

## Social Policies in Brazil: Cardoso's Achievements and Prospects for Lula

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### President Lula and His New Social Policy Initiative

Brazil's first left-wing president for the past 40 years, Luiz Inacio Lula da Silva, was sworn into office on January 1, 2003 amid euphoric scenes and popular expectation that he would transform the country. A former metal worker and union leader who started as a shoe shine boy and only learned to read when he was ten, Lula, as he is popularly known in Brazil, inspired unprecedented outpouring of support from general public who considered him as one of them and a man who genuinely cares about the plight of the poor and unprivileged.

Although Brazil is the largest economy in South America with abundant natural resources and developed industries, it is also one of the countries with most unequal income distribution. Poverty remains a serious problem for the country. Belik and Del Grossi (2003) report the result of their poverty estimation using 2000 demographic census. Using the value of 1/2 minimum wage per capita as the poverty line, they calculated Foster, Greer and Thorbecke (FGT) indices of poverty for Brazil.<sup>1</sup> As shown in Table 1, about one third of Brazil's population are below poverty line and the poor earn only about half of what it takes for them to reach the poverty line in small municipalities (poverty gap of 52.8%) as well as in metropolitan areas (poverty gap of 45.9%).

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<sup>1</sup> FGT poverty indices are calculated as follows:  $FGT = \frac{1}{n} \sum_{i=1}^q \left( \frac{Z - Y_i}{Z} \right)^\alpha$ , where

n = population

q = population below the poverty line

Z = poverty line

$Y_i$  = income level of individual i

$\alpha$  = level of aversion to poverty.

When  $\alpha=0$ , FGT ratio is the headcount of poverty. When  $\alpha=1$ , FGT ratio indicates the poverty gap, and FGT with  $\alpha=2$  is a measure of poverty with even higher weight on the income levels of the poor rather than the richer segment of the population.

President Lula promised major reforms to Brazil's political and economic system. Among his policy initiatives, eradication of hunger is the central objective of his administration. "If at the end of my term every Brazilian person has three meals a day, I will have fulfilled my life's mission..." proclaimed Lula in his inaugural speech. The "Zero Hunger Program" is Lula's flagship initiative which has caught attention not only of Brazilian people, but also of social scientists around the world. There has been a lot of excitement about Lula's "new focus on the poor". However, how really "new" are these policies? Are they really different from the social policies implemented under Lula's predecessor, President Fernando Enrique Cardoso? What are the achievements of Cardoso administration in terms of their social policies, and what are the prospects for Lula's "new" agenda for the poor? These are the questions this paper intends to address.

Table 1: Poverty in Brazil (2000 Census)

	Headcount Ratio ( $\alpha=0$ )		Poverty Gap ( $\alpha=1$ )		( $\alpha=2$ )
	# of households (1,000)	Proportion population (%)	Income gap (%)	FGT ratio	FGT ratio
Municipalities $\leq 50,000$ inhabitants	6,069	49.6	52.8	0.26	0.185
Municipalities $\leq 50,000$ inhabitants	2,765	29.8	46.6	0.14	0.092
Metropolitan areas	3,153	20.1	45.9	0.09	0.065
Total	11,988	32.6	-	-	-

(Source: Belik and Del Grossi 2003)

### What Is (or Should Be) the Objective of Social Policies?

Before we look at the case of Brazil, I would like to pause with some considerations about the objective of social policies. When we think about the "effectiveness" of social policies, we need to be clear about the objective of a particular set of policies against which we are to measure the effectiveness of the implemented policies. Brazil is a country with very high income inequality as well as high incidence of poverty. Poverty and inequality are two separate issues and hence policies to address them are not necessarily the same. Are we (or more precisely the

Brazilian people) more concerned with reducing poverty or making the income distribution more equal? The question is valid because we can in theory reduce poverty by providing well-targeted income transfers, for example, without ever reducing the large disparities that exist within the society.

As Birdsall (1999) notes, it may be a wrong question to ask whether social policies can reduce income disparities in Latin America. If the central objective of social policies is to ensure opportunities for all, while making the societies more meritocratic, then social policies could have two fundamental objectives. One is to ensure that all citizens receive some minimal access to education, health, freedom of association, and other basic human rights as legitimate ends in itself. The second objective is a provision of a safety net. For that, the society needs to agree on a "social compact" to determine how much they want to smooth out the harsh realities of the market forces so that those who are unable to cope with the market competition on their own can receive government-managed assistance.

