AN ANALYSIS OF SOCIAL ASSISTANCE PROGRAMMES DURING THE NEOLIBERAL ERA: BOLSA FAMILIA PROGRAMME IN BRAZIL AS A CASE STUDY

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ABSTRACT

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Brazil was confronted with high inflation while implementing neoliberal economic policies which were imposed as a panacea to the debt crisis during the process of transition to democracy since 1985. In this context, implementation of structural adjustment and stabilization programs further deteriorated its already unequal distribution of income and exposed the poor to devastating effects of the intermittent crises which were in turn the result of macro-economic policies pursued. Conditional cash transfers which were started to be made in 1995 to extremely poor people against the effects of crises by a few local governments were subsequently expanded in terms of its scope and geography. From 2004 onwards, it was begun to be implemented in the whole country under the title of Bolsa Familia, by President Lula, PT (Labor Party) leader who came to power after the 2002 elections. The program had two objectives: 1. Immediate relief of poverty through the transfer of income, 2. To get people out of poverty and to prevent intergenerational transmission of poverty through conditionalities based on education and health services. Positive impacts were observed in relation to the achievement of the first goal; but the outcomes of the studies on the second goal are not promising. So, the aim of this thesis is to

investigate whether the second goal is realizable by examining these studies and their outcomes with reference to the causes of poverty; and to determine the relationship between our results and structural limitations of the program.

Keywords: Neoliberalism, Brazil, Poverty, Social Assistances

ÖZ

NEOLIBERAL DÖNEMDE SOSYAL YARDIM PROGRAMLARININ BIR ÖRNEĞİ: BREZILYA'DAKI BOLSA FAMILIA PROGRAMI

Durdu, Tuba

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1985 yılından itibaren neoliberal ekonomik reçeteleri demokrasiye geçiş süreciyle birlikte uygulayan Brezilya, 1980'lerin ortaları ile 1990'ların ortaları arasında yüksek enflasyon ve borç krizleriyle karşı karşıya geldi.Bu kapsamda uygulanan yapısal uyum ve istikrar programları ülkede eşitsiz olan gelir dağılımını daha da bozdu ve yoksulları, uygulanan makroekonomik politikalar sebebiyle sıkça gerçekleşen krizlerin yıkıcı etkilerine maruz bıraktı. Başlangıçta birkaç yerel hükümet tarafından, 1995 yılında, bu krizlerin etkilerine karşı, aşırı yoksul insanlara ödenmeye başlananşartlı nakit transferleri, zaman içerisinde hem coğrafi hem de kapsam bakımından genişledi ve 2004 yılında, 2002 seçimlerinde iktidara gelen İşçi Partisi lideri Lula tarafından *Bolsa Familia* adı altında tüm ülkede uygulanmaya başladı. Buna göre, programın iki hedefi vardı: 1. Verilen yardımlar aracılığıyla yoksulluğu acil olarak azaltmak; 2. Eğitim ve sağlık alanında getirilen koşullar yoluyla insanların yoksulluktan kurtulmalarını sağlamak ve yoksulluğun nesiller arası aktarımını engellemek. Birinci hedefin gerçekleştirilmesine dair olumlu gelişmeler gözlendi; ancak ikinci hedefin gerçekleşmesine yönelik yapılan çalışmalarda ortaya çıkan sonuçlar, çeşitlilik göstermekle birlikte umut verici değil. Dolayısıyla, bu tezin amacı, söz konusu çalışmaları ve sonuçları inceleyerek ikinci hedefin

gerçekleştirilebilir olup olmadığını yoksulluğun nedenlerine referansla araştırmak ve bunun programın yapısal sınırlarıyla ilişkisini belirlemektir.

Anahtar sözcükler: Neoliberalizm, Brezilya, Yoksulluk, Sosyal Yardımlar

To my dear family…

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Yaşlanırken keder ve tasa içinde yerküre,

Ve kimsenin aramadığı umut karanlıkta saklanırken,

Ne sıklıkla anlatılacak öyküleri ve kaç kere.

William Morris (Umudun Yolcuları, Otonom, 2007: 8)

CHAPTER I

INTRODUCTION

The transformation of welfare state policies into neo-liberal policies within the framework of New Right perspective in the 1980s brought changes in all forms of economic and social structures. The basic objectives of these policies were privatization, liberalization, deregulation, contractionary fiscal and monetary policies and reduction in public spending. This process was initially defined as structural adjustment which was put into effect with the implementation of stabilization programs in the developing countries. It can be argued that all of these economic preferences claimed to retreat the role of the state which was seen as one of the main causes of the crisis and were accused of preventing the proper functioning of the market due to "the interventionist policies". Thus, the state was obliged to transfer its economic and social responsibilities, except security and law enforcement, to the market and non-governmental organizations from the early 1980s onwards. Implementation of structural adjustment policies increased the severity of poverty by causing further deterioration in income distribution. In developing countries, many people were already deprived of social security, since national social security system usually covered a small number of citizens. Under these circumstances, job losses, flexible working conditions and the relative increase in informal employment, caused by stabilization programs, contributed to increasing number of poor people and the poverty rate. Those people became vulnerable against the devastating effects of crises that have occurred frequently due to macro-economic instability.

In this context, the World Bank began to stress the need to create social safety nets from the 1990s onwards, on the grounds that new policies and institutions would reduce the impact of stabilization and structural adjustment policies on poor people.

Especially after the Asia crisis in 1997, most of the developing countries put into practice social policies, which were defined by the World Bank as social risk mitigation projects. The common feature of these programs is their targeting the most vulnerable segments of society; but their implementation and design vary according to peculiar conditions of the countries. Further, IMF and the World Bank started to suggest implementation of pro-poor macro-economic policies, "as one of the requirements for debt relief" (Saad-Filho, 2007: 518) and these social safety nets became an important part of the pro-poor growth policies while cash transfers were taken as social investments on human capital. Yet, poverty could not find place on the agenda as one of the major issues; rather, it was viewed within the domain of social policy, as a residual category. Indeed, it was the subject of many academic studies dealing more specifically with poverty alleviation strategies. However, the most important problem with these studies is their limited definition of poverty.

There is a historical evolution of the definitions of poverty which dates back to the Victorian England. At that time, poverty was defined by nutritionists as a level of income which is not "sufficient to obtain the minimum necessaries for the maintenance of merely physical efficiency" (Townsend, 2006: 5). This is a kind of determining poverty line and poverty has been a definition based on income level since then. This approach is the basis of the World Bank's income-oriented approach, in which extreme and relative poverty corresponded to 'one-dollar-a-day' and 'two-dollars-a-day' per person (Reddy, 2008: 52). It has been used for defining poverty in the world since 1981. The countries used purchasing power parities (PPPs) in order to convert these lines into local currencies; and the extreme poverty line was updated as $1,25 per day by the World Bank in 2005 (Reddy, 2008: 65). This is the monetary approach which "views poverty simply as lack of income (or consumption). Poverty exists when some persons in the society have so little income that they cannot satisfy socially defined basic needs" (Kakwani, 2006: 22). Not surprisingly, "(t)he valuation of the different components of income or consumption is done at market prices", (Laderchi *et al.*, 2006: 10). However, this definition of poverty was criticized for being sufficient to buy only food; and a new approach defined poverty as "material

lack or want" which "includes lack of or little wealth and lack or low quality of other assets such as shelter, clothing, furniture, personal means of transport, radios or television, and so on" (Chambers, 2006: 3).But, it was a reductionist definition like the first one and criticized for substituting the means with the ends; because having commodities "is only a means to an end" (Kakwani, 2006: 22).

In order to go beyond these material based approaches, Amartya Sen developed a capability approach in 1985 and argued that "ultimately, the focus has to be on what we can or cannot do, can or cannot be" (Ibid.). This approach refused "monetary income as its measure of well-being, and instead focuses on indicators of freedom to live a valued life. Poverty is defined as failure to achieve certain minimal or basic capabilities" (Laderchi *et al.*, 2006: 11). These basic capabilities can be defined as access to health and education services, shelter, clothes etc. and UNDP's Human Development Report "developed the 'capability poverty measure', which was the first multi-dimensional index of poverty focused on capabilities" in 1996 (McKinley, 2006: 26). In 1997, Human Development Report presented the 'human poverty index' which uses "indicators for malnutrition and lack of access to health services and safe water", but not the income (Ibid.). It is true that this index and capability approach take into account many dimensions of poverty contrary to previous ones; however they were criticized for having individual characteristics and ignoring social aspect of poverty (Laderchi *et al.*, 2006: 11). Therefore, the concept of social exclusion has entered to the literature in order to examine "the processes and dynamics that allow deprivation to arise and persist" even for "rich countries with comprehensive welfare provisions" or "marginalized groups (e.g. ethnic minorities or the landless)" (Ibid.).

According to these definitions, poverty could be gauged by many statistical methods, systems and indexes developed by different scholars. Nevertheless, studies in this respect dealt with poverty in a narrow frame by focusing on the impacts and results, rather than the causes and origins. Furthermore, all of these definitions which were developed by international financial institutions or development professionals

(Chambers, 2006: 3) have been imposed to the rest of the world, thus ignoring the differences between the countries and various social groups. An arbitrary poverty line is defined by the World Bank which has been criticized along the following lines: "In the United States, the reference country for setting the Bank's international poverty lines, even two-dollars-a-day does not reflect the real cost of meeting the basic requirements of a human being" (Reddy, 2008: 52). But the most important problem with these approaches is to treat poverty as a social phenomenon that exists ontologically. They implicitly suppose that it is a social problem spontaneously existing as a result of social exclusion. Social exclusion, in turn, is defined as staying out of the market. However, the reasons for staying outside the market are totally ignored by these studies. From this point of view, there is no answer to the question of how it is possible to explain the working poor (socially included people), if exclusion roughly means exclusion from the labor market. In this scheme, poverty is regarded as vulnerability against social risks arising from climate change, economic crises etc. Thus, social risk mitigation projects are presented as the only solution to poverty, which is accepted as a problem that cannot be solved, but only alleviated. In fact, the recommendations of these studies have been far from producing solutions to the problem, since they rejected looking at the depth of the problem and diagnosing it accurately.

In order to escape from this dilemma, there is a need to go beyond the limits of orthodoxy which keeps the researchers away from understanding the internal relations of the apparent social structures (Yalman, 2011: 229). In this respect, neither poverty nor anti-poverty programs are solid research units which would have unquestionable reasons abstracted from social relations. If poverty is defined as a constant and invariable issue; anti-poverty programs become unrealistic, since they internalize that poverty cannot be removed. Contrary to this perspective, poverty and alleviation programs are social forms of political struggle need to be examined as a reflection of redistribution policies. In other words, defining and producing solutions to poverty are a process of a redefinition of the relationship between state and citizens, and labor and capital through variables such as employment, wages, social

expenditures as well as poverty. Thus, this study will discuss the presumptions and implications of those manifestations; since policy prescriptions are produced and implemented according to definitions of poverty and inequality. From this point of view, there is a vital necessity to examine all aspects of the structural adjustment policies and poverty alleviation strategies, in order to contribute to the reconstruction of current reality and to bring politics back into the study of poverty. This is a political problem based on redistribution of surplus value and power; not a simple economic issue. This view has quite a critical importance; because it is inevitable to constrain the poverty alleviation programs with only economic instruments, when poverty is considered as merely an economic problem of confronting society.

Brazil is one of the countries where this kind of debates is intensively conducted; and it is easier to scrutinize these relations between perceptions and implementations within a case study. So that, there is a possibility to comprehend the concrete forms of mentioned relations by observing micro-installation of a specific area for a specific time, rather than general abstract concepts. The answer to the question of why we chose Brazil as a case study is that *Programa Bolsa Familia* is the pioneer of conditional cash transfers as poverty reduction strategies;[1] likewise spontaneously put into practice without a proposal of the World Bank. It is a program consisting of various conditional cash transfer programs that were put into practice by the Brazilian governments, before the Lula government; but Lula united those programs (*Bolsa Escola, Bolsa Alimentaçao, Cartao Alimentaçao, Auxilio Gas*) under one name, *Bolsa Familia*. It was presented as an urgent solution to highly unequal redistribution of income and wealth. It has two main objectives: One of them is the immediate relief of poverty in the short run, by means of direct income transfers to poor families; and the other is to break the cycle of intergenerational poverty, by means of conditionalities and investments on human capital (MDS, 2008: 3). It created significant outcomes for the country and became one of the largest cash

[1]There are other programs in different Latin American countries such as Mexico's *Oportunidades* (formerly *Progresa*), Colombia's *Familias en Accion*, Chile's *Subsidio Unitario Familiar*, Ecuador's *Bono de Desarallo Humano*, Argentina's *Plan Jefas y Jefes*, Nicaragua's *Red de Proteccion Social*, Honduras's *Programa de Asignacion Familiar*, Bolivia's *Beca Futuro*, and Jamaica's *Programme of Advancement Health and Education (PATH)*.

transfer programs in the world by covering approximately 13 million families (means roughly 52 million people corresponding to a quarter of total population) in the recent period. Most of the poor families could get a regular income for the first time in their lives which represented a major step in reducing extreme poverty at the first glance. Yet, it does not necessarily mean that the program could achieve to fulfill its first goal. In fact, it has been implemented for a sufficiently long time (since 1995) to enable us to evaluate its short-term effects. More importantly, there is no consensus about its future implications in different studies searching any progress in the enjoyment of health and education services and their effects on poor families living conditions. The picture is getting dark when we think that "73 per cent of urban relative poverty in Brazil was chronic and most of this level was due to an initial persistent condition of poverty" (Ribas & Machado, 2007: 1). This makes it harder to be hopeful about its success for the second goal, breaking the vicious circle of poverty. Essentially, it seems that there are structural contradictions between its objectives and approach to the poverty problem; and thus, those contradictions make doubtful the future and success of the program. In this framework, *the aim of this thesis is to examine structural characteristics of Bolsa Familia within the origins of poverty in Brazil and to investigate whether it allows people to get out of poverty and to break the cycle through investments on human capital in the long run.*

Certainly Bolsa Familia is an original type of social policy instrument and deserves to be analyzed within the special conditions of the country. There is a significant advantage of the long-term approach, since it provides enough length of time to see and comment upon the results of implemented policies. We can deal with Bolsa Familia and the question about its sufficiency by examining the conditions behind this process. Brazil was one of the countries which have implemented the prescriptions of Washington Consensus such as privatization, deregulation and liberalization in the economy since the early 1980s. Flexible exchange rate mechanism, higher interest rates and anti-inflationist stabilization policies were also on the agenda in order to welcome inflows of financial capital and foreign direct investment. All of these policies contributed to increasing poverty through job losses,

flexible labor market practices in parallel with process of repealing of manufacturing industry. By the same token, public expenditures shifted to debt services, the share of social expenditures was reduced and most significant monetary and fiscal policy instruments (interest rates, taxes etc.) were used in the service of global capital as we will discuss in the third chapter.

There was always poverty and inequality in certain degrees in Brazilian society; social inequality did not diminish, even within high growth rates during the first seven years of military regime. In the late 1970s, growth rates began to fall due to economic crisis of the world economic system and the debt crisis and high inflation became the most important problems of Brazil. In order to overcome these problems, there emerged a consensus between the different segments of society about a need to change the economic and political system in Brazil. In the same period, Labor Party (PT) was established in 1979; and the country realized democratic transition with neoliberal transition according to the prescriptions of the IMF and the World Bank as the condition for lending the country. Neoliberal transition was put into practice to a large extent under the Fernando Collor de Mello and Fernando Henrique Cardoso governments. However, these prescriptions did not work in solving the debt and inflation problems of the country and caused income losses for an important part of society. After the era of Fernando Collor de Mello and Fernando Henrique Cardoso, Lula de Silva was in the center of expectations that included the *land reform*, *postponing huge foreign debts* and the *equitable redistribution of income and welfare*. However, the transformation of PT in favor of neo-liberal agenda, in which he promised to implement a strict economic program for there payment of debts, provided him to be successful in the 2002 elections. What he meant by a social program expressed itself in *Bolsa Familia* which requires getting less than minimum wages to be a beneficiary of the program. It is not obvious that minimum wage does not correspond to the constitutional principle which necessitates sufficient income to provide a subsistence of life according to certain statistical data. Although Bolsa Familia included an important section of society, there are also a number of people who cannot make use of these income transfers, since the income of their households

is not less than minimum wage. In this framework, *Bolsa Familia* is presented as the only remedy for people who do not have a chance to get a place in the labor market.

If we establish the relationship between production, employment and social programs, we may see why Brazil must practice the programs like *Bolsa Familia*, a program that does not require separation of an important part of the state budget (as it will be shown in the fourth chapter). It only binds governments for a short time; for instance, the benefits of those family programs may be taken back during a crisis period and this ambiguity may lead to deepening of poverty by preventing increase in real incomes. Those families having limited income have no guarantee for the future because it depends on neither a social right nor a certain employment strategy. When we look at all these features and various dimensions of *Bolsa Familia* program, we can make sense of the question whether the program is able to remove the conditions of poverty as it is presented as a target *or* it can only work as a provisional solution for reproducing physical existence through basic needs without improving social conditions of life.

To underpin the main question, we will examine what sort of mechanisms lay behind those processes; what are the economic, political and social implications of those programs for Brazil as a developing country. To answer these questions, we will *not* look at how efficient these programs worked in struggle against poverty in statistical terms but rather we will explicate their relationship between economic growth and stabilization programs within the framework of the role played by the multilateral lending institutions such as IMF and the World Bank. It is very important to understand what kinds of changes in labor market and social structure paved the way to this new definition of social policy and how those changes and new definitions in turn affected the labor market and social structures. There is also a relationship between poverty and increasing informality, patronage relations, non-governmental actors, dependency culture, and property structures. And, there are many criticisms about the program and Lula for contributing to those relationships. Every problem

indicated here has an important role in analyzing whether Bolsa Familia is an appropriate social instrument for tackling long term poverty problem of Brazil.

In order to apprehend this process, we will use historical analysis to go beyond the statistical research and to know why this kind of program came onto the agenda; how it was presented and what it offered. Predictably, we will make use of empirical-statistical analyses and documents in order to evaluate the consequences; but we will also employ interpretive-textual method for making sense of data, rather than unbiased representation of economic indicators. Besides, we will utilize reports and working papers, since we will appraise how the Brazilian government and the supra-national organizations approach the program, how they try to present it to be able to figure out the gap between the discourse and practice. To do this, we will review primary sources published by the Brazilian scholars, publications of the World Bank in relation to Brazilian government, UNDP working papers, and policy notes.

In this framework, the thesis will consist of three main chapters, apart from the introduction and conclusion. The second chapter is on the brief history of poverty in neoliberal era, within its economic, social and political roots in developing countries throughout the world. This chapter also takes into account the role of the multilateral institutions such as the IMF and the World Bank and how they identify their mitigation projects and conditional cash transfers. To understand this, we will focus on their approach to poverty, labor market and the relationship between the state and citizens.

After that, in the third chapter, we will concentrate on the socio-economic changes in Brazil in neoliberal era. In this part, we will examine the implications and repercussions of neoliberal transition. It is important to comprehend how neoliberalism affected social, economic and political structures; and what kind of implications have come out of this process. In this way, it will be possible to understand which micro-relations and particular strategies paved the way to the current social policy frame in Brazil.

In the fourth chapter, we will examine "*Bolsa Familia* program as a case study" on the basis of the questions we have raised and conclusions we have reached. *Bolsa Familia* program will secure a ground to evaluate these programs as a case study. We will firstly look at historical development of the program and its predecessor Bolsa Escola, and then we will analyze Bolsa Familia in more detail. We will focus on its characteristics and ask whether it has skills in order to break the cycle of poverty through *investments on human capital in the long run.* Thus, we will examine the content and objectives of the program, its implementation and design, the targeting mechanisms, and the monitoring and evaluation skills. This study will be limited with the emergence of the program and its progress under the Lula government.

CHAPTER II

FROM SOCIAL WELFARE REGIME TO SOCIAL ASSISTANCE PROGRAMS: THE SOCIAL AND ECONOMIC ROOTS OF POVERTY IN NEOLIBERAL ERA

Neoliberalism, the current phase of capitalism, is a project presented as a prescription to the crisis of Keynesian welfare regimes and the world economic order based on the Breton Woods System in the Post-War era. Transformation of Keynesianism into neoliberalism required the reconstruction of a new relationship between state, society and the markets; and a set of policy was put into practice from the 1980s onwards. It brought "shifts in economic and social policy, property rights, the country's insertion into the international economy, and the modalities of exploitation and social domination" (Saad-Filho and Yalman, 2010:1). It cannot be said that those policies followed a straight course from the moment of introduction. On the contrary, it continued on its way steadily producing new solutions to its failures during this period. *Increasing poverty* was one of the undeniable problems that cannot be ignored especially in the 1990s and there is an intensive effort to cope with this problem at both national and international scale.

In this chapter, we will attempt to clear the basic components of those policy changes which paved the way to the poverty alleviation programs. In this way, we will reveal the basic assumptions of those social policies already implemented in most of the developing countries. It is also necessary to note the kind of solutions they proposed, what is exactly promised with those programs and how they are legitimized. Essentially, the main goal of this chapter is to draw a portrait of the routes to the current social policy changes and breaking points of the process from the 1970s to present.

2.1. Macro-Economic and Social Changes in Neoliberal Era

2.1.1. Employment, Unionization and Declining Wages

In the Golden Age, the world witnessed constant growth, expansion of employment including adult male workers in a highly productive industry, consumerism, general proliferation of standard and steady nuclear family and the social welfare regime. This, in turn, made people believe that poverty could come to an end through the social policies based on growth and state interventionism (Mingione, 2001: 264). However, within the process of globalization and financialisation from the 1970s, the crisis of employment was also on the stage, as the dark side of the moon. Substantially, de-industrialization, de-unionization and unemployment were simultaneously actualized phenomena which are valid for both developed and developing countries after the crisis of Keynesianism. Yet, in developing countries, "it is even more serious because the progress of capitalism has destroyed employment in agriculture without creating industrial employment as fast as it did in the rich countries (Baeza, 2010: 209). Depending on import substitution industrialization (ISI), workers could relatively get middle-high incomes. Yet, the internationalization of production process via the multinational companies made labor shifted from the industry to low-wage services sector. Apart from declining wages, employment became flexible, or part-time. Flexibility meant not only insecurity or wages not coming being paid on time but also deprivation from health services. As a direct consequence of this process, poverty became normal among working people with long working hours as the common feature of the post-Fordist regime. "The ILO estimates that by the end of 2002, the number of workers living on USD 1 or less a day may well have returned to 550 million, the level recorded in 1998" (ILO, 2003: 1).

Meanwhile, growing unemployment became an important component of increasing poverty.[2] Women's participation in the labor market can be indicated to contribute to increasing unemployment. But the principal reason of this process was a serious loss of work, thanks to emerging technologies and deindustrialization. There was no need for unskilled labor to do routine work and there was a mass of unskilled labor deprived from education in the huge cities of developing world (Caputo, 1991: 459). A portion of this mass could not work due to various obstacles such as being single-parent, elderly, disabled etc. But, the main problem was rising of the non-voluntary unemployment. At the same time, job losses in the periods of recession and duration of unemployment were other determinants in falling into the state of poverty (Şenses, 2006: 168).

As another dimension of this situation, developing countries entered a period in which *informalization* of labor is more and more widespread. Informalization means not only low wages that are far from sufficient to move out from poverty (ILO, 2004); but also insecurity that blocks benefiting from social services like health, etc. As a consequence, unemployment and low wage increase the inequality and poverty; and also reduces the wish to participate in the labor market.

It is hard to say that this process is *neutral* and materialized without human impact. In fact, this process is a conclusion of a series of policy choices. In contrast to Keynesian understanding of the labor market, it was suggested that full employment was impossible and instead of it, the *natural unemployment hypothesis* (NAIRU-non-accelerating inflationary rate of unemployment) was put in force [3] in which unemployment could be acceptable since it stems from the structural conditions of the economy. In this framework, different unemployment rates were accepted as NAIRU for different countries whether it is developed or developing. In order to reduce unemployment, policies were based on those rates. It is true that growing

[2]According to ILO, unemployment rates increased from % 2,5 (1990) to % 7,1 (1998) in South Korea (Sertlek, 2002: 329)

[3] A hypothesis introduced by M. Friedman by criticizing the Phillips curve.

population is an exogenous variable and supply of labor in developing countries is increasing faster than in developed ones (Şenses, 2006: 164-165). However, unemployment is not a direct result of growing population, as Fine touched upon to Marx's critique of Malthusianism:

> For capitalism, the law is not about rates of growth of population but the necessity for unemployment under capitalism irrespective of whether population growth is fast or slow. For Marx, capital accumulation both creates unemployment as some capitals are forced out of business by competition; and capital accumulation depends on unemployment in order that there is a pool of labor on which to draw where accumulation does take place. (2007: 4)

The reserve army of labor, Marx's unemployment theory, is a perfect way of understanding the so-called structural and natural unemployment intrinsic to capitalism. However, it is not the only way to control wages and workers. After breaking with demand-led and reflationist strategies (Esping-Andersen, 1996), there emerged a phenomenon of "precarious labor" in neoliberal era, in opposition to secure labor of Keynesianism. "When workers are said to be too demanding, capital can always replace them with its reserve army spare workers among unemployed and precarious workers" (Baeza, 2010: 209).

Another dimension of this term is de-unionization. In Keynesian period, in addition to class compromise, unions were effective in decision making processes. Nevertheless, unions have lost their power, since the class compromise busted and unions could not stay at national level whilst every other aspects of society were becoming international. In many countries, "the trade unions gradually lost members while their traditional means of struggle at national level, including collective bargaining and strikes, as well as their involvement in domestic politics, became less effective" (Erdoğdu, 2010: 74). It is an expected phenomenon because rigidities that holds together the workers is no longer available. It is not probable that a mass of workers begin and stop to work at the same time in large factories. So, it is more difficult to be organized even in the sense of spatial.

2.1.2. Demographical Changes

Social and demographic changes occur more slowly, compared to macro-economic changes. Likewise, these changes apply to the old forms of relationships, and make use of them, instead of completely erasing them. That is why it is difficult to solve the differences between past and present and to determine the starting point. Even so, many changes have occurred in demographic field since the late 1970s and these changes have become closely intertwined with social forms belonging to the past, in neoliberal era. One of the most important developments is population growth in developing countries.[4] No doubt, it is a variable affecting the living conditions of poor people. But, population growth is something to be desired since children are able to contribute to the family budget by working within both the agriculture and non-agricultural sectors (Birdsall, 1999: 5). They also assume care of their parents during old age instead of social security systems. All these social relations support the thesis that poverty is not simply a consequence of population growth; on the contrary, it is an important reason as it is expressed in development economics (Şenses, 2006: 155).[5] Another dimension of this process is urban agglomeration as a result of ongoing immigration from rural areas to the cities and from small cities to the metropolitan areas. The relationship between poverty and migration has a mutual character, and it makes impossible to decide which is the result is and which is the cause. Yet the direct outcome of this process is raising discrimination against different races, gender, cultures and the like. The more employment opportunities decreased, depending on de-industrialization phenomenon; the more reasons for exclusion from the labor market are increasing. Here, it is easier referring to old-style forms of discrimination, than creating new forms of exclusion. In many studies,

[4]It is the very opposite in advanced countries where population growth rates are falling.

