Notice

This paper aims at providing the reader who is unfamiliar with Brazil with a general view of the strategic goals and main lines of action of the Fernando Henrique Cardoso government in the fields of economic and social development. The principal authors take responsibility for the presentation format, inferences and interpretations, as well as the accuracy of the information provided.
SUMMARY

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INTRODUCTION

PREPARING BRAZIL FOR THE 21ST CENTURY

“Brazil is no longer an underdeveloped country. It is, rather, an unjust country”. Fernando Henrique Cardoso, during the 1994 presidential campaign, thus expressed a concern that increasingly weighs upon the minds of Brazilians.

Until recently the extreme poverty and inequality that characterize Brazilian society were often regarded as the sad, but inevitable, consequences of economic backwardness. Since the 1940s, development based on industrialization, rather than social reform, stimulated progressive thinking and political action in Brazil. During the “economic miracle” of the 1970s, when the Brazilian economy achieved high rates of industrial growth while at the same time greatly concentrating the distribution of income, the official argument was that, first it was necessary to allow growth to occur so that later the “cake” of national wealth could be shared out.

This line of reasoning, if it was ever valid, was stripped of all legitimacy after democracy was restored in the late 1980s. Social demands could now be freely expressed. Furthermore, there was an increasing awareness that the country had attained a stage of development at which it was possible to face up to the problems of fulfilling the essential needs of its population, without running the risk of “leveling down” or bringing on political upheaval.

What most shocks Brazilians today is not so much poverty as exclusion: the contrast between the relative prosperity of those engaged in what is today one of the ten largest industrial economies in the world, and the lack of support experienced by those unable to fit in this economy, or who participate only marginally in it, as producers or consumers.

Indeed, though the economic and technological gap in relation to developed countries persists, it now seems less unbridgeable than it did fifty years ago. Neither does it seem so deep as to justify the persistence of levels of poverty that are still huge, although smaller then in the not-so-distant past. This places social inclusion, alongside economic development, at the center of the Brazilian political agenda at the turn of the millennium.

The development project advanced by Fernando Henrique Cardoso is the Brazilian social-democrat response to this dual challenge. Briefly, it affirms that Brazil can, at the same time, achieve economic growth and social inclusion, within a democratic framework and as a market economy. It assumes that Brazil’s participation in international trade, investment and information flows is now irreversible, bringing with it opportunities and also risks. It relies on greater productivity and increased competitiveness of the Brazilian economy, along with increasing levels of private national and foreign investment, to create the jobs. It recognizes the growing importance of the role of non-governmental organizations in the fulfillment of social needs. And it proposes a profound reform of the State, designed to strengthen and adapt it for the performance of the functions required for projecting Brazil into the globalized productive system and providing universal ac-
cess to basic social services that are the responsibility of the public sector.

Fighting poverty and exclusion has ceased to be an issue of the “left” or the “right” in Brazil. It has become a national consensus, at least in terms of declarations of intent... It is among the fundamental principles cited in the Constitution; part of the platform of all political parties; the editorial line of the great media networks; and the discourse of public figures from all walks of life.

The need to pursue this goal within the framework of democracy and market economy is accepted by a great majority of Brazilians, but it is not yet unanimous opinion.

No organized group in Brazil today openly espouses undemocratic ideals. Democracy is a vibrant reality, as is manifested by closely contested elections, the recognition of civil rights, an independent media, and tolerance of dissent and conflict. Nevertheless, certain factions on the extreme left have resorted to non-institutional forms of protest and dream of revolutionary breach with the past, albeit without a clear proposal of social change. The only brake on their radical inclinations is the fear of losing favor with public opinion and with the parties of the left that are of electoral significance and which repudiate political violence under any pretext.

On the other hand, the elitist-authoritarian ideas that underpinned the suspension of democracy in 1964 carry little political weight in the current context. It would, however, be too optimistic to imagine that they have been entirely banished from society.

The most significant resistance, though not necessarily the most explicit, emerges when issues relating to the market economy are at stake. The old left, which includes parties with significant electoral weight, has retained its anti-capitalist instincts, even after having renounced the prospect of revolution. Ignoring the structural changes that have swept contemporary society, they allow generous intentions to translate into retrograde proposals. They dismiss as “neo-liberal” any concern for the maintaining of the fiscal balance or preserving macroeconomic consistency, which are the necessary prerequisites for any serious attempt to achieve accelerated growth and improve income distribution. They advocate formulae for State intervention and protected markets, the effectiveness of which expired in the 1970s, when the policy of growth through import-substitution finally met the end of its historical course. They interpret “State-owned” as signifying the most perfect representation of national and popular interests, and end up in the hands of certain segments of the bureaucracy, whose special interests have developed into a powerful obstacle, not only to sustained economic growth, but also to any effective opening of the State to popular demands.

On the other hand, the influence of a traditional patrimonialistic culture, which delight in profits (especially when derived from State subsidies) but which abhors competition, still permeates political parties across the ideological spectrum and the government apparatus, especially at the regional and local levels. Though in retreat, in face of the demands for universality and transparency voiced by more modern segments of society, this mindset still hinders reforms intended to free the State from the thrall of special interests, whether on behalf of the bureaucracy or of private groups. This has occurred especially when such opposition has been able to borrow ideological justifications from the old left and secure the votes of its representatives in the Legislature.

Divergent opinions and interests define the ground upon which a consensus in favor of the proposed strategy for change can be built. This consensus has been remarkably broad. In electoral terms, it
resulted in Fernando Henrique Cardoso’s victory, by absolute majority, in the first round of voting, in the presidential elections, both in 1994 and 1998. In party-political terms, it is expressed through a coalition in which five of the seven electorally significant parties in the National Congress, including those representing the center and center-right, participate. This has made it possible to secure the passage, by a qualified three-fifths majority of deputies and senators, of bills for Constitutional Amendments submitted by the government.

A remarkable feature of Brazilian social democracy, under Fernando Henrique and various state governors, has been the opportunity it has secured and its capacity to date to organise such a disparate majority, without itself commanding a majority either in the Congress or among the electorate.

The old left perceives this as an ambiguity, if not a betrayal of principles. They discriminate leaders who in the past headed the struggle for democracy and social justice, for now being allied to their former political adversaries. And - so the argument goes - it is all done in order to apply in Brazil the neo-liberal agenda of the “Washington Consensus”!

In reality, 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 liberal-conservative, in terms of a belief in social darwinism and or a dogmatic faith in the invisible hand of the market. Historically, the elites have always shared a preference for the visible hand of the State, be it through the provision of protection and economic subsidies, or through the control of social conflict by means of repression or paternalistic concessions.

What is new in all this is the emergence of more modern social and political elites, who are more receptive to middle-class liberal-democratic values and, even more so, to the expression of such values in the media. Elites that are less insecure as to their capacity to deal with social conflict without resorting to protection from an authoritarian State. These are capable of coming to terms with the fact that pressure “from below” does not necessarily mean a threat to the foundations of society, but rather an earnest desire to take part in its development.

The collapse of the Soviet block contributed to this evolution, by reducing the fear - and, on the other hand, the attraction - of recipes for social justice based upon the abolition of private property. In the absence of the ideological boundaries set by the cold war and the authoritarian regime, the dialogue on how to redeem the nation’s “social debt” can now develop more freely within society and among the political parties.

The economic crises that swept the 1980s had a similar effect, since they forced the best minds to review their previous certainties and divergences in a search for alternatives for promoting the resumption of growth. This was generally perceived as a requirement for the very continuity of the democratic process.

The founding of the PSDB, in 1988, reflected this trend. The party manifesto, issued upon its foundation, proclaims: “conceived as a party broad enough to encompass the confluence of different streams of contemporary political thought - e.g., progressive liberals, Christian democrats, social democrats, and democratic socialists - the PSDB is strongly united on the basis of democracy as an essential value and the mainspring for the changes demanded by the Brazilian people”.

An even broader confluence appeared possible, even then, between a center-left set upon seeking these advances within a democratic framework, without the willful shortcuts attempted in the past, and modern conservatism, open to social advances
and eagerly expecting, as all in Brazil generally are, the resumption of growth. Something similar had occurred in 1984, during the election by Congress of the first civilian president in twenty years, through an alliance of the PMDB, the principal opposition party, and the PFL, a dissident wing of the governing party.

In 1984, the conservatives or “moderates”, as they prefer to be called, set the tone for the Democratic Alliance. The success of the Real Plan – the policy for stabilization set in motion by Fernando Henrique when he was Finance Minister – opened a window of opportunity and resulted, in 1994, in the assembling of an electoral coalition headed by a social-democrat candidate, with a reform programme based upon social-democratic values.

Nothing that has been said here so far seeks to imply an idyllic view of the changes currently under way in Brazil. The external financial crises, the peculiarities of an excessively fragmented political-party system, the government’s errors and limitations, and the very social and economic backwardness of the country itself, have all imposed diversions and arduous corrections in course adopted. There is a distance between subscribing to the initial proposal and the essential strategic options, and supporting specific proposals for reform, and this distance had to be covered time and again. A broad consensus, the essential condition for advancing along the democratic path, has been repeatedly questioned and had to be rebuilt along the way.

Circumstances have bestowed upon Brazilian social democracy, young as it is, the opportunity to lead this process. The results it has achieved so far can quite fairly be attributed to its boldness in charting a distinctive path for Brazil to follow through the storms of globalization and the wisdom to share this path as broadly as possible.

If “institutions matter” for developing countries, as eminent economists have recently discovered, the Brazilian experience of governance for change shows that the art of politics – the imponderable combination of conviction and compromise – is also of inestimable importance. Successes and obstacles in the implementation of progressive public policies in Brazil in recent years are, to a great extent, testimony of how successful social democracy has been in the exercise of this art.
The Brazilian economy must grow by roughly 5% per year over the next decade if it is to maintain the supply of jobs in line with the increase of its economically-active population.

Any development project that proposes to face up to the country’s social needs must bear this goal in mind. The macroeconomic scenarios and investment plans of the current government have been prepared taking this goal into account.

Effectively, growth of this order is inferior to that experienced between 1950 and 1980, at the height of the industrialization-by-import-substitution period, when the Brazilian economy grew more than 7% per year. From the income-per-capita viewpoint, however, the effect will be much greater, since population growth is currently slowing and currently stands at 1.5% per year, just over half of the rate experienced during the 1950s. Similar reasoning applies to the relationship between the increase in the economically-active population and the level of employment.

To sustain economic growth at a level of 5% per year is an ambitious goal by any standard. For a country such as Brazil, with limited domestic savings, it implies a truly extraordinary effort. The rate of investment must rise, from the current 20%, to 25% of GDP.

Roughly R$ 170 billion* of public and private resources will have to be invested over the next four years, simply to cover the needs identified for the expansion of the electric-power, transport, and telecommunications infrastructure.

However, for Brazil, growth in itself is not enough. It must also change the base upon which growth is to take place so that it can, at the same time, achieve positive integration with the world economy and reduce social and regional imbalances.

