8 The Brazilian Social Developmental State

A Progressive Agenda in a (Still) Conservative Political Society[1]

Celia Lessa Kerstenetzky

Over the past 40 years, Brazil has experienced three state-led development models, making it an interesting and perhaps unique case of development tinkering.

In the 1960s and 1970s, Brazil took the development route based on import substitution industrialization (ISI), with investment concentrated strongly in heavy industry and consumer durables, which delivered very high growth rates. Technocratic in conception and execution, this developmentalist plan was made possible by peculiar circumstances at home (an authoritarian political regime) and abroad (abundant credit). Deteriorating international conditions then precipitated the country's slide into a debt crisis and economic slump in the 1980s, laying bare the income concentration inherent to the growth model and eventually also indirectly hastening Brazil's return to democracy. The following decade witnessed a new development experiment, the agenda of 'governance by the market', with disappointing results in terms of both growth and distribution. As in other neophysiocratic experiments across the globe at the time, state activism was central to the planning of the state's withdrawal. Finally, in the first decade of the new century, Brazil figures as a laboratory for an unprecedented 'social developmentalism' (Evans, this volume), where sustained (hopefully also sustainable) growth and distributive results are more soundly interwoven.

In this chapter, my attention is directed mainly to the twenty-first-century development path largely initiated under the presidency of Luiz Inácio Lula da Silva. I characterize this recent period as one of 'redistributive growth', a trajectory that has been assisted by the democratic appropriation of the development agenda, whose roots may be traced back to the 1988 Constitution. This recent trend, however incomplete and with risks of its own, underlines policy choices that are open even to countries with important resource constraints.

Some background for the new period of experimentation is provided in the first section as I briefly look into the problematic legacy of the ISI model and the opportunities that opened up as Brazil redemocratized in the 1980s. Then, in the second section, I discuss the period where governance by the market was taken seriously, highlighting some of the missed policy opportunities, and in the third section I examine the recent social developmental experiment. The fourth section concludes by tentatively exploring how Brazil's experience might contribute to the understanding of development.

Constitution and Crisis

In the 1980s, the debt crisis and subsequent spiralling inflation put an end to the ISI model of rapid growth based on foreign indebtedness that Brazil had adopted in previous decades. The 1980s were years of slow growth, recession and high rates of unemployment. As it turned out, the crisis exposed both the model's financial vulnerability and its distributive failings.

In fact, the ISI model, with its emphasis on capital accumulation through intraindustry demand and consumption of durables, relied on institutional income transfer mechanisms to major domestic economic groups while refraining from implementing public policies to meet chronic social shortcomings. The authoritarian development project rested on a flat political economy: It recruited the support of Brazilian big business, large landowners and swathes of the middle class while ensuring that political resistance from urban and rural workers would be neutralized, thus containing pressure for compensatory social welfare spending. As a result, it helped to make income concentration an enduring feature of Brazilian-style development.

Indeed, in the course of the 1970s' so-called Brazilian economic miracle, income distribution, which already reflected the extreme concentration of wealth in Brazil, became significantly more unequal: the Gini index leapt from 0.49 in 1960 to 0.565 in 1970, never to return to the 1960 level thereafter. The model's financial failure in the 1980s revealed the problem—to the extent that it broke the 'growth spell' that had bewitched many economists in the country—and added to it with increased unemployment and employment insecurity as well as soaring poverty.

As Brazil embarked on redemocratization in the second half of the 1980s—an event stimulated by the loss of political legitimacy by the military following the failure of the development model and also by the new opportunities for collective action that the latter had inadvertently created—the distributive pact underpinning the model was called into question.

In fact, organized opposition to the military government mounted throughout the 1980s, with new political forces emerging, such as the Workers Party (PT), which grew out of a renewed trade union movement in the big industries of São Paulo state (which had been the mainstays of the ISI project). In the process of redemocratization, the political situation was thoroughly reconfigured, with new parties emerging and social movements and civil society organizations proliferating. All these forces converged on the National Constituent Assembly of 1987 and gave birth to an amazingly progressive

Constitution, for the most part a reflection of the long-repressed demand for social and political changes.

Predictably, the new Constitution, in addition to restoring political rights and amplifying the political franchise, placed emphasis on guaranteeing social rights and democratizing public policies. It tasked the state with ensuring a decent life for its citizens, with employment, access to culture, health, education and social protection. It innovated by including the principle of the 'social function of property', vaguely yet explicitly limiting the extent of property rights, which it also ensured. It also provided a participatory ingredient in public policies.

While the implementation of the expansionist social rights agenda would defy pressures for policy rollback exerted in Latin America in the 1980s,[2] another part of the agenda, related to the *method* of providing social rights, drew increasing attention for its multifarious democratic potential. This was the devolution of public policy executive capacity—coupled with financial might (tax powers plus shares in the federal tax revenues)—to local levels, a procedure that later proved effective in democratizing social rights spatially across the country.[3] Moreover, the method of decentralization included the condition that in order to get federal funds, municipal governments had to set up participatory councils in which the various groups of stakeholders would sit. So unlike reforms that decentralize while shedding public responsibilities, the decentralization prescribed by Brazil's new Constitution was accompanied by greater financial commitments from the central and subnational governments to public policies and by increased participation by interest groups under the regulatory umbrella of the central government.

Once the legislative euphoria had worn off, a number of tensions became apparent. Two of them stand out.

First are the tensions of the Constitution's own making. It assigned public responsibilities in great and yet insufficient detail. It ruled on a great many subjects, major and minor, but left a large number of important and potentially explosive tax and social matters for later regulation (or resolution in the courts), among them the definition of the 'social function of property'. It also committed the government to principles of fiscal discipline while largely leaving funding for social spending to executive discretion. Still, in spite of its lack of concision and clarity, the Constitution set a normative horizon that was to frame the public agenda for governments to come, marking out the field in which the various conflicting projects, progressive and otherwise, confront each other (via slower or faster implementation of its provisions and amendments in one direction or another).

