

Center for Latin American Studies  
University of California, Berkeley



Progressive Governance for the  
21<sup>st</sup> Century:  
The Brazilian Experience

Vilmar Faria and Eduardo Graeff

With Ana María Lopes de Almeida, Sérgio  
Fausto, Sérgio Florêncio and Cláudia Maciel

October 2001  
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## PREPARING BRAZIL FOR THE 21ST CENTURY

“Today, Brazil is not a country that is underdeveloped. It is a country that is unjust.” During the 1994 Brazilian presidential campaign, presidential candidate Fernando Henrique Cardoso used these words to voice a concern that weighs increasingly on the minds of Brazilians. Until very recently the extreme poverty and inequality that mark Brazil were widely believed to be the inevitable consequence of economic backwardness. For this reason, the focus of progressive thinking and politics turned in the early 1940s to development programs that stressed above all the promotion of industrialization rather than the resolution of social problems. Though Brazil's "economic miracle" in the 1970s simultaneously fostered rapid industrial expansion and great income concentration, successive governments continued to defend the need to allow the "pie" (the nation's wealth) to grow before addressing the issue of its unequal division.

Any legitimacy such rationalizations may have enjoyed was lost following Brazil's transition to democracy in the late 1980s. That political change involved far more than the reinstatement of the right to freely express social demands. The return to democracy was accompanied by a growing consensus that Brazil's economy had developed enough to meet the basic needs of the have-nots without excessively penalizing the rest of the nation or causing major political upheavals. Today, increasing numbers of Brazilians are frustrated with the existing level of poverty, with the prevailing patterns of social exclusion, with the contrast between the relative prosperity of those who have managed to join the mainstream of what is now one of the ten largest industrial economies in the world, and the privations of those unable to take advantage of Brazil's economic development, whether as producers or consumers.

While an economic and technological gap still separates Brazil from developed countries, bridging this gap no longer seems as impossible as it did 50 years ago. Further, this gap is no longer wide enough to justify the persistence of poverty at levels that, though improved, are still far too high. Consequently, social inclusion is now as important a priority as economic development for Brazil, and both lie at the heart of the country's political agenda for the new millennium. The development proposal advanced by Fernando Henrique Cardoso represents the response of Brazil's Social Democratic Party (PSDB) to this dual challenge.

Briefly put, President Cardoso affirms that Brazil can simultaneously achieve economic growth and social inclusion, while functioning within a democratic framework and under a market economy. Brazil's participation in international trade, investment, and information flows is presumed to be irreversible; this continued interaction with the global community creates opportunities but also implies risks. Cardoso's strategy is designed to encourage increased productivity and economic competitiveness, while fostering the expansion of domestic and foreign direct investment, with the goal of creating the jobs that the country needs. The proposal recognizes the growing importance of non-governmental organizations (NGOs) in producing and disseminating knowledge and in meeting social needs. Finally, it anticipates a deep-seated reform of the State, designed to strengthen and prepare government to take on its new responsibilities for articulating Brazil's place in the globalized production system and for providing universal access to basic social services that come under the public-sector umbrella.

The need to combat destitution and exclusion is no longer a question of left- or right-wing politics in Brazil. The fight against poverty and exclusion is one of the fun-

damental principles cited in the Constitution; a plank in every political party's platform; an editorial stance defended by all the mass media; and an issue included in the discourse of public figures from all walks of life. In short, a national consensus on the goal of poverty reduction has been reached, at least in terms of declarations of intent. The need to take concrete steps to pursue this goal and to do so within the double framework of a democracy and a market economy is recognized by a broad majority of Brazilians, although not unanimously.

Vital signs such as hotly contested elections, recognition of civil rights, independent media, and tolerance for dissent and conflict attest to the strength of Brazil's democracy. There is no organized group in Brazil today that openly espouses anti-democratic ideals. Nonetheless, certain extremist factions have resorted to illegal forms of protest in an attempt to encourage a revolutionary break with the past, albeit without a clear framework for social change. The radical inclinations of such groups are kept in check by their fear of losing public support and the backing of leftist parties with voting power, all of which repudiate political violence unconditionally. As to the right, the elitist-authoritarian thought that served as the apology for the interruption of the democratic process in 1964 is equally insignificant in political terms. However, it would be excessively optimistic to imagine that such ideas have been entirely banished from society.

The most significant resistance, although not necessarily the most explicit, emerges when issues involving the conditioning factors of a market economy are at stake. The old left, which includes political parties with significant voting power, has retained its anti-capitalist instincts even in the absence of a prospective revolution. Turning a blind eye to structural changes in the economy and in contemporary society, the old left's admittedly generous intentions are converted into retrograde proposals. Concerns regarding fiscal stability or the need for macroeconomic consistency, both of which are requisite components of any serious attempt to increase growth or improve income distribution, are dismissed by these leftists as "neo-liberal". They advocate State intervention and protected markets, formulae whose effectiveness died out in the 1970s with the exhaustion of industrial growth through import-substitution. Because they feel that "State-owned" is perfectly synonymous with the best interests of a nation or its people, they find themselves tethered to segments of the bureaucracy whose own special interests are a powerful obstacle to sustained economic growth, as well as to any effective openness of the State to popular demands.

On the other hand, the influence of a traditional patrimonial culture that delights in profits (whenever possible, those stemming from government subsidies) but that abhors competition still permeates political parties across the ideological spectrum, not to mention the government's own apparatus, especially at the regional and local levels. This mindset is now disappearing in the wake of the demands for universality and transparency espoused by society's most modern sectors. Nevertheless, such thinking is still capable of delaying reforms intended to free the State from the thrall of special interests groups, whether within the bureaucracy or the private sector. Recently, opposition to reform has proved most effective when it has used the justifications and secured the votes of the old left and its representatives in Congress.

When consideration is given to strategies for change, divergent opinions and interests define the boundaries within which a consensus can be reached. Current consensus in Brazil covers remarkably broad terrain, resulting, among other things, in Fernando Henrique Cardoso's first-round victory by an absolute majority during the presidential

elections of both 1994 and 1998. In terms of party politics, while Brazilian Social Democrats do not command a majority in Congress or even among voters, they have seized the opportunity afforded by this consensus and the leadership of various state governors and President Cardoso to craft a heterogeneous majority coalition representing five of the seven political parties with real voting power in the National Congress, including representatives of the center and center-right. This coalition has made it possible for the administration to secure the passage of its Bills of Amendment to the Constitution; such approval requires the support of a three-fifths majority in both houses of Congress. To the old left, this coalition represents political ambivalence, perhaps even a full betrayal of principles. They accuse leaders who in the past headed the struggle for democracy and social justice of joining their former political adversaries. And, they mistakenly charge, it is all done in order to impose the neo-liberal agenda of the “Washington Consensus” in Brazil!

In fact, liberalism (with or without the prefix “neo”) has always been a scarce commodity in Brazil. Except for a few isolated voices, the Brazilian right has never been consistently and strictly liberal, at least to the extent that such a term means a belief in social Darwinism or a dogmatic faith in the invisible hand of the market. History shows that Brazil's elites have always preferred the visible hand of the State, whether to provide economic protection and subsidies or to control social conflict by means of repression or paternalistic concessions. Today, however, new groups of relatively modern social and political elites receptive to middle-class liberal-democratic values and, even more so, to the expression of such values via the media, are emerging. These new elites feel relatively secure about their capacity to deal with social conflict without being shielded by an authoritarian State. They are capable of recognizing that pressures “from below” represent a desire to be part of the mainstream in a growing mass society rather than an explosive threat to the foundations of that society.

The groundwork for these changes had begun to be laid in the 1980s. The protracted economic crisis Brazil suffered during that decade had forced the country's more lucid thinkers to reconsider their own convictions and their differences with others, and search for alternative paths to renewed growth, the discovery of which was widely perceived as a prerequisite to the very survival of democracy. An alliance was formed in 1984 during the election by Congress of the first civilian president in twenty years, between the Party of the Democratic Movement of Brazil (PMDB), the principal opposition party, and the Party of the Liberal Front (PFL), a dissident wing of the governing party. The conservatives (or “moderates” as they preferred to be called) thus set the tone for the future Democratic Alliance. This cooperative trend was reinforced when the PSDB was founded in 1988. The party manifesto issued at that time proclaimed: “[Although] broad enough to encompass a confluence of contemporary political thought—including progressive liberals, Christian democrats, social democrats, and democratic socialists—our newborn party is of one mind regarding the fundamental importance of democracy, whether as a basic principle or as a wellspring for the changes demanded by the public in Brazil.”

Even then a broader alliance seemed possible, one that would encompass those to the left of center who were determined to pursue progress within the framework of a democracy and without the willful shortcuts attempted in the past, as well as modern conservatives who were open to social progress and anxious (as were all Brazilians) to resume development. The collapse of the Soviet bloc contributed to these changes in thinking by reducing the fear—and, conversely, the attraction—of recipes for social justice

based upon the abolition of private property. Through the 1990s, the ideological boundaries that had been set by the cold war or by Brazil's military government disappeared, and input from political parties and society at large fueled a flourishing dialogue on how to pay off the nation's "social debt". Finally, the success of the Real Plan (the economic stabilization policy set in motion by Cardoso when he was Finance Minister) opened a window of opportunity for the Social Democrats during the 1994 election, and they formed an alliance headed by a candidate who defended a platform of reforms based upon social-democratic values.

However, nothing said thus far warrants an idyllic view of the changes currently underway in Brazil. External financial crises, the peculiarities of an excessively fragmented political party system, the government's errors and limitations, and Brazil's own social and economic backwardness have all led to shifts and painful corrections in course. Agreeing to support the same fundamental goals and strategies shared by others is quite different from agreeing to specific proposals for reform. Such differences cannot all be bridged at once. In Brazil, the broad consensus that has been the prerequisite for progress along the path of democracy involves understandings that are constantly subject to debate and must thus be refashioned along the way.

Circumstances have allowed Brazil's Social Democratic Party, young as it is, to lead the reform process. The results achieved thus far can in all fairness be ascribed first, to the party's boldness in charting a course for Brazil to follow amidst the whirlwind of globalization, and second to the wisdom the party has shown in making that path as broad as possible so that others may also follow it. For while it is true that "institutions matter" in developing countries, as qualified economists have recently discovered, it is also true that the art of politics—that imponderable combination of conviction and compromise—matters a great deal, as revealed by Brazil's experience with governance to promote change. The successes and mishaps that have resulted from the implementation of progressive public policies in recent years speak eloquently to the challenges inherent in, and the Social Democrats' skill at, practicing that art.

## A NEW DEVELOPMENT MODEL

Brazil's economy must grow at a rate of approximately 5 percent a year over the next decade just to provide enough jobs to keep up with the projected growth of the economically-active population. (It is important to keep in mind that overall demographic growth has fallen under 1.5 percent a year, little more than half the rate of the 1950s; this implies that an economic growth rate of 5 percent a year will allow significant increases in *per capita* income.) Sustaining economic growth at a level of 5 percent per year is an ambitious goal by any standard. For a country with limited domestic savings such as Brazil, it implies a truly extraordinary effort: investments, for example, must increase from today's 20 percent to 23 percent of gross domestic product (GDP). Roughly R\$170 billion\* in public and private funds will have to be invested over the next four years just to meet current estimates of the expansion needed in terms of Brazil's energy, transportation, and

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\* For the purposes of converting Brazilian reals into US dollars, the average foreign exchange rate in effect since the adoption of a floating exchange rate can be used. Between January and September 1999 that rate was \$1 = R\$1.79.

telecommunications infrastructure. Given these challenges, any development project designed to tackle Brazil's social needs must keep the goal of economic growth stated above in mind; the current administration's macroeconomic scenarios and investment plans do just that. However, growth alone is not enough for Brazil. The country must grow in new ways to ensure that it can become an integral part of the world economy while simultaneously reducing domestic social and regional imbalances.

### Average annual change in GDP, population, and per capita income, 1950-1998



### Axes of Integration and Development and the goals of the Pluriannual Investment Plan

To ensure that economic growth will not be hampered by bottlenecks caused by poor infrastructure, Brazil must, over the next four years, add 28 gigawatts to its installed electric-power generating capacity; expand domestic oil and liquid natural gas production by 750,000 barrels; build 16,000 kilometers of interstate highways and 3,000 kilometers of railways; and install 11 million new fixed telephones and the infrastructure to serve nine million mobile telephones.

