

## Economic Democracy – Meeting Some Management Challenges: Changing Scenarios in Brazil

### Demokracja ekonomiczna – rozwiązywanie problemów z zarządzaniem: przykład Brazylii

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#### Abstract

Orthodoxy is failing, both in the traditional *statism* and the free-market approaches. Inequality is becoming a key issue world-wide, aggravated by environmental dramas and the financial chaos. The Brazilian approach can be seen as basically pragmatic. It is reducing inequality through simple measures, which are expanding internal consumption, and opening new opportunities for business and jobs. Financial support is not going to banks, but to productive sectors most hit by the international turmoil, and this is maintaining low unemployment. Environmental issues, particularly the destruction of the Amazon forest, are being faced through strong support for the *greening* initiatives, and social infrastructure in cities. However fragile in this international context, this down-to-earth approach brings lessons that can be useful to consult.

**Key words:** sustainable development, economic democracy, inequity, Brazil

#### Streszczenie

Ortodoksja przegrywa, zarówno w odniesieniu do tradycyjnego *etatyzmu*, jak i rozwiązań wolnorynkowych. Nierówności stają się fundamentalnym globalnym wyzwaniem, wzmacnianym przez pogarszający się stan środowiska i chaos finansowy. W tym kontekście warto przedstawić pragmatyczne podejście przyjęte w Brazylii. W jego ramach udaje się zmniejszać nierówności przy pomocy prostych rozwiązań przyczyniających się do wzrostu wewnętrznej konsumpcji, ułatwień dla biznesu i na rynku pracy. Wsparcie finansowe nie jest przeznaczone dla banków, ale bezpośrednio dla sektorów produkcji, najbardziej dotkniętych przez kryzys światowy. W ten sposób możliwe jest utrzymanie bezrobocia na niskim poziomie. Zagadnienia środowiskowe, w tym szczególnie wycinanie lasów tropikalnych, rozwiązywane są przez promocję *zielonych* inicjatyw i rozwój społecznej infrastruktury w miastach. Choć nie w każdym kraju te zdroworozsądkowe rozwiązania będą równie dobrze funkcjonować, stanowią jednak przydatną lekcję, którą warto brać pod uwagę.

**Słowa kluczowe:** rozwój zrównoważony, demokracja ekonomiczna, nierówności, Brazylia

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*In all sections of society, there is growing agreement that the world is becoming more unequal, and that today's disparities and their likely trajectory are dangerous*

The Economist, Special Report on the World Economy, October 13<sup>th</sup> 2012

#### The end of simplifications

In our complex society, limiting democracy to casting a vote every few years, and letting the economy loose in the hands of corporate giants, is simply not working. But the overall governance system that is emerging does not obey our ideological simplifica-

tions, such as *either* planning *or* markets. What we are seeing in the really existing world economy, is a mix of public planning, market mechanisms, cross-enterprise coordination systems, decentralized participatory management, and the growing and chaotic set of international pacts through which we try to fill the gap between a global economy and nation-state governance. Probably nobody knows what kind of animal will result as these different regulation mechanisms interact, but the fact is that we are treading new paths. And simplifications are out.

We have called this emerging mix *Economic Democracy*, which may be overly optimistic, but reflects our view that the economy itself must be democratized, if we want the system to work (Dowbor, 2011a). The ETH (Swiss Federal Institute of Technology) study of the global corporate control network has shown that 737 corporations control 80% of the corporate world, out of which 147 control 40%, 75% of which are financial corporations (ETH, 2011). An IMF (International Monetary Fund) publication, *Finance & Development*, brings us a pathetic cover-story title: *Who's in charge?* Creating more democratic overall management systems is the key issue. While the *another world is possible* Porto Alegre motto is stimulating, the problem is that another management is necessary for it to happen.

Is Brazil showing the way? This would certainly be an exaggeration, but quite a few obvious innovations have helped the country to start on the long way to reduce abysmal inequality, generate decent jobs, and not necessarily at the cost of destroying our natural resources. Building more democratic economic management is not easy in a political environment where if economic and social policies are not pro-rich the elites usually denounce betrayal of democracy, and call in the generals, while the multinationals declare the country non-market-friendly. What follows is a short description of the main strategic issues.