Second, but crucially important, the debt and fiscal crises of the 1980s and early 1990s, with their legacy of slow and even negative growth and high inflation, struck at a time of peaking social rights expectations. A failed orthodox plan to combat inflation carried out by the Collor de Mello government (1990–1992) ended up by also failing on the social front, with spending cuts following (and adding to) increased unemployment, worsened income distribution and stagnating social indicators.

This brief period was brought to a close, infamously, by the president's impeachment for involvement in corruption. The vice-president, Itamar Franco (1992–1994), took office in a context of hyperinflation, and his economy minister, Fernando Henrique Cardoso, applied a stabilization plan, the Real Plan, which finally managed to bring inflation under control and stabilized Brazil's currency (the real) in 1994. In 1995, buoyed by the popularity of the Real Plan, Cardoso was elected president, defeating Luiz Inácio Lula da Silva, the PT candidate.

Cardoso, who governed from 1995 to 2002, held the economic crisis at bay with a series of economic policy measures designed to stabilize the currency and balance the external accounts. How far the new public agenda represents a new 'development model' and to what extent it offers a secure route for meeting the social demands embodied in the Constitution are evaluated in the next section.

The Cardoso Era: State-Led Governance by the Market

While the crisis period could hardly be said to have constituted an ideal setting for ambitious development plans even when one has great expectations, as Brazilians after 1988 surely had, no one would deny that failure to stabilize the economy stood in the way of any development blueprint. Indeed, stabilization is a necessary first step. But the extent to which the Cardoso government embedded stabilization concerns in a development strategy is doubtful to say the least. It seems, on the contrary, that stabilization itself metonymically became not a step to the development objective but the development objective itself.

True, over its two terms the Cardoso administration had to contend with adverse international economic circumstances, especially the Mexican, Asian and Russian financial crises. But policy choices added to the difficulties, thus further restricting policy latitude.

From the beginning and throughout the period, currency stabilization remained the central policy objective and monetary policy featured as the main economic policy tool, largely subordinating fiscal policy to its purposes. Briefly, the interest rate was managed with a view to attracting foreign capital and so to offset the trade deficits produced by a policy of a strong exchange rate—a key component in fighting inflation under the Real Plan. In addition to heightening external vulnerability, this policy turned out to worsen public indebtedness, which experienced an unprecedented surge,[4] generating fiscal deficits that were addressed from 1998 onwards by containing public-sector nonfinancial expenditures and intensifying revenue collection. In other words, the government's leeway to live up to the constitutional expectations had been greatly narrowed.

For all its fiscal concerns, the first Cardoso government could not avoid returning a primary deficit, as public nonfinancial expenditures grew automatically, responding to new retirement entitlements as well as early-retirement incentives, which ironically were part of a government package to shrink the public sector. In Cardoso's second term, the emphasis on rigid monetary policy was strengthened, with inflation targeting replacing exchange rate targeting and fiscal policy now being directed to reducing the nominal deficit. As a result of a 1999 agreement with the International Monetary Fund (IMF), the government proposed and succeeded in passing the 2000 Fiscal Responsibility Law, which imposed the setting of primary surplus targets to help rein in spending. To confront the mounting financial strain, the federal government relied largely on the constitutional prerogative of creating new levies (the so-called social contributions), which in turn became responsible for the substantial increase in the tax burden during this period.[5]

Many of these developments were unintended consequences of decisions made with a view to stabilization. However, the same policies aimed at stabilization were also intended to serve development, and they also fell short of the government's expectations.

Thus monetary stabilization formed an integral part of a public agenda that identified the structural ills troubling Brazil's economy as originating from the old ISI developmental model, more specifically the oversized state. The old model was blamed for poor income distribution, the deteriorating state of the public accounts, the inefficiency of various essential public services and the low productivity of domestic firms, which were protected against competition from international products. By contrast, the new public agenda—aimed at increasing the private sector's international competitiveness and the public sector's efficiency, largely in harmony with the new global mores—gave prominence to a development process governed by the markets, which was expected to address the other shortcomings as well. In practice, this entailed withdrawing direct public intervention from a number of areas, privatizing public enterprises, deregulating trade and reforming the government administration, which included outsourcing services to enable paring back current spending.

Downsizing the state was expected to enable a crowding-in of private investment, attract foreign direct investment, restore the principle of free competition, impose productive restructuring on firms to increase their productivity to meet international competition and, last, permit the market to function so as to generate sustained growth and employment. By and large, however, the high-interest-rate policy attracted short-term speculative capital while a good part of foreign direct investment did not convert into new businesses but in the denationalization and concentration of existing businesses (Amann and Baer 2007). Domestic companies underwent strong productive restructuring and intensified specialization; those that survived did in fact become more competitive. However, the reduction in diversification favoured industries with low technological content. In addition, the restructuring took place at the cost of deindustrialization and a considerable increase in industrial unemployment.[6]

In addition to bringing growth, stabilization and the set of hands-off policies that accompanied it were expected to bring a social bonanza as well. In fact, many in the government regarded monetary stabilization as not just the key economic policy but also the key social policy. It was hoped that eliminating inflation while restoring the economic environment to health, thus fostering business prosperity, would also neutralize the inflation-driven mechanism of income concentration and impoverishment, which works through financially penalizing low-income segments of the population without access to bank accounts or to indexed financial assets. Indeed, the incidence of poverty, and in smaller measure income inequality too, fell significantly the year the Real Plan was adopted. Overall, however, the

Cardoso years returned low growth rates and equally modest advances in income distribution and the reduction of poverty.