The priority projects required to meet these needs are components of the "*Avança Brasil*" Program, a federal government investment plan for the 2000-2003 period. The plan is based upon the Study of National Integration and Development Axes, an extensive survey that mapped out the economic vocations of Brazil's macro-regions and identified bottlenecks and missing infrastructure links that must be overcome in pursuit of the country's integrated development.

While serving as a basis for the definition of public-sector priorities, the study also serves the purpose of indicating potential investment opportunities for private enterprise. Roughly 70 percent of the total investment in electric power, oil, transport and telecommunications over the 2000-2003 period is to come from private sources.

## THE CHALLENGE OF GROWING WHILE MAKING STRUCTURAL CHANGES

The 1950-1980 development cycle placed Brazil among the ten largest economies in the world and endowed the country with a relatively well-integrated and diversified production system. Thanks to that cycle, substantial reductions in absolute poverty levels were achieved, as shown by improvements in literacy, infant mortality, and life expectancy indicators. However, in relative terms, development during that period failed to alter and perhaps even exacerbated Brazil's patterns of income distribution, which are among the world's most inequitable. Some of the import-substitution industrialization (ISI) model's basic features explain the combination of rapid economic growth with income concentration that Brazil has experienced. Those features include the inflationary financing on which government development efforts relied to a tremendous degree; record profit margins resulting from highly protected domestic markets; massive transfers of public funds to the private sector in the form of tax exemptions and subsidized credit; and scarce incentives for investments in worker training programs.

The slow and painful demise of the ISI model dragged on throughout the 1980s and left enormous problems in its wake. Inflation, refueled by an intricate system of prices and wages pegged to an inflation index, reached levels of over 1,000 percent per year, with devastating consequences in terms of income distribution and the inclination to invest. Brazil's increasing isolation from international capital and technology flows coincided with the new scientific and technological revolution and with globalization, thus increasing the technology gap between domestic and international production standards. Because the State was disorganized and financially debilitated, it stopped investing enough to maintain, let alone expand, infrastructure. Once the primary engine of development, the State became the fulcrum of the macroeconomic imbalances that fanned hyperinflation. Economic growth plummeted from an annual rate of 7.4 percent from 1950 to 1980 to 1.4 percent per year between 1981 and 1992.

This was Brazil's unfortunate position in the early 1990s, when the nation began its transition to a new economic model characterized by increasing economic openness and the leadership of the private sector. And this is precisely the model that Fernando Henrique Cardoso has sought to consolidate since 1993, first as finance minister and after 1995 as president, with the goal of allowing the country to resume development under conditions that will meet the needs of historically excluded regions and social groups. However, achieving this goal will be difficult for a number of reasons, ranging from liabilities that are the legacy of the recent past to the challenges and obstacles that confront a nation attempting to become a full partner in the world economy.

The existence of chronic hyperinflation in the 1980s required the simultaneous implementation of monetary stabilization and economic restructuring programs. Economic policymakers therefore had to dovetail two programs with competing requirements in a context characterized above all by scarce domestic savings. These difficulties were exacerbated by the changes in patterns of public spending and private consumption caused by the sharp drop in inflation. Further, the implementation of the combined stabilization-structural change program coincided with the increasing volatility of international capital markets (the crises in Mexico in 1995, Asia in 1997, and Russia in 1998). The countries hit hardest were those that depended most on external savings. Furthermore, Brazil and the rest of the developing world continued to be plagued by the effects of the

uneven playing field of trade rules and practices governing access to foreign markets. Thus it is hardly surprising that the costs of structurally transforming the economy have turned out to be higher than initially imagined.

Consolidating the new development model means more than settling accounts with the past. Another goal is the broadening of Brazil's prospects of becoming an active partner in the world economy. This task not only involves domestic adjustments, but also requires that Brazil negotiate its role in the international system under more favorable conditions. The Cardoso administration and the government coalition in Congress have responded to these challenges by rebuilding political and economic institutions to a degree unprecedented in the history of Brazilian democracy. The process has involved a number of transitions that have been undertaken simultaneously, although not at the same pace; these include the transition from a hyperinflationary to a stable economy; from a closed economy run by the State to an open economy led by the private sector; from an entrepreneurial State to a regulatory State; from a structurally maladjusted State to a balanced State; from a State that fosters inequalities to one that creates equal opportunities; and so on.

The government's plan seeks to lay the necessary groundwork for the achievement of sustainable growth and more equitable income distribution by guaranteeing low inflation, high productivity, adequate levels of domestic savings, and redistributive public spending. The greatest challenge of all has been to reconcile the transformations and allow them to take root. This has been done by resolving natural short-term differences of opinion through democratic negotiation and persuasion.

#### THE REAL PLAN DEFUSES THE INFLATIONARY SPIRAL

Between June 1980 and July 1993 average annual inflation in Brazil was 1,110 percent. Any serious effort to reorganize the economy was doomed as long as inflation raged out of control. The Real Plan changed Brazil's official currency in June 1994 while dismantling the complex system of price and wage indexation, thereby allowing inflation to fall to an annual average of 12.6 percent for the period between June 1994 and June 1999 (and 6.2 percent between November 1998 and November 1999, even after incorporating the effects of the currency devaluation in January 1999). Price stability was the starting point for the changes that are currently transforming Brazil's economy; it continues to be the key prerequisite.

The drastic and sustained drop in inflation has revealed Brazil's greatest asset in its struggle to meet the challenge of achieving economic competitiveness while fostering social equity: the vast size of its domestic market. In the past, hyperinflation rapidly corroded income. This was especially true among the poor who could not defend themselves by using anti-inflation indexing mechanisms. The end of the *de facto* tax levied by inflation and the subsequent increase in real wages brought 30 million Brazilians into the consumer market. The number of people under the poverty line fell from 44 percent in 1993 to 34 percent in 1997. The positive social effects of stabilization have endured despite the difficulties experienced by Brazil's economy as a consequence of financial crises elsewhere. Once prices were stabilized, the government was able to proceed with a broad range of pro-market reforms.

The two most important of these were the consolidation of the transition from a closed economy (the development model Brazil had pursued for approximately 60 years) to an open economy, and the privatization of State-owned companies. In the early days of the opening of the economy, the business community's typical response was to cut costs. This reaction eventually gave way to retooling by retrofitting machines and equipment, building new plants, and implementing internationally competitive production economies of scale. Brazil thus achieved significant gains in technical efficiency: between 1991 and 1997 total productivity increased at an average rate of 3.3 percent per year, a rate far higher than that of the members of the Organization for Economic Cooperation and Development (OECD). There were also gains in the efficiency of resource allocation, as productive investment migrated to industries in which Brazil holds a comparative advantage and is more competitive in terms of international trade. Further, many of the positive effects of this investment cycle, delayed but not halted by international crises, have yet to come on line.

From 1992 to 1998 the gross fixed capital formation rate increased from a level of 19 percent to 21 percent of GDP (at fixed 1990 prices). Imports of capital goods increased from less than \$5 billion to \$16 billion over the same period. This growth in imports, a key component of continuing price stability and increased production efficiency, has not led to the deterioration of Brazil's industries. On the contrary, in the vast majority of these industries the surge in imports was accompanied by an increase in exports, although the latter expansion occurred at a slower pace. This has been true even among technology-intensive sectors, thus indicating a pattern of intra- rather than inter-industry specialization. Moreover, the growth in imports certainly cannot be described as explosive, since imports are only equivalent to a comparatively low 20 percent of industrial production.

In addition, foreign direct investment, which had become stagnant in the 1980s, began to flow back into Brazil: from a level of less than \$1 billion per year between 1990 and 1993, the amount of foreign investments soared to \$26 billion in 1998 and to \$31 billion in the twelve-month period ending in September 1999. Between January 1994 and September 1999 a total of \$82 billion entered Brazil. The only so-called "emerging" economy to do better was China. Further, there was a marked expansion of commerce to and from Brazil: annual foreign trade increased from \$50 billion in the late 1980s to over \$100 billion in 1998. Because of the conditions described above this surge in trade came at a cost. However, the new pattern of specialization that has begun to characterize Brazilian industry has strengthened Brazil's prospects for playing an increasingly active role in the world economy.

#### IN PURSUIT OF COMPETITIVE INTEGRATION

The government has not stood idly by as Brazil's economic specialization patterns have changed. To the contrary, the administration has actively sought to find an appropriate role for Brazil as a full member of the global trading system and of the world of international relations. Some key tools in that development are new industrial and foreign trade policies. Further, economic stabilization helped Brazil to re-establish its credibility and cleared the way for the full exercise of presidential diplomacy, another channel through which Brazil pursues an active role in the world economy.

Brazil's current industrial and foreign trade policies differ significantly from those that produced the protected markets and government subsidies that characterized the previous development model. That does not, however, imply growing proximity to neo-liberal minimalism. Today, government policy seeks to ensure, to the greatest degree possible, that local producers enjoy the same conditions as their foreign competitors. This is especially true with respect to the cost of capital, which in Brazil is still subject to the inevitable pressures of the stabilization process. In brief, the administration's policies do not attempt to supplant the market, but rather, to make it function better.

These policies focus not only on industries in which Brazil has traditionally enjoyed comparative advantages (such as steel, petrochemicals, paper, and pulp) but also on sectors that stand out as new frontiers for investment and advanced specialization. Such is the case of capital goods for telecommunications and oil, involving industries in which the government's aim is above all to maximize investment in finished products while at the same time ensuring that domestically produced inputs and components will be competitive. Such steps ensure increases in the number of local value-added components while simultaneously fostering technical improvements throughout the production system. Furthermore, the administration's policies aim to include small- and medium-size companies and to reduce the geographic concentration of production activities. The automobile industry provides a good example of how successful the reduction of industrial concentration has been: today there are automobile assembly plants in seven Brazilian states while at the beginning of the decade, there were assembly plants in just two.

One of the significant advantages that Brazil enjoys in its efforts to achieve competitive integration is its vibrant scientific and technological establishment. Despite the relatively low numbers of students enrolled in higher education, Brazil's research and graduate studies establishment dates back over 30 years and is ranked among the most successful in the developing world. This system comprises over 2,000 masters and doctoral degree programs, 94,000 students, and 29,000 faculty members. Brazil has an ambitious fellowship program for masters and doctoral candidates with R\$650 million in funding for an estimated 38,000 beneficiaries. Each year, approximately 4,000 students graduate with a Ph.D. Further, Brazil ranks among the top 20 countries in the world in the field of scientific production, as measured by work that has been published and recognized internationally. The balance of technology imports versus exports has grown considerably, placing Brazil on a par with Spain and Italy.

The combined budgets of the three public agencies responsible for fostering scientific development amount to over R\$1.2 billion. Further, in implementing its industrial policy Brazil enjoys the singular luck of having its own development bank, BNDES (The National Bank for Economic and Social Development). This institution has a greater lending capacity than many international financial institutions. Between 1997 and 1998, BNDES provided financing worth approximately \$20 billion per year, thereby supporting industrial restructuring efforts and exports of higher value-added and more advanced technology products.

Brazil's foreign strategy involves strengthening Mercosur (the Southern Cone Common Market, a customs union with Argentina, Uruguay and Paraguay) within a framework of open regionalism characterized by a fairly low common external tariff, while simultaneously increasing trade flows with third-party markets and other economic blocs. Brazil's trade with Mercosur countries increased from \$4.6 billion in 1991 to \$18.3 billion in 1998. At the same time, Brazil has been engaged in strengthening the ties be-

tween Mercosur and other South American countries (through the signing of free-trade agreements with Chile and Bolivia), and has sought to achieve balanced progress towards broader integration with other economic blocs (through such initiatives as the proposed Free Trade Area of the Americas and the Mercosur-European Union Free Trade Agreement). Brazil has thus sought to preserve its position as a global trader by maintaining significant commercial exchanges with all the great economic blocs, while diversifying an export portfolio in which manufactured products play a major role (accounting for over 50 percent of total exports).

#### FROM THE ENTREPRENEURIAL STATE TO THE REGULATORY STATE

Between 1995 and 1998, the Brazilian Privatization Program poured \$60 billion into the coffers of the federal government and those of Brazil's 27 states, not including the debts of the state-owned companies that were assumed by the private sector. In contrast, between 1991 and 1994 the program raised less than \$8.6 billion. By opening infrastructure sectors to private investment and simultaneously working to transform the existing entrepreneurial state into a regulatory state, Brazil has taken key steps toward consolidating the domestic foundations for sustainable growth, and assumed a positive posture in relation to the rest of the world.

