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PERSPECTIVES FOR THE NEW MILLENNIUM IN
BRAZIL**

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STRUGGLE FOR ECONOMIC DEVELOPMENT AND PERSPECTIVES FOR
THE NEW MILLENNIUM IN BRAZIL *

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ABSTRACT

The last two decades in Brazil are characterized by low growth in income per capita, financial turmoil, increasing unemployment, dismal distribution of income (and wealth), rent-seeking speculation and frustration with the outcome of neo-liberal policies. It was in this context that Luiz Inácio Lula da Silva and the "Partido dos Trabalhadores" reached the presidency in January 2003, embracing many hopes and fears – the conflict between the need of structural change and the opposition of those privileged by the current state of affairs. We show that the reality of political power is intensively mundane and prosaic. The historical banners of the party are to a large extent left aside. What has been seen so far is – despite the success in maintaining governability and the sound change in foreign policies – a sharp neo-classical-cum monetarist practice of the previous government. It has been unable to move from the orthodox approach based on resource allocation to resource creation with human face. Thus, there is not much to commemorate in the first third of the mandate, albeit the international success of Lula as a political leader.

KEYWORDS: Liberalization, Washington Consensus, Brazil, Worker's Party, Institutions and Economic Policies

JEL Classification: E 12, F02, O11, P17

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I. INTRODUCTION

It is a commonplace to refer to Brazil as a country involved in seemingly diverse phenomena: high and sustained structural inflation, dismal income distribution, unbalanced growth, institutional violence, poor environmental concern, rent-seeking speculation, wasted natural resources – a land of promises and a reality of disappointments. It has been hard to foresee if its vast economic potential will ever be realized.

These are old and well established characteristics of a gigantic and eccentric nation, full of colour, of high expectations in the 50's, fragile economic miracle in the 60's and early 70's – to some commentators an amazing paradox in the last quarter of century and the beginning of the new millennium.

The autarchic tradition of this once-called “ninth world economy”, its regional disparities, unequal sharing of growth outcome are constantly reported in current literature, as well as its recent relative success to curb inflation. It is also well praised its conquest of political democratization without passing for the painful process of institutional extremisms many other Latin Americans had to face during a long period of authoritarian regimes.

Concerning the relative stabilisation of the Brazilian finances in the last ten years, the price to pay may seem considerable in terms of quasi-economic stagnation, increasing unemployment and human suffering. The nation must tackle many issues, such as disguised unemployment, poverty, land reform, increasing violence, disturbing expansion of the informal market, distributive justice and equity, duality between a fairly developed nucleus of production and a backward bureaucracy, as well as a fragmented multiparty structure.

Some would mention Brazil as a country where macroeconomic policies often jump to near extremes. Since World War II, it is easy to identify periods in which the country wanted to integrate itself into the international market more fully, counterbalanced by frequent calls for self-sufficiency and the need to strengthen the State control over important sectors of the economy.

There is also another dimension to this periodical phenomenon. Most actions taken both by democratic and dictatorial governments, in the last half century, rarely have been internally consistent with economic development in the sense of tackling, simultaneously, the targets of sustainable growth, fair income (and wealth) distribution, as well as financial stability. Brazil's socio-economic policies tend to work like a frictional pendulum dominated by confronting experiments and obstacles – the conflict between the need to change and, at the same time, the powerful opposition of those privileged by the current state of affairs.

The country has experienced peculiar waves of optimism and pessimism, often wishing to create a new national identity and rejecting the notion that it should simply imitate the pattern and behaviour of advanced economies. Many of the horrors perpetrated by policy makers stem from a belief in the power of simplistic theories. Regardless of the form they take, the Brazilian socio-economic problems are generally determined by the interplay of serious factors. They have many faces and, depending on the circumstances, some of these become particularly important causes for concern and policy attention.

