Brazil has been described in many phrases by people who have sought to capture its essence in a few words. Perhaps the most cited characteristic is its size. The country measures some 3.27 million square miles, i.e., bigger than the continental U.S. Moreover, it has a 4,655 mile coastline and a border that is 9,129 miles long, touching every country in South America except Chile and Ecuador. Geographically, Brazil is the fifth largest country in the world. Brazilians are very proud and conscious of the size of their nation, and this pride underlies many of their attitudes and expectations.

This sense of size is reinforced by the country’s large population. Brazil currently has a population of about 180 million, making it the fifth most populous state in the world. Although the population rate of growth has fallen sharply in recent years, from about 3.3% in the early 1970s to about 1.2% currently, the growth rate is still positive. This sense of size has had a major role in defining the national character.

Two other factors have also had a major impact, i.e., the Portuguese colonization and the population’s racial composition. The Portuguese colonization is generally considered to have been less structured than that of the Spanish. As a result, the Brazilian colonies developed many of their own institutions and did so with a relatively receptive attitude toward other countries and other traditions. Brazilian society is generally considered to be more relaxed and more tolerant than their neighbors of the practices or activities of other nations. The Portuguese language, in fact, tended to separate Brazil from the Spanish-speaking colonies. Until recently, Brazil’s relations were closer with the U.S. and Europe than with most of its South American neighbors. Another major
factor is the country’s racial composition. The colonial economy depended heavily upon its sugar industry which, in turn, depended on slave labor. This dependency continued long after independence in that slavery was not abolished until 1888. As a result, the black population constitutes a large percentage of the population. Depending upon the criteria that one uses, blacks are believed to make up from 45% to 55% of the population. This characteristic distinguishes Brazil from its neighbors, who have populations comprised mostly of European or native Indian descendants.

Despite limited relations with its neighbors, since the latter part of the twentieth century Brazil has sought to be recognized as the “natural” leader of South America because of its size, population and large economy. Its neighbors, and especially Argentina, initially resisted the idea of Brazil being classified as the leader of the southern hemisphere. However, the concept was gradually accepted in the 1980s and 1990s. With Argentina’s collapse in December 2001, Brazil became the region’s unchallenged leader. However, such leadership roles are difficult to maintain, so we will return to this topic later.

A hallmark characteristic of Brazil is its large economy. It stands head and shoulders above its neighbors. Just the economy of the state of São Paulo is virtually the size of Argentina’s economy; the small state of Paraná has an economy similar to that of Chile. Brazil produces and exports a range of agricultural products: soybeans, beef, corn, sugar, coffee, cocoa and fruits. Its industry makes and exports a large number of high-technology products: commercial aircraft, automobiles, cellular telephones, etc. Finally, Brazil has an extensive mineral base permitting it to export large volumes of iron ore, steel and aluminum.
Brazil began to develop a modern economy in the 1940s under President Getúlio Vargas, but its major industrial expansion began after the military coup of 1964. The authoritarian government, which lasted until 1985, was thoroughly controlled by the armed forces and by their civilian allies. Its principal self-justification and promise was to provide stability and economic growth. After a relatively slow start, the economy began expanding substantially in 1967, ushering in the economic miracle that lasted until 1981. During that period, the economy grew at an annual average rate of almost seven percent; it built impressive electrical, communication and highway systems; it developed an automotive sector, a steel industry, an aluminum industry, ports, civil aviation, and a modern banking system. In short, the country’s economy was markedly transformed.

The industrial structure, however, was built on an unstable foundation. The government pursued an autarkic economic policy, seeking to produce domestically almost everything that the country could possibly make, regardless of cost or efficiency. Moreover, many industries, notably energy and telecommunications, were reserved to the public sector. This model required substantial levels of protection against foreign producers, either through high tariffs or through the outright prohibition of imports. In addition, such sectors as computers and related products were reserved for Brazilian firms. This system of government production and exorbitant protection led to the creation of inefficient, corrupt corporate structures.

The financial foundation of the economy was notably weak and unreliable. Like most Latin American countries, Brazil does not have a savings rate high enough to finance a rapid rate of growth. Thus it had to look abroad for large infusions of capital. The World Bank and the Inter-American Development Bank provided major amounts of
loans. As the growth rate picked up in the early 1970s, the foreign private sector began to provide considerable capital. Then with the growth of petro-dollars in the ‘70s, the private sector supplied ample short-term funds, often at negative interest rates. Brazil became heavily dependent on external financial sources as its debt grew enormously, and much of the debt was comprised of short term loans that had been used to underwrite medium to long-term investments. The bubble burst in 1982 and Brazil fell into a severe recession.

Brazil has spent the last two and a half decades climbing out of the economic doldrums and trying to re-establish its good name. The 1980s were, from some perspectives, a lost decade as the country struggled with balance of payments problems, moved back to a democratic government, and defaulted on its foreign debt. The 1990s were a period of major reform as the government privatized the steel and petrochemical industries, the telecommunications sector, and much of the electrical distribution system; opened the mining, hospital and other sectors to foreign investment; and reformed numerous administrative procedures. These measures helped, but they were insufficient to produce a sustainable economic recovery.

Although by the beginning of the 21st century Brazil had made considerable progress in stabilizing its economy, the negative effects of its autarkic economic model were all too evident. Per capita income was only a little more than $4,000 a year, and it was very badly distributed. Some 50% of the population had only 10% of the national income, and some 10% of the population had 50% of the income. Approximately 40 to 50 million people lived at or below the poverty line ($2 per day). Literacy rates were extremely low. Early this year, the IBGE (Brazilian Institute of Geography and
Statistics), Brazil’s highly-respected statistical agency, estimated that only 39% of the country’s adults are able to read and comprehend a high school textbook. The unemployment rate is about 10% and the under-employment rate has been estimated at more than 25%. Violence is a major problem in the large cities and drug abuse is widespread. In summary, the social situation had deteriorated significantly and, by the end of Cardoso’s administration, many people wanted a change.