We are relying here on a wide range of discussions that have been taking place in the Conselho de Desenvolvimento Econômico e Social (CDES), the economic and social development council linked to the Presidency, during the last few years, reflecting the broad spectrum of participants and also the many documents, proposals and rulings that have been discussed with the most varied sectors of society, in addition to consultations with experts in the main fields of action. There is a strong convergence overall, notwithstanding the great diversity in proposals. We collected here those which seemed to contribute most to a systemic coherent outlook, stressing the main lines. We also sought to avoid the temptation of a text that by being so general and prudent would say very little, as it often happens with official papers. This, fortunately, is not an official paper.

In this second decade of the millennium, Brazil is taking off from a new level. In a most impressive way it withstood the worst economic crisis since 1929 and is pointing toward a course essentially based on common sense and a sustainable view of economic interests, social needs and environmental requirements. The traditional economic standpoint tied to the simplifications of the Washington Consensus, aged suddenly and is no longer capable of meeting the challenges of a modern and complex society that must look for new expressions of economic, social and environmental policies.

Some basic views are gaining ground. For example, that the presence of a strong public sector is not a hindrance but an essential asset, as Brazil's resilience in the face of the financial crisis is showing. Regulation of finance does not imply bureaucratization, it is a safeguard needed against irresponsibility and rampant speculation. To warrant workers better wages and rights does not represent irresponsible and demagogical moves, it represents a straightforward way of generating demand and stimulating the economy. To support the bottom of the pyramid is not charity, it allows for more justice from the ethical point of view, as well as economic common sense since it generates new opportunities at the bottom of the pyramid. Investing public resources in the poorer regions, even with temporary deficit, generates new possibilities for future investments through external economies.

Expanding social policies does not mean giving up a greater slice of the economic pie to less productive sectors, it represents stronger investment in people, and this enhances economic development as Amartya Sen has already shown. To support social movements is not to distribute benefits, but to provide working instruments for organizations that have a much deeper knowledge of their economic, social and cultural environment, and are flexible and efficient in their specific domains. Being effectively rooted in the communities is essential for social projects to work, as so many failed *parachute* programs have shown. Stimulating sound environmental policies does not *retard* progress, since energy alternatives, improved family farming and the like generate more jobs and technological innovations than to simply tap into existing natural resources. Maintaining a solid tax basis is not *to take away from the people* as it has been presented, it is an essential instrument for providing more sustainable development. Overall, this kind of approach is not based on ideological simplifications, but on a pragmatic approach of expanding policies that have shown to work.

Evidence of improvement does not imply underestimating challenges. The international context continues to be unstable, with a good part of the imbalances of the private financial system in developed countries simply transformed into public deficit, without solving the key issue of the bankers' irre-

sponsibility. In Brazil, social improvements during the last decade notwithstanding, the major challenges remain impressive, requiring more comprehensive initiatives. The whole tax system still awaits greater rationality, fairer distribution of the tax burden, and improved efficiency and redistribution in budget allocation. The modernization of government still depends on rescuing the public dimension of the State, too heavily owned by the corporate world, and the country is still waiting for the increasingly urgent political reform. Environmental policies need to be strengthened and assimilated by the cultures of government and corporations as well as consumer behavior. In some ways, the course to steer has become clearer and society, seeing the obvious results, has become more confident. However, these are early stages of a construction demanding constant rethinking of strategies.

A key point to be considered is the rational use of the country's most impressive potentials and their articulation with new environmental challenges. Brazil has the largest reserve of idle agricultural land on the planet, one of the largest reserves of fresh water and a stable climate, this at a time when pressures for food, feed, fiber and fuels are increasing throughout the world. Brazil masters cutting edge technologies in the biofuels area. The country has an enviable energy matrix, based on hydroelectricity, at a time when mastering the transition to a new paradigm in energy and production technology is becoming the key for building the future.

In the medium term Brazil will host important international events – the Olympics, the World Cup – that attract even more attention on the global scenario. Increased availability of oil with the Pre-Sal fields opens new perspectives. Adding up these and other factors, if the country can avoid the temptation of one more cycle of agro-exports, or the hasty use of the new oil resources, and is able to protect the environment and to continue improving the new social policy, the virtuous circle enjoys good prospects. Much of the future will depend on how Brazil manages the equation of production, employment, income and environment. Brazil has opened new paths, but the past, and particularly the huge inherited inequality, weigh heavily on the present options.