For a time after its inception in the early 1990s, the Brazilian Privatization Program was limited to the industrial sector. The program was later extended to include sectors involving infrastructure. Today, telecommunications services are entirely in the hands of the business community. Oil and natural gas exploration and production, which had formerly been a state monopoly under Petrobrás, are currently attracting investments from various large international groups. In the transport sector, private operators now control all of Brazil's railways and ports. Privatization has spread to the generation and distribution of electric power and is taking its first steps in the basic sanitation sector.

In the case of public utilities, privatization was only part of the story. Measures were also needed to ensure that competitive markets and institutions that effectively regulate private operators would be created. In an intense institution-building effort, regulatory agencies have been established for the telecommunications, oil, and electric-power industries. These agencies have been endowed with financial autonomy and decision-making independence: the director's term of office is staggered against that of the Brazilian president, and directors cannot be dismissed, except under specific circumstances specified by law. The regulatory agencies are subject to rules regarding public consultations and the disclosure of information. These measures are designed not only to reduce the risk that an agency might be manipulated for political purposes or fall prey to private interests, but also to preserve each agency's capacity to enforce laws governing market competition.

In an apparent paradox, privatization has created the means to ensure effective public regulation of utility services for the first time in Brazilian history. During the first half of the 20th century, while public utilities were usually held by private operators, there were no mechanisms for public regulation. In the post-war period these utilities were taken over by state-owned monopolies, which also assumed the function of regulating the markets in which they themselves operated. In practice the monopolies were freed from any form of public oversight. Thanks to privatization and the advent of regu-

latory agencies, consumers now have independent channels through which to submit demands or complaints. The repressed demand for such channels of communication was significant, as was recently demonstrated by the intense consumer and media reactions to the first power outages and interruptions since electric-power distribution and telephone services had been privatized.

#### **Oil—from a State monopoly to regulated competition**

In June 1999 the Brazilian government held tenders for oil exploration and production areas, in line with the opening up of the sector to private investment. Simultaneously, a Program for the Promotion of Investment in the Oil and Gas Sector (PROPAG), was launched, with financing provided in internationally competitive conditions by BNDES (Brazil's development bank). The aim of the program was to maximize investments throughout the whole oil and gas production cycle while, at the same time, making it possible for companies registered in Brazil, regardless of the origin of their capital, to bid, in conditions of equality, for goods-and-services orders stemming from such investments and, furthermore, to enable them to participate in international tenders.

PROPAG is part of a broader policy for stimulating productive investment in the whole range of activities carried out by the oil and gas industries. This policy includes equal tax treatment for locally produced and imported capital goods, and also significant investments in science and technology, financed by part of the revenues resulting from the tender process. A non-governmental institution, the National Organization of the Petroleum Industry (ONIP), similar to counterpart institutions established in European countries, is to coordinate and promote actions aimed at maximizing the development of the oil and gas production cycles in Brazil.

While the gains in efficiency since privatization vary in accordance with regulatory agency effectiveness and consumer pressure, there is no doubt that it was the inflow of private capital into infrastructure sectors that made such gains possible in the first place. Brazil's ports are a perfect example. Although port operations have yet to meet international standards, the savings in terms of time and money experienced by the privatized ports have been remarkable. Above all, privatization has allowed Brazil to make sorely needed investments in infrastructure that otherwise would have been impossible, since the State had exhausted its investment capacity. This point is vital to Brazil's prospects for broad economic expansion. And consumers are the direct beneficiaries of the changes.

Telephone services are a good example of the role of private enterprise in providing universal services that, in the final analysis, affect Brazilians' ability to exercise their rights as citizens. The number of mobile telephones has soared, from 1.3 million in 1995 to 11.6 million in 1999. Although mobile telephones were initially considered to be a middle-class status symbol, they have rapidly proven to be an essential tool for small

businesses and self-employed workers. They have also aided those who are still waiting for the installation of fixed landline services in their homes.

### Proposed investment in infrastructure, 2000-2003

	Total investment (R\$ billion)	Private-sector participation
Telecommunications	45	100%
Electric Power	52	86%
Oil	54	31%
Transport	23	52%

*Source: Brazil, Pluriannual Investment Plan 2000-2003.*

### RESTRUCTURING THE FINANCIAL SYSTEM

It has been estimated that revenues from inflationary floats represented over a third of the value produced by Brazilian banks between 1990 and 1993. When inflationary receipts plummeted, the impact upon banks was brutal. From 1994 to 1995, the financial sector's contribution to Brazil's GDP dropped from 12 percent to 7 percent. The risk of a system-wide crisis seemed imminent when the Central Bank was forced to intervene to keep two of the country's largest private banks from failing.

At that juncture the government took pre-emptive action by creating PROER, a program designed to restructure the private banking system. PROER funds, drawn from the compulsory reserves kept at the Central Bank by the banking network, were used to finance the transfer of controlling shares and/or the reorganization of the stockholdings of institutions experiencing difficulties. These pre-emptive rescue operations were complemented by measures to reinforce Central Bank supervision and inspection activities, increase minimum capital requirements, and reduce leverage ratios. Over a third of Brazil's financial institutions at the time were required to adopt ownership reorganization programs. The number of banks in Brazil dropped from 273 in June 1994 to 233 in December 1998, while the ranks of foreign banks operating in Brazil swelled.

By the time the program ended, for all practical purposes, late in 1998, R\$21 billion had been disbursed through the program account (this sum should not be confused with fiscal costs). While this seems like a large sum, if measured as a percentage of GDP, the amount is actually small compared to what other countries have had to pay out in order to control the effects of their own systemic financial crises.

Today, opposition parties in Brazil speak disparagingly of PROER as "donating public monies to bankrupt bankers." In fact, PROER allowed Brazil's financial system to be restructured without trauma. This in turn was key to preserving the positive developments achieved through price stabilization. The PROER program protected Brazil's real economy from experiencing damages similar to those experienced by the real economies of other countries resulting from a wave of bankruptcies among financial institutions. Further, it left behind a financial system better prepared to play its proper role as a source for credit and less vulnerable to external shocks, an important accomplishment in light of the recent experience of some Asian countries.

**Sums disbursed for banking system adjustment programs**

Country	Year(s)	Loans/GDP
Argentina	1982	13.0%
Chile	1985	9.6%
Colombia	1985	6.0%
Norway	1988-92	4.5%
Finland	1991-93	8.2%
Sweden	1991-93	4.5%
USA	1991	5.1%
Venezuela	1994	13.0%
Brazil	1995-98	2.8%

*Source: Ministry of Finance*

## THE STRUGGLE FOR FISCAL ADJUSTMENT

In order to support and give full rein to the Brazilian economy's potential for growth, structural adjustment of public accounts must accompany price stabilization, industrial modernization, privatization, and the restructuring of the financial system. A new fiscal system must be consolidated to avoid continuing pressure on interest rates as low levels of domestic savings will eventually hamper production growth and domestic consumption. Price stability has put the spotlight on fiscal distortions of a structural nature that had previously been hidden by the corrosion in the real value of public disbursements and by the indexation of public revenues.

### 1. Defusing the social security time bomb

The greatest of these fiscal distortions involves the size and growth of Brazil's twin social security deficits (for civil servants and private-sector workers). On the one hand, the gap between social security withholdings paid by civil servants (who work for federal, state, and municipal governments) and the benefits they accrue at retirement represents approximately 3 percent of GDP; society as a whole must pay the taxes that cover this shortfall. On the other hand, social security accounts for private-sector workers that had run a surplus equal to 1 percent of GDP at the beginning of the decade ran a deficit of 0.9 percent in 1999. This number was expected to double over the next 15 years, and to continue to grow if nothing was done.

The Constitution enacted in 1988 was generous in terms of social security benefits. Nonetheless, the growing numbers of workers in the informal sector (who do not pay into the social security system), and above all the rapid aging of Brazil's population, represent immediate and inescapable threats to the balance of the system. Defusing the social security time bomb has become the most formidable challenge in the Brazilian battle to build a fiscally balanced economy.

Some consideration was given to the idea of radically reforming the social security system by replacing the current pay-as-you-go solution with a fully funded program. However, this possibility was rejected because of the huge costs involved in bearing the existing stock of benefits based on past contributions. A study by the International Mone-

tary Fund (IMF) estimated that changing to a fully funded system would cost the equivalent of three times Brazil's GDP. The subsequent impact on Brazil's public debt would be incompatible with the goals of consolidating economic stability and resuming sustainable growth. The administration has therefore opted for change at a gradual pace. Some success has already been achieved in the struggle to alter the course of the social security juggernaut.

Brazil used to be one of the few countries to guarantee retirement benefits based on length of service alone. An amendment to the Constitution has now made retirement benefits conditional on actual length of contribution to the social security system. Another bill approved by Congress includes average life expectancy at the time of retirement when calculating the value of benefits. Measures such as these should help the current explosive growth of the deficit in the social security system for private-sector workers to give way to slight increases until the deficit stabilizes at 1.3 percent of GDP in 2015.

Another important goal of the reforms is to extend social security coverage to a vast contingent of workers who currently have no coverage at all: approximately 19 million people, most of whom are domestic servants or self-employed workers. Several measures have been adopted to encourage such people to register with the social security system; the inducements include the immediate extension of maternity benefits to all women who register (that is, the waiving of any waiting period).

The growth in the deficit of the social security system for civil servants has been limited somewhat by the introduction of a minimum retirement age. Nevertheless, this system consumes tax monies that are sorely needed for the provision of basic social services. One possible solution—a tax on retired civil servants whose social security benefits are higher than the salaries they used to earn when working for the government—is currently the subject of negotiations among the federal government, state governments and Congress.

A structural solution to the issue of social security for civil servants would have to involve the establishment of complementary pension funds, so that the State could limit its responsibility to guaranteeing retirement benefits under the same conditions enjoyed by private-sector workers. Such changes are already underway. Funding for the complementary retirement programs will come from monies raised by privatizing state companies (still a rich vein of revenue for individual states). Further, voluntary complementary pension plans for private-sector workers are being encouraged via measures that strengthen oversight and stimulate competition among corporations that offer complementary pension plans to the public at large, as opposed to closed company plans.

## 2. The many roots of the deficit

Social security system reform lies at the heart of the new fiscal system that is currently being established. However, the new system has many other features. Changing Brazil's fiscal accounts involves a battle that must be fought on various fronts because of the scope and the importance of the role that the State has traditionally played in Brazil. State-owned companies and financial institutions grew continually in number late into the 1980s and contributed in a key way to fiscal imbalances. The roots of these imbalances permeate not only the federal level but also the 27 states, and have ramifications extending to the more than 5,500 Brazilian municipalities, because states and municipalities have their own budgets that are given 45 percent of Brazil's total tax revenues.

For example, state-run banks in Brazil were often misused, thus increasing public indebtedness. A program designed to help restructure the state banking system has decreased the number of such institutions. While there were 35 banks belonging to the states in 1996, probably only nine will remain after reform, and these will have been put on sound footing by their controllers. Ten state banks have already been privatized or are currently undergoing privatization, including the state banks of São Paulo and Rio de Janeiro, respectively the first and third most economically powerful states in the country. Eleven banks have been transformed into development agencies, without access to bank reserves; and five have been or are being subjected to voluntary liquidation. When the federal government assumes state debts, it in turn requires the states to sign agreements that prohibit them from issuing new securities. They are also obliged to conduct fiscal adjustment programs and sell off their assets to meet targets designed to reduce their debt to revenue ratios. Penalties are imposed for non-compliance with the contracted commitments.

A federal law has been approved that lays the foundation for a two-pronged approach to government administrative reform designed to ensure greater control over federal, state and municipal personnel costs and to modernize management methods. Passing the new law required changes in a Constitutional provision that over-protected vested interests. Under the old provision all civil servants had been granted job security that was almost identical to the lifelong tenure granted to judges.

### 3. A pact for fiscal responsibility

In brief, the structural reform of public finances has defused some of the key mechanisms that automatically fed the public deficit. Furthermore, the activities of institutions (typically state banks) that had historically funded the unsustainable imbalances in public accounts have been circumscribed. A natural adjunct to the process that is currently underway is a Fiscal Responsibility Law (although additional changes to the social security system for civil servants are still required for the full consolidation of the reforms).