The Challenge of Growth with Structural Change

The cycle of development that lasted from 1950 to 1980 placed Brazil among the ten largest economies in the world, endowing it with a relatively well integrated and diversified productive structure. It made it possible to reduce levels of absolute poverty significantly, as can be attested by improvements in literacy levels, infant mortality, and life expectancy. In relative terms, however, it failed to alter, and perhaps even exacerbated, one of the most inequitable patterns of income distribution on the planet.

Some of the basic features of the import-substitution model explain the combination of rapid economic growth and the concentration of income: inflationary financing on which, to a large extent, the development efforts of the State were based; the high profit margins engendered by protection of the domestic market; massive transfers of public funds to private sector, in the form of tax incentives and subsidized credit; low incentives to invest in the training of labor.

The demise of this model, which endured throughout the 1980s, left its wake burden-
some problems. Inflation, feeding upon itself through an intricate system of price and wage indexation, rose to 1,000% per year, with catastrophic consequences for the distribution of wealth and the willingness to invest. Brazil’s increasing isolation from international capital and technology flows, which coincided with the new scientific and technological revolution and globalization, increased the technology gap between domestic production and world standards. Lacking organization and financially debilitated, the State ceased to invest enough for the maintenance, let alone the expansion, of infrastructure. From being the main engine of development, the State became the principal focus of the macroeconomic imbalances that fanned high in-

### Yearly growth of GNP, population and per capita income, 1950-1998

<table>
<thead>
<tr>
<th>Year</th>
<th>GNP Growth</th>
<th>Population Growth</th>
<th>Per Capita Income Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-1980</td>
<td>7.41%</td>
<td>4.51%</td>
<td>-2.78%</td>
</tr>
<tr>
<td>1981-1992</td>
<td>1.43%</td>
<td>1.90%</td>
<td>1.42%</td>
</tr>
<tr>
<td>1993-1998</td>
<td>3.52%</td>
<td>2.07%</td>
<td>-0.47%</td>
</tr>
</tbody>
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### 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 thousand kilometres of interstate highways and 3,000 kilometres of railways; and install 11 million new fixed telephones and 9 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 four-year 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% of the total investment in electric-power, oil, transport and telecommunications over the 2000-2003 period is to come from private sources.

It was in this inhospitable terrain that Brazil, in the early 1990s, had to face up to a transition to a new economic model, characterized by opening up of the economy and leadership of the private sector. It is with a view to consolidating this model, thereby allowing the country to resume its path to development in conditions that fulfill the needs of historically excluded regions and social segments, that Fernando Henrique Cardoso has led the country, first as Finance Minister, (since 1993) and later as President (since 1995).

This task, which remains as yet unfinished, amounts to no mean feat, for a series of reasons that range from liabilities inherited from the previous period to the vicissitudes of achieving integration with the world economy in adverse conditions.

The persistence of chronic high inflation meant that the restructuring of the economy had to be carried out in parallel to the implementation of a monetary stabilization plan. Economic policy had thus to conciliate two often contradictory demands, in a context characterized, above all, by a shortage of domestic savings. The expansionary effects of the drastic fall of inflation on public spending and on private consumption further exacerbated this difficulty.

The stabilization process with structural change coincided with increasing volatility of the international capital market (the Mexican crisis in 1995, the Asian crisis in 1997 and the Russian default in 1998), which principally affected those countries that were most dependent upon foreign savings. Brazil also suffered, along with all developing countries, from the effects of asymmetrical trade rules and practices governing access to foreign markets.

It is thus hardly surprising that the costs of structural reform of the economy have turned out to be higher than had initially been imagined.

At the same time that accounts must be settled with the past, the consolidation of the new development model has sought to improve Brazil’s prospects for participating in the world economy.

The response to this set of challenges, on the part of the Cardoso’s administration and the coalition that provides its congressional support, has been an effort to rebuild State institutions and reform the economy on a scale without precedent in the history of democratic Brazil. In the course of this process various changes have been carried out simultaneously and concomitantly, though not always at the same speed: from a high inflation economy to a stable economy; from a closed economy commanded by the State to an open economy lead by private sector; from an entrepreneurial State to a regulatory State; from structurally maladjusted State to a balanced State; from a State that induced inequalities to a State that fosters equality of opportunities, and so forth.

All these changes are aimed to meeting the requirements for sustained growth and reduction of income inequalities: low inflation, high productivity, adequate domestic savings, redistributive public expenditure.

The greatest of all challenges has been to make changes occur in a convergent manner and take root in society, by ensuring that natural short-term differences in interests or opinions can be resolved by democratic means through negotiation and persuasion.

THE REAL PLAN DEFUSES THE INFLATIONARY SPIRAL

Between June 1980 and July 1993, inflation in Brazil reached an annual level of 1.110%. Any further effort to reorganize the economy was doomed so long as inflation raged out of control. The Real Plan brought in a new currency in June 1994,
dismantled the complex system for price and wage indexing, thereby enabling inflation to drop to an annual level of 12.6% up until June 1999 (and 6.2% in the past twelve month, even after incorporation of the effects of the exchange devaluation that occurred in January).

Price stability was the point of departure and remains the primary condition underpinning the changes currently underway in the Brazilian economy.

The drastic and sustained drop in inflation revealed Brazil's greatest asset in its struggle to achieve economic competitiveness with social equity: its vast domestic market.

High inflation rapidly corroded incomes, especially of the poor who had no access to the indexing mechanisms to defend themselves from its ravages. The end of the “inflationary tax” and the increase in real wages brought 30 million Brazilians into the consumer market. The proportion of the population described as poor, which had been 44% in 1993, dropped to 34% in 1997. The positive social effects of stabilization have remained, despite the difficulties the Brazilian economy has since suffered as a consequence of financial crises abroad.

With the achievement of price stability, a broad-based program of market reforms, the main features of which were consolidation of the open economy and privatization, was able to advance and produce the desired effects in the economic system.

An adjustment aimed at reducing costs, typical of the reaction of companies to the earlier phase of the opening of the economy, gave way to a renovation of the machines and equipment, the installation of new plants and the pursuit of internationally-competitive scales of production. The positive effects of this investment cycle, slowed down but not suspended as a consequence of the external crises, have yet to come on line.

From 1992 to 1998, the rate of gross fixed capital formation rose, from a threshold of 14%, to 18% of GDP (at fixed 1980 prices). Imports of capital goods increased from less than US$ 5 billion, to US$ 16 billion over the same period. Inflows of foreign direct investment, which had withered in the 1980s, began to flow in increasing volumes. From less than US$ 1 billion per year between 1990 and 1993, such investments soared to US$ 26 billion in 1998, and to US$ 31 billion in the twelve-month period ending in September 1999. Between January 1994 and September 1999, a total of US$ 82 billion entered Brazil, a sum surpassed only by China, among the so-called “emerging” economies.

The opening of the economy resulted in significant technical-efficiency gains. Between 1991 and 1997, total productivity increased at an average rate of 3.3% per year, far higher than in OECD countries. There were also gains in the efficiency of allocation, as productive investment migrated to industries in which Brazil enjoys greater comparative advantages and competitiveness in international trade.

The intensity of the transition from a closed economy, which had predominated for roughly sixty years, to an open economy, can be measured in terms of the expansion of Brazil’s foreign trade, that increased from US$ 50 billion in the late 1980s to over US$ 100 billion in 1998. This surge in trade, under the conditions described, occurred at a cost. However, the new pattern of specialization which has begun to characterize Brazilian industry has strengthened prospects for integrating the country into the world economy.

The increase in imports, necessary for the maintenance of price stability and to increase productive efficiency, did not result in a decline in the industrial structure. On the contrary, in the great majority of industries, it was accompanied by increased exports, albeit for the moment at a slower
rate, even among technology-intensive indus-
ttries, thus pointing to a pattern of spe-
cialization within industries, rather than
among industries. Moreover, the increase
in imports cannot be regarded as explosive
as the ratio between imports and domestic
industrial production remains around 20%,
which is a comparatively low level.

IN PURSUIT OF COMPETITIVE INTEGRATION

The government has not been a passive
spectator in face of changes in the pattern
of specialization of the Brazilian economy.
Rather, it has actively sought an appropri-
ate space for integrating the country into
world trade and the system of international
relations. To this end, a new industrial and
foreign trade policy and the exercise of
positive presidential diplomacy have been
two basic instruments.

The industrial and foreign trade policy
currently being implemented have aban-
doned the protected markets and provision
of subsidies that characterized the former
development model. This does not, how-
ever, imply the adoption of neo-liberal
minimalism. Essentially, it seeks to ensure,
to the greatest extent possible, that local
producers enjoy the same conditions as
their foreign competitors, especially with
respect to the cost of capital, which in Bra-
zil is still subject to the inexorable pres-
sures of the stabilization process. In brief,
it does not seek to supplant the market,
but rather, to make it work better.

This policy focuses upon sectors, such as
steel, petrochemicals, paper and pulp, in
which Brazil has traditionally enjoyed
comparative advantages, and also those
that require high investments and ad-
vanced levels of specialization, as is the
case of capital goods for the telecommunications and oil industries. In these cases,
especially, the aim is to maximize invest-
ments in finished products while at the
same time making domestic production
of inputs and components feasible, thereby
increasing the local value-added compo-
ment and spreading technical progress
throughout the productive system. Fur-
thermore, it seeks to increase the contribu-
tions of small and medium-size companies
and to avoid geographical concentration of
productive activity. The automobile indus-
try provides a good example of the success
of this policy of avoiding industrial con-
centration. There are today vehicle facto-

Oil - from a State monopoly to regulated competition

In June 1999 the Brazilian government held tenders for oil exploration and production ar-
eas, in line with the opening up of the sector to private investment. Simultaneously, a Pro-
gram for the Promotion of Investment in the Oil and Gas Sector - PROPAG, was
launched, with financing provided in internationally competitive conditions by BNDES.

The aim of the program is 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 using 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 co-
ordinate and promote actions aimed at maximizing the development of the oil and gas
production cycles in Brazil.
ries in seven Brazilian states, as opposed to only two at the beginning of the decade.

One of the significant advantages that Brazil enjoys in its efforts to achieve competitive integration is the vibrancy of its scientific and technological establishment. Despite the relatively low volume of students enrolled in higher education, Brazilian research and post-graduate studies system dates back over thirty years and is ranked among the most successful in the developing world. These currently account for over two thousand masters and doctoral courses, catering for 80,000 students, with a faculty of 25,000. Brazil has an ambitious scholarship programme for masters and doctoral candidates, with resources of the order of R$ 650 million, benefiting roughly 38,000 students. Each year, approximately three thousand students graduate with doctoral degrees.

As measured by the number of papers published in internationally-recognised scientific journals, Brazil is among the top 20 countries in the world in the field of scientific production. The technological balance - in terms of technology imports vs. exports - has undergone remarkable growth, placing Brazil at the same level as Spain and Italy. The budgets of the three public agencies responsible for fostering scientific development amount to over R$ 1.2 billion.

For the implementation of its industrial and foreign trade policy, Brazil is also fortunate to have its own development bank - BNDES, the which has greater lending capacity than many international financial institutions. Between 1997 and 1998, BNDES disbursed loan volumes amounting to roughly US$ 20 billion per year, thereby providing support for the industrial restructuring efforts and for the export of high value-added and high-technology products.

