Under its new leader, Luiz Inácio Lula da Silva, Brazil could take a leap into prosperity—or slide back towards poverty, says Peter Collins. Which will it be?

WHY has the United States prospered and Brazil has not? Both are giant countries, each dominating its half of the Americas, each amply endowed with people, land and natural resources. Each has remained united, with a strong sense of nationhood, after gaining independence from former colonial masters in Europe. But whereas the United States has become the world's economic superpower, its South American sibling is a social and economic under-achiever, the eternal “country of the future” (as it calls itself ironically) whose future never arrives.

Brazilians have tortured themselves with this comparison for decades (see article). Some of the country's thinkers blame their compatriots' misplaced faith in Messiah figures who will come and perform miracles, and contrast this unfavourably with the Americans' ability to organise themselves and work together to build their nation. Indeed, judging by the adulation accorded to Luiz Inácio Lula da Silva since being elected president in October, some Brazilians seem to think that he is the long-awaited Messiah. However, Lula, as 176m Brazilians simply call him (as will this survey), realises that he cannot work miracles alone. He aims to strike an unprecedented “social pact” with all levels of society, which will enable Brazilians as a whole to take a leap into rich-world standards of prosperity, justice and equality, striving together to create “the nation we have always dreamed of”, as he said in his inaugural speech last month.

The gap between Brazilians' dreams and their reality is enormous. Although by international definitions Brazil is a middle-income rather than a poor country, its glaringly unequal income distribution means that the poorest 50% account for 10% of national income—and so do the richest 1%. Brazil's educational performance has, until very recently, been dismal. Despite recent improvements in environmental health standards, 19% of households still lack running water. Poor communities on the peripheries of Brazil's cities suffer from a plague of violent crimes.
Lula won the election, as oppositions usually do, by criticising the then government for incompetence and inaction and by promising drastic policy changes to bring about rapid improvements. However, he also abandoned much of the radicalism that lost him the three previous presidential elections. He stopped calling for Brazil to break with the International Monetary Fund and its economic strictures and for the country's debts to be "renegotiated". Two months before polling day, he nodded his approval of a $30 billion loan from the Fund that committed him not just to keeping the strict financial targets of his predecessor, Fernando Henrique Cardoso, but to tightening them, as he has now done.

Lula's election propaganda constantly harped on about the need for mudança (change), and once elected he claimed that he would begin rebuilding Brazil "starting from scratch". In fact, though, the best prospect of success for the new government lies in continuity. Brazil's frequent political ruptures since independence from Portugal in 1822 led to a lack of follow-through in pursuing public policies that has cost the country dear, but Mr Cardoso, Brazil's longest-serving democratic president, made a good start on overcoming such debilitating short-termism. This survey will argue that, far from starting from scratch, Lula should build on Mr Cardoso's achievements by continuing to pursue many of his predecessor's best policies—especially in welfare, education and health—and to press on with reforms that Mr Cardoso's government started in areas ranging from pensions to policing.

To get an idea of the benefits of continuity, contrast the fortunes of education and justice in Brazil during Mr Cardoso's term of office. In the education ministry, the same minister, Paulo Souza, was in charge for eight years, during which time Brazil achieved near-universal primary schooling for the first time in its history, and a surge in enrolments to secondary and university education. By contrast, during his eight years in office Mr Cardoso presided over a succession of no fewer than nine justice ministers, none of whom made his mark in the job. Murder, armed robbery and other violent crimes continued at shockingly high rates, aided and abetted by a still inefficient and corruption-riddled police and judiciary.

No time to lose

Even if Lula manages to get re-elected (as Mr Cardoso did) in 2006, to give him an eight-year mandate, the maximum allowed under the constitution, he will have little enough time to achieve progress on the scale he is promising. But because of Brazil's precarious financial situation, in reality he has a much shorter period in which to achieve visible results. The government has debts of around $250 billion, or 56% of Brazil's GDP. Much of it is short-term and needs constant rolling over. Most of the debt is tied either to short-term interest rates or to the real's value against the dollar, both of which are strongly affected by investors' fears that Brazil might default on its debts. If those fears increase, the government's financing costs will rise steeply. The risk is that a default might become a self-fulfilling prophecy.

That is the way things seemed to be heading in the middle of last year, as investors fretted about the growing likelihood of Lula beating José Serra, Mr Cardoso's lacklustre candidate. Was the recent move to the centre by Lula and his Workers' Party (PT) genuine, or would they return to their old radical form straight after the election? And even if they did not, would Lula, a man without any significant administrative experience, really be capable of governing such a large and diverse country? Or would he turn out to be like Fernando de la Rua, who in late 2001 was forced to quit as Argentina's president, leaving behind a bankrupt government and an imploding economy? Fears of another Argentina caused the real and Brazil's bonds to plunge to levels that suggested the country was heading for default within months. Only when the IMF stepped in with a large loan package last August did the markets recover.
After Lula's victory in last October's election, the gradual recovery of the real and Brazilian bonds continued. The markets were cheered by sensible-sounding pronouncements from the new president's economics team, and by the appointment of some respected business and financial figures to key government jobs. But the situation remains fragile. If investors conclude that not enough is being done to avoid a default, they will bring one about in their stampede to avoid being caught. On the other hand, if in the coming months Lula's government can convince investors that it is putting the public finances on a sustainable footing, it will be able to cut interest rates and stoke up economic growth, thereby making a default much less likely.

It is now possible to foresee two drastically different outcomes for Brazil in the near future. The dream scenario is that Lula will be able to use his popularity to push through controversial reforms that will banish the markets' fears of an imminent default. The resulting improvement in the economy will keep the public on his side, and the government's improving finances will provide him with the money to make the big social advances he has promised. Congressmen, mindful of public and media opinion, would feel obliged to collaborate with the president. As long as Lula remains popular, his main opponents—Mr Cardoso's centre-right Social Democrats and their biggest partner in his former coalition, the catch-all Brazilian Democratic Movement—are more likely to keep their promise to be a principled opposition that will back him on reforms vital to the national interest. They might even be persuaded to join his government, giving him a majority in Congress.

The optimists (of whom Brazil is never short) reckon it may be no bad thing that many of the vested interests Lula must overcome are on his own side. Who better than he to persuade unionised workers that they have to make sacrifices? And given his background, at least he did not owe his election to Brazil's avaricious conservative elites, so he will be less beholden to them—unlike Mr Cardoso, who continually had to buy them off.

But a nightmare scenario is also possible in which Brazil follows its southern neighbour, Argentina, into default and economic slump, resulting in rising poverty, crime and unrest. Pessimists say that although Lula and his team are now making the right noises, they will be unable to deliver. If Mr Cardoso, with his big congressional majority, could not complete his reforms of pensions, the tax system, the labour laws, policing and justice, what chance has Lula with his minority government? He
cannot even rely on the support of his own party, which still contains many unreformed radicals.

Lula's campaign material portrayed the former union boss as a “great negotiator” who will sit everyone around the table, persuade all sides to make sacrifices and reach a national consensus to push through reforms. He hopes to achieve this through various grandly titled talking-shops, such as the Council of Economic and Social Development and the National Labour Forum, with representatives from different sectors of society. The danger is that while Lula waits for results he will lose his initial momentum. If the markets lose patience with him and a renewed financial crisis undermines his popular support, Congress may be less willing to support unpopular but necessary reforms.

