Documentation

'To Change Brazil'

These are excerpts taken from To Change Brazil*, a program of government issued by the PMDB party of Brazil in August 2005. It was drafted by a team of economists led by Dr. Carlos Lessa, the former president of Brazil's National Economic and Social Development Bank (BNDES). Subheads have been added.*

. . . In the decade of the 1990s . . . we witnessed a conservative counter-revolution carried out in stages, something like a *coup d'état* extended over time. . . . In the economy, the idea of a future built by a community which interacts democratically—a conscious and sought-after future whose focus is the greater well-being of all—was replaced by an opaque one created only by the interplay of the market, in which cooperation gives way to fierce competition of interest only to the strongest. The conception of a national enterprise disappeared from our legislation, and the role of the state was eroded and weakened. As for social concerns, with the announced "end of the Vargas era," workers' rights were threatened, and the social security system so subordinated to the logic of budget-balancing, that it was shredded beyond recognition.

No Brazilians decided any of this freely or consciously. Similar programs were imposed on other countries, always under the sponsorship and inspiration of the international financial system and the institutions it controls, with the connivance of local partners. What these all have in common is the dismantling of the agencies of social solidarity, the weakening of nation-states and increasing subordination of each economy to the ever more volatile flows of big capital.

The monumental failure of these policies is always attributed to the weakest links. . . . The conclusion is repeated monotonously: Double the bet, keep at it, more of the same, because new so-called "reforms" still have to be implemented.

Widely promoted by the mass media, this circular reasoning has led to a collapse of thinking. Over time, societies become incapable of defining their own development agenda. They no longer recognize their problems or their potential. They abandon any idea of having a mission. They become used to living with chronic crises. They accept the tyranny of short-term issues and gravitate toward artificial or imported ideas. . . .

The labor market disintegrated, with close to 25% of adult Brazilians forced into full unemployment or chronic under-employment, not to mention the large numbers thrown into the informal sector.

Hostage to the Financial System

The nascent attempt to build a nation-state based on social well-being was interrupted. The state lost its ability to carry out, encourage, or coordinate investments, instead becoming hostage to the financial system. It also lost territorial control, both in the country's interior, as in the case of the Amazon region's extensive border, as well as in the large urban centers. . . .

The long-term history of the Nation became subordinate to financial capital's short term. . . .

The commitment to development reflects the decision to put an end to the tyranny of financial capital and our condition as a peripheral economy, asserting that we shall mobilize all of our productive resources and no longer accept the imposition of policies, either domestically or from abroad.

Naturally, this demands five interrelated measures: (a) the reduction and eventual elimination of the primary budget surplus, today above 5% of Gross Domestic Product (GDP); (b) control of capital inflow and outflow; (c) reduction of the basic interest rate to international levels; (d) management of the exchange rate at a level conducive to balancing our foreign accounts; (e) agreements on price stability.

Over the recent period, close to 40% of the nation's resources have been used to pay debt, leaving less than 5% for investment. The disproportionate expenditures for debt service compared to other government expenditures, is shocking. In the current budget, one month of interest payments is equal to an entire year's allocation for the national health-care system. Fifteen days [of interest payments] is equal to the annual education budget. . . .

This leads to an irrational increase in the foreign debt. Projects under way, which are inadequate in any case, end up being financed by the World Bank or the Inter-American Development Bank (IADB). We take on dollar debt abroad to build railroads or sanitation systems, which require no import of goods or services. These could be financed entirely by national capital.

National Resources Trapped by Speculation

And the resources to finance these projects do exist—were they not trapped in a perverse machinery. The level of the current primary surplus is such that the government takes out of the economy—collects from the people—close to 80 billion *reais* annually to pay part of the interest on the debt. The worst part of this is the transfer of income from the poor (the largest taxpayers), to the rich (who hold the debt bonds).