[5]Growing population is also held responsible for harming the environment and causing global warming to some extent. Therefore, there are proposals how the poor people of south should behave against the nature for sustainable environment and pertaining to how the sustainable environment is possible within developing process (Smith, 2005). Nevertheless, such studies evidently ignore the role of advanced countries in the process of both producing and consumption (Olpadwala, P. & Goldsmith, W.W., 1992).

young people, immigrants and women are taken as the most vulnerable groups against adversities occurring in the labor market in the cities (ILO, 2003: 1). For instances, women, remain deprived of education from childhood, are thereby condemned to low-wage and low productivity sectors (Bardhan, 1996: 1352). Due partly to the increasing divorce rates worldwide, there emerged single-parent families. Whilst their children are in need of care, they also have to work.

Besides, aging of population and care of the elderly people also deserve a special attention, since the aging of the population and decline in social policy coincided at the same period of capitalism. During the Keynesian period, industrialization climbed on the shoulders of the family, women in particular. Adult male workers were employed in heavy industrial jobs; women were responsible for taking care of children, older parents, and reproduction of labor. Still, welfare regime tried to achieve de-commodification process through social assistance by making women free to some extent. And, there was a sneaky belief about the future of developing countries, in which de-commodification process would be on the stage after commodification of labor in teleological understanding of history. Whereas, even in Scandinavian type of welfare regime, de-commodification process was accomplished to a limited success (Esping-Andersen, 1999: 32-46). But, in neoliberal period, de-industrialization process reversed this belief and the world witnessed the *de-familization*, instead of de-commodification (Ibid. 45).[6]

2.1.3. Financialisation

Although capitalism claimed spreading to the entire world and penetrating to all forms of social relations from the beginning, the world economy does not always

[6]This situation could be comprehended via Marx's metaphor of *grave-diggers*. Marx argued that capitalism exists through the process of commodification. Commodification means any kind of product or relationship becoming tradable in market. In this way, capitalism could spread over the world by making usage of areas that did not undergo commodification process. That means lower cost and profit to capitalism. Nevertheless, at the end of this chain, commodification make things and relations, it becomes expensive in the market; and capitalism cannot make usage of those pristine areas. Therefore, it is grave-digger of itself (Wallerstein, 1983).

seem integrated as much as today. There are two separate periods witnessing the acceleration of trade, both in goods and services and financial meanings. One of them was on the stage in the late 19th century, and the other is from the 1970s onwards. This is exactly what *laissez faire* economists desired, since it indicates fully openness of the markets around the world and capital flow boundary recognition. Yet, there are some changes, including developing technology.

Until 1970s, capital, as the surplus value, was kept within national borders, to some extent; and so that, the real owners of capital could get a share of the pie through the redistributive national polices, public expenditures and the like. However, when the crisis of Keynesian policies erupted, those redistributive policies were blamed and declared guilty of the crisis, for creating rigidities, declining the GDPs and growth rates from the Post-War period. As a way of breaking the rigidities, capital distinguished itself from the real world and declared the freedom as *fictitious capital*. Ben Fine argues that this process is coherent with "Marx's understanding of finance depends upon the notion of money capital" and conceiving "the circuit of industrial capital, with its motion through money, productive and commodity capitals, and its separation of that motion between spheres of production and exchange" (Fine, 2007: 2). This distinction between *fictitious* and *real* was neither an innocent irony of fate, nor inescapable policy prescription; but a strategic choice subordinated the latter to the former. This subordination is noteworthy because it means priority given to capital (an invisible hand) expropriating surplus value of labor. So, capital became totally independent from its creators, which means the accumulation is liberated for not returning to the workers in the form of social provisions in redistributive sense. At the same time, it is not converted into industrial investments and employment opportunities anymore, because it cannot reevaluate itself when it is bounded to time and space. It only flows where higher profitability is available thanks to abolishment of borders in neoliberal era.

This flight of capital is so-called short-term investments, which, in turn, "may affect the fiscal balance in several ways" (Charlton & Stiglitz, 2004: 12). On the one hand,

it takes away the surplus value of domestic production of a country; on the other hand, it closes the balance of payments deficit of another country; and, when the crisis reverses the scenario, the second country is faced with a huge balance of payments deficit. Additionally, a country opted for being profitable means that it offers higher interest rates for short-term investments. That is not an unquestionable economic obligation exactly a political choice in order to provide macroeconomic stability in neoliberal era, on the contrary to Keynesian era paying attention to demands and ignoring the budget deficits and macro-economic instabilities. Proposition of higher interest rates is significant since it simply gives away domestic surplus value into international capitalist accumulation, "as a mechanism constantly redistributing income to the rich" (Mehrotra and Delamonica, 2007: 91, as quoted in Yalman, 2011: 231). But in contrast to capital, the free movement of labor is not allowed all over the world, even if we assume that people have migrated without hesitation. Thus, capital, as a surplus value, is detaching from labor and entering the international circulation. In fact, this is a failure of market itself, since "making markets work in general increasingly means making financial markets work in particular" (Fine, 2007: 13). But this illusion is not put into words, and it is pretended as if everything is subject to market and labor has right to move around the world the same as capital. As a result of this process, labor is deprived of the conditions of reproduction itself by adding the significant portion of the earnings to the capital and abandoned at the mercy of the market. This is valid under the circumstances that a worker could have found a job, but the other side of the coin is unemployment.

In this case, dominated by the absence of reproduction conditions, *credit system* is presented to serve as an opportunity for basic needs such as housing, education etc. On the one hand, these basic social needs increasingly became subject to the private sector and prices rose to exclude workers. On the other hand, the prices of goods and services are getting expensive due to derivative markets and speculations all over the world. When the workers use credits for providing those requirements, they are mortgaging their future wages as individual consumers. Even, these are not enough for credit system; it also arrests pension funds via the private pension systems,

perceived as the long-term investments in the mainstream economic theories. Within the private pension fund system, workers abandon their money saved for the future to the precarious conditions of derivative and speculative markets, which, in turn, based upon the future wages of workers or unearned wages of future workers. This extraordinarily bubbling way of credit makes the system more vulnerable to the crises (such as the crisis in 2007). Under these precarious circumstances, information becomes the most significant variable, whilst the intermediaries come forward as "the group of individuals benefiting from such relations includes senior investment bankers, city analysts and traders, accounting and law partners, consultants" (Erturk, 2006: 12); and there is no mention of the workers. Shortly, workers cannot benefit from the goods and services they produce due to price increases caused by derivative markets and speculations, in addition to loss of surplus value in the capitalist system.[7]

2.1.4. Globalization

Even though, financialisation is a very important component of neoliberalism, globalization is a much more comprehensive concept to define the new era. While it defines the new period, it also helps to construct the imaginary world of free competition regime and legitimize the implementations by using different discourses varying to the specific features of short-terms. In this respect, there is a variety of opinions about what is globalization, but responses roughly seem focused at two points: "globalists argued that globalization was entirely new epoch in human history, while skeptics maintained that it was just an ideological construct, a myth" (Yıldızoğlu, 2010: 40). The advocates of the former idea put forward that globalization is an unstoppable and irreversible process which would swallow the nation-states and bring pluralism instead of the bi-polar world. Especially, the collapse of Eastern Bloc proclaimed the triumph of capitalism all over the world and Fukuyama announced the end of the history in his well-known book "The End of History and the Last Man" in 1992. If we principally describe globalization as speed-

[7]David Harvey defines this process as "accumulation by dispossession" (Harvey, 2003: 149).

up of trade and financialisation thanks to acceleration of telecommunication and transportation systems (Stiglitz*et al.*, 1993: 19), it is hard to argue that it is entirely new; because, a similar situation was seen in the late 19th century (*laisez faire* liberalism), as mentioned above. However, it is unreasonable to think that both periods were exactly same. Globalization, packaging of *neo*liberalism, has its own features different from the previous period. Although increasing technological and transportation facilities make illusion about novelty of the period, the real novelty stem from the impact of the Post-War era; in which there was a kind of effort for taking developing countries to their own side between capitalist and socialist blocks (Deb, 1996: 176). Due to this tension and anti-colonial movements, advanced capitalist countries helped the developing countries through the credits or grants to construct capitalist system in their own countries. Within the ISI process, there materialized a relationship mutually binding between the north and the south. Yet, in the late 1960s, there was a decline in growth rates and those advanced countries of the north rebelled against both increasing social expenditures and assistances to the south and revised the relationship between north and south and domestic relationship between capital and labor. From this point of view, globalism is neither entirely new nor just a myth. It is rather a new form of capitalism depending on financialisation that "has always been the predominant response to the over accumulation problem of the established organizing centers of the system of accumulation" (Arrighi, 2004: 536).

Some defines globalization as a process of 'crisis management' (Yıldızoğlu, 2010: 45). It is true that neoliberalism is much more prone to the crises, even if capitalism structurally tended. Capital, unchained from the boundaries, seeks only profitability and reevaluating itself. In this framework, individuals become the main agency of the system and obliged to solve the problems on his/her own and to tackle the risks of social and economic lives. This is where the term of 'knowledge age' is praised as a feature of globalism. Knowledge is ordained as a key formula that will provide dealing with every kind of risks. By producing or utilizing knowledge, people and governments could manage crises and increase their profits by improving

productivity (Mimicopoulos, 2004: 7). Firstly, this novelty is presented as an invention of neoliberalism; but it is only novelty of technology. Secondly, it is prominent since it implies neoclassical meaning of pure knowledge of markets. But the issue is, an ordinary poor person can only reach the information of social media and the like, not the information of speculative markets as it is implicitly assumed. Thus, he/she cannot be the agency of crisis management but may be a victim of the capital accumulation. According to the research project in *favelas*[8] of Rio de Janeiro, in Brazil, participants were asked how globalization had affected their life. "(T)he majority of respondents across all three generations said that globalization had not made any difference" (Perlman, 2010: 263). Only children and grandchildren aligned the positive dimensions of globalization: " 'improved life in general', 'improved access to information and communication', and 'improved technology, such as cell phones and computers' and mentioned the final factor which was 'facilitated purchase of imported products" (Ibid. 264).

Another emphasis of globalization is on competitiveness, a notion which is useful for the states as well as individuals. States can barely reach high growth rates, if they are successful to be competitive. Competitiveness, in turn, requires full openness, high interest rates, flexible exchange rates, subsidies for foreign investments and the like. Unfortunately, these measures make the states vulnerable to the contingency shocks of the system, as well as reducing their political power. Even if the nation-states are at the heart of the changing relations and structures as a founder and conductor of "free market institutions", and also they fulfill the task of justifying the changes made in accordance with the request of globalism; it is a sort of hara-kiri deprived itself from policy instruments and political powers. This reminds us of the concept of *spatial-temporal fix,* which "has global implications not only for absorbing over-accumulated capital, but also for shifting the balance of economic and political power" (Harvey 2003: 123–4). That is to say, when the states are competitive and capital flow transfers the surplus value of labor abroad; then the states behave as if they are one of technical players in the same arena and seems became deprived of

[8]*Favela* is the Brazilian term for informal settlements or shantytowns (Perlman, 2010: 258)

political power. It sounds as if the state is no more a political subject, but this is a certain political choice and directly compatible with the discourse of globalization based on individualism. Again, knowledge becomes important here, to be competitive and attract capital. And, the more the unequal portrait of the system becomes visible, the more attention returns to the 'symbionts and parasites' by realizing "dynamic of uneven development (enabling financial capital to move on when the disastrous effects of financialisation weaken those productive capitals that have to be valorized in particular times and places)" (Jessop, 2010: 36).

2.1.5. The Role of the State

Even if it is peculiar to capitalism and the bourgeois world-view in which politics and economy are completely different fields of society; neoliberalism, as a form of capitalism, has reached its peak within the discourse of "state versus market". As a reflection of this view, Keynesian era was a period in which state intervention was seen as the only means to resolve market failures. Yet, in the 1970s, when the crisis of over accumulation rang the bell, state intervention became undesirable and it was time to put an end to cooperation with the state and the market. Nevertheless, this opinion, dealt with the state and the market as being separate entities from each other, makes impossible to understand the reality of the process. "There is the dominance of a dualistic conception of state/market and/or state/society relationships in so far as these spheres are perceived as being externally related, if not as ontologically distinctive domains, with their own logics and principles" (Bedirhanoğlu & Yalman, 2010: 107). If market, society and state are taken different realms, but in relation to each other, each of these realms deserves a transcendental meaning in Hegelian sense. This point of view, fetishizing understanding of the social relations and implies that state, society and market are self-moving processes without the human impact.

Looking more carefully, discourse of 'state vs. market' rather seems a way of finishing the "class-based politics by dissolving class alliances" (Ibid. 109). It is

more evident in academic circles in which emphasizing the conflicts between identities rather than classes, especially after the crisis. In this respect, neoliberalism is clearly "a particular class-based response to the global capitalist crisis of the 1970s" (Ibid. 109). If it is not, transition to neoliberalism would be easier and did not require harsh interventions of the governments throughout the world. Whereas, neoliberalism could hardly resolve the class alliance of welfare state, in which classes are based on a very strong historical foundation in Western Europe, except Britain (Huber & Stephens, 2003: 4). This difficulty did not stem from the spontaneous transformation of the relationship between state, society and the market. Conversely, resistance of the working class brought this challenge against the economic prescriptions implemented by the state. Even in Britain, there were some extreme challenges such as the coal miners' strike in 1984-85, despite the discourse "There is No Alternative". At the end of this process, "(r)eal wage cuts and higher capitalist earnings have been two most remarkable achievements of neoliberalism around the world (Baeza, 2010: 206), in addition to severe cuts in government spending in social policy fields. Redistribution policies lost their importance both in the welfare states and developmentalist states based on mixed economy (Haan, 2004, 1).

It is argued that there was not a consensus on which the states "fairly" apply the redistributive policies (Graham, 2003, 19). To neoliberals, "social spending and state intervention were in conflict with economic prosperity, and thus the state was labeled the source of the problems of many countries" (Jenson, 62). Therefore, the state must not to assume a central role in macro-economic issues, as Newman summarized:

> (T)he role of the state shifts from that of 'governing' through direct forms of control (hierarchical governance), to that of 'governance', in which the state must collaborate with a wide range of actors in networks that cut across the public, private and voluntary sectors, and operate across different levels of decision making (Newman *et al.*, 2004: 204).

To examine this neoliberal understanding of the state, a night-watchman, contains many contradictions and ignores many important tasks left to the state. As exactly same as in previous forms of capitalism, "state power is integral for the constitution

and reproduction of the market economy as a 'form' of the capitalist relations of production" (Bedirhanoğlu & Yalman, 2010: 108). In addition to a starring role in the establishment of the neoliberal structure, it is also pivotal in terms of maintaining the system. To do this, the state should act as a maestro which is conducting local, national, international and transnational levels of relationships. This balance between different scales of social structures continuously witnesses a variety of struggles and conflict of interests between different groups. Thus, in turn, the state is both a terrain for political contradictions and a combination of various institutions in the strategic-relational framework. With looking at the state of this relational frame, it is possible to explain reasons for a transition from one period to another. Within this perspective, it is also possible to refrain from fetishizing the state, market and society as a whole. As Jessop argued: "These reflections suggest that state actions should not be attributed to *the* state as an originating subject but should be understood as the emergent, unintended and complex resultant of what rival 'states within the state' have done and are doing on a complex strategic terrain" (Jessop, 1990: 9). In neoliberal terms, *retreating of the state* does not imply the loss of these features. On the contrary, it becomes more effective to realize capital accumulation compared to the Keynesian era. The state manifestly sets the rule according to the needs of capital accumulation emphasizing the discourse of 'there is no alternative'. It is eliminating the problems arising from this set of arrangements. In Keynesian era, demand-driven policies made believe people in, via populist discourse, that the state was a real social contract which serves every segments of society.[9] In neoliberal period, it was presented as a night-watchman, which is not included in this process, while it behaves as a direct instrument of global capital in many cases. What do we mean with instrument is macroeconomic policies consist of monetary policy and fiscal policy tools, currency exchange rates, devaluation, inflation, budget, required reserve ratios, subsidies to industrial or agriculture sectors, etc. Instrument also means social policies such as social security reforms, employment strategies, reforms of education systems, prevention of strikes etc. Additionally, legal basis to implement all these

[9]As an outcome of this perception, in the 1960s, there was, in Marxist literature, in Europe a serious theoretical debate on the state; whether it was an 'instrument of capital' or a 'relatively autonomous' social entity.(See N. Poulantzas and R. Miliband).

policies is the major function (or intervention) of the state, regulating property rights and allowing the capital to enter and exit whenever it wants. There are also international treaties such as, GATT, WTO, MAI, to regulate the relations between countries according to privatization and liberalization agenda. Last but not least, the state guarantees those reforms against those who challenge and does not hesitate to apply power to workers when they resist the policies. Thus, it becomes clear that state is not a "dying" subject, as Jessop (Ibid.) indicated, but a process of reconstruction of social, political and economic relations at the global level. Hence, there is no doubt whether the state retreat and does not intervene with the economy *or* not; but the issue is how differently state is included in this transition, what are the new forms of interventions and what exactly it does to sustain the current system.

In this framework, it can be argued that new roles of the state became apparent with the implementation of structural adjustment policies and, took new shapes with the emergence of crises thought the world. Whilst the state gained new meanings by resolving the crises, it contributed to the restructuring of the relationship between capital and labor.

2.2. Structural Adjustment Policies and Washington Consensus

On the one hand, advanced countries are in depression due to the fall of the profit margin and over accumulation in 1970s; on the other hand, in developing countries, ISI became an obstacle to the accumulation process because of its unsustainable self-contradictions. In this context, inwardly-looking import-substitution model of accumulation was replaced with export-oriented model of accumulation in the late 1970s and early 1980s, in developing countries, through a set of rules proposed by IMF and World Bank, twins of Bretton Woods. This process was conducted with the World Bank and IMF, but the role of IMF was initially more indispensable than World Bank's, due to the need for short-term stabilization policies (Wolff, 1987). Structural adjustment policies, in turn, were more appropriate for the World Bank

loans since, the Bank was structured to achieve the long term goals (World Bank, 2009: 8).

Concerned export-oriented strategies were built up on the Ricardian theory of *comparative advantages,* but these developing countries were far from being competitive at the end of the ISI process, in which the balance of payments of those countries were already not equivalent due to import-export imbalance. Therefore, it was inevitable to get caught into the trap of instability within those prescriptions. Because valorization of capital, a direct result of low-productivity compared to other countries, made impossible to close the balance of payments deficit through the state interventions and consequently, budget deficits had become unavoidable. The countries sought to borrow to close the gap by trusting on low interest rates (Ruggiero, 1999: 1). Rates were not very high in this process owing to over accumulation of capital and IMF and WB, stepped on stage to play their new role in this framework. It was not a simply borrowing the results in terms. As well as an uncertainty due to abandonment of fixed exchange rates in the world markets, interest rates rose in an unexpected way. It was difficult for these countries to repay debt; however, capital has reached the purpose of re-evaluation, thanks to the increasing demands of developing countries. Finally, fiscal balances of those countries were upside down.

Macro-economic stability and structural adjustment policies, proposed by the IMF as a solution to this fiscal stoppage, marked the late 1970s and 1980s. As a provision to loans, it was claimed to implement policy prescriptions by the IMF, within the principle of "conditionality" (Allegret & Dulbecco, 2007: 309). In other words, a country had to put into practice measures proposed by the IMF, if it wanted to borrow again. These measures were including liberalization of trade, fiscal structure and interest rates; privatization of public investments, floating exchange rates, reforming social security systems, austerity and cut in domestic demand by lowering wages, extra incentives for foreign capital (foreign direct investment), deregulation, tax reforms and the like. As a result of these policies, these countries were described

as *emerging markets*, pristine areas for evaluation of capital. Moreover, social expenditures were directed to the regulation and construction of this structure and infrastructural services, in order to provide capital accumulation. Even for this kind of structural innovations, the governments preferred to borrow due to lack of resources; and budget deficits have increased even more.

In this period, that would be labeled as Washington Consensus in 1989 by John Williamson (2004: 2), there were neither advanced production markets nor financial structure in developing countries. Yet, inflation rates fell through monetarist policies, foreign trade increased and budget deficit was closed to some extent within those measurements at the expense of contribution to growing unemployment, declining domestic demand via saving policies. It was strongly believed that foreign trade would augment on account of the export-oriented strategies; and balance of payment deficit could be overcome when exports more than imports.

Meanwhile, growth and interest rates tended to fall in advanced countries, and finance capital needed new areas to re-evaluate itself. That is why, it was defended that there was a need for fully liberalization of capital flows through the reregulation (deregulation) of financial markets throughout the world. To encourage capital inflows, high interest rates were offered for the sake of competitiveness or comparative advantage in this period. Investment in financial markets was preferable rather than real industrial markets; for the reason that, it was both profitable depending on competitive high interest rates and less risky for accumulation. While capital could re-evaluate itself in this way, the governments could close the balance of payment deficit with these short-term movements of capital investment(Calvo, 2000:87). However, it was not sustainable for along time since interest rates, which are already high, have increased even more, depending on hyper-borrowing. This, in turn, further enhanced the budget deficit as a process of vicious circle between interest rates and deficits. Latterly, it could not be possible to reach the desired level of profitability. Because, foreign trade was not developed enough due to fiscal liberalization; yet, at the same time, domestic demand decreased as a conclusion of

austerity policies. In the late 1980s, developing countries *or* emerging markets could not perform their objectives; based up on increasing exports and closing the budget deficits.

Even so, every stage of failure stressed the implementation of structural adjustment policies more properly. It was emphasized that these counties were inexperienced and their infrastructure was inadequate (Bello, 2007: 1). Nevertheless, it was ignored that the high interest rates were definitely a transmission mechanism for domestic surplus value of labor and capital, from domestic market to international one. What the countries gain within this relationship is only short term capital or loan at the expense of high interest rates. Furthermore, public revenue fell because of deregulation in which the taxes on capital were diminished on a large scale within tax reform, although "(t)ax revenues play a fundamental role in the mobilization of resources for the allocative, distributive, growth and stabilization functions of the state in poor countries, especially in the light of their weak financial systems" (Saad-Filho, 2007: 522). Secondly, capital investments coming into the country made also *an illusion of growth* and made people believe in that markets were perfectly operating. However, when things go wrong and profitability rates were down, capital has gone to more profitable countries of the world. For this country, that means crisis and re-structuring of capital through new structural reforms which exploited public funds that were not spent anymore for the sake of people of the country under name of social spending. The decline of social spending in developing countries was much more severe than the advanced countries, because there was no "national labor market institutions that can help mitigate these problems and strengthen workers' bargaining power" (Rudra, 2002: 418).

In the meantime, real wages were sharply reduced. The countries discovered other forms of expropriating of labor, such as subcontracting. A large number of workers were dismissed from their current jobs and also governments made reductions in public employment. It was also effective in declining of investment that giving up the states to be investor and producer of goods and services through state owned

enterprises. All of these made the countries far from their target of export-oriented growth, whilst contributing to rising unemployment. Consequently, it was inevitable for employment shifting to services sector during de-industrialization process. Moreover, agricultural reform policies were put on the agenda in the same phase, such as repealed subsidies and exchange market was established to determine price of agricultural products (Newsletter ECLAC/FAO/IICA, 2011: 13).

All those measures taken by the governments are strong evidence to see how they were efficiently acting as the supporter, organizer, sponsor of capital accumulation and to what extent; they took place in the whole period. Nevertheless, they failed in achieving the goal owing to the self-contradictions of capital accumulation; and working classes paid the bill. In this context, structural adjustment policies were under attack from the mid-1980s onwards in academic circles and elsewhere, because of their disruptive effects on income and wealth distribution.

2.2.1. Post-Washington Consensus and Pro-Poor Growth Policies

Along with the strong criticisms, the failure of the programs implemented enforced IMF and the World Bank to reconsider their policy prescriptions and to change their discourse. During the 1980s, poverty was not on the agenda of the Bank, because it was prompted that poverty would be defeated as a direct result of policies presented. In accordance with these disappointments crises of debts and inflation, the 1980s came to be known as the *lost decade* (Baeza, 2010: 207). In urban areas, violence escalated and the cities witnessed the plunders (UNDP, 2001: 15). Eventually, in the 1990s, the Bank started to emphasize the role of the state and non-governmental organizations to mitigate the impacts of "poverty and inequality-creating core neoliberal policies" (Bello, 2007: 3) and this period became known as Post-Washington Consensus.

The World Development Report released by the World Bank in 1990, anticipated some measures (so-called *second generation reforms*) in response to the problem of

poverty defined as "urgent" (World Bank, 1990). After that, the Bank published some other documents about the poverty reduction strategies such as "Assistance Strategies to Reduce Poverty" in 1991. Yet, what was the difference between the Washington and Post-Washington Consensuses? Was it appropriate to call this decade with the term of "post" which implies that the previous one was left behind? It is hard to argue that it simply indicates an entirely new period, but it brings the state back to fix or complete the shortcomings of the first; and, this in turn, makes some divergences.[10]

As well as the policies of stabilization, privatization, liberalization etc. in the 1980s, the Post-Washington Consensus was complimentary for the previous one by joining poverty into the picture. As Stiglitz stated, there was a need for *making markets work efficiently* and *government as a complement to markets*. Investing in health, education and similar services, it could be possible to tackle with both poverty and financial crises. Things to be done is to "broaden the goals of development" which requires "a broader set of instruments is necessary to achieve those goals…including financial regulation, competition policy, investments in human capital, and policies to facilitate the transfer of technology" (1998: 30). To grasp the purposes of this scheme, Stiglitz summarizes:

> (T)he post-Washington Consensus also recognizes that our goals are much broader. We seek increases in living standards, including improved health and education – not just increases in measured GDP. We seek sustainable development, which includes preserving our natural resources and maintaining a healthy environment. We seek equitable development, which ensures that all groups in society enjoy the fruits of development, not just the few at the top. And we seek democratic development, in which citizens participate in a variety of ways in making the decisions that affect their lives. (1998: 31)

To achieve these goals, the state must be active, but not non-interventionist and never get autonomy as the developmentalist state of ISI era thanks to market-like mechanism. How the market would affect the state: "Firstly, internal incentive structure and reward systems are critical for improving the quality of state bureaucracy. Secondly, competition is crucial to governmental efficiency; states can

[10]Since, suggestions on how this route would be characterized are *multiple*, Bello points to term of plus, rather than post (Bello, 2007: 1)

help to stimulate to competition and benefit from the competition themselves. State can create competing public agencies and encourage private firms to compete with private agencies" (Öniş & Şenses, 2003: 16). Positioned in a global structure defined as "good governance", state becomes one of the actors. Even if governments can fail "due to imperfect information, incomplete markets, imperfect competition, and transaction costs", good governance would make them responsible to other entities and prevent to be unsuccessful. As Ahrens put it,

> Developmental states, therefore, require a secure politico-institutional foundation that provides policy makers with the incentives and the ability to design and institute institutional arrangements conducive for growth and development, which a privately induced innovation process fails to provide. Not the minimal state, but the *capable state* is needed in order to make market-oriented policy reform a stable and viable policy choice (Ahrens, 2000: 13).