Indeed, if Lula starts to lose force, the representatives of various vested interests in Congress may seize the opportunity to try to undo some of Mr Cardoso's reforms. Already, some state governors (who often have a lot of influence in Brasília) are pressing for a relaxation of Mr Cardoso's fiscal-responsibility law, which put an end to the spending excesses of local government. If they succeed, the nightmare scenario of Brazil unravelling before Lula's eyes will come a step closer.

For now, either triumph or tragedy seems possible. Much rests on Lula himself, a man whose rise from shoe-shine boy to strike leader to president of one of the world's largest democracies has demonstrated remarkable personal achievement—but who remains an unknown quantity. His first and biggest challenge will be to get the economy right.
Paradise lost
Feb 20th 2003
From The Economist print edition

Why isn't Brazil rich like America?

"IF WE had been colonised by the English and not the Portuguese, Brazil would be rich like America." This is a well-worn belief among Brazilians, who have little admiration for their former colonial masters. Some claim they were taught at school that the English gave America their work ethic, sense of citizenship, efficient Anglo-Saxon legal system and of course the English language, whereas the Portuguese exploiters lumbered Brazil with their bureaucracy, their inefficient Napoleonic law code and a language no one wants to speak.

Many Brazilian writers have pursued such arguments, including Vianna Moog, whose 1955 classic, “Bandeirantes e Pioneiros”, is now in its 19th edition. Rather like the Frenchman Alexis de Tocqueville before him, Moog, a Brazilian of German extraction, visited America to study its success and came away impressed with its self-governing ability, its sense of public duty and its notion of the common good. He noted that these values arrived with the first colonisers, written into the “compact” that those on board the Mayflower swore to uphold. By contrast, the bandeirantes, the Portuguese pioneers who opened up Brazil, came only to exploit its riches and arrived "completely unprovided with economic virtues, public spirit and political self-determination." As Sérgio Buarque de Holanda, another influential writer on the subject, put it: the English pioneers went to America to build a paradise, whereas the Portuguese went to Brazil to find and enjoy a ready-made paradise.

José de Carvalho, a Rio-based historian, traces Brazil's under-achievement back to the pre-colonial Portuguese cult of King Sebastian, who died fighting the Moors and whose followers believed he would return one day and make Portugal great. This fed into Luso-Brazilian culture, says Mr Carvalho, as the idea that: "We are destined for greatness but can just sit back and wait for a Messiah figure to come along and achieve it for us.” The popular adulation of President Lula since his election suggests that Sebastianism lives on. Last month, when Lula took 29 of his top officials to the favelas (shanty-towns) of Recife, he was greeted with placards reading: "Lula, only you can save us,” and "You are the man that we asked God to send.”

Lula's education minister, Cristovam Buarque, points out that, whereas America has "taken education seriously since the Mayflower", Brazil did not get its first university until 1922. Another cause of Brazil's inequalities, says Mr Buarque, is the way Brazil's land was carved up between a few big landlords, whereas America distributed its land in small pieces. Yet another is Brazil's tradition of dictatorship, from which it last emerged only 18 years ago, compared with America's centuries of unbroken democracy.

Eduardo Giannetti, an economist and philosopher, has another explanation: in part, he says, Brazil did not become America because "It didn't want to. It was not as a nation prepared to sacrifice everything for economic progress, as America was. Perhaps it is our cultural choice, rather than a failing, that we are not prepared to sacrifice present well-being for future prosperity.”

There may be something in all these explanations. But whatever the reasons for Brazil's underperformance, President Lula's job is to convince his countrymen not to expect him to work miracles, but to join him in a modern-day Mayflower compact to work for a more equal, more just, more educated and more prosperous country.

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Fixing the finances
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There is no way round painful reforms to make Brazil's debts sustainable and speed up growth

FOR the past year the pundits have been arguing over whether Brazil is bound to follow Argentina into default. Even after the IMF stepped in with a $30 billion loan last August, some remained convinced that Brazil's public-debt burden, which almost doubled during Mr Cardoso's presidency, to 56% of GDP, had become unsustainable, and that sooner or later the country would have to "restructure", willingly or otherwise. Others maintained that the country's twin deficits were well under control, with the government consistently running primary surpluses (before interest payments) and the current-account gap shrinking, thanks to a plunge in the real, all of which made a default seem a lot less likely.

John Williamson of the Institute for International Economics in Washington, was one of several economists to crunch the numbers and conclude that a default by Brazil is neither inevitable nor impossible, but will depend largely on investors' expectations. Since most public debt is linked either to short-term interest rates or to the reais's exchange rate, Mr Williamson reckoned that, unless these recovered, the debt burden would continue to rise. Investors would take fright and the real would plunge further. Attempts to shore it up by pushing interest rates even higher would merely hasten the end.

The no-default camp says there is a way out of this. Most of the public debt is denominated in reais (including some that is dollar-indexed but pays out in local currency), so in a tight spot the government could just print more reais to repay any debt it could not roll over. The trouble is that this would crank up inflation, which disproportionately hurts the poorest. Would Brazil's first left-wing president really rather default on the poor than on the rich investors in government bonds?

Even if he did, printing money to keep repaying the domestic debt might not avoid financial collapse. The government's foreign-currency-denominated debt, although a minority of the total, is significant, amounting to about $82 billion of the public debt of $250 billion, and Brazilian firms have foreign-currency debts of about $96 billion. Brazil as a whole is already using 91% of its export earnings to service its foreign debt. If foreign banks called in their credit lines, Brazil would soon run out of foreign currency to keep servicing its overseas debt and thus go bust by another means. That is why, when Antônio Palocci was chosen as Lula's finance minister, he went straight off to America to beg the big banks to keep their credit lines open.

However, if investors become convinced that the government has got its finances under control, the real will recover and interest rates will fall, making the cost of servicing the debt more bearable. Lower interest rates, and an increased willingness by both foreign and domestic banks to lend, would boost the economy. An improved domestic outlook would encourage multinationals to restart their stalled investment programmes in Brazil, further boosting growth. Since the debt-GDP ratio depends on the trajectory of GDP as well as that of the debt, any boost to growth would bring a further improvement in Brazil's debt ratio which would reassure investors. All the government has to do is persuade investors that everything is going to be fine, and it will be. Lula, literally, has to pull off a confidence trick.

In an attempt to convince investors that its conversion to fiscal rectitude is genuine, the government this month announced a rise in its target for the primary surplus (ie, before debt service) from 3.75% to 4.25% of GDP. The most obvious way for a left-wing government to achieve the new target might be to raise taxes, but taxation in Brazil is already high: 36% of GDP, higher than in America. Raising it further could be counterproductive, because it would encourage even more evasion than now, and perhaps even reduce revenue rather than increase it.

The hard reality

The alternative is spending cuts—not a welcome idea when you have just been elected on a manifesto chock-full of expensive promises to reduce poverty, improve health, education and housing, invest more in infrastructure and provide more credit to boost growth. However, in the very short term it may be the only option. To scrape together money for his flagship social project, Fome Zero (Zero Hunger, an ambitious plan to give all poor Brazilians three square meals a day), Lula was forced, immediately on taking office last month, to delay (or possibly cancel) plans to renew the air force's ancient fleet of fighter jets and to mothball some big road-building projects.
Lula’s predecessor, Mr Cardoso, found he had to keep inventing new taxes and to hack away at capital spending. But these measures seemed to make Brazil no less vulnerable to market panics; instead, they hobbed the economy’s growth potential (for instance, in 2001 electricity had to be rationed). One reason was that Mr Cardoso had started owning up to the public sector’s huge hidden liabilities, mostly resulting from previous governments' reckless policies. Just one such liability, resulting from a state bank’s subsidy to home buyers, created in 1967, will cost 63 billion reais. In all, the “skeletons” (as they are known) cleared from the government’s closets so far have added about 10% of GDP to the public debt. But there are still plenty more rattling around—worth, by some guesses, another 10% of GDP.