In order to achieve these double objectives, Brazil would certainly need to realize high economic growth, which can be enhanced in a medium-to long-run through investment in human capital. Brazil would also need to direct these investments to those who are poor, so they and their children can become more productive, thus eventually escaping poverty. Lastly, Brazil would also need to provide insurance against economic and other shocks for all members of the society, but particularly for the poor. When they can successfully achieve these objectives, poverty will be reduced and can be ultimately eliminated, but not necessarily reducing income inequalities. However, it is also important to note that, although reduction of income disparities in itself may or may not be the objective of social policies, inequality does matter to the extent that it constrains the implementation of effective social policies through constraints on both demand and supply of human capital.

One example that demonstrates the potential for a new generation of effective social policy in Latin America is Chile. Chile is the earliest reformer in Latin America, starting its market based economic reforms in early 1970s. It is now one of the most open economies in the region. During 1990s, massive and concerted effort was made to improve the targeting and effectiveness of all kinds of social expenditures and socially motivated subsidies, and also to raise the amounts of public revenues dedicated to social programs. As a result of the targeted money transfers and targeting of social program expenditures, the income share of the poorest 20% of households increased from 4.3% to 6.3% during 1990s. At the same time, the income share of the richest 20% of households reduced from 57% to 54%. We can say that the reduction of inequality in

this case was a happy outcome of the successful social policies.

### **Lula's Social Policies**

President Lula created the Zero Hunger Program (ZHP) to fight hunger and the causes of social and economic exclusion in Brazil. The program hopes to ensure that those who are vulnerable to food insecurity can enter into a self-sustained process of development. It promises to provide quantity, quality, and regularity of food to all Brazilians, thus promising food security to 46 million Brazilians who earn less than \$1 a day.<sup>2</sup> According to the government, ZHP is a transversal program that tries to establish a new articulation with the productive sector, stimulating agriculture and the local economy. Actions will be taken to promote production and distribution of quality food in a sustainable basis, so as to promote social inclusion, food and nutritional education.

As the first measure of the initiative, National Council of Food Security (CONSEA) was established on January 30, 2003 to oversee gradual implementation of the measures. In February, pilot programs were initiated in Guaribas and Acauá, two communities in the poorest state of Brazil, Piauí, each with the population of about 5,000 inhabitants.

During 2003, the government planned to develop actions through the following three lines:

1. Formulation of National Food Security Policy through CONSEA, with continuous evaluation of the program and the preparation for the Second National Conference on Food Security scheduled during the 1<sup>st</sup> quarter of 2004;
2. A set of public policies to guarantee food security, implemented by the newly created Extraordinary Minister of Food Security and Hunger Alleviation (MESA), who is the main coordinator of the program, interacting with other state departments, secretariats, and governments of municipalities;
3. A National Movement against hunger and absolute poverty with full involvement of the Brazilian society.

It is stated that the program intends to expand several of the existing programs. The gov-

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<sup>2</sup> Income of US\$1 a day is often used as the internationally comparable poverty line.

ernment does not intend to make the beneficiaries dependent on the Zero Hunger Program. According to the Extraordinary Minister (MESA), José Graziano da Silva, the greatest benefit that the program might bring is to help society organize to overcome poverty.

The Zero Hunger Program in reality seems to be a basket consisting of a wide range of policies and initiatives both in public and private sectors. One important factor of the program is public mobilization, as delineated as the third line of actions above. The “National Program of Food Banks” offers incentives for those who would donate food in medium to large municipalities. The “Popular Restaurant Programs” intend to help workers have balanced meals at low costs. Actions are to be taken to promote donations of food and money, or participation of volunteers. Official bank accounts (“Zero Hunger Accounts”) are set up in the Banco do Brasil and the Caixa Econômica Federal for monetary donations, and volunteer contribution campaign is to stimulate participation in each municipality to help collect and distribute donated food and to help the municipal government, unions, churches, and families. These initiatives clearly reflect the intention of the government that the social organization and mobilization is to be the most important outcome of the Zero Hunger Program. Helped by the strong popular support for Lula, Brazilian people seem to be responding positively to the call for their contribution. However, it is too early to assess the medium-to long-term impacts of these actions.

As for the public policies to guarantee food security, the Food Card Program (Cartão Alimentação) is the key feature. The program intends to provide low income families with a benefit of R\$50 (about US\$17) every month to be spent on basic food in the locality where the family lives. According to the announcement made by MESA in September 2003, about 4 million people of more than 758,000 families in 837 municipalities in the semi-arid regions of the Northeast and northern Minas Gerais were already receiving the Food Card. The Ministry of Food Security is extending the food card program to the Amazon and other Northeastern cities outside the semi-arid region.

