BRAZIL ON THE THRESHOLD OF THE THIRD MILLENIUM

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Challenges

Brazil shares the fate of all backward countries, which have comprised the vast majority of nations at least since the onset of globalization in the 15th century. With the rise of industrial capitalism in the late 18th century, an international division of labor arose that split the world, for almost two centuries, into one group of nations that exported manufactured goods and capital – the so-called *organic nucleus* – and another group, *peripheral*, that included all the others, exporters of raw materials. The organic nucleus of the world economy monopolized technical progress – and was, thus, advanced. Its productivity was always higher, it dictated standards of consumption to semi-peripheral and peripheral countries, and it transmitted them its scientific theories and political ideologies.

Obviously, for countries excluded from the organic nucleus the great challenge was, and continues to be, to overcome backwardness by means of accelerated development – ceasing to be importers and becoming producers and exporters of capital, technology, fashions and ideas. It must be noted that, since the late 19th century, a growing number of countries have managed to surmount this challenge: United States and Germany at first, almost immediately followed by several countries from Western and Central Europe, in addition to Canada, Australia and New Zealand. After this first wave, a second one managed to supersede their backwardness in the latter half of the 20th century, especially Japan, Italy and Spain, but also Asian countries such as South Korea, Taiwan and Singapore.

It is interesting to note that, over the last 50 years, many more countries *began* to develop than managed to *wholly* overcome their backwardness, with most of the so-called *developing economies* remaining somewhere in the midway. Impressive levels of industrialization and urbanization were attained, and both a national bourgeoisie and a middle class of salaried workers with relatively high incomes were formed. However, over the last two decades, the pace of development has slackened and the gap between them and the organic nucleus began once again to increase. They are the semi-developed countries, where a significant portion of the population remains plunged in poverty and backwardness.

Latin America, led in a certain way by Brazil, Mexico and Argentina, followed this course. Decolonized much earlier than Asia and Africa, Latin America was able to begin its development before World War I by replacing imports, and joined the semi-periphery by the mid-19th century. Not by chance, the most sophisticated theory of development, that of dependence, originated in Latin America. When this theory was formulated, at CEPAL, the challenge of overcoming backwardness was very much in the minds of Brazil and neighboring countries. And as late as 1980, everything led to believe that at least Brazil (and, possibly, Mexico) was going to achieve it.

From 1980 onwards, however, the world economy began to undergo a series of crises, signaling deep changes in its foundations. The severest was the deregulation, actually the *privatization,* of the world capital market – a decisive step for the hegemony of the world economy to pass thereafter from the hands of national governments coupled with productive enterprises to those of international multicompanies, captained by what might be called *financial capital.*

It is unfitting to discuss the etymology of financial capital in this brief essay. But it must be made clear that it refers to the *capital of financial intermediaries* (also called bank capital). In other words, financial capital refers to a fraction of total capital dedicated to providing financial services: issuance of means of payment, safekeeping and management of securities, financing, issuance of insurance contracts, etc. Financial capital is the main architect of the accumulation of capital brought about by productive capitals, i.e., capital invested in activities that produce use value (goods and services that directly or indirectly fulfill human needs). Financial capital represents the interests and, overall, shares the world view of the *holders of financial wealth*, that is, of capital invested in financial assets: bank deposits, stocks, pension funds, investment funds, bonds of public or private debts etc.

The holders of financial assets do not constitute a class inasmuch as the greater part of the population fits this category – including, in Brazil, all social security and welfare beneficiaries. But there is a small number of *large* holders of financial assets who professionally practice financial speculation, contributing to the periodic reconfiguration of the world economy by redefining the flows of capital. Until the 1970s, this group, which might be labeled *rentier bourgeoisie*, as well as financial capital itself, were submitted to the policies of national monetary authorities and to national development plans, often led by infrastructure service firms, the majority of which belonged to the state-owned production sector. From that time on, however, the rentist bourgeoisie has been enjoying increasing freedom to move its capital between countries and industries – acquiring a fatal weapon, the capital flight, with which to punish governments that oppose their interests and/or ideals.

