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When labor-based parties gain businesses' trust: the case of Brazil's Workers' Party

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THE CASE OF BRAZIL'S WORKERS' PARTY

Trabalho de Conclusão de Curso apresentado ao curso de Graduação em Ciências Econômicas, como requisito parcial para obtenção do grau de Bacharel em Economia do Insper Instituto de Ensino e Pesquisa.

Orientador: Prof. Dr. Lucas Novaes

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Abstract

Since the liberalization processes in the 80s and 90s, financial and businesses' elites have pressured Latin American governing labor parties into pursuing a market-oriented agenda, compromising their capacity and incentives to deliver benefits to traditional constituencies. Yet, the implementation of pro-business policies by labor parties is not only dependent on the constraints imposed by globalized financial markets, but it is also a function of the interplay between party elites and rank-and-file member. Thus, party organization plays a crucial role in this context as it determines the allocation of power between the two. In this sense, this article, through literature review and process-tracing, analyzes the case of Partido dos Trabalhadores in Brazil and Lula's attempts to gain businesses' trust during his first mandate as president (2003-2006)- comparing it to other similar cases in Latin America. As a result, we find evidence that when the president's party has strong ties to organized social movements while it also grants autonomy to its leadership, then the government is more likely to opt for market orthodoxy as the rank and file hold less bargain.

Keywords: capital mobility; party organization; Lula; Partido dos Trabalhadores; Brazil

Resumo

Desde os processos de liberalização nas décadas de 80 e 90, elites financeiras e empresariais conseguem constranger partidos trabalhistas eleitos na América Latina a tentar buscar uma agenda econômica pró-mercado, assim comprometendo sua capacidade e incentivos de oferecer benefícios a seus eleitores tradicionais. No entanto, a implementação de políticas pró-negócios pelos partidos trabalhistas não depende apenas das pressões impostas pelos mercados internacionais de capitais, mas também é uma função da interação entre as elites partidárias e as suas bases. Assim, a forma como um partido se organiza desempenha um papel crucial nesse contexto, pois determina a alocação de barganha entre os dois. Meio a isso, este artigo, por meio de revisão bibliográfica e *process-tracing*, analisa o caso do Partido dos Trabalhadores no Brasil e as tentativas de Lula de conquistar a confiança do setor empresarial em seu primeiro mandato como presidente (2003-2006), comparando-o com outros casos semelhantes na América Latina. Como resultado, encontramos evidências de que, quando o partido do presidente tem fortes laços com movimentos sociais organizados, ao mesmo tempo em que concede autonomia às suas lideranças, o governo é mais propenso a optar pela ortodoxia de mercado, uma vez que as bases detêm menos poder.

Palavras-chave: mobilidade de capitais; organização partidária; Lula; Partido dos Trabalhadores; Brasil

Summary

1 Introduction

Ties with working class organizations and social movements have always played an important role to labor-based parties: they ensure political mobilization, increase membership and protest capacity, and enhance electoral support. Moreover, a strong connection between unions and the government induces labor organizations to moderate their wage demands, thus securing social peace in industrial relations. Nonetheless, due to the world-wide economic changes and the liberalization reforms in the continent, labor-based political parties in Latin America had their capacity to deliver benefits for their constituencies compromised. As a result, since the late 1980s, those parties are strongly pressured to target voters beyond their traditional base of support and transform their agenda and program to something more in line with the interests of businesses and financial elites, as increasing capital mobility allowed investors to constrain incumbent parties more effectively. In short, globalization created an impasse for labor parties: at the same time that they need to mobilize their traditional constituency, financial markets punish governments that do not practice fiscal restraint, affecting the electoral perspectives of governing affiliates (BURGESS; 1999, SCHIPANI, 2021).

Consequently, politicians with a labor track, many times, solved this dilemma by including market-friendly reforms usually associated with right-wing parties on their packages. Stokes (2001) noticed that during the 90s Latin American candidates often campaigned promising security-focused economic policies, but they pursued a neoliberal agenda. For instance, Carlos Menem of Argentina, a *peronista* who campaigned opposing "transnational capitalism", mentioned the possibility of declaring a moratorium on external financial debts and promised wage growth during his first presidential campaign. However, after elected, he appointed his former right-wing opponent, who advocated for full repayment, to negotiate the debt crisis with Washington and he followed a neoliberal austerity program. Similarly, in the early 2000s some left-wing parties, at the same time that put poverty and inequality reduction at the center of their programs, also worked within the framework of market orthodoxy. This was the case of *Partido por la Democracia* and *Partido Socialista* in Chile, whose administrations sought fiscal prudency, did not interfere in contracts and prices and tackled inequality gradually (SANTOS; ALMEIDA; DA SILVA, 2019).

However, altering one party's agenda is not a simple task. Given that the interests of its traditional affiliates can be deeply institutionalized, its elites may be entrenched when trying to

adapt the association to a context that encourages policies against the preferences of the constituency base. That means that although globalized financial markets are able to create incentives for elected officials to switch platforms and programs, they may be hindered by the party's rank and file as the leadership has accountability towards them. Thus, the effectiveness of the pressures coming from businesses' elite depends on how the party organizes the relation between its members. In this sense, political scientists have produced a vast literature relating party organization to the choice of economic policy. Parties with solid brands, clear ideological backgrounds and strong linkages with unions and social movements would be associated with a smaller aptitude to respond to constraints imposed by capital mobility given that preferences for labor policies and redistribution are, then, a core aspect of the party's identity; and this combined with the institutionalization of preferences reduce leaderships' room of maneuver (CAMPELLO, 2015; LEVITSKY, 2001).

Amid this, this article will study the institutional evolution of *Partido dos Trabalhadore*s (PT) and Lula's first mandate as the president of Brazil. This is an interesting case given that even though PT has a solid brand as a pro-labor organization and strong and long-established alliances with social movements; this did not stop Lula from changing his campaign platform after being pressured by business elites and financial markets in 2002 and pushing pro-market policies once in office. The former union leader - that spent the 90s criticizing Fernando Henrique Cardoso's liberalization reforms - promised to respect contracts and act with fiscal responsibility during campaign and, after taking over the executive power, he appointed Bank Boston's former CEO, Henrique Meirelles, to be the Central Bank's president and he delivered a government primary surplus above IMF recommendation.

Thus, the case calls into question the predominant theory in the literature. In line with Levitsky (2021), we introduce leadership autonomy and long-established society roots as separate and independent variables in our framework. This is key since a labor-based party may have strong ties to movements that seek redistribution at the same time that it insulates the party elite from the demands of the rank-and-file members. This combination - we argue - is the one that will most likely lead to pro-market policies as elected officials are not held accountable by ordinary members and, concomitantly, they can count on the political mobilization delivered by them. More specifically, I argue that the lack of competition in the leftist field and the high costs of leaving an already established alliance with a strong party allowed PT's leadership to take for granted the mobilization its traditional constituency provides, and that, although PT remained strong and institutionalized in a lot of senses, there was a long and gradual process of

increasing leadership autonomy that culminated in Lula being able to follow market orthodoxy in the first term.

This article continues as follows. In the next section, we discuss in depth how businesses and financial elites interact with leftist presidents, placing special emphasis on theories that relate capital mobility to pro-market policies. Section 3 presents the literature on the importance of party organization when labor governments attempt to respond to external pressures; and section 4 introduces the theoretical model that is going to be tested by the case study. Sections 5 focuses on Lula's campaign in 2002; while section 6 presents the institutional evolution of the party and its effects on Lula's government. Section 7 compares the selected case with *Frente Amplia* in Uruguay and section 8 concludes the article.