The Fiscal Responsibility Bill currently before Congress establishes constraints and rules regarding adjustments to the principal variables in public finances. Administration officials at all three levels of government must commit to sustainable fiscal policies and will be held accountable for such policies by their respective Legislatures. The bill imposes transparency rules regarding the disclosure of information relating to public accounts. Any public official who infringes requirements relating to transparency and accountability when managing public monies will be held liable under ordinary laws that define the resulting punishment, including the loss of public office.

The effects of recent and current reforms will gradually become more apparent, and will help balance public accounts over time while increasing domestic savings. These reforms will also serve as the cornerstone for the project of building a new standard for development financing within an open and stable economy. The new system will replace the pattern that prevailed under the previous model, characterized by high profit margins made possible by a closed economy, compulsory savings drawn from large State-run funds, and inflation itself.

The current reforms are almost tantamount to a cultural revolution in a country where reducing public indebtedness was widely regarded not only as unnecessary but, in-

deed, contrary to the interests of development and social well-being. In Brazil, no other theme lends itself quite as well to the well-known remark made by Max Weber: "... politics is like slowly boring through tough boards. It requires passion as well as the proper perspective." The feeling today is that Brazil's boards are being filled with boreholes and that the foundations of a sustainable fiscal system are being laid. This perception has paved the way for immediate efforts in pursuit of sustainable growth in an economy that has undergone advanced restructuring.

#### READY TO GROW

Brazil's economic stabilization and reform programs have led to great progress. Nevertheless, such progress has been achieved under conditions that have kept the economy from growing at a rate that is commensurate with Brazil's needs. On the one hand, it is true that Brazil's GDP has responded well: between 1993 and 1998 it expanded at an average of 3.5 percent per year, as opposed to only 1.4 percent between 1981 and 1992. Per capita income, which had fallen 0.5 percent in the earlier period, grew at 2.1 percent. This year, however, growth will be zero or close to zero. Unemployment has risen, although not explosively, increasing from 5 percent of the economically active population in 1994 to 7.6 percent today, according to the most recent data available.

This cost must not be minimized. However the most important aspect of the reforms from a structural point of view is the fact that Brazil was originally very poorly positioned and nevertheless has completed the critical transition to an open economy. This means that Brazil is now poised for long-term economic growth, despite an increasingly adverse environment.

In the wake of the international crisis triggered by the Russian moratorium in August 1998, Brazil was obliged to shift its economic policies and adopt a floating exchange rate while pursuing a more radical fiscal adjustment policy. However, Brazil neither lost the ballast of stability nor strayed from its course towards development. The changes in relative economic prices that resulted from the currency devaluation did not bring on a resurgence of inflation. It is estimated that inflation this year will reach a level of approximately 8 percent, as measured by the parameter used in setting targets for inflation, the IPCA (Expanded Consumer Price Index). On the whole the social gains stemming from stability have clearly been preserved. There have been no crises in the financial sector and producers have reacted much better than had been expected; for instance, initial predictions indicated that GDP would decline by as much as 6 percent.

Producers had in fact already restructured before the devaluation. As a result, the new configuration of relative prices has significantly aided exports and domestically-produced substitutes for imports. The ground has been laid for a new and prolonged development cycle with lower unemployment rates. However, lessons learned in the recent past require that one caution be voiced: for countries like Brazil, merely "doing one's homework" will never be enough while huge asymmetries in the conditions governing international trade persist, and while progress toward a new architecture for the global financial system is slow.

## A PUBLIC POLICY TO FOSTER INCLUSION

The weight of its past as a colony and as a slaveholding nation largely explains why Brazil continues to experience disgraceful levels of poverty and inequality, even after becoming the world's tenth largest economy.

The huge land grants given out to individuals by the Portuguese Crown in order to control the territories in colonial Brazil left a legacy under which land ownership was concentrated to an extreme degree in the hands of very few people. This system spawned the social hierarchy that arose in Brazil over the next four centuries. Further, as the last country in the world to emancipate its slaves in 1888, Brazil entered the 20th century burdened by the heavy legacy of slavery. Following emancipation, former slaves and their descendants were free but enjoyed no rights and thus formed the first major contingent of excluded Brazilians. While these individuals had stood on the lowest rungs of the social ladder as slaves, once freed, they had no status at all: they became invisible. Until the 1940s, this huge marginalized mass was not even noticed by Brazilian society. They were neither recognized under the Constitution nor the object of public policies.

The price of this legacy is still high today: although half of Brazil's people are white, 69 percent of the poor and destitute are black and *mestizo*. Three centuries of slavery generated a mentality of indifference toward inequality, violence and exclusion that went unchecked until the second half of the 20th century, when the emerging middle class and the urban masses in general first began to address the issue. Nonetheless, inequality is still obvious and severe. For example, half of Brazil's 350 million hectares of arable land is owned by less than 2 percent of rural landowners.

### **Excluded in Europe, immigrants in Brazil**

Once the slave trade ended in 1851, the Brazilian coffee growers began to stimulate the immigration of European workers to substitute slave labor on their plantations. At this stage, "exporting the poor" to the Americas was the large outlet for the immense surplus in the job market generated in Europe. Those excluded from the industrialization process departed en masse from their countries to start a new life, chiefly in Brazil, the United States, and Argentina. Between 1884 and 1945, Brazil received approximately 4 million European immigrants, above all Italians (1.4 million), Portuguese (1.3 million), Spanish (574,000) and German (172,000), in addition to Polish, Austrians, Dutch, Greeks, Swiss, and Hungarians.

## THE METHODICAL CONSTRUCTION OF INEQUALITIES

Other than Japan, no country in the world grew more than Brazil between 1880 and 1980. Brazil also underwent one of the most rapid processes of urbanization ever seen. In 1950 almost 70 percent of Brazil's people lived in rural areas. Today, 80 percent of Brazil's 165 million inhabitants live in cities.

At the end of the Second World War, democracy was established in Brazil. While land tenure patterns began to be widely and publicly discussed in the 1950s, the military *coup d'état* in 1964 halted this process for almost 25 years. Instead of dividing up the land, the new authoritarian regime chose to encourage modernization on large landed estates by offering cheap and abundant credit and promoting cattle raising and the production of “commodities”. The accelerated agricultural mechanization and highly subsidized and readily available credit that typified the 1960s and 1970s meant that smallholdings were absorbed by medium and large-sized properties. Millions of rural workers and their families were forced off the land and had to move to large cities. These cities in turn were unable to keep up with basic housing, sanitation, transportation, health, and education needs. Huge belts of destitution formed outside large metropolitan areas.

While the “economic miracle” of the 1970s helped reduce poverty and destitution, it did not eliminate them. It proved even less capable of narrowing enormous gaps in wealth and income and in fact tended to widen such gaps. Many social groups were excluded from the benefits of the “economic miracle,” including masses of landless rural workers, increasingly poor and more highly indebted smallholders, and numerous contingents of urban workers.

Social problems were aggravated during the “lost decade” of the 1980s: poverty and destitution grew, inequality increased and some segments of the middle class and the lower middle class became more vulnerable, particularly those who depended on the government. Today, half of Brazil's total wealth is held by a mere 10 percent of the population. The average income of the people who make up the wealthiest 10 percent represents almost 30 times the average income of the poorest 40 percent—one of the highest income-concentration levels in the world.

These processes and their synergies have created a complex and variegated system of exclusions and social vulnerabilities that must be addressed by a similarly diverse set of public policies. And all this must be done without harboring the illusion that a society forged during 500 years of injustice and inequality can be reformed in a mere five years. It will be a long road but the first steps are being taken.

## THE KEY OBJECTIVES

### 1. To fight destitution and social exclusion

Approximately 21 million Brazilians—almost 14 percent of the total population—are indigents without enough income to buy a basic basket of food. Rural zones are the poorest part of the country: these areas are home to only 20 percent of Brazil's population but to 42 percent of its indigents. Enormous regional imbalances also contribute to social exclusion patterns.

The Northeast is the poorest of the five regions in Brazil. This region comprises 30 percent of the total population but contains 58 percent of Brazil's poor. The Northeast also faces the disadvantage of having almost half of its territory located in areas with a semiarid climate. Approximately 26 million people—half the population in the Northeast—live in the semiarid zone, of which 10 million live in rural areas. This is the most densely-populated semiarid region in the world. The frequent and lengthy droughts and the fragile economic infrastructure resulting from the archaic system of land tenure have worked together over the centuries to produce the destitution that characterizes the region.

The fact that nearly half the rural population is illiterate has consolidated exclusion. Average income in the rural Northeast is a mere 29 percent of the national average.

The indifference of Brazil's elite regarding education for the masses is the most perverse facet of the social injustice found here, because it perpetuates the cycle of inequality. Over the past thirty years Brazil's illiteracy rate has fallen by fifty percent. Nevertheless it is shocking to see that on the eve of the 21st century, nearly 14 percent of Brazilians over the age of 14 (14.8 million people) are still illiterate. Health statistics reveal another unforgivable facet of social backwardness. Brazil's infant mortality rate, 36 deaths per 1,000 live births, is clearly not consistent with the country's economic development. In the rural areas of the Northeast, the infant mortality rate is four times higher than in the urban areas of the Central South. This monumental backwardness places Brazil at a disadvantage even within Latin America and constitutes the main obstacle to be surmounted if poverty and exclusion are to be reduced over the long term.

**Poverty: absolute number and proportion of the total population**

	1990		1993		1998	
	Million	%	Million	%	Million	%
Total	63.1	43.8	59.4	41.7	50.1	32.7
Metropolitan	14.1	29.6	14.2	32.6	10.3	22.4
Urban	23.9	39.1	26.4	35.7	22.7	29.3
Rural	25.1	70.8	18.8	64.2	17.1	57.3

**Destitution: absolute number and proportion of the total population**

	1990		1993		1998	
	Million	%	Million	%	Million	%
Total	30.8	21.3	27.5	19.5	21.4	13.9
Metropolitan	5.2	11.0	5.2	12.0	3.5	7.6
Urban	10.3	16.8	11.2	16.0	8.7	11.3
Rural	15.3	43.1	11.4	39.2	9.1	30.5

**Populace aged 15 and over, broken down by literacy levels and age group, 1998**

	Total	15 to 19 years	20 to 24 years	25 to 29 years	30 to 39 years	40 to 49 years	50 years and over
Total (in millions)	106.8	16.3	13.3	11.8	22.7	17.7	24.9
Illiterate (in millions)	14.8	0.8	0.8	0.9	2.3	2.5	7.5
Illiteracy (%)	13.8	4.8	6.2	7.7	10.0	14.1	30.1

*Source: Instituto de Pesquisa Econômica Aplicada (IPEA)*

These social indicators also reflect the centuries of marginalization to which Afro-Brazilians have been subjected. The illiteracy rate for whites is 9 percent; for blacks and *mestizos* it is 22 percent. On average the white population has had 6.2 years of schooling while Afro-Brazilians have had 4.2. Infant mortality, unemployment, and lack of access

to basic sanitation services also affect the black and *mestizo* population more acutely than the white population. Even when employed, blacks receive half the salary earned by whites.

*1a. A New State to Promote Social Justice.* If it is true that Brazil is an unjust society, then it is equally true that the State, as both a part and the synthesis of that society, has been an important link in the chain that perpetuates injustice. The greatest challenge in democratizing Brazil is learning to break this chain and use the State to improve the living conditions of those at the lowest rungs of society.

Contrary to what is generally believed, there is a relatively broad, complex and expensive state-run social welfare system in Brazil. The full system at all levels of government costs 21 percent of Brazil's GDP. Few countries in Latin America invest a larger percentage of their GDP on social welfare programs. Furthermore, Brazil spends more of its GDP on social welfare than the worldwide average for countries at the same stage of development. It also spends more than the world's wealthiest nations used to spend when their economies were at the level of development at which Brazil's is today.

**Latin American spending on social programs as a percentage of GDP, 1995**

Brazil	20.9%
Costa Rica	20.8%
Panama	20.0%
Argentina	18.6%
Chile	13.4%
Mexico	13.1%
Colombia	12.0%

*Source: IPEA/DISOC,TD n°598,1998*

But this unwieldy and expensive system does not really provide a solution to Brazil's social problems; instead the system itself is a key part of the problem. Brazil's social welfare system has proven inefficient, ineffective and relatively incapable of promoting the redistribution of wealth. A comparison with other countries confirms this statement: in Chile, for example, 36 percent of government spending on health, education, and housing benefits the poorest 20 percent of the population, while only 4 percent of the programs benefits the wealthiest 20 percent. In Brazil, the government uses only 15 percent of the money spent on social welfare programs to target the poorest 20 percent of the nation, while a full 21 percent of the money spent benefits the richest 20 percent of the public. The conclusion is inevitable: government transfers have helped to perpetuate unjust income distribution in Brazil.