But the creditors, primarily bankers, don't want to keep the money gained as a result of their manipulations. Money doesn't earn interest. Nor do they wish to invest it in productive activities; their most comfortable and lucrative alternative is speculation itself. The minute they get resources from the primary surplus, they run to the Central Bank to buy more bonds, which yield more interest. Since those bonds are as

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Carlos Lessa (right) led the drafting of a plan to free Brazil's economy from the grip of the financial vultures, and institute a policy of development and investment in large-scale infrastructure.

good as having cash in hand, having been traded daily on the overnight market, we can call them "financial money."

. . .This machinery has to change. The 80 billion *reais* annually which are today immobilized in the primary budget surplus, must be instead carefully directed to finance public expenditures in education, health, low-income housing, agrarian reform, agriculture, sanitation systems, infrastructure, security, and defense. In this way, we can generate millions of jobs directly. The increase in government purchases and wages would lead to millions more jobs in the private sector. Financing these sectors would not be inflationary, as we're not dealing with a primary issuance of money. These are funds that were removed from the economy through taxation. . . .

The second measure of a new macroeconomic policy would be capital controls. In an economy like ours, whose foreign accounts have been historically fragile, when capital flows in and out without regulation, it changes, above all, the relation of power. The movement of unregulated financial wealth prevents both the control of, and even the calculation of, the exchange rate, and thereby threatens to undo the pricing system on which the real economy is based. Since the exchange market is exceptionally volatile and ultrasensitive to speculative flows, financial capital acquires a veto power over any decisions that society might wish to make. Cornered, the state becomes hostage to these capital flows. Sovereign power changes hands.

Once controls over foreign capital flows are re-established, like those that existed for more than 60 years in Brazil until 1992, thereby eliminating the possibility of a flight of the *real* to the dollar, the Central Bank once again will have the ability to fix low interest rates, easily reducing them to a level compatible with balanced public accounts and the restarting of economic growth.

Should the financial market reject the lower rates, and threaten not to buy public bonds, the Central Bank will buy the maturing or matured bonds to inject liquidity into the interbank market. The banks will have to accept the new rates offered for the simple reason that they will have no better alternative to use their available resources. Capital controls won't demand any kind of legal changes, as the Central Bank is already authorized to apply them. . . .

The institutional architecture of economic policy is turned on its head. With the Central Bank as its agent—it operates autonomously, like a state within a state—the financial system subjugates the entire nation-state and productive sector. Democracy is subverted, because real power lies beyond the population's reach. In the new architecture we're proposing, the Central Bank will have to coordinate intimately with the National Treasury, with both pursuing combined goals not only for inflation, as is the case today, but also for employment, use of productive capacity and the volume of credit offered to the real economy. . . .

Relocating workers from the most backward sectors to the most modern, or modernizing those backward sectors, will greatly increase average productivity, the benefits of which will be felt throughout society as a whole.

Large-Scale Infrastructure Investments

To do this, it is essential to return to large-scale investments in infrastructure. Inefficiency and crises in energy, transportation and telecommunications, become systemic inefficiency and crises which affect every undertaking. These are sectors which demand large, long-term projects always related to strategic planning. Brazil is self-sufficient in the knowledge and use of technology in most infrastructure sectors. . . . The role of the state in the elaboration of this systemic vision is irreplaceable. . . .

In a word: we must increase at the greatest possible speed the average productivity of labor, retain within our own economic space the largest portion possible of the wealth created, and distribute that wealth in the fairest possible manner. . .

Our maneuvering room in the international context would increase significantly, were South America to take up its own mission. It is a continent of enormous potential. . . . Our peoples can easily build a common identity. A South American mission is necessary and viable. Brazil plays a central role in this and, with no pretentions to hegemony, has a great interest in this integration. . . .

Large undeveloped countries, such as the United States of the 19th Century and China of the 20th Century, have already faced these kinds of challenges, each in its own way, and only became successful when they dared to apply internal reforms and rejected the station to which the international order of their time relegated them. They paid the price for those decisions. They suffered pressures. They made mistakes and learned from them. And in the end, they emerged from their underdeveloped status. . . .

History is now asking whether our generation and our institutions possess the greatness to unleash the civilizational promise which lies within Brazilian society. The PMDB calls on all Brazilians who desire this, to say "yes."