two other main fractions of the ruling class: agribusiness and the industrial bourgeoisie.

As said before, Lula didn't see agribusiness as a problem in itself. On the contrary, he continued to support it: a sector composed of big landowners who hardly pay property tax, but are responsible for excessive trade surpluses. The compromise with the

agribusiness was that in exchange for full government support (which means credit lines, opening export markets and huge support for sugar production for ethanol) they would have to tolerate the Lula policy to boost also the smallholders' sector. There would be literally two ministries: one for agribusiness and one for smallholders, Lula's traditional political base. However, crucially, the government would not allow savage agribusiness practices, which means strong and successful measures to reduce illegal deforestation, and also strong measures against working conditions considered similar to bonded or slave labour. It also would mean land reform in non-productive properties and regulation of indigenous land. However, the landless workers movement (MST) would mobilise permanently during Lula's government, denouncing its land reforms as too slow and too little.

For sure he reinforced huge support for smallholders and their movements. Agribusiness would not change their very conservative and authoritarian world view but tolerated the Lula governments. In this field Dilma didn't change policies, but nevertheless this sector would be in the forefront of the counter-revolution with heavy support to the right and extreme right. They had tolerated the Lula government, but never gave up their profound anti-popular and anti-democratic positions.

Third, and more interesting, were the relations with the industrial fraction of the ruling class. While in the other two cases mentioned it was mostly about neutralising opposition, here the Lula administration wanted to create a real developmental alliance, especially in the case of Brazilian construction companies. The BNDES was stimulated to support a kind of strategy to support national champions including their internationalisation strategies. This was in part linked to the supply chain around the offshore oil and gas production I already mentioned. From 2009 on there was also a social housing component which would result in the construction of around four million houses.

Relations with these companies had a clear developmental strategy rationale. They really become government allies and friends. Maybe too close. These relations were used to guarantee legal and non-legal campaign financing. For those in the companies it

was nothing new, they had experience in corrupting politicians and parties throughout their lives. But for the PT it was something new and it would get out of control.

But let's have a closer look at São Paulo's powerful employer's federation. When the economy started to slow down, in 2011, it still negotiated with the unions a programme to defend industry. All the proposals put forward were taken into account by Dilma. And she thought she could count on the industrial sector's full support in the three movements she made in 2011/2012 to maintain dynamics in the economy: forcing a cut in electricity prices, forcing a cut in interest rates and a moderate devaluation. Surprise: they didn't like it at all. Why would they not embrace the interest rate cuts? They had always complained about the high rates as companies. However as private persons their wealth was shored-up by these very high interest rates. And this was also the case for the upper middle class who put their money into funds which would basically invest in public debt. And as far as the exchange rate was concerned, most of the companies were moving to importing some of their components in a process described as transforming the industrialist's federation into an import federation. For import, overvaluation of the currency was perfect. And maybe more importantly, as was the case with other fractions of the ruling class, they didn't like at all the increase in state interference in the economy. Where would it end? Remember that 2012 was exactly the year of the coup in Paraguay and the entrance of Venezuela into the South American Common Market. So altogether this makes me, and many others identify 2012 as a major turning point. This is when the ruling class, with the support of the upper middle class more or less decided enough is enough. Dilma had to go. The moment would be the presidential elections in October 2014 and the, the PT and Lula had to be under attack on an almost daily basis. Organised workers and the majority of the poor were still firm in their support for the government. Lower-middle classes less so. They had family incomes too high to take advantage of the various government programmes to support the poor, and at the same time started to suffer from the slowdown in the economy.

We have to mention also identity struggles that got strong support during the PT administrations. Lula had created special ministries: one for women and one for racial

issues. Gay rights would also get more attention. Groups organised around these issues were natural allies of the PT governments.