2 Elites, Capital Mobility and Market Discipline

As suggested by Portrafke (2008), international competition, derived from financial integration, has generated a “race to the bottom” in national tax systems and produced regulatory difficulties; and, in doing so, the international economy has diminished the power of nation-states and reduced governments’ room for maneuver. In this sense, he finds evidence that the difference between left and right-wing administrations regarding public social spending was softened between 1980s and 1990s in OECD countries. As for Latin America, Strokes (2001) has stated that in the 1990s it was very recurrent that candidates promised security-focused economic measures, but then, soon after elected, implemented neoliberal policies. She suggests that one possible explanation is that there were conflicting beliefs between politicians and voters, because the former opposed liberalization, but political leaders saw it as in the electorate's best interest, given the fact that financial markets would punish countries that did not implement investor-oriented measures. In other words, since policymakers feared economic havoc, they decided to switch their policies to something more in line with financial market actors' demands.

In short, economic interdependence distracts parties from their constituencies since they must also accommodate international investors' interests. Ezrow and Hellwig (2014) analyzed developed countries and found evidence that, unless the national economy is sufficiently isolated from the global economy, parties with governing experience tend to not respond to ideological changes of the electorate. This mismatch between parties’ programs and society demands is expected to be even more intense in Latin America considering that in the case of unequal democracies redistribution can enhance citizens' welfare, in a way that economic growth alone is not able to do. In this sense, there is pressure by voters for their representatives to push for redistributive policies; but at the same time investors and creditors are able to redirect resources to countries where governments are more market friendly. As a consequence, politicians are discouraged to seek redistribution - and, therefore, attend what otherwise would be the electorate's preference - as capital outflows affect the median voter’s income. (PRZEWORSKI; MESEGUER, 2005; SANTOS; ALMEIDA; DA SILVA, 2019). On top of that, due to recent democratization and the absence of strong labor unions, some countries in the region lack societal mobilization to counterbalance market actors’ influence on governments (CAMPELLO, 2015).

Adding another layer to this discussion, Campello (2015) investigates the interactions between bondholders and politicians during presidential elections and develops the concept of market discipline. According to her, since the mid-1990s - as a consequence of the internationalization and diversification of the creditor base - leftist administrations are no longer constrained to follow market orthodoxy predominantly through pressures coming from multilateral financial institutions and a reduced number of creditors; but rather through the negative responses in the bond markets when they deviate from the neoliberal prescription. As to say, this dynamics in the bond markets would be the current mechanism that induces presidents to change their agenda in order to gain the confidence of the businesses and financial elites and, therefore, attract capital.

Moreover, she noticed that because leftist governments obey market discipline mainly for the purpose of attracting foreign finance, the effectiveness of the constraints posed by markets vary according to international economic cycles and how vulnerable to export rents national economies are. When interest rates are low and commodity prices are high, South American governments are not so dependent on foreign currency to tap their obligations. As a result, leftist parties elected in such economic periods have more room to implement redistributive and labor policies. In this sense, this framework explains why in the second half of the 2000s, during the commodity boom induced by China's growth, elected labor parties could push their long-established agenda to some degree, while in the 90s they were forced to switch economic policies.

Another implication from her argument is that commodity export dependent economies are more vulnerable to international economic cycles; and therefore, in times of rent shortage, they are extremely susceptible to international investors, making the implementation of comprehensive social policies more costly. On the other hand, in times of abundance, these countries can really deviate from market orthodoxy. In this sense, another conclusion from Campello's work is that in Venezuela, Bolivia and Ecuador, leftist administrations were more radical in their anti-market proposals as a consequence of the fact that their economies were less diversified, resembling a rentier state[1]. As for Brazil, she suggests that although it is less vulnerable to commodity price oscillations, the boom did have a political effect for Lula[2].

[1] Rentier states are countries where a considerable amount of their revenues come from external rents, making their whole economy revolve around those rents. Examples include Qatar, Venezuela, Angola and Saudi Arabia.
[2] By way of illustration, in Brazil terms of trade increased by 20% between 2004 and 2011; while in Venezuela and Ecuador it increased by 94% and 90%, respectively.

Because the Brazilian private business and banking sector are the most internationally integrated in the region, the country is considerably exposed to cross-border capital flows. Furthermore, the increase on commodity prices led to an improvement on public finances and made default risk unimportant, enabling the president to push some left-leaning microeconomic policies in his second term.

3 The Role of Political Parties

In short, in a context of high capital mobility, businesses and financial elites are better suited to impose constraints on labor-based parties, potentially leading governing partisans to implement pro-market policies and, therefore, neglect labor and redistribution demands coming from their traditional stakeholders and allies. Nonetheless, the executive power's capacity of effectively responding to these pressures is a consequence of how parties structure the relation between their elites and the rank and file. More specifically, the institutionalization level and internal organization of labor parties shapes their affiliates' incentives and abilities to gain businesses' trust.

3.1 Party Strength and Institutionalization

The effect of party strength is, however, dubious. On one hand, in countries where electoral competition patterns are stable and parties have strong roots in society, labor parties may have extra incentives to include pro-business policies in their package. Because in this scenario leftist parties have the perspective of running for office regularly and they have strong brands - which increases their accountability -, they must be cautious about the long-term economic effects of their policies. As a consequence, given that bondholders and capitalists can provoke capital flight when governing politicians deviate from market discipline, parties in this context will be more impelled to opt for gaining businesses' trust rather than pushing for policies in the interest of their constituencies. Then, according to this framework, leftist administrations in the 2000s were more moderate in Chile and Brazil because these countries had institutionalized party systems. Differently, in Bolivia and Venezuela, the presidents could to some degree ignore the long-term economic effects of diverging from market orthodoxy considering that in those nations the party systems were in disarray (FLORES-MACÍAS, 2010).

On the other hand, an institutionalized party tends to have more rigid rules, which potentially empowers the rank and file vis-à-vis public office holders, generating more resistance and difficulty when the latter tries to adapt the partisan agenda to external pressures. Furthermore, when big parties have legitimacy among the electorate, their leaders - which may have stronger ties to unions and other interest groups - can shape the incumbents' policies and

make him act accordingly to the interest of the party's traditional constituency. As to say, strong parties are not only associated with solid brands, but they are often correlated with organizational entrenchment, which makes the interests of their constituency more institutionalized - potentially leading them to become inflexible organizations at some level (LEVITSKY, 2001).

In conclusion, it is difficult to identify the effects of party structures on how politicians solve the trade-off between gaining businesses' trust and pleasing labor organizations and other aligned social movements if we account for parties as a unidimensional variable. In this sense, the next subsection will highlight the importance of considering political parties as complex structures and reckon their multiplicity of features and actors.

Adding to this, as stated by Weyland (2009), it is also hard to infer the role of party strength on leftist presidents' economic policies since the institutionalization of parties and the moderation of leftist actors usually happen hand in hand. Then, it may be the case that the moderation of left-wing agents that led to the institutionalization of parties in some Latin American countries. To put in other words, there is endogeneity between party system strength and leftist presidents' economic policies. For this reason, it is possible that a third variable causes parties to accept some of the pro-investor package, and the literature assumes it is party system institutionalization because there is strong correlation between both variables.

3.2 Party Organization

Amid this, Levitsky (2001) presented a model in which level of routinization and society roots - as separate and independent variables - explain how effectively parties adapted to the context of liberalization in the 80s and 90s. As a case study, he investigated how the organization and rules of the *Partido Justicialista* (PJ) in Argentina allowed it to push for neoliberal policies and, therefore, successfully modify its agenda according to this new scenario. Given the changes in class structures and the weakening of labor unions, the PJ had to generate profound reforms in its organization in order to survive; and, according to this framework, it succeeded in doing so because it was a mass party - which enabled it to push for

reform in their program without electoral costs[3] -, at the same time that it had low routinization. This was key because high routinization tends to lead to inflexibility as rules and procedures are taken for granted, inducing party members to comply with them without accessing costs and benefits - which is particularly detrimental in the context in question given that objections to the way the party organizes itself are then unlikely. Moreover, routinization induces actors to invest in skills that are appropriate for the existing rules of the game; and this, in turn, generates resistance when changes are proposed.