The way out for Lula is to push ahead with the fundamental reforms that Mr Cardoso left unfinished. Together these could allow him to target the government’s resources more effectively and to raise the economy’s underlying growth potential, as well as increasing tax revenues.

Off target

When the time comes, very soon, for Lula to take on vested interests (including those who elected him) to push through deep reforms, he should draw inspiration from a rough calculation by Marcelo Neri, an economist at the Getulio Vargas Foundation, a university. He says that about 50m Brazilians earn less than the 79 reais a month reckoned to be needed to eat properly. Bringing the income of each and every one of them up to this bare minimum would cost 20 billion reais a year. It sounds a lot, but it is only one-twelfth of Brazil’s current social spending of 240 billion reais. The problem is not that the government itself is too poor to tackle poverty, but that so little social spending reaches those who most need it.

Mr Cardoso’s government made a start on changing this (see article), but much more remains to be done. As Mr Palocci said in his inaugural speech as finance minister, "The state spends a lot, and badly." During Mr Cardoso’s term of office, real public spending, excluding debt service, increased by an impressive 6% a year (though Lula and his friends, then in opposition, constantly moaned about the Cardoso administration’s “cuts”).

So where does all this money go? The biggest destination for social spending is pensions. For some groups, such as the millions of poor rural workers granted modest retirement benefits in the early 1990s, the pensions system is genuinely redistributive. But most pension spending is on people who are not poor and not necessarily old. This is especially true of the various pension schemes for public-sector workers at federal, state and municipal levels. These pay out 100% of final salary (whereas schemes in rich countries typically pay only 50-75%) and allow workers to retire unreasonably early, often in their 50s, sometimes to take another public-sector job that will entitle them to a second generous pension.

Mr Cardoso tried to change this repeatedly, but only partly succeeded. He did manage to introduce a new “taper” for the pension scheme for private-sector workers that reduced benefits for those retiring early; but when he attempted to cut retired public servants’ benefits, the Supreme Court ruled the legislation to be unconstitutional. The drastic fall in the birth rate since the 1960s (when Brazilian women had an average of 6.3 children each, compared with 2.3 now), together with rapidly rising life expectancy, means that the contributions of today’s workers will have to support ever-rising numbers of pensioners. The government says the combined deficit of all the pension schemes for private- and public-sector workers is now above 5% of GDP and rising, though critics reckon that this exaggerates the problem: after all, the government, like other employers, should expect to make contributions to its workers’ pension schemes.

Crunch time

Chile defused its pensions time-bomb by transferring workers into new, privately run pension funds, with the government borrowing money to endow these funds with assets. But Brazil is too heavily indebted already to be able to try this. And a gentle transition, in which new and less generous pension rules apply only to new recruits, will not be enough to stop the deficit growing. Existing entitlements will have to be cut, or pension contributions increased—or preferably both.

When in opposition, Lula and the PT opposed Mr Cardoso’s attempts to sort out pensions. Now, in power, they have done an about-face and are promising to submit bold reforms to Congress by the middle of this year. Ricardo Berzoini, the new pensions minister, has talked of capping public servants’ pensions—which can be much more than ten times the current ceiling for private-sector pensioners of a mere 1,561 reais. So far, the signs are not promising: under pressure from military bosses, Lula has already agreed to exempt the armed forces from this reform. The largest trade-union confederation, outraged that those with the most egregiously generous pensions of all might escape cuts, is threatening a general strike if those privileges are preserved.
The World Bank has put forward various other proposals to cut the pension deficit for Brazil's public service. These include raising the contributions being paid by current staff, and reviving Mr Cardoso's plan to cut existing pensions by the roundabout route of making retired staff continue to pay "contributions" (which would require a change in the constitution); raising the retirement age (not unreasonable, because Brazilians are living longer, healthier lives); indexing pensions to inflation rather than to the national minimum wage; and imposing a "taper" similar to that already in force for private-sector workers to discourage early retirement.

The deficit in the private-sector workers' retirement scheme is smaller but still needs to be reduced so that the government can redirect resources to Brazil's poorest. José Pastore, a labour-market economist, has put forward a novel solution: to cut workers' contributions instead of raising them, because current rates are so high that they cause widespread evasion. As things stand, employers and employees are each supposed to contribute 10% of salary to the scheme, and the self-employed are meant to pay 20%. Over the years, the burden of this and other payroll taxes has hugely boosted informal working, which now accounts for 54% of those in employment. In theory, no contributions, no pension; but once this generation of workers without entitlements gets old, the government will come under pressure to support them. Mr Pastore suggests offering workers a choice of contribution levels which will eventually provide pensions to match.

As well as fixing the federal finances, a rapid and effective pension reform could in the long term help to solve the dire financial problems of many states and municipalities. Mr Cardoso's government refinanced their debts "one last time" and then passed a fiscal-responsibility law, which among other important measures banned future bail-outs. Some powerful governors and mayors are now pressuring Lula to go back on this ban, but that could open the floodgates.

Making the money go further

Pensions are only one area where government spending is poorly targeted and Lula needs to make tough choices. Most places at the "free" (ie, taxpayer-financed) public universities go to youngsters whose parents have enough money to put them through private schools first, whereas students from poor homes, if they are lucky enough to complete their secondary education in the dismal state schools, have to pay to go to private universities. Well-paid graduates should be made to repay a share of their tuition costs, freeing up money to improve primary and expand secondary education for the poor.

Some of Brazil's myriad payroll and turnover taxes go into an alphabet soup of training and business-advice agencies known as the "S-system". Trade unions and employers' associations also get their hands on all sorts of taxpayers' money, to spend on everything from apprenticeships to arts sponsorship. No doubt some of these "parastatals" (nominally independent but financed and regulated by the state) do some good, but few of them provide value for money. A UN official familiar with their workings graphically describes the better ones as "the occasional island of gold in a sea of shit". Soon after the election, Lula's team announced plans to review much of this spending, as part of a proposed reform of trade unions.

The list of poorly directed spending goes on and on. Mr Giannetti, the economist, says municipal council chambers, with all the special allowances councillors award themselves and their armies of hangers-on, cost 3.6 billion reais a year. The councillors are supposed to scrutinise the work of the elected mayors who run the cities, but they do a lousy job. The same could be said of state assemblies. And the federal banks offer cut-price housing loans to millions of middle-class borrowers who could afford commercial loans, once again using resources that could be better spent on more needy citizens.

Last but not least, there is the considerable amount of public money stolen by corrupt politicians, officials and even judges. During the election campaign, Lula's advisers claimed that corruption was eating up 20-30% of public spending. That may have been an exaggeration, and many of the biggest scandals that emerged during Mr Cardoso's administration were old ones being uncovered at last. But tough action to stamp out corruption is one of Lula's most important challenges, not just because of the drain on the...
public purse but also because it undermines the rule of law and thus contributes to Brazil's appalling record of violent crime (of which more later). In local government, Lula's PT has a record of being less corrupt than most other parties, though it is not quite as saintly as it makes itself out to be.