In the last 15 years, or so, the nation became conscious that the forces of globalisation will relentlessly involve the economy and institutions deeply into the hands of international finance. The process of economic liberalisation has produced an adverse impact on output (hence employment), since the experiment is driven by organisations

devoid of care for the country's peculiarities. Needless to say, ordinary people are suspicious that this integration in the world of high finances involves dangerous swing backs and great leap forward, unless new institutions are created to regulate their activities (regulation and monitoring). After all, we are a country larger than the USA (without Alaska), with a population of more than 175 million individuals and an income per capita near US\$ 5000 in purchase parity power. We are not a small open economy of the textbooks. The role of both State and market needs to be carefully defined.

Some of country's weaknesses are too obvious: the nation's fiscal federalism stimulates conflicting rather than co-operative behaviour; no economic policy fits well all Member-states and regions because of their enormous regional disparities; excessive market rigidities and over-zealous governmental controls. The architects of liberalisation simply emphasise their faith that we need to follow the path of orthodox stabilisation and structural adjustments — jumping to the procrustean bed of neo-liberalism, an amazing narrow vision that omits some of the most perplexing elements of the Brazilian reality.

There is no single solution or unique cause to blame for the many obstacles encountered. Actually, what is seen is a set of complex historical circumstances that lead to almost inevitable mistakes in macroeconomic policies. By the look of things in Argentina, Russia, former soviet republics and other third world countries, it is sage to question frequent recommendations of international and domestic experts on liberalisation. Furthermore, it is imperative to mention that international finances tend to show a double standard when dealing with an industrial country and an emerging economy¹. The outcome of floating in Mexico (1995) and Asia later are striking, compared to Britain and Sweden in 1992, as pointed out by Krugman (1997).

It is naive to let the market manage, without controls, economies and institutions. The reason seems to be straightforward: i) one has to be rather careful in making simple comparison between success and failure in development strategies, generally; ii) it is necessary to understand the complex institutional conditions of each country. Both involve subtleties that a number of researchers have missed. It is one of the aims of this paper to bring some understanding of the real conditions of Brazil. Without a true consciousness of this, it will have no compass to guide socioeconomic activities, but to fall pray to conservative policies.

Cutting through the dogmas and jargons that prevent any serious appraisal of liberalization in developing countries, it should highlight some advantages of a fair competition as well as the grave danger of unquestioning reliance on market forces. Naturally, Brazil needs a modern structure, capable to adapt to changes in social aims, in technology and fair integration into the global economic system. This requires a flexible structure where both the forces of the market and the State play an acceptable role. As pointed out by Bhaduri & Nayyar (1996, p. 14), “there is *no* historical case of successful late industrialization, either in the nineteenth or in the twentieth century, which did not depend upon State support in the form of promotion or protection of domestic industry”. We add that, since market forces are fundamentally concerned with profits, the State is, or should be, the main responsible, in breadth and depth, for equity and social justice.

Very sensitive individuals may argue in favour of being somewhat more cynical or even sceptical about this kind of co-operation, nowadays, given the declining tendency of the State to influence real affairs. They may possibly mention that it would broaden our horizons to understand that equity and justice are, frequently, rhetorical elements in the world of globalisation. Actually, monetary policy, banking control, labour relations,

industrial organization, deregulation, privatisation, and many other jargons, only emerge, domestically, as some part of a self-illusion. The core of macroeconomic policy is defined abroad, they would point out. This critique, we argue, goes too far.

A more balanced view began to emerge during the closing year of the 20th century. The vision that market and the state are complementary. It became clear that the Washington Consensus embraced enthusiastically by policy makers, mostly in Latin America, failed to deliver its high promises. As pointed out by Rodrik (2001, p. 2): “The talk in Washington turned towards ‘second generation reforms’, and reinvigorating the state’s capability”. However, this new approach contains serious shortcomings. In order to attain stability and growth in emerging economies, more is required than just an enhanced, better-regulated and supervised domestic financial system. In this sense, it is very unlikely that the new set of blueprints will take developing countries very far.