The recovery of Brazil’s credibility stemming from the stabilization of its economy has opened up prospects for the exercise of presidential diplomacy as another means for securing Brazil’s insertion into the world economy.

Brazil’s foreign strategy involves the strengthening of the Mercosur customs union with Argentina, Uruguay and Paraguay - within a framework of open regionalism, characterized by a fairly low common external tariff and by efforts to increase trade with third-party markets and other economic blocks. Brazil’s trade with Mercosur countries increased from US$ 4.6 billion in 1991, to 18.3 billion in 1999. At the same time, Brazil has been engaged in strengthening the ties between Mercosur and other countries on the South-American continent (through the signing of free-trade agreements with Chile and Bolivia), and has sought to achieve balanced progress towards broader integration with other economic blocks, as in the case of the proposed Free Trade Association of the Americas and the free-trade agreement with the European Union. Brazil has thus sought to preserve its position as a global trader, maintaining significant commercial exchanges with all the great economic blocks, and has a diversified export portfolio in which manufactured products play a major role (accounting for over 50% of its exports).

**From the Entrepreneurial State to the Regulatory State**

Between 1995 and 1998, the Brazilian Privatization Program raised US$ 60 billion for the Federal Government and the 27 States, as against no more than US$ 8.6 billion between 1991 and 1994. The opening up of infrastructure sectors to private investment, and the resulting transformation from an entrepreneurial State to a regulatory State, constitute an essential element in the effort to consolidate the domestic bases for sustainable growth and a positive posture in relation to the world.
Initially, in the early 1990s, the Brazilian Privatization Program was limited to the industrial sector. It was later extended to include infrastructure. Today, telecommunications services are entirely in the hands of private enterprise. 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 enterprise has assumed control of all Brazil’s railways and port operations. Privatization has now spread to the generation and distribution of electric power and is taking its first steps in the basic sanitation sector.

In the public utilities sector, aside from the need to privatize companies, it has also been necessary to take measures to ensure the creation of competitive markets and of institutions capable of effectively regulating private operators. 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, decision-making independence (the terms of office of the directors do not coincide with that of the President of the Republic and directors cannot be dismissed, except in specific circumstances provided for by law), and are subject to the rules for public consultation and the disclosure of information. All this is designed to reduce the risk of the agencies being manipulated for political purposes or their falling prey to private interests, while preserving their capacity to enforce the laws governing market competition.

In an apparent paradox, privatization has created, for the first time in Brazilian history, the means to ensure effective public regulation of utility services. In the first half of the 20th century public utilities were predominantly provided by private operators, but 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 operated, in practice, thereby, avoiding any form of public control. With the advent of the regulatory agencies, consumers now have independent channels by which to submit demands or complaints. There is huge repressed demand for this type of channel, as was recently demonstrated by the intensity of the reactions from consumers and the media following the first failures that occurred after privatization of electric-power distribution and telephone services.

The degree of efficiency gains introduced through privatization may vary, depending upon the effective actions of regulatory agencies and of the consumers themselves.

Unquestionably, the inflow of private investment in infrastructure sectors has brought about efficiency gains. Time and cost savings in the operations of privatized ports, for example, have been remarkable, though they have yet to achieve the result of bringing Brazilian port operations into line with international standards. Above all, privatization has made it possible to fulfil the vast need for investments in infrastructure, which, owing to the State’s incapacity to provide investment, could not otherwise have been achieved. This is the vital issue, in view of its consequences in terms of the prospects for the expansion of the economy as a whole. And it directly benefits consumers.

### Investment in infrastructure, 2000-2003

<table>
<thead>
<tr>
<th>Service</th>
<th>Total investment (R$ billion)</th>
<th>Private Sector Participation</th>
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</thead>
<tbody>
<tr>
<td>Telecommunications</td>
<td>45</td>
<td>100%</td>
</tr>
<tr>
<td>Electric Power</td>
<td>52</td>
<td>86%</td>
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<tr>
<td>Oil</td>
<td>54</td>
<td>31%</td>
</tr>
<tr>
<td>Transport</td>
<td>23</td>
<td>52%</td>
</tr>
</tbody>
</table>


Telephone services provide a good example of the role of private enterprise in the
provision of universal services which, in the final analysis, affect the ability of Brazilians to exercise citizenship. The number of mobile telephones has soared, from 1.3 million in 1995, to 11.6 million in 1999. Though initially mobile telephones were considered a middle-class status symbol, in a short space of time they have proven an essential work tool for small businesses and free-lance workers, besides providing relief for homes that are still awaiting the installation of fixed landline services.

RESTRICTURING THE FINANCIAL SYSTEM

It has been estimated that revenues from inflation corresponded to over a third of the value of the production of Brazilian banks between 1990 and 1993. When inflationary revenues plummeted, the impact upon banks was dramatic. From 1994 to 1995, the financial sector’s share of GDP dropped from 12% to 7%.

The risk of a systemic crisis seemed imminent when the Central Bank intervened so as to avoid the failure of two of the country’s largest private banks. The government, faced with the crisis, took pre-emptive action. By means of a program for restructuring the private financial system - PROER, funds placed in compulsory deposits at the Central Bank by the banking network were used to finance operations for the transfer of ownership and/or reorganization of the stockholdings of institutions in difficulties. This pre-emptive assistance was complemented by measures to strengthen supervision and inspection by the Central Bank, an increase in the minimum capital requirement and a reduction of levels of leverage.

Over a third of the existing financial institutions were affected by the reorganization of ownership. The number of banks dropped from 273 in June 1994, to 233 in December 1998, and there was a significant increase in the number of foreign banks operating in the system.

Until the end of 1998, when the program, in practice, came to an end, R$ 21 billion had been disbursed through its account (this sum should not be confused with fiscal costs). These costs are paltry if compared to disbursements effected by other countries, as a proportion of GDP, to face up to the effects of systemic financial crises that effectively occurred.

<table>
<thead>
<tr>
<th>Year</th>
<th>Loans/GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>1982</td>
</tr>
<tr>
<td>Chile</td>
<td>1985</td>
</tr>
<tr>
<td>Colombia</td>
<td>1985</td>
</tr>
<tr>
<td>Norway</td>
<td>1988-92</td>
</tr>
<tr>
<td>Finland</td>
<td>1991-93</td>
</tr>
<tr>
<td>Sweden</td>
<td>1991-93</td>
</tr>
<tr>
<td>USA</td>
<td>1991</td>
</tr>
<tr>
<td>Venezuela</td>
<td>1994</td>
</tr>
<tr>
<td>Brazil</td>
<td>1995-98</td>
</tr>
</tbody>
</table>

The opposition, to this day, disparages PROER as “donation of public funds to failed bankers”. In fact, it made it possible to restructure the Brazilian financial system without trauma, and was necessary for the preservation of the positive developments achieved through price stabilization. It preserved Brazil from the damages caused to the real economies of other countries by a wave of bankruptcies among financial institutions. It left the financial system in better shape to perform its role of providing credit, and less vulnerable to external shocks. In the light of the recent experiences of some Asian countries, this has proved to have been no mean feat.

THE STRUGGLE FOR FISCAL ADJUSTMENT

The structural adjustment of public accounts is an essential counterpart to price stabilization, industrial modernization, privatization, and the restructuring of the financial system, in order to provide support for the growth potential of the Brazilian
economy. Unless a new fiscal regime is consolidated, interest rates will remain under pressure and the scarcity of domestic savings (currently around 18% of GDP) will continue to hamper production growth and domestic consumption.

Price stability has put into stark focus fiscal distortions of a structural nature, which had previously been veiled by the corrosion of the real value of public spending and the indexation of public revenues.

Defusing the social-security time bomb

The greatest of these distortions is the size and rate of growth of the social-security deficits. The gap between social-security revenues and the benefits paid out to public-sector employees (of the Federal, state and municipal administrations) amounts to roughly 3% of GDP, and must be filled by taxes paid by society as a whole. Social-security accounts for private-sector workers, which had presented a surplus amounting to 1% of GDP at the beginning of the decade, showed a deficit of 0.9% in 1999, which is set to double over the next fifteen years, and will continue to grow if nothing is done to stem the problem.

The Constitution promulgated in 1988 was generous in the awarding of social-security benefits. The increase in the number of workers without a formal work contract, who do not therefore subscribe to social-security, and, above all, the rapid ageing of the population, represent burgeoning threats to the balance of the system.

Defusing the social-security time bomb has become the most arduous battle front in the construction of a fiscally balanced system.

The possibility of a radical reform, in which the current pooled system would be replaced by a capitalization system, has been discarded owing to the vast financial costs associated with bearing the existing stock of benefits and collected contributions. The impact upon the public debt, estimated in an IMF study to amount to three times the Brazilian GDP, would be incompatible with the goals of consolidating economic stability and the resumption of sustainable growth.

The path of gradualism has been adopted, and moderate success has been achieved in the struggle to alter the course of the social-security juggernaut.

Brazil was one of the few countries to guarantee retirement benefits taking into account time of service only. An amendment to the Constitution has made retirement conditional to time of contribution to social security. A Bill currently before Congress proposes to include life expectancy at the time of retirement into the calculation of the value of benefits. In this way, the ominous trajectory of the deficit of the social-security system may be forced to grow at a slower rate, stabilizing at 1.3% of GDP as of 2015.

Another important aim of the reforms is to extend social-security coverage to a vast contingent of workers – roughly 19 million people, most of whom are domestic servants or free-lance workers, who currently do not enjoy any form of social protection. Several measures have been adopted to encourage such people to subscribe to social-security, including the extension of maternity benefits to all women who subscribe, without requiring a grace period.

Growth in the deficit of the social-security system for public servants has been trimmed through the introduction of an age criterion for the granting of retirement benefits. Nevertheless, this system absorbs fiscal resources that are sorely required for the maintenance of basic social services. One palliative solution—a tax on pension of retired workers whose benefits amount to more than their wages when they were working—is currently the subject of negotiations between the federal
government, the state governments and Congress.

A structural solution to the issue of social security for public-sector workers would have to involve the establishment of complementary pension funds, so that the State could limit its liability to ensuring retirement in the same conditions as are the right of private-sector workers. This process is already underway, and the capitalization of such funds is to use resources from privatization of state companies (which is a rich vein of revenue for the states).

Voluntary complementary social-security for private-sector workers has been encouraged, through measures that strengthen supervision and stimulate competition in the market for complementary social-security plans open to the general public, i.e., not linked to any specific employment situation.

The multiple roots of the deficit

Reform of the social-security system lies at the heart of the construction of a new fiscal system, but is not its only feature. This is a battle that must be fought on various fronts, given the scope and the depth of the role historically assumed by the State in Brazil. State-owned companies and financial institutions, whose numbers rose continually up until the end of the 1980s, became a powerful factor in promoting fiscal imbalances. Furthermore, roots of these imbalances are not restricted to the federal level. They also afflict the 27 states and have ramifications extending to the more than 5,500 municipalities, as these spheres of government enjoy financial autonomy in budgetary matters and are recipients of roughly 45% of total tax revenues.