On the conventional social policy side, total public expenditures expanded slightly.[7] In general, however, the area was the object of ambiguous attention, as it combined a set of qualitatively important and even groundbreaking policies with largely inadequate funding,[8] given the fiscal squeeze and the anaemic growth pace. Indeed, social spending has been facing cuts since 2000 thanks to a government initiative turned into law, the Delinking of Federal Funds Law (DRU), which permits contingency reallocation of 20% of all federal tax revenues. Also, social security received special attention on the Cardoso-era reform agenda, but mostly as a fiscal liability to be redressed. The government's ambitious pensions retrenchment proposal, which suffered a number of modifications in Congress that, for example, excluded the strongly organized civil servants from the toll, eventually succeeded in reducing private sector employees' entitlements.

Last, while the orthodox adjustment was being made, the government began to implement a multifaceted social safety net (for the first time in Brazil's history) dispersed across several ministries and with a variety of eligibility criteria and benefits, something that was in harmony with the IMF blueprint for indebted countries at the time. Eventually, in response to pressure to expand the network, in 2001 the government launched the national School Allowance programme of cash transfers, focused on poor families with children and conditional on the children's satisfactory school attendance.[9] However, even then the other income programmes were kept in place, making up a quite cacophonous protection network that largely failed to live up to the goals set.

The implementation of the liberalizing reform agenda was not linear, though. It ran up against limits inside and outside the government. One important internal constraint was given by the contending development projects within the hard core of the government itself, which opposed the 'developmentalist'[10] and stabilization camps.[11] External constraints, in addition to the pressures from organized interest groups, included importantly the fragmentation of the party system and the lack of programmatic content in the existing political parties. This latter aspect is a feature of Brazil's political system, which makes the politics of any reform agenda not just complex but potentially noxious. In order to gain approval for bills, the president has to build a parliamentary majority resting on a multiparty coalition, which entails trading government posts and spending earmarks for votes. The dynamics of the Cardoso government's construction of a majority coalition guaranteed the president a few victories (such as approval of the reelection amendment and the fiscal responsibility law) but also reinforced political pork-barrelling, thus stunting the expected results. Moreover, this practice produced side effects on Brazil's young democracy, also stunting the construction by this route of any genuine development project where democratic quality figures as a constitutive element. We shall see below that the Lula administration made use of the same practices.

To sum up, in Brazil, as in other parts of the world, market-governed development did not achieve favourable economic results. The 1990s were years of low or no growth, external vulnerability[12] and fragility in the public accounts, with public debt, government financial expenditures and the tax burden all increasing. With certain important exceptions, private and public sector efficiency drives, privatizations and productive restructuring resulted in asset transfers or loss of productive capacity (with worker redundancies) rather than new investments that might have fuelled sustained growth. The centrality of monetary policy and monetary stabilization saddled the economy with the highest real interest rates in the world, which constrained the level of economic activity and, by permitting massive public fund transfers to the holders of financial assets, increased inequalities. In fact, equity made little headway. Poverty and income inequality practically stagnated, the unemployment rate increased significantly,[13] the informal labour market swelled,[14] and average earnings decreased. Social indicators reflected improved access to primary education, where coverage became almost universal, as well as progress in child mortality and life expectancy, although the results for preschool and secondary education along with student performance in standardized tests continued to be unsatisfactory. Reform of the state left civil service careers destructured and devalued, with a 'selective' policy prioritizing only a few segments of the public service.

In many respects, the diagnosis of the national developmental state's failings was correct: It had been captured by major domestic economic groups, there was differential protection for civil servants and various services were inefficient. However, with the government disempowered as an agent of development and, concomitantly, with its leading role delegated to market forces, the problems of the public agenda's capture by large economic interests and (market) inefficiencies were reintroduced by the back door: the public agenda was dominated by the fear of losing market confidence, which justified the centrality of the monetary agenda and the state's abstention from crucial initiatives. In this way, other structural factors fostering inequalities and inefficiencies continued to be neglected throughout the Cardoso years: the dysfunctional labour market,[15] concentration of land ownership[16] and selective access to capital, credit and quality education at all levels. The reform policies strengthened the structural failings of the system of political representation: fragmentation and nonideological attachment to positions of power.

It is certainly true that regaining control over the currency, in itself a task full of pitfalls and unexpected complications, was instrumental to sustaining a development project, but it should not have become the final end of public intervention, which in practice it largely became. The challenge for subsequent administrations is to reconcile (and to an extent also to refine) the monetary stabilization gains while maintaining government capacities and making urgently needed progress on social issues.

The Lula Administration: Towards the Social Developmental State?

Expectations to the contrary notwithstanding, the first government of Luiz Inácio Lula da Silva (2003–2006) bore the imprint of the stabilization agenda and made few advances towards a more positive development agenda.

True, the heated electoral debate that exploited the imagined, disastrous consequences of a left-wing candidacy—in a context of external crisis and tepid growth—ended up fostering an actual, massive speculative attack on the real, which was abruptly devalued in 2002, ultimately signalling the 'markets' lack of confidence in that candidacy. In response to the widespread wave of attributing lifelike qualities to the markets, the then candidate Lula wrote a formal letter —nominally addressed to Brazilians but actually targeting the markets —in which he pledged to honour all contracts entered into by the previous government, a commitment that proved crucial for his election. Still, the Lula candidacy had grown out of the political left, from a commitment to social issues and to gaining greater autonomy for Brazil to formulate policies other than the 'one size fits all' market governance model. In order to gain the confidence of the markets—and of the general public, alarmed by the nemesis of the markets—Lula was at risk of losing legitimacy precisely in his own political constituency.

The first Lula government largely reflected this tension. His administration was framed by the continuance of the economic policies of the Cardoso era, the priorities being to combat inflation and improve the public accounts. The fiscal squeeze was even tightened with a raised primary surplus and the continuance of the contingency cuts of the Cardoso period (the DRU). The operational independence of the Central Bank was maintained; thus, leeway was given for it to pursue an aggressive policy of high interest rates. The reform (partial) of civil service pensions that had eluded Lula's predecessor was proposed and approved.