The government also announced that it will make direct purchases from farmers of food used for its social programs and strategic stockpiles. The acquisition program will be operated by the National Supply Company (CONAB) through 65 centers around the country. The government had the budget of about US\$133 million for food and milk purchases for 2003, and about US\$330 million for 2004. To be eligible, farmers must be enrolled in the Family Farming Strengthening Program, and the government purchases will be limited to R\$2,500 (US\$830) per farmer. According to the president of CONAB, the program not only guarantees farmers’ income, but will also stimulate local production, consumption and the circulation of money.

Within the framework of the Zero Hunger Program, some structural policies are also contemplated. The government is declaring to pursue agrarian reform as well as to strengthen family agriculture by expanding rural credit to family farms. Other measures include implementation of harvest insurance in the semi-arid regions, programs to overcome illiteracy, to generate employment, and to fight child malnutrition.

### **Social Policies under President Cardoso**

Earlier during the second term of the President Cardoso, Vilmar Faria, the Chief Advisor on Social Policy under Cardoso, provided the following observations regarding social challenges that Brazil faced and the necessary strategy for responding to these challenges:<sup>3</sup>

- Poverty and indigence was still widespread, educational attainment was far from what could be expected given the Brazilian development level, health indicators remained alarmingly low, regional imbalances were still large, and income and wealth inequality reached one of the highest levels among modern urban industrial societies.
- Actors involved should share a set of principles: First, moral indignation with the Brazilian social situation. Second, enlightened reason to guide policy discussion, choice and design. Third, strong commitment to radical democracy as the appropriate institutional framework for policy adoption and implementation.
- A strategic starting point for facing the social challenge in Brazil is adequate knowledge of the existing set of social protection policies and welfare institutions, particularly regarding its size and cost, institutional profile, financing mechanisms, and redistributive impact. It is important to know that, in the past, Brazil created a large but highly fragmented and state-sponsored clientelistic, corporatist welfare regime. It is relatively expensive (costing not less than 20% of Brazilian GDP when pension system is included). It is based on regressive financing mechanisms, and worse still, has a very low redistributive impact. The lowest 20% of the Brazilian population only received about 15% of the welfare benefits.

Based on these observations, Faria identified three priority directions for social policies, contrasted to, and in place of increasing social expenditures:

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<sup>3</sup> Faria, Vilmar, "Social Problems, Political Alternatives," presented at the Conference *Challenges for Brazil: a Dialogue*, University of California at Berkeley, February 2000.

- To promote an institutional reform in different sectors of the social protection system in order to eliminate clientelism, minimize assistencialism and paternalism, and to reduce corporatism;
- To increase the effectiveness of social expenditures by creating mechanisms of coordination, program innovation, targeting, and evaluation to improve management and provide more benefits using the same amount of resources;
- To promote a restructuring of benefits and institutional reforms to increase the redistributive impact of the social expenditures.

More specifically, following seven areas were outlined as the main challenges in social development confronted by the social-democratic government of Fernando Henrique Cardoso:

1. It is imperative to provide a universal provision of good quality, basic social services of public responsibility. Basic education and basic and preventive health care are of utmost priority.
2. Strong emphasis should be given to programs that give or facilitate the access to productive assets, including and emphasizing cognitive skills and knowledge.
3. Income transfer policies are also an important dimension of the strategy, given the extremely unequal income distribution in Brazil.
4. To overcome the immense social debt, it is imperative that new and dynamic forms of participation, public control, experimentation and collaboration between federal, state and municipal governments take place and that different forms of partnership between these governments and unions, universities, community organizations, churches and the private sector are permanently facilitated, created and supported.
5. Another very important dimension of the strategy is to provide basic urban infrastructure both for social and economic competitiveness reasons.
6. To generate employment opportunities for the approximately 1.5 million people that enter the job market every year during the next decade, it is necessary to guarantee sustained and sustainable annual economic growth rate of above 2.5%.

7. It is important to assure access to political power for different groups and also to create stable political alliances.

Lula's social policies have been criticized by some as being fuzzy and outmoded. Compared to the clearly articulated social policy framework and priorities of the Cardoso administration, it is not immediately clear how each specific piece of Lula's social policy agenda fit together to form a coherent overall policy initiative. However, if we carefully listen to what is being said, Lula's social policies do not seem very much different from those implemented under the Cardoso administration. Whether he admits to it or not, Lula is expected to continue with similar social policies as Cardoso, and considering the generally positive evaluation of social policies implemented during eight years of the Cardoso administration, the continuity of policies seems desirable. However, before accepting that summation, we need to review evidence of achievements of President Cardoso's social policies.