A taxing problem

When Mr Cardoso came to office in 1995, he promised to fix Brazil's messy, growth-inhibiting tax system. Firms had to pay various turnover taxes in "cascade", ie, they could not deduct the taxes they paid on their inputs from their output taxes, so as components passed down the production chain they attracted taxes on top of other taxes, making Brazilian products more expensive than imported equivalents or those assembled in Brazil from foreign parts. The heavy burden of payroll taxes, along with the restrictive labour laws, also discouraged firms from creating jobs.

Despite its early promises, Mr Cardoso's government was so fearful of losing revenue that it never pressed hard for tax reform. Indeed, to stave off financial collapse, it made the tax system even more burdensome by imposing new, supposedly temporary emergency taxes. Only in December did Congress, with a push from both the outgoing and incoming governments, at last approve the first stage of the reform, turning one of the less important cascade taxes into a value-added tax.

A thorough revision of the tax code is now needed to allow the economy to grow faster and create more jobs, while also increasing tax revenues and thus easing the government's financial problems. The current profusion of federal and local taxes could be replaced by a broad value-added sales tax, with the revenues shared among the different levels of government. The many income-tax allowances that the better-off enjoy could also be cut, reducing the scope for evasion, which is currently widespread.

The trouble with tax reforms is that they tend to create big winners and big losers. The winners keep quiet and the losers, whether industries faced with bigger tax bills or governors and mayors faced with big revenue losses, scream the house down. Any worthwhile reform will mean changing the constitution, which means winning a broad consensus in Congress. Lula's best hope is to propose a long transition period so that the losers have time to adjust, and tax rates can be changed to correct any decline in total revenues.

Another move that could ease the government's financial problems and boost economic growth is to grant independence to the Central Bank. Its new governor, Henrique Meirelles, formerly a boss at FleetBoston, an American bank, has raised this year's official inflation target by two percentage points to 8.5%, but has increased interest rates by half a point to show that he means to defend it. If he were given full autonomy to set monetary policy, the Central Bank would have greater credibility, and so might not have to keep interest rates at their current sky-high 25.5%. That would cut the financing costs of both the government and of business. Lula's economic team says pushing Central Bank independence through Congress is a top priority, though it faces opposition from the PT's left wing.

Vociferous vested interests stand in the way of all these reforms, which is why Mr Cardoso was unable to get them through, even with a congressional majority supposedly bigger than the three-fifths needed to change the constitution. Lula, with a minority government, has a mountain to climb, and quickly, while his post-election momentum lasts. If he succeeds, he may be able to banish the spectre of financial collapse, and Brazil may start growing at the 5% a year he dreams of, rather than the meagre average of 2.3% that it managed in the past eight years. Among other things, that would make it easier for him to tackle poverty.
Lula’s “Zero Hunger” programme will not eliminate poverty on its own. But he won't be starting from scratch

"IF, BY the end of my term, all Brazilians are able to eat breakfast, lunch and dinner, I will have fulfilled my life's mission,” said Lula in his inaugural speech as his country's president on January 1st. "While there remains one Brazilian brother or Brazilian sister going hungry, we have more than enough reason to be covered in shame." To end this national disgrace, the flagship of his administration's all-out attack on poverty would be *Fome Zero* (Zero Hunger), a scheme to ensure that even the poorest Brazilian will get three square meals a day.

Having been born dirt-poor and known what it is like to go hungry, Lula is undoubtedly sincere in his pledge that he will do everything possible to put an end to the deep poverty that, by some measures, afflicts 50m of his compatriots. But criticism by many poverty experts—including some within his own party—has forced the president to reconsider his original version of *Fome Zero*. Inspired by America's Food Stamps programme, which President Roosevelt introduced in the Great Depression of the 1930s, this would have given poor people coupons to exchange for food in the shops. When critics said this would lead to widespread fraud and the development of a black market in coupons, as it did in America, Lula backtracked, but only partially. Recipients will now get cash, but they may have to prove they spent it on food – which, if enforced, will doubtless lead to a thriving industry in fake receipts.

So far, then, Lula's big idea is turning out not that different from the range of cash benefits for needy families introduced towards the end of Mr Cardoso's presidency. When he first took office, Mr Cardoso concentrated on cutting inflation (which in itself led to a big drop in poverty, because the poor had been least able to keep up with rising prices), cleaning up Brazil's financial system and privatising inefficient state firms. But in his last couple of years he oversaw the creation of a broad anti-poverty strategy which—for the first time in Brazil's history—aimed to allocate resources on the basis of need, as opposed to the vote-buying approach that had marked past social programmes.

Far from having to start from scratch, as he has claimed, Lula has thus inherited a well-established set of welfare policies aimed at improving the health and education of Brazil's poorest communities and putting cash directly into the pockets of poor families. His best bet is to continue, expand and improve his predecessor's welfare strategy, rather than try to invent something new. Mr Neri, the poverty expert at the Getulio Vargas Foundation, says that despite some criticisms, Mr Cardoso's welfare policies were “a veritable revolution,” and that Lula "must not throw all this away".

Life at the back of beyond

A visit to Araioses, a small, abjectly poor town of 35,000 people in the hot north-eastern state of Maranhão, shows that the anti-poverty strategy Lula has inherited is already beginning to bear fruit. In 2001 Mr Cardoso created the Alvorada project to reduce poverty in areas with a low Human-Development Index (HDI). This is a measure of deprivation devised by the UN Development Programme (UNDP) that takes into account education and life expectancy as well as income. By this measure, in 2000 Brazil as a whole had an HDI of 0.76 on a scale of 0 to 1 (see chart 4), compared with 0.94 for Norway, the world’s most developed country. Araioses was Brazil's fifth-poorest municipality, with an HDI of only 0.49, slightly better than Bangladesh's. Its infant-mortality rate was nearly treble the Brazilian average, and half the adult population could not read or write.

Araioses's elderly residents were already benefiting from the modest pensions given to retired farm workers in the early 1990s, but once the Alvorada project kicked in, all sorts of other federal programmes began to reach the town. About 3,000
families now get the **Bolsa-Escola**, a payment for sending their children to school regularly. Many also get help with buying food and gas for cooking. Local teachers' pay is bolstered by the education ministry's Fundef programme, which ensures minimum funding levels for schools in poor areas; and pupils get federally funded school meals. The health ministry sends teams of doctors and nurses to visit isolated communities in the countryside around the town, and pays for milk and dietary supplements for infants.

One of Lula's ideas—seeking private donations to supplement government spending on anti-poverty projects—has already been put into action in Araioses, where the Brazilian offshoots of two of America's industrial giants, GM and Praxair, are sponsoring government welfare schemes to overcome illiteracy and youth delinquency respectively. Edson Santos, the earnest young teacher who runs the literacy scheme, says it has now taught 2,000 locals to read and write. With the help of such programmes, “I see that we can escape from the situation we are in,” he says, with a missionary gleam in his eyes.

Overall, locals feel that their problems are beginning to be tackled, and are not looking for big new initiatives. The mayor of Araioses, Pedro Silva Santos, urges Lula simply to “continue and perfect” his predecessor's welfare schemes. International bodies such as the UNDP and the World Bank are giving the new president similar advice, to the effect that he should continue to roll out schemes like the **Bolsa-Escola** and the Family Health Programme. There is scope for further rationalisation to bring together various welfare payments made by different ministries. Encouragingly, Lula seems to have taken this advice to heart. His ministers seem on course to continue and perfect many existing programmes, rather than invent new ones.