The slow construction of more performing institutions and more democratic ways of decision, the so-called governance issue, is immensely important. Faced with the political influence of large economic groups and a heavy-handed traditional elite, the government has followed a policy of fragile equilibrium, maintaining privileges of the rich, as a political condition for the development of economic and social inclusion of the poor. Some 150 social and productive inclusion programs have been launched, from the widely known *Bolsa Familia* to less discussed but efficient projects like *Territorio*

*da Cidadania*, *Luz Para Todos*, *Prouni*, *Pronaf* and so on.

These programs just work, and they do so because they are negotiated, ensuring a reasonable basis of political support. Furthermore, they also work, in the case of the major social programs, because the first and second tiers of management, people who actually carry the weight of getting results, are generally people who come from social movements and indeed are familiar with the issues, know what type of partnerships must be organized and are knowledgeable about mobilization for the programs. Social movements play a vital role in these processes, and will grow in the future. With all the difficulties in the various sectors, a culture of negotiation, of agreement, of respect towards the interest of diverse segments has been gradually built, however fragile at the onset of this decade (Dowbor, 2011b).

### Sustainable development context

The outlooks formulated in this text meet certain conceptual definitions considered to be part of the basic set of ideas that are taking shape in the country. As such, first of all, we shall differentiate the concept of economic growth, in a narrow standpoint of boosting gross domestic product, and the concept of development which involves sustainable development on the economic, social, environmental and cultural levels. The concept of sustainability used here, refers to environmental and social sustainability, in the classic definition of the Brundtland Report, meeting present needs without jeopardizing those of future generations. The concept of local or regional development does not refer to a choice of a particular unit such as the municipality, but to the complex territorial articulations the programs require, as they ultimately exert their impact on specific geographic spaces. The concept of planning does not refer to any type of authoritarian central planning, but to consensus building procedures concerning structural programs. This tends to encourage government to build a systemic view of development beyond sectorial reductions, and a long term view that reduces discontinuity between cycles of government elections. The concept of governance is used here in the broad meaning of management involving the government itself as well as the set of organized social actors involved in decision making.

Unquestionably, favorable winds are blowing. A climate of trust is blossoming. Here there are neither winners nor losers. The best image is that of a high tide that floats all boats. Beyond detail of proposals for the country's various sectors, this is the standpoint: a Brazil that is developing with broader participation in the results, in a sustainable way and by means of democratically negotiated decisions.

### The international context: risks and opportunities

The international financial crisis of 2008 signaled a turning point. Major simplifications concerning the dichotomy between state and market, with their ideological weight, gave way to an attitude of common sense, pragmatism of results, a search for balance. Somehow, to innovate in politics has become legitimate again. Today, this innovative way of thinking is essential. Internationally, the crisis does not disappear. A global GDP of 60 trillion dollars and 600 trillion dollars of global outstanding derivative volumes can only generate chaos (Bank for..., 2011). Speculative private sector deficits were turned into public debt, loss of pensions and unemployment. The cost of saving speculators without penalizing them results in new tensions with those that are being called to pay. New regulation mechanisms are being sought, but not implemented. A stable and sustainable horizon is not taking shape for the planet. For Brazil, the diversification of foreign relations, with emphasis on South-South and Latin American integration, will continue as a priority.

Financially, Brazil today is at a radically different level. With 35 billion dollars in reserves in 2002, the country was at the mercy of speculative attacks. Today, with 350 billion in reserves, creditor and no longer debtor of the IMF – which financially is not essential albeit significant in symbolic terms – commercial diversification and better balance between domestic and foreign markets, the country has become an international benchmark. The way Brazil maneuvered among the pitfalls of the 2008 financial crisis, including multinationals repatriating extensive funds from subsidiaries to save their headquarters, was obvious worldwide as proof that common sense and pragmatism are more profitable than ideological simplifications. This trust generated allows Brazil today to even make demands on incoming capital. Success breeds success.

Commercially, a world population which increases by 80 million *per annum* with expanded consumption, further enhanced by the biofuels options, should sustain the trend of strong demand for commodities. Brazil, with the largest world reserve of idle agricultural land and 12% of world fresh water reserves is bestowed with exceptionally strong assets. However, the issue of international regulation of commodity prices, now more dependent on speculative capital movements than on the balance of supply and demand is bound to come into foreground. As an example, global trade of oil reaches 85 million barrels per day, and daily speculative trading reaches 3,000 million barrels<sup>1</sup>. In this re-

spect, Brazil has a stake in promoting a minimum of international regulatory mechanisms.