In this paper we are essentially concerned with some of the difficulties of industrialization, socio-economic relations and political advancements in Brazil. The core of our approach is the essential difference between resource allocation and resource creation with a human face. Along the endeavour of incrementing the creation of resources and the ability to finance accumulation, some fundamental problems such as fairer distribution of income (and wealth), as well as stability and the creation of employment have been neglected. Somewhat, the last two decades represent a period of low growth in income per capita, financial turmoil, increasing rate of unemployment and frustration. It is in this context that Luiz Inácio Lula da Silva and “Partido dos Trabalhadores” (PT) reached the power in January 2003, expressing the political will of the large majority of Brazilian electorate and embracing many hopes and fears.

After all, what is the real scope left to developing countries to pursue their own policy preferences? After this introduction, in section II we discuss socio-economic development in a dependent economy. Section III considers a provisional evaluation of the first third period of Lula's government. Section IV concludes with in(pertinent) questions regarding the internal and external constraints and the daunting task ahead.

II. DEVELOPMENT IN A DEPENDENT ECONOMY

We suppose that few economists would dispute that Political Economy, as a discipline, is basically concerned with two problems that can be conveniently identified as resource allocation and resource creation. The first problem deals with the explanation of the mysterious degree of coherence one may, in normal periods, observe to emerge out of the "anarchic" organisation of a decentralised market economy. The other, resource creation, explains how decisions to use resources, to expand investment (accumulation), affect the performance of the economic system in historical rather than logical time.

Resource allocation assumes in the neo-classical paradigm the dominance of a market clearing process involving either full employment or a natural rate of unemployment, as well as steady state growth. These outcomes require sustained stability in investment and "happy" financial market. The focus of such analysis is the concern with the promotion of market competition. Neo-classical economists are supposed to believe that such mechanism will lead to a position of sustained growth, stable equilibrium and maximal utilisation of the disposable resources. Accordingly, resource creation is only the dual result of another set of markets clearing. This standpoint tends to ignore the special

problems posed by the necessary transformation of demand for future resources into demand for resources now.

The orthodox apparatus is mainly concerned with resource allocation but the real problem of a developing country is to deal with resource creation. In other words, how to expand investment (thus, accumulation, growth and employment) and how this process is financed. Without going to details, it is important to indicate the main aims of economic development. Its ultimate purpose is the achievement of better education, better living conditions and an expanded range of opportunities in work and leisure for the people. In essence, development means the transformation of the economic structure of society in order to achieve new level of productive capability, which requires higher levels of investment, bringing us to the crux of the matter — to extract a surplus large enough.

The decade of 1980 in Brazil is characterised by a decrease of the actual domestic saving rate, the increase of the deficit in current account and the expansion of public deficit. Particularly relevant was the fact that it was upon the public sector that fell the burden of the domestic adjustment. In the last two decades, the Brazilian economy has not been able to sustain a fair growth rate and has been facing increasing internal and external constraints, hindering the capital formation, reducing the rate of growth and expanding the level of unemployment. It is impossible to consider the performance of the Brazilian economy without mentioning inflation and financial intermediation.

It suffices to the purpose of this paper to stress that inflationary expectations, once raised, might prove hard to reduce, despite frequent announcements of new fiscal and monetary measures. After the second oil shock and the interest rate increases on foreign debt in the late 1970s, inflation was hardly manageable. Maxi-devaluations were followed by crawling peg slowdowns that predictably appreciated the official exchange rate. The

country went into a recession between 1981 and 1983 and, by 1986, orthodoxy was formally abandoned.

After a period of indecision, the government opted for the non-orthodox strategy in the Cruzado Plan of February 1986, freezing prices and wages, and introducing a new currency after devaluating the official exchange rate. As there was no support for the exchange rate anchor on the fiscal and monetary sides, such Brazilian heterodox stabilisation attempt soon needed repairs. Three other plans were introduced thereafter (Bresser, 1987; Summer, 1989; and Collor, 1990), but the lack of political support to implement the necessary austerity in the government accounts determined the failure of each one of them. Exchange rate-based anchors were used in the 1980s to tackle inflation unsuccessfully due to lack of fiscal and monetary discipline.