At the same time, the government rushed to signal a commitment to social issues with the unification and subsequently strong expansion of federal cash transfer programmes and the establishment of a Ministry for Social Development and to Combat Hunger (*Ministério do Desenvolvimento Social e do Combate à Fome*, or MDS). But with the notable exception of the cash transfer policies, the fundamental thrust of the left-leaning reforms of this first term was institutional. This included setting up thematic social ministries, including the Ministry for Agrarian Development (separate from the Ministry of Agriculture) to address the agrarian reform (a flagship of the PT political programme and a demand of the Landless Rural Workers Movement, which is connected with the PT) and a multistakeholder Economic and Social Development Council designed to advise the president on policy.

All in all, the hard-line agenda (in combination with the context of crisis) had the upper hand over the social agenda, at least in Lula's first year in office: the growth of per capita GDP was negative in 2003, unemployment rose and average earnings fell—although these negative results were attenuated by reduced inequality, which continued the slight downward trend started in 2001.

The years that followed (2004–2006) saw better results in growth rates and labour market performance, but then the country was surfing on the favourable wave of changed international circumstances, especially the commodity boom. Federal social spending did increase, especially in 2005 and 2006,[17] but pensions and social assistance showed the largest gains. Other crucial areas experienced stagnant funding (education, health and agrarian development) or even cutbacks (housing and sanitation). The most notable results were substantial reductions in income inequality and poverty in 2004, associated with social assistance and improved wage levels. Indeed, in spite of the scandal that broke in Congress over the Executive's buying the loyalty of its party base through cash payments, which involved close aides to the president, Lula was reelected in 2007, now with a much expanded constituency than he had started out with in 2002, ranging across the entire social spectrum. The social programmes and revived economic indicators played a crucial part.

In contrast to the first term, the second Lula government, which began in 2007, signalled less ambiguously its programmatic commitment to social development—marking off the beginning of an important ideational shift in the country's development discourse. This could be seen both in the many capability-enhancing constitutional amendments[18] and provisional executive acts Lula passed and in actual results. Not only did Brazil begin to experience higher growth rates and lower unemployment, but this process was accompanied by rising average earnings, more formal employment and greater social protection for the population as a whole, less inequality in household income and wages, a reduction in poverty and improved social indicators (means and distributions) (see IPEA 2009). Part of this series of successes can be put down to friendly international conditions, which enabled Brazil to settle its debt with the IMF and accumulate reserves. Part, however, must be credited to the public policies examined below. As aptly condensed by a famous Brazilian political commentator, the president had luck help him out (Bresser-Pereira 2011).

The recent trajectory of the Brazilian economy is characterized by what one could call 'redistributive growth'. Growth rates of per capita household income among the poorer quantiles of the population have far outstripped those of the wealthier quantiles.[19] This trend accelerated in 2008.[20] Also, traditional spatial inequality has declined, the highest growth rates being in the northeastern region, which has 50% of the poor but only 29% of the total population. Moreover, growth has been accompanied by job creation, especially in the formal sector of the economy, running counter to the contemporary tendency for growth without employment observable even among the emerging economies: In recent years, growth rates of GDP and employment have been nearly identical, with formal employment growing fastest.[21]

It is thus of interest to distinguish to what extent these results stem from a public development agenda embodying a fresh conception and a set of institutional innovations of its own. Supporting this hypothesis is the fact that although the recent surge in growth (mean rates in excess of 5%) is certainly less impressive than the 8.7% averages of the 1970s, it has nonetheless been supported not so much by intraindustry dynamics or exports (as much of the previous growth spate was) as by expanding domestic mass consumption, largely stimulated by government measures.[22] These included an unprecedented expansion of social programmes (*Bolsa Família* alone reached some 45 million people, a quarter of the population, to which must be added the millions of rural pensioners and beneficiaries of other constitutional transfers), credit incentive policies and measures to increase the use of bank services, the expansion of government current expenditures and a series of labour market policies. Prominent among the last are the steady increase of the real minimum wage,[23] incentives for formalizing employment (such as tax simplification) and closer monitoring of existing employment, all contributing to increasing real wages.

Meanwhile, the new government's agenda continued to prioritize monetary stabilization. The policy of high interest rates was kept in place and the pace at which rates were reduced was most of the time slow. However, as the economic authorities were segmented between the monetary administration, led by the president of the Central Bank (a 'hard liner'), and the fiscal administration, led by the minister of the economy (an economist connected with the developmental camp), some latitude was gained as the latter gradually began to introduce more flexible fiscal surplus targets to make room for anticyclic economic policy[24] and especially for a new public investment plan, the Growth Acceleration Programme (PAC).[25]

At the risk of oversimplification and early obsolescence (as with any analysis made in the heat of events), I believe that, especially in the second Lula government, it is possible to discern elements of the agenda of a social developmental state in the sense of Evans (this volume). Let me specify three of these elements: social-economic interaction in the growth trajectory (social programmes, the labour market, social services, the PAC investment programme), the agenda for the state (interaction between government and civil society and between government and the political system) and the environmental and agrarian dimensions.

Social-Economic Interaction and Growth

The Lula government administered a first development shock—implementation of the Family Allowance cash-transfer programme (*Programa Bolsa Família*, or PBF)—already during its first term. The programme consisted of a consolidation of various cash-transfer programmes to the poor administered by the federal government, breaking with the fragmentary, quasi-market logic that had prevailed during the Cardoso administration. But it also more than doubled the coverage and increased benefits in the first year and kept growing continuously thereafter, the greatest increment (another near doubling) taking place between 2004 and 2005.