This capable state must have some kind of features such as "credibility, accountability, participation, predictability, and transparency" (Ibid. 18), to provide accommodate itself the political institutional framework of governance. However, in Rodrik's point of view, "liberalization, privatization, openness to trade, and the other strictures in the Washington Consensus cannot be *unconditionally* expected to produce economic benefits without a long list of unlikely conditions being satisfied (complete markets, absence of externalities, full information, etc.) (Rodrik, 2004: 13)". So, if success is required to be provided, economic policies are not able to suggest to the countries regardless of their own economic and social structures. It is "an approach to reform that is much more contingent on the economic environment" (Hausmann *et al.*, 2005: 1).

There is no doubt about how diversity is effective for each of the countries applied to the neoliberal reforms and different variations could come into practice depending on diverse experiments. On the other hand, looking at the whole picture in the end of the story, we see that every country that has implemented the prescriptions are exposed to the same kind of troubles including debt crisis, high inflations, deterioration of income distribution etc. even in Argentina, exactly complied with the rules of the IMF and the Bank. Furthermore, these poor results were peculiar to neither an individual country nor a region, but the same symptoms were seen in all over the

world, as Öniş and Şenses put it (2003: 7). On the contrary, successful stories of developing area such as China, Vietnam, and India did not stand by those neoliberal recommendations of the IMF and the World Bank at the same period, despite of liberalizing their economy. They owed their victory to diverge from neoliberal package and to liberalize their economy *partially or gradually* (Ibid. 9-10).

In this context, it was expressed in many publications, including released by the World Bank, IMF and UNDP that growth is not sufficient on its own for decreasing poverty unless *pro-poor policies* supported economic growth. Even if it was emphasized that growth is arguably necessary for development and reducing poverty, it was claimed that it is possible only through the pro-poor growth. South Asian countries are main reference point for these claims, because rapid growth was achieved as well as decreasing poverty rates in these countries. However, in the countries strictly meeting the structural adjustment programs (such as the Latin American countries), growth rates remained low and poverty rates gradually surged in this period (See, Alesina & Rodrik, 1994; Birdsall *et al.*, 1995). This obvious difference turned upside down the basic assumption underlying regressive policies of the 1980s. According to this assumption, there was a reverse correlation between growth and equity or growth and efficiency (Saad-Filho, 2007: 516). If capital accumulation derived growth is equally redistributed, it was argued that it could not be converted into investment and this in turn makes inefficient the usage of profit. And finally, development will not occur and the poor always remain poor. This developmentalist view of trickle down process gives priority to growth and supposes that poverty spontaneously end soon or later. Differently, pro-poor growth strategy takes poverty not as the output of the growth, but as a simultaneous target just as important as growth itself (Öniş and Şenses, 2005: 286). Thus, it denies the inverse relationship between growth and equity or efficiency; and it indicates positive correlation between these social processes (Saad-Filho, 2007: 516).

Except from approaching growth and poverty in the same level as the unit of research, what are the principal changes between pro-poor and non-pro-poor growth;

and how is it possible to distinguish these strategies? There are many different definitions on the pro-poor growth. One of them is a definition made by Kakwani and Pernia as it "enables the poor to actively participate in and significantly benefit from economic activity. It is a major departure from the trickle down development concept. It is *inclusive* economic growth. Its outcome should be that no person in society is deprived of the minimum basic capabilities (2000: 3). It is also described as a process in which poor people could receive a greater share of the growth compared to the wealthy segments of the society (Cord, 2004: 16). Yet another definition by Ravallion argues that:

> (m)aking growth more pro-poor requires a combination of more growth, a more pro-poor pattern of growth and success in reducing the antecedent inequalities that limit the prospects for poor people to share in the opportunities unleashed in a growing economy. The ideal combination will naturally vary with country circumstances. In some countries, attention can safely focus on the overall rate of growth to assure rapid poverty reduction; elsewhere, a broader approach will be called for. This begs the question as to whether there might be a trade-off between interventions to make growth more pro-poor and the rate of growth. (2004: 18)

It is true that implemented policies would differ to peculiar conditions of the countries and there is no consensus on the definition of pro-poor growth and its strategies. But it is possible to say that all those descriptions are founded on heterodox macro-economic policies. On the one hand, they are proposing stabilization policies with low inflation, balance of payments equilibrium and no tolerance for budget deficit; on the other hand, they recommend redistributing income via increasing social public expenditures. Saad-Filho warns that "GDP growth, inflation control, high investment, low public debt and other conventional parameters of economic 'success' should not be the most important objectives of government policy. Instead, they should be seen as *instruments* for the elimination of mass poverty and the achievement of secure, sustainable, equitable and empowering human development" (Ibid. 516). In this way, this could mean a breakpoint with Washington Consensus. But it is hard to see this break in practice especially due to budget constraints; and poverty remains secondary to growth despite enough time to observe the consequences since the 2000s that pro-poor growth is on the agenda. In this case, all these discussions are only composed of theories ignoring the fact that

poverty is a direct result of implemented macro-economic policies whether they are instruments or objectives. Through the market, never neutral and already a redistribution mechanism, reproduce the conditions of vicious circle of intergenerational poverty. Poverty alleviation programs and social assistances become a part of this mechanism and cannot go further than being a temporary solution. Whereas, there must be more serious and radical changes in macro-economic policies; if it is truly desired to be distinguished from the previous period and intended to be pro-poor.

In this respect, it is hard to claim that the new form of Consensus would work, while it strictly bounded to major pillars of the neoliberal arrangements, apparently caused poverty and crisis. Still, it is noteworthy since it urged to implement of specific programs, according to the conditions of the country, rather than the standard and universalistic forms of the preceding time. It is appraisable to think about poverty and to endeavor for reduction of inequalities by creating opportunities such as health, education, employment to the poor people; and also eliminate the conditions making them vulnerable to the detrimental effects of crises. Social assistance programs were put into practice in order to realize objectives in many different countries within different names and features.

2.3. Social Assistance Programs instead of Social Security

In developing countries, there was not a universal social security system including the whole society and providing assurance even in the period of unemployment, as the social welfare states introduced. Rather, security systems were fragmented, based on the type of work whether self-employed etc., and they cover only a small segment of society in most of those countries. Likewise, employment strategies were not founded on the full employment objective even before the implementation of structural adjustment policies. Many people, who wanted to work, remained outside the labor market even in the industrialization process. Still, in spite of every negation, there was a mentality based on labor rights, which made people believe in

that they can obtain a right in return for work. According to this mentality, states were responsible to supply a general social security system as well as employment opportunities. In the 1980s, as a consequence of stabilization and structural adjustment policies, crises put many people out-of-work and out-of-security system at the same time. And cuts in social spending in the 1980s made many poor people even poorer. After this decade, World Bank broke its deep silence and offered the states to implement some social assistance programs urgently to alleviate poverty (World Bank, 1990). As we mentioned above, the purpose of these programs is to alleviate/mitigate the effects of poverty; not to finish it completely. These programs struggling against poverty are only for reducing the negative impacts of structural adjustment policies by generating "social networks" for the most vulnerable segments of society (World Bank, 2000/01) and aiming to use "targeted interventions explicitly designed to benefit the poor in both rural and urban areas" (World Bank, 1990: 131 as quoted TSSA, 2004:7). Even if, those programs have different characteristics in terms of their forms of application and results; it is possible to refer some common features of all these implementations and to examine these programs under two subheadings.

2.3.1. Conditional Cash Transfers

One type of anti-poverty programs, known as Conditional Cash Transfers as an umbrella concept, are in force throughout the world according to the data of 2008, whilst practiced only in three countries in 1997 (Brazil, Mexico and Bangladesh) (World Bank, 2009b: 4). Within these programs, children and their families can enjoy the regular financial aids by fulfillment the conditions of the curriculum. Education and health are the main focus of those conditions since they are seen as the basic social needs of human capital for which the absence or lack of these services make adverse longer term effects. More openly, the families benefiting from the programs are responsible for having regular health checks and obliged to send their children to school. So that, it also becomes possible to protect the children from

working and provide them to receive basic education in those countries where child labor is a common phenomenon.

These programs were executed by central or local governments varying according to the preference of the countries. According to a paper released by the World Bank in 2009, "(t)hey range from 11 million families (Brazil) to 215,000 households (Chile) to pilot programs with a few thousand families (Kenya, Nicaragua). In terms of relative coverage, they range from approximately 40 percent of the population (Ecuador) to about 20 percent (Brazil, Mexico) to 1 percent (Cambodia). In terms of budget, the costs range from about 0.50 percent of gross domestic product (GDP) in such countries as Brazil, Ecuador, and Mexico to 0.08 percent of GDP (Chile)" (2009b: 3). Even, when performed by the central governments, local governments must take part in practice, since those programs are based on the method of means-testing that determine whether families really need this help. For the households, an income limit is determined within the programs (for instance, minimum wage), according to the conditions of the countries. Through the method of means-testing, it is surveyed whether the total income of the family is under or above this limit. Since there is not a standardized decision-making procedure, these criteria may vary depending on the discretion of the authorities and are sometimes disobeyed in both good and bad sense. In good sense, authorities can decide to benefit some families getting income above the limit, but their expenditure is much higher than revenue because of some special situations such as disabled and elderly people with many children. But also, it is possible for families to benefit based on the clientelistic relationships, even though they do not need these aids (Zucco, 2011: 3).

In this regard, auditing of these programs and running of them by professionals are the most important part of the procedure. A national system considering that of local differences could make the programs achieving their objectives to alleviate poverty. If it is not successful to reach the very needy people, then, these people may completely be excluded from society. Unfortunately, in many countries, these programs are not strictly checked by the governments, the results and impacts of

those are out of control. In some of those countries, aids are provided for a certain time, due to resource constraint; and this, in turn, causes alternating poverty for the poor all the time. Since the amount of aid is very low and intended only for the poorest people, there is no way to move out from the poverty through these programs. Only very few of these programs includes the conditions for unemployed adults for making them capable[11] to find a job and make them work.

2.3.2. Micro Credit and Efforts to Create Employment

Facing up to the fact that employment does not increase growth, depending on many factors; the states began searching for new remedies, in accordance with the logic of the global economy. Micro-financing, as a means of anti-poverty programs, firstly implemented in Bangladesh and spread throughout the world[12]. It is a reflection of the approach saying that "don't give me the fish but teach me to fish" and seen useful for saving people from paternalistic assistances of the states. Again, it is presented as a manner of keeping people away from laziness, while it contributes to improve people's skills and productivity. Professional education and consultancy are also provided by the states, and NGOs, attached to the credits because it is important to succeed and to repay the credits that are usually given to women thought to behave more responsibly (and also being as the poorest of society). Hence, a model of active citizen, who can take responsibility for her/his own life, is created; and new role of the state is to support and strengthen these kinds of entrepreneurships (Adaman & Bulut, 2007: 243). This understanding of the state, rings the bell of Schumpeterian workfare state, is in line with suggestions of the World Bank expressed in Comprehensive Development Framework in 1999 and The World Development Report in 2000/01. To quote from TSSA (2004: 8): "Making state institutions more accountable and responsive to poor people, strengthening the participation of poor people in political process and local decision making, and removing the social

[11]The word is used for referring to the terms of capability presented to literature by Amartya Sen.

[12]It is a method developed by Muhammed Yunus, a professor of economics, in order to rescue the poor people from the vicious circle of poverty (Adaman & Bulut, 2007: 16).

barriers that result from distinctions of gender, ethnicity, race, religion and social status" (World Bank, 2000: 6). Thus, it also becomes a way of using human capital within a human faced neoliberalism and people are no longer a burden of the state, but they are self-provider of their livelihood.

In this regard, there emerged so many institutions to give loans to those projects, such as NGOs, the banks, local credit unions, groups of social solidarity etc. (Adaman & Bulut, 2007: 244). These groups seek not only to make profit, but also use those profits for the sake of social purposes (ibid. 256). No doubt, credits have an important role for many poor to sustain their livelihoods. In fact, the number of self-employed people has increased throughout the world recently, thanks to the changes in the labor market, even in the advanced countries (ILO, 2004: 25)and micro-credits are an important part of the frame. However, there is a lack of insurance which will protect the people who take part in these schemes against risks (such as natural disaster, crises and the like) pushing the poor below the poverty line. In most of the self-employed jobs, the owner and the worker are working informally (ibid. 256). Further, the state is not included in this structure to be non-interventionist to the market; but, even if it would check and figure out the deficiency of insurance, there could be nothing to be done, since the credits are just enough for maintaining the work. The state is not obviously included in the process and wants people to take care of themselves in the markets, even for social security. On the other hand, it does not seem to be possible within micro credit scheme, and this situation is in contradiction with the emphasis of "strengthening" and "social network" by the World Bank.

As a conclusion, those programs, presented as an urgent precaution to alleviate/mitigate the negative impacts of structural adjustment policies, mean a lot for the poorest segments who are deprived from basic needs, such as food, health, and education. Yet, they are trying to fill the fields of social policy, the basic service of the state just like the national security or the judiciary. Since those programs are *targeted*, they appeal to only a very small section and for a short time interval,

instead of a universal security system.[13] It is true that they are in perfect harmony with neoliberal global economy; still, far from being promising for the future, because of inaccuracies in both the general logic and general administration. As a concrete example, we will examine Brazil, *Programa Bolsa Familia* as the pioneer and the most comprehensive of those programs and we will search whether they are able to alleviate the impacts of structural adjustment policies and what are the problems that occur in practice, and what is promising for the future.

2.4. Concluding Remarks

The current inequality of income distribution in developing countries further deteriorated because of significant changes in the mode of capitalist accumulation such as privatization, deregulation, and liberalization of trade and capital account of balance of payments. They led to job losses; increase of unemployment and declining of wages either nominally or real wages through high inflation rates. On the other hand, financialisation, as the new strategy of capital accumulation and capital flow based on financial flows and foreign direct investments pushed the manufacturing sector very much to the background. This process was named as de-industrialization; which, in turn, narrowed the field of formal sector and directed workers to the insecurity of informal sector. In the same period, an important portion of the budget was allocated to interest payments and the share of social expenditures in public expenditures gradually decreased. This was another factor behind increasing poverty in developing countries and this process was perceived and presented as unstoppable, irreversible and spontaneous course of action. As a continuation of this, increasing poverty was taken as a separate issue independent from those macro-economic and social policies. Thus, developing countries began to seek remedy and produced

[13]There is recently an extensive discussion about minimum (basic) income for every citizen to provide a universal scheme of social security. It is argued that this project will be successful in overwhelming the crisis of citizenship and converting the basic logic of capitalism by giving people an amount of money as a universal right, without expecting any provision such as working. So that it was thought to put an end to the paternalistic relationship between the state and the poor, but it must not be as much as to tempt people to laziness (Standing, 2007: 17-36).

urgent and provisional solutions which were compatible with the current regime of capital accumulation. These policies were conditional cash transfer programs and micro-credits presented as a way of bringing redistribution of income back in. Thus, poor could enjoy the benefits of growth and policies became pro-poor. At first, they were designed as short-term strategies; but then, they became an essential part of poverty reduction strategies and high hopes were attached to the view that conditional cash transfers without a significant change in their design. Even before examining Bolsa Familia as a case study, it is unrealistic to expect conditional cash transfers by thinking them within their main purpose.

CHAPTER III

ECONOMIC, POLITICAL AND SOCIAL ORIGINS OF POVERTY IN BRAZIL: CLASS CONFLICTS AND ALLIANCES IN NEOLIBERAL ERA

Brazil, has the largest territory in Latin America, is one of the largest ten countries in the world. It is also seen as one of the superpower of future within a "multi-polar world" in Post-War era. It is known as "B" of the BRIC countries, "(w)ith a GDP of 2 trillion dollars… an economy bigger than Italy's, comparable in size to Britain and France and ranked as the fourth most attractive investment after China, the US and India" (Saad-Filho, 2012: 2). However, in addition to these features, it is one of the most unequal countries in the world with poor social indicators (Schatzman, 2007: 5). On the one hand, there are highly developed cities like Sao Paulo, Rio de Janerio; on the other hand, there are Northeast cities which constitute the poorest regions, even deprived of basic infrastructure. In the urban level, severe poverty takes the form of violence, the gap between suburban and central areas within increasing crime rates. Obviously, these social problems are neither appeared in recent days, nor are they direct consequences of neoliberal policies. In fact, poverty is an old problem of Brazil contemporaneous to its history. Neoliberal policies played an important role in the increase of inequality and the governments tried to produce immediate solutions to the increasing poverty in the 1990s; thus, neoliberal policies are main focus of this chapter. Yet, there is a need to look at brief history of the country in order to comprehend the evolutions of social conditions and structural poverty.[14] By taking roughly into account the policies of the past, it is possible to light up the reasons of poverty and to decide whether anti-poverty programs are suitable to eliminate inter-generational transfer of poverty in the long run, or to improve at least, the conditions

[14] For instance, present social structure is no doubt related to the fact that Brazil was the last country that abolished the slave labor.

causing to the problem in Brazil, as a case study. It is also a way of revealing whether anti-poverty programs are adequate or what are the main deficiencies of them and how these deficiencies can be removed.

In this regard, the primary purpose of this chapter is to trace back the footprints of poverty in Brazil within two main sections. Firstly, we will examine the fundamentals neoliberal policies in order to highlight economic, political and social conditions which led to income inequalities in different periods. Secondly, we will try to analyze the neoliberal policy changes making extreme poverty undeniable on the national and international levels; and entailing *Programa Bolsa Familia* as an antidote against the urgent poverty problem of the country. In this section, there will be five sub-titles, as extension of the issues discussed in the first chapter. It will be dealt with the forms of the implementation of neoliberal policies in the country and their implications for class conflicts and alliances. Thus, we try to perceive *what kinds of* policy preferences transformed the mode of capitalist relations in the country and *how* the new relations are re-established in accordance with the new world order and the ways *in which* those changes are legitimized in Brazil.

3.1. Historical Development of Brazilian Capitalism

It is possible to divide the history of the country roughly into four periods in terms of capitalist mode of accumulation: colonialism, export oriented economy in 1870-1930, ISI period between 1930 and the late 1970s, and neoliberal era from the mid-1980s. *In colonial period*, economic structure was primarily based on production and export of sugar. While The Americas were in the service of European national states as a natural resource base for their capitalist accumulation, production of sugar was heavily based on slave labor, working in a large land owned by a limited number of landlords. “During the first phase of the Portuguese development of Brazil, natives were used as slaves” (Levine & Crocitti, 1999: 121). Later, “(i)n the sixteenth and seventeenth centuries, Brazilian sugar set international standards” (Stein, 1999: 76) and the indigenous population became insufficient for meeting this amount of

production. So, between 1600 and 1850, roughly 4.5 million Africans were carried to Brazil for sugar plantations (Horne, 2007: 2). This primitive accumulation of capital laid the foundation of the uneven structure of the next periods. As Prado, Jr. argued "the whole complex of social relations at their deepest and most essential level derived from this basis" (1967: 166).

During the second period, European states were experiencing classical liberalism and imposing export oriented strategies to the rest of the world, under the name of *laissez faire* economics, also known as the first globalization era. In this period, there emerged diversity in agricultural production of the country, thanks to increasing exports. A range of products such as coffee, cotton were added to sugar production from large plantations to the world market intensively and "Brazil became the world's dominant exporter of coffee, one of the 19th century's booming agricultural commodities" (Stein, 1999: 76). Continually, African slaves were the driving force of this system and they were working in very poor conditions "one ear of corn" for lunch, "rice and manioc meal" for dinner (Magalhaes, 1999: 70). While export earnings were used for buying basic needs, the balance of payments and fiscal deficits were financed externally; deficit was arising from this unequal exchange.

In the meantime, political regime in Brazil was changing from empire to federal republic in 1889, after the abolition of slavery in 1888. In spite of these fundamental changes, it is hard to say that there was a significant transformation in social structure and distribution of income. The land was still the most important measure of wealth; and surplus value continued to benefit by only a small segment of the population, within a highly unequal structure of society. To quote from Amann& Baer (2009: 29), "(t)he state governments then demonstrated the same incapacity to guard the public patrimony as had the Empire" (Dean, 1986: 702). By the same token, the abolition of slavery did not work either; there were no job opportunities for free men in the cities and most of them had to continue working on plantations with very low wages (Ibid.).

> Life under the Empire (1822-1889) and Republic (1889-1930) was marked by population growth and modernization in the major cities, and by endless conflicts at the regional and local level. These involved disputes between incumbents and their opponents, between local landowners and their rivals, between warring family clans, and between *coroneis* (local chieftains, who could be ranchers, agriculturalists, merchants, or even priests) and their competitors…Fewer than 3 percent of the adult population voted in national elections…Brazilian government ran behind a façade of checks and balances, but power remained in the hands of the landed elite and its allies in incumbent provincial machines, as well as the small, emerging cadre of industrialists, agents of foreign capital, and professionals linked to the patronage machines at every level of government. More than anything else, oligarchy dominated the Republic, just it had done under the Empire. (Levine & Crocitti, 1999: 60)

In sum, there was no way to improve the current uneven structure of income distribution at that time; and the country entered the Great Depression with this highly intensified inequality and poverty.

With the collapse of liberal economic system, there emerged a seeking process for a new system of capital accumulation in order to overcome depression, in which Brazil was deprived of enjoyment previous trade relationship with other countries providing essential goods in exchange of coffee exports. Therefore, it began to implement produce inward-looking policies for developing a self-sufficient economic system based on a domestic production process and market (Furtado, 1965: 85). Peculiarly, "sharp exchange rate devaluations and rapid monetary expansion helped to preserve the level of domestic income despite the falling import capacity" in Brazil (Saad-Filho, 2010: 3). Thus, it could be possible to mitigate the effects of the crisis and to invest in production of goods and services in order to meet the domestic demand. This was the beginning of manufacturing industry in Brazil. Especially after World War II, this process was reinforced by other socio-economic changes such as conversion of liberal free-market economies into relatively closed statist structures with high trade barriers, import tariffs etc. In this respect, it is not wrong to argue that ISI was a spontaneous answer of Brazil to the macroeconomic changes affecting the world as a whole. To quote from Saad-Filho:

> ISI is a system of accumulation based on the sequenced expansion of the manufacturing industry, with the primary objective of replacing imports. Manufacturing expansion usually departs from internalization of the production of non-durable consumer goods (e.g., processed foods, beverages, tobacco products, and cotton textiles). It later deepens to include the

> production of durable consumer goods (especially household appliances and automobile assembly), simple chemical and pharmaceutical products (e.g., oil refining products and certain pharmaceutical products), and non-metallic minerals (especially cement). In the larger countries including Brazil, ISI can reach a third stage when the manufacturing structure becomes 'complete' (in the structuralist jargon). This includes production of steel, capital goods (e.g., industrial machinery and electric motors), and technologically complex goods such as electronic machines, shipbuilding, and aircraft design and assembly. This gradual 'deepening' of the manufacturing base is accompanied by backward, forward, and horizontal linkages between established firms. As a result of these processes, primary exports were no longer the driving force of the Brazilian economy in the 1950s. (2010: 5-6)

The state had a key role in many fields where the absence of infrastructure, capital accumulation and organizational integrity are strongly felt. *Estado Novo* was a result of this process which is defined as a strong state managing mixed economy based upon capitalist mode of production and interventionist policies (Hewlett, 1980:36-45). For instance, expenditures of government such as railroads, shipping and the like, led to the extra-need for electricity and petroleum; a process, emerged two giant companies of not only Brazil but also the world: Eletrobras and Petrobras. In addition, the state was providing credits for private investments via state-owned banks, as well as producing basic goods within state-owned enterprises. These implementations, the so-called populist policies by mainstream view, were presented as a national development project in which industrialization was seen as the only way that would save Brazil from backwardness and carry the country to the level of developed countries. Conversely, unequal structure of the society was obviously ignored by this nationalist and developmentalist ideology of ISI; and the resolution of social problems were postponed to an indefinite future by disguising very serious problems of class conflicts. In order to secure accumulation of capital, redistribution of income was dismissed and the poor majority was directed to trickle down approach assuming that poverty would finish within development *per se*. However, there was "intense conflicts of interest within elite, especially between agrarian and urban interests and between manufacturing capital and finance, and between the elite and other social groups, especially the marginalized but increasingly militant urban workers and the emerging middle classes" (Saad-Filho, 2010: 7). As many as, 154 strikes took place in 1962 and 302 in 1963 by workers, discussing the national reforms, in order to eliminate social inequalities and to end the dependence on

advanced capitalist countries (Hewlett, 1980: 196). Furthermore, social conflicts were only one of the limitations of ISI and there were also other kinds of problems stemming from internal structure of the system. There is no consensus on the explanation of these limits, but it is possible to collect these explanations in two camps: Mainstream economists mostly accuse deviations from competitive market which is a process leading to oligopolistic structure with arbitrary high prices and inflation. This inevitably leads to inefficiency and to be caught in corruption, while total production and profit are well below the fully competitive level. On the other hand, the structuralist view argued that structural limitations of the economy were responsible for the stagnation. To them, these countries had very small domestic markets and there was no room for new investments, since they continually produced for domestic market and that was the main deadlock of ISI (Krugman & Obstfeld, 1991). However, these determinations explicitly focus on the consequences rather than causes; and thus, they, consciously or not, concealed basic conflicts of the process paving way to collapse, instead of disclosure the main contradictions of the system. In this context, Saad-Filho presents an alternative analysis to comprehend the system as a mode of accumulation and class struggle. He arrays six limitations in his seminal study: the balance of payment constraint, the fragility and inefficiency of the domestic financial system, fiscal fragility, high inflation, high inequality and social tensions and lack of policy co-ordination (2010: 9-10). By the early 1960s, these limitations rendered functioning of the system completely unsustainable and the country entered a chaos period.

Considering the atmosphere of Cold War era and Cuban Revolution, this blockage of ISI process meant more than a crisis of capitalist accumulation. There was a serious effort to resolve problems in a democratic way; but the military coup unexpectedly interrupted this process and it was described as a counter-revolution against the potential socialist revolution in the early 1960s (Cardoso, 1976: 160). The coup extremely pressured those limitations until oil shocks shook the world in the 1970s. Brazil had record growth rates in the first seven years of military regime; but, there was no improvement in income distribution in spite of these growth rates. On the

contrary, minimum wages declined (Table 3.1) and income distribution worsened further in favor of the upper classes (Table 3.2). In order to explain this situation, the government argued that "the worsening of the distribution of income was due to the very growth success of the military governments. High growth rates resulted in accelerated demand for skilled labor. As the latter was scarce, its earnings increased much more than the rest of the labor force which explains the concentrating the trend in the distribution of income" (Amann& Baer, 2009: 31). On the other hand, "military salaries represented 1.3 percent of GDP" in the same period (Fishlow, 1976: 96).