But then, out of the blue, in 2013, mass mobilisations erupted all over the country. It was a very complex phenomenon and is still highly controversial among social scientists. It started as a protest movement against a rise in bus tariffs. But it became a general and diffuse protest movement. The extreme right ideologists who support Bolsonaro argue that this movement was crucial for the rise of the new conservative forces. The so called 'June movement' coincided with the start of the FIFA Confederations Cup in Brazil. The link between the so-called FIFA standards and the difficulties of governments in Brazil (federal, state and local) to get infrastructure and public goods completed, as mentioned before, was striking and became one of the mobilising factors. The movement which got the support of the mainstream media was not specifically against Dilma or the PT. It was more generally against politicians. All of them dropped in the polls. Research showed that right-wing groups were able to infiltrate the protest movement through social media much more than the radical left. For sure the PT, the trade union and other traditional social movements were caught by surprise. Lula kept silent. Dilma reacted by fulfilling some of the demands that were put forward, for example the introduction of plea bargaining for cases of corruption. This new legal instrument would later on be used massively against the PT and against Lula.

Brazilian politics would never be the same again after 2013. Social media started to play a key role and, as elsewhere in the world, for some mysterious reason the new conservative forces are much better than the left in using these new tools to communicate and send their messages out.

The June 2013 movement had helped a lot in bringing down Dilma's popularity. The problem was that it had increased enormously opposition to the whole political class. In any case the ruling classes and the upper middle classes were determined to invest heavily in defeating Dilma at the October 2014 elections. The major weapon would be the corruption scandal around Petrobras.

On her part, Dilma did not give up and used all the instruments at her disposal to keep unemployment low and to defend the purchasing power of the workers. And Brazil had indeed, at the end of her first term, its lowest level of unemployment, and minimum wage was at its highest. Very important was the mobilisation of youth and social movements in the second round. She won.

For the conservative forces, and probably for the US, the outcome of the 2014 elections was difficult to digest. So the counter-revolution radicalised. She should not be able to govern. Because if she succeeded, Lula might come back in 2018 and be able to re-elect himself in 2022. Not acceptable at all. Undermining the government by any means and destroying the image of Lula was central in the period from the end of October 2014, when Dilma was elected, till May 2016 when she was impeached. Pressure was enormous with daily news on the corruption scandal and attempts to link it directly to Lula. And as explained before, international commodity prices, especially oil, dropped exactly in this period.

Then Dilma made a terrible mistake. She started her second term with a surprisingly - completely - different programme than the one she had defended during the election and was not at all able to explain why and how. Basically what she did was to try to implement a kind of structural adjustment programme, and even this was obstructed by the opposition. This means that the centre-left government was suggesting economic policies contrary to what they had promised, while the centre-right was voting and proposing laws contrary to what they had always stood for, just to undermine the Dilma administration. The laws proposed by the opposition, aimed at stressing even further the fiscal situation, were known as 'explosive proposals' (*pauta-bomba*). Very different than in Greece where, when the Tsipras government implemented austerity policies, it was opposed - by part of the left, but got coherent support from the centre-right. The result was chaos and rapidly rising unemployment in 2015. And when the counter-revolution opened full fire, there were few troops left to defend Dilma.

An important factor which I will explore in the next and last level of my analysis is that the campaign against Dilma had no limits. So the same mainstream media, which today

feel uncomfortable with Bolsonaro, campaigned aggressively every day against the PT and Lula, accusing it of corruption. What they did not foresee is that a big part of the population would lose confidence in politicians and politics in general. The so-called moderate and liberal right, for the sake of getting rid of the PT and Lula, would be willing to undermine democracy itself. The favourite centre-right candidate at the end got only 4% of the votes in the 2018 presidential elections.

#### **IV. The level of ideas and values**

This is definitely an area where traditional left analyses have to be updated. How to explain the surge of a powerful radical conservative bloc in society? A movement that mobilises people on a daily basis on social media, and even shows the capacity to regularly organise mass demonstrations on the streets.

I will talk about five themes: revival of religion in politics; backlash against the liberal value agenda; new conservative philosophy; the 'adrenaline of power' problem and the moral issue around corruption and organised crime.