In this sense, the lack of routinization at PJ's party activities allowed Carlos Menem, the Argentinian president back then, to have more autonomy to promote changes as he faced less checks coming from party institutions and its rank and file. For example, the central committee - which was entitled to set party policies, influence voting patterns in the legislature and conduct relations with outside organs - was unable to impose any restraints on the former president's actions. As a result, Menem - with the support of PJ in the legislature and without once being publicly opposed by the party leadership - forged alliances with right-wing parties and business magnates, reduced tariff barriers and privatized all state enterprises. More specifically, the *Partido Justicialista* lacked a stable career path structure, that could provide security to its rank and file, and horizontal links to coordinate the actions of secondary leaders. This made the State, rather than the party, the source of power and prestige inside the institution; and as a result, affiliates had incentives to build loyalties to public office holders, which decreased the bargains of the professional partisans vis-à-vis elected officials.

Contrastingly, Levitsky mentions that Andres Pérez and *Acción Democrática* (AD), in Venezuela, failed to adapt to this new context precisely because the party had a more bureaucratic organization. AD presidents were impeded from holding posts in the party leadership at the same time that the central committee had a lot of influence given that it controlled the placement of candidates on the legislative, selected the leader of the party's parliamentary faction, and prescribed the party line in congress. Resultantly, the biggest Venezuelan labor organization at that time, "*Confederación de Trabajadores de Venezuela*" (CTV) - which was an AD ally - was allowed to engage in protests against some of the government measures and party legislators openly and strongly opposed Andre Peréz during his mandate. Many of them supported a labor reform bill contrary to the government's plans

[3] Labor role in PJ was neve institutionalized given the party's reliance on the historical figure of Perón. This personalistic feature, in turn, led the party to low routinization levels. Then, once party leaders 'dependence on union resources diminished during the 80s union leaders were left without much effective mechanisms of participation in PJ (BURGESS, 2003).

and stalled on some of its initiatives. On top of that, important sectors of the party pushed for Pérez's removal from office in 1993 (BURGESS, 2003).

Wilson (1994), in its turn, investigated a successful case of implementation of pro-market economic measures by a labor-based party and drew attention to the necessity of seeing political parties as dynamic institutions whose agenda, forms of mobilization and internal cleavages are susceptible to negotiations and changes. He studied the denationalization of the Costa Rican state banking system conducted by the social democrat, *Partido Liberación Nacional* (PLN), during the 80s - in a context of severe economic recession. As a result, he noticed that the country's institutions and economic condition at that time altered the intra-party distribution of power as a neoliberal faction gained influence while labor organizations and the rank and file were weakened. Costa Rica had a law that prohibited members of the parliament from holding positions at parties; thus, insulating PLN's legislative agenda from the influence of the party's bureaucracy. Additionally, the autonomy granted for political appointees at the executive level helped to create a powerful and insulated technocracy inside the government and the party. This was particularly important considering that they were the ones directly dealing with the United States and international financial institutions and, for this reason, they provided the country with rents and aid in a context of cash and resources shortage. In short, given Costan Rican and PLN's institutional drawing, a momentum of national crisis created political space for changes inside the party, allowing it to effectively opt for neoliberalism.

Employing a more static perspective on party structures, Schipani (2021) proposes a framework on how internal structures influence governing parties' relation to labor unions and, therefore, their choice of policies. Focusing on Latin America's left turn in the early 2000s, his argument is that when the party is centralized around the president, this can insulate him from redistributive demands coming from social movements - since other factions are too weak to channel labor demands ignored by him. Additionally, when ties between labor parties and unions are too strong the latter can become subordinated to the former, which would then be less accountable. Therefore, in this context, the president can easily solve the trade-off between obeying market discipline or maintaining labor support since it has the latter for granted[4].

[4] His line of reasoning opposes the traditional view that strong linkages lead to more labor policies, given that they increase the number of Congress members with a labor track, who would push for more redistribution. According to Schipani, this long-established argument is wrong because it assumes that the loyalty of labor party politicians automatically stands with the union.

According to Schipani, this happened with Lula's mandates in Brazil. Because union members could easily develop a partisan career in PT, they became loyal to the party instead of the union. Moreover, Lula's faction became almost dominant throughout the 90s and early 2000s, not leaving much space for internal contestation and competition. As a consequence, when the president had to choose between labor support and businesses' trust and opted for the latter, unionists did not pressure or constrain him.

4 Theoretical Model

Considering the literature reviewed in the two previous sections, this article proposes a model in which the implementation of pro-market policies by labor parties depends on the interaction between 3 actors: business and financial elites, the party elite - which includes the president -, and the party's rank and file. By assuming politicians as vote-seeking agents, the dynamics on financial markets are able to shape the president's choice of economic policies since the entry and exit of capitals affect countries' economic performances. This, in turn, reflects on the median-voter's income and therefore on his potential electoral decision. Nonetheless, for a president to be reelected or to successfully make a successor, he also needs to gather support inside his/her own party as he/she needs to be nominated as the party's candidate. Furthermore, the party delivers resources for campaigns, and it also provides support for negotiation in the legislature as other of its members are elected for legislative positions. In this sense, rank-and-file members may hold a bargain towards the president as they are the ones mobilizing support and they may have a say on the nomination processes at the party bureaucracy, which affects both the strategies of the executive power and congressmen.

Table 1- The Three Agents of Economic Policies

Actors	What they offer	What they seek
Party elite	Government's economic policies	Votes Intra-party support
Businesses and financial elites	Votes (by affecting the median voter's income)	Pro-market economic policies
Party's ranks and file	Votes through political mobilization Intra-party support	Redistributive and pro-labor economic policies

Source: Elaborated by the author

As a result, the economic policies carried out are a consequence of the level of accountability from the party elite towards each of the other two actors. In other words, the susceptibility of a president to yield to pressures coming from financial markets depends on how much he has to court the party's rank and file - and, therefore, its constituency base - to

gain what this actor can offer. And, in this sense, the way a party organizes itself plays a crucial role as it determines the allocation of power between its elites and ordinary members. For instance, it may be the case that the party institutional drawing insulates public office holders by making the backing of ordinary affiliates unnecessary for nomination processes. Or -contrastingly -, the division of the party into equally influential factions tends to lead to intra-party competition for support of its members, which increases the bargain of the rank and file and, consequently, it is expected policies more in line with the party's traditional constituency interests.