The economic indicators of the 1980s and early 1990s show sharp increases in insolvencies and bankruptcies, rising real debt burdens, bank failures, financial unbalances among the Brazilian Member-States and a reduction both in the rates of savings and investments – an outcome that could not continue without limit. As a result, advocacy of a role for liberalization fell for the most part among academic mainstream, financial-market practitioners and a number of politicians, not to mention the voices of the Washington Consensus. It is not unfair to say that this extreme form of economic liberalism captured the imagination of policy makers in Latin America as well².

Along with the International Monetary Fund, the World Bank and the USA Treasury became strong advocates of outward orientation. The central notion of such vision was the need for a return of confidence in the market. Emphasis was placed on elimination of price distortions, recognition of the power of competitive advantage, privatisation of public enterprises, encouragement of private foreign investment, maintenance of price level and

balance of payments stability, international competitiveness, and the target of minimum government.

In conformity with the orthodox “wisdom” of the IFM and the World Bank, the Brazilian government set in motion a process of macro-economic stabilization combined with fiscal adjustment and structural reform. As pointed out by Bhaduri & Nayyar (1996, p. 31): “The principal instruments for achieving IMF-style stabilization are fiscal policy of the government (taxation and expenditure in the budget) and the monetary policy of the central bank (interest rates and credit controls).” Both instruments are applied as brakes to reduce the purchasing power, especially governmental expenditures, under the presumption that it causes monetary expansion and excessive aggregate demand, thus accelerating inflation. This compression of activities is often combined with devaluation in order to improve the balance of payments. Such package of policies was implemented in the framework of the Real Plan, which was the macroeconomic proposal during the run-up to the election of 1994. During its first length of time in office (1995-1998), Fernando Henrique Cardoso’s government, surprisingly, did not introduce any substantive changes in policy, despite the country’s poor outcome in terms of growth, employment and exposure to international finance.

There is considerable agreement among economists that the trade deficits observed in Brazil, from 1995 till the end of the century, have been mainly caused by the appreciation of the domestic currency after the implementation of the Real Plan. The limits of such stabilisation plan based on the exchange rate anchor are very obvious. Additional policy instruments were required to sustain the programme to guarantee an inflow of foreign capital, expanding the monetary base and involving operations to sterilise (open market) money. Naturally, high rates of interest imply in expansion of national debt,

leading to increasing risk of default, lack of credibility, risks of speculative attacks, expectation of devaluation, and so on. These facts might lead one to think about theories and strategies of macroeconomic policies that emphasise development traps and multiple equilibria, but it is perhaps worth remembering that there are often alternative explanations, and there is plenty of space for further and fruitful research.

Actually, the profound exchange rate crises of the Brazilian economy in June 1998 showed that the proclaimed flexibility and sustainability of the existing policy was a fallacy. Due to the campaign to re-elect the president, at the end of year, the necessary measures to correct the economic policy were postponed to January 1999. Such modification in the exchange regime from almost fixed to a fluctuating one only reinforced the view that the country was using an erroneous policy, which led to profound losses: deterioration of the trade balance, stagnation, increasing unemployment and under conventional levels of foreign reserves. The administered price of the interest rate kept it artificially high, increasing the burden of both domestic and foreign debt, performing a regressive distribution of wealth and income, and stimulating disturbing flows of financial assets and capital speculation in detriment of real economic activities.

It is in the context of the financial and real crisis of 1997, 1998 and 2002 that we must consider the prestige of Luíz Inácio Lula da Silva and the “Partido dos Trabalhadores”. Their victory in the 2002 election was firmly derived from a profound discontentment of society with the current state of affairs. In the last 20 years or so, Lula and the PT persisted to show an emphatic opposition (rhetorical or not) to the prevalent orthodoxy at levels of principles and implementations of socio-economic policies. They stressed the social ordeal and the cruel dilemmas of a dependent economy.