Like a number of other 'latest generation' cash-transfer programmes in Latin America, the PBF is targeted at poor families with children and is conditional on the beneficiaries' meeting certain counterpart requirements in education and health (but not work). Several studies show that in spite of absorbing a tiny fraction of Brazil's GDP (0.4% in 2008) and representing a small proportion of household income (0.5% in 2006), the PBF was responsible for one-fifth of the significant reduction in income inequality observed between 1995 and 2004 and contributed to reducing extreme poverty (see IPEA 2009).

Arguably, the PBF can be considered a development policy of the Sen type. Its more visible purposes include relieving destitution and reducing food insecurity; by way of health and education conditions, affording the poorest access to health and education services, creating opportunities for poor children who were out of school to break with the cycle of poverty; opening up a connecting corridor between the government and the poor through which other services can be accessed, such as complementary actions in vocational qualification and labour placement; by means of decentralized programme management, permitting greater capillary penetration of the public sphere; and fostering public discussion of the appropriateness and limits of an effective social protection network. In addition, by transferring income to a large contingent of the population that had been practically excluded from the consumer market, it has the potential to spur local economies.

But the PBF is hostage of its political economy.

Ever since the PBF was launched, the Lula government has indicated that the programme would expand to reach the entire eligible population; at present the PBF still leaves out about 20% of that population. Signals are somewhat mixed from the government side. It took nearly two years to adjust the value of the (meagre) benefits up from the initial 2004 values, with no index, but the government has implemented expansions, such as extending the transfers for up to two teenagers per family. Also, the government has been reluctant to suspend families that do not fulfil the counterpart requirements (although it began to do just that in 2007) and, most recently, also proposed converting the programme into a right, codified into a set of social laws so that it could not easily be revoked by future governments, a long-standing claim of social policy experts in the country.

These expansionary measures, even if murky at times, have been targeted by bold counterpressures. Although popular, the programme is constantly attacked by the mainstream press and the political parties that oppose the government in Congress. In 2007, it lost a part of its financial underpinning when a provisional tax that formed part of its funding arrangement was not renewed in the Senate amidst dramatic public debate. In short, problematic aspects typical of the political economy of highly selective cash-transfer programmes were revealed in these episodes, such as the difficulty of securing political and financial support for expanding the budget (see Kerstenetzky 2009). The PBF has often been hailed for not promoting disincentives to work on account of its low benefits and its limited budget is frequently cited as one of its strengths, but the upshot is that it has been insufficient to lift beneficiaries out of poverty and still excludes a lot of eligible people.

In terms of reducing extreme poverty, the PBF shows that government transfers, even relatively small ones, make a difference. Although the exclusion of a major contingent of the poor, the small size of the benefits and the precarious social-service network and exit options available to the beneficiaries are cause for concern, the PBF nonetheless represents an effort to build social solidarity into a development project involving the vast segments of the population historically denied a central place in past projects.[26]

Another prominent presence in this dimension of social-economic interaction is the Lula government's labour policies. As already mentioned, during the second Lula administration, rates of total employment and formal employment rose.[27] The same occurred with average earnings, which had gone into decline in 1998 and did not start to recover until 2005. That is to say, there were more jobs with higher wages and better protection. In fact, social security coverage expanded continuously from 2003 onwards, the significant improvement between 2006 and 2008[28] being explained by the reduction in informal occupation and unemployment.

How far was the expansion in formal employment due to government policies? Certainly measures taken in recent years to encourage formal employment, such as tax incentives and closer monitoring of the employment situation, account for a good deal of it.

In any event, there seems to be no doubting the distributive outcomes of the improvement in employment conditions. Growth in formal employment in itself has contributed substantially to reducing inequality, because the wage floor is pegged to the minimum monthly wage (MW), which is not always the case with informal employment. And since 2004, the variation of the minimum wage is regulated by a government policy of revaluation[29]—since 2007, by an executive provisional act, the variation should reflect the prior year's inflation and the preceding two years' variation in GDP. The primary purpose of this policy is to restore the purchasing power that the minimum wage has lost since the 1960s. But as the official minimum wage is the reference value for market earnings and national insurance and other constitutional benefits, this readjustment has had a considerable impact to reduce overall household income inequality and poverty (see IPEA 2009). As revealed by the increasing domestic consumption that importantly explains recent growth, these measures also have widespread economic effects.

The freedom to participate in the market afforded to population segments that were virtually excluded and the freedom to choose protected jobs, together with the bridging of social gaps and the greater economic security embodied in the broad safety net that has been set up have all constitute an expansion of capabilities in Sen's sense—and this expansion has been concomitant and congruent with the trajectory of recent economic growth.

Notwithstanding these advances in social protection and labour market policies, progress in education and health services, which are key to expanding a variety of capabilities, has been marginal. The potential for economic growth with equity deriving from social investment in services is thus underutilized.

True, public education coverage has expanded—particularly in primary and higher education—and average duration of schooling and adult literacy have both improved, but middle school, preschool and especially day-care coverage is poor and the duration of schooling (seven years) and rate of illiteracy (10% of the adult population) are still cause for concern. The government set up an Education Fund expanding the Cardoso government's FUNDEF, but expenditure per student is low as funding continues to be inadequate. Poorer pupils, a large fraction of the student population, are concentrated in public schools, which generally operate on a short school day[30] and suffer from a series of deficiencies. Unsurprisingly, Brazil ranks persistently at the lower end in the PISA/OECD examination.

Also, despite the positive trends in infant mortality and life expectancy that place Brazil among the high-HDI countries, the public health system, *de jure* universal, is characteristically underfunded and *de facto* socially segmented. Indicators more sensitive to quality of life and its distribution among the population would detect the system's chronic ills: underprovision of preventive services, a precarious basic care system and a structural shortage of hospital beds. Also, poor sanitation and housing, two long-standing neglected areas of social spending, increase the proneness to illnesses of the poorer segments in the population.