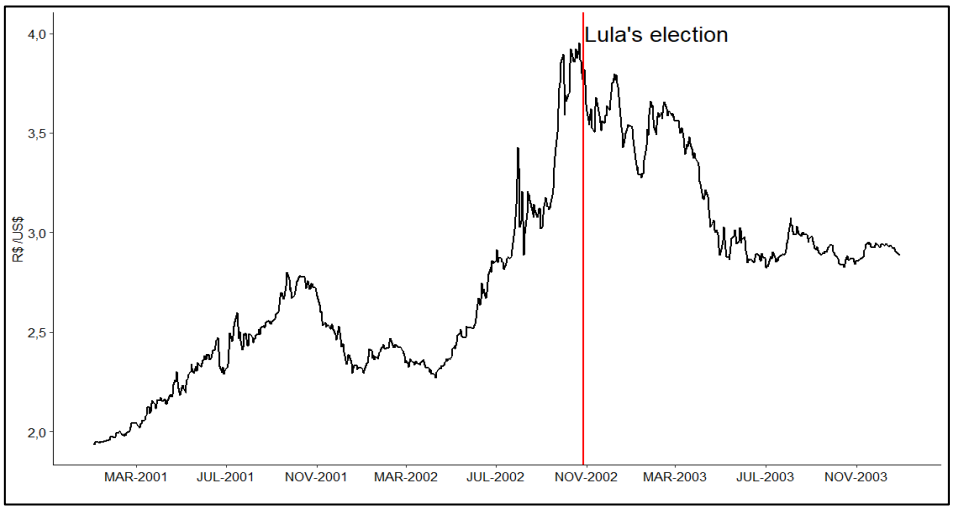
In this article, we argue that the following factors are key in improving the capacity of presidents to respond to business pressure: first, an autonomous party elite; and second, long-established society roots combined with the absence of electoral competition in the leftist field. The former means that rank and file's capacity of constraining public office holders is reduced, while the latter entails that a switch in the economic agenda can be pursued without much electoral cost. Given that unions and social movements members have invested a lot of resources in developing skills specific for the current alliance – generating resistance when alternative forms of representation are suggested – and considering that there lacks another relevant labor-base party, politicians can take the political mobilization provided by these agents for granted (BURGESS, 1999; LEVITSKY, 2001). That is, in order for strong linkages with social movements to lead to broader redistribution, the party organization and the party system must provide the rank and file with enough bargain; otherwise the ties can be used to ensure that a pro-business program will not be electorally costly.

5 2002 Presidential Election and Financial Markets

This article will, then, apply the proposed framework to explain the success of the former unionist leader and Brazilian president, Luis Inácio Lula da Silva, in gaining business trust during his first mandate. In this section, more specifically, we will expose how financial markets and businesses' elites were able to pressure him into adapting his program to something in line with their interests.

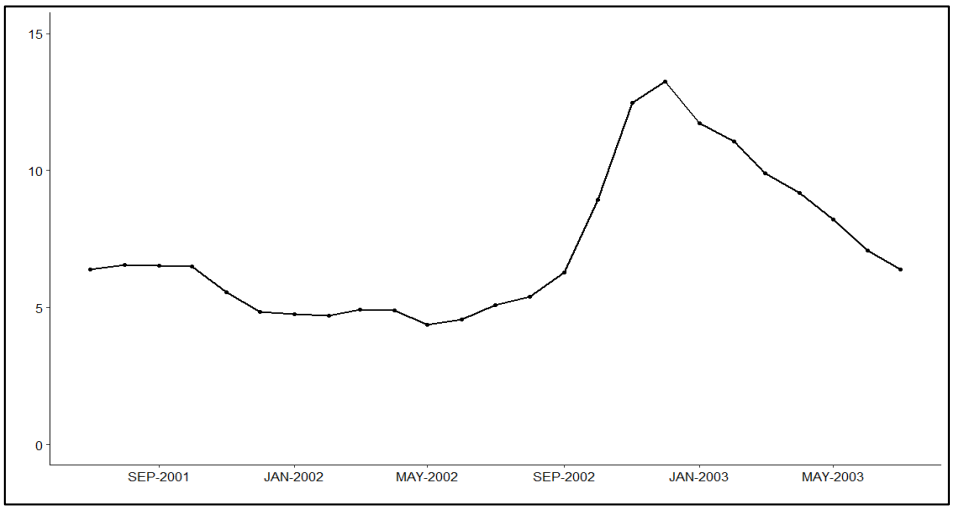
In the first semester of 2002, as pools indicated that Lula was leading the presidential race for that year, the Brazilian financial market went into crisis mode. Given his radical background, capital market agents feared that, once in office, he would opt to completely alter the country's macroeconomic pillars and, also, revert the liberalization reforms conducted by his predecessor, Fernando Henrique Cardoso from Partido da Social Democracia Brasileira (PSDB). The crisis transcended the financial market, impacting variables that had a direct effect on voters' welfare (CAMPELLO, 2015). As graph 1 shows, throughout that year the Brazilian currency, Real, suffered a relevant depreciation, indicating that investors were concerned that the entry of capital in the country would slow down once Lula took power and pushed policies to court PT's constituency base - as it was anticipated at that time. Furthermore, the expected inflation went up (graph 2); and this, combined with the changes in the exchange rate, led to a recession and increasing monthly inflation rates (graph 3).

Graph 1- Daily Exchange Rate



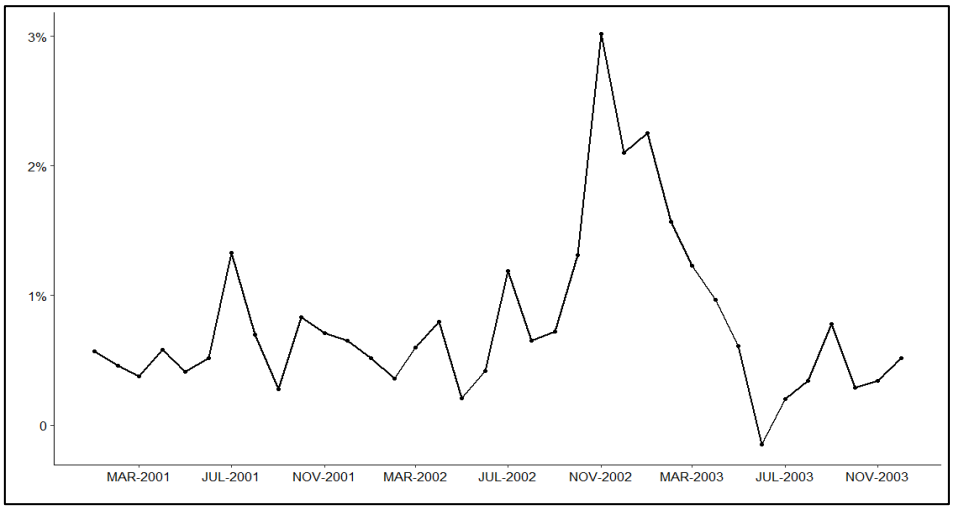
Source: Banco Central do Brasil (2022)

Graph 2- Expected Annual Inflation



Source: Banco Central do Brasil (2022)

Graph 3- Monthly Inflation Rates (IPCA)



Source: Instituto Brasileiro de Geografia e Estatística, Sistema Nacional de Índices de Preços ao Consumidor (2022)

It then became clear that if Lula wanted to win the race, and afterwards be able to govern retaining popularity, he would have to calm down investors. Given that market and political actors attributed the crisis to the prospect of him being elected, Lula would have to convince financial markets that he was not "irresponsible" if he wished to avoid voters linking his image to economic stress. In this sense, he announced a relevant businessperson belonging to a right-

wing party as his Vice-President; and in June, his campaign team released a document called "Letter to the Brazilian People" - addressed to business and financial elites - in which he committed to pro-market economic policies and fiscal discipline. The document also pledged on a conciliatory tone - very different from Lula's confrontational rhetoric in former elections. The letter talked about building alliances, careful transitions and maintaining stability; while Lula recognized that in the short-term the room of maneuver of a president was limited and suggested that all the bold changes he wished for Brazilian society would be promoted with prudency and responsibility, leaving aside the voluntaristic views he had about the economy.