Table 3.1. Growth in GDP and Real Wages, 1976-2004

Years	GDP Growth (%)	Growth in Real Wages (%)
1976	10,3	7,6
1977	4,9	5,1
1978	5,0	8,6
1979	6,8	4,4
1980	9,2	4,5
1981	-4,3	9,0
1982	0,8	11,5
1983	-2,9	-4,8
1984	5,4	3,2
1985	7,8	13,4
1986	7,5	14,2
1987	3,5	-7,2
1988	-0,1	8,5
1989	3,2	7,5
1990	-4,3	-12,0
1991	1,0	-4,3
1992	-0,5	15,9
1993	4,9	11,1
1994	5,9	9,5
1995	4,2	8,7
1996	2,7	5,5
1997	3,3	5,5
1998	0,1	4,6
1999	0,8	-1,6
2000	4,4	-2,7
2001	1,3	6,3
2002	1,9	5,5
2003	0,5	0,3
2004	4,9	7,1

Source: IBGE/IPEA Data (Amann& Baer, 2009: 32)

Table 3.2.Brazil: Gini Co-efficient Brazil 1960-2005

1960	0,57
1970	0,53
1976	0,62
1978	0,60
1979	0,59
1980	-
1981	0,58
1982	0,59
1983	0,60
1985	0,60
1986	0,59
1987	0,60
1988	0,62
1989	0,64
1990	0,61
1991	-
1992	0,58
1993	0,60
1994	-
1995	0,60
1996	0,60
1997	0,60
1998	0,60
1999	0,60
2000	-
2001	0,60
2002	0,59
2003	0,58
2004	0,57
2005	0,57

Source: IPEA Date/IBGE (Amann& Baer, 2009: 30)

Finally, oil shocks in the 1970s put an end to the relationships between capital and labor classes and the state. Both of developed and developing countries entered a new process of change in both their socio-economic structures and with respect to their role in the international division of labor.

This external impact simultaneously coincided with internal problems of capitalist accumulation regime; which confronted developing countries, and Brazil, with debt crises, when there was no possibility to find credit in international markets as before. In this case, the structural limitations of ISI were not ignorable anymore and they were unsustainable under the extremely poor external conditions. Namely, high growth rates were left behind within oil-shocks while foreign debt and inflation soared and got out of control. In this framework, there emerged an obvious consensus on impossibility of reviving ISI; a compromise also supported by two external developments. One of them was the positive effect of export oriented and outward policies proven success in countries such as Mexico, South Korea; and the other is a set of policy suggestions made by international financial institutions and British and the US governments arguing that growth could only be achieved through neoliberal policy prescriptions (Saad-Filho, 2003: 7). Also, Washington leaders were "less willing to support or even tolerate the military regimes erected with its support throughout Latin America in the previous decades", especially after "the Vietnam War and the Watergate scandal of the Nixon Years" (Luna & Klein, 2006: 20). So, the neoliberal shift, bringing globalization back in, merged into the demands of democratization; military regime was not oppressive against those demands, contrary to the interventionist attitude of previous periods. Instead, these requests were used as an excuse of transition; and as an answer to the movements demanding "broader representativeness and a more active political role" (Kingstone, 2004: 179). Still, the process was managed under military regime, somewhat because military elites were a part of this consensus. Consequently, transition to democracy was completed in 1985.

3.2. Neoliberal Transition in Brazil

The first election under democratic regime was held in 1985 and Minas Gerais Tancredo Neves was elected from PMDB[15]; however, because of his sudden death, Vice-president Jose Sarney took over. In the middle of *the lost decade* with high levels of inflation, foreign debt and stagnant growth rates, Sarney administration was unsuccessful to manage the crisis and he was accused of being weak at that time (Roett, 2003: 203). In 1989, Collor de Mello was elected and rapidly started to adopt neoliberal policies under pressure of IMF and the World Bank emphasizing the importance of retreating the state. For this reason, he gave priority to privatization; but his administration was short-lived because of being charged with corruption; and Vice-president Itamar Franco continued his reform policies. In addition to the debt crisis, high inflation was the other most important problem of the country in the 1980s. In 1986-1994, six *heterodox stabilization programs* were put into action (*Cruzado, Cruzado II, Bresser, Summer, Collor and Real*), in order to overcome high inflation and lack of stabilization, the two essential troubles of the country (Cardoso, 2004: 30) (Table 3.3.). All of them, except Real Plan, failed in eliminating high inflation and providing stabilization. Those heterodox policies are proposed by structuralist economists, "to control inflation by freezing prices and incomes … while easing credit helps increase production to soak up excess funds. Price freezes (were) temporary and must be lifted to prevent the overheating of demand as a new equilibrium of supply and demand" (Chaffee, 1998: 17). As a result, demand was inevitably decreasing since real wages were declining at the same time. But the issue is the incompatibility between real wages and prices. It was supposed that inflation could be reduced only if prices and wages are frozen. Whereas, there was a consistency preventing elimination of inflation: "the wages are frozen at their average real level while prices are frozen at their nominal peak" (Saad-Filho & Mollo, 2002: 118). Because of this imbalance, real wages were steadily declining, demand was gradually decreasing and companies were increasing prices in order to compensate their falling profits. Although this relationship meant a further

[15] PMDB: Partido de Movimento Democratico Brasileiro – Party of the Brazilian Democratic Movement

deterioration of income distribution in favor of capital class; there was no resistance against this implementation by workers; because, they believed that stabilization would provide wages to be stable in the long run. Unfortunately, every collapse of a new plan represented another decline in wages. Secondly, "a price freeze transforms short-term imbalances in relative prices, usually created by high inflation, into permanent differences" (Ibid.). This, in turn, made impossible to fix prices on a sustainable level while increasing inflationary expectations, and these recurrent relations made income redistributed in favor of wealthiest segments of society; and social tension mounted as expected. Yet, economy was protected from either dollarization or hyperinflation, at the expanse of regularly increasing interest rates (as another redistributive mechanism).In this framework, "the role that competition among banks is playing in driving foreign currency lending in these countries" (Basso *et al.*, 2007: 9).

Table 3.3.Brazil: Consumer Price Inflation 1981-2006

1981	95,6
1982	104,8
1983	164,00
1984	215,3
1985	242,2
1986	79,7
1987	363,4
1988	980,20
1989	1972,90
1990	1621
1991	472,70
1992	1119,10
1993	2477,1
1994	916,5
1995	22,4
1996	9,60
1997	5,2
1998	1,7
1999	8,9
2000	6
2001	7,70
2002	12,50
2003	9,3
2004	7,6
2005	5,7
2006	3,1

Source: IBGE (Amann& Baer, 2009: 33)

Until the Real Plan came into force in 1994, governments were unsuccessful in fulfilling the stipulations of the Washington Consensus. This was partly due to the

weakness of them and partly because of social conflicts that could not be overcome. Therefore, it is not false to say that neoliberalism has come to Brazil in the mid-1990s, especially via the Real Plan. Contrary to previous ones, it did not rely on freezing of prices, but it was founded on liberalization of the trade and capital accounts. Also, its components were put *in order* and *gradually*: "a brief fiscal adjustment, monetary reform, and the use of the exchange rate as a nominal anchor" (Cardoso, 2004: 31). With the term of fiscal adjustment, Cardoso, owner of the plan, implied "cuts in current spending and creation of the Emergency Social Fund. The fund, financed by redirecting federal revenues limiting the ability of states and municipalities to access credit, and recovering mandatory social security contributions, allowed government to break some of mandated links between revenues and expenditures" (Ibid.). It did not only mean "more flexibility in budget management" (Luna & Klein, 2006: 64); but also, it implied to abandon the local governments to their own fate within "decentralization" trend. Especially, the whole picture got worse given the gap between different regions. Secondly, monetary reform was the other stage that "linked contracts, prices, wages, and exchange rate to a single daily escalator and unit of account URV (Unidade Real de Valor, or Real Value Unit)" that started on March 1, 1994 and finished four months later. In this way, everything had two prices: Real and URV. After four months, the parity, determined by the Central Bank between Real and the URV, was converted to the Real and presented as the "new currency". Thirdly, exchange rate was used as a nominal anchor by pegging the Real to the US dollar "at a rate of one to one" in July 1, 1994 (Cardoso, 2004: 31). In this manner, it was giving possibility for "using a variable exchange, without the need to freeze prices" (Luna & Klein, 2006: 65). This was exactly what international financial markets desired, the "free floating exchange rate" under the abundance of financial resources in contrast to the 1980s. If the real "fell in relation to dollar", Central Bank was authorized to "intervene in the market" (Ibid.). At the end of the project, Brazil was fully open to the world market and could enjoy capital inflows at the expense of high interest rates.

The Real Plan successfully fulfilled the goal of reducing inertial inflation. While the Brazilian currency appreciated 16 percent in the second half of 1994, real wages rose

thanks to the stabilization; and this, in turn, decreased distributive conflict for a while. "Economic stabilization contributed to a decline in the number of people living under absolute poverty by 12.5 million between 1990 and 1996. In 1990 47.9 percent of the population (41 percent of households) was considered "poor", in 1993 the poor were 45.2 percent (37 percent of households) and in 1996 only 37.8 percent (29 percent of households)". (Saad-Filho, 2002: 124-5). Besides, some segments of society could make use of some products such as cell-phones, technological home appliances owing to lowering of import barriers. Those were the reasons for people to believe in unquestionable necessity of stabilization programs and neoliberal policies. But, despite these positive effects, there were certain structural problems that would appear in a short time. Firstly, the Real Plan relied on capital inflow to solve the balance of payments deficit. In order to promote capital inflow, domestic interest rates had to be held at high levels; even higher than in other countries. On the one hand, it indicated increase in public debt; on the other hand, this policy fully opened the country to the external shocks and was far from being sustainable. Indeed, this vulnerability was negatively reflected in Brazilian foreign reserves during every crisis (Mexican, East Asian, Russian) and finally, currency crisis was inevitable in 1999.[16] Furthermore, budget balance was shifting from public expenditures to interest payments, in addition to the melting reserves. Secondly, capital inflows steadily caused overvaluation of the currency. Even though it was argued that neoliberal policies would increase the competitiveness of the country; it was just the opposite when the domestic production of goods and services became more expensive compare to the other countries. This was the result of the liberalization of the capital account of the balance of payments and was doubled with trade liberalization when cheap imported goods invaded the country. This double effect was the main reason for the collapse of manufacturing industry. In sum, the Real Plan completed deficiencies arising from late arrival of neoliberalism to Brazil where financial reforms put into practice in 1988, liberalization of international

[16] "$9.7 billion were lost during Mexican crisis; and in November 1997, the central bank had to push interest rates to 434 percent in an attempt to stem the outflow due to the Asian crisis (in quieter times, in May 1998, rates were "only" 21,7 percent). Finally, in the aftermath of the Russian crisis Brazil lost reserves worth $40 billion in 6 months, and interest rates increased to 50 percent in a fruitless attempt to stem the outflow of dollars" (Saad-Filho, 2002: 130).

capital between 1989 and 1992, and foreign trade between 1990 and 1994. For an alternative interpretation of the Real Plan:

> The real plan was not only a programme of disinflation and economic stabilization. It also provided the perfect excuse for the systematic destruction of the remaining institutions of the previous system of accumulation. Trade, financial and capital account liberalization, mass privatizations, state bank closures, changes in the labor laws, and dismantling the institutions that had provided industrial policy coordination in the previous decades, were invariably presented as being 'essential' for the struggle against inflation – while the opposition was absurdly accused of being 'for' hyperinflation. (Saad-Filho, 2003: 9).

As a result, the currency crisis of 1999 clearly showed the shortcomings of not only the Real Plan but also neoliberal policies in a broader sense. However, the government narrowly interpreted the crisis and preferred only to soften policies with "lower interest rates, inflation targets, 'dirty' floating of the *real*, and fiscal surpluses" (Ibid. 12). Although Brazil could quickly overcome the effect of crisis, since it is a large country within extensive production; the government in particular and neo-liberal policies in general, highly fell considerably from grace. Contrary to common expectations, what neoliberal policies brought to Brazil are "a frequently unstable economic environment, with greater exchange rate volatility, very high domestic interest rates, a semi-stagnation trend for growth etc. Indeed, economic growth has taken a stop-go pattern in Brazil: the average GDP growth in 1990-2008 was only 2.6 percent" (annual) (Paula, 2011: 2).

Under these circumstances, Luiz Inacio Lula de Silva, the charismatic leader of the Sao Bernardo Metal Workers Union, appeared as an alternative to those weary of neoliberalism during the 2002 election. He was coming from a low-income family and migrated to Sao Paulo with his family in order to find a job (Branford& Kucinski, 2005: 2). Deprived from any formal education, he firstly became a skilled worker and later became president of the union. But, he believed in inadequacy of trade unions in order to express the needs of the working classes. Thus, he defended to establish the Workers Party (Partido dos Trabahoderes) with the purpose of land reform, redistribution of wealth in favor of the working classes by neglecting the external debts (Foster, 2007: 78). It was celebrated as a new type of party; claiming "autonomy" from the state or USSR, unlike the previous leftist parties (Aydınoglu,

1991; Lowy & Denner, 1987). It was against the "'yellow' union bureaucracy" led by governments and an open party including (1) union members in ABC[17] towns, (2) "rural unions and peasant leagues" supported by Christian groups, (3) "Christian base communities" depended on priests, (4) former members of Communist Party and independent militants of the left, (5) other leftist groups such as "Trotskyists, Castroists etc.", (6) intellectual groups from different professions, and (7) some "parliamentary deputies" from the "left-wing of the MDB"[18] (Lowy & Denner, 1987: 455-456). It never had a "socialist doctrine" and did not declare to be Marxist; however it aimed to construct a "socialist society" as "the main strategic objective" (Branford& Kucinski, 2005: 55). Since 1989, it increased the number of supporters and increased the number of seats along the three general elections (1989, 1994, 1998). However, it was seen as radical by Brazilian majority until the 2002 elections. But, the harsh crises of the late 1990s and the early 2000s[19] exhausted people's hopes and signaled the death of the Washington Consensus in Latin America. Yet, this was not enough to be elected; Lula and the PT (Partido dos Trabahoderes – Workers Party) had to undergo a serious transformation from a radicalist point to a neoliberal perspective.

There were mainly four groups carrying Lula to power: Firstly, "the unionized urban and rural working class" who, suffered great losses during crises. Secondly, "large segments of the unorganized and unskilled working class" whose reservations disappeared when PT set up an alliance with several evangelical churches. Thirdly, capitalists, "especially among the traditional manufacturing elite of the Southeast", who lost heavily because of privatization, internationalization of trade, etc. And lastly, "several notorious right-wing oligarchs, landowners and influential local politicians from the poorest regions" (Saad-Filho, 2005: 5-6). In order to prove his transformation, Lula signaled that he would commit to neoliberal pillars of economy.

[17]Brazil's ABC consists of Santo Andre, Sao Bernardo and Sao Caetano as powerful local authorities with an influential organization of industrial workers near Sao Paulo (Lowy & Denner, 1987: 454).

[18]Movimento Democratico Brasileiro (Brazilian Democratic Movement)

[19]1994-Mexican, 1997-Asian, 1998-Russian, 1999-Brazilian and 2001-Argentina crises, and 2001-energy crisis in Brazil.

However, national and international elites were anxious about that "the new administration might default or compulsorily reschedule the domestic debt and Brazil's foreign debt". As result of this concern, "US$9.1 billion were transferred abroad in this way, devaluing the *real* from R$2.32 to the dollar in March to R$3.42 in July, and R$3.80 in October (inflation was only 4 percent during the entire period). The country's net international reserves tumbled, from US$28.8 billion in March to only US$16.3 billion in December" (Ibid. 8). In the mid-2002, there was chaos and ambiguity about whether Lula could maintain his administration. In this framework, there was a strong need to turn against the IMF and the World Bank and to implement alternative policies. But, there was not an explicit consent in society in this way. Finally, Lula expressed his loyalty to the contracts on 22 June, in "Letter to the Brazilian People"; and signed an agreement with IMF for those who want institutional guarantee (Branford& Kucinski, 2005: 8); while repayment proportion of foreign debts was increased from 3.75 to 4.25 percent of GDP (Oliveira & Nakatani, 2007: 100). In subsequent periods, Lula continued to implement neoliberal policies based on large primary fiscal surpluses, high domestic interest rates and the managed fluctuation of the real. In this structure, the interest rates were determined by the overlapping objectives of demand control (to achieve the government's inflation targets), exchange rate stability, attraction of foreign capital to finance the balance of payments and maintaining the solvency of the state (generating sufficient demand for public securities)" (Saad-Filho, 2005: 15). Apart from these, he also adopted pension reform, tax reform, a reform of labor law and "a constitutional amendment separating the regulation of the Central Bank from the regulation of the financial system as a whole" (Ibid. 18-19). Because of these policy choices, Lula's supporters were faced with disappointment; while the opponents were glad to see their mistake about Lula. What was the difference of Lula administration is a significant emphasis on social policy which was almost forgotten in previous periods. Thus, despite the falling support, he could win in the 2006 election again, thanks to these increasing social assistances especially in the Northeastern region of the country, with "the working class and less educated, voters who had directly benefitted from social spending during his first term" (Schatzman, 2007: 3).

The purpose of this section was to draw the outlines of neoliberal policies implemented in Brazil. How these policies led to poverty or how they contributed to reproduction of poverty is another dimension of the issue. Therefore, we will examine those policies in the next section with reference to the subtitles of the first chapter.

3.2.1. The Role of the State and Poverty in Brazil

The most ostensible reasons for crisis of ISI were fiscal deficit and high inflation rates; and *the state* was seen as solely responsible for these problems. From this point of view, the states are irrational subjects due to their nature in which every political group chases its own interests and distributes resources for its own benefit. This leads to corruption and rent-seeking; and finally drags the state into the trap of the fiscal deficit. Hence, the state must retreat in favor of private sector in order to reduce fiscal deficits (Patnaik, 1992: 44). Based on such an understanding, governments in Brazil privatized many enterprises whether they are key sectors for national needs or serve the purpose of redistribution. In this way, surplus value is absorbed by international capital, while many people are excluded from the process within efficiency concern. Another issue is the state subsidies, either directly or indirectly via state-owned banks by creating extra money, even in crisis periods. This method worked throughout the ISI period; until the debt crisis in which IMF and the World Bank rejected to lend these countries for long-term investments. Instead, the state was responsible for implementing stabilization programs and reducing public deficit and inflation, by offering high interest rates to capital inflow and substituting the monetary policy with the fiscal policy. Despite all these efforts, debts and deficits continued to increase even more in a vicious circle in the 1980s:

> Between 1981 and 1993 the operational public deficit was, on average, 3.3 percent of GDP, while the nominal public deficit was 33.4 percent of GDP. The domestic public debt increased rapidly during the 1980s and especially in the 1990s, partly because of these deficits, and partly because of high domestic interest rates, which were allegedly necessary to attract foreign capital, reduce domestic inflation, and avoid the dollarization of economy (Saad-Filho & Mollo, 2002: 119).

Furthermore, even if the state does its best, the whole structure, based on capital inflows, collapses and reserves are spent to recover these outflows. In this picture, the only winner was international capital when the currency 'sank by 40 percent' in 1999 crisis, although "the Brazilian government negotiated with the IMF and the G7 a rescue package worth US$41.3 billion (Morais & Saad-Filho, 2003: 18).

As another instrument of the monetary policy, the exchange rates were determined by the government, "mostly through a passive crawling peg based on daily rate of domestic inflation" and it reinforced high inflation since "the price of imported inputs increased steadily alongside the domestic prices" (Saad-Filho & Mollo, 2002: 123). Thus, the economy confronted with the risk of dollarization. Under the Real Plan, government presented "a flexible exchange rate band between R$0.86 and R$0.90 to the dollar" (Ibid. 125). The aim of this band was to protect the reserves; however, it contradicted with high interest rates; and finally led to overvaluation of Real and trade deficits that makes government more aggressive about high interest rates. In sum, all of these measures against crises or policy choices mean reproduction of the relationship between the state and the society, capital and labor. Because, both fiscal and monetary policies were contractionary; and every crisis was narrowing this area of public expenditures, which were mostly reserved for interest payments and creating primary fiscal surplus. Social expenditures, in turn, remained as the only accounting item that could be cuts; but, employment policies or the social policy did not exist among those policies.

Neither the state retreated nor the public expenditure decreased as a result of neoliberal prescriptions. Rather, the role of the state has shifted from the social area to technical one in favor of the capital. As a concrete example of this view, "(t)he directors of the Central Bank and the key policy advisors in the economic ministries are typically either recruited from financial institutions, or retreat to them after a stint in Brasilia. For example, former Central Bank president Arminio Fraga was hired from George Soros's New York office, while the main strategist behind the Real Plan, Edmar Bacha, abandoned his prestigious academic position in Brazil for greener pastures in Manhattan" (Morais & Saad-Filho, 2003: 19). It is true that

politics is an open-ended process that makes everything feasible; but all of those implemented policies willingly or unwillingly created path dependency and required a stronger political will than ever before in order to abandon the current policies and to enter another path.

3.2.2. Globalization and Brazilian Neoliberalism

One of the most important problems of ISI was the balance of payments constraint. When Brazil had to produce its own basic needs such as food, textiles through domestic manufacturing industry and raised import tariffs and barriers to protect infant industry in the Post-War era, it compulsorily became a closed-economy. To maintain ISI, economy needed foreign capital; because it was founded on import of technology or intermediate goods for manufacturing. Moreover, there was a lack of investment for infrastructure in order to support industrial development; and these investments also needed foreign exchange in Brazil. On the other side, export was very limited in order to resolve these deprivations of the country. That, in turn, bounded Brazil to borrow from foreign markets and attract foreign direct investments. Petro-dollars accumulated in the hands of oil exporting countries were an important source of those borrowings via IFIs. Through this way, it would be possible to sustain inward-looking model of industrialization, while this also led to accelerated circulation of global capital (Şenses, 2004: 2). However, debt crisis alarmed developing countries within the experiences of oil shocks and they were recommended to liberalize their trade and capital accounts as the only option, if they wanted to overcome balance of payments constraint and debt crisis. East Asian countries were examples legitimizing those claims, since they crossed the borders of ISI though the export-oriented strategies. Eventually, globalization has become an undeniable force and countries have adopted this option. However, there were many things the state needs to do for bringing globalization in Brazil, even if the globalization is presented as an autonomous and unstoppable process.

One of these obligations was to reduce the import tariffs and barriers. This application meant not only decrease in state revenues; but also the capture of

domestic market by cheap imported goods (Lopes, 1996: 298). It can be argued that it was one the reasons leading to collapse of manufacturing industry. Some firms were strong enough to survive, because they were big enough to find credit from the domestic or foreign markets; but the rest of them sank, went into bankruptcy or closed. There is no need to say that employees of those companies became unemployed or could merely find a job in the informal sector. Secondly, the state had to liberalize capital account, in order to cope with the foreign trade deficit which was the consequence of imbalances between exports and imports. Trade deficit became a serious problem of the country, when the domestic production declined and import was mounted after lowering tariffs and barriers; and the balance of payments was tried to be sustained by capital inflows in this process. Nevertheless, high interest rates, which were offered to attract foreign capital, evoke the overvaluation of the currency and reduced the competitiveness of Brazil. As a result, both production and exports were at a very low level because of those two reasons, even though they were accepted as the only solution to the balance of payments constraint, which restrains the capacity of growth and export of the country.

Another way of globalization in Brazil was purchasing of firms and public enterprises operating in key sectors by foreign capital through privatization or partnerships. For instance, "World-com, Bell South, Telefonica, Portugal Telecom and Telecom Italia have purchased parts of Embratel, the former state monopoly; Enron, AES, El Paso, Duke Energy, Iberdrola, EDF and EDP have swallowed pieces of the electricity generation and distribution systems, and HSBC, ABN-Amro, BBV and Santander have moved into the banking and financial sectors largely through their purchases of state-owned banks" (Morais & Saad-Filho, 2003: 18). The main purpose of those state owned enterprises was not *solely* efficiency; they were also creating employment, demand for domestic products and taking care of local market requirements. In contrast, foreign capital takes into account only profit and efficiency. Thus, job losses became inevitable within privatization; while wages were declining in order to reduce costs of production. Also, privatizations "did not result in a widespread sale of shares to the general public, but rather in the auction of state firms to domestic and international oligopolistic groups, thus resulting not only in a

concentration of property but also of market concentration" (Amann& Baer, 2009: 34). Especially, privatization of banks deserves more attention, because of their vital role in investment and growth and multiplier effect by creating extra money in the economy. Three banks (Banco do Brasil, Caixa Economica Federal, and the state development bank, BNDES [20]) could remain state owned; but most of local government banks were privatized in this process. Especially, during instability period between the mid-1980s and mid-1990s, state-owned banks continued to finance industrial activities, while private-ones invested in consumer credits and government securities because of their high returns.

In sum, globalization did not lead to increase of production and growth. On the contrary, it directly or indirectly decreased the power of the industrial policy; furthermore, it started the process of "de-industrialization" of the economy within flexible working conditions. Workers became servants of international market by working in the poor conditions of multi-national corporations. Also, thanks to globalization, country's production structure has become dependent on foreign supplies. Thus, surplus value produced in the country was submitted to the short term interest of global capital; rather than the long term interest of national capital (Morais & Saad-Filho, 2005: 12). Economic policies began to be determined by several small groups controlling resources, the level of the investment and consumption, monetary and exchange rate policies etc. "Peculiarly, in Brazil the financial institutions exercise their influence not mainly through the financing of industry or stock market, but through their holdings of Treasury and Central Bank bills" (Morais & Saad-Filho, 2003: 18).

3.2.3. Neoliberal Financial Changes in Brazil

In the Post-War era, surplus value remained within the national boundaries and used for new investments, agricultural productions and the like. It is true that capital was insufficient in order to finance manufacturing industry in the long run. In fact, it was an important shortcoming of ISI in Brazil and "manufacturing investment was

[20]Banco Nacional de Desenvolvimento (National Development Bank)

funded primarily by FDI, foreign loans, state owned banks, directed credit, state subsidies and firms' own resources", a mixture making financial system "fragile" (Saad-Filho, 2010: 9). Yet, this relatively closed structure enabled country to index prices and wages, a mechanism providing short term stabilization as well as an anchor precluding to separate capital from real world and to become *fictitious* as Fine described (see in the first chapter). Through the indexation, large firms did not reject the request of workers for increase in wages, because they already had strength to reflect this increase to prices of goods. In that way, indexation reduced the impact of social conflicts; but, it also contributed to inflation and made it rigid downwards. There were reasons strengthening this relationship paving way to inflation: Firstly, it was carrying the inflation of past to the future since either prices or wages were determined according to the past data. Secondly, firms periodically raised prices when inflation increased, or expected to increase, to protect their profits. And lastly, oil shocks made indexation tended to inflation in a speculative manner (Saad-filho & Mollo, 2002: 117). In order to eliminate inflation and provide stabilization, heterodox plans of neoliberal transition abolished indexation and preferred to freeze wages and prices. But they were unsuccessful either because of imbalances between wages and prices (see above) or contractionary monetary and fiscal policies highly depressed the domestic demand. At that point, there emerged the Real Plan that applied neither indexation nor freezing and its main object was capital inflow via high interest rates. If we look carefully, we see that the Plan obviously break the relationship between Real and fictitious capital. It totally unchained capital from surplus value, which is already derived from alienated and commoditized labor in Marxist terminology (Mollo, 2010: 4). This separation between Real and financial capital realized via interest rates, which also accelerated the circulation of capital; while liberalization of capital account made the country addicted to capital inflows. It was a process in which the prices of everything, including wages, began to be determined in the market thanks to the invisible hand.

