

## **BRAZIL: IF LULA WINS, FREE MARKETS WILL SURVIVE**

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The large plurality of votes received by Luiz Inacio Lula da Silva, popularly called Lula, in the first round of Brazil's presidential election may seem like a resounding defeat for neo-liberalism in the world's fourth largest nation. After all, Lula is an old-time unionist and leader of the left-wing Workers' Party (PT). But I believe his strong showing mainly signifies that the Left has moved toward the center and accepts many of the tenets of free-market liberalism.

The contrast between Lula's behavior and background and those of retiring President Fernando Henrique Cardoso supports this interpretation. Cardoso was a former left-wing professor who helped develop dependency theory, which claimed that developing nations such as Brazil were exploited by capitalist economies such as that of the U.S. Yet as Finance Minister and then as President, Cardoso mainly followed conservative market-oriented policies.

In 1994, Cardoso ended a rate of inflation that had exceeded 5,000% a year by launching a new monetary unit, the real. He pegged the real's exchange rate to the dollar until the Russian crisis in 1999 led to a run on the real that forced it to be floated. Still, annual inflation has remained well under 10% since 1997. Cardoso also privatized the inefficient state telecommunications and electricity companies as well as a few other sectors. But in its attempt to raise more revenue from the sale of these enterprises, the government alienated Brazilians by replacing public monopolies with protected private monopolies.

Although Jose Serra, the government candidate, trailed Lula by over 20% in the recent election, Cardoso remains popular according to recent polls. This sign that many policies of the 1990s remain popular explains why Lula eliminated most of the radical rhetoric that had been associated with his party.

During his campaign, Lula promised cautious government spending policies and committed his party to upholding the market-oriented reforms of the '90s. He pledged not to repudiate the large government debt accumulated under Cardoso's presidency and to work with the International Monetary Fund and other global institutions to restore Brazil's reputation on world financial markets. To be sure, he expressed opposition to privatizing many more state enterprises, but he did not call for renationalization. He also supported bringing in private companies to run much of the water system.

There's no support in Brazil, or elsewhere in Latin America, for bringing back the discredited populist policies of earlier decades with extensive state ownership of companies, bloated government employment, and widespread protection of domestic industry. Socialism is no longer considered an alternative to the mainly capitalist systems that Brazil and most other Latin American nations now have.

Yet if Cardoso's policies remain reasonably popular, why did many Brazilian businesspeople and others in the middle class desert Serra and back Lula? Part of the answer is their belief that someone from the Left can better tackle the major problems facing Brazil without throwing out the progress reached in the '90s. This explanation is similar to why Britain turned to Tony Blair and his remade Labor Party after extensive market reforms under the Tory leadership of Margaret Thatcher and John Major.

Take unemployment, for example. The official rate now exceeds 8%, and the true rate is probably much higher. Brazil continues to have archaic labor laws that discourage employers from hiring; they induce many workers and companies to work in the gray economic underground. A flexible labor market may be attained more easily under someone like Lula, who has the confidence of unions, than under a conservative President--just as it took New Zealand's Labor Party to free that country's labor market.

Lula also may be better able to deal with crime. Brazil has one of the highest crime rates anywhere: Rio de Janeiro is the only city where I remove my watch while strolling in a good neighborhood. With both the police and judiciary widely seen as corrupt, it may be easier for a populist to push for sharply higher convictions and increased punishments of criminals.

How Lula will handle Brazil's public-sector debt is less clear. The debt ballooned in the past few years from 30% to 60% of gross domestic product. Fear that Lula will default on this debt explains the sharp decline in stock prices and in the value of the real during the months leading up to the presidential vote. Although he has pledged to repay rather than "renegotiate" this debt by creating a budgetary surplus, it remains to be seen whether he can succeed.

Many middle-class Brazilians have come to support Lula because they believe he'll take a pragmatic approach while helping to solve remaining economic and social problems. Time will tell whether these expectations will be met. But his large vote doesn't indicate that Brazil has repudiated market-friendly policies.