A program to provide support for the restructuring of banks controlled by the states – and which in many cases has been irresponsibly used to increase public debt – has resulted in their losing ground within the financial system. Of the 35 institutions belonging to the states in existence in 1990, only nine remain, and these have been duly restructured by their controllers. Ten such institutions were 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 have been transformed into development agencies, without access to bank reserves; and five have been or are currently through the process of extra-judicial liquidation.

As a counterpart for taking over the debts of the states, the federal government has made them sign contracts that impede them from contracting new debts, oblige them to conduct fiscal adjustment programs and divest their assets, so as to attain goals designed to reduce their debt/revenue ratios, while imposing penalties in the case of failure to comply with their commitments.

A federal law has been approved that establishes the bases for a two-pronged process for reform of the public administration: greater control of federal, state and municipal personnel spending and modernization of management methods. To achieve this it was necessary to change a provision in the Constitution that had ensured all public servants job security comparable to the life employment guarantees granted to judges.

A pact for fiscal responsibility

In brief, by means of structural reform in the field of public finance, some of the principal automatic mechanisms for feeding the public deficit have been defused, and the actions of institutions, typically state banks, that historically had financed the unsustainable imbalances in public accounts, have been circumvented.

The corollary to this process – for the consolidation of which a deeper reform of the social-security system for public ser-
vants is still lacking – will be the new Fiscal Responsibility Law.

The Fiscal Responsibility Bill, currently before Congress, establishes limits and adjustment rules for principal variables in public finances. Executive office holders, at the three levels of government, are committed to pursue sustainable fiscal policies, and are held accountable to their respective Legislatures. It imposes rules for transparency for the disclosure of information relating to public accounts and submits managers to ordinary laws which define punishments, including loss of public office, to those who infringe upon the requirements of procedures associated with transparency and accountability in fiscal management.

The effects of the reforms carried out so far and those currently underway will become increasingly apparent with the passage of time, and will help to ensure the long-term balance of public accounts and provide more favorable conditions for fostering domestic savings. This is the keystone of the new standards for development financing, within the framework of an open and stable economy, replacing the pattern that prevailed under the previous model, characterized by high profit margins made possible by a closed economy, compulsory savings provided by means of large State-managed funds, and inflation itself.

Seen from another angle, this set of reforms amounts to a veritable cultural revolution in a country where, until recently, combating the public deficit was generally regarded, not merely as unnecessary but, indeed, counter to the interests of development and social well being.

In Brazil no other theme lends itself so aptly to the well-known remark of Max Weber’s, that “politics is like the slow sawing of tough boards. It requires passion as well as perspective”. The perception that boards have been sawed and the foundations of a sustainable fiscal system laid down, has created the conditions necessary so that an economy in an advanced stage of restructuring advance smoothly along the road to sustainable growth.

**READY TO GROW**

Despite all advances achieved in the process of stabilization and reform, the conditions under which it took place have not, as yet, allowed economic growth rates compatible with the country’s needs. GDP has reacted positively, it is true: between 1993 and 1998 it expanded on average 3.5% per year, as opposed to only 1.4% between 1981 and 1992. Per capita income, which had fallen 0.5% in the earlier period, grew 2.1%. This year, however, growth will be zero or close to zero. Unemployment has increased, though not explosively: it has risen from 5% of the economically active population in 1994, to 7.6%, according to the most recent data available.

This cost cannot be understated. The most important point, however, is that the country has overcome the critical transition phase to an open economy, and has expanded the conditions necessary for long-term 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 adjust its economic policy adopting a system of floating exchange rates and taking more radical measures to achieve fiscal adjustment. This correction in the course did not, however, imply that it had lost either the ballast of stability or the goal of resumed development.

The change in relative prices in the economy resulting from exchange devaluation did not bring on a resurgence of inflation. The Expanded Consumer Price Index – IPCA, used as a policy tool to measure current inflation, places it at roughly 8%. The social gains stemming from stability have, for the most part, been preserved, as has been demonstrated. There have been
no crises in the financial sector and the productive sector has reacted better than had been expected: initial predictions had indicated that GDP would decline by as much as 6%.

In view of the productive restructuring that has already been carried out, the new configuration of relative prices is substantially favorable to exports and the production of substitutes for imports. The conditions have been laid down in preparation for a new prolonged development cycle, with lower unemployment rates.

The lessons of the recent past do not allow us wager that this favorable scenario will materialize without making a final reservation: for a country such as Brazil, it is no longer enough simply to have “done the homework” since vast asymmetries persist in the prevailing conditions of international trade, and if progress is not achieved in the construction of a new architecture for the global financial system.
The weight of the recent colonial past, marked by the institution of slavery, largely explains why Brazil still has disgraceful levels of poverty and inequality, even after becoming the tenth economic power of the world.

The last country in the world to free its slaves in 1888, Brazil entered the 20th century burdened by the heavy legacy of slavery. Freed, but without rights the ex-slaves and their descendants formed the first great mass of excluded Brazilians. As slaves, they stood on the lowest rung of the social ladder, but they were at least a part of society. Freed, they had no status at all. They became invisible. Up to the 1940s, this large marginalized contingent was not even noticed by Brazilian society. It was not recognized under the Constitution nor was it included in public policies.

Until today a high price has been paid for this legacy: though half of the Brazilian population is white, 69% of the poor and destitute are black and mestizo. Three centuries of slavery created a mentality of indifference to inequalities, violence and exclusion, which only during the second half of this century began to be checked by a new middle class and by the popular urban masses.

The system of “colonial provinces” which the Portuguese crown established to maintain control over Brazilian territory, also left land ownership in the hands of a few, forming over more than four centuries the basis for the social hierarchy. Half of the 350 million hectares of arable land in Brazil forms less than 2% of rural properties.

The methodical construction of inequalities

No country grew more between 1880 and 1980 than Brazil, except for Japan. Brazil also went through one of the most rapid processes of urbanization. In 1950 almost 70% of the population of the country lived in rural areas. Today, 80% of the 165 million Brazilians live in the cities.

At the end of World War II, democracy was restored. In the 1950s, the people joined in a more widespread discussion of the land question. The military coup d’état in 1964, however, interrupted this process for almost 25 years.

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 America 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.
Instead of dividing up the land, the authoritarian regime chose to stimulate the modernization of the large landed estates by offering cheap and abundant credit and encouraging cattle raising and cultivation of “commodities”. The accelerated mechanization of agriculture and the highly subsidized and readily available credit during the 1960s and 1970s meant that the small properties were absorbed by the medium and large sized properties. Millions of rural workers and their families were expelled from the countryside and forced to move to the large cities. The cities in turn were unable to provide at a sufficiently fast pace the basic needs of housing, sanitation, transportation, health and education. Immense poverty belts have been formed along the periphery of the large metropolitan areas.

The “economic miracle” of the 1970s was also incapable of eliminating poverty and destitution, though it did to a certain degree help to reduce it. Even less was accomplished during this period to narrow the gap in the tremendous inequalities of wealth and income; the situation even became exacerbated. Some social groups shared none of the benefits of this “miracle”: masses of landless rural workers, increasingly poorer and indebted small rural landowners and groups of marginalized urban workers.

The social problems became worse during the “lost decade” of the 80s: the numbers of poor and destitute rose, inequality increased and some segments of the middle class and the lower class became more vulnerable, particularly those dependent on the Government and its action. Today, half of the nation’s total wealth is in the hands of only 10% of the population. The average income of this wealthiest 10% represents almost 30 times the average income of the poorest 40% - certainly one of the highest concentrations of income in the world.

The result of these processes as a whole and the combination of these processes is a complex and diverse structure leading to exclusion and social vulnerabilities, which need to be met by a similarly diverse set of public policies. Without any illusion as to the possibility of reforming in a mere five years a society which spent 500 years as an unjust and unequal one. It will be a long road but the first steps are being taken.

THE GREAT GOALS

1. To fight poverty and social exclusion

Almost 15 million Brazilians - one tenth of the total population - live at extreme poverty level, what means they don’t have enough income to buy a basic foodstuffs basket. The rural areas are the poorest of the country: although only 20% of all Brazilians live in these areas, 38% of the destitute live there. The enormous regional imbalances also contribute to the configuration of social exclusion.

The Northeast is the poorest of the five regions in Brazil. Though 30% of the total population of the country live there, but 58% of all destitute live in that region. In addition to historical inequalities, the Northeast has the disadvantage of having almost half of its territory located in areas with a semiarid climate. Half of the Northeast population - 26 million - lives in this region, more than 10 million of them live in rural areas. It is the most densely populated semiarid region in the world. The frequent and lengthy droughts and the fragile economic base resulting from an archaic land structure were responsible for centuries of destitution in the region. Illiteracy of nearly half the rural population consolidated exclusion. The income of the rural Northeast is a mere 29% of the national average.

The indifference of the Brazilian elite to the education of the masses is the most perverse facet - as it is self-propagating - of social injustice. In the past thirty years,
the illiteracy rate fell by one half. Still shocking is the fact that on the threshold of the 21st century, 15% - or nearly 15.9 million - of the population over 14 years old of Brazil are illiterate. This acute backwardness puts Brazil at a disadvantage even within Latin America, and is the main obstacle to be surmounted to reduce poverty and exclusion over the long term.

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

<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>1993</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Million</td>
<td>%</td>
<td>Million</td>
</tr>
<tr>
<td>Total</td>
<td>61.3</td>
<td>44</td>
<td>62.6</td>
</tr>
<tr>
<td>Metropolitan</td>
<td>17.6</td>
<td>41</td>
<td>19.8</td>
</tr>
<tr>
<td>Urban</td>
<td>26.0</td>
<td>40</td>
<td>28.0</td>
</tr>
<tr>
<td>Rural</td>
<td>17.7</td>
<td>57</td>
<td>14.8</td>
</tr>
</tbody>
</table>

Source: Sônia Rocha, IPEA/RJ, based on Family Budget Research (1987/88)

### Indigence: absolute number and proportion of the total population

<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>1993</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Million</td>
<td>%</td>
<td>Million</td>
</tr>
<tr>
<td>Total</td>
<td>24.1</td>
<td>17</td>
<td>23.5</td>
</tr>
<tr>
<td>Metropolitan</td>
<td>5.3</td>
<td>13</td>
<td>5.7</td>
</tr>
<tr>
<td>Urban</td>
<td>8.5</td>
<td>13</td>
<td>9.1</td>
</tr>
<tr>
<td>Rural</td>
<td>10.2</td>
<td>33</td>
<td>8.7</td>
</tr>
</tbody>
</table>

Source: Sônia Rocha, IPEA/RJ, based on Family Budget Research (1987/88)

### Literacy situation of population over 15 years old, by age group, 1997*

<table>
<thead>
<tr>
<th></th>
<th>Total (million)</th>
<th>15 a 19 years</th>
<th>20 a 24 years</th>
<th>25 a 29 years</th>
<th>30 a 39 years</th>
<th>40 a 49 years</th>
<th>50 years and over</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>108.0</td>
<td>16.6</td>
<td>13.5</td>
<td>12.3</td>
<td>23.2</td>
<td>17.6</td>
<td>24.8</td>
</tr>
<tr>
<td>Illiterate (million)</td>
<td>15.9</td>
<td>0.9</td>
<td>1.0</td>
<td>1.1</td>
<td>2.4</td>
<td>2.7</td>
<td>7.9</td>
</tr>
<tr>
<td>Illiteracy (%)</td>
<td>14.7</td>
<td>5.7</td>
<td>7.1</td>
<td>8.6</td>
<td>10.2</td>
<td>15.2</td>
<td>31.6</td>
</tr>
</tbody>
</table>


(*) Not included rural population from the states of Rondônia, Acre, Amazonas, Roraima, Pará and Amapá.
The health statistics reveal another shocking side of social backwardness. Infant mortality rates in Brazil do not correspond to its economic level: 36 per 1000 live births. In the rural areas of the Northeast, the infant mortality rate is four times higher than in the urban areas of the Central South.