*1b. The strategy to do away with inequalities.* The Cardoso administration's strategy for social development includes a number of measures that are necessary, though insufficient, to effect real change. These policy prerequisites, as outlined above, include macroeconomic stability; growth at a pace that will create jobs and significantly improve the public's basic standard of living; State reform, targeting what can and should be done; and the consolidation of democratic institutions.

### **Robin Hood turned upside down: social security**

In addition to being the major factor in the fiscal imbalance of the Brazilian government, social security functions as a powerful mechanism of regressive income distribution. There are two distinct systems: one for civil servants and the other for workers in private enterprises. While 19 million retirees and individuals from the private sector received in 1999 social security benefits totaling 5.8 percent of GDP, only 2.6 million inactive public servants and family members on pension received the equivalent of 4.3 percent of GDP.

The average value of social security benefits in the private sector equals 1.8 times the minimum wage, and 12 million retirees receive only one minimum wage. In contrast, the average value of social security benefits of the executive branch servants equals 14 minimum wages, and of the military, 19 minimum wages. In the judiciary, the average social security benefit is 44 minimum wages and for the legislature, 58 minimum wages. All things considered, 7 percent of the total spent on social security go to the poorest 20 percent. More than 30 percent goes to the wealthiest 20 percent.

Despite the importance of these initiatives, the federal government cannot solve all of Brazil's varied and complex social problems on its own. In order to decentralize public policy implementation, Brazil's federal authorities have pursued partnerships with Brazil's states and municipalities. The federal government is also working with important sectors of civil society, such as businesses, universities, churches and NGOs. These partnerships provide the requisite oversight over government expenditures and policies needed to guarantee the success of the decentralization program.

The Cardoso administration has organized its social policy programs along four important lines: extensive reform of the basic social services for which the government is responsible; improvement in the quality and increase in the number of job opportunities and the earning power they generate; specific policies for rural areas; and efforts and programs that target the need to alleviate the most acute poverty over the short term.

## 2. Raising minimum income levels

Brazil's economy must grow in a sustainable fashion once again in order to reduce inequality and achieve social progress. Without economic growth, active social policies cannot be implemented and jobs cannot be created; the consequent reductions in *per capita* income and even government revenues severely constrain efforts designed to directly promote social advancement.

Although the development model that petered out in the 1980s raised the public's average standard of living, it also led to the concentration of much wealth in the hands of a favored few, so much so that social inequality increased and significant contingents of people continued to be destitute or poor. The economic stagnation of the 1980s derailed earlier gains in terms of standard of living and accentuated exclusion. Class disputes intensified and it was not by chance that inflation forced its way through successively higher ceilings, and that all attempts to control it met with failure.

As noted above, the price stabilization achieved under the Real Plan beginning in 1994 resulted in significant income gains among low-income groups. The purchasing power of salaries increased, and more than 11 million Brazilians successfully climbed over the poverty line, while almost 30 million joined the market for durable consumer goods. This progress was stalled but not reversed by the repercussions of external financial crises on Brazil's economy. Progress is expected to resume once the economy begins to grow again in 2000.

*2a. Restructuring production and increasing productivity.* The 1990s were marked by profound changes in the Brazilian labor market. Once the economy had opened up and production had been restructured, the first impact was a decrease in available job opportunities accompanied by a greater demand for skilled labor. The causes included changing technology requirements and the implementation of novel organization and management methods.

As is true in other countries that have had to retool, retrofitting clearly involves a technological component and consequently an increasing demand for new and more flexible skills and a decreasing demand for unskilled manual labor. Organizational restructuring in Brazil has also led to the abolition of mid-level job categories. Fiercer competition together with macroeconomic stability have caused some sectors, especially the banking sector, to cut back on the number of people employed. These two trends have ushered in the phenomenon of outsourcing, which has led to an increase in the number of workers in the informal sector. The new standard of industrial competitiveness imposed upon Brazil triggered an especially intense response during the first half of the 1990s, when productivity grew at an average of 7.5 percent annually. During the 1980s industrial productivity had practically stagnated, growing at only 2 percent a year.

Brazil needs to generate more than 20 million jobs by 2015 in order to keep up with the growth in the work force. The most important strategic problem facing the nation is how to create enough jobs when GDP growth is not accompanied by similar increases in job opportunities. Increases in productivity are the fundamental factor in any attempt to ensure that the distributive conflicts between capital and labor that occur within the framework of democratic institutions do not become a zero sum game, but instead lead to wage increases for the lowest income groups.

*2b. Employment and income policies.* No magic formula can create jobs or generate income. However, creative and innovative solutions can be produced by coordinating public and private efforts along a number of fronts. This is the approach that has been chosen by the Cardoso administration.

At the institutional level, efforts are being made to streamline and ease excessively complex labor regulations that keep new jobs from being created. Regulations governing labor relations are also being modernized on the assumption that stronger unions and freer collective bargaining will lead to conflict resolution. A number of initiatives that aim to reduce nonwage labor costs and introduce new forms of hiring are currently underway in Brazil. Cutbacks in payroll taxes should help lower the "Brazil cost" (the cost of doing business in Brazil) while simultaneously encouraging businesses to hire more employees, and above all, to formalize workplace relations, thus protecting all workers with a safety net of social programs. Important initiatives include legislation permitting fixed-term labor contracts; the legalization of the "flextime bank" that allows

work schedules to be adapted to seasonal and cyclical variations in production; rules governing part-time work; and the right to suspend labor contracts temporarily since employees are given training during a fixed period following their dismissal.

Government policies designed to generate jobs and income have developed along three lines: job training programs, programs to promote agrarian reform and support family agriculture, and micro-credit programs. In terms of the first, because recent transformations in the labor market have tended to exclude less skilled labor, training has become the principal factor in winning and keeping a job. In 1991, workers with the least schooling made up 39 percent of the active work force; by 1998 that percentage had fallen to 27 percent. During the same period, workers with nine to 11 years of schooling increased their share of the active work force from 21 percent to 28 percent.

In his first year in office, Fernando Henrique Cardoso established the National Labor Qualification Program, financed with resources from the Workers' Assistance Fund. The program targets two areas: sectors with the greatest job-creation potential, including tourism, civil construction, handicrafts, fishing, agriculture and animal husbandry, personal and cultural services and micro- and small-business. The program also focuses on groups at risk, such as the unemployed, workers threatened by layoffs, women, youth, blacks and the disabled. The National Labor Qualification Program operates via decentralized partnerships with state governments, public agencies, labor unions, and NGOs. The program is currently being run in 2,600 municipalities, 500 of which are among the poorest in Brazil. Between 1995 and 1998, 5.5 million workers were trained at a cost of R\$1.1 billion. The goal for the next four years is to train an additional 17 million workers.

Another Cardoso administration innovation is the creation of micro-credit programs to finance micro- and small-businesses and to provide technical and managerial assistance to those running projects of social interest. All told, these programs lent out nearly R\$6 billion in more than 1 million financing operations between 1995 and 1998. Over the next three years, the small- and micro-borrowers will have more than R\$8.3 billion at their disposal.

*2c. A new rural world.* The Cardoso administration has implemented the greatest agrarian reform program in the history of Brazil. Nevertheless, the administration feels that a country on the threshold of the 21st century can no longer adopt 19th century solutions, even when tackling 19th century problems. Powerful and combative grassroots organizations such as the Landless Rural Workers Movement (MST) can play a positive role in solving the problem of agrarian reform as long as movement leaders agree to discuss more contemporary solutions in order to deal with the problem of access to land.

The government has settled unprecedented numbers of landless workers on expropriated lands. However the government has never relied exclusively on these classic methods of land reform. During President Cardoso's second term, his administration has not only kept up the pace of traditional expropriation programs but has also emphasized complementary initiatives and the need to dovetail the settlement programs for landless farmers with local development plans. The goal is to create and consolidate new programs to restructure land tenure in Brazil on the basis of principles such as decentralization, participation, integrated efforts, the emancipation of the settlers and the use of diverse democratic instruments and models for access to land.

Initiatives such as the Land Bank and the *Casulo* (Cocoon) Project are additional alternatives for agrarian reform that help recently settled landowners. They must learn how to join the economic mainstream and, like any entrepreneur, need to be efficient, adopt modern techniques, and use technology—in effect, they must become competitive. Without such complementary efforts agrarian reform would only perpetuate poverty in rural areas.

The Land Bank is a new fund to provide financing for land that will be purchased, rather than expropriated, under the management of the BNDES (the National Bank for Economic and Social Development). The Land Bank is guided by a council whose members include rural workers' representatives. Another innovative element is the letter of cooperative credit, which will complement traditional intervention but will be market-oriented. The letter of credit will be handled without government intervention: the State will not intervene directly in any phase of the purchase, from the selection of land to the closing transaction. The community itself will organize associations, go to realtors, choose the land, procure the line of credit for the land and draft development projects. The economic and social results of this new model of land policy are sure to be superior to the results achieved under conventional land reform programs because the farmers and their associations will be free to manage the undertakings as they wish from the start.

#### **Agrarian reform in numbers**

There are an estimated five million landless rural workers in Brazil. Between 1995 and 1999, 372,866 families received plots of land and 13.2 million hectares (an area equivalent to three and a half times the territory of Switzerland or nearly half of Italy) were expropriated or purchased by the government. During previous administrations, the average monthly number of families settled was 606; currently this number is nine times greater—6,000 families per month. The number of families who have settled in the past five years surpasses by 155,000 the number of settlements of the last 30 years.

Another innovative effort is the *Casulo* Project. The primary objective of this project is to establish a decentralized and participatory model for land reform efforts. City and state governments register landless farmers and identify municipal and state-owned lands that are already available or up for sale. The federal government provides credit guarantees and co-finances the infrastructure costs for the complementary support programs. The rest of the financing is provided by the government's partners. Regardless of the programs adopted, ensuring more democratic access to land will remain an important part of the administration's policy for rural development.

*2d. Enhancing the role of the small farmer.* The government's priority for the next few years is to finance investments that will allow small farmers, including the families settled under agrarian reform programs, to enhance their capacity to compete in the marketplace. Families will diversify farm production and generate value-added products, to the degree that the local context permits. It is hoped that local vocations will be used to their maximum and that niches in the agricultural and animal husbandry sectors will be identified so

that the small farmers' products can be sold. By producing enough to generate investments, small farmers will also create a basis for the sustainable production of foodstuffs.

Success in this area will require the establishment of credit lines commensurate with the needs of family farming. Credit lines for agrarian reform and small rural properties should total at least R\$4 billion a year for the 1999-2002 period. The government will provide an additional R\$2 billion for the implementation of local infrastructure during the same period.

### **Strengthening Single Family Agriculture**

Created by the Cardoso administration, the Single Family Agriculture Strengthening Program (PRONAF) supplies credit with low interest rates to small single-family farmers and to cooperatives and production associations, as long as these include only small producers. The funds may be used to cover harvest or cattle raising costs or may be invested, such as in the purchase of machinery, agricultural equipment, production goods, and other infrastructure items deemed essential to the undertaking. The maximum amount of financing ranges from R\$5,000 for covering production costs to R\$15,000 for investments.

For the first time in Brazilian history, with PRONAF, single-family farmers have access to bank credit. A growing volume of resources has been placed at the disposal of the small producers: R\$36 million in 1995, a total that served 19,000 families; R\$650 million in 1996 serving 333,000 families; R\$1.3 billion in 1997 serving 414,000 families; and R\$1.8 billion in 1998 serving 700,000 families.

A major government initiative in the area of rural investment, PRONAF has high social significance. It is opening new prospects for almost 2.5 million small rural properties, creating jobs and income, and consolidating citizenship in the countryside. It also favors the decentralization of economic development, which brings benefits not only to the rural areas but also to the small and middle sized cities of the hinterland.

Special emphasis is also being placed on the creation of rural jobs that do not depend on agriculture. The revitalization of tourism and "countryside culture" is an important source for job and income opportunities, especially in the emerging markets of ecotourism, sport fishing, leisure for senior citizens, dude ranches and farm resorts, and social and nautical tourism.