> It will be necessary to make a lucid and careful transition between what we have today and what society demands. What has been undone or left undone in eight years will not be compensated in eight days. The new model cannot be a product of unilateral decisions of the government, as it occurs today, nor will it be implemented by decree. It will be the result of a broad national negotiation, which will lead to an authentic alliance for the country, to a new social contract, capable of ensuring growth and stability. The premise of this transition will naturally be respect for contracts and obligations from the country (DA SILVA, 2002, p. 2, translated by the author)

In contrast, PT one year earlier had released another document called "Another Brazil is Possible"- written by the party's economists - which was supposed to set up the guidelines for 2002's presidential program. In it, the party argues in favor of nationalizations, regulating speculative foreign capital and declaring default on foreign debt - given that paying debts should not be the number one priority of the government. The authors, in line with the party's ideological background, used the framework of the Marxist dependency theory to defend its economic positions. They proposed a rupture with the neoliberal economic system dismissing as revolving too much around the dynamics of globalized financial markets, rather than attending people's needs. The economists stated that the liberalization reforms in the 1990s submitted Brazilian national interests to foreign capital, and instead they suggested that a developmentalist strategy should be established promoting protectionism for strategic industries; and, as a way to generate growth, the government should carry out progressive tax reforms and demand inducing macroeconomic policies, such as low interest rates. Right below, there is a piece of a synthesis about the document discussing the negative effects of the economic reforms pushed by the former presidents, Fernando Collor de Mello, and Fernando Henrique Cardoso:

> By raising the need for external finance to a critical level and abolishing restrictions on the movement of capital, these policies transformed dependence on foreign capital into a mechanism that internalizes the instability of the globalized financial market and subordinates the national economy to the interests of creditors and foreign investors. In this context, changes in the international scenario and internal structural weaknesses converge in transforming recession into a privileged instrument for adjusting the economy (MERCADANTE; TAVARES, 2001, p.8, translated by the author)

As we can see, the distinction between the two documents regarding their rhetoric and economic ideas is clear, suggesting that the financial and businesses' elite were successful in creating incentives for Lula to try to push his platform towards the center. And although during the campaign the promises in the "Letter to the Brazilian People" were not seen as credible, his commitment to market orthodoxy was real. Once he was elected, he appointed Antonio Palocci, the party's main interlocutor with financial markets and whose economic convictions were more similar to those of PSDB rather than PT, as the Finance Ministry; and Henrique Meirelles, former CEO of Bank Boston who had been recently elected as federal deputy running for PSDB, as president of the Central Bank. Lula gave Meirelles autonomy to choose his team and during his time in the position, the executive power did not interfere on the decisions of interest rates, which even led Brazil to have one of the highest interest rates in the world (CAMPELLO, 2015).

On top of that, the first bill that Lula's government sent to Congress was a proposal to reform the public pension system, which - among other things - raised the retirement age of public workers; introduced a ceiling for public pension benefits and established that the benefits would be paid according to the individuals' contribution to the system throughout the years rather than based on workers' final salary. In short, it was a bill against labor interests and, therefore, against PT's constituency base. It served specifically to signal to financial markets that Lula's government was committed to fiscal discipline (SCHIPANI, 2021)[5].

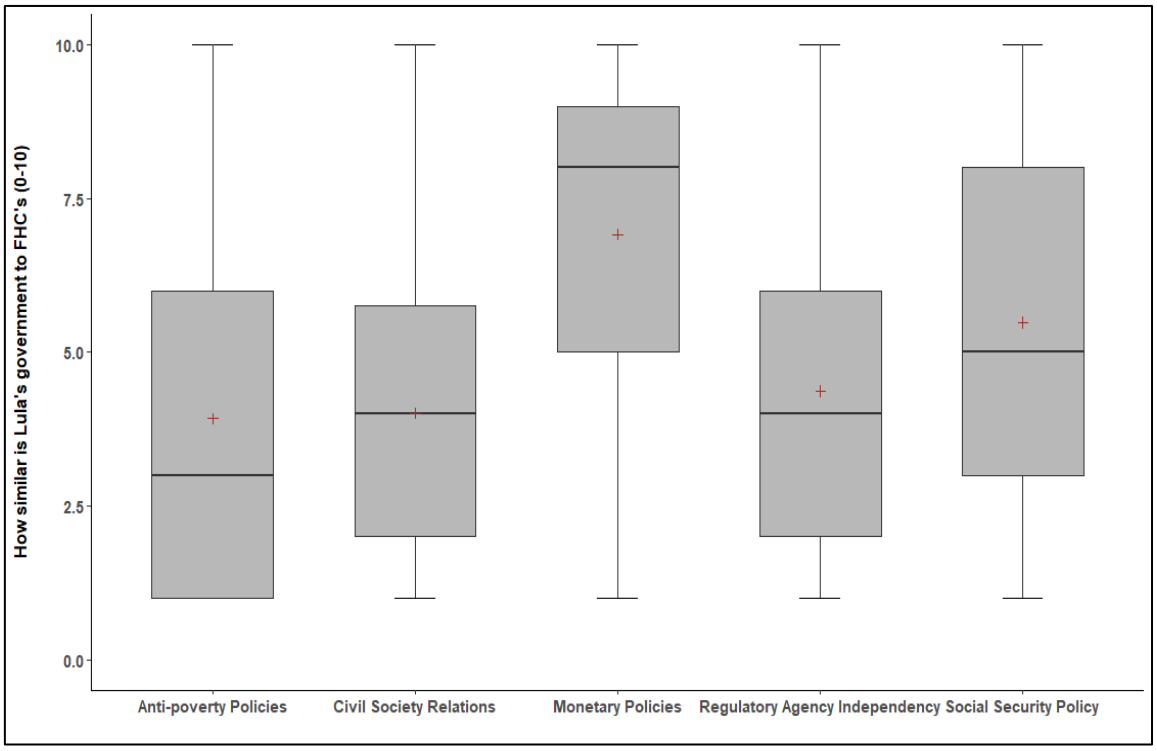
This scenario even led to criticisms that PT was only boosting the previous government measures and agenda, not promoting the changes for which it had always advocated. Amid this, Duda Mendonça, Lula's public relations advisor, created the motto "*Muda, mas com cuidado"*, which best translates to: "a change, but a careful one". He even produced a piece of

[5] As a matter of fact, the center-right government that preceded Lula tried to reform the public pension system, but failed due to opposition and mobilization from PT.

advertisement highlighting the importance of promoting changes in a lucid manner, comparing the government policies to reforming a house. Lula on the advertisement - that aired on TV in 2003 - explained that instead of destroying a house forcing its inhabitants to move, he was reforming it in a prudent way so that people would not be bothered; that is to say: as he promised on campaign, he was committed to a peaceful transition and left aside the desire for ruptures (PT…, 2003).