### **Assessing the Impact of Social Policies Under President Cardoso**

Using nationally representative data from 1996 household survey PNAD (*Pesquisa Nacional por Amostra de Domicílios*), Camargo and Ferreira (2000) studied detailed pictures of the nature and composition of poverty in Brazil.<sup>4</sup> Using figures of R\$65.07 for "indigence line" and R\$131.97 for "poverty line," they found that about 20% of the population was considered indigent.<sup>5</sup> Furthermore, 45% of the heads of these indigent families either had never been to school or had dropped out before completing one year of schooling. Over half of their dwellings did not have piped access to clean water. Camargo and Ferreira also discuss the evolution of some key aggregate measures of poverty from 1977 to 1997 using PNAD time series data. Over these two decades, poverty in Brazil showed remarkably small reduction. Poverty reduced from 40% in 1977 to 34% in 1997, whereas indigence declined only slightly from 17% to 15% during the same period. There are well-documented evidence showing that Brazil made progress in reducing overall infant mortality and illiteracy over the past decades, as well as in expanding electrification and other public services. However, the incidence of extreme poverty has not reduced much over the past 20 years. It is even more striking when we consider the fact that many other countries successfully reduced poverty incidence during the same period, either

<sup>4</sup> Camargo, José Márcio and Francisco Ferreira, "The Poverty Reduction Strategy of the Government of Brazil: A Rapid Appraisal," Texto para Discussão No. 417, March 2000.

<sup>5</sup> An "indigence line" is calculated to be the cost of the 'minimum food basket,' whereas a "poverty line" scales up the cost of the minimum food basket to take account of the non-food expenditures of those people whose total incomes would just allow them to purchase that minimum food basket.

through active redistribution policy, economic growth, or both.

This situation clearly calls for determined public actions for poverty reduction. Camargo and Ferreira (2000) analyzed the performance of Brazilian government's policies for poverty reduction. Specifically, they considered the *Comunidade Solidária* Program under President Cardoso, which they consider to be the nearest substitute for an explicit National Poverty Reduction Strategy. The program consisted of two components: the first is *Comunidade Solidária*, a federal agency created in 1995 at the beginning of the first Cardoso administration primarily to carry out compensatory policies. The second component of the program was a set of 'partnerships' between the government, civil society associations and private sector companies, presided over by the *Conselho da Comunidade Solidária*, also created in 1995. Although there is a general perception that the expenditures of this program were relatively well targeted, there is no careful evaluation of its impact either in terms of the benefit incidence or in terms of a shadow valuation of the impact for the recipients.

Camargo and Ferreira also reviewed coverage and targeting performance of social expenditure. In 1996, the Brazilian federal government spent about US\$75 billion on "social areas" including education, health, social security, social assistance programs and other labor-related transfers. According to the calculation of Paes de Barros et. al (1999) as cited by Camargo and Ferreira, only 15% of this amount would have been sufficient to eradicate poverty if the money was perfectly and costlessly targeted through income transfers. This means that more than 85% of the money spent was wasted through leakages to undeserving beneficiaries or inefficiencies in administering the programs. The federal government's social expenditure amounted to R\$130 billion in 1998. This was equivalent to 64% of the total government expenditure and 21% of GDP for that year, constituting the highest level in Latin America. Camargo and Ferreira found, however, that much of that money was poorly targeted and few programs succeeded in reaching the poor, while a substantial amount benefited the middle class and the rich disproportionately. The highly ineffective targeting of social spending is clearly an important part of the reasons for Brazil's failure to improve the living condition of the poor.<sup>6</sup>

In 2001, Cardoso administration initiated the *Bolsa Escola* Program. This is a poverty-tar-

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<sup>6</sup> Vélez and Foster (1999) studied the relationship between public social expenditure and social indicators, analyzing data from 15 comparator countries from Latin America and East Asia. Consistent with the findings by Camargo and Ferreira, they also conclude that the most plausible explanation for poor social performance in Brazil is the problem of misallocation of public social spending across program areas as well as deficiencies in the targeting of social spending across the income distribution.

geted conditional cash transfer program where poor families can receive cash grant with the condition that their school-age children (age 7 to 14) remain attending school. This model of conditional cash transfer has become popular and is increasingly being used in developing countries. However, researchers are concerned that social sector indices targeted by these programs have shown little improvement, and debate has intensified over the need to reform the design and implementation of such programs. This was the motivation for the seminar entitled "Brazil: Elements of an Effective Social Agenda" organized by the Inter-America Development Bank in July 2003.