It is not meaningless to argue that invisible hand is *the state* itself, since it *provides* the legal basis; *regulates* the financial system through many reforms, such as financial, monetary, pension, exchange rates and the like; briefly *integrates* the

country into the international system. Thus, it becomes possible to convert the currency into world money, to implement monetary policy depending upon savings of the Central Bank (Saad-Filho & Mollo, 2002: 114). Owing to these institutional and regulatory reforms, financial system could increase power of control via "three main sources of money capital in the economy: *domestic credit*, the *public debt* and *foreign capital*". Domestic credit system entered the imperatives of international financial system though the privatization of the Brazilian Banks. Even if there remained state-owned banks, they are operating according to the market rules. Besides "in 1999, the government started implementing the Basel rules as part of the IMF agreement". While these centralized the capital, "(t)he number of banks declined by more than half during the last decade and, in the late 1990s, up to 40 per cent of the assets of the banking sector belonged to foreign institutions"(Table 3.4). Secondly, public debts became a terrain of financial sector for five reasons: 1) primary fiscal deficits could be monetized by financial institutions through "new public securities", defined in the 1988 Constitution. 2) The public administration became responsible for new budget laws "including primary surpluses large enough to service their existing debt" through the Fiscal Responsibility Act, in 2000. If they failed to reach those targets, than it would be sharp cuts in spending. 3) Private financial institutions kept an important amount of public securities due to high interest rates since 1992. 4) Indexation of public securities to the dollar nationalized the exchange rate risk, and this increased the public debt. 5) Foreign resources expanded the control over the economy, and have the power to influence national policies. And, Lula just maintained those policies by not making any changes in the system (Morais & Saad-Filho, 2005: 13-15).

Table 3.4. Brazil - Privatization of State Banks

Date	Privatized Bank	State	Purchaser Bank	Price (R$ Million)	Agio (%)
06.26.1997	Banerj	Rio de Janerio	Itau	311	0,3
08.07.1997	Credireal	Minas Gerais	BCN	127	5,2
12.04.1997	Meridional	Rio Grande de Sul	Bozano, Simonsen	266	54,0
09.14.1998	BEMGE	Minas Gerais	Itau	583	85,7
11.17.1998	BANDEPE	Pernambuco	ABN AMRO	183	0,0
06.22.1999	BANEP	Bahia	Bradesco	252	3,2
10.17.2000	BANESTADO	Parana	Itau	1,625	303,2
11.20.2000	BANESPA	Sao Paulo	Santander	7,050	281,1
11.08.2001	PARAIBAN	Paraiba	ABN AMRO	77	52,0
12.04.2001	BEG	Goias	Itau	665	121,1
01.24.2002	BEA	Amazonas	Bradesco	183	0,0
02.10.2004	BEM	Maranhao	Bradesco	78	1,1
12.21.2005	BEC	Ceara	Bradesco	700	28,9

Source: Author's elaboration with data from BCB's website and Brazilian newspapers (Paula, 2011: 157)

3.2.4. Employment, Unionization, Declining of Wages and Poverty in Brazil

In Brazilian society, there was always inequality dating at least back to the previous periods of ISI; however, ISI contributed to this fundamental social conflict by creating insufficient jobs and avoiding redistributive policies. This high inequality and social conflicts were another problem of ISI, which deprived the state from implementing “coordinated industrial policies” (Saad-Filho, 2010: 10). During the ISI period, trickle down approach dominated intellectual area arguing that poverty would spontaneously end within high growth rates. Nevertheless, there was no improvement in income distribution even in the miracle times of post-1964 (Vernengo, 2006: 47). Employment opportunities provided by ISI made significant changes to labor composition of the country; in which rural labor replaced with urban and industrial labor in parallel with changes in the sectorial distribution of GDP. “The agricultural share of GDP declined from 27.6 percent in 1947 to 19.1 percent in 1966 while industry’s share grew from 19.4 percent to 27.2 percent over the same period. By 1984, agriculture’s share had fallen to just 9.3 percent while industry’s

share stood at 39 percent" (Amann& Baer, 2009: 28). The increase of industrial labor is significant for labor in terms of participating in formal sector; in which workers were organized and they could steadily demand increase of wages. Large companies did not reject those demands of workers because they were able to reflect those increases to the prices of goods, thanks to the closed economy. Therefore, there was a relative social stability, at least among formal workers, since this steady increase guaranteed protection for wages from being eroded because of inflation. It also boosted profits of the firms; because they paid workers via prices of previous period and sold their production via real prices. Even, this indexation of prices and wages was institutionalized by the federal government in the late 1960s (Saad-Filho & Mollo, 2002: 116). Yet, rapid deterioration in income distribution continued, despite this rigidity under military regime. The Gini coefficient increased from 0.53 to 0.64 between 1970 and 1989 (See Table 3.2.). "By 1990, the top quintile of the population appropriated 64.6 percent of the national income, and the lowest quintile only 2.3 percent (in 1981, the corresponding figures were 61.8 and 2.8 percent), one of the highest concentration ratios in the world" (Ibid. 117). Besides, as a result of rapid industrialization, labor market was divided between skilled and unskilled labor and developed in favor of the former. As an underdeveloped country, Brazil did not regularly invest in education; and an important part of the workforce consisted of unskilled workers for either rural or urban labor. With high unemployment rates, unskilled labor means to stay out of the labor market or to join into informal labor without having "the right to a minimum wage, paid vacations, a fixed number of hours worked per week, social insurance" (Urani, 1998: 206). After the easy phase of ISI, there also emerged a distinction between "fix-price/flex-price". The fix-price represented tradable sector in which "markups are assumed to be relatively constant and output and employment are determined by effective demand". The flex-price market, correspond to "the labor market works as a buffer absorbing excess supply or demand for labor in tradable sector" (Vernengo, 2006: 55). These divisions did not only divide labor market; but also lead to permanent problems of regional imbalance since industrialization concentrated only in certain areas of the country, especially in the south.

In the early 1980s, when Brazil was confronted the debt crisis, stabilization programs were recommended by IMF; and these implementations led to 2.8 percent decrease in formal labor; correspond to the loss of "1 million jobs" in employment between 1981 and 1983. Also, "4 million new jobs" were created in the informal labor market in the same period and only one third of them lately had a chance "for upward social mobility of workers in the formal sector" (Pastore, 1989: 182-184).[21] In neoliberal era, the abolition of indexation because of its inflationist effects worsened the situation, since new heterodox plans froze the wages as well as prices until 1994, the Real Plan. In the same period, minimum wages (Table 3.5) "reached its lowest level since the early of 1950s" (Payne, 1991: 225-226). The aim of heterodox plans was to stabilize economy by reducing inflation and increase purchasing power of income to some extent. Aside from their failures, those plans were not achievable to increase purchasing power due to their nature. Because, they froze wages at their nominal level by freezing prices at their real level (Saad-Filho & Mollo, 2002: 118). Thus, it did not contribute to purchasing power of income as it was expected as well as it made impossible to reduce inflation. In 1994, the Real Plan put an end to frozen prices and wages; and liberalized the trade and capital account of balance of payments with high interest rates. It was argued that "capital account opening would lead to inflow of long-term inflows of FDI rather than short term volatile portfolio flows" and "the inflows of FDI would have a positive impact on productivity, and hence on growth and export performance, allowing the economy to grow faster without incurring balance of payment problems" (Vernengo, 2006: 47). On the contrary, neither growth rates nor employment opportunities were raised thanks to high interest rates of the Real Plan. "The international integration of production and the substantial rise in imports led to a large number of plant closures and a substantial decline in manufacturing employment, effecting especially the food, clothing, and toy industries (1 million manufacturing jobs, one third of the total, were lost in the 1990s)" (Saad-Filho & Mollo, 2002: 126-7). Although the Real Plan provided stabilization and raised the purchasing power of wages for a short time for a while, its effects on labor market were understood lately. As the country entered the process of de-industrialization; employment rates fell from 48.7 percent to 32 percent

[21]Between 1990 and 1999, 20 million of the 29 million jobs created in Latin America were in the informal sector (Jones, 2010: 16).

between 1990 and 1999, in Sao Paulo, “the industrial heart of the country” (Taylor, 2006: 21); at the same time, service-sector employment expanded from 32.9 to 48.8 percent (Vernengo, 2006: 55). This meant flexible labor market conditions not only for service sector but also industrial labor with heavier working conditions, longer working hours. Consequently, the wage gap between formal and informal labor was not as large as it was during previous periods, thanks to de-indexation and steadily falling wages, since the Collor administration (Urani, 1998: 217).

Table 3.5. Real Wages

Year	Minimum Wage (a)	Average Wage (b)
1944-1980	187,42	n.a.
1981-1989	170,25	89,6 (c)
1990-2001	136,75	67,23

Source: Instituto de Pesquisa Economica Aplicada and Departamento Intersindical de Estatistica e Estudes Socio-Economicos (Vernengo, 2006: 69)

(a) Figures in R$ per month

(b) 1985 equals 100

(c) Figure for the 1985-1989 period

De-industrialization process was also an outcome of trade liberalization and privatization. While only large firms could keep up with international conditions of competitiveness, they felt obliged to reduce the number of employees and renewed their technologies in order to maintain their efficiency and comparative advantages. While this contributed to loss of jobs, privatization also meant that the state workers would lose their jobs. Especially, the number of bank workers dropped to 50 percent of the 1990 level, in 1999 (Sandoval, 2004: 203-204). Workers organized against government, but “government employee unions have faced growing disfavor among public opinion, including workers from the private sector, who consider civil servants a privileged category of workers” (Ibid. 206). This fragmented structure of labor market was a result of yellow union dependent on the state. *New unionism,*

starting with New Republic in 1985, aimed to transform itself into an autonomous institution from the state; and thus, the numbers of general strikes mounted during the 1980s, and reached its highest level in 1989 (Payne, 1991: 228). However, mobility of unions started to decline after the Real Plan, not because of satisfaction of workers' demands; but because of weakening the bargaining power of workers. It was a process of integration of unionism into neoliberal world within the transformation of CUT (Bezerra, 1998: 8, 10).[22] Even under Lula administration, the inertia of the trade unions consolidated through "the reform of labor law that aims to offset, at least in part, the high taxes required by the public debt service. Under the guise of promoting free association and free negotiations between the workers and their employers", the reform concealed "existing rights and undermine the financial position of many trade unions" (Morais & Saad-Filho, 2005: 19). While those kinds of policy choices disappointed CUT and MST[23], Lula administration also maintained its commitment to the employment policies its predecessors. Not surprisingly in 2003, "(o)pen unemployment in the six largest metropolitan areas in the country[24] increased from 11.7 percent of the labor force, in December 2002, to an all-time high of 12.3 per cent one year later. In the Sao Paulo metropolitan area, total unemployment (including open and hidden unemployment and discourage workers) reached 20 per cent. Labor income in the six metropolitan areas (including the earnings of the wage workers, underemployed and informal sector workers) declined by 9.9 per cent in 2003 (-18.4 per cent since 2001), while wage income fell 5.1 per cent (-13.7 per cent since 2001)" (Ibid. 20).

Another dimension of employment policies is related to rural labor in Brazil, where one-thirds of the population was still living in the country-side by the 1980s (Luna & Klein, 2006: 108-109). Moreover, one-third of this rural population were living

[22] Central Unica dos Trabahaldores was one of the most effective unions with its leftist demands in Brazil; and also there was another powerful union the so-called CGT which was more moderate which can be a good example for Weyland's observation that "the industrial proletariat may not necessarily benefit the poorest groups and may even hurt them" (Weyland, 1996: 197).

[23]Movimentodos Trabahaldores Rurais Sem Terra – Landless Peasants Movement

[24]Sao Paulo, Rio de Janerio, Belo Horizonte, Porto Alegre, Salvador and Fortaleza.

"below the poverty line" (World Bank, 2001: 280) and 30 percent of them were illiterate (Pereira, 2004: 95). Rural areas had witnessed a high level of growth in agricultural exports during the 1980-2001 period[25] and there emerged some changes, which are interpreted as a rupture with old characteristics of personalistic, oligarchic and patronage-based relationships (Ibid. 93-96). But it is hard to argue that those changes break the unequal structure of the society. Instead, it is more realistic to say that new relationships dominated the area through agro-business and the world trade[26] by protecting the old forms of inequalities. To look in detail, Brazilian agriculture was not "effective" until the 1950s, within "unproductive *latifundium* and archaic labor relations" (Luna & Klein, 2006: 103). In the early 1960s, when Goulart was in office, demands for land reform were strongly expressed by rural unions within the wave of democratization (Martins, 2000: 34). Although land reform does not necessarily mean abolishing of old forms of relations, it was seen as a beginning; and also supported by military-coup, too, in order "to stimulate the modernization of agriculture … to create abundant food supply at low costs; to liberate rural labor for urban industry; and to create new international markets for agricultural production" (Ibid.). Finally, it did not end up as expected; instead, it led to "modernization of agriculture" that means the transformation of semi-feudal relationships into capitalist ones within the continuation of oligarchic structure, consisting of large land-owners and rural landless workers (Pereira, 2004: 99). During ISI, the state provided subsidies, cheap credits, pricing mechanisms or buying the crops to prevent fluctuations of the market (Luna and Klein, 2006: 104-105). It was possible to control prices in domestic market due to fixed exchange rate and trade barriers; but none of those policies were touching unequal structure of the relationships between the owners and the workers (Goodman, 1989: 73). This organization maintained the existing relations until 1979; pinnacle of agricultural exports as well as the government support. After 1979, the democratization demands were on the agenda again; while the country has spontaneously entered in the neoliberal orbit.

[25] "Annual growth in production was of about 5.7 percent in the period 1991 to 2004 and … 9.4 percent in the most recent 2000-to-2004 phase" (Luna & Klein, 2006: 119).

[26] An important reason is to call Brazil as "B" of the BRIC countries.

In the neoliberal period, Collar administration eliminated subsidies and price supports through the sharp cuts in public expenditures; and abandoned to determine the prices of goods as well as reducing barriers to be competitive. Besides, monopolization was supported by putting an end to *minifundistas*[27], in order to gain productivity with huge investments including new technologies, skilled labor etc. Thus, roughly 80 percent of the agricultural production would be undertaken by multinational corporations and "just five major groups among five hundred largest groups… were responsible for more than half of the food sales, of sale space, of checkouts, and of employees" (Luna & Klein, 2006: 128). Apart from this, agriculture sector was reserved for only exportable goods such as sugar cane[28],cattle instead of staple foods such as wheat, rice. It reduced the amount of production of these products and led to an increase in prices of basic needs/products in domestic market. These two changes that occurred in the agricultural sector are problematic for rural labor. Within the monopolization of agricultural production, many rural workers became landless; and they became also unemployed because of intensive technological investments of huge companies making unskilled labor unnecessary (Perreira, 2004: 102). Moreover, they were deprived of a chance to go and find employment in de-industrialized urban labor market. Lastly, MST (see above) was a consequence of this process and it was based on the demand of land reform in opposition to UDR.[29] Cardoso government recognized MST and accepted to implement land reform. While MST challenged capital-labor relations and insisted on collective lands, Cardoso suggested isolated forms of land, like small farmers. A result the end of this controversy, the Congress released a reform which is far from the demands of MST: tax burden is lessened "market-assisted land reform was done

[27] The number of small farmers was 5 million using approximately "34 percent of total cultivated land" and "squatter families" enjoying "6 percent" of total production (Duquette, 1999: 188).

[28] "Of the five million hectares devoted to cane production, 60 percent is produced in the Southeast and 22 percent in the Northeast, with the Southeast accounting for almost 70 percent of the production" (Luna & Klein, 2006: 120)

[29] UDR (Uniao Democratica Ruralista – Rural Democratic Union), a landowners' organization, defended redistribution of land as private property, not as a collective property. MST realized that private land reform would not change anything in existing hierarchical relations since it would mean accepting government imperatives about "what and how to produce or to whom and when to sell his products" in accordance with agro-business strategies (Martins, 2000: 35).

in Northeast of Brazil as less-organized region of the country"; and also it was supported by the World Bank (Martins, 2000: 37).

3.2.5. Demographical Changes in Brazil

Demographic sphere was completely ignored by the policies of Washington Consensus. It could come onto the agenda when social inequalities turned into violence in the cities, AIDS was widespread as aggravated by unsanitary conditions, and child labor began to be used much more than ever thanks to neoliberal policies. Thus, there emerged a new process the so-called Post-Washington Consensus, began in the mid-1990s, but increased its effects especially from the 2000s onwards. Differently from the former, the latter emphasized social inequalities and some social measures for reintegration of people who were excluded from the system through social assistance programs. Also, growth would be *pro-poor* in which extremely poor segments of the society could make use of advantages of growth through redistributive policies; so, the concept of redistribution was on the agenda again. Apart from the discussion on whether there is a correlation between growth and inequality in a positive or negative sense (Menezes-Filho & Pazello, 2007: 237); it is a reality that the share of social spending in public expenditures decrease to a large extent in developing countries. Therefore, Post-Washington Consensus proposed social policies without changing basic assumptions and structure of existing macroeconomic policies; and those policies were named as "investment in *human capital*" based on the improvement of education and health.

Education is a right, defined as "universal and free" in the Constitution of 1988; still, only nearly 40 percent of the total population entered primary school in Brazil (Luna & Klein, 2006: 184-6). The reason for this is greatly neglecting of basic education, in contrast with "a very respectable system of institutions of higher education in comparison with any other Latin American or developing country". For instance, "in 1995, while 4.7% of GDP was spent on education, 25.5% of that was spent on higher education serving less than 2% of the population" (Jones, 2010: 15). It is clear that public spending usually favors the "higher education at the expense of primary and

secondary education". Only 7 percent of students were studying in higher education in Brazil in 2002; but they acquire most of public spending at the expanse of the uneducated majority of population with a lack of education(Luna & Klein, 2006: 188). This problem becomes more serious, when we think that "the median age of the population" was 25.8 in 2000. This is a crucial rate for perceiving the current social structure, because the relationship between education and poverty is a kind of vicious circle which has "long-term effects on future levels of productive capacity and standards of living" (Ibid. 2). This positive correlation between education and poverty evidently appears in the difference between education levels of Southern and Northern regions in 2000: 61 percent of people could not complete primary education in the Northeast as opposed to 37 percent in the Southeast, as a relatively developed region (Luna & Klein, 2006: 185) (Table 3.6). The other demographic variables verify this converse relationship. For instance, "infant mortality rate" in the Southern region is half of the Northern rates; also, average 'life expectancy' in the Southern region is 18.8 years longer than in the Northern region (Ibid. 218-9). Education is significant both in improvement of those variables or in providing vertical social mobility to a more just society; especially in a country in need of skilled labor. In order to fill the educational gap, a reform was put into practice and burdened the municipalities and the states "60 percent of all the funds". The role of federal government was reduced within decentralization trend. It is a good effort to decentralize the education service, in terms of producing policy according to the needs of the region, such as "municipalization of basic enrollments, modernization of curricular contents, and investment in teaching quality" (Draibe, 2004: 77); especially in a country in which many students could not achieve the "basic literacy and numeracy skills" (Schwartzman, 2005: 144). Nonetheless, resources remained centralized at the same time and this has a tendency to regenerate the inequality between the Northern and Southern regions, unless the federal government does not transfer income coincidently in the same periods. Because, the Northern region does not have enough resource in order to improve educational level. The poverty rate in this region which represents 30 percent of the total population is 50 percent. This picture gets even worse when gender issue is added into the picture in which regional inequality overlapped educational deficiencies. The gender wage gap between

genders reigns over, despite increased education participation rate of women since the 1960s. Not surprisingly, the participation of women in the labor force remained lower than the participation of men, even if labor market participation of women steadily increased for twenty years (Jones, 2010: 11-12).

Table 3.6. Brazil: Years of Education - 1990,1995 and 2001

	Quintiles					
	1	**2**	**3**	**4**	**5**	**Average**
1990	1,9	2,9	4,1	5,5	8,9	5,1
1995	2,3	3,4	4,5	6,1	9,7	5,6
2001	3,0	4,2	5,3	6,9	10,4	6,4

Source: World Bank, 2004: 415

The other pillar of human capital investments, reform for a universal health care, was also put into practice within the 1988 Constitution; and created a Unified Health System (SUS) from a fragmented one (INPS, INAMPS and FUNRURAL)[30]. It was effective in reducing bureaucratic complexity. But, in the framework of fiscal policy of the 1990s, Cardoso exposed SUS into municipalization and the system started to be financed by Provisional Financial Transactions Contribution (CPMF), "a tax on checks" with the approval of Congress. (Draibe, 2004: 83). In 1996, SUS was divided into "Full Basic Assistance" and "Full Municipal System", while the former served at the federal level; the latter served at the state level. In addition, Family Health Program and Community Health Agents Program were created in order to carry out the "local health systems", especially in rural regions (Ibid. 83). It was a consequence of macroeconomic changes burdening the local governments and municipalities, rather than the Federal government. Furthermore, a provisional financial resource is appointed to the system that makes the local governments

[30] INPS: Instituto Nacional de Previdencia Social – INAMPS: Instituto Nacional de Assistencia Medica da Previdencia Social – FUNRURAL: Fundo de Assistenciaao Trahabaldor Rural (Rural Retirement Fund)

responsible for insufficient health system. In this structure, regions are supposed to have equal opportunities and it ignores the differences between regions, since it has exactly same benefits and conditionalities regardless of location. Even though there are other countries "adjust the eligibility cut-off or transfer size for price differences across two or three spatial regions" (Higgins, 117); Brazil is not one of those countries.

3.3. Concluding Remarks

As mentioned above, Brazilian society was highly unequal throughout its history. Despite the trickle down approach of developmentalist discourse, growth would not be sufficient to tackle the poverty problem without redistribution. This was clearly experienced during the military regime when both growth and inequality reached their peak. Further, Gini co-efficient increased even more when neoliberal policies were put on the agenda. Even though neoliberalism came late to Brazil, it was moderately accomplished through privatization, retreat of the state until the mid-1990s by the Sarney, Mello and Franco governments; and it was completed by the Cardoso government especially after the Real Plan, in 1994. All of those policies moved poverty to a point difficult to overcome. Class conflicts and regional differences were consolidated by contractionary fiscal and monetary policies as well as reforms on issues such as social security and pensions. That is why it is very difficult to deal with poverty through conditional cash transfers.

CHAPTER IV

PROGRAMA BOLSA FAMILIA: IS IT ABLE TO BREAK THE INTERGENERATIONAL CYCLE OF POVERTY GIVEN ITS STRUCTURAL LIMITATIONS?

Lula differentiated his party program from predecessors with a strong emphasis on social policies during the election campaign; and *Fome Zero* (Zero Hunger) was implemented as a product of this kind of effort in 2003, just after achieving economic stability in 2002. It was a program based on food provision to poor families (Britto, 2011: 4); but it was not sustainable because of high levels of costs and lack of transparency. Hence, Lula presented another idea about a social program, *Bolsa Familia*, in order to resolve the hunger problem of the country immediately, in 2004. It gathered and expanded four large social assistance programs (*Bolsa Escola, Bolsa Alimentaçao, Cartao Alimentaçao, Auxilio Gas*) which had been put into practice under different names by many municipalities during the Cardoso government since 1995; and it became the flagship of the Lula administration. *Bolsa Familia* had two main objectives: One of them was the "immediate relief of poverty by means of income"; and the other is "breaking the intergenerational cycle of poverty by means of conditionalities" (MDS, 2008: 3).Since 2004, it gradually expanded and became one of the most important tools of social policy.

As mentioned earlier, the problem to be investigated in this study is to examine whether the program is able to achieve its second purpose of "breaking the intergenerational cycle of poverty"; and to explore whether there is sufficient structural features of the program in order to meet the goal of long-term impact. In this framework, we have discussed the general characteristics of neoliberal policies such as privatization, liberalization and deregulation led to changes in Brazilian macroeconomic and political structures in the second chapter. Subsequently, we have

examined the implementation forms of neoliberal policies in Brazil and how structural poverty became more severe in this process in the third chapter. Finally, we will focus on the features of the program in this chapter, in order to reveal compatibility of the program with the problem.

At first glance, we will focus on the progress of the program. Here, *Bolsa Escola* deserves special attention, since it is the core of the conditional cash transfers in Brazil. Afterward, we will survey the special features of the program in more detail, with emphasis on application forms, monitoring and evaluation of transfers, the results and problems encountered. By doing so, it will be seen whether those problems are arising from defects in implementation or the structural limits of the program. Hence, it will be investigated whether the program has ability to reach beyond alleviating extreme poverty in the short run.

4.1. *Bolsa Escola* as the Early Form of *Bolsa Familia*

Hunter and Power define Lula administration as "a government of *programs*", while they attribute to Cardoso administration as "a government of *reforms*" (2006:17). However, *Bolsa Escola*, as the primitive form of *Bolsa Familia*, was put into practice in 2001as well as the other three cash transfers. Due to neoliberal policies implemented between the mid-1980s and the mid-1990s, poverty and inequality had reached its peak in addition to low levels of growth rates in Brazil. Therefore, pro-poor growth would come to agenda as experienced in East Asian countries, in that growth could not be achieved unless it was sensitive to poverty (Kakwani *et al.*, 2006: 2). But, extreme poverty was waiting an urgent solution which would provide social safety nets against the damaging effects of crises, before the long-term pro-poor policies; and conditional cash transfers were introduced in response to this kind of need."The 'Bolsa Escola' program was launched by the Governor Cristovam Buarque (Workers Party, PT) in the Distrito Federal on January 3, 1995 and the "Guaranteed Minimum Family Income Program (PGRFM) was launched by the Mayor José Roberto Magalhães Teixeira (Brazilian Social Democratic Party, PSDB) in the Campinas Municipality on January 6, 1995" (Lindert *et al.*, 2007). The

program secured monthly cash payments to poor families within condition to send their 6-15 years old children to school. These cash payments were of crucial importance for families without any regular income; but it was an innovation for social policy to be conditional on education. Essentially, there was a debate about the relationship between poverty, education and growth in the early 1980s in the University of Brasilia introduced by Professor Cristovam Buarque. According to these debates, poverty could come to an end only if poor citizens were able to access basic social services; a process that leads to an increase of demand and economic growth (Denes, 2003: 141). Education was perhaps the most important basic service which would mobilize citizens to go beyond symptoms of poverty; especially in a country with very low educational levels. For instance, adults over the age of 15 had only attained an average of only 4 years at school in 1990 (World Bank, 2007). The most significant reason for this was seen as the use of child labor due to poverty. Education means extra costs for tuition, books, and clothing; and also there is opportunity cost for families by sending children to school instead of work. Moreover, children will spend remaining time for their studies. Therefore, their earning was compensated through cash payments instead of child labor. There is an inverse correlation between the use of child labor and redistribution of income. "Child labor is common - about 14.9% of children in the 7-14 age group work. Child labor is directly associated with poverty - the incidence of child labor is 20% in the bottom quintile of the income distribution, but only 5% in the top" in 2001 (World Bank, 2001: 2). This, in turn, made impossible to sustain education even if the students were registered to school. So, "children enter the school system late and progress slowly" and repetitions become inevitable even if the school enrollment rates are 96 % (Ibid. 3). This also has a close relationship with policy choices ignoring primary education and favoring higher education, from the 1970s onwards. Consequently, participation in education does not reach desired levels among the poor because of lack of infrastructure; even if the states invest in education (Denes, 2003: 137-139).Therefore, it is argued that conditionality, demand-side policy, would activate and mobilize the poor citizens in order to make use of those basic services by increasing enrollment, promoting attendance, and reducing dropout rates (Schatzman, 2007: 7).As a result, "more than 50 *municipios* in seven states of Brazil

(out of 26 plus the Federal District) had adopted a similar program" by 1998 (Glewwe & Kassouf, 2010: 4). Furthermore, in 1998, the Government of President Cardoso initiated the Program for a Guaranteed Minimum Income which was managed by the Ministry of Education. It "provided transfers to municipalities who were implementing (conditional cash transfers) but lacked sufficient resources to sustain such programs" by giving priority to the poorest municipalities (Lindert *et al.*, 2007: 12). In 2001, over 100 *municipios* with approximately 200.000 families were included in the program (Santos *et al.*, 2011: 6). Because of these achievements, in 2001, Cardoso administration gathered those various programs under *Bolsa Escola Program*, which would be managed by the Ministry of Education, as a national program.