In geo-economic terms, the trend is towards a shift from the Atlantic basin to the Pacific, with outstanding advances by China and India that represent 40% of world population and other countries, very dynamic today, such as South Korea and Vietnam, or simply as strong as Japan. This poses structural challenges for Brazil. It should be remembered here that while the United States carried out the Atlantic-Pacific railroad connection in 1890, South-America does not even have a decent highway link between the two oceans. The shift will facilitate a more integrated infrastructure in Latin America, as well as a better balance of occupation and use of the territory in Brazil, still heavily Atlantic oriented in demographics and economic activities. For us, the West acquires new importance.

Another key feature of the new international context is the growing presence of environmental challenges on the planet. While the international financial crisis has migrated from the banks to the ministries, the reality of climate change, extinction of life in the oceans by industrial overfishing, the destruction of forests (particularly important in Brazil and Indonesia), soil erosion, widespread pollution of rivers, groundwater and seas are a matter for concern that, regardless of the Copenhagen, Cancun and other meetings, require added emphasis on the environmental and social sustainability in both the public and private sectors. Brazil holds an advantageous position in this matter.

The social situation is becoming more critical. With the speculative surge in the area of grains, world hunger went from 900 million to 1020 million people. Due to starvation and other absurd causes 10 million children die every year. AIDS has already killed 25 million people. The World Bank estimates that 4 billion people in the world have no access to what they call *the benefits of globalization*. These situations are untenable. The social balance of economic policies is becoming more and more of a central issue on the planet and Brazil has shown the feasibility of policies that balance economic and social objectives (Sachs, Lopes and Dowbor, 2010). Politically, while the economy has become largely globalized, multilateral regulation capacity has been dwindling. The balance of power has also been shifting, with a reduction of the power monopoly by the United States and by developed countries in general. The BRICs have started to occupy an international political position, the G-20 begins to open a space for regular negotiation and Brazil, in particular gained an expressive international presence, largely due to the innovative and well-balanced economic, social and environmental mod-

<sup>1</sup> Oil prices (Brent) have varied from 12.72 \$ in 1998 to 97.26 \$ in 2008, with huge differences in between. Attributing this kind of volatility to variations in demand, such as Chinese voracity for energy, misses the point of

the key impact of speculation ([www.oilmarketreport.org](http://www.oilmarketreport.org)). Agricultural commodities fare no better. No steady development planning can exist with such volatility in key world prices.

el implemented and that is simply working. An expansion of these policies, whose organizational technology made great strides, should be the hallmark of the coming years and strengthen the international role of the country.

In terms of new international context, Latin American integration is increasingly gaining momentum. In the past this policy was characterized by creating more acronyms than facts, and real integration corresponded basically to links between multinational corporations in the region. Today progress in terms of institutions, financing mechanisms, infrastructure (still fledgling), migration mechanisms, the academia itself, is quite evident. Brazil has a key role to perform because of its specific weight, as well as because of the political innovations developed and of the many things in common in terms of inherited social dramas. Latin America is acquiring an identity<sup>2</sup>.

A final key point stems from technological advances, particularly in the area of information and communication technologies. The role of access to knowledge, lower cost of infrastructure and of individual equipment, spreading of global connectivity, expansion of access to knowledge throughout the planet, emergence of numerous economic activities in the so-called *society of knowledge* – all these changes are taking place at a much faster pace than was expected. Where in the past century major political clashes were over ownership of production means, in the era of the new economy access to knowledge and definition of the new legal framework have become central issues. In Brazil's case, universal access to the knowledge economy presents a new generation of opportunities for productive inclusion and improved quality of life. The challenge is to bridge the gap between technological challenges and domestic educational backwardness.

Overall, on the international scene, Brazil has today a strong role as a key partner, not merely on the basis of its economic strength and cultural wealth but also of practical and common sense proposals in dealing with major social and environmental challenges, as well with the necessary solidarity with struggling countries. The reliability and respect conquered, not only expand the country's leeway, but are intensely reflected as noted in the case of approval of the World Cup and the Olympic Games, in the feeling of self-assurance of the overall population. At this stage, the country really takes off from another level.