##### a) Revival of religion in politics

There are radical changes in society which have nothing to do with one or other government, but with changes in the production structure and social relations. Work becomes more isolated, individualised and connected through platforms; social media change habits. However, human beings are social animals. Identity is reflecting not just individuality but also being part of something. And this cannot really be limited to WhatsApp groups. So while on the one hand traditional spaces where people would meet for work or leisure are disappearing; on the other there is a search for sociability.

The organisations of the left are very much an expression of what we could call a Fordist kind of social organisation and they find it increasingly difficult to reach out to the people in this rapidly changing environment. On the other hand, neo-Pentecostal churches have

been very effective in filling up the vacuum and giving people a feeling of belonging and meaning. They have increased enormously over the last ten years.

Bolsonaro understood the potential of transforming religion into a powerful political tool again. Progressive forces had basically no clue what was going on.

For example, we suddenly saw a lot of Israeli flags during the Bolsonaro campaign and after his victory. This had to do with the crucial relations between Israel and the neo-Pentecostal belief in the return of Christ on earth. So already in 2015 Bolsonaro, still an MP, would make a visit to Israel with his sons. Remember 2015 was the Disaster Year. But, on top of everything I already exposed, Dilma had a conflict with the government of Israeli President, Binyamin Netanyahu. The latter had appointed as an Ambassador in Brazil a militant of the illegal settlement movement in the Westbank, not a diplomat. Dilma refused to accept the credentials. That is very rare in diplomacy. She and her advisors thought Netanyahu would make a step back, but he didn't. The situation would only be normalised after the overthrow of the Dilma government. And in this period Bolsonaro went to Israel to have himself baptised by an evangelical leader in the Jordan river, and to meet the candidate rejected as ambassador to apologise for the Brazilian government. The pictures of the baptism circulated and were funny. However, there was much more going on. Through the neo-Pentecostal churches, television, radio and social media, people were reminded that those who oppose Israel are anti-Christ. Millions of people were exposed to this but most on the left had no clue at all what was going on. Bolsonaro promised several times during the campaign to move the Brazilian embassy from Tel Aviv to Jerusalem. There was much more behind this promise than trying to please Donald Trump.

By now more than 25% of the Brazilian population is part of one of the many neo-Pentecostal churches. That is more than 50 million people and this number is still rapidly increasing. Some speak about 80 million already. And for sure, although Brazil remains the biggest Catholic country in the world, there are more people practicing neo-Pentecostal cults. Especially among the poor this is a massive phenomenon and was exploited very well by Bolsonaro.

In the first period of his imprisonment Lula was not allowed to give interviews, but the Supreme Court gave him permission so we had over the last months several interviews and there would always be the question: *when and where did the PT make mistakes?* Lula would answer that he is in prison not because of his mistakes but because of what he managed to do for the poor people. However, in one of his latest interviews, a couple of weeks ago, he admitted that one mistake was definitely having underestimated the impact and influence of the neo-Pentecostal churches.

Recognising and understanding the reality of the neo-Pentecostal churches has become crucial for the left. There is no direct or natural link between these churches and ultra-liberal and anti-democratic policies. It is also important to understand that almost one third of the neo-Pentecostal believers who went to vote, did not vote for Bolsonaro. And in regions like Bahia in the Northeast where the PT won the election again for governor - and its presidential candidate came first - these churches are as present as elsewhere. So we are not speaking about an independent variable. These churches should never be seen as part of the problem, they are a social reality and we should understand and undermine the mechanisms that link the belief of the people to ultraliberal and anti-democratic proposals.

#### b) Backlash against the liberal values agenda

Since the democratisation process, in mid 1980s, the liberal values agenda related to gender, race and sexuality has moved forward. Too slowly for activists, but too fast for conservative groups.

However, this has provoked a strong backlash. Many people moved away from the Globo soap operas - which showed openly gay couples - to neo-Pentecostal television. And one of the main issues used by Bolsonaro to combat the PT was to suggest that the Ministry of Education during the Lula and Dilma government had actively encouraged children to become gay. Fake sexual educational material was exposed almost daily on television, radio and social media. To defend family values and prevent your son or

daughter from becoming gay, you had to get rid of the PT. This propaganda turned out to be electorally very powerful.