Actually the PT did not produce any robust and coherent economic alternative, but a new vision for the Brazilian future. There was an important concern with better living conditions, expansion of real wealth, better education and health care, employment, agrarian reform, elimination of famine, reduction of income disparities, excessive exposure to the financial system and strong criticism to the views of the Washington Consensus. In case of victory the PT would implement structural changes to correct some of the ‘maladies’ of Brazil. Needless to say that to proceed in such direction requires an impressive combination of energy, discipline, care, experience, solid theoretical foundation, as well as domestic and foreign support. In the next section we deal with some of the main problems encountered by the new government.

III. LULA’S GOVERNMENT: A PROVISIONAL EVALUATION

The previous section demonstrated that Brazil lacks in economic policies that are sensitive to the real problems regarding growth and redistribution. This section points out the political aspects, indicating that one of the many reasons for this deficiency involves institutional resistance. In the case of Brazil, it is common sense that, among others, political and judiciary reforms are imperative to reduce bureaucratic deadlocks in government acts to and promote social justice. Nevertheless, diverse interest groups have been successful in keeping real institutional change at a superficial level. An entangled political system combined with a clumsy judiciary structure has proven to be time-consuming obstacles for policy making. So far, Lula’s administration is no exception.

This serious structural condition is to a large extent attributed to a historical combination of authoritarianism, favoritism, apathy and oversight, credited to the political and

social structure. Many dilemmas such as land property rights, lack of access to justice, famine and violence are affected by this institutional standstill. Therefore, to make a prudent up to date evaluation of Lula's government it is essential to have a suitable notion of the profile and type of political organizations encountered in Brazil and, specially, inside the "Partido dos Trabalhadores". Summarizing, the country is a Federative Republic with an unripe sixteen-year-old Constitution and a multiparty system, controlled mainly by an oligarchic political class accustomed to somewhat old-fashioned ways to maintain power. The PT is an unusual kind of organization, founded by trade unionists, left intellectuals, catholic activists and diverse marxist organizations in the late 70s. However, this party softened its profile due to three presidential defeats in the elections of 1989, 1994 and 1998, keeping some of its leftist tendencies. In this scenario, one should retrocede to the period that circumscribes the general elections of the year 2002 and have in mind the main forewarns whispered about an eventual PT administration by their adversaries and important sectors of the society. The forewarns to be discussed here can be structured in three groups: the economic, the international relations (economic and political) and the institutional association between the Executive and Legislative.

Concerning the first group, the analysis made by the followers of Fernando Henrique Cardoso's administration (1995-2002) was that, in the space of one year, the newcomers would lose control over government expenditures and, consequently, over the entire economy. This misfortune would strengthen market nervousness and heighten the lack of external credibility that the country was already experimenting. Actually, between the final quarter of 2002 and March 2003, the external loans that financed Brazilian exports dried up and the R\$ lost around 30% of its value in relation to the US\$. However, as 2003 passed by, the new government showed to the market an "admirable neo-liberal orthodoxy",

defended in a linear way by many of its high executives. The set of economic strategies (high interest rates, strong control over governmental expenditures and the literal adoption of policies evoked by the IMF) surprised positively the most conservative members of the financial institutions. In this vein, Lula's administration was capable to impede the consecution of yet another self-realizing prophecy (a la Soros) and hinder the collapse of the economy, thus momentarily quieting the majority of the opposition. For a short period of time the political fears "vanished", external funds started to flow back to the country and the exchange rate strengthened again. Lack of comprehension on how to spend an undersized amount of money designated for investments, excessive caution with the inflation targets and interest rates, along with the prospect of a rise in American interest rates and the fallback of Chinese expansion may have clogged the possibility of a sound economic growth for yet another year. The expanding price of petrol has been a further stress.