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<sup>2</sup> An important ECLAC report, *La Hora de la Igualdad*, draws the main line of the new consensus being built. The title, *A Time for Equality*, is very meaningful. Santiago, mayo de 2010. Documento síntese com 58 páginas em português: <http://bit.ly/bqwYAh>. Documento completo en español: <http://bit.ly/bA9yrl>.

### A path based on common sense

As the primary strategic issue, Brazil elected to confront inequalities. This strategy in turn strongly centered on mass consumption as an economic engine. At first, this policy faced strong resistance, but multiplying effects were soon perceived in the process. The main challenge faced by Brazil, the economic and social exclusion of almost half its population, came to be seen as an opportunity, and the country found a new horizon in a growing domestic market. The increasing pressure from the bottom of the Brazilian social pyramid for better living conditions, combined with Government determination to encourage change, created a virtuous circle in which the economic, social and environmental aspects found their common ground.

In Brazil, social expenditures have always been presented as costs, a burden on productive sectors. Economic policies have traditionally been based upon the standpoint that greater competitiveness of the enterprise results from cost reduction. Reducing costs by rationalizing use of inputs and by taking advantage of innovation and technology is indeed essential. On the other hand, cost reduction through cheaper labor reduces the consumer market as a whole and tends to have the opposite effect. Shrinking the consumer market reduces the scale of production, and keeps the economy in the so-called *narrow base*, producing little, for a few and at high prices.

It must be recalled, that for an individual enterprise fewer social rights and lower wages do reduce their costs, thereby making it even more competitive in the marketplace. However, this policy adopted throughout the economy reduces mass demand and brings about stagnation in general. In practical terms, what makes sense at the microeconomic level thus becomes an obstacle in broader terms at the macroeconomic level. Redistributive policies applied to the whole economy, such as the improvement of the minimum salary in the last few years, affects all companies, generating a larger market for all, and reducing unit production costs through economies of scale. This in turn allows the expansion of mass consumption, gradually creating a virtuous circle of growth. If sustained for a longer time, this policy fosters production capacity by stimulating investments, which in turn tends to generate more jobs and increased consumption. Simultaneous expansion of demand and production capacity prompts development without surges of inflationary pressures. The growth spiral becomes sustainable. As a matter of fact, sectors that stagnate in wages and social rights are frequently also the ones that become accommodated in terms of innovation in general.

This understanding seldom becomes accepted by theoretical explanations alone. However, when this policy is applied, and the results can be seen, as in

Brazil today, many people who were opposed and claimed that favoring the poor was political opportunism, tend to change their mood. In fact, the policy works, and is facilitating everyone's business. Up to a certain point, Brazil has found its course by turning the biggest challenge, poverty and lack of purchasing power that accompanies it, into a vector for expansion of the economy in general. For a long time, it has been said in Brazil that we must make the cake grow bigger, and distribute it later. What we now see, is that distribution is what makes the cake rise.

Beyond distribution, a second line of change concerns the expansion of social policies in general, involving education, health, vocational training, access to culture and the internet, more dignified housing. Here too a traditional outlook is being reversed. The theoretical heritage of neoliberal simplifications is that those who produce goods and services, that is to say the private productive sectors, generate wealth. Payment of taxes on the generated product makes social policies sustainable. Thus the corporation generates wealth, while social policies would represent a cost. Therefore, from this standpoint we should maximize interests of producers, the private sector, and reduce the size of the State, the spender. The real situation is different. When an enterprise hires a 25 year old engineer, this graduated person represents a formidable asset, which has cost years of care, training, access to general knowledge, family sacrifice, use of the most diverse public infrastructure, profiting from the overall technological level generated throughout society. Social policies are not costs but investments in people. And in view of the current progress towards an increasingly knowledge-intensive society, investing in people is what yields the most. In fact, the understanding that production processes of goods and services and social policies are like hand and glove in the development dynamics as a whole, one financing the other, all being at the same time cost and product, points towards a sustainable view of economic dynamics.