There is no doubt, unification contributed to managerial skills of the program, by adopting standard benefiting criteria, delivering cash transfers to Caixa Economica Federal and making payments through the bank. Administration was left to the *municipios*, in accordance with decentralization trend; while, federal funding for the program increased from R$10 million in 1997 to R$1.5 billion in 2001 (0.7 % of federal social expenditures) (Schatzman, 2007: 7). Also, some other responsibilities were loaded on the municipal governments. Firstly, they were "required to approve a law officially establishing the "Bolsa Escola" in correspondence to the national outline, thus legally ensuring the municipal government's full and long-term commitment to the program". Secondly, they had to found a *Council for Social Control* in order "to evaluate the program, monitor for fiscal integrity and execution" and "to prevent the misuse of funds for political ends". Thirdly, there was a need "to complete and sign the "Terms of Agreement" to ensure legal responsibility for the information provided and to maintain an inclusive and permanent role in the program" between schools and families (Denes, 2003: 142). This geographical structure of the program made it easier to draw the limits of conditions for beneficiaries and made possible to reach a more specific target. In this regard, three selection criteria were determined: First, poor households with per-capita income level below half a minimum wage. Second, these families should have children between 7 and 14 ages. And, finally, beneficiaries would have a minimum residency

of 5 years in the same city (World Bank, 2001: 9). Beneficiaries were selected among those who fulfill the conditions through income means-tests or the score system. It is hard to measure income accurately because of "informal occupations and unregistered sources". Therefore, a scoring system was put into practice which,

> considers various aspects of the potential beneficiaries' living standards. In addition to income, the characteristics considered include housing status, engagement in the labor market, educational attainment, presence of durable goods in the household and number of children in the household, to name a few. Beneficiaries are selected based on the number of points they receive. In each area or federated unity, as in the case of Brasilia, each category may take on a different weight. In Brasilia, for example, priority is given to families with children below fourteen years of age who rent their homes. A heavy weight is assigned to dependents in the household while less weight is given to the different types of labor market engagement (Ibid.8)

Consequently, poor families with per capita monthly incomes no greater than a total of R$90 were given R$45 per month, R$15 for each student to a maximum of three children (Jones, 2010: 4).

It cannot be argued that monitoring skills of the program was advanced. The program was primitive and completely based on the relationship between the schools and Municipal Secretariat of Education. Payments were performed by the Secretariat on a monthly basis on condition of 90 percent attendance at the end of the month. If the necessary condition was not fulfilled, family could not get paid. The Accounts Tribunal of the municipality was monitoring and checking payments and requirements (World Bank, 2001: 19). However, it is hard to say that this method worked; because lack of mechanism made impossible to guarantee the quality of controlling in school. Besides, some families were working seasonal; and they could give up cash transfers for a couple of months in order to get use of child labor. This was the result of program being monthly rather than annual (Ibid. 20).

How to evaluate the results was another handicap of the program, since there was lack of data to compare before and after. For instance, when we want to measure the success of educational attainment, the level of attendance was not enough to determine the degree of achievement, since it was expected to be at least 90 percent. Because, there was no way of getting the stipend without meeting the conditions. Thus, improvement of learning and decrease of repetition rates could help. Likewise,

reducing child labor was the other purpose of the program and needed to be evaluated. This could be accomplished by a comparison between beneficiaries and non-beneficiaries groups in the same region within a comprehensive study. Besides, there was a need to evaluate the program for reducing poverty, especially in the Northeast regions with very poor socio-economic conditions. In this framework, many studies tried to evaluate *Bolsa Escola* in different ways and various models of research. One of them is Bourguignon, Ferreira, and Leite (2003) exploring the effects of the program by using National Household Survey.[31] They estimated that:

> About 40 percent of 10- to 15- year-olds not enrolled in school enroll in response to the program, according to the model. Among poor households this proportion is even higher (60 percent). The proportion of children in the middle occupational category (*studying and working in the market*) rises marginally. The effect on current poverty reduction is less heartening. In its original design, the Bolsa Escola Program reduces the incidence of poverty by only a little more than 1 percentage point, and the Gini coefficient falls just half a point. Results are better for measures more sensitive to the bottom of the distribution, but the effect is never large (252-253).

Secondly, Cardoso and Souza concluded that *Bolsa Escola* had "a significant impact on increasing school attendance" by changing "the child´s time allocation between school and work" via PNAD and IBGE[32](2003: 21-22). Another study using 2003 PNAD was performed by Schwartzman which; noted that "reasonably well focused in lower income families, in spite of a bias against poor in urban areas, some regional distortions and the fact that, in 2003, of the 8.3 million children in families receiving the benefit, 1.5 million, or 17 percent, were in the upper 50 percent income bracket" (2003: 21).Also, Britto asserted that "net enrollment rates in grades 1 to 8 […] have increased from 87 % to 96 % from 1994 to 1999" (2004: 27). On the other hand, Barrientos and De Jong argued that Bolsa Escola and this kind of programs were helpful in reducing poverty (2006). And finally, Janvry, Finan and Sadoulet analyzed the impacts of Bolsa Escola by using "a large survey conducted in261 municipalities of the Northeast and school records collected for 293,500 children over a five year period" and reached that it "had a very strong impact on school attendance, inducing

[31]PNAD (*Pesquisa Nacionalpor Amostragem a Domicílio*), the main annual household survey in Brazil.

[32]*Instituto Brasileiro de Geografia e Estatística*

a 7.8 percentage points decline in the dropout rate. This impact was equally large in primary as in secondary schools, and across the three years of program implementation". However, "the program worsened the grade failure rate, which increased by 0.8percentage points. This effect was larger in primary schools and in the last two years of program implementation. This can be attributed to the fact that the cash incentive helped retain at school less able and motivated children that would otherwise have dropped out" (2007: 22-23).

In sum, there was a consensus about the positive effects of the program on school attendance because of its conditionality, even though it did not contribute to repetition or promotion rates. Not surprisingly, it did not improve living conditions of families, since it provided a small amount of allowance and substituted cash payments with the income gained by children. More importantly, it cannot easily be argued that positive increase in attendance to school entirely stemmed from Bolsa Escola. Namely, there were some other achievements of the government that prevent us to attribute the whole success to the program.

4.2. Other Attempts of Government for Education after the Mid-1990s

There were two main strategies suggested by international organizations such as the World Bank, ILO and UNICEF for securing poor people a better educational service: One of these was the "legislation prescribing universal education and mandating school attendance"; and the second was "improved access to quality primary education" (Denes, 2003: 138). The first of these was secured within the 1988 Constitution; but there was much to do for the second one in order to close the gap between the poor and the rich segments of society. This has special importance when we think about that the "achievement gap between students in private schools and public schools also increased" at that time (Kuening, 2009: 215).

The first step towards the strengthening of primary education was to increase the rate of expenditure allocated to basic level within the 1988 Constitution. State and county governments were obliged "to spend 25 percent of their revenues on public

education" (Kuenning, 2009: 206). Thus, it could be guaranteed to devote "at least $280 a year for each Brazilian student" in contrast to the previous period in which $50 a year for each student in the Northeast (Denes, 142). Secondly, another very important project is the LDB[33], approved in 1996 for determination of minimum federal standards for both teachers and their education and training, including 300 hours of practice teaching, periodic licensing. It also established minimum salaries for teachers, "working 20 classroom hours and providing 5 hours of activities, with an average of 25 students per teacher" (Kuenning, 2009: 206). The other pillar of these investments was FUNDEF[34] that aimed important changes in funding of basic education. With the introduction of FUNDEF, municipal governments were required to spend 15 percent of their revenues on public education at the primary level and at least 9 percent to teachers´ wages, while "60 percent of all education resources should be spent on fundamental education" (Menezos-Filho & Pazello 2004: 5-6). Besides, inequality between different regions was leading to distortion of policies developing primary education under the decentralized structure of the Constitution. FUNDEF introduced a system to redistribute educational resources by federal government toward disadvantaged regions according to student enrollment rates (Melo, 2007: 114). Apart from these, "the 'Livro Didactico' project, established in 1997, spends roughly $142.5 million a year for the purchase of books to be distributed in primary schools throughout Brazil" (Denes, 2003: 142). There was also another program contributed Bolsa school to an important extent, in rising of school attendance rates: PETI.[35] It was "initiated in 1996 in *rural areas* of Brazil and has managed to reach 977municipalities in 27 states and has provided assistance to 396,546 working children in 2000".[36]The objective of the program was very similar

[33]Lei de Diretrizes e Bases da Educaçao Nacional - Law of Guidelines and Bases of National Education (No:9.394)

[34] Fundo para Manutenção e Desenvolvimento do Ensino Fundamental e Valorização do Magistério – Fund for the Maintenance and Development of Fundamental Education and Valorization of Teachers

[35]Programa de Erradicaçao de Trabalho Infantil - Child Labor Eradication Program

[36]In 1996, the federal government implemented a pilot program in the state of Mato Grosso do Sul, an area of high incidence of children working in the production of charcoal. In January 1997, the program was introduced in the state of Pernambuco (which has high numbers of children working in the cultivation of sugarcane) and in July 1997, in the sisal region of the state of Bahia (Cardoso & Souza, 2003: 10-11).

with Bolsa Escola; but the difference between PETI and Bolsa Escola (at municipal level) was that the former concentrated on “worst forms” of child labor such as “sisal and cassava processing, charcoal production, mining, quarrying, and the collection of sugar cane, tobacco and cotton” (World Bank, 2001: 24). It provided “stipends of approximately R$25 per child to poor families who have children in the 7-14 age group which is given to the mother” on condition that “the children will attend school, participate in after-school activities and agree to not work”; while it also transferred “to local governments R$20 per child to finance after-school activities (*Jornada Ampliada*)” (Ibid.). The PETI programme was executed by the Social Assistance Secretariat (Soares, 2012: 3).

As a result, there were improvements in educational attainments between 1995 and 2001, as we mentioned by reviewing evaluations of Bolsa Escola. Nevertheless, there were other important attempts in the national education system, aiming to increase school attendance and quality of education. However, there is no research measuring the role and impact of Bolsa Escola in these achievements. In other words, there is no way to decide how Bolsa Escola contributed to the process on its own. Bolsa Escola was implicitly aiming to reduce poverty in the long term by increasing educational attainment which would “lead to higher future incomes and thereby decrease the chance that these children will grow up to be poor” (World Bank, 2001: 1).Yet, it was hard to believe this when we think that payments are too low and they were only substituted with children’s earnings. So, there was no explicit change in household income between 1955 and 2001 (See Table 3.2.).Furthermore, the program was excluding families having no children in the 7-14 age groups and the rate of this category was 57 percent. Likewise, a significant proportion of families (21 percent) could not meet the residency requirement of the program (World Bank, 2001: 10). That is why the program presented a satisfactory safety net against the crises. In sum, it could be argued that Bolsa Escola could achieve neither reducing poverty nor educational attainment alone.

4.3. Consolidating Conditional Cash Transfers: Bolsa Familia Program

Before Bolsa Familia, there were four different conditional cash transfers which were managed by different ministries. One of them was Bolsa Escola, as mentioned above. The other was ***Bolsa Alimentaçao (BA) (Food Grant)***, introduced by the federal government in 2001; in order to prevent malnutrition, to improve nutritional conditions of poor families and to decrease infant mortality via health care conditionalities for pregnant and breastfeeding women and the 0-6 age group of children. It was left to the control of the Ministry of Health (Santos *et al.*, 2011: 6). "Eligibility for BA expired when children completed 7 years of age. They then became eligible for the Bolsa Escola program as they entered the school system" (Lindert *et al.*, 2007: 13). The other was, ***Auxilio Gas (Gas Assistance)***, added these to two programs in 2002 and was aimed to secure gas for cooking to the poor; and it was managed by the Ministry of Mines and Energy (Coelho, 2009: 16).It offered to pay "bi-monthly installments of R$15 to poor families with a monthly per capita income of less than half a minimum wage" and used "both the BA's and the BE's registries to select its target beneficiary population" (Lindert *et al.*, 2007: 13). In 2003, Lula declared another cash transfer program the so-called ***Cartao Alimentaçao (Food Card)***, which was managed by the (former) Ministry of Food Security, aiming to provide food support as a part of ***Fome Zero (Zero Hunger)***;assistance in kind and including 60 programs in many ministries (Santos *et al.*, 2011: 7). Ultimately, there were mainly four cash transfer programs and Fome Zero in 2003, as the instruments of social policy. All of these programs had their own different goals; but, their target group was almost the same. Therefore, it was inefficient to manage those separate programs under different ministries for both the government and families. Poor people had to apply to each program and the governments had to implement a distinct procedure for each of them. It meant not only administrative difficulties and misuse of public resources; but also it facilitated leakages and fraud in practice. Moreover, the governments were not able to collect data about beneficiaries, since every program had its own record. Thus, it became harder to monitor and evaluate the results whether these programs were achieving their goals. All of these problems indicated that there was an explicit need to integrate those programs under a single

program in order to escape from bureaucratic complexity, to reduce transaction costs and to standardize procedures and conditions (Lindert, 2004: 68).

In this regard, Lula launched ***Bolsa Familia Program*** within Law 10.836 on January 9, 2004; and nine Presidential Decrees, one Ordinance and 48 Operating Instructions were employed in this legislation process (Santos *et al.*, 2011: 8). In this way, Lula had a chance to exhibit what he frequently mentioned in the election campaign with social equality. Bolsa Familia institutionalized the other programs, while it was also "(o)perating squarely within existing fiscal and political boundaries" of orthodox economic orientation (Hunter& Power, 2006: 154). Not surprisingly, it was praised by the World Bank; since it was compatible with Millennium Development Goals[37] as expressed by the Bank's President, Paul Wolfowitz (Schatzman, 2007: 11).By the same token, the program was approved by the Bank; because it was "operationally feasible and politically acceptable" (Lindert, 2004: 71).It promised to reach those in need in a very short period of time thanks to the means-tested scheme, within a well-defined target and geography. Besides, it was found cost-effective and flexible, since it could reach poor in-cash through a credit-card (rather than in-kind such as food etc.) by avoiding bureaucratic institutions and leakages (Hall, 2006: 692).

[37] 1. Eradicate extreme poverty and hunger; 2. Achieve universal primary education; 3. Promote gender equality and empower women; 4. Reduce child mortality; 5. Improve maternal health; 6. Combat HIV/AIDS, malaria and other diseases; 7. Ensure environmental sustainability; 8. Develop a global partnership for development.

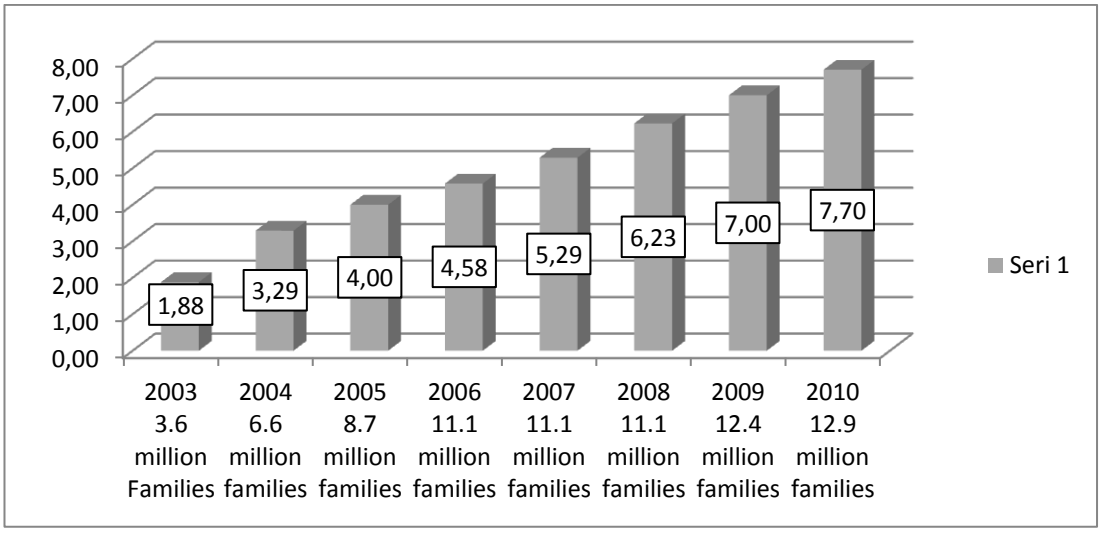

Figure 4.1.Brazil: Investments by the Federal Government in the Bolsa Familia Program, 2003-2010
Source: Ministry of Social Development, 2011 (Souza, 2011: 8).

Although expenditures on the program has steadily increased (Figure 4.1), the integration had little effect on the share of the program in total government expenditure from 1.1 percent to 2.5 percent; and an increase from 0.22 percent to 0.36 percent of Brazil's GDP in 2005 (Table 4.1). In 2008, the budget of the program was R$ 10.9 billion (US$ 5.45 billion) and it was only 0.4 percent of GDP while management cost was only 5 percent (MDS, 2008: 5).

Table 4.1. Public Spending on CCTs, in the Context of Social Spending and GDP (%)

Percent of GDP	**2002**	**2003**	**2004**	**2005**
Social Spending (consolidated: federal/state/municipal)	23.2	24.2	24.1	21.9
Education	4.2	5.3	4.8	4.3
Health	4.1	4.7	4.9	4.4
Social Protection	13.5	12.8	13.1	12.0
Other Social Spending	1.5	1.4	1.2	1.1
Social Protection (consolidated: federal/state/municipal)				
Social Assistance	1.2	1.2	1.4	1.4
Social Insurance (labor + social security)	12.3	11.7	11.7	10.6
Social Assistance (federal only)	0.71	0.88	0.89	0.97
CCTs:	0.18	0.23	0.31	0.36
Pre-reform programs	0.18	0.23	0.09	--
Bolsa Família	--	--	0.22	0.36
BPC-LOAS (cash assistance for poor elderly/disabled)	0.40	0.42	0.44	0.46
School Feeding	0.06	0.06	0.06	0.06
Other	0.07	0.17	0.08	0.09

Source: Compiled by the authors using data from SIAFI, MDS (Lindert et al., 2007: 19)

4.3.1. Content and Objectives

In the transition period, there were several technical problems when the old beneficiaries were transferred to the new system; but the scope of the program doubled between 2004 and 2005 and continued to increase in future years. The number of families it covered increased from 3.6 million in 2003, to 6.6 million in 2004, 8.7 million in 2005 and 11.1 million (about 46 million people) in 2007 (Figure 4.1.). The population of the country is approximately 190 million according to BTI 2012 – Brazil Country Report[38]and to the data of 2011, roughly 52 million people (if we assume that families are composed of four members, it covers more than 25 percent of the Brazilian population), or 12.9 million people in the 27 states (mean all of the local governments) and 5.564 *municipios* are enrolled in the program. It is hard to decide whether it is a good or bad thing that the program includes so many people living in the extremely poor or poor conditions which were determined as two beneficiary groups. Unlike the previous programs, Bolsa Familia does not determine the thresholds of payments indexed to minimum wages; instead, it is based on the poverty line adopted by the World Bank (Lindert, 2007: 15). In the first group, there are extremely poor families with monthly *per capita* income of R$ 70.00 or less. There are three kinds of benefits for this group: Firstly, *basic benefit* secures R$ 70.00. Secondly, *variable benefit* is R$ 32.00 per children up to the limit of R$ 96.00 to the families having children in the 7-14 age group (it covers 15 age group since 2008) for a maximum of three children. Thirdly, *variable benefit for the young* offers R$ 38 per children up to the limit of R$ 76.00 to the families having children in the 16-17 age group for a maximum of two children[39]. In the second group, there are poor families with monthly per capita income between R$ 70.01 e R$ 140.00. This group covers two benefits *variable benefit* per children 7-14 years old(it covers 15 age group since 2008)(for a maximum of three) and *variable benefit for the young* per children 16-17 years old(for a maximum of two) within the same amount of

[38] This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

[39]The scope of the program was extended for children in the age of 17 and 18 in 2008.

payments. The only difference between the first and second is basic benefit. In this framework, maximum amount is R$ 242.00 and minimum amount is R$ 32.00 for a family (Table 4.2.). There is also an important difference between Bolsa Escola and Bolsa Familia; since the latter secures benefit to those who do not have children if they are below the extreme poverty line; but the former did not have this kind of feature because of targeting education and children.

Table 4.2. Eligibility Levels and Benefits

Date	January 2004	July 2007	June 2008	July 2009	March 2011
Law	Law 10.836	Decreee 6157	Law 11.692 and Decreee 6491	Decreee 6917	Decreee 7447
Extreme Poverty Line	R$50	R$60	R$60	R$70	R$70
Poverty line	R$100	R$120	R$120	R$140	R$140
Variable benefit	R$15 (0–14)	R$18 (0–14)	R$20 (0–15) R$30(16–17)	R$22 (0–15) R$33(16–17)	R$32 (0–15) R$38(16–17)
Fixed benefit	R$50	R$58	R$62	R$68	R$70

Source: SENARC/MDS; Casa Civil/Presidencia (Soares, 2012: 7)

Bolsa Familia has two main objectives: Firstly, it aims at immediate relief of poverty by means of income; and secondly, it targets breaking the inter-generational cycle of poverty by means of conditionalities (Ibid. 3). Thus, the program promises to realize human rights such as nutrition, basic education and health services defined in the Constitution of 1988; and to create equality of opportunity by preventing the intergenerational transmission of poverty. Two types of method are defined in order to realize these goals: One of them is *quantitative*, “a far greater number of (properly targeted) poor people brought into the safety net”, the other is qualitative, “significantly better outcomes, as assessed by demonstrable improvements in clear, understandable indicators of well-being for each beneficiary, as well as improvements in the transparency of processes used in implementation” (Lindert, 2004: 68). While the former indicates horizontal expansion; the latter means vertical expansion of the program. These features facilitates to be targeted and to achieve its

goals and objectives by the "geographical and household level criteria, including proxy-means tests to estimate household poverty levels" (Hall, 2006: 692). This "more selective and means-tested approach for addressing mass poverty" secures to minimize the amount of benefit that is much less than the minimum wage (for instance, 6 percent of minimum wage in Lindert, 2004: 68) in a country which never had a unified and universal social system (Hall, 2006: 690). In this way, it is argued that vicious circle of poverty would be broken by meeting humanitarian needs of people and investing in educational and nutritional conditions of children. And, equally important, it is believed that Bolsa Familia promotes social development and helps to overcome "fundamental development bottleneck", seen as a direct result of having a poor population (Handa & Davis, 2006: 516).

4.3.2. Implementation, Design and Financial Support of International Organizations

Contrary to fragmented structure of the old transfer programs managed by the different ministries, a new ministry was founded for administration of Bolsa Familia: the Ministry of Social Development and Eradication of Hunger. However, Ministries of 'Health', 'Education' and 'Finance and Planning' are indirectly included in the process. For instance, they are responsible of overseeing the entire compliances with conditionalities of the program for their objectives such as education and health. Also, Caixa Econômica Federal is obliged to operate the payments at the federal level. This restructuring at the federal level helped to standardize administration, application procedures, results and implementation; but also the system is simultaneously decentralized by distribution of responsibilities to state and municipal level. In this framework, the federal government is in charge of technical regulation and control; states and municipalities have executive functionalities such as administration and implementation. At the state and municipal level there are mainly two units: Secretariat on Social Assistance is directly responsible of implementation and receiving applications; and Secretariats on Health and Education are indirectly included by controlling state of affairs, collecting and evaluating data of compliances coming from schools and health centers (MDS, 2008: 6).

The system is based on family unit, because it is believed that family, not individuals, could comply with the requirements of the program (Lindert, 2004: 68). In this regard, the poor families are identified by the municipalities and registered in the Single Registry (*Cadastro Unico*).[40] Beneficiaries are "selected by means of an automated process and registration does not imply the immediate entry of families into the programme" (Mourao, 2011: 2). There is a quality analysis which will activate registration. There are three kinds of information in the system: Firstly, the person is identified into the system with full name, date of birth etc. by generating Social Identification Number. Secondly, address identification is done. Lastly, social and economic characterization is determined by family composition(number of people, pregnant women, senile, disabled), household characteristics (number of rooms, type of construction, water, sewage, and garbage), school qualification of the family members, income and family spending (rent, transportation, feeding and others) and professional qualification and situation in the labor market. Thus, family members are defined in the system, creating a standard data base. After estimation process, the benefit granting is realized according to the per capita income of families, by the Federal Government (*SENARC*)[41]; and families with lower per capita income and in situation of greater vulnerability are given priority (MDS, 2008: 7). After granting benefits, Caixa Economica Federal, generates payment cards (electronic benefit cards) preferably on behalf of women. Mothers are favored because women are seen as "more likely to prioritize investments in children's education, health, and nutrition" (Lindert, 2004: 68)[42]. At the end of the process, the list of beneficiaries is published on the internet. In sum, Cadastro Unico is an important tool not only being an integrated beneficiary selection system; but also a base for the control, monitoring and evaluation processes.

[40]The Cadastro Único was originally established in July 2001, as the federal government launched a major effort to construct a single beneficiary registry database to serve its many social assistance programs (Lindert *et al.*, 2007: 35).

[41]Secretaria Nacional de Renda de Cidadania –The National Citizens Income Secretariat

[42]"93% of legally responsible beneficiaries are women" (Lindert *et al.*, 2007: 17).