The second group was mainly concerned with the potential difficulties of the president to defend the Brazilian political and economic interests abroad. This argument had its source in the humble origins of the new president (which the intellectual background would never escape the shadow of his predecessor) and some socio-economic proposals made by his party along the years. Nonetheless, Lula's performance in the international political scenario revealed itself promising, since it promoted the active defence of humanitarian causes, expanded the role of the Brazilian diplomacy in the resolution of regional conflicts such as Venezuela and Haiti, as well as consolidated its leadership in the protection of the commercial interests of Mercosul and other developing nations. The new diplomacy showed a more critical position towards Bushian unilateralist policies without compromising the relationship with the United States.

The third group were worried with the dialogue between the Executive and Legislative. To understand the dimension of the problem it is necessary to keep in mind that Brazil only in 1985 converted itself to a democracy and, consequently, the country is still adjusting its political institutions to the challenges of the new millennium. The combination of a federative regime comprising of 26 Member-States and a Federal District; a multiparty system represented by institutions with autonomy to define internal structure, organization, function and statutes; electoral laws that, in a general sense, favour the political persona and fragments power, creating many traps to Brazil's political system. This formula enabled eight parties to earn a relevant space in the national scenario along with political figures with diverse ideological profiles and conflicting regional concerns.

Taking into account what has been exposed here, it was common to infer that the fragile and minority governmental base (composed by the parties that supported Lula in the second turn of the presidential elections and those who adhered in the beginning of his government) would not be capable to accomplish his campaign promises. However, through bargaining procedures such as the use of the economic power of the Executive along with the combination of "physiological strategies" (partisan liberation of budgets, public offices and favours to members of Congress) the government managed to increase its Legislative base and promoted some of the reforms that were considered necessary by the high executives of this party and the financial sector. The political expense has been the maintenance of a considerable fraction of the power structure, both in Congress and the Executive portfolios, in orthodox hands. Consequentially, the adoption of conservative policies and reforms along with an undeniable realignment to the right in Congress surprised various sectors of society, provoked divisions inside the "Worker's Party" and introduced a current situation that can lead to a frustrating outcome, similar to those seen in

Mitterrand's France and Walesa's Poland. Recent scandals involving members of the Executive Power along with setbacks in Congress show that the political scenario deteriorated, contributing to a reduction in the prestige of Lula's government and its capability to produce structural change. All things considered, it seems that Lula and the Worker's Party are hostages of awkward political alliances that are, nevertheless, essential to maintain the ability to govern.

What is certain about this first period of Lula's government is that it generated, for better or worse, an air of perplexity. Some optimistic evaluation of the domestic and international finance institutions conflicts with the immense responsibility that this government has with the effective combat against the grave social drama that entraps the majority of the population. Given the country's severe difficulties, most of the population would expect to see quality and effort at least with regard to the implementation of policies in the social areas.

In 2003 Lula's government implemented a tight monetary policy, together with fiscal discipline to reduce the risk of complete bankruptcy. Such neo-classical-cum monetarist approach was only compatible with a modest level of resource creation and social concern. According to PME/IBGE, the average rate of unemployment in the last quarters of 2001, 2002 and 2003 are 11.4, 10.7 and 11.7, respectively. The total wage bill in the industrial sector declined by 4.18% in 2003 against 0.52 per cent in 2002. Notice that the rate of growth of the GDP in 2003 was negative³.

Table 1 shows some distressing results of the Brazilian economy in the last four years⁴. They show that a general sentiment of fear prevails over hope and that the country tends to "dissoudre dans la mondialisation sauvage". Some of the selected indicators appoint the suppression of resource production by the logic of finance.