In short, the Gordian knot of social services is in the budget, where growth is barely inertial and vulnerable to contingency reallocations. Sub-standard services are available to the low-income segments of the population, whereas the middle- and higher-income strata can opt for private insurance or out-of-pocket quality services. This segmentation of services means that institutions with the potential to integrate and equalize have served to reinforce inequalities. It can be expected that, to the extent that they continue to be segmented, public education and health services will keep facing limited budgets (as middle-class taxpayers opt out of them), thus perpetuating social inequalities.

The second Lula administration also introduced the infrastructure plan known as the Growth Acceleration Programme—which provides for public infrastructure investments as well as credit and other incentives for private investments—designed to remove bottlenecks in the economy, promote increased productivity and reduce social and regional inequalities. Public outlays in the programme represent 0.5% of GDP per year and do not enter into the accounting of the primary surplus. Private outlays are expected to amount to about as much.

In comparison with previous public investment projects, the PAC innovates in three respects: by public-private partnering, where goals are set by government while the private sector is encouraged to participate with tax relief and access to credit; by treating social infrastructure as a component of the infrastructure necessary for development, through the expansion of public services, low-cost housing, sanitation and urban transport, as well as access to electricity and water systems; and by sharing the management of the plans among ministries and subnational state and municipal bodies. In the case of urban investments in needy communities, the programme calls for involving the affected communities in the decision-making process and for NGOs to play an active part. The main reservations have to do with how far the announced investments represent merely a rearrangement and coordination of projects formerly dispersed across a variety of government bodies; whether these plans will actually be fully executed, given the relatively low levels of execution thus far; and lastly, whether community mobilization has in fact taken place at crucial stages of the decision-making process. It is still early for a final evaluation, but the effects in terms of setting a new development paradigm are already making themselves felt as most of the criticisms have taken aim not so much at the programme's intended purposes but its falling short of them.

The Agenda for the State

During the second Lula administration, public current spending expanded at the three levels of government: the numbers of civil servants increased and wages and career plans were restructured. By and large, the accretion reflected the reprofessionalization of the public service and the setting of new priorities. Reversing the past trend of outsourcing public jobs, public workers were recruited by competitive public examination and mostly to perform services such as tax collection and auditing, higher education and social assistance. And whereas no substantial increase was recorded in crucial areas such as basic education and health, public employment (although still relatively minor) did expand in the period.[31] Arguably, these measures have helped to restore government capacities, such as qualified and motivated public employees and revenue collection, which have proved instrumental to advance the development agenda.

Another advance—the relationship established between the state and civil society—has attracted greater attention, since it indicates changes in the public sphere very much in the spirit of Senian development and of an 'expanded embeddeness' (Williams, this volume). These include participation in decision-making processes and democratic deliberation regarding the content of the agenda as constitutive elements of the practice of development.

As already mentioned, the 1988 Constitution provides for the creation of participatory councils to manage public policies. While the Cardoso administration must be credited for launching these initiatives, notably by installing the municipal Councils, it was during the Lula government that the participatory agenda blossomed.[32] National conferences, public hearings and forums have proliferated as spaces for public consultation, while councils, committees and participatory budgets (these exclusively at the local level) have mobilized stakeholder participation in implementing and monitoring specific public policies (in health, education, labour, social assistance, women's rights). Also, endeavours to forge closer relations with civil society can be seen in the increasing involvement of NGOs in a variety of public policies, either as stakeholders, on deliberative and advisory bodies (as representatives of civil-society sectors or advisors to social movements) or as the government's partners in policy execution. To this set of events, two coordinating initiatives must be added: the establishment in 2003 of a National Secretariat for Social Articulation, reporting directly to the presidency, to pursue dialogue with social movements, and the establishment in 2004 of the already mentioned Economic and Social Development Council, with ample civil-society representation, to advise the president on development strategy matters. Considering the past practice of development plans being cooked up exclusively by government technocrats, on the assumption that the plans' legitimacy turns on technical content, the new participatory practices mean a great deal of conception change: for one, they embody the recognition of the political aspects of the development agenda.

True, the government has not been uniformly permeable to demands from participatory bodies. Macroeconomic policies in particular resist criticism raised at these levels. In addition, significant administrative challenges remain, notably questions of coordination (cf. Couto and Abrucio 2003) and capacity building connected with decentralization. Moreover, participation has political problems of its own, as shown in the evident deficits in political representation and oversight. NGOs and councils do not apply formal mechanisms of representation and so tend to represent subgroups with intense preferences, and with the willingness and opportunity to participate. There is also the risk of overly intimate relations between NGOs and government, resulting in preferential treatment for specific groups and interests. Furthermore, specialists are uneasy about the degree to which municipal governments and local politicians control the advisory councils, especially in small towns. Still, important as they are, all of these problems pertain to a new development paradigm, one that has multiplied the points of view under consideration and has raised the degree of responsiveness of public policies. Last but certainly not least, participation in the form of deliberation among multiple stakeholders in the National Council on the Minimum Wage has been key to the conception of one of the most consequential policy changes implemented during the Lula government, the minimum wage revaluation policy.