Bolsonaro himself is known to use very offensive language when speaking on gender, gay or race - including indigenous - issues. Somehow many felt relieved that their values would now be respected. Too many. A shock for the progressive forces which were not able to respond.

c) The new conservative philosophy

In the beginning of 2016 my son, who was at the time 15 years old and in high school, asked me if I knew a guy called Olavo de Carvalho. I had never heard of him. My son explained that many peers at his school were fans of this man. He said I should check the support out, and I did. Complete nonsense, pseudo- philosophy mixed with a lot of very low-level insults to left and progressive people. I told my son it wasn't worth paying attention to this. Well, I was wrong. Completely wrong! This Brazilian version of Steve Bannon is by now one of the most influential people in the country, able to press Bolsonaro into dismissing ministers and setting the tone of hate speeches. He has millions of followers, many young people who think he is a genius. It is simply unbelievable. He even suggests that the world is flat.

Olavo sees the main enemies as globalism and universalism. These forces oppress human emotion and oppose Christian and Western values. He identifies three groups who support the globalist project that intends to destroy the Western, Judeo-Christian world: first Islamism; second Communism; third positivism and what he calls 'neoliberal technocrats and anti-Christ liberalism', represented by leaders like Obama and Macron or former Brazilian President Fernando Henrique Cardoso, known as FHC, in Brazil itself. He lives in the US and every day he sends out messages which are reproduced by thousands and thousands of his followers and directly influence Bolsonaro. By now Gramsci has become a known person, because Olavo has invented the idea that the universities are part of a cultural Marxist strategy, inspired by the ideas of this Antonio Gramsci, to destroy freedom. It is important to understand that if you suggest that Brazil

is part of Western Judeo-Christian culture, you completely ignore the Afro-Brazilian and indigenous presence. Four important ministries are directly inspired by this nonsense: Education; Foreign Affairs; Environment and a new ministry that was set up called 'Women, Family and Human Rights'.

These ideas have nothing to do with the legacy of Reagan, Thatcher or Milton Friedman. Neither of course with Goebbels, although the repeated and conscious use of lies is very present among this new conservative propaganda.

For sure the anti-PT mainstream media and the traditional centre and right-wing parties that had heavily attacked the PT and Lula, especially as we have seen since 2012, did not intend to introduce this kind of worldview. But it is what they got out of it. Curiously they argue that it is the PT who has to be blamed for the surge of this thinking.

d) Adrenaline of power syndrome.

Fourth is what I would call the 'adrenaline of power' syndrome. People who came out of Brazil's social movement and universities started to occupy key positions in the PT governments. And they became very much convinced they were carrying out a historical mission. It would be the first time the left was really in the driver's seat. So the logic of the government started to impose itself over the whole movement and the PT itself. Grassroots demands were not taken as seriously as they should have been. It is true that the Lula government introduced, for example, a series of thematic local and national conferences at which civil society would debate and present policy proposals. But here I am questioning the way the resolutions of these conferences were dealt with. I would argue there was a lack of humility.

Of course, it is important to stress the positive results. But let's take the case of income distribution. Brazil is one of the world's champions in income inequality. Yes the PT governments did indeed go against the logic of globalised capitalism and income inequality was diminished. However, we would still have very unsatisfactory numbers. Still behind what one could call civilised income distribution. Another example is the

effect of the nominal increase in the buying power of lower classes and successful policies to formalise informal jobs. Great, but this doesn't create a middle class. The PT propaganda saying that millions of people were lifted out of poverty to the middle classes was depoliticising. There would be a gap between the propaganda and the difficult situation that millions still would face and the profound injustices of the still-savage capitalist system. We hadn't built a welfare state, notwithstanding the successful social programmes.