Table 1 – Selected Indicators of the Brazilian Economy

CONTENTS	2000	2001	2002	2003
GDP – real variation (%)	4.36	1.31	1.93	-0,22
Price Index (%)	5.97	7.67	12.53	9.30
Basic Rate of Interest (%) - accumulated	17.43	17.24	19.17	23.30
Real Rate of Interest (%)	10.81	8.88	5.90	12.90
Primary Superavit (% of GDP)	3.50	3.70	4.01	4.38
Public Debt/GDP (%)	48.78	53.63	55.50	58.74
Trade Balance – US\$ bi	-0.70	2.65	13.12	24.82
Export – US\$ bi	55.08	58.22	60.36	73.08
Imports – US\$ bi	-55.78	-55.57	-47.24	-48.26
Current Account (% of GDP)	-4.02	-4.55	-1.68	0.82
Current Account (US\$ bi)	-24.22	-23.21	-7.64	4.06
Exchange Rate – nominal variation (%)	9.30	18.67	52.27	-18.23
Average Exchange Rate (R\$/US\$)	1.83	2.35	2.93	3.07

Source: Central Bank.

What had actually been seen in 2003 was, essentially, a continuation of the sharp orthodox practices of the previous government and both lack of creativity and competence to formulate and to implement alternative policies as well as to expend a small fraction of the social budget by a number of ministries. Furthermore, the historical banners of the party (such as agrarian reform, better salaries and conditions of work, corrections in the highly unequal distribution of income, reduction of unemployment and the defence of public institutions, etc.) were, to a large extent, left aside. It seems that, despite the international success of Lula as a distinguished political leader, there was not much to commemorate in the first anniversary of his government. This state of affairs led to a shy reshaping of some portfolios in late January 2004. It is perhaps too early to make a consistent and honest evaluation of the new government's performance. However, it is fair to mention that an air

of uncertainty towards real socio-economic changes has installed itself along the corridors of Brasilia. Monetary policy and cabinet appointments show that the government appears somewhat divided between hope and fear. The reality of collective political bargaining is far more mundane and prosaic than ideological motivations.

Marx (1978, p. 595) pointed out that “Men make their own history, but they do not make it just as they please; they do not make it under circumstances chosen by themselves, but under circumstances directly found, given and transmitted from the past”. Certainly this is the case of Lula and the PT. It looks like that the period of extended honeymoon is fading away. Disillusion with the government’s performance stems largely from its failure to improve social policies and employment opportunities. Part of the current response has been to promise future initiatives aimed to improve the efficiency of resource allocation.

There are no easy solutions, no immediate panaceas to solve some of the serious problems that currently troubles Brazil, Latin America and most of the developing countries. Each nation and region has its distinctive pattern of inequality reflecting historical conditions, the origin and structure of society, its political institutions and economic base. Brazil reached a situation where it is necessary a structural revision in its strategy of economic development. The present government appears to be alien to the fact that socio-economic targets are not a simple matter of resource allocation. In this sense, countries like Brazil need to induce structural change to improve human capital, to create job places, to expand the domestic market, to encourage export oriented manufacturing industries (with higher elasticity of demand) and to renegotiate the servicing of their debt (foreign and domestic). In synthesis, another macroeconomic and social policy involving political aspects, directed to resource creation. It may well contain the best features of “Import Substitution Paradigm” and “Export Led Growth Strategy⁵”. In this vein it may be

possible to establish a new and comprehensive guide to tackle the adjustment and policy problems faced by developing countries in the fiscal, monetary and social dimension. Naturally, a complete strategy cannot be known in advance because reality is far complex than models.

No matter how well-developed is the theory and perception regarding the range of circumstances, government activities may require extensive elaboration in respect to which it had glossed over or ignored. As pointed out by Bortis (1997, p. xiv) “(...) theory if it is not to remain sterile, must prepare the terrain for policy action which may include systems by the creation of new institutions or the modification of existing ones”.

It is always possible that a new range of political and socio-economic problems will be posed by new and unexpected events. In these conditions the task of Lula's government should be, above all, not to let itself be carried along by the backward flow – it must swim against the current. As a matter of fact, there are no solutions ‘prêt-a-porter’ for the crucial problems of Brazil and most of the developing countries. However, it is important not to confuse realism with pessimism, pointing out that in the present circumstances it would be wrong to draw extremely negative conclusions about the prospects for change. Instead of calling for resignation, this article suggests that, through coming to terms with the experience of defeat, the battle to evolve an alternative approach of economic policy can still be joined in earnest.