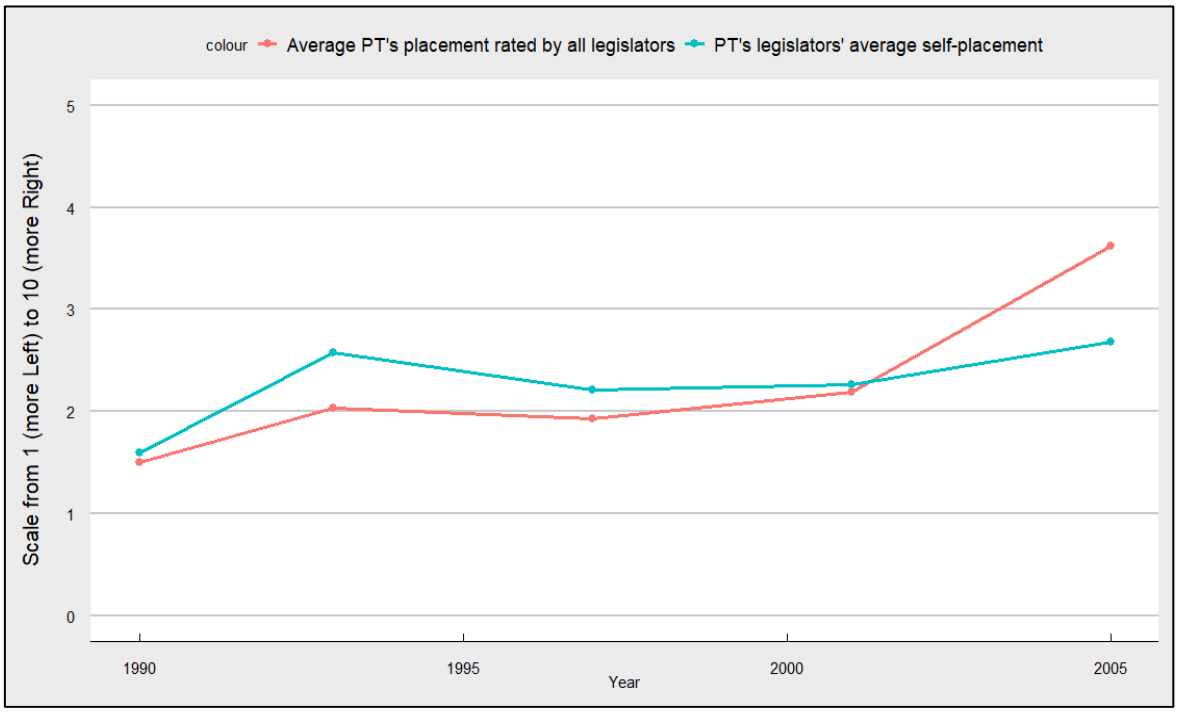
In this sense, we extracted data from the Brazilian Legislative Studies - which every 4 years collects the opinions of elected national legislators on different political topics-, to get a sense of how these changes on PT's policies affected the political elite's views on the party (POWER; ZUCCO, 2014). In some questions, the congressmen were asked to state how similar Lula's government was in relation to Fernando Henrique regarding different policy areas; and it is no coincidence that on average the biggest similarity was attributed to monetary policies, as graph 4 highlights. Moreover, we can also see that more *petistas* started to define themselves as more centrists after Lula took power and also that legislators from other parties altered their opinions on the association, characterizing it as less leftist (graph 5).

Graph 4 - Lula's Similarities to FHC



Source: Power and Zucco (2014)

Graph 5- PT's Ideological Evolution



Source: Power and Zucco (2014)

6 PT's Organization and its Economic Policies

However, as the model proposed in this essay argues, pressures from financial markets are not sufficient condition for presidents from labor-based parties to alter their choice of economic policies. Therefore, in order for Lula to be able to follow market orthodoxy - as he did -, PT had to be organized in a way that ensured two things: first, that changing the economic agenda would not be electorally costly; and second, that other affiliates would not sabotage him in intra-party disputes for carrying out some measures that countered the interests of its constituency base. This section is going to explore how PT's organization evolved through time allowing Lula to opt for pro-market policies and alliances with right-wing actors.

6.1 The origins of PT and its society roots

PT was founded in 1980, by an association of Marxists groups, liberation theology activists, left-leaning intellectuals, unionists, and social movement leaders. Being the only party created through a bottom-up process in Brazilian history, its members had always bragged about its strong linkages with civil society and its forms of internal democracy and accountability. The party was originally divided into influential factions - which are usually referred to as *tendências* - and, as a result, the direction of PT was fiercely disputed. Ideologically, the party was marked by a tension between Leninist and social-democratic paradigms, which led to an ambiguous rhetoric and an agenda of rupture with the economic and social status quo (AMARAL; POWER, 2015). It advocated for radical land reform, the repudiation of Brazil's external debt and the nationalization of the country's banks. This ideological radicalism even led the party to refuse to sign the 1988 Brazilian democratic constitution as their members dismissed it as too liberal (SAMUELS, 2004).

Because of its exceptional features and origins, Keck (2010) defined PT as an anomaly in the Brazilian party system. In a context of fragilized and disconnected political parties, PT stood out as it had a solid base on civil society, appealed on programmatic terms and it was interested in designing internal institutions to encourage the participation of the rank and file - taking the question of representation seriously. Using the data from Brazilian Legislative Studies, we get a sense of how much PT sticks out in terms of its organization in comparison

to other influential political parties in the country. Table 2 presents the ratio of legislators by party and year who agree with the ideas exposed. As we can see, PT was more successful in infusing party discipline as a core value of its institution, given that the party tends to have the highest percentage of legislators who agree with statements 2, 3 and 4. Moreover, in the first four waves, PT was the only party in which more than half of its legislators stated that party efforts were more important than personal efforts in getting them elected. In 2005, only 38,5% of the PT`s congressmen agreed with that statement; nonetheless it was still the highest ratio among the parties analyzed.

Graph 5, on the other hand, captures the importance that legislators attribute to their constituency base in getting them elected; and, as the figure points out, in all the years PT had the highest averages and also medians - showing once more how its linkage with civil society differs from other political parties in Brazil. Also, we can see that throughout the years the party did not lose its strong society roots, and, as a matter of fact, an article written by Amaral (2011) states that in the party's National Meeting in 2006, the share of delegates who were also members of other social movements was around 72%, and 30,7% were unionists. In short, this data suggests that although PT went through a lot of changes - which will be the focus of the next subsection -, its mobilization capacity remained strong, and this combined with a successful infusion of the party values to its members created a solid brand for the party. The ratio of voters who identified with PT among the Brazilian electorate evolved from 5% in 1989 to 21% in 2001, around half of the proportion of people who had any party identification at that year (DATAFOLHA…, 2022). Meanwhile, PSDB, which governed the country from 1995 to 2002 and led the opposition during Lula's mandates, has never reached a ratio of 8% of identification among voters. As Amaral and Power have argued, PT was the anchoring pole in the system of alliances and the only party with mass support in the country.

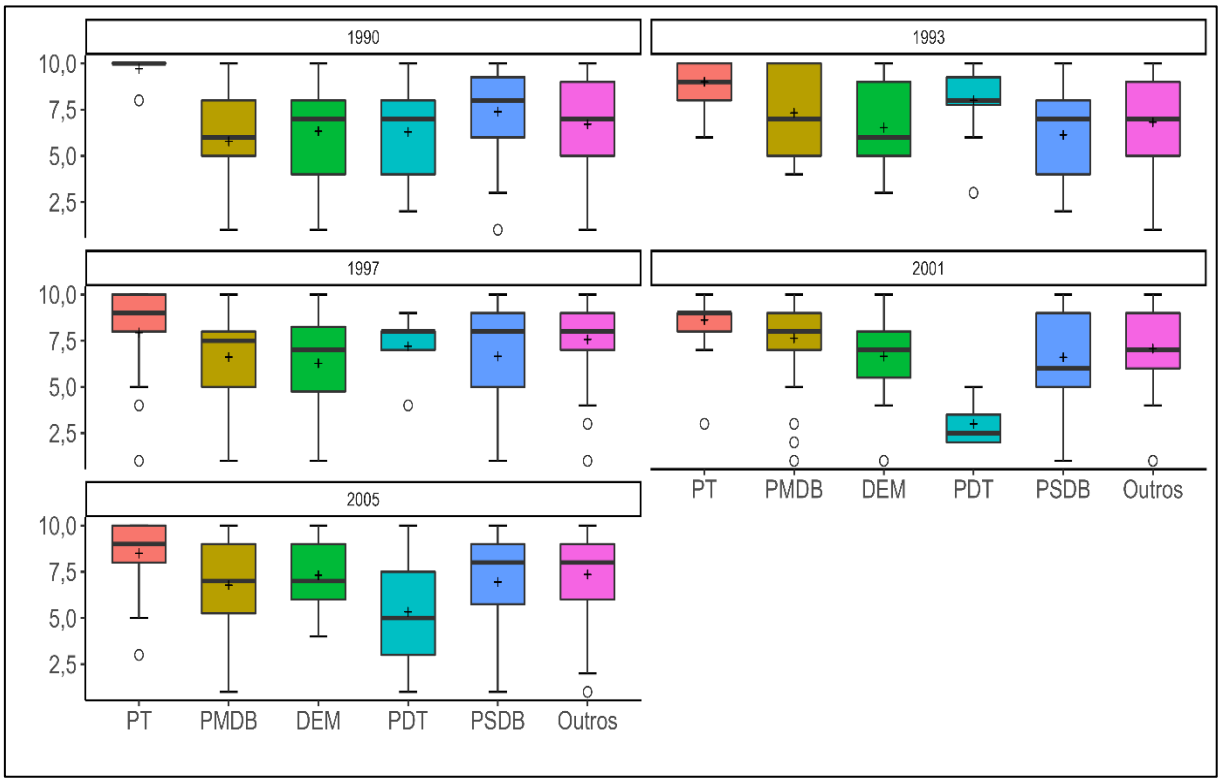
Deriving from our framework, this, then, entails that, assuming no intra-party contestation, a president from PT would have some room for maneuver, in the electoral sense, if he decided to alter the party's economic program; especially considering that *Partido Democrático Trabalhista* (PDT), the other relevant labor party during redemocratization which had strong ties to *Força Sindical* - a big labor confederation in Brazil -, had lost influence throughout the years; and in the 2000s PDT no longer was an ideological cohesive party and its identity was very blurry (table 3 exposes this tendency).