## THE GREAT CHALLENGES

### 1. Providing universal access to basic social services and improving their quality

The current administration has initiated deep-seated reforms of the basic social services that fall under the purview of the government. Fernando Henrique Cardoso de-

fends the idea that in Brazil the State should play a major role in providing such services. As public services, they are clearly the responsibility of the government, but they are not necessarily run by the State. The Brazilian definition of basic social services to be provided by the government encompasses basic education, basic health services, sanitation, low-income housing and basic social security programs.

Current reforms have been designed both to provide universal access to these services and also to enhance them. However, the reforms are also meant to meet the greatest and most difficult challenge of all: restructuring benefits to maximize the progressivity of their redistributive impact. The challenge is both political and technical in nature: on the one hand, there are rights to be respected; on the other, there are privileges that must be abolished.

*1a. Providing general access to education, increasing years of schooling and improving the quality of instruction.* Social inequality in Brazil has been largely caused by decades of educational backwardness and by the fact that the public has received, on average, far too little schooling. A perfect illustration is the fact that 45 percent of the heads of poor families either have never attended school or left school before completing the first grade. Disregard for education has also exacerbated regional inequalities. In 1995, Brazilians in the Northeast, the poorest region in the country, had on average attended school for four years, two years less than those living in the Southern and Southeastern regions.

#### **Robin Hood turned upside down: university instruction**

Considering all three levels of the government—federal, state, and municipal—Brazil spends today almost 6 percent of GDP on education. The budget of the Ministry of Education alone corresponds to 1 percent of GDP. However, 60 percent of the resources go to finance free public universities. As the poor practically never attend these universities, 90 percent of the public expenditure is taken by the wealthiest 40 percent; the poorest 40 percent benefit from only 2.4 percent of the resources. Seven-tenths of 1 percent of the Brazilian GDP is transferred every year to those who are not at the poverty level. The same occurs with the program of scholarships maintained by the government. The poorer 20 percent of Brazilians receives only 0.3 percent of these resources while the wealthier 20 percent absorbs 33.8 percent. As the poor pay taxes, just as those who are not poor, these dynamics amount to taking from the “have-nots” and giving to the “haves”. This pattern, emblematic of historical problems of social expenditures in Brazil, has perpetuated poverty.

When he became president in 1995, Fernando Henrique Cardoso chose education and more specifically primary education as his absolute priority. The extensive educational reforms undertaken over the past four years began with the enactment of the Educational Framework Act in 1996. This law clearly sets forth the educational responsibilities of the federal government, of the states and of the municipalities. Also in 1996, a fund called FUNDEF (Fund to Maintain and Develop Education and Enhance Teaching) was established. The FUNDEF program was created in order to reorganize funding for pri-

mary education so as to guarantee additional funding when needed and to ensure more equitable access to the monies available. Prior to the program's founding, money for primary education had been poorly distributed and poorly used. There was no connection at all between the distribution of the monies available from the states and municipalities and the number of students enrolled. Consequently, surplus funds from wealthy cities with few municipal schools or students could not be transferred to poor cities with many schools and students.

FUNDEF has been in effect since 1998 and, despite strong political resistance, has managed to correct such distortions. Furthermore, minimum expenditure levels per student/year have been established and resource allocation now depends on the number of students enrolled in school. A full 60 percent of primary education budgets must automatically be spent on teachers' wages. FUNDEF, which soon became emblematic of the current administration's emphasis on education, produced immediate results. States and municipalities now endeavor to enroll as many children as possible in school in order to secure additional funds. Regional inequalities have begun to disappear because the poorer states and municipalities whose budgets do not cover the minimum expenditure per student/year receive budget complements from the federal government. In 1998 these additional funds totaled R\$542 million. The average national increase in teachers' wages was 13 percent but soared to 50 percent in the municipal systems of the Northeast where salaries had been lower.

The challenge of improving the quality of instruction has also begun to be tackled and broad curriculum reforms at all levels of instruction are underway. National Curriculum Parameters have been published for each of the eight grades in primary education while terms of reference provide orientation for pre-school education and for broad restructuring efforts throughout the teacher training system. The next phase, which has been organized and approved, involves the complete reform of secondary school instruction and vocational training programs. An especially important effort has been made to adapt curricula for indigenous peoples' schools in a manner that preserves and respects the mother tongues and cultural traditions of Brazil's Indian population.

Another program that is being used to improve the quality of instruction is the Cardoso administration initiative called the "School TV" program, devoted to distance education. Under the program all elementary schools with more than 100 students receive a kit comprising a television, a videocassette recorder, and a satellite dish antenna. This equipment allows educational programs to be broadcast to schools, which may then tape them for future use. The content of the programs is designed to reinforce learning and to aid teachers while also providing them with continuing education. In two years, more than 56,000 kits have been distributed.

Great progress has been made in terms of access to education as well. The percentage of children between seven and 14 years of age who were enrolled in school rose from 89 percent in 1994 to 96 percent in 1999. Thus, the ten-year target established under the Education for All program, which sought to increase primary school enrollment to at least 94 percent by 2003, has been surpassed. At the secondary level, the increase in the number of students enrolled in school was dizzying: a 57 percent jump from 1994 to 1999. In the past year alone, this number increased 11.5 percent, and even as much as 24 percent in some states. These figures mean that there are more children concluding the full basic education cycle and pursuing additional studies, perhaps due in part to the demands of an increasingly competitive job market. Regional inequalities are decreasing as

well. Enrollment in primary education rose 27 percent in the Northeast region of Brazil, while it rose only 13 percent in the rest of the country. At the secondary school level enrollment jumped 62 percent, in contrast to the 57 percent increase for the rest of the country. In short, if one combines school enrollments at every level of instruction, one finds that today Brazil has about 53 million students, a figure that represents almost one third of the nation's total population. While there is much to be done, the extraordinary progress made over the past five years proves that Brazil is headed in the right direction as it works to make up for lost time in the field of education.

*Ib. Eliminating waste and making the public health system more efficient.* The Brazilian Constitution states that access to health services should be universal, complete and egalitarian. The extensive legal and administrative changes conceived by those who drafted the Constitution culminated in the creation of the Unified Health System (SUS). The generosity of legislators, however, was not matched by resource availability. Budgets have always been too tight to offer free and effective services to Brazil's entire population of 160 million people. Nevertheless the government's health care system does cover 80 percent of the public; the wealthiest 20 percent have private health insurance plans and policies.

Five years ago, the government embarked on a program to improve the management of the system by consolidating decentralization; transferring power, resources and responsibilities to municipalities; expanding oversight by the public; combating fraud; and defining stable and regular sources of funds for health services and programs. In 1995, Fernando Henrique Cardoso committed government health programs to spending a total of at least R\$80 per inhabitant per year. The target was exceeded in 1994 when public health programs spent R\$13.7 billion. By 1998, public health budgets had increased 36.5 percent to reach a total of R\$18.7 billion. This represents *per capita* expenditures of R\$116.

Government health policies have targeted two basic objectives: improving sanitation, particularly to reduce the infant mortality rate, and carrying out political and institutional restructuring in the health care sector. In 1990, the infant mortality rate for children under the age of one—the indicator that most concisely reflects the living conditions of a population—was 48 deaths for every 1,000 live births. In 1998, this rate decreased to 36 deaths, which was still too high and was exacerbated by regional inequalities. In the poorest regions, the infant mortality rate is twice as high as the national average; in the wealthiest regions, it is half as great. The Program to Reduce the Infant Mortality Rate has obtained significant victories in the 914 poorest municipalities where it was implemented in partnership with the Catholic Church. Between 1995 and 1997, the number of deaths of children under the age of five fell 10.4 percent per year.

Two programs were expanded: the Community Health Agents Program, involving individuals from local communities who are trained in disease prevention and education, and the Family Health Teams Program, which works with physicians and nurses and provides basic outpatient care. Over the last four years government efforts have doubled the number of community agents and tripled the number of municipalities served by the two programs. In 1994, 29,000 agents worked in 879 municipalities. By 1998 this number had increased to 89,000 agents serving 49 million people in 3,541 municipalities—nearly 30 percent of Brazil's entire population. In these municipalities, the infant mortality rate has dropped 32 percent.

### **The just distribution of resources**

In January 1998, the program for Minimal Basic Attention (PAB) was established. This program was decisive in improving the level of assistance to Brazil's poorer population. PAB replaced the traditional criterion for resource allocation according to the number of assisted people with a formula that calculated resource allocation based on the number of inhabitants. In practice, this meant that "disease subsidization" was replaced by an incentive to prevent disease.

With PAB, all Brazilian municipalities can count on receiving at least R\$10 per inhabitant per year to cover the cost of health services. The old distortions were corrected. Prior to PAB, almost 120 million people in more than 3,500 municipalities did not benefit from health coverage due to a lack of resources in the budget for basic assistance. In less than a year, 4,665 municipalities began to receive funds from PAB transferred directly from the Ministry of Health. This change, which went through extensive negotiation and continues to encounter resistance, benefited 85.6 million people. This new model of resource allocation, also adopted in education, is an example of the general principle of social policy pursued by the Cardoso administration: always seek equity.

The Family Health Program grew from 328 teams in 55 municipalities just four years ago to 3,147 teams serving 10.7 million inhabitants in 1,117 municipalities today. A study conducted in 58 municipalities in 11 states where the teams were operating noted a decrease of 51 percent in hospital admissions. The government's goal is to have 150,000 health agents and 20,000 family health teams by 2002.

### 2. Targeting the fight against poverty

Many of the programs and initiatives that make up the Cardoso administration's social development strategy will take effect over the medium and long term. Nevertheless, significant numbers of people find themselves in such desperate or vulnerable straits that they cannot wait. In order to meet the most pressing requirements, the government needed well-designed mechanisms to place the focus of social programs on very specific segments and situations.

The rule for these highly targeted programs is to remember that people who are not fully "equal" need efficient programs that provide more than just equal treatment. Certain things are both governmental and social imperatives in Brazil: eradicating hunger and child malnutrition, eliminating child labor, expanding programs that provide direct transfers of income to combat the worst cases of exclusion, and creating opportunities for the government and its citizenry to work together as partners on common projects.

*2a. Fighting poverty and child malnutrition.* Malnutrition among children is a scourge that is being tackled via a combination of meal and basic health programs. The school lunch program provides 36 million meals a day to students in the public school system. In addition, the government has created a broad program that distributes basic baskets of food to almost 1,000 of the poorest municipalities in the country. In 1998 alone, 30 million food baskets were distributed.

#### **The school lunch and textbook programs**

Government funds finance the National School Lunch Program, which guarantees at least one meal per day to all children enrolled at the basic educational and primary school levels, in public and charity organizations. It may be the largest program of food provision for the poor population ever carried out in the country. Almost 36 million students received meals during one school year.

In addition to meals, through the National Textbook Program, the federal government distributes free school books to all children enrolled in the eight levels of elementary education. In recent years, the program was expanded and the quality of the books improved, because all the texts were evaluated beforehand by teachers' committees. In 1998 more than 109 million textbooks were distributed.

The Workers' Meal Program (PAT) is a joint public and private-sector effort that encourages businesses to provide meals to their employees in return for income tax exemptions. The program's main objective is to improve the nutritional status of low-income workers. Nearly 8 million workers in 70,000 businesses benefit from this program annually.

The Ministry of Health also runs a high-priority program called the Program to Cover Nutritional Needs, designed to specifically target malnourished children between six and 23 months of age and pregnant women at risk of becoming malnourished. The program encourages breastfeeding and nutritional oversight, and provides a liter of milk a day and a can of soybean oil per month to children under the age of two. The program encompasses 2,950 municipalities and 550,000 children and pregnant women who are at risk of malnourishment. Furthermore, in 1998 mega-doses of Vitamin A were given to 4.3 million children between the ages of six months and five years of age who live the nine states of the Northeast.

*2b. Eliminating child labor.* Created in 1996, the Program for the Elimination of Child Labor stops children between seven and 14 years of age from working in degrading and risky activities in such locations as brickyards, gold mines, sugar cane plantations, and coal yards in 141 municipalities located in seven states. The families of the children chosen by the program receive a monthly cash allowance from the government, under the understanding that their children will stop working and begin to attend school regularly. In 1998 the program managed to help 120,000 children. Poor, abandoned and socially excluded children are assisted by a program called Brazil's Junior Citizens, which invested R\$103 million in 1998 to assist 431,000 children and adolescents between the ages

of seven and 14. The program provides educational, health and vocational training services.