The program also includes a set of conditionalities that need to be followed and it is the other dimension of the implementation process. Conditions are collected in two areas which are important for human capital: Education and health. Education conditionalities are valid for all children in the 7-15 age group including school enrollment, at least 85% minimum daily school attendance for 16-17 ages and 75% for 16-17 ages. Families are responsible for informing school and local coordinators, if children did not comply with these conditions. Second condition is about health. It includes vaccine schedules and regular health check-ups and growth monitoring for children in 0-6 age groups. Also, it contains pregnant and breastfeeding women for pre-natal, post-natal checkups and participate in health and nutrition seminars offered by local health teams (MDS, 2008: 15). From this point of view, it is pre-supposed that poor people are deprived of those basic services because of lack of demand "due to direct and indirect (opportunity) costs of taking up these services" (Lindert *et al.*, 2007: 9); and demand-driven policies would engage people in the system through conditionalities. This is what social inclusion means breaking with the traditional supply-driven social policies that creature characterized with lack of demand and unequal distribution of health and education (Handa & Davis, 2006: 517). This "joint responsibility" between the government and people is imagined a way of constructing self-sufficiency of poor by making them responsible of his/her own improvement. The system is not satisfied by only giving money to people; but it increases demand for basic rights within the obligation to fulfill the conditions (Hall, 2006: 692). In the cases of non-fulfillment of the conditions, benefits are canceled. As defined in Decree 5209/04, there are five cases for cancellation: Firstly, there need to be "evidence of child labor in the family". Secondly, if families fail to adhere to conditionalities, their situation becomes first "suspension" and then "cancelation". Thirdly, "evidence of fraud or deliberate provision of incorrect information upon registration" is enough for elimination from the program. Fourthly, "voluntary act of beneficiary or court order" can terminate. Finally, "change in socio-economic family conditions" can result in exclusion from the program (Santos *et al.*, 2011: 9). In every two years, statuses of beneficiaries are reviewed thereby updating information in the system (MDS, 2008: 24).

In this framework, the presence of a well-functioning registration system is highly significant not only for standardizing application processes; but also for the effective running and monitoring of the conditionalities of the program. In order to develop the registry system, the World Bank and Inter-American Development Bank supported Bolsa Familia by giving loans (Handa & Davis, 2006: 514). Even if the program was domestically initiated, it is very compatible with the World Bank approach to poverty problem; in which "social risk management" is the prominent objective for not only alleviating poverty in the short run, but also making poor armed against the shocks of recessions and crises. In this context, the World Bank contributed to expanding and progressing of the program with a US$572 million loan (Hall, 2006: 698). It was used for developing payment systems, determination processes of potential beneficiaries and evolving of Cadastro Unico (Brière & Lindert, 2005: 12).In this respect, lending process of Adaptable Program Loan (APL) took place in two stages: The first phase included "strengthening the effectiveness of the safety net by consolidating the four conditional cash transfer programs, reducing gaps and duplication in coverage, improving systems for identifying the target population, and developing an effective monitoring and evaluation system" in the 2004-2006 period. The second phase was "designed in turn to consolidate and deepen the technical improvements and innovations" of the first one, in 2007-2008 period (Lindert, 2004: 68-69). Secondly, another project of the Bank was SWAp, "a kind of lending process that provides financial support for sector policy with clearly defined qualitative and quantitative targets". In that respect, US$551 million was served "primarily to reimburse the government for conditional cash transfer expenditures. In addition, a separate technical component was designed to improve beneficiary targeting (US$4.4 million). A technical component was designed to develop the new monitoring and evaluation system, including development of instruments and processes to track eligibility, payments, conditionality performance etc. (US$7 million). A relatively small institutional component (US$2.8 million) helps to strengthen institutional capacity for the Bolsa Familia Program and a fifth component supports project management" (Ibid.). Besides, US$1 billion loan was given to Bolsa Familia by IDB in parallel with SWAp; and also US$2 billion was

promised on the condition of progress. In that way, “one quarter” of the entire budget was provided by international institutions (Hall, 2006: 698).

4.3.3. Monitoring and Evaluation Skills of the Program

Monitoring and evaluation are very crucial for Bolsa Familia, since it has clear and observable targets such as income, number of children etc. Similarly, it has certain objectives of reducing poverty, increasing school attendance etc. within specific conditions. In other words, the program draws its boundaries markedly and claims that it is successful in achieving its goals. Hence, it is possible to monitor and evaluate whether the conditionalities are complied with; and expected outcome is achieved, if the conditions are strictly followed. This link between targets, conditions and outcome is significant to measure the success of the program and to ensure its continuity.

In this regard, there are mainly four aspects of monitoring and evaluation systems of Bolsa Familia that was supported by APL (World Bank, 2010, 14-15). *One of them is* “external oversight mechanisms of the Government of Brazil” at the federal level. This Oversight Network for the Control of Bolsa Familia (Rede de Fiscalizaçao) has three agencies: The General Controller’s Office (Contraloria Geral da Uniao), The Brazilian Court of Audits (Tribunal de Contas da Uniao) and The Public Prosecutors Office (Ministerio Publico). The first one of these is “responsible for the operational audits” of the program (random-sample and annual) and specific case investigations, that is for “the internal control agency of the executive branch”. The second one is the legislative branch prosecuting “formal implementation evaluations, supervision and follow-up”. And the last one independently investigates “potential allegations of fraud in the program” (Ibid.).

The second pillar of the system is “monitoring and internal control systems within the Bolsa Familia program” by using different instruments. First is the management information system (MIS) that secures “information on families and all program processes, including monitoring of co-responsibilities, payments, compliance”. The

second is Decentralized Management Index which plays the role of acting as a tool for monitoring quality of some of the key aspects in basic architecture of the program. It assigns a quality score to four aspects of municipal implementation. (1) The share of families registered with a "valid" registry; (2) The share of families with registries updated at least within the past two years; (3) The share of Bolsa Familia, children with complete information compliance with education conditionalities; (4) The share of families with complete information on compliance with health conditionalities in the health system (MDS, 2008: 24). The third one is The Service Level Agreement, which was made between Federal Government and the operating agent (the Caixa Economica Federal) for securing monitoring results which would be used for evaluation process (Ibid. 28). The fourth one is the Cadastro Unico, monitoring the programme coverage and the local level management quality (Ibid.). And the last one is "hotlines and case investigations" (World Bank, 2010).

The third part of monitoring system is "local (municipal) controls and audits" that was executed at the municipal level monitoring compliance with the conditionalities; in which a "social council" must be formed in every municipality in order to check the necessities of the conditionalities[43]. It is "a pre-requisite for a municipality to participate in" the program and also be helpful "to identify potential beneficiaries".

Finally, the fourth part of the system is "external evaluations to measure program results", which means a survey that would present information about the results of the program through "a quasi-experimental and longitudinal design following a propensity score matching technique" (Ibid.).

In this structure, we see that monitoring and evaluation functions of the program are shared between federal, state and municipal levels, like the implementation; and there are two central objectives of monitoring and evaluation. *One of them* is a methodological issue concerning how to evaluate and monitor the performance of the program. Initially, experimental evaluations are certainly more responsive; therefore there is a need "to employ a social experiment – namely, randomly selected control

[43]Conselho de Controle Social (Social Council) is defined in Decentralization Law of Brazil and its "members are chosen by the mayor from public and civil society sectors" (Hall, 2006: 697).

and treatment groups to measure changes in behavior over time" (Handa & Davis, 2006: 526). In that way, it is possible to collect the data from a specific group before implementing the program and to observe the consequences after a while. However, it is quite costly to implement this system even for very limited groups (Ibid. 530). Under these circumstances, there are studies using propensity score matching that selects and compares samples for evaluation of Bolsa Familia (Cardoso & Souza, 2003: 17). It is an appropriate method for "school enrollment and child labor"; nevertheless, it is not eligible for "food consumption which is measured differently in the national household survey" (Handa & Davis, 2006: 526).The main reason for this is having not a strong national data for which proxy means tests are used to measure the impacts of food consumption. Indeed, propensity score matching is feasible in countries in which "good household surveys exist within the relevant time period, and when survey instruments are comparable" (Diaz & Handa, 2004). In this respect, welfare measures can only be tested with the specific targets of policy; for instance, "school enrollment, preventive health check-ups, vaccinations, pre-natal care, food availability, school achievement, nutritional status (height), and anemia" (Handa & Davis,2006: 527).

The second issue is related to the objective of monitoring and evaluation. There are two primary objectives: Monitoring the programme coverage and monitoring the local level management quality. While the former is conducted by either the state/municipal or federal level by performing quality tests based on the Cadastro Unico (MDS, 2008: 28),the latter is dealt with the Decentralized Management Index which plays a role as a tool for monitoring quality of some of the keys aspects in basic architecture of the program. On the one hand, it facilitates administration through comprehensive information. On the other hand, it promotes transparency for local financing by federal government. Yet, it is difficult to argue that these are enough for a strong assessment. There are huge deficits in "monitoring systems" stemming from lack of comprehensive network, which is expected to collect data in order to evaluate the general outcomes of the program.

4.3.4. Outcomes and Political Implications for Future Generations

There are a large number of studies examining and evaluating the outcomes of Bolsa Familia based on different surveys within various methods. These studies are significant for ensuring the development of the program by measuring its effectiveness and efficiency. They also contribute questioning of its structure and produce alternative solutions against the problems *or* the system itself. From this point of view, we have gathered the outcomes and problems encountered under two subtitles by taking into account the main objectives of the program: (1) Poverty and inequality; (2) Conditionalities of education and health.

4.3.4.1. Poverty and Inequality

Reducing poverty and inequality is one of the explicit targets of the program and there is almost a consensus that Bolsa Familia had a positive impact on diminishing inequality between poor and rich segments of the society and between different regions, even though there is a controversy about the extent of this effect. However, the main contradiction is about whether it is enough for moving people out of poverty and is able to prevent transition of poverty to the next generations. As manifested in the study conducted by Soares, there was no change on the level of poverty in Brazil, before 2001. Then, there emerged a decrease of 0.1 percent in extreme poverty in 2001. Afterwards, *poverty* fell by "from 26 percent to 14 percent of the population" and *extreme poverty* dropped "from 10 percent to 5 percent" between 2003 and 2009. This effect was doubled from 2005 onwards and poverty fell "13 percent (means 1.9percentage points)", while extreme poverty was down "32 percent (1.6 percentage points)". (2012: 21). By the same token, there was an improvement in Gini co-efficient after 2001 (See Table 3.2.). Also, according to a study held by Barros on the Gini index, there was "a 4.6% decline in poverty and inequality in Brazil from 2001 (0.594) to 2005 (0.566)" (Silva e Silva, 2008: 9).It is true that there is an observable difference from 2001 onwards. However, we see a decline in poverty in 1995 in a study held by Rocha (Table 4.3.). Similarly, there was a stabilized environment after the Real Plan and that contributed to a decline in

poverty rates. Likewise, there is a stabilization period from the early 2000s onwards, without significant national and international crises. So, it can be said that stabilization may be the main cause of decrease in income inequality. Moreover, real minimum wages increased (Table 4.4) and unemployment rates also fell in the same period. According to a study by Barbosa Filho, "the unemployment rate dropped from more than 12% in 2002 to a rate below 6% in 2012" and "(t)he unemployed rate around 6% since December 2010 indicates that the Brazilian economy is on (or close to) its natural employment rate" (2012: 5).Even, "the informality rate dropped from 34% to a ratio of 23.3%" between 2004 and 2012 (Ibid.).These definitely contributed to the improvement in income distribution (Amann& Baer, 2009: 37).

Table 4.3. Poverty and Indigence in Brazil: 1990-2004

Proportion (%)	1990	1992	1993	1995	1996	1997	1998	1999	2001	2002	2003	2004
Poor	44,19	44,00	44,09	33,23	34,13	34,09	33,43	34,95	35,03	33,99	35,59	33,21
Indigent	17,38	16,64	16,1	10,4	10,15	9,38	9,06	8,74	9,55	8,68	9,96	8

Source: "Rocha (2006: 269) In Rocha's table "poverty" refers to that group of individuals existing below the poverty line in the PNAD survey while "indigent" refers to the subset of poor individuals subsisting on less than R$1 a day" (Amann& Baer, 2009: 36).

In fact, there are studies separating the effect of Bolsa Familia from other variables in decreasing inequality. For instance, "results of the annual household survey (PNAD, 2004) show that the BFP accounted for a significant share (20-25%) of Brazil's recent (and impressive) reduction of inequality and 16% of the recent fall in extreme poverty" (Lindert *et al.*, 2007: 6). There is also another analysis measuring the share of Bolsa Familia in change of extreme poverty and it indicates that the program has a cumulative impact and gradually increased its influence (Figure 4.2).

Table 4.4.Brazil: Minimum Wage (MW) and Average Wage (AW), 1995-2011

Years	Nominal MW	Real MW	Real AW	MW/AW
1995	100.00	288.25	1250.36	23.1%
1996	112.00	284.13	1279.23	22.2%
1997	120.00	291.76	1267.65	23.0%
1998	130.00	305.75	1254.42	24.4%
1999	136.00	302.86	1169.35	25.9%
2000	151.00	314.26	0.00	28.1%
2001	180.00	349.14	1154.90	30.2%
2002	200.00	354.71	1128.77	31.4%
2003	240.00	362.19	1044.50	34.7%
2004	260.00	369.13	1035.93	35.6%
2005	300.00	405.64	1082.81	37.5%
2006	350.00	459.46	1158.84	39.6%
2007	380.00	475.09	1194.72	39.8%
2008	415.00	484.90	1210.60	40.1%
2009	465.00	522.43	1242.31	42.1%
2010	510.00	545.70	-	-
2011	545.00	545.00	-	-
2001 - 2009 Variation				
	158.3%	49.6%	7.6%	39.4%

Source: Self-made with PNAD data (Barbosa Filho, 2012: 2)
(There was no data about Real Average Wage for 2010 and 2011 years; and Minimum Wage/Average Wage could not be calculated for these years)

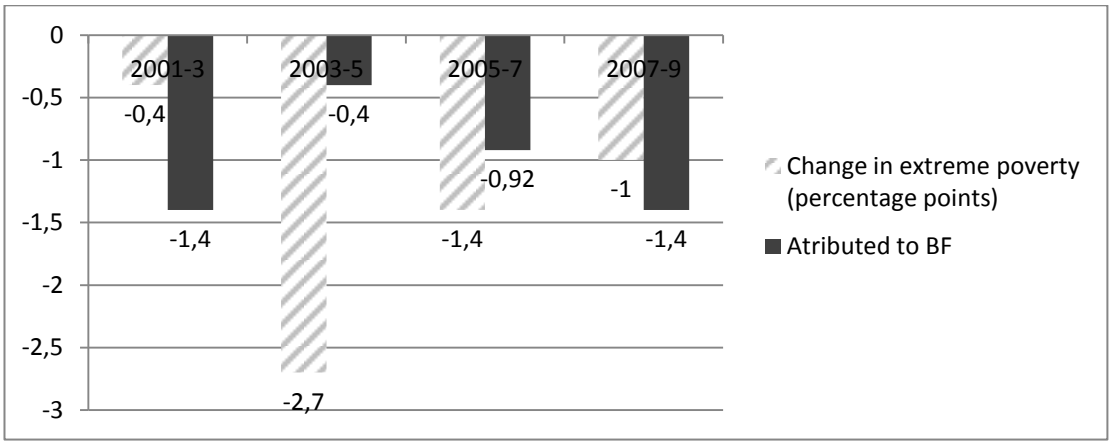

Figure 4.2. Bolsa Familia's Potential contribution to poverty reduction in Brazil

Source: Soares, S., de Souza, P. H. F., Osório, R. G., & Silveira, F. G. (2010) Os impactos do benefício do Programa Bolsa Família sobre a desigualdade e a pobreza (Barrientos, 2012: 8)

It is true that the program gradually expanded and increased its capacity. However, there is very little change in its share of GDP over time and benefits were too low compared to the minimum wage (Table 4.5.); because growth rates also rose during the same period (Table 4.6.). In this respect, how can we explain why the effect of Bolsa Familia is relatively high (in the Figure 4.2.) compared to other policies such as minimum income? Because, this analysis focused on extremely poor people; and those people cannot be affected by minimum wage enhancement or other redistributive policies. That is why Bolsa Familia could become the most "effective" policy for the poorest segments.

Table 4.5.: Number of Bolsa Família Benefits, Average Value and Minimum Wage, 2004-2011

Years	Number of BF Beneficiaries	Average Value of Benefit	BF as % GDP
2004	6.571.839	67	0.3
2005	8.700.445	63	0.3
2006	10.965.810	63	0.3
2007	11.043.076	75	0.4
2008	10.557.996	86	0.4
2009	12.370.915	95	0.4
2010	12.778.220	97	0.4
2011	13.352.306	120	0.5

Source: IPEA and Ministério do Desenvolvimento Social e Combate à Fome (MDS) (Barbosa Filho, 2012: 3)

Table 4.6. Brazil´s GDP Growth Rate, 1995-2011 (%)

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
4.4	2.2	3.4	0.0	0.3	4.3	1.3	2.7	1.1	5.7	3.2	4.0	6.1	5.2	-0.3	7.5	2.7

Source: IBGE (Barrientos, 2012: 4)

Additionally, it is claimed that Bolsa Familia "reduces the poverty gap by 18 percent and the severity of poverty by almost a quarter"; although it lessened percentage of

poor people only 1.6 percentage points (Soares, 2012: 22). It is probable because poverty gap is more sensitive to those conditional cash transfers compared to the number of poor. The main reason for this is the very modest benefit for necessary living expenses. Only poor people, who were already close to the poverty line, could pass the border and were involved in the upper group (Ibid.). Thus poverty gap was closed but people who were slightly below the line stayed where they were. This limited impact of Bolsa Familia on Gini co-efficient can be followed via government spending on the program and interest payments. In 2006, Bolsa Familia was just 2.5 percent of government spending (0.5 of GDP); while 18 percent of total expenditures was devoted to the interest payments of debts or to "the financial institutions, wealthier individuals, and foreign entities", as we mentioned in the third chapter in detail (Amann& Baer, 2009: 37).

To be realist, there is no way to get out of poverty in this picture and it is difficult to observe a prominent improvement in the distribution of income via Bolsa Familia. In short, one can say that Bolsa Familia "greatly improv(ed) their lives even if they remain in poverty" (Soares, 2012: 22). Instead, we argue that they remained in poverty even if their lives improved thanks to reaching basic foods.

4.3.4.2. Conditionality Based On Education and Health

There is an ongoing debate in the literature about conditionality of Bolsa Familia, and conditional cash transfers. On the one side, there are scholars arguing that conditionalities could harm unconditional nature of citizen rights (Fonseca, 2001; quoted from Britto). In this point of view, programs such as basic income should be implemented without conditionality, since it violates human rights. On the other side, it is believed that conditionalities are main features of those programs and essential for breaking the vicious circle of poverty; because they persuade people to enjoy basic services (Estrella and Ribeiro, 2008 – quoted from Mourao-2011; Cardoso & Souza, 2003). It is a fruitful discussion on the nature of conditional cash transfers; but, within the limitations of this study, it is important how conditionality affected the outcomes and whether it contributed to breaking the cycle of poverty. On the

education front, increasing school attendance and reducing child labor are the main objectives of the conditionality. Due to Bolsa Escola and other attempts in this field, school attendance almost reached universal level, as we mentioned before. There was not room for more improvement; and not surprisingly, Bolsa Familia could increase enrollment by only 3.2 percent (Glewwe & Kassouf, 2010: 11). What Bolsa Familia has to do is to promote educational quality; but it only cares about school attendance rates within 85 percent attendance condition. It does not pay attention to quality indicators such as rates of drop out, repetition, enrollment in the right age, grade promotion and the like. According to a study on the subject, "the program reduces dropout rates, and raises grade promotion rates, by about 0.3 percentage points for the population as a whole (Ibid). Furthermore, "(h)igh levels of repetition rates are associated with drop out as children become frustrated with the school system, give up, and drop out of school" (Kuenning, 2009: 214). Finally, it is testified by Santarossa that "Bolsa Família has no significant effects upon cognitive skills" (Soares, 2012: 23). More importantly, the program was targeting 7-15 age groups until 2008 and then it was expanded to include 16-17 year-olds. In terms of reducing child labor, 16-17 age adolescent groups are more inclined to work by breaking the school than 7-15 age groups, because 16-17 age groups are more appropriate for working conditions. Also, high school education is more significant in terms of social mobility between classes. The relationship between high school education and social classes can be seen "with the enrollment rates for the poorest 20 percent at 19 percent, compared to 74 percent for the richest 20 percent" (Kuenning, 2009: 214).

The other side of the coin is fall in "the proportions of GDP spent on education" from 4.7 percent to 4.1 percent between 2002 and 2004; and it is related to Lula's political choice putting forward hunger at the expanse of education (Kuenning, 2009: 209). Although it is a mistake to create a fictitious dilemma between education and nutrition, the latter has priority relative to the former; and also it is an important indicator of health conditions in a country. For instance, Bolsa Familia meant a lot for those having not regular income. In this regard, Bolsa Familia represented reaching basic food without struggling for the poor families living in the Northeastern part of the country and having not experience of gaining regular

income; and 88 percent of benefits were used for food consumption (Mourao, 2011: 5-6). However these results are not convincing that the program is sufficient to move people out from poverty. Even worse, these indicate that nutrition is still the most important requirement of beneficiaries; and families are not able to meet their other basic needs such as housing, hygiene, clothing and so forth. Further, we are able to estimate what benefits imply for future generations by taking into account nutritional status of children; because, it was proven in many studies that "poor nutritional conditions of young children can adversely affect their productive capacity and well-being for the rest of their lives" (Soares, 2012: 23). In this context, Andrade, Chein and Ribas (2007) conducted research in order to see the difference between beneficiaries and non-beneficiaries by using Propensity Score Matching:

> The authors analyzed the usual indicators for children from 6 to 60 months: (i) height for age; (ii) weight for height; (iii) weight for age; and (iv) Body Mass Index for age. Separate analyses were undertaken in the Northeast, North/Center-West, and South/Southeast and for poor and very poor families separately. *The results show no impacts at all.* Children in families with a Bolsa Familia benefit had the same nutritional profile as those with no benefit (as quoted by Soares, the emphasis is mine).

By the same token, there is a noteworthy increase in the height of children12–36 months old but "there is no way of knowing whether this positive impact was due to the nutritional supplements given by the programme or to the cash transfer itself" (Soares, 2012: 23). Even if it is evidential that child nutrition is fundamental for healthy development, "no statistical differences between the nutritional statuses" was observed among children of beneficiaries and non-beneficiaries. Moreover, consumption level of sweets among beneficiary children is more likely three times than the others, while "(l)evels of fruit and vegetable consumption among both groups were low and similar to each other" (Mourao, 2011: 5).

It is even more difficult to determine the impact of Bolsa Familia on improvement of health than education. Municipalities are responsible for "recording compliances with health conditionalities to SISVAN[44] at local level" and Ministry of Health and Ministry of Social Development manage entire health compliance system and identify consequences of non-compliance (Medici, 2011: 9). However, it is

[44]Sistema de Vigilância Alimentar e Nutricional – System for Nutritional and Food Surveillance

controversial how carefully the data is held. According to International Food Policy Research Institute, “Bolsa Familia increased pregnant mothers’ use of prenatal care by 1.5 prenatal care visits on average” and “the probability that a child receives all seven vaccines required by age of 6 months by 12-15percentage points” (2011: 9). But, from another point of view, “(n)o significant differences were found” between beneficiary and non-beneficiary families “in terms of vaccination coverage”; because immunization coverage has been extremely high in Brazil for several decades (Santos *et al.*, 2011: 2). On the other hand, Ministry of Social Development’s in 2005 and 2010 focused on the difference between beneficiaries and non-beneficiaries. There was no remarkable positive impact in health in 2005; but some improvements were observed in terms of nutritional status of children in 2010. For instance, it was seen that the rate of children with breastfeeding in the 6 first months was 62 percent comparable to 54 percent of non-beneficiary group. The number of premature born children of non-beneficiary group was 14 percent more than benefiting families. (Medici, 2011: 17). These are important indicators, but they are not verified by different studies. For instance, another study has found that Bolsa Familia has not “any effect on the weight/height deficit” and no major differences between beneficiary and non-beneficiary families “in terms of weight at birth and possession of a vaccination card”. Surprisingly, it was revealed that major differences are result of “the education level of the family head”, or moderate differences arose when children “had a birth certificate and whether their household had access to electricity and a water supply” (Sousa, 2009: 12-13). In other words, the current status of the family has the primary role in improving life conditions of children, not the conditional cash transfers. Likewise, Ferreira and Veloso indicate that labor mobility rises depending upon the level of fathers’ wages rather than education of children (2007, 203). Thus, for a satisfactory result, there is a need to increase the overall income of family rather than conditionalities merely targeting only children and mothers.

As another consequence of the expansion of the program, the number of municipalities with no registration of health conditionalities fell from 1.019 municipalities in 2006 to 11 municipalities in 2010 (Medici, 2011: 16). Similarly, the

number of beneficiaries has increased considerably (See Figure 4.1.). Yet, it does not simply imply improvement of the quality of health services, even if the expansion of Bolsa Familia and increase in beneficiaries is necessary for success of the program. There is no direct correlation between the number of beneficiaries and increase in health services. Because, conditionality compulsorily boosted the demand for those services but infrastructure was not sufficient to meet this demand. It, in turn, inevitably adversely affected quality and quantity of services. In sum, it seems that current educational and health contributions of the program are not able to ensure mobility of new generations in order to break the cycle, without infrastructural investments. Furthermore, these results are not arising from shortcomings of targeting or misuse of funds; but it entirely concluded from structural features and limitations of the program.

Meanwhile, targeting problems mainly arise from the structure of the program, in which benefits are connected to strictly defined target groups. In that way, it becomes crucial to determine accurately the beneficiaries in order to be successful; while it is permanently open to risks. According to spatial analysis held by Haddad, benefits are "being allocated in countries that need them the most" (Haddad, 2009: 197). It is argued that 66 percent of Bolsa Familia benefits are enjoyed by the 10 percent of poorest families (Soares *et al.*, 2010: 17). On the other hand, Mourao asserts that "in Rio de Janerio, "80% of non-beneficiaries surveyed met the conditions for participating in the program, (while) 9.6% of beneficiaries had per capita incomes over this value" (2011: 4). So, there is a controversy about whether targeting mechanism works well; but it is sure that leakages and frauds are internal and structural problems of the program.

4.4. Concluding Remarks

To conclude, Bolsa Familia was a program dating back to conditional cash transfer programs spontaneously put into practice at the state level in 1995, against severe poverty that reached to its peak level under neoliberal policies. It was the pioneer of those programs latterly expanded to Latin American countries and all over the

world.[45]Bolsa Familia was created in 2004 and has been implemented since that time. It has two purposes: Immediate relief of poverty and breaking the transmission of poverty. Although there are positive developments related to the first target, researches showed that it has very limited impact for the second goal. There is no doubt that social and cultural developments eventually mature; however, these programs have been in force for two decades. It is enough to see that it can be influential only after several generations, if it preserves the current features with modest payments.

[45] In 1997, Mexican technocrats came for examining those programs in Brazil and generated Progresa, later renamed Oportunidades in Mexico (Lindert *et al.*, 2007: 12).