Table 2- Questions Related to Party Institutionalization and Discipline

	1-Party efforts (vis-a-vis personal efforts) are the main drivers of electoral success	2-Parties should whip vote	3-Parties should expel members who vote against the wishes of the party leadership	4-Members of Congress should vote with their party
		1990		
PMDB	18,42%	55,26%	-	39,47%
PDT	23,53%	70,59%	-	58,82%
PSDB	10,81%	56,76%	-	39,47%
PT	71,43%	71,43%	-	85,71%
DEM	8,89%	46,67%	-	44,44%
Outros	10,61%	46,97%	-	45,45%
		1993		
PMDB	23,68%	84,21%	63,16%	68,42%
PDT	18,75%	75,00%	56,25%	50,00%
PSDB	11,76%	76,47%	58,82%	58,82%
PT	76,47%	94,12%	100,00%	88,24%
DEM	0,00%	60,71%	53,57%	42,86%
Outros	13,04%	63,77%	55,07%	50,72%
		1997		
PMDB	27,27%	63,64%	66,67%	51,52%
PDT	0,00%	60,00%	100,00%	80,00%
PSDB	11,76%	76,47%	58,82%	58,82%
PT	76,47%	94,12%	100,00%	88,24%
DEM	5,00%	52,50%	45,00%	32,50%
Outros	11,43%	68,57%	57,14%	51,43%
		2001		
PMDB	9,68%	87,10%	64,52%	51,61%
PDT	0,00%	60,00%	60,00%	40,00%
PSDB	3,85%	73,08%	53,85%	53,85%
PT	66,67%	95,24%	71,43%	85,71%
DEM	16,00%	56,00%	64,00%	32,00%
Outros	13,33%	60,00%	43,33%	40,00%
		2005		
PMDB	9,52%	61,90%	47,62%	33,33%
PDT	0,00%	33,33%	100,00%	33,33%
PSDB	0,00%	65,00%	60,00%	65,00%
PT	38,46%	88,46%	73,08%	84,62%
DEM	18,75%	62,50%	50,00%	50,00%
Outros	5,26%	63,16%	36,84%	47,37%

Source: Power and Zucco (2014)

Graph 5- The Importance of Constituency Base



Source: Power and Zucco (2014)

Table 3- PDT's Electoral Performances in Comparison to PT

	State governors		Senators		Federal Deputies	
	PDT	PT	PDT	PT	PDT	PT
1990	3	0	1	1	45	35
1994	2	2	4	3	34	50
1998	1	3	0	3	25	59
2002	1	3	1	10	21	91
2006	2	5	1	2	24	83

Source: Tribunal Superior de Justiça (2022)

6.2 The Institutional Evolution of PT and Lula's First Term

Something that was pretty remarkable about PT during its first years - which was almost completely altered at the time when it arrived in the executive power in 2003 - was the dynamics of intra-party competition between the *tendências*. In 1995, *Articulação*, the moderate faction led by the former president and José Dirceu, regained control of the party directorate after 2 years of leadership from the radicals; and it worked its way to consolidate its position as the dominant faction. Between then and 2009, *Articulação* won every election for the presidency and directorate of the party; and at the moment that this article is being written - in 2022 - the faction has been in control and direction of PT for most of the party's life (BARROS, 2022). In contrast, the radical members went from being the majority between 1993 and 1995 to controlling approximately only one-third of the party in the next 4 subsequent internal elections - 1997, 1999, 2001 and 2005 - and, finally, decaying to a performance of less than 20% in the last 5 elections (RIBEIRO, 2014).

Among the changes promoted by the moderates while in charge of the party, one must highlight the importance of the new party Statute in 2001. It introduced the Direct Election Process (*Processo de Eleição Direta*, PED) for selection of the party officials, reshaping completely the dynamics of competition between *tendências*. Before it, local committees at the municipal level would send delegates to the state level; and at the state level another meeting would be held to decide who would go to the National Meetings. At the National Meetings, the delegates decided the party's new president and the next National Directory; the National Directory, in its turn, elected PT's Executive Committee. This process used to open up space for a lot of discussion and negotiations between the different factions as wheeling and dealing between delegates in search of a majority came about at the different federal levels. Moreover, this system brought the factional disputes to the local level, encouraging bottom-up internal contestation within PT. Nonetheless, as from 2001 - with the establishment of PED -, a simple majority of all the votes nationwide became enough to impose the line of the dominant group (RIBEIRO, 2014).

This led to more inclusion, but also less accountability from the party leadership as it weakened organized grassroots activists and mid-level leaders. Because the members could now directly choose PT's high officials - sparing the need for intense debates between the delegates -, the influence of organized factions and more active partisans, who previously

occupied the space of these discussions, was reduced. In short, the new electoral rules favored quantity instead of quality of participation, which came in handy for Lula's presidential campaigns, given that PT's leadership autonomy increased at the same time that its position as an institution with mass support and membership was not affected - and arguably reinforced. On top of that, the reform was particularly beneficial for Lula's faction for two reasons: first because it encouraged the participation of less active members of the party and the main popular faces of PT were from *Articulação*; and second, because the mid-level party bureaucracy was dominated by the radicals (BARROS, 2022).

Moreover, the statute introduced plebiscites, allowing the elites to appeal directly to all members; and it abolished the formal dispensation that authorized elected officials to disregard party discipline when the party's decisions went against the labor union position. In summary, the party elite gained power as it no longer had to negotiate with the mid-level party bureaucrats to promote changes and labor interests were not as institutionalized as they once were.

This process of concentration of power among elites was not only due to the introduction of the new Statute, but it was also a result of the financial centralization that took place during the 90s and early 2000s and the creation of the *Instituto Lula* - formerly called *Instituto Cidadania*. In 1995, after strong pressures coming from José Dirceu and his allies, PT decided to approve company donations as a form to secure resources for the party; and in the following year, the Brazilian national congress approved a raise in the State funding for political parties, which soon became PT's main source of revenue. These two new forms of gathering resources contributed to increase leadership influence because they were collected by the National Directorate - rather than at the local level -, while public office holders' contributions - the main source of funding previous to 1995 - were first directed to local branches and then they were distributed to bodies at the state and federal levels. Finally, the statute in 2001 centralized all forms of funding, consolidating this process (RIBEIRO, 2014).

The *Instituto Lula* (IL), on the other hand, was created in 1996 by the party's National Directorate, but it worked as an extra-party organization allowing some of its leadership to receive individual donations and corporate sponsors, independent from the party bureaucracy. The IL also enabled Lula to set his campaign platforms and public relations strategies without any party influence; and in 2002 the institute released his primary program before any intra-party discussion. The document was only debated inside PT after Lula's campaign managers saw the public reaction (SAMUELS, 2004).