*2c. Direct income transfers.* A social policy based on the principles of equal opportunity and the promotion of citizens' rights in Brazil cannot do without programs that provide direct payments or income transfers. When combined, these programs produce an important safety net that protects people who are vulnerable or at risk due to old age, disabilities, or unemployment. The existence and the constant enhancement of these programs have been fundamental factors in the fight to eliminate hunger and reduce poverty. The mechanisms by which these direct payment programs are financed also vary, for while some depend on the social security budget, others draw on funds like the Workers' Assistance Fund or the Treasury. That is why they entail differentiated government involvement, although most of the income transfer programs fall under the purview of the federal government.

*2d. Minimum income levels for the elderly and the handicapped.* There are two types of benefits for the elderly in Brazil: lifetime monthly incomes or specific aid determined under the Basic Social Assistance Act first implemented by the Cardoso administration. The benefits are not cumulative, but they do guarantee that the elderly and the poor suffering from handicaps will receive a minimum monthly income equivalent to one minimum wage. Today more than 1 million people receive these benefits and the number of qualified candidates has been on the increase ever since the law took effect. These programs currently cost R\$1.5 billion annually.

*2e. Unemployment insurance.* Workers who have lost their jobs are eligible for financial assistance for a period of five months. Unemployment payments may occasionally be extended for two additional months if unemployment is on the rise. Financing comes from the Workers' Assistance Fund, which also supports professional training, retraining and job placement programs.

*2f. Wage bonuses.* Wage earners who receive less than two minimum monthly wages are entitled to an annual bonus equivalent to one minimum wage. Another program allows workers to withdraw their personal share of the unused interest earned on payroll taxes. More than 5 million workers receive a salary bonus and more than 12 million are eligible for payroll-tax-fund earnings. These two programs together with the unemployment insurance fund cost the government an annual total of R\$5 billion.

*2g. Minimum income.* Minimum income programs designed to keep poor children in school, commonly known as learning grant programs, have rapidly been incorporated into Brazil's list of social rights. Experiments of this type have been developed in a number of municipalities throughout the country. By their very nature and because Brazil is so huge and heterogeneous, such programs should be decentralized and locally run. Nonetheless, learning grant programs require both public oversight and community commitment, and the federal government does play an active role by providing normative, logistic, and financial support, especially in the poorer municipalities.

There are two federal learning grant programs, both of which were implemented by the current administration. The first is the program to eliminate child labor, mentioned above. The second initiative, which is more recent and totally decentralized, is designed

to help poorer municipalities adopt their own learning grant programs. The federal government funds half the total cost of the municipal programs, in accordance with formulae determined by law. The value of the stipend varies according to the *per capita* income of the poor families and the number of school-age children in those families. The fully implemented program should cover more than 3 million families, at a cost of R\$1.5 billion per year.

The federal direct-income-transfers programs alone pay out a total of R\$17 billion (2.4 percent of GDP), with funds drawn from the Treasury, from the social security system and from the funds that represent workers' equity in the system. In social terms, the money is undeniably well spent.

### Rural Welfare

This is the greatest agrarian and minimum income program in the country. It guarantees a monthly income of one minimum wage to every man or woman in rural areas, even if he or she has never contributed to the welfare system. The minimum age needed to claim the benefit is 60 years for males and 55 years for females. Six million workers or family members receive a pension from the program at a cost of R\$9.8 billion annually, financed by the social security budget.

Between 1991 and 1996, rural welfare expanded tremendously: the volume of resources rose more than 300 percent, the number of beneficiaries rose more than 50 percent and the average monthly value of the pensions and retirement almost tripled. Further, the income of the farmers' households doubled when women became eligible to receive the benefit in 1993. In the small municipalities of the poorest regions, the number of participants in the program is 20 percent of the population. If the beneficiaries have more than one family member as a dependent, as is often the case, almost half the inhabitants in these areas will be guaranteed one minimum wage from rural welfare. The expansion of this program lowered rural poverty within the general context of poverty in the country.

*2h. The articulation of the tertiary sector and the role of the Program for Community Solidarity.* The magnitude of today's social problems, the obvious public administration crisis, and the renewed strength of civil society demonstrate the limits of State action in Brazil. Moving beyond these limits means creating and strengthening new public arenas that are not necessarily governmental in nature. Such efforts must also foster innovative forms of mobilization and partnership among the different levels of government and State agencies, including the federal government, states, municipalities, public businesses and universities, as well as between the government and civil society's numerous and diverse organizations, including businesses, labor unions and voluntary associations such as NGOs, churches, and social movements.

It was to foster such partnerships that a new program directly attached to the Office of the President of the Republic was created in January 1995. The program, called *Comunidade Solidária* (the Program for Community Solidarity), soon became an important mechanism for policy coordination. The purpose of the program is to promote the articulation of various levels of government to ensure that pertinent programs target the

most needy areas and populations. *Comunidade Solidária* encourages the formation of new types of partnerships in order to combat hunger and destitution and to tackle acute need or public emergencies. Special support is given to initiatives that promote community solidarity and that experiment with innovative solutions.

*Comunidade Solidária* constitutes an important break with previous welfare-type programs in a number of ways. The program's first defining feature is the integrated nature and selectivity of its social policy projects: it focuses on just a few key areas such as health, education, sanitation, job generation, and professional training, in contrast to the widely scattered focus of past programs. Second, *Comunidade Solidária* combines basic welfare programs (indispensable in communities victimized by extreme destitution) with initiatives that foster sustained local development. Third, *Comunidade Solidária* works deliberately and intensely to include civil society organizations in all its programs and activities. This last policy has the added advantage of creating immediate institutional barriers that deter political patronage and opportunism.

#### Literacy Solidarity—a model program

In the area of education, the best example of action in public arena produced by Brazil until now is the initiative known as Literacy Solidarity, an innovative project begun by *Comunidade Solidária*. Through campaigns known as "Adopt a Student," the project establishes partnerships with civil society, recruits university students and mobilizes resources from private enterprise to fight illiteracy in the 12 to 18 year old age range. The program operates chiefly in the poorest municipalities, where illiteracy is the highest.

Two years after it was established in January 1997, Literacy Solidarity was already operating in 581 municipalities mostly located in the hinterlands of the North and Northeast regions. To this date, the program has helped 776,000 students in more than 800 municipalities. The evaluation of the results that integrate the initiative prove its efficacy especially because it forms part of a broader social action developed by *Comunidade Solidária*.

*Comunidade Solidária* works through a policy council comprising representatives from society at large. The Council runs four projects (Literacy Solidarity, Job Training for Youths, University Solidarity and Promoting Volunteer Work) that exemplify the Council's new approach. *Comunidade Solidária* also has an Executive Secretariat dedicated to attacking the causes of hunger and destitution in an integrated way. The Secretariat articulates a set of priority programs that fall under the purview of several ministries and that are felt to have the most potential in meeting the needs of the population.

*2i. Charity and NGOs.* In Brazil as in other countries, civil society organizations, such as NGOs, labor unions, lay and religious associations, and charity and community institutions, have become a highly critical and active force for social change. Recently, private businesses have also begun to sponsor important initiatives. Nonetheless, those common

citizens who have donated their time and money have proved to be the real thrust behind philanthropic activities and social intervention.

The same society that was built on foundations of tremendous injustice is beginning to demonstrate a marked desire and will to change. Cognizant that the State cannot do it all, civil society is starting to organize in order to help solve its own problems while simultaneously increasing the demand for government action in a number of areas, including the environment and public safety, agrarian reform and the administration of water resources and public funds, poverty and education, justice and human rights.

There has never been a strong tradition of philanthropy in Brazil and what little philanthropy there was tended to be very low profile. Nonetheless, today philanthropy and charity work are growing continuously and are the focus of increasing media attention. The rich and famous including sports idols, pop music icons, and personalities from the worlds of art and culture have all begun to create their own foundations and NGOs. Others work with a number of social programs and campaigns, giving time and money, and placing their image and prestige at the service of every sort of cause. Along with millions of anonymous Brazilians, they have helped to mobilize society at large into a force capable of playing a decisive role in the fight against destitution, all in the name of a campaign to lead people to fully exercise both their rights and their responsibilities as citizens.

#### **The booming expansion of solidarity**

Research data released at the end of 1998 were impressive:

- 9 million persons were receiving direct social assistance without any public funds;
- In total, charity was raising R\$12 billion per year;
- 36 million Brazilians had participated in some social endeavor in 1998 by donating money or contributing material goods. The personal donations of citizens alone totaled R\$1.1 billion, even though they may not have been deducted from income tax;
- One out of six Brazilians over 18 years of age had volunteered in social projects throughout the country;
- Even the poorest Brazilians, who earned from one to two minimum wages, made donations; 13 percent donated money and 20 percent donated food and goods.

The fact that enclaves of hunger and extreme destitution still exist in Brazil has filled ever-growing numbers of Brazilians with shame and indignation and has led them to demand action. Because the Cardoso administration is aware of the State's limitations, it has proposed and implemented social policies that are open to efforts by others and that actively call for the creation of public opportunities for joint action and participation by the so-called tertiary sector. Cardoso's social policies are clearly inspired by social democracy and guided by the idea that a society can promote the well-being of all its citi-

zens. In short, the government is aware that changing the way things work in Brazil is not only a moral imperative, but also a practical requirement: in the emerging world of the 21st century, Brazil will not keep its standing among the planet's ten largest economies unless it eliminates destitution and ignorance, disease and social exclusion. There is and will be no place at the table for nations that wish to be truly modern but that do not extend the advances of integral human development to large segments of the population.

### **The environmental dimension of development**

Under the administration of President Fernando Henrique Cardoso, governmental action has fully incorporated the concept of sustainable development. Representatives of government, the business community, and organizations of civil society meet regularly in permanent fora to discuss the adoption of a new development paradigm. The key themes of these discussions are: sustainable cities and agriculture, infrastructure and regional integration, the reduction of social inequality, scientific and technological development, and natural resources management.

Much attention has been devoted to the legal framework. In 1998, the Law on Environmental Crimes consolidated criminal and administrative sanctions for environmental offences. Under the terms of this Law, individuals and corporations who commit environmental offences can be held both civilly and criminally responsible, and liable to heavy fines and even imprisonment.

In 1997, a law was approved to promote more modern and effective control over water resources created the National Water Agency (ANA). The National Council for Water Resources, in which representatives of state governments, consumers and civil society participate, has been set up to provide integrated management for the sector. Brazil has 8 percent of the planet's entire supply of fresh water, a resource that is likely to increase in value in the 21st century.

Important steps have also been taken in the area of forest management, through measures such as the creation of new forestry and extractive reserves. The new Rural Property Tax, approved in 1996, will facilitate the establishment of new legally-protected forestry reserves and permanent conservation areas.

In the Amazon region, the issuing of permits for the commercial exploitation of mahogany and *virola* has been suspended since 1996, with a view to better conserving the stocks of timber. Limits have also been placed on the deforestation of private lands, particularly in rural areas where environmental degradation has already occurred.

More generally, Brazil has sought to ensure a more balanced approach to the economic, social and environmental aspects of development, and to abide by the following three precepts: development must be sustainable in the long term; it cannot be attained through predatory exploitation of natural resources; and it must be of benefit to the whole society. Only through simultaneous pursuit of these three imperatives can the goals of economic growth be reconciled with those of reducing poverty and a more equitable distribution of wealth.

## THE RADICALIZATION OF DEMOCRACY

The restoration of democracy after more than 20 years of authoritarian rule was a benchmark in the political consciousness of the generation that governs Brazil along with Fernando Henrique Cardoso. Fifteen years have elapsed since the transfer of power to a civilian president, and 11 years have passed since a democratic constitution was enacted. Democracy has clearly taken root, not only within the country's institutions, but also in terms of the practices and values that prevail in Brazil today. Free elections are held regularly at all levels of government and voter turnout is remarkably high. The party system is highly competitive—in fact, splintered—and there are no less than seven national parties whose members hold offices that wield real power in the executive and legislative branches of federal, state and municipal governments. Civil society organizations that played a significant though incipient role in opposing authoritarian rule have blossomed under democracy. Today these organizations actively compete for space alongside political parties and the State itself in defining public interest and public policies. The judiciary is also undeniably independent. The press is diversified, free and combative, and often outstrips opposition parties when it scrutinizes the government and holds it accountable for its failings. Peaceful demonstrations of dissent and the expression of popular demands are commonplace.