The paper by Cardoso and Portela Souza (2003) presented at the seminar estimated the impact on school attendance and child labor of the *Bolsa Escola* program and the PETI program.<sup>7</sup> PETI (*Programa de Erradicação do Trabalho Infantil*) is a targeted cash transfer program similar to *Bolsa Escola* with the objective of eradicating the worst forms of child labor by providing cash grants to families with children of school-going age (age 7 to 14) and by requiring that children attend school at least 80% of the required number of hours at school and a program of after-school activities. PETI was first implemented as a pilot program in 1996 in the state of Mato Grosso do Sul, an area of high incidence of children working in the production of charcoal, and later expanded to other areas with high incidence of child labor. The differences between these two programs are that PETI was initially introduced in rural areas while *Bolsa Escola* was initially located in metropolitan areas. PETI targets the worst forms of child labor, while the Federal *Bolsa Escola Program* selects families based on an income-means test and/or a scoring system.

Using micro household data from 2000 Census, Cardoso and Portela Souza found that these income transfer programs had no significant effect on reducing child labor, but a positive and significant impact on school attendance. Apparently, these programs increase the chance of a poor child going to school, but do not reduce his or her labor activity, probably because children combine school and labor as the cash grants are too small to provide an incentive to forgo the labor income. Thus Cardoso and Portela Souza conclude that income transfer programs are inadequate and that they have to be supplemented by programs aimed at fundamental structures, such as improving the quality of education.

So, what did the President Cardoso's social policies achieve? Unfortunately, studies that

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<sup>7</sup> Cardoso, Eliana and André Portela Souza, "The Impact of Cash Transfers on Child Labor and School Attendance in Brazil", mimeo, August 2003.

rigorously evaluate his specific programs are sparse. Beyond the findings that his *Bolsa Escola* Program succeeded in keeping children at school, much of the positive assessment of his social policies and programs seem anecdotal. On the other hand, it is clear that the very regressive nature of the government's social spending is a persistent and major problem. Even if we may conclude that President Cardoso successfully steered Brazil's social policies in a right direction, we would also have to conclude that much remains to be done in terms of fundamental structural change in the way the society agrees to distribute its social spending.

### **Prospects for Lula's Social Policies**

President Cardoso, a sociologist with a profound understanding of the social nature of poverty, is said to have done much to address the problem of poverty. Some social indicators have shown improvements and many of his social programs are considered to have been an improvement over what had existed when he took office in 1995. However, there is much to be improved especially in terms of how the social spending is distributed among different segments of the population. Several of Cardoso's most successful programs are scheduled to be continued and expanded under Lula administration. President Lula, who came into office with a promise to realize far-reaching social changes, seems to be sensible and practical enough to keep what is not broken. However, will he be able to make real changes in the Brazilian society in a way that the poor can gain larger shares of the country's economic development?

Lula's "Zero Hunger Program" is closely watched throughout Latin America and beyond, and is considered an important test for his administration. Since taking office in January 2003, President Lula has positively surprised the international financial market by maintaining market-friendly economic policies and sustaining Brazil's macro economic stability. However, he has been criticized for being slow in materializing his promise of "far-reaching social changes". Considering the deep-rooted and profound nature of Brazil's social problems of poverty and inequality, realizing such changes in any way is a long-term proposition. Improving the targeting of social expenditure, which will be an important and necessary step, entails not only the improvement of technical and operational capacities of the administrative staff involved, but also redistributing the benefits away from the current beneficiaries. Accomplishing this will require a lot of political capital on the part of the President.

In this sense, it is important to note that President Lula has been making important progress in the reform of pension system. On November 26, 2003, the Brazilian congress passed the amendment in the first round of voting on the pension reform. The amendment will reduce pen-

sions for some former federal employees who sometimes receive retirement benefits equal to or greater than their working salaries. The change will reduce some of the large inequality that exists between public sector employees and the private sector workers in their pension benefits. It is unknown how much impact this amendment can make in redistribution of social expenditure in a broader sense. However, considering the large share of pension payments in the total social expenditure of the federal government (about 68% including welfare programs in 1996,) this amendment, if realized, will be a tangible positive step.

While President Lula still enjoys a great deal of support from Brazilian people, the danger is that because of the very high expectations he generated upon his taking office, people may sooner or later lose patience and get disillusioned. It is important that he explains to the Brazilian people clearly and honestly about what he can and cannot do with his social policies during the short period of his mandate. If successful, President Lula's social policies, including not only his "Zero Hunger Program," but also pension reforms, tax reforms and other structural measure to benefit the poor, can be an important endorsement for the model of economic policies that are based on market competition, but with clearly defined and effectively managed public interventions for social objectives, following the earlier Chilean experiences of 1990s. Then, Lula's presidency will have a very important positive impact on the social development model for the entire Latin America region and beyond.

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