As an outcome of all these changes in the party's organization, Lula could successfully change its electoral strategy - appealing to a broader share of the electorate, rather than having a discourse mainly focused on PT's traditional constituency base. One of his campaign advisors, Gilberto Carvalho, publicly stated in an interview to the Brazilian newspaper *Folha de São Paulo* that the end of intra-party disputes was key for Lula's decision to run again in 2002: "The party's unification around his name was fundamental for Lula to run again. In past campaigns, there was a lot of energy wasted in internal disputes. Everyone was shooting everyone in the foot." (FRAGA; ZANINI, 2002, translated by the author).

In other words, Lula planned on altering his rhetoric and strategy - as already mentioned. Nonetheless, intra-party competition could potentially hinder that and make him lose the presidential run for the fourth time. His decision to court business support during the campaign would be very unlikely if the party had not granted him some autonomy. For instance, the campaign team decided single-handedly - without much intra-party debate - to release the "Letter to the Brazilian People". This implies that the sudden change in economic discourse was mainly due to the autonomy the party leadership had in adapting its rhetoric according to what it believed to be the optimal electoral strategy rather than a product of changes in the constituency base's preferences. Differently, the document "Another Brazil is possible" was a result of intense debates between 14 of the party's intellectuals; thus, indicating that its ideological framework was better at capturing the affiliates inclinations and would probably be in line with the party's platform if PT had the same organization as it had 10 years earlier.

Furthermore, *Articulação'*s dominance ensured that the party directorate and PT's leaders at both legislative houses were aligned with Lula's program, facilitating the introduction of pro-market policies. Amid this, it is important to state that some legislators from the party voted against the pension reform proposed by the government, claiming that it was a betrayal in relation to their constituency base; and, as expected, they were kicked out of the party[6]. It is hard to imagine that happening if it were not for the changes promoted by the new Statute. First, because prior to it that there was the formal dispensation that authorized elected officials to disregard party discipline when the party's decisions went against the labor union position; and second due to the fact that the allocation of bargain between radical factions and moderates would be more balanced. Moreover, not only did PT carry out a reform hindering access to pension benefits, but it also neglected a lot of labor organizations' demands. The labor

[6] They then founded a new leftist party called *Partido Socialismo e Liberdade* (PSOL). Although ideologically more cohesive, PSOL does not come close to PT in terms of mobilization capacity and electoral competitiveness.

confederation *Central Única dos Trabalhadores* (CUT) expected the executive to push for a reform that would empower unions by promoting internal democracy and increasing leverage vis-à-vis employers; however, although the government created a tripartite discussion forum, it stalled on the project, and it eventually killed the bill. On top of that, the executive power did not grant any significant increases in the minimum wage until 2005 as the Finance Ministry opposed the idea since it would create fiscal problems (SCHIPANI, 2021)[7].

[7] A lot of policies and constitutional benefits were indexed to the value of the minimum wage, so changes on it would create fiscal problems.

7 PT in Comparison to Uruguay's Frente Amplia

Differently, *Frente Amplia* (FA), which governed Uruguay between 2005 and 2020, was organized in a way that induced its leadership to promote broader social policies. FA is a labor-based party that shares a lot of similar traits with PT: both have long-established society roots and solid brands; however, its leadership was considerably less autonomous, and this was enough to provide incentives for its presidents to opt for more redistribution and courting labor support rather than following market orthodoxy so strictly. The party had an elevated number of factions, some being deeply institutionalized with their own structures, traditions, and leaders. As a consequence, unions and social movements could capitalize on the intra-party competition to push their agenda as different factions competed for the support of the rank and file. The *Plenario Intersindical de Trabajadores-Convención Nacional de Trabajadores* (PIT-CNT) - the biggest labor confederation in the country - was one of the protagonists during FA's administrations. In this period, the Uruguayan national government promoted a reform establishing an active intervention of the State on capital-labor relation - it introduced the tripartite negotiations -, even though business elites expressed their discontentment with the bill. All major business unions in the country opposed the reform, but Tabaré Vasquez - the president at the time - kept the main aspects of the project. Moreover, the party carried out a bill that granted trade union privileges to all union members; and, by decree, occupation was recognized as a legitimate form of strike (ANTÍA, 2014).

FA's administrations also implemented a tax reform that introduced an increase in direct taxation and in marginal rates in order to improve the distributional aspect of the tax system. One particularly interesting aspect about the politics behind this bill is that at first the project was criticized by other factions of the party as they had not been properly consulted, leading to changes, such as the introduction of exemptions that would allegedly improve the distributional aspect of the reform and a stimulus to certain economic activities as a way to reduce unemployment. So, as we can see, the division among the party elite provided FA's rank and file's bargain and, in doing so, elected officials pushed for economic policies in line with the interests of the party's traditional constituency base.

8 Discussion

The case of Lula and Partido dos Trabalhadores provides evidence that strong society roots and solid brand alone are not enough to secure labor policies and redistribution. When the party institutional drawing allocates bargain in favor of the elites, these two factors actually contribute to a president's decision to court businesses' support. Nonetheless, in a case in which the leadership is not autonomous, then it is very unlikely that capital markets' constraints will lead to significant changes in a party's program. In this sense, PT had to go through a lot of changes before carrying out a campaign in which one of its main goals was to calm down investors and gain businesses' trust. Using Duverger's typology, the party - which at its early ages could easily be categorized as a mass party given the strength of its ties with social movements, the intense internal activity, and the primacy it placed in aggregating interests, rather than accumulating electoral victories - became more like its opponents (DUVERGER, 1963). Considering the changes promoted by the new Statute in 2001, the financial centralization and the creation of the Instituto Lula, PT - although still a very institutionalized party - evolved in a way that its elites were granted some room of maneuver in order to secure electoral victories. As Hunter (2007) puts it: the party became less of an anomaly in the Brazilian party system, resembling, to a minor extent, catch-all parties.

Amid this, it is important to highlight that this article did not seek to understand the reasons behind the institutional changes of the party, just their outcomes. Therefore we did not engage with Samuel's argument that the autonomy granted for Lula was a deliberate decision of PT's members since they became more pragmatic and centrist throughout the 90s and early 2000s; nor with Hunter's idea that globalization and the hyper-fragmented Brazilian party system called attention to the importance of strategic adaptability to *petistas*; thus, leading the party to change its organization (SAMUEL, 2004).

As a future agenda of research, it shall be interesting to investigate Dilma – Lula's successor - and her failed attempt to seek business trust during her second mandate. In 2010, Lula single-handedly chose her to be the party's candidate, and - given his incredible popularity - she won the race. In her first four years in office she pushed a state-oriented agenda; but, after being reelected in 2014, she decided to switch policies as inflation started to increase and fiscal deficits were growing at a fast pace. Nonetheless, differently from Lula, she was unable to carry out pro-market policies and was even publicly criticized by *petistas* elected for the National

Congress and the party's rank and file. Considering that PT's organization did not go through any sharp changes between 2003 and 2015, the case can work to refine the framework proposed in this article. In order to understand the events of her second term, we probably should introduce a new actor in the model representing legislators from other parties, especially when considering the difficulty that it is to manage coalitions in the Brazilian context. Both Dilma and Lula had to maintain intra-party support and create an enduring governing coalition at the same time; so it may be the case that Dilma could have failed in her attempt to gather support from PT because she had to spend a disproportionate amount of political capital managing the coalition. Or the framework must be adapted because we considered the party elite as a monolithic agent. According to Panebianco (2005) leadership autonomy is determined by the ability it has in acting in a cohesive manner; therefore if there was disagreement among members of *Articulação*, this could have created some channels through which the rank-and-file members and constituency base could express their discontentment with the government policies.

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