### Could be worse

At the end of a sandy track leading out of town into the surrounding scrubland, in a house made of rough-hewn branches covered in clay, Lucia Vieira looks after her two children while her husband is out earning a mere 5 reais a day as a farm labourer. Surely they, in one of the lowliest homes in one of Brazil's poorest towns, must be among the starving that Lula hopes to feed? No, *gracias a Deus*, says Mrs Vieira, they don't go hungry—especially now that they receive 15 reais a month from the Alvorada poverty-reduction project. It may be a modest sum, but it is enough to ensure that they even have meat on their plates sometimes.

Lula's special interest in hunger no doubt reflects his own childhood experience, but was also inspired by household-income surveys suggesting that up to 50m Brazilians—almost 30% of the population—do not earn enough to buy sufficient food. However, the link between income and consumption is surprisingly weak, says Ricardo Paes de Barros of IPEA, an official think-tank. The most reliable measure of malnourishment—reports from health workers, who weigh all the infants in their care each month—suggests that only 12m, or 7% of the population, are underfed.

The families of many underweight children are suffering more from a lack of health care and nutritional advice than from being too poor to be able to buy food, says Mr Paes de Barros. In rural areas like Araioses there are fruit trees, there are rivers to be fished, now there are free school meals and there is a sense of solidarity that encourages the sharing of food. Thus, leaving aside natural disasters, such as the periodic droughts that sweep Brazil's north-east, a huge programme of food aid might be missing the point. Better schooling, sanitation and medical attention may be of greater help to the poor. In the north-eastern town of Guaribas, chosen by Lula to pilot **Fome Zero**, locals say that no one is dying from hunger; what they really need is better sewers.

Asked what would be the most important thing that Brazil's new president could offer her family, Mrs Vieira clearly thinks it is a daft question. “**Emprego**, work, she says simply. Preferably something offering more than 5 reais a day. Opinion polls invariably show that Brazilians' main concern is a lack of decently paid employment. Lula acknowledged in the election campaign that 10m new jobs were needed.

### Dash for growth?

Meeting Brazilians' aspirations for more and better jobs will require a number of things to be done (see article), but the single most helpful change would be faster economic growth. Lula and his finance minister, Mr Palocci, say they are aiming for a growth rate above 5%. Many Brazilian politicians, and not just on the left, have long clamoured for a dash for growth, believing that this would provide the extra jobs to cure all social ills. There is nostalgia for the period from 1940 to 1980, when Brazil's economic growth rate was among the highest in the world. Real GDP increased by almost 11% in 1958 and by as much as 14% in 1973. Those were the days.

Well, only up to a point: in the so-called lost decades of the 1980s and 1990s, when economic growth was modest, indicators...
of social welfare such as infant-mortality rates improved by leaps and bounds, spurred by the restoration of democracy. A dash for growth would risk letting inflation get out of control, which would harm the poor more than the rich. Keeping a lid on inflation and reforming pensions and taxes to bring interest rates down from their current high levels is a more sustainable route to growth.

Lula may have put too much emphasis on hunger in its literal sense, rather than on the broader hunger for better living standards, but he is right to make the fight against poverty his top priority. For all its recent achievements, Brazil still has a lot of catching up to do. During the 1990s its infant-mortality rate fell from 48 to 30 per 1,000 births, but that is still a long way behind Chile's rate of ten. Vinod Thomas, the World Bank's director for Brazil, sums it up: “My impression is that Brazil in the 1990s did better than Mexico, India, and China in its social programmes,” though not as well as some East Asian countries. Even so, Brazil, overall, has “only risen from grade C to grade B.”
Brazil has huge potential for jobs growth, in everything from agriculture to electronics. But how to realise it?

FANCY a tangy, vitamin-packed glass of acerola juice? Or a bowl of delicious and ever-so-healthy açaí sorbet? Camu-camu jam on your morning toast? Brazil has all sorts of tropical fruits and other exotic produce to offer to novelty-loving, health-conscious consumers in rich countries, if only they knew about them and were able to buy them. Its abundant and fertile land also offers plenty of scope to expand production of better-known produce, from soyabeans to mangos. Although Brazil's giant, highly mechanised farms need few workers, there is significant potential to cut unemployment by expanding small-scale, labour-intensive agriculture, whether to supply local markets or for export. The country's stunning natural beauty—from rainforests to sun-baked beaches—offers opportunities to expand tourism, another big source of jobs. And given its huge home market, it should surely be producing more electronic goods locally. The challenge is turning all this potential into reality.

Brazil's official unemployment rate is not bad compared with those of its neighbours, or indeed of some rich countries, though during the Cardoso administration it crept up from about 5% to 7%. But this low figure was achieved partly by using a narrow definition of unemployment. When, at the end of 2002, Brazil's official statistics body adopted something closer to international standards, the rate shot up to 10.5%. But the new method still counts as employed even those who had only a few hours' ill-paid informal work in the past month. Dieese, a union-backed research body, reckons that unemployment in greater São Paulo, more broadly measured, is 18.5%, well above the region's official rate (see chart 5). That gap, together with the absence of a proper social-security net, explains why jobs always feature as Brazilians' top concern in opinion polls.

One of the PT's long-standing promises, which Lula reaffirmed during the election campaign, is of sweeping land reform to create rural employment. This would right the historical wrong, dating from colonial times, of a few giant landlords holding huge tracts of under-used land, denying millions of impoverished rural labourers the chance of working as productive small farmers. But Lula's election manifesto carefully avoided saying how many would benefit, and forgot to mention that Mr Cardoso had already settled over 600,000 families on the land, more than all his predecessors combined.

One of the country's most fertile regions, and the scene of many conflicts between landowners and the (landless), is Pontal do Paranapanema, in the interior of São Paulo state. The region's weather—brilliant sunshine interspersed with occasional showers—and the abundant supply of water for irrigation make it ideal for growing all sorts of things. Coffee, once the main cash crop, has been hit by low world prices, but local growers are diversifying, especially into fruits. Oswaldo Dias, a local small grower, has been expanding his production of acerola berries to meet growing demand for their juice. He is also growing urucum, whose red-brown fruits are used as a natural food colouring. Whereas a soya plantation may employ only one person for each 200 hectares, says Mr Dias, acerola bushes require one or two people per hectare, and grapes, which many of his neighbours are now growing, need four per hectare.

Mr Dias is one of 1,300 small growers in Pontal who supply Fruteza, a local firm that has started exporting fruit pulp to bottlers in North America and Europe, where demand for tropical fruit drinks is rising. An extension to its factory to double its capacity is under construction, but Olivio Zanatta, Fruteza's boss, says he has been holding back until he has built up enough profits to pay for it all. At the exorbitant interest rates charged by the banks, he says, financing the project with a loan would be unthinkable. Like businessmen and farmers the length and breadth of Brazil, Mr Zanatta says the key to more job creation is to improve the supply of affordable credit.