The social statistics also reflect the timeless marginalization that Afro-Brazilians have been subjected to. Illiteracy among whites is 9% and 22% among blacks and mestizos. On the average the white population has attended school for 6.2 years while African descendants have 4.2 years of education. Infant mortality, unemployment and lack of access to sanitation services also affect the black and mestizo population more than the white population. When employed the blacks receive half the salary earned by whites.

A New State to promote social justice

If Brazilian society is unjust, the State, being at the same time part and the synthesis of society, has been the main link in the chain of perpetuation of that injustice. To break this chain and place the State at the service of improving the living conditions at the base of society is the greatest challenge for Brazilian democracy.

Contrary to the general idea, the Brazilian government has a relatively broad, complex and costly system of social welfare. Today at various levels of the government, this system spends 21% of GDP. It accounts for one of the highest social expenditures in Latin America, as a percentage of GDP, and is higher than the average of those countries in the world at the same economic stage, and higher than the average spent of developed nations when they were at an economic stage similar to that of Brazil today.

Instead of a solution, however, this onerous system is a fundamental cornerstone of the Brazilian social problem. Despite the significant effort made by society to finance the system, it has been extremely inefficient, ineffective and has little power to promote income redistribution. A comparison with other countries confirms this: While in Chile, for example, 36% of the expenditures on health, education and housing benefit the poorest 20% of the population, and only 4% benefit the wealthiest 20%, in Brazil only 15% of the resources benefit the poorest 20% and 21% benefit the wealthiest 20%.

The conclusion is inevitable: the government transfer of funds has helped to perpetuate the unjust distribution of Brazilian income.

Social expenditure as a percentage of GDP - Latin America - 1998

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>20.9%</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>20.8%</td>
</tr>
<tr>
<td>Panama</td>
<td>20.0%</td>
</tr>
<tr>
<td>Argentina</td>
<td>18.6%</td>
</tr>
<tr>
<td>Chile</td>
<td>13.4%</td>
</tr>
<tr>
<td>Mexico</td>
<td>13.1%</td>
</tr>
</tbody>
</table>

The strategy to diminish inequalities

The necessary although not sufficient conditions for the social development strategy of the Cardoso's administration have been outlined above: macroeconomic stability, growth at a rate fast enough to create jobs and to significantly improve the basic stage of well being of the population; State reform, focusing on that which it can and must do; consolidation of democratic institutions.

The federal government on its own is incapable of solving the complex problems connected to the Brazilian social question. For this reason it attempts to work in conjunction with the other two levels of government - states and municipalities - and with the various sectors of civil society: firms, universities, churches, NGOs. These partnerships are indispensable to the success of the process of decentralization of the public policies on course, which re-
quire stronger social control over its expenditures and results.

Based on this set of conditions and principles, the social action of the administration was organized around four focal points: an extensive reform of the basic social services under State jurisdiction, a quantitative and qualitative improvement in job opportunities and earning power; specific policies for rural areas and actions and programs focused on alleviating the most acute poverty over the short term.

2. Raising the income level of society

The resumption of sustained economic growth is essential to reduce the inequalities and to promote social progress. Without economic growth, there is no way to implement active social policies: there is no generation of jobs and the reduced per capita income and government revenues limit the direct actions of social promotion.

Although the model of development that came to end in the latter 80s did raise the average standard of living of the population, it led to wealth concentration, so much so that social inequalities increased and significant numbers continued to be destitute and poor. The economic stagnation of the 80s blocked the recent gains made in the standard of living and accentuated exclusion. The dispute between classes intensified and it was not by chance that inflation rose at increasingly higher rates, meeting with failure at all attempts made to control it.

We saw that the price stabilization attained with the Real Plan as of 1994 resulted in significant gains in the income at the base of society. The purchasing power of salaries increased. More than 11 million Brazilians crossed over the poverty line. Almost 30 million shared in the market of durable consumer goods. This progress was detained but not reversed by the repercussions of the external financial crises on the Brazilian economy. It will be possible to resume this progress once the economy re-enters the path of growth in the year 2000.

Restructuring of production and increase in productivity

The decade of the 1990s was marked by profound changes in the Brazilian labor market. The immediate impact once the economy opened up and production was restructured was a decrease in the job opportunities available and a greater demand for skilled labor, due as much to technological reasons as to changes in organization and management.

Similar to other countries that went through this process, the technological

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 enterprise. While 19 million retirees and individuals from the private sector will receive in 1999 social security benefits totaling 5.8% of GDP, only 2.6 million inactive public servants and family members on pension will receive the equivalent of 4.3% 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% of the total spent on social security go to the poorest 20%. More than 30% goes to the wealthiest 20%.
component of the restructuring of production demanded new and more flexible skills, lowering the demand for unskilled manual labor. The organizational restructuring led to the abolition of intermediary occupational categories. The increase in competition and the macroeconomic stability led some sectors, especially the banking sector, to cut back on the number of employees. These two trends in restructuring created the phenomenon of hiring by subcontracting, which led to an increase in workers employed without formal work contracts.

In general terms, there was a decrease in the number of those employed in the transformation industry, but this shrinkage was partially compensated by the expansion of the services sector.

The new standard of competitiveness in Brazilian industry triggered an especially intense reaction during the first half of the 90s, with work productivity growing at an average rate of 7.5% annually. During the 80s, industrial productivity had practically reached a standstill, growing at 2% per year.

Brazil needs to generate more than 20 million job opportunities by the year 2015 in order to respond to the growth of the work force. To create this number of jobs inside a scenario where the ratio between product growth/generation of jobs becomes less favorable is the most relevant strategic problem for the country.

The increase in work productivity is, on the other hand, the fundamental condition necessary for the distributive conflict between capital and work to avoid becoming, within the framework of democratic institutions, a no win situation, but one which produces more favorable results to increase the bottom income level of society.

Employment and income policies

No magic formula will generate jobs and income. Creative and innovative solutions can be produced, however, by coordinating on numerous fronts the actions of the government and of society. This is the emphasis given by the Cardoso’s administration.

Institutionally, efforts are being made to simplify and unharness the existing overregulation, which inhibits the offer of new jobs, and to modernize the system of labor relations, wagering that stronger unions and free collective negotiation will lead to the solution of conflicts.

A roster of initiatives on course is designed to reduce the nonwage-related costs of work and to introduce new forms of hiring. The reduction in the welfare related charges would help lower the “Brazil cost”, stimulate businesses to hire more employees, and above all, make workplace relations more contractual, so as to include all workers in the social security system.

Notable among other initiatives are the institution of work contracts for limited time periods; the legalization of overtime, which allows for the adjustment of work schedules to seasonal and cyclical variations in production; the regulation of part-time work; and the temporary suspension of work contracts, which provides for training the worker during a fixed period following his dismissal.

The active policies to generate jobs and income were developed in three areas: microcredit programs, agrarian reform and assistance to single family agriculture and professional training.

The transformations in the labor market tend to exclude lesser skilled labor, as training becomes the principal factor in determining whether one is hired and retains the job. In 1991 workers with little schooling represented almost 39% of the active work force and, in 1998, only 27%. During the same period, workers with nine to eleven years of schooling raised their participation in the active work force from 21% to 28%.
In his first year in office, Fernando Henrique Cardoso established the National Program to Train Workers, financed with resources from the Workers’ Assistance Fund. The program operates in two areas: sectors having greater potential to create jobs, such as tourism, civil construction, handicrafts, fishing, agriculture and cattle raising, personal and cultural services, micro and small businesses; and groups in critical situations, such as the unemployed, workers threatened to be laid off, small and micro businessmen, women, children, blacks and the handicapped.

Carried out in a decentralized manner in conjunction with the state governments, public associations, the syndicates and NGOs, the program operates in 2,600 municipalities, 500 of which are among the poorest in the country. From 1995 to 1998, 5.5 million workers were trained at a cost of R$ 1.1 billion. In the next four years, the goal is to train an additional 17 million workers.

Also created by the Cardoso’s administration, the micro credit programs are oriented toward financing micro and small businesses and toward providing technical and managerial assistance to projects of social interest. As a whole between 1995 and 1998 these programs loaned nearly R$ 6 billion in more than one million financing operations. In the next three years, the small and micro borrowers will have more than R$ 8.3 billion at their disposal.

The new rural world

The Cardoso’s administration is at the helm of the greatest program of agrarian reform in the history of Brazil. Nevertheless it is clear that on the threshold of the 21st century, solutions of the 19th century cannot be adopted even for a problem which belongs to the 19th century. Active and powerful popular organizations such as the Rural Landless Workers Movement (MST) have a positive role to play, as long as their leaders keep anticapitalistic and totalitarian tendencies in check and accept discussing more modern ways to solve once and for all the question of access to land.

Despite the unheard of number of expropriations and settlements of landless workers, at no time did the government attempt to resolve the land problem by using only these classic instruments of reform. In addition to maintaining the speed of land expropriation, during his second mandate Fernando Henrique Cardoso proceeds to emphasize complementary actions and to integrate the settlement of the landless farmers to local development plans. The objective is to create and consolidate new land restructuring initiatives, based on the principles of decentralization, participation, integrated actions, the emancipation of the settlers and the diversification of the democratic instruments and models of land access.

Agrarian reform in numbers

It is estimated that there are approximately five million landless rural workers in Brazil. Between 1995 and 1998, 285,000 families received plots of land and 14.24 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 governments, 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 four years surpasses by 60,000 the number of settlements made by all previous governments.
Initiatives such as the Land Bank and the Casulo Project (Cocoon Project) are additional alternatives for agrarian reform, contributing to the indispensable economic insertion of the new landowners that as any entrepreneur, need to be efficient, learn modern techniques, use technology, in effect, become competitive. Otherwise actions for agrarian reform would only perpetuate poverty in the rural areas.

Recently created, the Land Bank is a fund for financing the purchase of land, and will be managed by the BNDES (The National Bank for Economic and Social Development), under the orientation of a council also comprised of rural worker representatives. The letter of cooperative credit is an innovation which complements traditional intervention and is integrated to the market with no links to the State during all phases of the process, from the selection of land to be purchased to the final closing. Thus it truly represents a new model of land policy.

Based on this model, instead of direct intervention by the State, the organized community goes to the market, chooses the land, procures the land credit and drafts its development projects. The economic and social results certainly are higher than those of the conventional model are, since the producer and his association assumes from the beginning entire responsibility for the management of the undertaking.