IV. THE DAUNTING TASK AHEAD

The current drawbacks in Lula's administration prompt an impulse to answer a set of (in)pertinent questions regarding the scope of progressist policies for emerging economies:

- i) Why do the administrators of the Washington Consensus deliver the same medicine to each ailing developing country?
- ii) Is it the case that policies are only introduced if they are in the interests of the domestic oligarchy who will retain wealth and privilege whatever external policies are proposed?
- iii) Why do orthodox packages of structural adjustment systematically bring about recession, unemployment and further polarization of income and wealth in countries with basically no social safety nets to protect ordinary people?
- iv) Why is it that the financial system is so fiercely protected in its speculative operations around the world?
- v) Are the conventional policies implemented because it is believed they really overcome crisis in developing countries or they are mainly designed to benefit financial interest in advanced industrial world?
- vi) Why, in theory, do the financial monarchs support democratic institutions when, in practice, they undermine democratic process by imposing imprudent policies that hurt the ordinary people and lead to social turmoil and democratic setbacks?
- vii) Why the adjustment crusade for "internal balance" (fiscal responsibility) and "external balance" (current account equilibrium) is always pushing for the

reduction of real wages but rarely questions military and propagandist expenses?

- viii) Why to enforce conventional measures to protect copyrights licensing, designs and pattern laws, misconceived to the extent that they attempt to confine knowledge to limited frontiers, instead of stimulating technological diffusion, worldwide efficiency and higher welfare in developing countries?
- ix) Finally, what should be a fair fiscal instance on developing countries in face of recession or economic downturn?

In spite of the restrictions one might understandably have concerning Lula's government let us hope some changes in the correct direction will take place. There is some scepticism in the air but as Gramsci (1971, p. 374) used to consider, "if the sceptic takes part in the debate, it means that he thinks that he can convince people. That is, he is no longer a sceptic, but represents a positive opinion, which is usually bad and can triumph only by convincing the community that other opinions are even worse, because useless". To conclude, the opinion polls conducted recently show a fall in the approval ratings of both the government and Lula. However the performance acceptance for the president remains strong — approximately 60%, what seems surprising taking into account the modest economic and social outcomes so far. Of course, his time in office (January 2003 – December 2006) is elapsing. In order to get a second mandate, despite real and/or imaginable difficulties, better to accelerate actions towards resource creation with a human face.

NOTES

¹ For example, in post-Maastrich Europe, public companies that are independent of their treasuries are not included in the calculations of the public-sector deficit (or surplus). However, just the contrary occurs in South America where, after IMF guidance, state companies that are independent of their treasuries are included in the calculation of public accounts. It would seem that the Fund adopts two different economic theories: one for north of equator and another for south. [See *The Economist*, May 20th (2000, p. 8), section Letters, in which the former Minister of Health of Brazil raises this among other points].

² See figure 1, in the appendix, for a Brazilian perspective of the Washington Consensus.

³ The Federal Government only executed 46.25% of the programmed investment, which was slashed to assure the primary superavit accorded with the IMF. Such superavit of R\$ 66 bi was insufficient to pay the interests (R\$ 145 bi) associated to the public debt (R\$ 913 bi) i.e., 58.2% of the GDP. Notice that R\$ 145 bi is 4.9 times the expenditure of the Ministry of Health; 6.8 of the Ministry of Education; 31.5 of the Ministry of Transport and 80.7 times the budget for the programme Zero Famine.

⁴ It would be interesting to make a fair comparison with other nations in Latin America. It occurs that comparability of data among countries and years is somewhat limited by variations in methods, definitions, and comprehensiveness of data collection and reporting.

⁵ For an excellent perspective on this matter see Bruton (1998).

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