Lula's election promise was to grant more cheap state loans to small firms and farms, but the government is itself up to its neck in debt, so he cannot afford to fulfil it. Only private banks can provide the credit needed, but why would they lend cheaply to small firms like Fruteza when they can lend to the public sector at rapacious rates? Only when the government stops crowding out private borrowing and achieves a big fall in interest rates will businesses of all sizes be able to afford to borrow to expand and create jobs.
The sweeping tax reform that Lula has also promised should help. The myriad payroll taxes and compulsory benefits that Brazilian employers must pay add up to 103% of salary, reckons Mr Pastore, the labour economist, compared with 9% in America. Besides discouraging firms from hiring, this also keeps pay down: as Fruteza's Mr Zanatta explains, if he has a budget of 1,000 reais a month for a given worker, once he has deducted all the payroll charges the worker ends up with less than 500 reais before income tax.

### Land for the landless

The Pontal has seen many violent conflicts between various landless rural labourers' movements—especially the MST, the most militant—and landowners, who sometimes resort to hiring pistoleiros to shoot those squatting on their land. President Lula's promise of a sweeping land reform, besides helping towards his goal of Zero Hunger, is intended to cut unemployment and violence in the countryside. Estimates of sem-terra numbers vary widely, from 1.2m to 7.5m, partly because nobody knows how many recent migrants to the cities might come back to the country if land and jobs became available there.

Mr Cardoso's big land-reform programme helped to reduce the conflict somewhat, but can Lula end it? Bernardo Fernandes, a geographer at a local university who advises the MST, is optimistic. At the peak, he says, the previous government was settling 100,000 families a year; if Lula could raise that to 150,000, he would soon run out of new squatters. São Paulo's state government has proved that 200,000 hectares of landholdings in the Pontal area are public land that was stolen using faked titles. Mr Fernandes says that, to avoid long legal battles, the state has offered the holders of this land modest compensation to hand it over so that landless labourers can be settled on it. The same sort of thing could be done across Brazil.

At a local MST squat, where 800 people are camped out under plastic sheeting in the fields, Jacinto Bernadino, its organiser, says he has faith in Lula to find them a place of their own, and insists that his comrades could all be self-sufficient small farmers within three years. Agripino Lima, the mayor of the nearby town of Presidente Prudente and a big landowner, scoffs that the squatters are mostly townies, seeking a chunk of land to sell on, and those already settled in the Pontal area are not producing a single row of beans, just sponging benefits off the state. Mr Fernandes disagrees: not only are the former sem-terra growing enough produce to feed themselves, he insists, they are selling some of it cheaply in local markets, reducing hunger among the rural poor.

Both are right. Not far from the MST squat is an 850-hectare spread that in 1998 was expropriated and given to landless labourers. Some overgrown plots are clearly not being tended, but others have cattle and neat rows of crops. On one such plot, Adão Silveira and his brother are building a milk chiller alongside their cowshed that will enable them to sell to local dairies. They have been given state loans to finance the chiller and the second-hand tractor they have bought a share in. Apart from their own hard work, all they need to keep expanding their little farm's output, says Mr Silveira, is more affordable credit.

The experience so far from Mr Cardoso's land reform suggests that Lula's government should increase the incentives for settlers to become self-sufficient, rather than just cranking up the numbers, which would probably increase the already high failure rate. Mr Cardoso tried to do this with a revamped version of his scheme, in which settlers would negotiate the land purchase themselves but also, eventually, have to repay its cost. The MST fiercely opposed this, but Lula should press on regardless.
Unstable oscillations

What about jobs in industry? In the election campaign, Lula and other candidates lamented Brazil’s lack of an “industrial policy” and promised more of it—though no doubt they were aware of the five federal banks that hand out cheap money to business, of which the Brazilian Development Bank alone lent 38 billion reais last year. The PT’s manifesto said that state largesse would have to be more selective, and recipients would have to demonstrate the economic benefits they were providing in return. One of the main targets of such aid would be electronics and machinery, in which Brazil has an $8 billion annual trade deficit. But the sector has already been the subject of copious amounts of “industrial policy”, with disastrous results. For years Brazilian electronics firms were protected by huge import tariffs, to “give them time to become competitive”. And, to “develop” Amazonia, they were given huge tax breaks to set up in Manaus, in the middle of the jungle, far from both domestic and foreign markets.

Rather than more industrial policy, what will encourage the electronics industry (and others) to expand in Brazil is the same old list of dull but necessary reforms to stabilise the economy and make the country a more welcoming place to do business. Mike McNamara, the boss of Flextronics, an American multinational which makes mobile phones, printers and other equipment near São Paulo, says that for his firm the most important factor in investment decisions is the stability of the local market. But Brazil has very abrupt economic cycles, sometimes shorter than two years, and its currency has recently suffered wild swings.

Other discouraging factors include high interest rates, the complex and burdensome tax system, and Brazilian bureaucracy. Setting up a company, for example, takes nearly three months. Constant changes in laws and regulations, and the slowness and unpredictability of the courts, also deter both home-grown and foreign businesses. “The judicial system is more challenging in Brazil than in most other countries,” says Mr McNamara.

The country’s labour laws, with their emphasis on protecting employees, are also bad for jobs. They are the enemy of the workers, says Mr Giannetti, the economist, because they ensure that employers will avoid hiring freely. The labour tribunals receive 3m cases a year, many of them brought by former employees claiming not to have received all of their innumerable entitlements. Meanwhile, more firms are hiring informal workers to dodge the increasingly heavy payroll taxes.

Lula knows that the labour laws must be updated to create more jobs, and has promised to press his former union comrades to accept this. But he is also talking about cutting the working week with no loss of pay, which will create another disincentive for employers. The new Lula and his PT still seem to be in two minds about their move to the centre.
The first step to ensuring Brazil's future prosperity is to improve its schools

HERE is a possible answer to why Brazil has not become rich like America. The World Bank calculates that two-thirds of the difference in income inequalities within the two countries—huge in Brazil, smaller in America—is due to differences in education. Two-thirds of Brazilian workers (including the president himself) never completed their basic education. Despite big advances in the 1990s, the 2000 census found that 13% of Brazilian adults are totally illiterate (compared with just 4% in Chile)—including 15 staff at the education ministry in Brasília, as Mr Buarque, the new minister, was aghast to discover.

School enrolments soared during the Cardoso administration—especially in primary education, which is now all but universal—but most young Brazilians still do not get a secondary education. According to the World Bank, only 33% of Brazilian teenagers attend secondary school, compared with 58% in Mexico and 98% in South Korea—which, remember, was poor only a generation ago. Unless the pace of improvement is stepped up, Brazil's deep inequality will remain, and competitiveness will deteriorate.

Moreover, it is not only the quantity of schooling that needs improving, but the quality too. Last year the Fernand Braudel Institute, a think-tank in São Paulo, asked Jane Wreford, an education inspector at Britain's Audit Commission, to visit some of the city's schools. She found overworked, ill-trained teachers who seemed to have no idea of what makes a successful lesson, classrooms devoid of books and other materials, and insecure school buildings plagued by vandals and drug dealers. Such conditions explain the dismal results that Brazilian teenagers achieved when, in 2000, they took part for the first time in the regular international tests staged by the OECD (see chart 6). By the time they are 14 and supposedly ready for secondary school, 74% of state-school pupils are at least a year behind, having had to repeat part of their primary schooling because they failed to keep up. Many such youngsters drop out and become delinquents.

Ahead of the election, Lula and the PT talked of making both secondary and nursery education universal within four years. Mr Buarque says he wants to double teachers' pay so as to attract back to the classroom all the qualified teachers who are "driving taxis and waiting at tables". He aims to hire half a million extra teachers, repair 220,000 schools and build 30,000 new ones, and offer grants to all adult illiterates to encourage them to learn to read and write. This is an expensive wish list, so new revenues will have to be found or spending redirected.