The major interest of the rentier bourgeoisie is to appreciate the capital it holds and avoid its depreciation through inflation. It is well known that inflation transfers income from creditors to debtors, because price increases reduce the real value of credits. By definition, every rentier is a creditor. For the rentier bourgeoisie, a government that promotes inflation is a deadly enemy and governments that tolerate inflation or are incompetent in fighting it must be replaced. Furthermore, it is advantageous to the rentier bourgeoisie that interest rates remain high, at least higher than forecasted inflation, even if this goes against the interests of investors of productive capital, who in order to finance their investments have to pay interest out of their profits.

The incompatibility between rentist interests and full employment was acknowledged more than 60 years ago by Keynes: "[. . .] the extent of effective saving is necessarily determined by the scale of investment and that the scale of investment is promoted by a *low* interest rate [...] Thus it is to our best advantage to reduce the rate of interest [...] the rate of interest is likely to fall steadily, if it should be practible to maintain conditions of more or less continuous full employment [...] the return from them [capital instruments] would have to cover little more than their exhaustion by wastage and obsolescence together with some margin to cover risk and the exercise of skill and judgement. [...] Now, though this state of affairs would be quite compatible with some measure of individualism yet it would mean the euthanasia of the rentier, and, consequently, the euthanasia of the cumulative oppressive power of the capitalist to explore the scarcity-value of capital" (Keynes, 1936: 375-376, italicized in the original).

Unfortunately, Keynes' forecast that sustaining full employment would lead to the euthanasia of the rentier did not become true. For approximately 30 years, countries of the organic nucleus have remained near to full employment, subordinating the rentiers to national development policies. But the rebellions of students and young factory workers in May 1968, coupled with the "oil shocks" of the 1970s, led to high inflation in the advanced countries, demoralizing the policies of development and full employment, and giving rise to the neoliberal reversal. The essentials of this sea-change were brought about during Paul Volker's tenure (1979-1987) at the US Federal Reserve, the central bank of the United States.

Volker adopted monetarism as his doctrine for monetary policy. For four years – 1979 to 1983 – he tightened credit in the United States, causing the deepest and longest recession since the 1930s. Due to the huge weight of the United States upon the world economy, central banks in other countries were forced to imitate the Fed and were likewise hit by recession. Interest rates rose to unheard-of levels during peacetime, preventing heavily indebted countries from servicing their debts. The debacle of the Mexican currency in August 1982 inaugurated the foreign debt crisis that shook all of Latin America and many Eastern European, Asian and African countries. Brazil and several other countries then striving to overcome backwardness were violently forced to relapse into it.

Volker's counterrevolution has been expounded in great detail by Greider in a work bound to become a classic, suggestively titled *Secrets of the Temple* (1987). Greider shows that finance has forever and always been shrouded in a sacrosanct mystery, as something too important and too complex to be reckoned by laymen. That is why public opinion in the US endured Volker's unemployment, wage losses and high interest rates without revolt. The same happened in other countries. The new financial hegemony accomplished its major intent: inflation did fall, never to rise again, with the liquidation of the power of labor unions, farmers and the remaining petite bourgeoisie to bargain and exert pressure. From that time on, in the advanced countries, the power over the economy passed from the minister of the economy or finance to the head of the central bank. In social terms, the hegemony passed from the public administrators, allied to the industrial and service bourgeoisie, to the rentist bourgeoisie, represented by bankers, fund managers and brokers of the financial market.