These achievements notwithstanding, memories of authoritarian rule are still too vivid for newly restored freedoms to be taken for granted. This is not to imply that the forces of democracy live in dread of catastrophe; rather, it means that they feel responsible for the consolidation of democracy, and that this concern is taken into account when assessing strategic options.

The convergence of historically and ideologically disparate forces was the key to the peaceful transition to civilian rule in 1984. This same spirit of conciliation (a word derided by a major portion of the old left) was also present during the formation of an alliance of parties that has lent its support to the Cardoso administration. Early concerns regarding the need to guarantee the continuing survival of democracy were soon joined by a new purposefulness, one stemming from the vicissitudes of the 1980s. This was the quest to ensure that democratic decision-making would lead to effective economic and social results—in other words, a commitment to good governance.

Brazil's Social Democratic Party and its partners in the government alliance share this concern. The Social Democrats have added their own input to the coalition agenda as well, and that is the desire to radicalize democracy and expand its boundaries, in terms of both broadened access to decision-making and its results.

In contrast to other countries with stronger traditions of representative government, in Brazil it is easy to appreciate that democracy is an evolving process. It is not so much a finished product as a work in progress, something to be reinvented along the way. It consists of a set of values and forms of coexistence that clear the way for the peaceful transformation of society. While the rest of the world ponders the existence of a novel utopia—a new horizon of social transformation to motivate and guide the efforts of progressive forces—Brazil's experience strongly suggests that democracy itself is the proper designation for a “feasible utopia.”

## CONSOLIDATING ACHIEVEMENTS

The Cardoso administration has compiled a significant record of achievements in its efforts to consolidate democracy:

### 1. Relations between the executive and legislative branches

Relations between the executive and legislative branches of the federal government, often a source of tension in the recent past and during the period of democratic rule that lasted from 1946 to 1964, are now conducted in an atmosphere of mutual respect and intensive dialogue. Were the political climate different, the government's agenda of reforms would have rapidly come to a standstill.

The 1988 Constitution is extremely detailed and was drafted under the strong influence of the interests and prejudices that typified the old interventionist State and its autarchic development model. Changes in the Constitution were therefore required to permit the consolidation of the new development model. No less than 18 constitutional amendments have been approved since 1995, by a qualified majority consisting of three fifths of the votes of deputies and senators. Even though the sum of the party members that make up the government's congressional alliance easily surpasses the number of votes needed, the required amendments were only approved after an intense campaign to sway legislators, especially in the case of controversial issues like social security reform and changes in the rules governing job tenure for civil servants.

Brazil's legislature has known days when it was a mere rubber-stamp, and others when it did nothing but stymie the administration. Under the Cardoso administration, it has increasingly accepted its co-responsibility for governmental decisions.

### 2. Decentralization

The administration has worked within the executive branch itself to expand the scope and increase the efficiency of decentralized public policy implementation. This has been done to an unprecedented degree, by forming a variety of partnerships with Brazil's states and municipalities and with NGOs. Brazil is a federative nation, and as such has already adopted significantly decentralized revenue sharing among the three levels of government (municipal, state, and federal). The division of responsibilities regarding public policy implementation is less clear, however, and there are major gaps and overlaps. Initiatives pursued by the current government have substantially improved this situation in such strategic social areas as education, health, social welfare, and land reform.

In a country as vast and diverse as Brazil, decentralization involving partnerships among the different levels of government or between the government and local communities acts as a powerful antidote to the inefficiencies and waste generated by bloated and centralized bureaucracies, not to mention traditional pork-barrel practices. In brief, decentralization is synonymous with molding good citizens and promoting qualitative improvements in social spending.

### 3. Human rights

Significant victories have also been attained in another field that is decisive when building democratic values, human rights protection. Early in his first term of office, President Fernando Henrique Cardoso created a national secretariat under the auspices of

the Ministry of Justice to articulate public safety, citizens' rights, and human rights programs. One of the secretariat's first tasks was to coordinate legal proceedings in order to issue death certificates for political prisoners who had "disappeared" under the dictatorship. By paying compensation to victims' families, the federal government did more than settle overdue accounts. It also sent a clear message for the future: there would be zero tolerance regarding official cover-ups of violence of any sort. This attitude, which is shared by the National Congress, state authorities, the media, and NGOs, has borne fruit in the form of denunciations, investigations, and effective punishment of human rights violations on an unprecedented scale.

Strict oversight and prosecution of misconduct by government officials has not hampered law enforcement; indeed it has tended to strengthen it. This has been especially true in fighting organized crime, the dealings of which have been exposed by Congressional Investigation Committees, the press, the Internal Revenue Service, and the Federal Police. A secretariat directly subordinated to the Presidency of the Republic has also assumed the coordination of measures relating to illegal drugs; its efforts encompass prevention, rehabilitation and enforcement of laws that prohibit drug trafficking.

#### NEXT STEPS

Stemming from the results described above, the prospects for achieving a more radical form of democracy in Brazil are linked to an agenda targeting changes in institutions as well as in collective practices; improvements in the principle of representation as well as greater opportunities for direct participation.

##### 1. Political reform

The key priority at the institutional level is to reform the system used to elect members to serve in the lower house of Congress (the Federal Chamber of Deputies) and in the state legislatures. Brazil's current version of proportional representation means that every state is a huge electoral district in which each party can present a slate with up to two candidates per available seat. Voters have the option of casting their ballot for the party or, more commonly, for an individual candidate. The party's votes and those of its candidates are added together to determine the party's relative weight when the seats are prorated. The number of votes the individual candidates receive determines their ultimate ranking on the party ticket and thus whether or not they will be given any of the seats won by their party. Therefore competition at the polls takes place not only among the parties but also between candidates of the same party.

Party discipline is corroded both by this system and by campaign finance rules that allow individual candidates to raise and spend their own campaign funds. The current system also obfuscates relations between office-holders and their constituents. Most voters are confused by the vast number of candidates and usually cannot remember for whom they voted. Indeed, many appear not to care, as the increasing number of blank votes cast during congressional elections reflects.

President Cardoso and a majority of the party leaders who support him agree that in light of Brazil's peculiarities, the best option for electoral reform would be a hybrid system combining proportional and district-based representation, along the lines of the German model. The principal difficulty in enacting this option will be convincing the members of Congress that the new system will not make them overly dependent on re-

gional party bosses when names are being chosen for the party slates. While this discussion progresses, other positive proposals that focus more narrowly on the need to increase party cohesion and avoid the formation of splinter groups are making their way through Congress.

## 2. Increasing access to justice

The restoration of democracy has placed the spotlight on Brazil's judicial branch. This results partly from the judiciary's traditional shortcomings and partly from advances attained by and in the courts. Brazil's 1988 Constitution strengthened the judicial branch and granted independence to the Office of the Public Prosecutor, while charging both with the task of defending a modern and generous charter of rights. At the same time, the excessively detailed text of the Constitution overburdened judges by requiring them to handle issues that more concise constitutions leave to the purview of the legislative and executive branches. Further, the Constitution gave the courts greater leeway in handling their own funds but did not clearly specify what oversight would be required.

The public's increasing awareness of its rights together with the growing availability of legal aid from NGOs have also done their share to significantly expand the demands on the courts. Thus an increasingly well-informed citizenry has been motivated to assert its rights, but in so doing has faced an overloaded court system in which trivial lawsuits usually languish for years before a final decision is reached. People therefore feel that no protection will be forthcoming from the civil law courts and that impunity is rampant in the criminal justice system.

Judiciary reforms entail working with an extensive and complex agenda that includes the sensitive issue of the independence of each branch of government. Progress has been made due to the efforts of the administration and its supporters in Congress. Progressive thinking focuses primarily on one part of the agenda: the changes needed to ensure that access to justice will become more democratic. Such changes include the creation of small claims courts for the swift resolution of cases involving lesser sums (several of these courts are already functioning in various states and at the federal level); programs to winnow through and consolidate the huge numbers of laws currently in force (this is being done); the simplification of procedural rules and the creation of rules blocking appeals designed only to buy time; and measures to encourage the use of mediation and arbitration in cases involving disputed assets.

## 3. Improving the quality of participation

Institution-building to improve representation and provide more democratic access to justice is important, not merely as a means, but as an end unto itself. Such efforts are important not just because judicial institutions play a strategic role in guaranteeing a universal safety net of material security, but also because they exert an enormous influence on the exercise of citizenship. Social inclusion cannot be measured in terms of employment and income alone; it also involves the feeling that one belongs in a community and that one has an active voice in determining that community's fate.

If this view is to guide efforts to reform the State and the economy, it must also highlight the need to enhance the quality of participation of all the collective actors involved in interest articulation and representation and in the public debate. The inroads

that the media and NGOs have made in the world of politics are irreversible and welcome. The inevitable corollary of this involvement is that so many demands have been placed on both the media and NGOs that their very status as private institutions is at stake. Being the “third sector” may be a good thing, but it comes at a cost: the third sector will be expected to set the standard for any discussions of public issues.

From the viewpoint of the media, this implies ever-growing demands for the type of precise and in-depth information that is not easy to reconcile with the entertainment value that attracts mass audiences. The media in Brazil display levels of excellence on both counts, whether it is providing news as information or as entertainment. However it has also begun to be questioned—and to question itself—because this mix of two approaches tends to transform the political scene into vaudeville.

From the standpoint of NGOs, the price of greater participation hovers over the fine line between the legitimate defense of the interests and values of a given segment of society and the advocacy of special interests that cannot or will not recognize the point at which the part becomes detrimental to the whole. The key achievement of Brazil's labor unions in the 1980s was broad recognition of their legitimacy and expanding role. Whether or not unions will accept the public responsibility that is part of the package will ultimately define the scope of labor union activities and those of associative movements in general for the immediate future.

No law can guarantee high-quality public debate. Changes in legislation may help but will not solve the problem. This is even truer with regard to the adoption of codes for self-regulation. What is at stake, essentially, is the spread and development of mature values—the emergence of a new culture of democracy and strong civic principles. This is something that cannot and should not be imposed by the State. It ought, above all, to be propelled by the debate itself and by the exemplary quality of specific actions. Politicians, elected officials and senior government staff do have an important role to play, but it is essentially indistinguishable from the responsibilities of influential media and civil society leaders.

#### STATES WITHOUT BORDERS

There can also be no turning back from the trend toward the increasing permeability of national borders to international flows of goods, capital, and information. However, this does not mean—and herein lies the problem—that the nation-state has ceased to be a focal point for legitimacy or an essential tool in fulfilling its citizens' aspirations regarding security and well-being. Brazil is a land of mixed races, a multicultural nation, and it is proud to be so. Like the rest of the Americas it is also a product of the very first wave of globalization, which was produced by Europe's expanding trade. Because of its history, the education of its leading classes and its diplomatic traditions, Brazil is a country that has always viewed the outside world as a source of opportunities rather than threats. For all of these reasons, Brazil does not, or in principle should not, have any insuperable reservations in coming to terms with the realities of the new era of globalization. Even so, the responsibility for staying the course in a world in which the helm of the State has become so small is a significant one for those who govern a country like Brazil.

“But you must sail on...” the Portuguese were wont to say, 500 years ago. Will the new world that the 21st century holds in store for us actually come to fruition? That

depends on whether or not the growing consensus regarding democratic values leads to the construction of mechanisms for the exercise of these values at the international level. The groundwork has begun to appear in the form of efforts that seek to uphold multilateralism as an unswerving principle; strengthen the United Nations and make its deliberative bodies more democratic, especially the Security Council; enhance international law with clear and uniform procedural rules; and promote unrestricted respect for pluralism.

The State, under the legitimate cross pressures of old and new actors that have appeared on the scene at home and abroad, is faced with the following alternatives: to come out of its shell or to wither away. But coming out of its shell and deliberately sharing the political arena with others will demand new criteria by which the State can legitimate its authority. It also will require novel types of leaders with a taste for networking, people with the ability to navigate the multiple universes of the media, NGOs, multinationals, globalized markets, virtual public opinion via the Internet, and foreign policy—while placing their trust in the magnetic qualities of democratic values instead of the unilateral dictates of the old bureaucracy.