Money, however, is not everything. Brazil's overall education spending, at 5.1% of GDP, is slightly above the rich-world average, but too much of it goes to the public universities (see chart 7), whose students are predominantly from richer families. Whatever their strike-prone staff may think, the universities are generously funded: they get 25% of all public spending on education for only 2% of the students, and funding per student is three-and-a-half times Brazil's GDP per head, which the World Bank says is the world's highest ratio by far. So although total education spending is close to world standards, school spending is some way behind.

One solution would be to require graduates to repay part of their tuition costs, as Australia and Britain are already doing. Paulo Souza, Mr Cardoso's education minister, was keen on the idea, but getting such changes through a Congress full of beneficiaries of this particular middle-class privilege was too daunting,
and remains so. The best Mr Buarque might hope to achieve is to make universities more cost-effective by increasing student numbers without a corresponding rise in funding.

**Financial carrots**

Schools are run by the states and municipalities, which complicates things for the government. Nevertheless, a lot could be achieved by simply continuing and extending current policies. One of Mr Souza's useful innovations was Fundef, a federal subsidy to raise teachers' pay and other primary-school spending in areas where they were dismally low, principally in the poor north-east. The World Bank regards this scheme as a model for other developing countries. Brazil's new government sensibly plans to extend it to secondary schools.

Another of Mr Souza's policies, which his successor would do well to continue and expand, was to send cash straight to schools, to avoid it being eaten up by state and municipal bureaucracies. In Araioses, the poor town visited earlier in this survey, schools get 1,600 reais a month direct from the ministry, and their parent-teacher associations decide what to spend it on.

Within the school system there is plenty of scope for efficiency gains, which should make it possible to improve both the quality and the quantity of education at a fairly modest cost. Ms Wreford's study found high levels of absenteeism among teachers, partly because of weaknesses in disciplinary procedures and partly because teachers were exhausted from "moonlighting", teaching evening classes in another school to make ends meet. Many of the pupils in these evening classes in turn were "repeaters" whose previous daytime lessons had been inadequate. A combination of better pay and tougher disciplinary measures should improve teaching and thus reduce repetition rates. Pupils would learn faster, and schools would have more places available to increase enrolment.

It is not just poor pay that discourages teachers and results in poor performance. Sergio Haddad of Educative Action, a charity, also points to the lack of a stable career path. Teachers in São Paulo state, for example, take part each year in a sort of lottery, in which they scramble to get into the best schools. This leads to constant staff changes and makes it harder to get good teachers to the ailing schools that need them most. Many states and municipalities already face crippling pension costs, so they hire teachers on temporary contracts to prevent them acquiring the generous pensions entitlements of permanent staff, increasing turnover still further. This is yet another reason why a reform of Brazil's pensions systems is so important.

Better training for teachers is also vital. The OECD's education experts think that part of the reason why East European countries' pupils do so well in international tests, despite fairly modest education spending, is that they have effective teacher-training programmes. In Brazil, according to Cláudio de Moura Castro, an education consultant, training courses often provide too much theory and not enough practical advice on how to deliver a lesson. Moreover, many teachers, especially in rural areas, enter the classroom with no training at all. Mr Buarque is planning to expand some successful distance-learning schemes for teachers that have been set up in various parts of Brazil.

Much of what the government can do would not cost much: for example, passing laws to promote stability in teachers' careers and improve training standards, and encouraging and disseminating good practice, whether in teaching methods or school management. Good practice is not impossible to find: besides deeply inadequate schools, Ms Wreford's study came across others, even in deprived areas, that seemed to be thriving against all odds. In Itapevi, on the edge of São Paulo, improvements to local schools appeared to have cut the local crime rate.

In others, though, murder, robbery and drug-dealing on the streets spill into the classrooms. Sometimes teachers are too afraid of their pupils and their families to discipline them, even for the most serious breaches. The case last September of a teacher from Rio's violent Duque de Caxias suburb who was stabbed after reprimanding pupils for drug-dealing was by no means exceptional. In the violent peripheries of some cities, there is a danger of rising crime undoing the good that is being done by education.
Getting away with murder

Can Lula halt the rising tide of violent crime and put an end to corruption?

RESIDENTS of the Vila Cruzeiro favela studiously ignore the four heavily armed policemen making their way up the narrow, zig-zagging main street with weapons drawn, peering round each corner to check for snipers. Two excited young children run up, shouting: "Hello, police!", but are quickly gathered up by their silent, nervous mother. This is community policing, Rio-style. Vila Cruzeiro is one of Rio de Janeiro's countless "urbanised" favelas. Over the years, muddy tracks have become asphalted streets and wooden shacks have been replaced by brick houses with sanitation. But even though the favelas' physical conditions have improved, the violent crime that some of their inhabitants inflict on the rest has worsened in recent years, making them, overall, more miserable places to live in than much poorer rural places where there is a sense of neighbourliness and crime is rare.

Vila Cruzeiro won national infamy last June when drug-dealers there disembowelled an investigative television reporter. The resulting media outcry prompted Rio's state government to include the favela in a community-policing project it had been half-heartedly pursuing. The idea is to install a regular police presence and win the co-operation and respect of the locals. This is in sharp contrast to Rio's traditional style of favela policing, which involves sporadically sending in squads of cops, armed to the teeth, to shoot up the place, then beat a retreat under gunfire from the gangs. Major Lucídio Vasconcelos, the officer in charge at Vila Cruzeiro, admits he is not expecting quick results. Locals fear that the project might not last, and if his community cops are withdrawn, gang leaders will take revenge on those who co-operated with the police.

The community-policing scheme was part of a wide-ranging programme to cut violence and reduce police corruption and inefficiency, introduced in 1999 by the then governor of Rio state, Anthony Garotinho. The brains behind the programme, Luiz Eduardo Soares, was sacked in 2000 after going to prosecutors over Mr Garotinho's head, accusing the "rotten band" in the police of corruption. Mr Garotinho let the reforms continue, though they lost momentum and the crooked cops were not cleaned out as thoroughly as Mr Soares had hoped. Now Lula has hired Mr Soares as national public-security secretary to tackle violent crime and rotten policing across the country.

Though community policing does seem to have cut violence in the few places where it has been tried, critics say it has done so through an implicit pact with the drugs gangs: if they do business discreetly and there are no shootings in the area, they will not be bothered. Officers involved put it another way: the programme makes cutting violence a higher priority than preventing drug-dealing. But meanwhile the gang bosses get ever more cocky: in September they forced businesses and schools across Rio city to close in mourning for a felled comrade. And the murder rate has continued to rise both in Rio and in Brazil as a whole, making it one of the world's most violent countries (see chart 8, below). New prisons are being built everywhere, but the number of prisoners is rising faster than places to put them. Gang bosses control the jails and continue to run their criminal organisations from their cells.

Don't blame poverty

Until recently, Lula's PT liked to argue that violent crime was the result of poverty and inequality, and would lessen once social conditions improved. However, in recent years crime has risen as steadily as poverty has fallen. A more likely explanation is the impunity enjoyed by criminals, from gun-toting coke dealers to corrupt politicians. Only about one in ten murders is cleared up, and conviction rates for other crimes are paltry. When the big fish are caught, they often bribe their way to freedom or get their lawyers to string out the case for years.