A third key element is the environmental policy. The traditional widely disseminated outlook presents requirements of sustainability as limiting growth, an obstacle for investment and employment, resulting in higher entrepreneurial costs. This is simply the case of a mistaken calculation and already widely discussed at international level, around the argument of externality. Carrying out pre-treatment of emissions in the enterprise where the waste is concentrated is much cheaper than to be burdened later by polluted rivers and groundwater, respiratory diseases and loss of quality of life. For the enterprise it actually comes out cheaper to dump waste into the river; however, the cost to society is incomparably higher. Cutting down the Amazon rainforest does indeed create jobs for a while, but can only maintain them with ongoing

senseless destruction. Stepping up investment in sanitation, in turn, creates jobs, reduces healthcare costs and increases systemic productivity. Investing in clean technologies tends to promote sectors that will be more dynamic in the future and improves international competitiveness. To manage our natural resources in a sustainable way, capitalizes the country for future generations, rather than de-capitalizing it. Equally important, in the modern global economy a coherent environmental policy generates credibility and respect at domestic and international levels, which in turn opens markets. The truth is that environmental policy has in recent years achieved a different stature and become part of the new economic policy outlined in the country. A fourth aspect of economic policy relates to reconstruction of the country's capability to plan infrastructure. Good infrastructure, by making access to transport, communications, energy, water and sanitation less expensive, generates external economies for all and enhances the territory's systemic productivity. The cost of freight transport in Brazil is prohibitive, since transporting soybeans and other products of a rather low value to weight ratio, over large distances by truck, generates additional costs for all producers. Rescuing railways, shipyards and coastal navigation, stimulating public transportation in cities, ensuring cheap access to telecom services and broadband, enhancing productivity in the distribution and use of water and especially sewage disposal, the strengthening of renewable energy sources – are initiatives that bring about a huge forward thrust for all economic activities.

Planning and the presence of a solid public administration are essential. Government bashing is shortsighted. Infrastructure provides large networks that interlink the territory. In this sense they are one of the main channels for the reduction of regional imbalances in the country. As an example, expansion in the poorest regions is needed to energize and attract new activities. Public policies can support this type of long term investment in regions where immediate profits are not realized. This involves planning capacity and a long term systemic outlook. Brazilian metropolises are coming to a standstill with an excess of individual transportation means and lack of planning. This broader look at the structural needs of the economy is essential for the systemic coherence of infrastructure investments, and should play an essential role in this decade.

Thus, distributive policies rooted in an outlook of social justice and economic rationality, expansion of investment in people by means of focused social policies, gradual assimilation of environmental sustainability in all decision making processes of economic impact, and rational planning of investments in infrastructure that will greatly reduce the Brazilian cost structure by means of external economies – all these trends lead to better quality of life,

improved international competitiveness, and gradually shapes a model that, in an environment of democracy and social peace, is opening new paths.

Having a model that not only makes theoretical sense, but that works and convinces many of the economic and social actors in the country is an important asset. None of these policies can be considered new or original. But the fact that through negotiated governance the country has managed to gradually put them together creates a new reality. It also shows how crucial politics can be.

### **Macroeconomic policy: pragmatism and flexibility**

Sound macroeconomic management is also playing a central role. At this point Brazil is working on a new level. It is a matter of sustainable wage policies, prices, credit, foreign exchange, social security, investment and tax collection. Technically complex and subject to constant pressures, macroeconomic policy in Brazil used to follow a neoliberal path that was presented with complex theoretical arguments, but was basically centered on maintaining privilege, and brought about low growth and deeper inequality, always with a semblance of seriousness and austerity. The wage restraint and high interest rates would thus be justified as a means of protecting people against inflation. This area of the economy suffers from an original sin: very few people understand how it works, and therefore it is not subject to democratic scrutiny. And the inflationary past left an imprint on the collective unconscious.

As seen, the overall policy adopted may be summarized as expansion of the economy by a progressive social and economic inclusion, which increases aggregate demand, generating jobs and investment, leading to a virtuous spiral of development. The key element of macroeconomic policy is the balance of the different variables, in terms of amount and timing. The policy adopted was characterized by great flexibility and responsiveness to changing national and international trends, a good dose of pragmatism and the search for balance between interests involved.

In practical terms, the initial phase from 2003 to 2005 was characterized by orthodox macroeconomic adjustments aiming to reassure economic agents that the rules of the game were stable, financial commitments were being met, inflationary pressures were being restrained. In parallel, instruments for management of social policies were being devised, which have as the scarce resource not money but administrative capacity, which develops more slowly. The tax and social security mini-reforms permitted in turn to stabilize accounts. The high prices of commodities and diversification of trade agreements reduced external vulnerability.