Brazil was somewhat delayed in joining the neoliberal political design. In 1990, president Collor began opening the domestic market, causing a huge recession which was 'useless' to overcome inflation, but which served to debilitate organized sectors of the social classes. In 1995, president Cardoso put an end to inflation, riding atop an immense wave of foreign and mostly short-term investments. With an overvalued real (the new Brazilian currency), the balance of trade plunged deeper and deeper in the red, and deficits in the balance of services swelled with the remittance abroad of interest payments, profits and other financial yields – not to mention the revelry of Brazilian tourists abroad. The inevitable outcome could be seen as early as 1996, but speculators let themselves be blinded by the unceasing reiterations of confidence in the Brazilian government uttered by… other speculators! It was the well-known herd instinct in action: wherever the bulk of investors go, the remaining are also obliged to go.

Absolute and relative per capita Gross National Product (GNP) in 1960, 1979 and 1995 for the G7, Brazil, South Korea, Malaysia, Russian Federation (USSR) and China.

Year	1960		1979		1995	
	US$	%	US$	%	US$	%
G7	6,109	100.0	8,904	100.0	25,174	100.0
Russia[1]	2,750	45.0	4,110	46.2	2,240	8.9
Brazil	1,114	18.2	1,780	20.0	3,640	14.5
South Korea	745	12.2	1,480	16.6	9,700	38.5
Malaysia	925	15.1	1,370	15.4	3,890	15.5
China	[1]	[2]	260	2.9	620	2.5

Obs.: [1] USSR in 1960 and 1979; Russian Federation in 1995.
[2] Data not available from the source.
Source: World Bank. Report on World Development (several years).

Brazil was caught by all the financial crisis that ensued, being the country with the greatest debt ratio and – after China, among the semi-peripheral countries – the one that receives more direct investments. Thus, the 1990s were even more lost than the 1980s, the so-called "lost decade". Comparatively, our backwardness has grown since 1980 – and not only in quantitative terms, that is, in the increased gap between Brazil's and the advanced countries' per capita income. The partial dilapidation of the country's infrastructure and the privatization of the remainder, coupled with the denationalization of a significant portion of Brazil's heavy industry, also diminish our chances of overcoming backwardness by accelerating development in the years to come.

The table provides us with an overview of how backwardness in five different countries, including Brazil, has increased or decreased vis-à-vis the developed countries, here represented by the G7, the group of the world's seven wealthiest countries: Japan, Germany, United States, France, Canada, Italy and United Kingdom. We've taken the G7's average GNP per capita as the goal or target that backward countries wish to achieve.

In 1960, Russia was already a semideveloped country and its per capita GNP had reached 45% of the goal. Nineteen years later, the former-USSR had only slightly breached the difference from the G7, with a per capita GNP that was 46.2% of the goal. At this pace, the USSR would take centuries to join the organic nucleus of the world economy. In 1991, however, amidst a horrendous economic crisis, the USSR was dissolved. Most of its elements then joined to form the Russian Federation, which remains to this day in economic regression. In 1995, its per capita GNP in nominal dollars had fallen to almost half of the 1979 level, representing only 8.9% of the G7 per capita GNP.

Brazil was also semideveloped in 1960, with a per capita GNP that was 18.2% of the goal. Over the next two decades, it managed to speed up its development, so that in 1979 its per capital GNP had reached 20% that of the G7. At this pace, Brazil would also take centuries to join the advanced nations. Furthermore, the country's development practically ceased after 1980, so that in 1995 the per capita GNP represented only 14.5% of the goal. In relative terms, although our setback was minuscule compared to Russia's, we were in 1995 farther from the goal (14.5%) than we had been in 1960 (18.2%).

Of all the countries in the table, the one with the best performance is South

Korea. In 1960, its per capita GNP was only 12.2% of the goal; in 1979, it had reached 16.6% and in 1995 the gap had further decreased, with a per capital GNP of 38.5% of the goal. Having increased 21.9 percentage points in 16 years (1979-1995), South Korea would reach the G7's per capita GNP in 45 years, if it manages to add 1.37 percentage point per year. There is no doubt that, South Korea has steadily overcome the lag with an admirable rhythm of development, during the 35 years encompassed in the table.