However, the message was that we were the best, that never before in history had a government done so much for the people. No space for anger against the ongoing social injustices. Left-wing government officials and party leaders felt they had to explain more than to listen to the people.

e) The moral issue around corruption and organised crime.

Apart from the new conservative value issues, Bolsonaro was very clever in exploiting two other issues to gain the hearts and minds of the people: corruption and crime: real, existing major problems that never should be banalised.

In the case of corruption it was easy for Bolsonaro, because, as explained earlier, the mainstream media had over the last five years, on an almost daily basis, tried to sell the image of the PT as a corrupt criminal organisation, and Lula as the most corrupt leader in Brazil's history. What they probably hadn't foreseen was that this massive campaign would undermine politics itself. Confidence in the other traditional parties, in the centre and centre-right, also got lost and they were heavily defeated in the 2018 election.

Bolsonaro, although for almost 30 years an MP after his troubled career in the military, presented himself as an outsider that would end all corruption. The PT's counter-argument was that it had done nothing different than what is normal in Brazil for many years: illegal financing of election campaigns. This is true and of course the whole anti-corruption campaign had as a clear goal to put Lula in jail and, if possible, to criminalise the PT. But the use of part of the rent appropriated by construction companies through

a cartel that overpriced the contracts with Petrobras to finance campaigns was real and very demoralising for a party that had, originally, the end of this practice as one of its banners.

Concerning crime, this was never really used in the campaign to undermine Lula and the PT. However, it's a very big problem. People don't feel safe. Simple as that. Over 50,000 people are killed each year, that is more than in most of the war areas in the world. The left always had difficulties in coping with the issue. By improving social conditions, jobs, housing, education, it was believed that the problem would disappear, or at least drastically decline. Bolsonaro would make the accusation that the protection of human rights was an obstacle to tackling the problem. In a style reminiscent of Duterte, he has said publicly that criminals should be crushed like cockroaches. In Rio, the number of people killed by the police has increased significantly.

But not only should police have the licence to kill and punishments be increased, ordinary people should have more access to guns. That became one of his main campaign issues.

Another issue is the link between Bolsonaro and the so called *milicias*, armed extortion groups operating especially in Rio. They have become a third-force dominating the poor areas, besides the organised crime and the neo-pentecostal churches. These *milicias* are set up basically by former police officers. They do not have political objectives, but are determined to eliminate political activist who go against their business, as was the case with the left-wing city councillor of Rio de Janeiro, Marielle Franco, who was brutally assassinated in March 2018.

The left has enormous difficulty in updating the discourse and putting forward an alternative to the right-wing solutions, which are much more straightforward and appealing.

## **Final remarks**

So, where are we now?

The left is isolated, although still alive. The centre and liberal right have lost public support, but not control of part of the mainstream media, and still has a lot of influence. And the extreme-right, the government and its allies, are determined to undermine democracy and workers' rights; to open up the country to foreign interests with little or no conditionalities and to weaken the state in a way that will make any future attempt to revive progressive development strategies even more difficult, if not impossible. As they represent different social groups, what appears is a structural incoherency.

We can identify three groups making up the Bolsonaro government: First, the new conservatives around the Bolsonaro clan. Second, ultraliberals who intend to privatise everything and sell off Brazil to international capital of whatever colour, be it Europe, US, China or Russia. And third, the military. There are more than 250 appointments from the military at several levels of the Executive, more than was common during the military dictatorship. However, contrary to what was thought in the beginning, they do not seem to have any project for Brazil themselves, except defending their pensions and careers, and restoring the image of the military dictatorship as a democratic civil movement that prevented Brazil at the time from becoming like Cuba.

So concerning the dynamics of the Bolsonaro government, its contradictions and incoherencies are necessary to maintain equilibrium between the new conservative and the ultra-liberal wing. The latter controls the Ministries of Economy, Energy, Agriculture and the Central Bank and has the support of the president of Congress. Contrary to what we see in the US and Europe, the new conservatives in Brazil do not defend at all any kind of economic nationalism. Their appeal to nationalism is empty and based on the slogan: our flag will never be red.