The second phase, from 2006 to 2008, is characterized by articulation of policies related to the dynamics of accelerated growth due to inclusion, laying the foundations of current actions. The unified register of poor families – a huge effort to reach 60 million people with no ID, postal address or bank account – the unification of social programs in the *Bolsa Família (Family Grant)*, the sharp increase in the minimum wage (therefore also an increase in pensions), expanded support to family agriculture (PRONAF), expansion of credit (payroll loans, financing by BNDES and other state banks), the gradual expansion of investments and other measures led to strong consumption at the base of society and strengthening of private sector investments. The outcome was an impressive expansion of formal employment. In other words, the public administration effectively took over its role of promoting development. Greater demand has not sparked inflation, since the idle productive capacity allowed rapid expansion of supply. Expansion of public expenditures was covered by higher revenues derived from economic growth (over 5% in 2008) and expansion of the formal economy, allowing the government to simultaneously meet the debt commitments and expand social policies.

The financial crisis of 2008 submitted this policy to a severe test. The extent of the crisis and international panic generated, caused a stall in domestic credit, disruption of private investment, transfer of resources from Brazilian subsidiaries of foreign groups to save headquarters (35 billion dollars in 2008 alone) and an overall climate of insecurity. Faced by falling State revenues, the orthodox standpoint would be to restrain public expenditure with a stringent fiscal adjustment. The government decided on a set of counter-cyclical actions, responding in a rapid and diversified way to the various emerging imbalances. Expansion of the minimum wage was continued (12 % in 2009) generating a positive expectation in the market; critical sectors were stimulated by tax exonerations and incentives; foreign exchange reserves were used to finance exports (foreign funding had dried up completely); public debt financing was reduced to prioritize support for productive activities; state banks were used to stimulate the economy with a broad spectrum of credit lines (for people and business, not for banks); for the lower middle-class sectors income tax rates were subdivided. Instead of being reduced, social programs were increased, and a large housing program, *Minha Casa Minha Vida (My Home My Life)*, aiming at one million houses, was launched, thereby generating activities and jobs in a capillary mode for the overall economy.

Bleak forecasts at the time did not materialize. This multifaceted macroeconomic pragmatic policy, based on the understanding that a broader domestic market supports all sectors, simply worked. Even big exporters, like the soybeans and meat produc-

ers, found it interesting to be able to compensate the weakness of foreign markets with enhanced domestic consumption. Furthermore, the idea that an active State is needed was endorsed. Today the country continues to face structural challenges, but feels confident in its capacity for macroeconomic management. The private sector feels more secure as to the rules of the game. This decade is indeed starting at a new level.

Regardless of the financial crisis, another vector of economic policy has taken shape and is becoming central, the large infrastructure investments delayed for so long. *The Program of Growth Acceleration, the Productive Development Program*, expansion of investments by Petrobrás, the PAC II and also the *Education Development Plan*, plans for widespread access to broadband, the planning of water use and many others are at the same time stimulating investment and maintaining this active scenario. This facilitates all adjustments and introduces in various sectors a structural, systemic outlook, rebuilding planning capacity and long term strategy definitions. On the other hand, it generates broader pressure on the meager management capacity of the public administration, which had become used to managing privilege rather than promoting development. The country is thus facing new challenges concerning administrative modernization.

If a theoretical outlook should be rescued, it is that macroeconomic balances are dynamic, that it is possible to create demand without excessive inflationary pressure, to increase State initiative without bringing about irresponsible deficit, to find a new balance between domestic and foreign market without exchange dramas, that it is possible to set conditions (presently a 6 % tax) for entry of speculative capital without being declared a *non-market friendly* by the international speculative market and so on. Above all, it is possible to reduce social and regional imbalances without jeopardizing the more affluent sectors and the wealthiest regions, by ensuring that everyone benefits, however the poorer at a faster pace. Common sense works. Just as a high tide floats all the boats, the State may be providential, ensuring that the tide continues favorable.

### Results: groundwork for further expansion

Results are now tangible and highly visible. In the words of Nelson Barbosa, a key promoter of these policies, *the facts are screaming*. In round numbers the level of formal employment has increased by 14 million since 2002. The formalization generates more revenue, which finances much of the support policy. The minimum wage has increased in real purchasing power by 53.67 % in the period (DI-EESE, 2010), which affects about 26 million people. Increased minimum wages further enhance the negotiating power of workers. Indirectly favored by this increase are retirees, some 18 million people.