The political system has not responded adequately to this public desire for change. The political party structure is weak and ineffective. Some nineteen parties have representatives in the Chamber of Deputies. Politicians have little loyalty to their parties, switching from one party to another and back again depending on short-term circumstances. The largest party, the PMDB (the Party of the Brazilian Democratic Movement), is more a conglomeration of sub-parties, each built around a prominent politician rather than around a policy platform. The PSDB (the Brazilian Social Democratic Party), formed by a group of intellectuals that broke away from the PMDB, was the major political force leading the reform movement of the late 1990s. It shared power with the PFL (the Liberal Front Party). Finally, the PT (the Workers Party) became a major political force in the 1990s and has occupied the presidency since January 2003.

The Brazilian federal government began intermittently to reform the economy in 1990, but the reform was never really complete. A brash, young president, Fernando Collor, took office in 1990 with virtually no power base in Congress. To compensate for this lack of a congressional power base, he appealed directly to the people. He succeeded in opening up the country’s foreign trade by lowering tariffs and by ending the import
prohibition of numerous products. Next, he began the privatization of the steel industry—a process that went amazingly smoothly considering the many predictions of opposition and violence. Unfortunately, Collor was unable to do more because he was impeached on charges of gross corruption. His Vice President, Itamar Franco, formally took office in early 1993 and stopped the reform effort. In fact, the only significant thing he did was to prepare the way for his Finance Minister, Henrique Cardoso, to succeed him as president.

President Cardoso represented a significant change from his predecessor. Cardoso, who had originally been a firm believer in the autarkic and anti-U.S. economic model, had undergone an intellectual conversion before taking office. He became president preaching the importance of reducing the governmental apparatus, of encouraging private sector investment, of opening trade channels, and of implementing more modern technologies. He promoted several constitutional amendments to provide more economic space for the private sector, and specifically for foreign investors. He proceeded with the privatization of the telecommunications and energy distribution sectors, the elimination of the state development banks, and the opening of the trade channels. His first term policies provided a strong economic stimulus and sparked great hopes for his second term. However, he did so little in his second term that the economy stagnated and the population grew quite impatient.

In the presidential election of 2002, voters chose the PT candidate Luiz Inácio Lula da Silva to take over the government. Lula, who had lost three previous presidential elections, won by a large margin over his PSDB opponent, Jose Serra. The public obviously believed that Lula would bring substantial positive change. Investors were not
quite as happy. The market reacted negatively to Lula’s candidacy, the economy tumbled, and business took a wait-and-see attitude.

The Lula administration was quite conscious of the difficult financial situation that it had to confront. President Lula selected non-PT economists to occupy two key positions, i.e., the President of the Central Bank and the National Treasurer. Equally important, he appointed as Minister of Finance one of his closest advisors, a PT non-economist, who would control expenditures and would give the President of the Central bank lots of latitude to set interest rates. With this economic team in place, the administration implemented a rather conservative economic policy. It maintained high interest rates; raised the primary surplus; cooperated with the IMF; and avoided introducing large, expansive social expenditure programs.

These policies aroused considerable opposition from the administration’s most loyal supporters, but Lula stuck to them and achieved the desired results. The first two years of his term were marked by sharp debates with the left wing of his party, by a split within the PT, and by numerous attacks on the high interest rates (most notably by the Vice President). However, the economy turned around, Lula shed his leftist image and the business community lost much of its skepticism. By 2006 the inflation rate was down to about 4% per year, the current account of the balance of payments was in surplus, and GDP growth was running at a 4% annual rate. Moreover, beginning in late 2005, the government undertook a major increase in social spending, undoubtedly in part because of the October 2006 presidential elections in which Lula will be a candidate for reelection. Most importantly, the government can afford the increased outlays and, therefore, the benefits it is handing out are real, not ephemeral.
Lula has positioned himself well for the October elections. He avoided being identified with the massive scandals that arose during his administration, built a reputable political base through coalitions without losing the support of the PT, and began an economic recovery that gives people hope. As a result, he is well ahead of his principal rival Geraldo Alckman (PSDB), the former governor of São Paulo. The polls show that Lula’s chances of winning the October election are excellent, and he might even win on the first ballot. What does this mean for the U.S.?

The U.S. and Brazil have developed a relatively cooperative, though definitely not close, relationship under Bush and Lula. The two administrations have had major differences over such issues as the Iraq war, free trade negotiations, and Brazil’s desire for a UN Security Council seat. On the other hand, the two countries have had productive dealings regarding the illegal drug trade, human rights issues, assistance programs in Africa, and energy research. In fact, the relationship had tended to be friendlier because Lula has become somewhat of a moderating force in South America. While President Chavez of Venezuela has been actively promoting his anti-American viewpoint, he has been viewed increasingly as a regional leader with the resources required to generate change. As Chavez has intensified and spread his anti-U.S. campaign beyond Argentina and Bolivia to Peru, Ecuador and the Mercosur forum, he has tended to undermine Lula’s image of being the leader and spokesman of South America. Moreover, Chavez’ brash, well-financed campaign has appeared to be excessively aggressive for Brazil’s taste. Thus, Lula finds himself in the uncomfortable position of struggling to preserve his leadership role in South America while trying to maintain friendly relations with both Bush and Chavez. As long as he is in that position,
and Chavez has enormous financial resources, Lula is unlikely to maintain an
unquestioned leadership role in South America. Nor is he likely to develop a more
productive relationship with the U.S. Rather, the U.S. and Brazil are likely to continue
the cordial but distant relationship that they have had since the 1970s.