Conventional politics has seen no notable progress, however. Brazil's political system is still prone to the problems of party fragmentation and lack of programmatic content that constrain progressive governments to build backward-looking coalitions. Thus conservative forces, although not directly governing, still succeed in slowing down the pace of progressive reforms and, more disturbingly from the point of view of democracy, keep in place the patronage-oriented pursuit of political activity so common to the old, oligarchic republic. A second worrisome effect is the discredit with which political institutions are regarded by the general public. In this regard, the Lula government has behaved pragmatically, as have its predecessors, in not making a priority of political reform to restore the credibility of the National Congress.[33]

Environmental and Agrarian Agenda

While there are strong indications that social-economic interaction in the growth trajectory has somehow reconciled growth with equity in that redistribution-spurred, consumption-led growth has taken the lead, and also that new state and civil society relationships have increased the responsiveness of public policies to politically established development aims, tensions between the old 'economically oriented' agenda and the new one are still perceivable on the environmental and, especially, the agrarian fronts. Indeed, although family farming accounts for most of the food supplies available to Brazilians, it is agribusiness pursued on large rural properties that has generated much of Brazil's foreign trade successes —and most of the deforestation and landownership concentration as well.

In 2003, the Lula government, in response to the growing rate of deforestation in the 'Legal Amazon' region and signalling the importance of the environmental agenda, appointed a known activist as minister of the environment.[34] She brought the focus of attention to the region and set her horizon as 'zero deforestation'. As of 2005, the rate of deforestation started to decline. Predictably, the repressive policy towards lumber companies and rural landowners, the creation of reserves in former large agricultural areas[35] and the licensing requirements imposed on public works projects generated strong counterpressures, which resonated in the government and eventually led her to resign in 2008. But surprisingly, her replacement was another environmental activist, who has changed the policy style—from emphasis on suppression to emphasis on positive incentives and negotiation—but has not compromised the ultimate aims. He has made headway among food producers on small and medium-sized family farms to ensure sustainable development of food farming in the region. His pragmatic policy style has broadened the previous minister's achievements and has delivered the largest decrease in the rate of deforestation in many years. As a result of intensive negotiations among the many stakeholders involved, the ministry proposed a new regulatory framework for sustainable management in the Amazon, currently before Congress.

While it is clear that the government has been taking increasing responsibility for the problem of deforestation, there is concern over the evident dilemmas that arise between environmental preservation and the various public works planned in the PAC's logistics and energy projects, many of them in the Amazon, such as the huge Belo Monte hydropower project. Likewise, plans to expand highway transport and exploit recently discovered offshore oil deposits represent substantial dilemmas for the broader environmental agenda. It remains to be seen how these tensions will unfold.

But the agrarian agenda is by far the greatest frustration. Expectations were high when the president announced as minister of agrarian development a person backed by the Landless Rural Workers Movement (MST), but agrarian reform has since made little progress because the programme's minimal funding has continued practically unchanged. In terms of the number of settlements, Lula turned out to be worse than his predecessor[36] and the concentration of land ownership in Brazil continues to be among the highest in the world.[37] The political obstacles are important, not least those posed by the huge rural landowners' bloc in Congress, which includes members of the government's own political coalition—a reminder that conventional politics matters a lot.

* * *

When a new PT president was elected in 2010 in the wake of Lula's popularity (an 87% approval rating as he left office), the expectations were that the social development agenda would continue to be pursued. Dilma Rousseff, a former Lula minister and chief of staff, had in the past a closeness with an economic-centric conception of development, but she has also been strongly linked, both in conception and implementation, to the mix of economic and social investments that form the PAC and seems now more receptive to sustainability than she had been while in charge of the energy ministry. As her term began in 2011, she pledged to end extreme poverty in Brazil (a target that had not been set by her predecessor)—and in fact initiated a major programme to this effect—and to prioritize education, health, gender equality and political reform, but no major initiatives in these areas were undertaken as of this writing. Like her predecessor, she is supported by a miscellaneous, mostly 'old-style politics' coalition. Although political circumstances seemed to favour more of the same, with perhaps somewhat more legitimacy being gained for accelerating the pace of the social advances, the prolongation of the 2008 international crisis led to fiscal austerity and less growth in 2011 and 2012. While it is imprudent at this point to predict what lies ahead, it is remarkable that the effects of income policies continue to be felt in the growth of consumption demand, positive labour market indicators and declining rates of economic inequality and poverty.

Conclusions

Like that of other countries of the Global South, Brazil's recent history has been one of insufficient funding for development projects, owing in part to the country's economic backwardness but also to the lack of resourcefulness of the very plans conceived to address the resource constraint. It is thus of interest to discern the extent to which national policies in less developed contexts contribute to enlarge or narrow their own policy leeway.

Given that interest, the 1988 Constitution was introduced into my analysis as a vector to express the development aspirations of Brazilians. In trying to figure out the resourcefulness of the many plans, I set out to document different attitudes and strategies espoused by the successive governments to manage the resource constraints and move forward to fulfil the public's 'aspirations'.

The two Cardoso administrations and the early Lula years saw fiscal policy displaced from its leading role and liberalizing reforms adopted in a defensive attitude to economic constraints. This approach had the effect of reducing the governments' margin for fiscal manoeuvres and diminished important state capacities without any appreciable results in terms of growth—and thus no relaxation of the funding constraints —or equity. Consequently some of the constitutional social rights never saw the light of day. A number of constitutional amendments accentuated the strictly financial aspect of the public domain,[38] while few amendments moved to extend constitutional provisions.[39]

In recent years, the combined 'constraint on funding' and 'aspirations' have prompted other policy responses. The emphasis on labour market policies, the expansion of social programmes and a range of state capacities have yielded results in both growth and equity. It has proved possible to meet aspirations in manners that generate resources, indicating that funding is to some extent endogenous to the development model and policy. True, the country has benefited from the commodity boom, but it also acquitted itself well in the global crisis of 2008, being one of the 'late in and first out' of it.[40] The crisis management validated some of the long-term social development strategies, such as the emphasis on domestic demand, especially household expenditure, and the restoration of state capacities that were instrumental to the planning and execution of an effective fiscal package.[41] A wider margin for manoeuvres has been achieved for fiscal policy and for a public investment plan. The gain in funding has permitted legislative measures to broaden the reach of constitutional provisions—such as eliminating the DRU on education funding (2009) and setting target education expenditure as a percentage of GDP (2009)—that will bear fruit in the near future.