The ultraliberal agenda is, of course, embraced by the ruling class, the upper middle class and the mainstream liberal media. They know that this agenda does not have any electoral viability. So, they accept that they have to share the cake with the new conservatives, although many of them must feel very embarrassed. The new

conservatives invest in permanent tension around the supposed threat of communism (which they see everywhere) and the fight against corruption which keeps their social base mobilised. Although on the corruption issues, contradictions arose in the new right movement itself when, right in the beginning of 2019, a scandal involving one of Bolsonaro's sons appeared.

One might think or hope that these contradictions would cause the government to implode. But so far it works perfectly. The new conservatives keep the left under a permanent state of attack, while the ultraliberals implement their policies with little opposition. The privatisations; the dismantling of Petrobras and the BNDES; pension reform; membership of the OECD; the agreement with the US on the exclusive use of the satellite launch base in the North of Brazil; the trade agreement with the European Union - all of this, amongst other matters, is being introduced in quite a smooth way. Every time the new conservative rhetoric creates problems for the economic interests behind the ultraliberal agenda (basically, agribusiness and the financial sector), the latter manage to force the new conservatives to take a step back. In exchange they can implement their crazy agendas in other areas that appeal to their base and initiate dialogue around their campaign promises, like in the case of Education.

Bolsonaro lost support, but this has not translated into an increase in support for the left. It seems many people still give him the benefit of the doubt. So far the economy has not responded: unemployment is still high and investments at a record low, with economic growth close to zero. If this continues over the next months, in the run-up to the municipal elections, which will have a plebiscitarian character, one cannot foresee the outcome. My guess would be that the new conservatives will radicalise. Of course the victory of the progressive forces in Argentina in the elections in October 2019 will have an impact as well.

In the field of foreign policy the incoherency expresses itself in the following way. The new conservative rhetoric insists on bringing Brazil back to what it calls a 'pan-nationalistic Western' alliance, supposedly led by Trump. This means, among other things, attacking China and Islam, and advocating complete alignment with the US and

Israel - read Trump and Netanyahu. However, the US is not buying Brazil's soybeans. China is, in fact, since 2009, Brazil's main trade partner. Trade between the two countries reached US\$ 100 billion in 2018, far ahead of the exchange with the US. And China is becoming also one of the main direct investors and sources of financing. The interests of especially agribusiness and the financial sector are therefore very much linked to a more pragmatic approach to China. And they also do not want the government to provoke unnecessarily Arab countries. However, in the case of the new conservative values agenda the situation is even more bizarre. Brazil is voting in UN agencies against anything that looks like gender policy together with Islamic states and not at all with Western countries. In practice this means that on the hard issues, the Ministry of Foreign Affairs, led by new conservatism, is in many cases bypassed by the Ministries of Economics and Agriculture dominated by ultraliberals.

In the case of BRICS, which was, as explained earlier, high priority under the PT governments, this means that Brazil has an interest in the economic and financial aspect of the alliance, but abandons the geopolitical component. The coming BRICS summit in Brazil in November 2019 will therefore have a much lower profile compared to the one organised in 2014 during the Dilma government and which gave birth to the New Development Bank.

There is a Brazilian samba which says:

Reconhece a queda – recognize the fall

E não desanima – don't get discouraged

Levanta, sacode a poeira- get up, shake off the dust

E dá a volta por cima – and turn it around

The author, Jorge Arragão, said that for him the most essential part is recognising and understanding the fall. In other words, we should never blame the people for having voted for an extreme-right government, even if we are convinced their vote was irrational, manipulated and against their own interests. As Berthold Brecht said in critique of the East German government at the time, it is not a left government that

chooses the people, it is the people who have to elect and defend a left government. So instead of judging the people's judgment, progressive forces should try to understand first of all the deep and different causes of this new reality. This is what I have tried to do in the case of Brazil and I think much of it applies to other realities as well. The four-level approach I used allows us to understand the complexity of the process.

Thank you very much for your attention. Sorry to have taken so much of your time.