Another innovative experience is the Casulo Project that prioritizes establishing a decentralized model of land policy involving all concerned parties. City and state governments register landless farmers and identify the municipal and state public lands, which are available or can be purchased. The federal government guarantees the credits and shares the financing for the social infrastructure with the other partners.

Whatever the instrument used, the democratization of access to land is an inseparable part of the policy for rural development.

Enhancing the role of the small producer

The priority for the coming years is to finance investments which will allow the small farmer, including the families settled under agrarian reform, to improve his capacity to compete in the marketplace, by diversifying and verticalizing his production within the local structure. It is hoped

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**Strengthening Single Family Agriculture**

Created by the Cardoso’s administration, the Single Family Agriculture Strengthening Program - PRONAF supplies credit with low interest rates to the 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 be invested, such as in the purchase of machinery, agricultural equipment, production goods and other infrastructure items which are essential to the undertaking. The maximum amount of financing ranges between R$ 5,000 for covering production costs and R$15,000 for investments.

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

One of the major initiatives of the government 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
that local vocations will be used to their maximum to identify niches, based on the current panorama of the agricultural and cattle raising sector, where the production of the small farmers can be inserted. Thus capable of producing in order to invest, the small farmer will also create a base for a sustainable production of foodstuffs.

This guideline implies establishing credit lines corresponding to the specific situation of single family agriculture. From 1999 to 2002, the credits available for agrarian reform and the small rural property should total at least R$ 4 billion per year. The government will channel about R$ 2 billion during the period to implement the local infrastructures.

Special emphasis is also being placed on the creation of rural employment not dependent on agriculture. The resurgence of tourism and the so called hinterland culture is an important source for job opportunities and income, especially in the emerging markets of ecotourism, sport fishing, leisure for senior citizens, farm hotels, social and nautical tourism.

THE GREAT CHALLENGES

1. Making basic social services universal and improving their quality

The present government began an extensive reform of the basic social services falling under the jurisdiction of the government. Fernando Henrique Cardoso defends the idea that in Brazil’s case the State should play a major role to offer these services, which are the responsibility of the government but not necessarily of the state governments. Included in this definition are basic education, basic health services, sanitation, low-income housing and basic social security.

In addition to making these services available to all as well as to improving them, this reform is designed to meet the greatest and most difficult challenge of all, that of restructuring the benefits to increase their redistributive impact. The challenge is much more political than technical: on one hand, there is a set of rights to be respected; on the other, there are privileges which must be abolished.

To generalize education, increase school attendance and improve the quality of instruction

The backward, decades old educational system and the low average schooling of the Brazilian population are largely responsible for the social inequalities. This is proved by the fact that 45% of the heads of poor families never attended school or left school before completing one year of study. The disregard for education also exacerbated regional inequalities. In 1995, the Brazilian of the Northeast, the poorest region in the country, had on the average attended school for four years, two years less that those living in the Southern and Southeastern regions.

When he became president in 1995, Fernando Henrique Cardoso chose education and especially basic education as a top priority. The extensive educational reform made in the past four years began by clearly defining under the Law for Guidelines and Bases for National Education of 1996, the responsibilities of the federal government, of the states and of the municipalities. In the same year, the Fund for Educational Maintenance and Development and Appreciation for the Teaching Staff – FUNDEF was established to reorganize the entire system of funding basic education, thus ensuring more resources on a more impartial basis. Until then, economic resources were poorly distributed and poorly used. There was no correlation between the distribution of the monies available from the states and municipalities and the number of students enrolled. Consequently, surplus monies available in well off cities having a small number of municipal schools and few students could not be transferred to poor cities having a large number of schools and many students.
In effect since 1998 and despite strong political resistance, FUNDEF corrected these distortions. A minimum expenditure per student/year was established and the number of enrolled students determined resource allocation. Of this amount, 60% automatically must go to pay teachers’ wages. With these rules, FUNDEF became a paradigm of the new emphasis placed on education by public policies.

The results were immediate. States and municipalities endeavored to enroll the maximum number of children possible to receive more funds. The regional inequalities began to disappear because in the poorer states and municipalities, where the minimum expenditure per student per year is not met, the federal government complements the funds. In 1998 these additional funds totaled $R 542 million. The average national increase in teachers’ wages was 13% but reached 50% in the municipal systems of the Northeast where the salaries were lower.

The challenge to improve the quality of instruction began to be confronted. A broad reform of the curriculum at all levels of instruction is now underway. National Curriculum Parameters were published for the eight levels of elementary education as well as terms of reference for primary education and for a broad reformulation of the entire system of teacher training. The next phase, already structured and approved, is the complete reform of middle level and vocational instruction. Especially relevant was the effort made to adapt the curriculums to the indigenous schools in such a way as to preserve and to show deference to the mother tongue and the cultural traditions of these peoples.

Also designed to improve the quality of instruction, the government created the “TV School” program, devoted to education at a distance. In order to do so, a kit comprised of a television, a videocassette recorder and a parabolic antenna is distributed to all elementary schools with more than 100 students. This equipment allows the schools to receive directly or tape for future use educational programs to reinforce learning, to aid the work of the teacher and to train the teachers on a continuous basis. In two years almost 57,000 kits were distributed.

The extraordinary progress made in the past five years proves that Brazil is taking the right steps to gain the time lost as a backward nation in the field of education. Great strides were made to make basic education accessible to all. The percentage of children from the ages of 7 to 14

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Robin Hood turned upside down: university instruction

Considering all three levels of the government - the Union, states and municipalities - Brazil spends today almost 6% of GDP on education. It is no small amount. The budget of the Ministry of Education corresponds to 1% of GDP. However, 60% of the resources go to finance the free public universities. As the poor practically never attend these universities, 90% of the public expenditure is taken by the wealthiest 40%; the poorest 40% benefit from only 2.4% of the resources. Or, 0.7% of GDP of the country is transferred every year to those who are not at poverty level. The same occurs with the program of scholarships maintained by the government. The poorer 20% receive only 0.3% of these resources while the wealthier 20% absorbs 33.8%.

This is the historical problem of social expenditures in Brazil, which have perpetuated poverty. A significant portion of the resources is channeled to those who are not poor. As the poor pay taxes, just as those who are not poor, this means taking from the “have-nots” and giving to the “haves”.

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rolled in school rose from 89% in 1994 to 96% in 1999. Thus the goal established by the Tem Year Plan of Education for All, which sought to increase school enrollment to 94% at least by the year 2002, was anticipated and surpassed.

At the middle level, the increase in the number of students enrolled was swift: 57% from 1994 to 1999. In the past year alone, the increase was 11.5%, reaching 24% in some states. These statistics mean that there are more children concluding basic education and pursuing their studies, perhaps to meet the demands of an increasingly competitive job market.

The regional inequalities are decreasing. In the Northeast region, enrollment in basic education rose 27% compared to 13% in the remainder of the country; at the middle level it increased 62% compared to 57% in the rest of the country.

Counting all enrollments at all levels of instruction, Brazil today has about 52 million students – approximately one third of the population attends school. It still is a low rate, but a big improvement has been made.

Eliminating unnecessary spending and making the public health system more efficient.

The Brazilian Constitution determines that access to health services should be universal, complete and equal. The extensive juridical and administrative changes conceived by those who drafted the Constitution terminated with the creation of the Unified Health System - SUS. The generosity of congressmen, however, did not correspond to the amount of resources available. The budgets were always too tight to ensure that the population of 160 million Brazilians would be well served and free of charge. Nevertheless the system of services provided by the public health sector ensures assistance to 80% of the population. The wealthiest 20% have private health insurance plans and policies. Five years ago, the government embarked on improving the administration of the system, consolidating decentralization, transferring power, resources and responsibilities to the municipalities, expanding social control, combating fraud and defining stable and regular sources for funding actions and health services.

In 1995, Fernando Henrique Cardoso assumed the commitment to spend at least R$ 80.00 on health annually per habitant. The goal was surpassed. In 1994, health had a budget of R$ 13.7 billion; in 1998, R$ 18.7 billion, an increase of 36.5%, which assured an expenditure per capita of R$ 115.59.

Health policy has pursued two basic objectives: to improve the sanitation situation, by emphasizing reduction of the n-

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**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 meals are provided daily during the entire school year.

In addition to meals, the federal government distributes, free-of-charge, school books through the National Textbook Program, to all children who are 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 almost 110 million textbooks were distributed.
fant mortality rate, and to proceed with the political and institutional reorganization of the sector. In 1990, the infant mortality rate – considered the synthesis of the living conditions of a population – was 48 children up to one year of age for every 1000 live births. In 1998, this rate decreased to 36 children, which was still high and exacerbated by regional inequalities. In the poorest regions, the rate is double the national average; in the wealthiest, it is half. Nonetheless, the Program to Reduce the Infant Mortality Rate made important strides in the 914 poorest municipalities where it was implemented by the government in collaboration with Catholic Church. Between 1995 and 1997, the number of deaths of children up to five years of age fell to 10.4% per year.

Two programs were expanded: the Community Health Agents, comprised of individuals from their own communities who are trained to carry out work in the areas of prevention and education, and the Family Health Teams, which include physicians and nurseries and provide basic ambulatory assistance. In four years, the government 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, assisting 49 million inhabitants – nearly 30% of the population. In these municipalities, the infant mortality rate dropped by 32%.

The Family Health Program increased from 328 teams in 55 municipalities, four years ago, to 3,147 teams in 1117 municipalities, assisting 10.7 million inhabitants. Research conducted in 58 municipalities in eleven states where the teams operate registered a decrease of 51% in hospital admissions. Up to the year 2002, the goal of the government is to have 150,000 health agents and 20,000 family health teams.

2. Centering actions on fighting poverty

A large part of the programs and initiatives that comprise the social development strategy of the Cardoso’s administration will have effects over the medium and the long term. Nevertheless, significant segments of the population live in such serious or vulnerable situations that they cannot wait long. To attend to the most pressing needs, it was necessary to use well defined mechanisms to concentrate on the very special segments and situations.

To treat efficiently and in a different way those who are unequal among themselves is the rule of these focused programs. It is

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 the poorer population. PAB replaced the traditional criterion for resource allocation according to the number of assisted people by the formula for allocating them according to the number of inhabitants. In practice, this meant that the notion of subsidizing the disease was replaced by the incentive to its prevention.

With PAB, all Brazilian municipalities can now count on receiving at least R$ 10.00 per inhabitant/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. This new model of resource allocation, also adopted in education, is an example of the general principle of social policy pursued by the Cardoso’s administration: always seek equity.
imperative for the Brazilian government and for all society that hunger and infant malnutrition be eradicated, that child labor be eliminated, that programs for the direct transfer of income be expanded to combat the worst situations of exclusion and that public spaces be created where the government and citizens may work together as partners on common projects.

Fighting poverty and infant malnutrition

This plague has been confronted through meal programs linked to basic health actions. In addition to the school lunch program which guarantees 36 million meals per day to students in the public school system, the government created a broad program to distribute basic foodstuffs baskets to almost one thousand of the poorest municipalities in the country. In 1998 alone, thirty million food baskets were distributed.

In conjunction with private enterprise, the Workers Meal Program – PAT encourages businesses to provide meals to their employees, by offering a deduction of the cost on their income tax return. The main objective is to improve the nutritional conditions of the low income workers. Nearly eight million workers in 70,000 businesses benefit from this program annually.