The *Bolsa Familia* has reached 12.4 million families, improving the living conditions of around 48 million people. Actually, this means fewer hungry children and certainly less distress in low income families. Between 2003 and 2010, 29 million people crossed the poverty threshold. Pronaf (family agriculture support) resources were increased from 2.5 billion reais in 2002 to 13 billion in 2009, boosting production of about 2 million small farmers. The program *Territórios de Cidadania (Territories of Citizenship)*, is investing some 20 billion reais in the country's most backward regions through integrated support programs. The *Luz para Todos (Light for all)* program is reaching millions of people now with access to basic domestic equipment. *The Prouni*, which already has more than half a million students from poor families in universities, also showed impressive results. They do better than others in university, rebutting the argument of down-leveling.

The argument that distribution is a kind of unsustainable charity simply does not correspond to reality. Only the *Bolsa Familia* is a simple transfer of resources and is relatively a very small portion of the whole. Even so, since it is tied to health and school attendance, it is considered as a social investment. Income at the roots of society leads to immediate consumption of basic consumer goods that improve nutrition, hygiene as well as small family investments that can be verified in each improvement of modest homes, stimulating production of building materials and basic household equipment. The truth is that the multiplier effect of resources is very large when directed to the roots of society. The poor tend to consume local goods, stimulating backward territories. And in terms of quality of life, every dollar available to the poorest families generates an incomparably greater improvement than when it goes to wealthy ones. Social productivity of money falls rapidly as income rises.

The fact is that due to the immense legacy of backwardness, inequality is diminishing in Brazil steadily but still very slowly. The Gini index fell from 0.53 to 0.493. This compares to 0.46 in the United States, 0.33 in Italy and 0.26 in Germany (IPEA, 2010, p. 9). In Brazil all incomes are rising, and faster for the poor than the rich. But, since the starting point is very low for the poor, even a higher percentage here represents small changes in absolute terms. In regional terms, a much faster growth is perceivable in the Northeast and other poorer regions, but here too inequality is falling very slowly<sup>4</sup>.

A central point is that preconceived ideas that effectively fueled opposition against programs aimed at the base of the social ladder are gradually dismantled. Far from *leaning on*, the poor are demonstrat-

<sup>4</sup> For the basic figures, see Dowbor, 2008.



ing an impressively positive ability to use resources. They are poor not because of lack of initiative or creativity, but for lack of opportunity. And indeed the tendency to *lean on* is democratically manifested at various social levels.

Organizing policies for the poorest sector of the population encounters a major hurdle, not lack of resources, but difficulty to manage an extremely capillary support system, for those who often have no mailing address, SSN, bank account or even a birth certificate. In a way, the State did not exist for this 30 % of the population. To carry out the registers, implement communication channels and mechanisms for managing this segment of the population required a huge administrative effort still underway. Thus, an indirect impact of inclusion policies was the implementation of transmission belts between the State machine, local authorities, social movements and ultimately the families. The organizational learning resulting from the *Bolsa Familia*, expanded PRONAF, management committees of the *Territorios de Cidadania* program, numerous national and regional conferences – have all created more effective forms of interaction between the State and society, a vector of better management practices for the future.

In this slow transition to an economically but also socially fair and environmentally sustainable Brazil, progress is undeniable, but social liabilities inherited from centuries of imbalance are large. The country continues with an obvious dramatic inequality. Deforestation in the Amazon has been reduced from 28,000 to 7,000 square kilometers per year, which is a great victory, but it is still a disaster. The metropolitan outskirts are still explosive and require radically larger supportive policies. Backwardness in the quality of education, access to more decent health, generalization of environmental policies, democratized access to credit are some of the manifold challenges. The country is facing the need to strengthen inclusion policies, as well as the adjustment of the public management capacity and the decision making processes of society in general. The course to be taken is much clearer today, the basic management instruments are becoming structured. The results that have been already achieved and the experience gained open a new agenda with new challenges.

## Conclusion

Looking back, and with the *ex-post* wisdom we gain from the financial crisis, it is clearly the time to set aside the western version of the *Little Red Book* curiously called the Washington Consensus, the *Tea Party* and *Davos* flag waving so similar in its spirit to the Versailles dancing parties, and the different *silver bullet* solutions throughout the political spectrum. It is a matter of difficult and patient consensus building around the key issues. Econom-

ic democracy is certainly not around the corner, but as Ignacy Sachs puts it, in the face of the huge social, economic and environmental issues, we are condemned to innovate.

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