Corruption is corrosive in several ways. Not only does it consume an unquantifiable but probably significant chunk of public money; the constant stream of allegations against public figures—politicians, judges, policemen, prosecutors—also undermines the rule of law. And it is not just a matter of hands in the till: a congressional inquiry in 1999 found evidence that prominent local and national figures were involved in various interlocking crime gangs whose death squads rubbed out anyone who got in their way. After a few high-profile arrests, there has been little follow-up to the inquiry. Witnesses have met untimely deaths. In November, federal police supposedly investigating the local mafia in Espírito Santo state put a key witness, unprotected, in prison, where he was murdered within an hour.

Mr Cardoso sent various bills to Congress to reform the police and the judiciary, restrict the circulation of guns and so on, but got nowhere. It did not help that he had nine justice ministers in eight years. Without a strong and consistent push behind the reforms, vested interests were able to block them.

Various versions of a reform of the justice system made some progress through Congress, only to be killed off by whichever group of
judges felt most threatened by them. Junior judges objected to a much-needed measure to unclog the courts by making them follow the rulings of more senior tribunals. There was widespread resistance to the proposed creation of a supervisory body for the judiciary, to include outside members. Oswaldo Silva, a federal prosecutor, notes that all of Brazil's organs of internal control, be it in the law, medicine, public administration or anywhere else, are reluctant to investigate members of their "club". The judicial system, says Mr Silva, is "egotistical" in its refusal to make any concessions to speed or efficiency, allowing almost endless appeals. "If you could appeal to the pope, everyone would."

Brazil's chronic legislative diarrhoea is another factor. Leafing through the official gazette, Mr Silva notes that under a counting system that started in 1946, federal law number 10,571 had just been been passed. On top of that, there are innumerable state and municipal laws, often poorly drafted, contradictory and counterproductive, and often designed solely to win publicity for the politician backing them. Bad or outdated laws are rarely changed. Under the penal-process code, dating from 1941, a video of someone committing mass murder is not admissible as evidence in court, only a paper print-out of freeze-frames.

Mr Soares's reform plans in Rio included an operational merger of the state's two police forces, one a constabulary, the other a detective force. Like community policing, this has been implemented in some districts, but faces opposition from the old guard in the two forces, which in most states see each other as rivals, not colleagues. Rather than making them merge, Mr Soares now wants to cajole the two kinds of police to co-operate more closely with each other and with federal law-enforcement agencies. Federal grants will be offered to encourage police reorganisation and other crime-fighting schemes.

Vested interests

Why is it so hard to get something done? The crooked politicians, judges and cops are a minority, but their numbers are not negligible, and there is a strong tendency in these professions to close ranks against outside critics. Denise Frossard, a retired judge who put some of Rio's top gangsters in jail in the 1990s and has just been elected a federal deputy, reckons she is facing a "narco-bench" of perhaps 10% of congressmen involved in organised crime, despite the expulsion of a few of the most notorious figures in recent years. At a time when there has been no leadership and no co-operation among the upholders of the law, the crime gangs have become increasingly professional and co-ordinated, "like a samba school, with everyone playing his part," says José Vicente da Silva, a crime expert at the Fernand Braudel Institute.

Lula and his party, who in opposition used to rail against government corruption, now finds that the boot is on the other foot. Already his transport minister, Anderson Adauto, has come under pressure to resign because of allegations of corruption among some of his associates, just like some of his predecessors did in Mr Cardoso's day. Lula's chief of staff is dismissing these allegations as purely politically motivated, just as Mr Cardoso's used to do. Will things really turn out so different under the new government?
Brazilian history offers Lula few positive role models. With luck, he might become one himself

LIKE many of his countrymen, Lula says the two past Brazilian presidents he most admires are Getúlio Vargas, whose dictatorships in the 1930s and 1940s saw the birth of many of the country's heavy industries; and Juscelino Kubitschek, who in 1960 built a new capital city in Brazil's interior to open up and develop its vast expanse of fertile land. Will future generations put President Lula alongside these two greats?

Mr de Carvalho, the historian, points out that although Vargas and Kubitschek are now fondly remembered, they were deeply unpopular at the end of their careers. Vargas, with the country in turmoil and the armed forces in revolt, put a bullet through his own head in 1954. Kubitschek's mandate ended in 1961, again amid bitter conflict with the armed forces, setting the scene for a coup three years later that led to 21 years of dictatorship. Mr Giannetti, the economist, notes that even when the economy was doing well, Brazil's social indicators did not improve in tandem with its rising industrial output.

As for Lula's big idea of negotiating a national consensus on sweeping reforms, Mr de Carvalho cannot spot any encouraging precedent in Brazilian history at all: as far as he can see, it was the country's dictators, not its democrats, who made things happen. Vargas, for instance, introduced big changes in his dictatorial early years, but later proved a failure as a democrat. Kubitschek was good at getting his measures through Congress, but he was proposing big spending projects, such as the construction of Brasília, rather than threatening vested interests, so he was pushing at an open door. The best example of a successful challenge to vested interests Mr de Carvalho can recall dates back to 1888, when Brazil's monarchy defied the plantation owners and decreed the abolition of slavery, only to find itself abolished the very next year.

The nearest thing to a Brazilian role model of a democratic president who pushed through tough reforms is none other than Lula's predecessor, Mr Cardoso. Although he failed to get his chosen successor elected, Mr Cardoso himself was quite popular when he left office. His defeat of inflation alone, never mind his education and welfare reforms, should guarantee him a place alongside Vargas and Kubitschek.

And foreign role models? Lula says his heroes include Felipe González, the former Spanish prime minister, and Nelson Mandela, South Africa's former president. Mr González and his Socialists offer an especially encouraging example. In 1977, as Spain returned to democracy after the Franco dictatorship, they joined the country's other main parties in signing the Moncloa Pacts, promising to share the political costs of vital economic reforms. Mr González continued the reforms after becoming prime minister in 1982 and Spain made a great leap forward.

Lula says the grand consensus he seeks is modelled on this Spanish precedent. But if he does not achieve it, and the lack of reforms triggers a fresh financial crisis, what then? Some fear he might try to ram through changes against the will of the traditional political elites, like Hugo Chávez in neighbouring Venezuela, with disastrous results. A greater danger, though, is that he turns out as weak and indecisive as Argentina's Fernando de la Rua, who quit as president in late 2001, leaving his country to implode economically and socially.

To avoid the fate of becoming a failed "President de la Lula", he should bear in mind that, historically, Brazilian presidents have been strongest when they first arrive in office, says Mr Giannetti. A year or two into their mandates, Congress has discovered its power to say no, and presidents typically lose force.

In Lula's first few weeks of government, progress toward a Brazilian Moncloa has been mixed. Mr Cardoso's Social Democrats assert that the voters put them in opposition, so they must oppose the government, but they also also say they are ready to back Lula on key reforms such as those of taxes and pensions. Attempts continue to lure the other main party in the Cardoso coalition, the venal and faction-ridden Brazilian Democratic Movement, into Lula's government. Meanwhile, the radicals within Lula's own PT are getting upset by his cozying up to conservative "oligarchs", and some of those threatened by the proposed reforms—such as public servants—have started to fight back.

If Lula fails, Brazil, and its political left, will be knocked backwards, perhaps for decades. If he succeeds, his place in the history books will be assured.