One of the priorities under the jurisdiction of the Ministry of Health is the Program to Combat Nutritional Needs, with specific actions to assist undernourished children between six and 23 months of age as well as pregnant women at risk of becoming undernourished. The program encourages breastfeeding, nutritional vigilance, and provides one liter of milk per day and one can of soybean oil per month to those children less than two years of age. Participating in this program are 2,950 municipalities and 550,000 children and pregnant women nutritionally at risk. In addition, in 1998, 4.26 million children between the ages of six months and five years of age in the nine states of the Northeast received megadoses of Vitamin A.

The elimination of child labor

Created in 1996, the Program for the Elimination of Child Labor removes children between seven and 14 years of age from degrading and risky activities, primarily, from bricklaying, mining, canebrakes and coal yards in 141 municipalities in seven states. The families of the children chosen by the program receive a monthly cash allowance from the government, with the understanding that their children will abandon the work and begin to attend school regularly. In 1998 the programs aided 120,000 children.

Poor, abandoned and socially excluded children also find support in the Brazil Child Citizen Program, which invested R$103 million in 1998 to assist 431,000 children and adolescents from seven to 14 years of age. The program provides educational, health and professional training services.

Direct income transfer

A social policy based on the principles of equal opportunities and the promotion of citizens’ rights in Brazil must consider programs for the direct transfer of income. As a whole, these programs constitute an important system of social security for facing varying situations of need and of risk: of old age, of work incapacity, of unemployment, of the decision to remove children from school to make them work.

The existence and the constant improvement of such programs are fundamental to fight hunger and to reduce poverty. The mechanisms by which these income transfers are financed also vary. Some depend on the social security budget; others from such funds as the Workers’ Assistance Fund, or others on Treasury funds. Therefore they require different actions from the government. Most of the income transfer programs fall under the jurisdiction of the federal government.
Minimum income for the elderly and the handicapped

There are two types of benefits for the elderly: the lifetime monthly income and the benefit sanctioned by the Organic Law of Social Assistance, put into practice by the Cardoso's administration. The benefits are not cumulative, but they do guarantee that the elderly and poor persons with handicaps will receive a minimum monthly income equivalent to one minimum wage. More than one million individuals have access to these benefits. The number of poor persons qualified to receive them has been increasing since the law took force. Currently annual expenditures are R$ 1.5 billion.

Employment insurance

Financial assistance is granted for the worker on involuntary unemployment situation. The assistance lasts five months, and may be extended for two extra months in case of increasing of unemployment rates. Resources are provided by the Workers’ Assistance Fund, which also supports programs for professional qualification and re-qualification and directing workers into new jobs.

Wage bonus

Wage earners who receive less than two minimum wages are entitled to an annual bonus equivalent to one minimum wage, aside from the benefits available from the balances of their employer’s welfare fund. More than five million workers receive a salary bonus and more than 12 million deserve the income from the fund. In conjunction with unemployment insurance, these programs represent annual resources of R$ 5 billion.

Minimum income

The implementation of minimum income programs, so that the poorer families can keep their children in school - thus, the well known name given to the program: school grants - was rapidly incorporated into social rights. Experiments of this nature have been developed in diverse municipalities in Brazil.

By their nature, such programs can only be carried out at the local level in a decentralized way, due to the size of the country and its enormous differences. They also need to be publicly controlled and rely on the commitment of the community. The federal government, however, is actively present with normative, logistic and finan-

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 the rural area, even though he or she may never have contributed to the welfare system. The minimum age needed to claim the benefit is 60 years for a male and 55 years for a woman. 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%, the number of beneficiaries more than 50% and the average monthly value of the pensions and retirement almost tripled. In addition the income of the farmers’ households doubled, because women also came to be entitled to the benefit as of 1993. In the small municipalities of the poorest regions, the number of participants in the program is 20% of the population. If the beneficiary has more than one family member as a dependent – which is usual – almost half of 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.
cial support, especially in the poorer municipalities.

Currently, two programs of this type exist under the jurisdiction of the federal government, and both were implemented by the current administration. The first is the program to eliminate child labor mentioned above. The second, more recent and totally decentralized, aims to help the poorer municipalities to adopt these initiatives. The federal government funds half of the total costs of the municipal programs, in accordance with the criteria established by law. The value of the benefit varies according to the per capita income of the poor families and with the number of school age children. When it is totally implemented, it should attend to more than three million families, with funds of R$ 1.5 billion per year.

On the whole, the federal programs for direct income transfer account for R$ 17 billion per year and represent socially desirable ways of using funds from the Treasury, from social security and from those which constitute the workers’ welfare system.

The articulation of the third sector and the role of the Program for Community Solidarity

The magnitude of the social problems, the manifest crisis of public administration and of the government and the renewed strength of civil society demonstrated the limits of State action in Brazil. To break them means to create and strengthen new public arenas which are not necessarily governmental. It also means to stimulate innovative ways to mobilize and form partnerships between the different levels of government and State entities - the federal government, states, municipalities, public businesses and universities - as well as between the government and the numerous and diverse organizations in civil society - businesses, syndicates and voluntary associations such as NGOs, churches and social movements.

It was for this purpose that the Program for Community Solidarity, directly linked to the Presidency of the Republic, was created in January of 1995. In a short time, the program was characterized as the new mechanism to coordinate policies, to articulate among the various levels of government, to focus the pertinent programs on the most needy areas and populations and to stimulate new forms of partnerships to combat hunger and destitution and to face the acute situations of need and public states of emergency. Special support is given to the initiatives that promote community solidarity and experiment with innovative solutions.

Community Solidarity represents an important break with former policies for several reasons: first, for the integration and selectivity of actions in the social area, which concentrate on health, education, literacy, and social welfare. 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 Community Solidarity. 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 300,000 students in 866 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 Community Solidarity.
sanitation, generation of jobs and professional training, in contrast to the dispersion of the past; second, for combining acts of aid – indispensable in the extremely needy communities – with initiatives capable of unleashing sustained local development processes; third, for the intense and deliberate inclusion of organizations of society, which immediately called an institutional halt to patronage and pork-barrel practices.

The Council of Community Solidarity, comprised of representatives from society, develops four projects that synthesize this new approach: Literacy Solidarity, Training for Youth, University Solidarity and Volunteer Promotion. In turn, the executive secretariat of the program, dedicated to attacking the causes of hunger and destitution in an integrated way, articulates a set of priority programs carried out under the jurisdiction of several ministries which have more potential impact in meeting the needs of the population.

Charity and NGOs

Similar to what happens in other countries, NGOs have also become a highly critical and active actor in Brazil, including syndicates, lay and religious Associations, charity and community institutions. Recently, private businesses began to patronize important initiatives, but it is the common citizens who have donated their time and money and proved to be the real thrust behind philanthropic activities and social intervention.

The society that was built on such unjust bases is beginning to show clear signs of wanting to change. Faced with insufficient action on the part of the State, it is starting to organize to solve its own problems and put pressure on governments to progress, in such diverse areas as the environment and public safety, agrarian reform and the administration of water resources and public funds, poverty and education, justice and human rights.

Charity, which has never been a great tradition in Brazil or had much visibility in the national culture, today flourishes and occupies a noble place in the eyes of the media. Rich and famous, sports and popular music idols, arts and culture personalities have begun to create their foundations and NGOs or associate themselves with social entities and campaigns, placing time, money, image and prestige at the service of the most diverse causes. Along with millions of anonymous Brazilians, they form a part of the widespread and recent phenomenon of social mobilization in the name of citizenship, which has already played a decisive role in the fight against poverty.

The booming expansion of solidarity

Research data released at the end of this year are impressive:

- 9 million persons receive direct social assistance today in Brazil, without any participation from public funds;
- In total, charity raises R$ 12 billion per year;
- 36 million Brazilians participated in some social endeavor in 1998, by donating money or contributing material goods. The personal donations of anonymous citizens alone totaled R$ 1.1 billion, even though they may not be deducted from income tax;
- one in every six Brazilians over 18 years of age volunteers in social projects throughout the country;
- even the poorest Brazilians, who earn from one to two minimum wages, make donations. Thirteen percent donate money and 20% donate food and goods.
For an increasingly greater number of Brazilians, the persistence of hunger and extreme poverty in the country is a reason for shame and indignation and calls for action. Conscious of the limitations of the State, the Cardoso’s administration proposes and practices a social policy which is not only open but which actively encourages the participation of the so-called third sector and the creation of public spaces for action.

Clearly inspired by social democracy, this policy has as a reference the ideals of a society of well-being. The government is aware, however, that besides being a moral imperative, changing Brazilian reality is a demand of a practical order. In the world imagined for the 21st century, it simply will be impossible for Brazil to maintain its position among the largest economies of the planet, without eliminating poverty and ignorance, disease and social exclusion. The price of this immeasurable waste of potential wealth are backwardness and the loss of competitiveness.

During these times full of changes, crises, risks and opportunities, one thing is certain: there will be no place for nations intending to be truly modern which do not extend to growing segments of the population the conquests of integral human development.
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 forums 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 priority 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. The creation the National Water Agency – ANA is expected to be approved by Congress in the current year. 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% 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 properties 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 thus can the goals of economic growth be reconciled with those of the reducing poverty and the promotion of a more equitable distribution of wealth.
The restoration of democracy, after twenty years of authoritarian rule, marked a turning point in the political consciousness of the current generation of Brazil's leaders.

Fifteen years have elapsed since the transfer of power to a civilian President, and eleven since a democratic Constitution was promulgated. Democracy has clearly taken root, not only in the institutions, but also in the practices and values prevalent in Brazilian society. Free elections are regularly held at all levels of government, with remarkably high voter turnout. The party system is highly competitive – and indeed fragmented – and there are no less than seven electorally significant parties sharing effective office in the Executive and Legislative branches of the Federal, state and municipal administrations. Organizations of civil society, which played a significant though incipient role in opposing authoritarian rule, have blossomed under democracy and today actively compete for space alongside political parties and organizations of the State itself in defining the public interest and setting the course of public policies. The independence of the Judiciary is unchallenged. The press is diversified, free and aggressive, and often far in advance of the opposition parties in its scrutiny, holding the government accountable for its failings. Peaceful demonstrations of dissent and the expression of popular demands are commonplace.

These achievements notwithstanding, the experience of authoritarian rule remains a vivid memory, and the newly restored freedoms cannot therefore 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 that enabled 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 in the formation of an alliance of parties that has lent its support to the Cardoso’s administration. To the concern for preserving continuity of the democratic process, a new purposefulness, stemming from the vicissitudes of the 1980s, was added: the quest for renewed economic and social efficiency in the democratic decision-making process: in other words, a commitment to good governance.

Brazilian social democracy shares this commitment with the other partners in the government alliance. Its contribution to the agenda of these joint forces stems from its desire to radicalize and expand the limits of democracy, not only from the standpoint of its results, but also of the participation in the making of decisions.