What lessons can be drawn from my Brazilian case?

Against the backdrop of the high-growth-no-equity and low-growth-low-equity experiments of the past, the recent social developmentalist experiment stands out for combining growth and equity and capability gains in Sen's sense. It is, however, also interesting for its inherent limitations and risks.

Social development has advanced through a set of public policies and state capacities assisting the interweaving of the economic and social dimensions and the state and civil society. Indeed, to a large extent the policies to promote growth have also been policies that promote equity, and many of them have also promoted participation or required it as a necessary precondition. The difficulties, nonetheless, are also considerable: limited progress in social services and the excessively selective income transfer programmes are not only perpetuating the segmentation of social opportunities in Brazil, but more seriously can be blamed for the limited budget available for those very policies, given that they are policies that are aimed at the poor. A development project directed to expanding capabilities cannot disregard the risks posed by policies that segment the population, such as unwillingness among well-off nonbeneficiaries to pay for such policies.[42] Also, growth opportunities related to capability expansion have been missed. Other evident risks arising from unsatisfactory policies are the attitudes they may inadvertently foster among beneficiaries, such as resignation to substandard services and benefits and political discouragement. As regards participation, the Brazilian case—although promising—indicates some of the pitfalls: Social and political inequalities can find expression in inequalities in deliberation and participation. Accordingly, attention to socioeconomic inequalities continues to be essential for participatory initiatives to trigger deep reforms. In addition, transparency and accountability mechanisms might make for more representative participants and deliberants in public forums.

Arguably, these are perfectible features of the new development path. More troublesome are structural aspects that inhere in a political society that has long been unequal, where urban or rural big business interests find avenues in the various political institutions to prevail over the social agenda. These hinder progress towards more progressive taxation as well as universal high-quality social services and effective social programmes; they also have an effect on the land ownership and environmental fronts. These battles have mainly been fought at the congressional level, where politics is still very much of the old style. Again, a great deal of growth potential and equity is certainly lost through the resulting concentration of income and wealth and the segregation of social services.

* * *

At the dawn of the new century, and given the knowledge accumulated about disparate trajectories and results, a consensus has been forming in the theory of development around Amartya Sen's notion of development as a process of expanding capabilities (Evans, this volume), where the latter are seen as both the ends and means of the development process. Processes of economic growth without equity and without sizable increases in real opportunities—including health, education and civil and political rights—have not enlarged capabilities or have done so only modestly. Besides this, the expansion of capabilities is itself instrumental to economic growth: surges of rapid growth with predatory institutions ensuring that income and other social opportunities are appropriated by specific elites are no more than spurts, and countries that adopt such strategies have been left behind, also in terms of growth rates (Evans, this volume).

The study of concrete development experiences is helpful to deepen our understanding of development: As we try our hand in development tinkering, we get to learn a lot from how the social world reacts. For example, we now know from concrete cases that environmental depletion results in the diminution of the capability pool. In addition to damage to nature and traditional forms of social life that depend on nature conservation—things that may be socially valued in themselves—environment waste brings less human development, including per capita income, in the middle and long terms (see Marcolini 2011). Also, it leaves bleaker capability prospects for later generations. So sustainability is an aspect that should be integrated into the capability approach insofar as this does not confine itself to a fixed list of opportunities but evolves in response to learning and social choices. Another feature of the development practice revealed in the Brazilian experiment requiring theoretical attention is the issue of participation. Opportunity for participation is cited by Sen as an important element in development, as it responds to agency and not just well-being aspects of human beings. But the conversion of participation into an institutional practice, as the concrete experience in Brazil shows, needs careful accompaniment to monitor inequalities and imbalances in voice, so that it becomes an effective complement to the democratization of public policies. Basically, this is a chapter in policy tinkering, where some of the undesired consequences of policies can still be anticipated and planned for.

Ultimately the Brazilian case raises questions regarding a theory of development of a political nature. One is the extent to which obstacles to capability expansion are endogenous to the very policy choices insofar as these may negatively affect the formation of broad coalitions that might support capability expansion (this has been a key problem in the area of social opportunities). The other regards democratization, a process of continuous attention to the democracy*ness* of the political institutions. Discreet features of democratic regimes—such as political rights, party competition, and democratic deliberation—have been highlighted as constitutive to capability development. Less attention perhaps has been devoted to understanding the ways ingrained inequalities work through the political system to hinder capability development. These processes, which call for a continuous democratization of democracy, need clarification since they crucially affect capability development.

Appendix

Table 8.1 Some Economic and Social Indicators for Brazil, 2008

GDP per capita[a]	8,309.53
Gini index	0.5440
% of indigents in the population	8.8%
% of poor in the population	25.3%
Life expectancy (years)	72.7
Mean years of schooling	6.9
Percentage informal occupation[b]	29.0%

[a]2008 US dollars.

[b]Occupied population with no signed labour documents.

Source: IBGE (2009).

Notes

1. The author would like to thank Alessandra Brito and Cláudia Benevides for their valuable research assistance and Jaques Kerstenetzky for helpful comments.
2. This is explained in part by the brief period of economic growth of the mid-1980s (cf. Kauffman and Haggard 2008).
3. At present, the subnational spheres collect 32% of levies, but when mandatory transfers from the Municipal Participation Fund and State Participation Fund are included, they receive 43% of total revenues (cf. Souza 2009).
4. The bond debt leapt from 11.6% of GDP in 1994 to 16.9% in 1995 and grew steadily until reaching 50.5% in 2001 (Ipeadata 2007).
5. The tax burden rose from 26% of GDP in 1995 to more than 32% in 2002 (Ipeadata 2007).
6. From 1995 to 1999, 1.8 million jobs were lost in the formal sector, most of them in industry.