CHAPTER V

SUMMARY AND CONCLUSION

For the first time in years, poverty indicators in Brazil began to change with a positive impact from the 2000s onward and a small decrease was observed in its Gini co-efficient. At first sight, there is an assumption that *Bolsa Familia* had a major role in this process; and thus, Lula and his *Fome Zero* policy are honored for creating this effect. More importantly, it is presumed that the program can break the intergenerational cycle of poverty as if it was successful in reducing the current poverty. There are so many studies, mentioned in the fourth chapter, questioning the program whether it could achieve to alleviate poverty in the short run. Some of these studies argued that the program contributed to reducing inequality and poverty. However, there is no consensus on the magnitude of the effect; and an important part of them accept that this effect is very limited. On the other side, there are studies put forward that there is no difference between beneficiaries and non-beneficiaries; and the decrease in Gini co-efficient is a product of other macro-economic improvements such as increase in minimum wages and decrease in inflation. Under these circumstances, is it realistic to be hopeful about the program that it would be able to break the intergenerational cycle of poverty? The aim of this thesis is to examine this question by referring to the causes of poverty in Brazil and the structural limitations of the program. In order to achieve this goal, it is important to look at the conditions in which conditional cash transfers were put into practice. Neoliberal transition and its manifestation in Brazil have crucial importance for understanding the characteristics of the program. In this respect, this study followed a path from general to specific and tried to identify the poverty problem correctly by flashing the details

of macro-economic policies; and then, it questioned the solution and its sufficiency for eliminating the problem

In this regard, the second chapter deals with setting up a connection between neoliberal policies and the causes of poverty in the current period; and sheds light on what kind of changes occurred in social life thanks to policies implemented under five subheadings. In short, it is argued that industry is no longer a tool of development and the services sector replaced the manufacturing industry as an important creator of jobs. Hence, the emphasis put on flexibility with the aim of ending the rigidities of previous era which in turn means increasing the number of working poor with long working hours. On the other hand, it is stated that growing unemployment as another result of these policies dragged people to poverty with job losses which increased especially during recession periods. Another aspect of implemented policies was informalization of labor which means not only low wages, but also increasing insecurity. It is emphasized that this process is neither *neutral* nor closed to human impact; but it is a result of implemented policies. Instead of the full employment objective of the Keynesian theory, it was claimed that unemployment is not an abnormal outcome in this period; and unemployment is acceptable within NAIRU hypothesis in accordance with neoliberalism. Additionally, it is stated that unemployment is not a direct consequence of growing population and it is linked to Marx's theory of '*the reserve of army*'. In this framework, poverty does not stem from growing population; but, the latter may arise from the former, because families prefer to have more children for their contribution to household income. It is indicated that there is a strong relationship between migration and urban poverty; and immigrants are an important part of society exposed to poverty due to discrimination preventing them taking place in the labor market. Besides, women and single-parents who cannot find a job constitute another significant part of poor population. It is also contended that nuclear family is no more the main unit of society as it was in the Keynesian period and this de-familization process makes these disadvantaged groups vulnerable against the risk of poverty.

It is also debated that financialisation is an essential part of neoliberal agenda. It is criticized that the latter was subordinated to the former and this, in turn, prioritized the financial investment against the real investment. In order to welcome financial investments and to provide stability, the countries increased interest rates and this flight of capital made the countries vulnerable to crises by closing the balance of payments deficit through these short-term investments. It is put forward that this is a way of arresting surplus value and presenting labor to the service of international capital by making people impoverished. Besides, it is asserted that credit system is another aspect of the issue, which compelled people to use credits to meet their basic needs, such as housing; and it is a way of appropriation of their future earnings through speculative and derivative markets. It is stressed that globalization is presented as a new, positive and unstoppable process, although there was a similar period including acceleration of trade and reducing barriers in the late 19th century. It is expressed that globalization is a new packaging of neoliberalism and an answer to the crisis of capital accumulation. It assumes that individuals are taken as the only agent who has pure knowledge of markets and can cope with every kind of risks alone. This understanding, based on competitiveness concept, is valid for the states seeking profitability in the international markets; and the states are reduced to a technical administration process using interest rates, exchange rates, regulation for foreign investments etc. Arguably, it is not possible to bring poverty on the agenda in this framework. Lastly, it is declared that this kind of approach takes state, society and markets as separate entities in which, every of these entities gain a transcendental meaning closed to human impact. This, in turn, is coherent with "There Is No Alternative" discourse of neoliberalism. In this context, redistribution policies are presented as an obligation rather than a policy choices; an approach eliminates dealing with poverty within redistribution policies.

In this respect, it is claimed that the state has a major role in this process. There were crises of accumulation in both developing and advanced countries, and developing countries were experiencing debt crisis and high inflation in the late 1970s and the early 1980s. At this point, the IMF and the World Bank indicated that they could

lend these countries on the condition that new policy prescriptions, known as Washington Consensus, were put into practice and change their import substitution industrialization mode of accumulation with export oriented strategies. It is argued that these policies led to vicious circle between high interest rates and the balance of payments deficits, since the system became addicted to capital inflows. Due to the same reason, high growth rates could not be achieved and this failure made some divergences in the discourse of the IMF and the World Bank on growth and poverty in the 1990s. East Asian countries and their high growth rates were exemplified and alleged that they were successful because of being pro-poor. As mentioned in this section, there are different approaches about what is pro-poor growth; however, it is possible to define pro-poor growth as policies spontaneously taking into account *poverty and growth;* and giving a key role to the state in order to fulfill social responsibilities. In this framework, the role of the state is to make markets more efficient, although the markets are accepted as systems functioning without any intervention. There are some features attributed to the state such as "credibility, accountability, participation, predictability and transparency" and expected that it must be included in the process by being "non-interventionist". Because of these differences, this period was named as post-Washington consensus and it implies that fundamental assumptions of Washington consensus were fallen behind. Nevertheless, it is contended that the main pillars of the first one are protected in this scenario, and it is claimed that there is no significant change in basic structure of the system. Since we argued that poverty is a consequence of implemented macro-economic and social policies, it is difficult to hope that poverty could be overcome through these policies.

In addition, it is noted that implemented policies exposed poor to the devastating effects of crises through job losses, contractionary fiscal and monetary policies. In order to protect people against these risks, 'social networks' were put on the agenda; targeted programs aiming to reach people as fast as possible and efficiently. One of these programs was conditional cash transfers (CCTs) and the other one is micro-credit. The main reference point of CCTs is human capital and there are

conditionalities based on education and health checks for getting payments. Means-tested methods are used for selecting beneficiaries; and implementation the programs varies according to the peculiar conditions of the countries. Their budget covers a very small part of the budget and GDP and being “cost-effective” is most important feature of these programs. On the other hand, micro-credits firstly started to be implemented in Bangladesh and aim to make beneficiaries self-sufficiently working people. However, as it is asserted, these beneficiaries try to compete with the large firms and manage to work with very limited budgets; and most of them works outside the scope of social security in order to avoid costs and repay the credits.

In the third chapter, it is expressed that Brazil is one of the most unequal countries in the world, even though it is seen as one of the superpower of future with a great economic capacity. It is also noted that poverty is very old problem of the country and it is important to look at its history in order to apprehend the current poverty problem. The history of Brazil was divided into four parts in terms of mode of capitalist accumulation: First of all is colonial period based on sugar production and slave labor. Second one is export oriented economy between 1870 and 1930 depended on sugar, coffee and cotton exports and it is quoted that the establishment of Republic and the abolition of slavery did not make any difference in the living conditions of people, working for a limited number of landowners. Third one is ISI period begins with the Great Depression and lasts until the late 1970s. The country implemented in-ward looking policies in this period and was thrown upon its own resources through production for the domestic market. The state undertook a key role in this structure such as the establishment of infra-structure, production with state-owned enterprises, subsidies for private sectors, organization of economy etc. In this framework, class conflicts were stressed for the sake of development and poverty was supposed to come to an end thanks to high growth rates. Even though there were problems with the ISI arising from its limitations, they were ignored until the mid-1960s. But the severity of conflicts rose in the mid-1960s and then the military coup was carried out in 1964. After the coup, the country witnessed seven boom years but there was no improvement in income distribution; on the contrary, it further

deteriorated in favor of upper and middle classes. However, limitations of ISI were not sustainable when the world system was in crisis because of oil shocks. Hence, there emerged a consensus on the need for a change both in political or economic fields and thus fourth period, neoliberalism was put on agenda with democratic transition.

There were four administrations during this period: Neves-Sarney, Collor-Franco, Cardoso and Lula governments. The first and the second governments started to implement neoliberal policies with privatization of the state owned enterprises in order to reduce the scope of the state, but they failed to implement the whole neoliberal reforms and also their governments were shaken with corruptions and scandals. Furthermore, the prominent problems of previous decade, high inflation and debt crisis, were not solved in this period. Even, *Cruzado, Cruzado II, Bresser, Summer and Collor Plans* failed in decreasing the inertial inflation since they were freezing wages and prices. Then, Cardoso government put into practice the Real Plan in 1994 and it was effective in reducing inflation; because wages and prices were released and free floating exchange rates were put on the agenda; thus, capital account of the balance of payments were liberalized and stabilized the economy. On the other hand, it linked the balance of payments to the capital inflows and high interest rates were proposed to welcome capital; this, in turn, caused overvaluation of currency and Brazil was in currency crisis in 1999. At this point, it is argued that this crisis indicated the failure of not the Real Plan, but also neoliberal policies; and the crisis put an end to the idea that neoliberal policies worked. In response, Lula was elected in the 2002 elections, since he was seen as implementing alternative policies. However, it is not to say that Brazilian people was ready for a complete change, and there was an intensive pressure on the Lula government by a significant part of society demanding institutional guarantee for standby agreements held with the IMF. As mentioned, there was no consent on a radical change; Lula had already transformed the PT, after failed in previous three elections. As we see that the Lula governments were very fragile, since constituency of PT was composed of very different social groups which have nothing to do with each other. So, it can be

claimed that Bolsa Familia was not a direct result of social struggles demanding equality.

Additionally, main issues discussed in the previous chapter and their manifestations in Brazil were handled under separate subheadings in detail in this chapter, in order to examine the relationship between neoliberalism and poverty. It is debated what kind of policies the Brazilian governments put into practice in order to meet the needs of international capital, how the government saved the economy in times of crisis and what these efforts imply for labor-capital relation. It is proposed that one of the most important problems of ISI was the balance of payments constraint, since the country imported expensive goods and technologies in return to export of cheap goods. On the other hand, it is asserted that the balance of payments further deteriorated with globalization, when the country reduced the import tariffs and barriers for trade liberalization. Because the country had to liberalize the capital account for providing the balance and it led to the currency crisis in 1999. Besides, it is denoted that economic policies are determined by several small groups in this period, since most of the state owned banks and enterprises were purchased through privatization by a few large international firms and banks. It is put forward that financial system was fragile during ISI, since manufacturing industry was financed by different resources which were not enough alone. Still, in ISI period, the system had short term stability because of indexation between wages and prices, thanks to the closed economy. Moreover, indexation served as an anchor between fictitious and real capital and a mechanism providing short term stability; but also it led to inflation because of inconsistency since prices and wages were determined according to the data of the past. As mentioned in this section, heterodox policies abolished the indexation and preferred to freeze prices and wages. Since this measure did not help to put an end to inflation, the Real Plan chose to release prices and wages; but it led to currency crisis and separation of fictitious and real capital. As a result, it was seen that the markets do not work on its own and the state regulate the markets; there is no invisible hand; but the financial system is a redistribution mechanism creating poor and rich people.

It is stated that inequality was another problem of ISI and minimum wages decreased to its lowest level in the early 1950s. In spite of this, workers, at least formal labor, had a chance to reach their goal when they demanded wage increase, because large companies had the power to reflect this additional cost to the prices thanks to the close economy and being monopolistic. Besides, the indexation between prices and wages provided workers a relative stability as if there was no loss of income. Therefore, they were not affected from price changes. When heterodox policies abolished the indexation and froze wages and prices, there emerged inconsistency between them, since the former was frozen at the nominal level and the latter was at the real level. It is asserted that the purchasing power of the workers fell and they were deprived of the power of bargaining. The Real Plan liberated prices and wages, but manufacturing industry terminated, because these small scale firms could not compete with the large multinational companies under liberalized economic conditions. As a result, it is argued that unemployment, shifting labor from formal to informal areas and from industry to services sector were inevitable results in this framework. Moreover, privatization of banks and state owned enterprises contributed to these losses of jobs and the whole process undermined the unionism and broke the power of organized labor. In addition, the other issue is rural labor that was under the control of archaic and semi-feudal relationships during the ISI period. It was stated in this section that their demand about the land reform was not put into practice by the Cardoso government according to their requests; and they became either landless or unemployed thanks to agricultural business strategies of neoliberalism and intensive technological investments of huge companies making unskilled labor unnecessary. It is affirmed that these policies reinforced rural poverty in the neoliberal era. Lastly, it is argued that demographic fields were ignored by Washington Consensus; however, it cannot be said for post-Washington Consensus which allegedly cares human capital and regional differences of health and education services. From this point of view, pro-poor investments were expected to increase growth rates; however, it is stressed that neoliberalism deepened regional disparities between Northern and Southern regions of the country.

In the fourth chapter, we attempted to examine the characteristics of the Bolsa Familia program and questioned whether it has features to realize the second goal, which is preventing transmission of poverty to the next generations. However, poverty in Brazil has a long story and structural reasons; so, it was necessary to examine these reasons in order to get ideas if the solution is appropriate for the problem. II. and III. Chapters are a product of such an effort, and in this chapter, the main features of the program were analyzed and queried, if it has a capacity to solve the problem, and, if not, what the main shortcomings of the program are. The first thing we need to know about Bolsa Familia is that it is not a program initially implemented by Lula. On the contrary, it is a collage of different programs implemented since 1995 by many local governments. Therefore, it is examined the features of Bolsa Familia after dealing with primitive forms of this program.

The singularity of Bolsa Familia distinguishing it from its predecessors is unified and standardized structure spreading out to every state of the country. Indeed, it expanded to include all municipalities and states after the consolidation in 2004. Both the amount of expenditure on the program and the number of beneficiary families increased throughout its history. However, the basic logic behind those programs is the same, even if they had some differences. So, it is not a mistake to evaluate these programs as if they have been implemented under one name for two decades. In fact, Bolsa Escola is a product of the debates introduced by Prof. Cristovam Buarque in the early 1980s in the University of Brasilia. Yet, conditions were not suitable for putting into practice these programs at that time. In this context, Bolsa Escola came on the agenda after the lost decade of Brazil between the mid-1980s and the mid-1990s. It was a good answer for the governments seeking a method which would provide assistance to the poorest part of society without any significant effect on the system. In 1995, The ‘Bolsa Escola’ program was launched by the Governor Cristovam Buarque (Workers Party, PT) in the Distrito Federal and the Guaranteed Minimum Family Income Program (PGRFM) was launched by the Mayor José Roberto Magalhães Teixeira (Brazilian Social Democratic Party, PSDB)

in the Campinas Municipality. It is stated that education was primary goal of Bolsa Escola, because education was a long-term investment that is expected to move people out of poverty in the long run according to this point of view. If the program confined itself with cash payments without conditionality, its impact was limited with the short-term improvements. Yet, condition of education is significant because child labor was common among these families and children were deprived of basic education.

Implementation of the program spread over time and similar programs were put into practice by different states and municipalities. As a result, Cardoso gathered these programs under the name of Bolsa Escola and its control was left to the Ministry of Education. Administration still belonged to the municipalities, but all of these municipalities made legal arrangements in order to standardize managerial skills of the program such as selection criteria, conditionalities, means-tested schemes and payments through Caixa Economica Federal etc. It is expressed that monitoring skills of the program was primitive depend on municipal inspection according to data reported by schools and hospitals. As mentioned, conditionalities were evaluated monthly, not annually; so, families could not send their children to school whenever they wanted without being excluded from the program. Besides, the evaluation of the program was not possible because there was no data held on a regular basis. Thus, evaluation could be done by comparing beneficiary and non-beneficiary groups. In this section, it is mentioned about these kinds of studies, in which they accept that the program increased school attendance rates. On the other hand, there is a consensus about that the program had a very limited impact on the quality of education and the degree of poverty. More importantly, it is precarious how Bolsa Escola was responsible for this positive effect; because there were also other attempts of the government after education was defined as a universal right in the 1988 Constitution. For instance, the municipalities and the states had to spend 25% of their income for public education. Also, some qualifications were identified for teachers and teaching education; and minimum income were determined for them. Besides, municipalities were obliged to implement policies for basic education such as distribution of books

for reducing regional differences. Additionally, a program called PETI was put into practice in order to prevent the “worst forms” of child labor. Apart from these, another shortcoming of the program is that Bolsa Escola was only useful for families having children and excluded the others who have no children and could not fulfill the residency condition. It is also noted that the stipends were far from reducing poverty since they were very modest that could cover the revenue deprived because of education of children.

In this framework, it is noted that the Cardoso government put into practice Bolsa Alimentaçao (Food Grant)and Auxilio Gas (Gas Assistance) programs in the same period with Bolsa Escola. When Lula came to power, Cartao Alimentaçao (Food Card) and Fome Zero (Zero Hunger) programs were put into practice; but they were consolidated in 2004 under the name of Bolsa Familia, because they were targeting the same groups. They were also under the control of different ministries and it caused waste of time and was costly for either the states or the governments. Its consolidation provided Bolsa Familia to spread all over the country and made it one of the largest conditional cash transfer programs in the world. Its consolidation and expansion were praised by the World Bank and the Bank supported the improvement of its design and implementation by giving loans. Although its coverage expanded throughout the country, its share of GDP has increased very little from the beginning.

It is also mentioned its ‘Content and Objectives’ and criticized because of using the poverty line adopted by the World Bank, even though it is a nation-wide program. The amount of benefits increased over time and the age of the children included in the program was raised from 14 to 15 in 2008. Besides, extremely poor families having no children are covered by the program and able to benefit the basic income. It is also dealt with ‘Implementation, Design and Financial Support of International Organizations’ in this chapter. It is noted that the Ministry of Social Development and Eradication of Hunger was founded in order to manage the program at the federal level; but the Ministries of Health, Education, Finance and Planning were

continued to be included in this process. Caixa Economica Federal is still responsible for operation of the program at the federal level and selection of the beneficiaries is realized through Single Registry – Cadastro Unico as it was in Bolsa Escola. As mentioned, the World Bank supported the improvement of the system by giving loans. The federal government is in charge with technical regulation and control, and the states have executive functionalities. The system is still based on family unit, because it is believed that families, not individuals, could comply with the requirements of the program. The program has conditionalities because it is presupposed that poor people are deprived of those basic services because of lack of demand and due to direct and indirect costs of taking up these services. It is assumed that demand driven-policies would engage people in the system through conditionalities contrary to supply-driven policies. It is stated that this what social inclusion meant. If beneficiaries could not comply with conditionalities or they give misleading information about themselves, their membership is canceled.

Additionally, it is described what kind of monitoring skills the program has. It is expressed that monitoring and evaluation is a very significant aspect of the program, since the program has very specific targets. It is also important to monitor the conditionalities because payments are linked to strict conditions. It is also stated that monitoring and evaluation necessitate a good data base; however, there is no such kind of information between the federal and the local governments. That is why monitoring and evaluation are heavily based on 'randomly selected control and treatment groups to measure changes in behavior over time', a method which is very expensive and limited with a small group. Alternatively, there is a method called 'propensity score matching technique' but it is not an appropriate method for some of conditionalities. As a result, it is argued that there are huge deficits in "monitoring systems" stemming from lack of comprehensive network, which is expected to collect data in order to evaluate the general outcomes of the program.

It is scanned the studies in this field. Most of these studies put forward that Bolsa Familia is effective in reducing poverty and inequalities between different regions and groups, even though there is a controversy among them about the amount of this effect. However, the main objective of this thesis is not to determine the amount of the effect, but to question whether it has characteristic to move people out of poverty in the long run. It is observed a decrease in Gini co-efficient after 2001, but this relative improvement can be a result of other macro-economic indicators and stability, or developments in the labor market. For instance, there is a decrease in unemployment rates, an increase in minimum wages and informality rates dropped in the same period. In this regard, it is not wrong to argue that the effect of Bolsa Familia was very limited in this progress, because the program has a very small share of GDP, which did not increase although experiencing a significant increase in the coverage of the program and GPD in the same period. Besides, the amount of payments is enough for carrying people on the extreme poverty line, but it is not sufficient in order to go one step further. With reference to a study held by Soares (2012), it is argued that they remained in poverty even if their lives improved thanks to reaching basic foods. As it is claimed in this study, Bolsa Familia "reduces the poverty gap by 18 percent and the severity of poverty by almost a quarter"; although it lessened percentage of poor people only 1.6 percentage points.

It is stated there are scholars finding conditionalities harmful for the nature of citizen rights. On the other side, there are scholars arguing that conditionalities are essential for breaking the vicious circle of poverty. Apart from this debate, it is important to ask how conditionality affects the results. By looking at conditions of the program, it is seen that it only cares increase in school attendance and the usage of health services, not to develop the quality of services. But the important thing is to improve the poor people's living conditions if it is really wanted to prevent the transmission of poverty to the next generations. Not surprisingly, it increased the use of services, since the introduction of Bolsa Escola, because families cannot continue to the program unless they comply with the conditions. In this context, what Bolsa Familia has to do is to make infrastructural investments in order to increase the quality of

services. Namely, it seems that the program cares only attendance, but not the quality indicators such as dropout and repetition rates and enrollment in the right age for education; or weight/height deficits and cognitive skills of children of beneficiaries for health service. Unfortunately, the studies taking into account of those indicators found no significant difference between beneficiaries and non-beneficiaries, as mentioned in this section. In short, it can be said that conditionality does not make any sense on its own for improving living conditions of poor people. Even if the program is perfectly implemented, there many structural limitations of the program, which prevent it to be successful in breaking the cycle of poverty.

Firstly, payments are too modest even compared to minimum wages and families are merely able to meet their food consumption via benefits. However, it seems impossible to increase the amount of the payments and the share of the program in the budget; because, it is the unique character of the program being *cost effective*. It is appraised in many studies and used for persuasion of some parts of the society perceiving poor people as lazy who do not deserve to be supported. Due to the low cost of the program, it is suggested that "(t)he government should stop using minimum wage increases as a policy to reduce inequality and adopt more cost effective programs such as Bolsa Familia" (Barbosa Filho, 2012: 10). So high hopes should not be attached to the view that Bolsa Familia is able to get people out of poverty with very modest level of payments, even if growth rates are regularly increasing (except 2009).

Secondly, the program has conditionalities both in education and health; nevertheless, quality of the service is poor and the differences between beneficiary and non-beneficiary families is negligible as shown in a number of studies. Not surprisingly, the number of beneficiaries is steadily growing and there will be more people demanding education and health services. But, to improve the quality of these services, there must be other infrastructural investments apart from the program. Surely, it seems difficult for government to enlarge social expenditures under fiscal

austerity; this, in turn, necessitates accepting the limitations of the program and reminds us to investigate whether it is possible to end poverty within the current macro-economic structure.

Thirdly, we have argued that the program has not an objective for improving living conditions of families and children. But, we must also say that the program does not have such a goal. It has two main goals one of which is the relief of poverty by means of income and there is a consistency and adequacy -to some extent- between the aim and the instrument. However, it is not valid for the second goal which aims to prevent the transmission of poverty by means of conditionalities; because conditionality is not enough alone. Therefore, neither are the cognitive skills of children increasing, nor are the health conditions of mothers and children visibly improving. In addition to low quality of education and health service, the repetition and dropout rates remain at the same level because those children generally continue to work after school hours (Barientos, 2006: 550). In that way, it is very hard to put forward the argument that the gap between children of poor and rich families would close and those children would have similar equality of opportunity in the future.

Thus, the program has to be supported by other policies; otherwise, we can argue that Bolsa Familia has not a second goal or it is just a promise without any basis. Especially, when we think that the program cares only attendance condition, but not the quality of services, it reminds another kind of trickle down approach presupposing that educational quality eventually would increase spontaneously based on enrollment and attendance. That, in turn, is a way of keeping children at school especially in recession times in order to increase the job opportunities of adults. This is an implicit reason of reducing child labor (Cardoso& Souza, 2003: 11); and obviously, education and health services do not imply a significant impact unless the government improved their quality.

Fourthly, another failure of the program is the imposition of conditionalities on the beneficiaries. On the one hand, they are illiterate and confronted with these services perhaps for the first time in their life; thus, they need to be informed. On the other hand, the program is not participatory, although it is presented as a new social contract which is able to develop governance and participation (Lindert, 2004). Beneficiaries are included neither in the design and management, nor in the evaluation process. This inevitably decreases the quality of utilization of the program. That is why it is not sufficient to pay the benefit and wait people to comply with the conditions in order to be educated and healthy. Instead, beneficiaries should be given training and they must be directed to use these services rather than just giving money. *Another structural limitation* is that the program targets only poorest segment of the society, not the relatively poor people. The benefits are very modest that could only move a family beyond the extreme poverty line. If the family has an income just on the poverty line, it is not possible to get "basic income", while "variable income" is only for children or mothers. But there is no income support for disabled or elderly people who need attentive care, an important part in household budget. Such kinds of expenditures are of crucial importance in determining the poverty level of family; these people are simply excluded from the program, since they are not seen as "human capital". *Furthermore*, there is evidence that it still does not reach all of the needy families, especially in *favelas*[46] (Mourao, 2011: 4) and it is insensitive to the inequalities of regions. For instance, the amount of payments can be enough to provide for maintenance of a family in the rural; but it is difficult to say the same for the big cities. Therefore, the program must create room for diversities and may create different thresholds according to peculiar conditions of regions, ages etc.

Above all, Bolsa Familia is not coordinated with formal employment policies in its current form. There are some efforts to create job opportunities in recent years (MDS, 2008: 3), but they are far from providing a comprehensive framework for now. For this reason, the program was criticized for creating a dependency culture.

[46] A term means shanty town in Brazil.

Some of the critiques renamed the program as "Bolsa Esmola ('charity grant' or 'beggar's grant')"; because it is very modest in order to carry families above poverty line and to create the conditions of self-sufficiency (Barientos & De Jong, 2006: 550). This willingly or unwillingly reminds the relationship between Bolsa Familia and populist policies. The Northeast, the most backward part of the country was the region that mostly benefited from Bolsa Familia (Haddad, 2009: 199). Not surprisingly, Lula won the 2006 elections mostly through the voters of this region, while he lost an important amount of support from other segments. There are many municipalities which nearly half of their budgets (40 percent) are based on Bolsa Familia (Zucco, 2008: 41). Although Lula did not promise people about the issues that he could not achieve like a classical populist leader (Hunter & Power, 2006: 21), he used the image of "father of the poor" throughout his time in office(Branford& Kucinski, 2005: 13) and "it increased Lula´s vote by one or two percentage points" (Soares, 2012: 1).

As a conclusion, it is very hard to say that the program promises a new future for beneficiaries. Beneficiaries must apply for their in come to be tested and renewing their registration in every two years. There is no data about how many families have dropped out of the program and how many of them quitted because of increasing income. However, there must be a limited number of families that could cross over the border of poverty line; because the scope of the program and the number of families are continuously growing even though economic conditions of the country got better since the early 2000s. Nothing much has changed significantly in socio-economic structure of families over two decades and almost the same families continue to benefit. Thus, the current situation indicates that Bolsa Familia is not able to achieve its second goal: to prevent inter-generational transmission of poverty because of its structural limitations. Hence, 70 percent of people believe that "(t)he poor have very little chance to escape from poverty" in Brazil (Lindert *et al.*, 2007: 10). In short, it can be said that Bolsa Familia secures benefits which are helpful in the short run; but, it is inadequate in the long run and "surely do not constitute the only and permanent solution for the country's social problems" (Soares *et al.*, 2006:

26). There are so many things to make it useful in the long run, such as establishment of a relationship between employment, the program, new infrastructural investments on education and health in order to break the vicious cycle of structural poverty and construct a more equal Brazilian society.

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