In contrast to other countries where democracy is less recent, in Brazil it is perhaps easier to appreciate that democracy is an evolving process. Rather than being a finished building, it is a work in progress, something to be built and reinvented along the way. It consists of a set of values and forms of coexistence that open a path for the peaceful transformation of society. As the world ponders the new utopia - a new horizon for social transformation to moti-
vate and orient the actions of progressive forces, – Brazilian experience strongly suggests that democracy itself is the name of the “viable utopia”.

**Consolidating achievements**

The Cardoso’s administration has compiled a significant record of achievements in the consolidation of democracy.

**Relations between the Executive and Legislative branches**

Relations between the Executive and Legislative branches, often a source of tensions in the recent past and in the period of democratic rule that lasted from 1946 to 1964, are now conducted in an atmosphere of mutual respect and intensive dialogue. Were this not so, the government’s agenda of reforms would, in no time, have ended in deadlock.

The 1988 Constitution is extremely detailed and was drafted under strong influence of interests and prejudices associated with the old regime of the interventionist State and its autarchic development model. For this reason, changes to the wording of the Constitution had to be accomplished in order to secure various essential points necessary for the consolidation of the new development model. No less than eighteen Constitutional amendments have been approved since 1995, by a qualified majority consisting of three fifths of the votes of Brazil’s deputies and senators. Even though the sum of the members of parties that make up the government’s congressional alliance easily surpasses the number of votes required, in order to obtain approval of these amendments an intense process of advocacy and persuasion had to be carried out, especially in the cases of such controversial measures as social-security reform and changes in the rules governing the job stability of public-sector employees.

The Brazilian Legislative branch has, in the past, undergone periods when it simply served as a rubber-stamp, and others when it merely obstructed the will of the Executive. Under the Cardoso’s administration, it has actually assumed co-responsibility for governmental decisions.

**Decentralization**

Within the sphere of the Executive branch, the government has brought decentralization to an unprecedented level, by expanding its scope and increasing its efficiency. This included a variety of forms of partnership with the states and municipalities, and with non-governmental organizations. The Brazilian federation is already highly decentralized from the standpoint of revenue sharing among the federal, state and municipal spheres of government. The division of responsibilities for the execution of public policies, however, is less clear, and there are outstanding gaps and overlaps. Initiatives pursued by the present government have substantially improved this situation in such strategic social areas as education, health, social assistance and land reform.

In a territorially vast and immensely diverse country such as Brazil, decentralization, of the two varieties – through partnerships between the different levels of government, and between government and the community – is a powerful antidote to the inefficiencies and waste generated by overbearing bureaucratic structures, not to mention traditional pork-barrel practices. In brief, decentralization stands as a symbol for the building of citizenship and translates into qualitative improvements in social spending.

**Human rights**

Significant strides have also been made in another decisive area for the building a democratic society, namely, the defense of human rights. At the beginning of his first term of office, President Fernando Henrique Cardoso created a national secretariat, under the auspices of the Ministry of Justice, the mission of which is to articulate law enforcement policy with the defense of citizenship and of human rights. One of
the first tasks assumed by the secretariat was the co-ordination of legal proceedings for the acknowledgement of the deaths of political prisoners who had “disappeared” under the dictatorship. The compensation paid by the federal government to the families of victims constituted yet another settling of accounts with the past, and sent a clear message to the future: that the public authorities will have no tolerance with respect to attempts to cover up violence.

This attitude, which is shared by the National Congress, authorities in the states, the media and non-governmental organizations, has born fruit in the form of denunciations, investigation and effective punishment, on an unprecedented scale, of human rights violations.

Strict oversight and prosecution of public agents for misbehavior, rather than hampering law enforcement, has tended to strengthen it. This has proven especially true in fighting organized crime, ramifications of which were recently exposed in Brazil, through investigation carried out by Congress committees, the press, the Revenue Service and the Federal Police. A secretariat subordinated directly to the Presidency of the Republic has assumed the co-ordination of measures relating to illegal drugs, encompassing prevention, rehabilitation and the fight against drug trafficking.

The next steps

On the basis of the results achieved so far, the prospects for radicalizing Brazilian democracy point towards an agenda for promoting change in institutions, and also in collective practices; the enhancement of the principles of representation, and also the extension of opportunities for direct participation.

Political reform

At the institutional level, great priority has been placed upon reform of the system for electing members to the federal Chamber of Deputies and the state legislatures.

In accordance with the proportional representation system currently in force in Brazil, each state is regarded as a vast electoral district, in which each party can present a ticket listing a variety of candidates, the number of which may amount to double the number of seats that are up for election. Voters have the option of casting their ballot for the party or, as is more usual, for an individual candidate. The sum of the party’s votes and those of its candidates determine its weight when the seats are shared out. The number of votes for each individual candidate determine his final ranking on the ticket and thus whether or not he wins one of the seats due to the party. Thus, competition at the polls takes place not only among the parties but also between candidates of the same party.

As it incorporates campaign-finance rules that permit fund raising by individual candidates, the system has a corrosive effect on party discipline. At the same time, it obscures relations between the officeholder and his constituents. The majority of voters, confused in face of the vast number of candidates, are usually unable to remember for whom they voted. Indeed, many appear not to care, as is reflected by the increasing number of blank votes cast for deputies.

Fernando Henrique, and a majority of the leaders who support him, concur that a mixed proportional district voting system, based upon the German model, would, in the light of Brazil’s particular characteristics, be the best option for electoral reform. It appears that the principal difficulty for implementing this option will be convincing the deputies themselves that the change would not leave them overly beholden to regional bosses at the time when names were being selected for inclusion on the party ticket.

In the meantime, as this discussion progresses, other narrower – though nonetheless positive – proposals that address the problem of fragmentation and thereby
increase the internal cohesion of the parties, are being examined by Congress.

**Access to justice**

The restoration of democracy has placed the Brazilian courts system on the spot; partly as a consequence of its traditional weaknesses, and partly as a result of advances in which the judiciary has been, at the same time, a protagonist and the forum of events.

The 1988 Constitution strengthened the Judicial branch, awarded independence to the Office of the Public Prosecutor, and entrusted them with the defense of a modern and generous charter of rights. On the other hand, the highly detailed text of the Constitution placed a heavy burden upon judges by requiring them to deal with issues which properly, in a less punctilious constitutional environment, would be the purview of the Legislative and Executive branches. Moreover, the Constitution expanded the powers of the courts to manage their own funding, without clearly specifying oversight mechanisms for controlling this budgetary function.

The burgeoning awareness of rights among society, on the one hand, and the increased supply of legal assistance by non-governmental organizations have, for their part, generated a significant increase in the demands placed on the courts. Thus, an increasingly well-informed citizenry has been motivated to exert its rights, but in so doing find an overloaded court system, in which often even trivial cases may languish for years before a final decision is reached. This leads to a sense of inadequacy in questions relating to civil law. Moreover, it is felt that impunity permeates the criminal justice system.

The agenda for reform of the Judiciary is extensive, complex and involves the sensitive issue of the independence of the branches of government. Nevertheless, it has moved forward, as a result of the efforts of the government and of the parties that provide its congressional support.

The progressive view places emphasis, in this agenda, upon changes aimed at making access to justice more democratic. These have included the establishment of special courts for swift resolution of cases involving lesser sums (which are already functioning in various states and at the federal level); the consolidation of the vast body of law currently in force (also currently underway); the simplification of procedural rules, and blocking of appeals whose only purpose is to stall for time; stimulation of measurement and of arbitration as solutions to disputes concerning property rights.

**Participation with quality**

The improvement of representative institutions and access to Justice are important, not merely as a means, but as an ends in themselves. They are important, not simply because of the strategic role of these institutions in providing a universal standard of material well being, but also because of the greater or lesser degree of quality they can provide for the exercise of citizenship. Social inclusion cannot be measured only as a function of employment and income; it also involves the feeling of belonging to a community and of having a voice in determining its destiny.

If this view is to guide reform of the State and of the economy, it must also, at the same time, highlight the need to enhance the quality of participation in society itself.

The inroads that the media and the non-governmental organizations have made upon the political scenario are irreversible. As a result, both have been exposed to a level of demands that brings into question their very status as private institutions. Being the “third sector” may be a good thing, but there is a price to be paid. The price includes taking on responsibility for the quality of public debate.
From the viewpoint of the media, this implies an increasing demand for precise and in-depth information, which are not easy to conciliate with the entertainment value that attracts mass audiences. The media in Brazil displays levels of excellence on both counts - as information and as entertainment. It has also begun to face questioning - and to question itself - with respect to the mix of these two features, which tends to result in trivialization of the political scenario to the level of a variety show.

From the standpoint of non-governmental organizations, the price to be paid stands on the fine line between legitimate defense of the interests and values of a part of society and the advocacy of special interest that cannot or will not recognize the point at which the part becomes detrimental to the whole. Recognition of such legitimacy was a major achievement of Brazilian labor unions in the 1980s. The acceptance of its corresponding public responsibility will define the scope of union action, and that of associative movements in general, in the immediate future.

No law can ensure the quality of public debate. Changes in the laws and, perhaps even more, the adoption of codes for self-regulation, may help but will not solve the problem. What is at stake, essentially, is the spread and maturation of values - the emergence of a new democratic civic culture. This is something which neither can, nor should, be imposed by the State. It ought, above all, to be propelled by the debate itself and by the exemplary quality of actions. Politicians, holders of elected office, and high government officials have an important role to play in this. But theirs, however, is essentially no different to the role of leaders of the media and of civil society.

**The State without borders**

There can also be no turning back from the trend towards the increasing permeability of national borders to international flows of goods, capital and information. This does not mean - and herein lies the problem - that the Nation State has ceased to be the focus for legitimacy and an essential instrument for the fulfillment of the security and well-being aspirations of its citizens.

Brazil is, and is proud to be, a land of mixed races, a multicultural nation. It is also, just as other countries in the Western Hemisphere, a product of the first wave of globalization, which stemmed from European commercial expansion. It is a country that, as a consequence of its history, the background of its governing elite, and the tradition of its diplomacy, has always envisaged the world more as a source of opportunity than of threats. For all these reasons, it ought not, in principle, to have any insurmountable reservations in coming to terms with the realities of the new era of globalization.

All this notwithstanding, those who govern a country such as Brazil experience the burden of responsibility for maintaining the course chartered, in a world in which the helm of the State has become so small.

"You have got to sail on...", the Portuguese were wont to say, five hundred years ago.

The new world that the 21st Century holds in store may be appearing on the horizon, to the extent that the convergence of values among peoples, on the basis of democracy, leads us to build mechanisms for the exercise of these values at the international level. It is already possible to see the principal guidelines for this: multilateralism as an unswerving principle; strengthening the United Nations and making its organs more democratic, especially the Security Council; enhancing international law with clear and uniform rules of procedure; and unrestricted respect for pluralism.

Whether to come out of the shell or to waste away: these are the options between
which the State must choose, in face of harassment from new protagonists both from within national borders and beyond. The option of emerging from the shell and deliberately sharing its political arena requires, besides new criteria for legitimization of authority, a new type of leader, with an ability for networking. An ability for navigating the multiple universes of the media, of foreign policy, the non-government organizations, the multinationals, the globalized markets, the virtual public opinion in the Internet, trusting more in the magnetic qualities of democratic values and less upon the unilateral fiat of the old bureaucracy.