Malaysia has also developed, but only slightly faster than the organic nucleus of the world economy. That is why its ratios show minimum increments: from 15.1% in 1960 to 15.4% in 1979 and 15.5% in 1995. It's not possible to say if Malaysia is overcoming its backwardness, but in 1995 its position relative to the goal was already better than Brazil's.

The case of China is the most intriguing. In 1979, its per capita GNP was 2.9% of the goal, a figure that presumes a very low level of development. From that year on, however, its economy has been growing at very high rates and Chinese exports of manufactured goods have literally flooded the world market. Nevertheless, its per capita GNP in 1995 was only 2.5% of the goal, which implies a relative regression. It's probable that this paradoxical result ensues from the devaluation of the Chinese currency, which must have helped to expand exports but reduced the dollar value of its GNP.

These data, although sparing and based on a single variable, leave no doubt that the challenge Brazil faces on the threshold of the third millennium is extremely intricate, if only because the organic nucleus of the world economy has not ceased growing either, albeit at modest rates over the last decades. The advanced countries are unleashing a strong wave of technological innovation, which revolutionizes productivity of labour and consumption patterns. Thus, the countries of the organic nucleus advance ever more, forcing economies that wish to overcome their backwardness to speed up very much their own development.

Such acceleration requires a coordinated effort from both the public and private sectors to increase the efficiency of sectors already implanted in the country and also to implant new ones, which not only incorporate the newest technology but also fulfill the basic needs of the people. Brazil's goal is not merely to overcome backwardness but that development benefits the majority of its people, who until now have been largely marginalized from most of the gains already achieved.

Overcoming backwardness is a challenge that History places before us, but will only acquire concrete meaning if it helps to eliminate poverty in Brazil. This requires, first, policies to generate jobs and income for the one fifth of the workforce that remains involuntarily idle and, second, a swift increase in the supply of goods and services that the beneficiaries of income redistribution will want to buy. This implies investments in education and health, housing and food, transportation, energy, telecommunications and other infrastructure services.

In face of this challenge, Brazil, as a political economy, has visibly weakened. The privatization of infrastructure services, preceded by cuts in subsidies and consequent tariff increases, implies that the lower income brackets of the population will have less access to these services. Something similar happens when state-owned banks, which should cater to low income customers, are privatized and even denationalized. The intensely competitive environment so created only benefits temporarily medium and high income purchasers. The results will soon be a greater concentration of capital, followed by the oligopolistic reorganization of markets. This process is already going on.

Brazil's great advantage to overcome backwardness was, and continues to be, its huge internal market. The policies of liberalization, privatization and denationalization all deny this advantage.The domestic market has been opened hastely and thoughtlessly to imports, leading to the annihilation of entire industries and thousands of domestic companies. To be sure, there has also been progress in modern and globalized sectors, such as information technology and telecommunications. But these advances depend on the political economy of global multicompanies who see Brazil as an integral part of the global marketplace and have no empathy for the challenge of overcoming backwardness that disheartens a significant part of the people.

Dilemmas

In view of this historical challenge, Brazil faces two fundamental dilemmas. One concerns how the country will insert itself into the world economy; the other refers to the development regime it will adopt.

Insertion in the World Economy

As we have seen, the world economy is becoming increasingly dominated by financial capital. This means that multilateral agencies – such as the International Monetary Fund, the World Bank and the World Trade Organization – try to impose upon member countries policies that subordinate their economies to the unhampered operations of the marketplace. All this is sponsored and stimulated by the United States and the other great powers that lead politically the world system.

One possibility open to Brazil is to try to join the world economy by complying with the new rules which require increasing opening of the domestic market to imports of goods and capitals and decreasing interference of the State in the domestic markets – including the capital and labor markets. Which means relinquishing classic industrialization policies, which were indispensable to every late comer that has ever managed to penetrate the organic nucleus (including the United States) such as, for instance, the preservation of the internal market for new so-called "infant" industries, favoring them in terms of financing, fiscal incentives, government purchases, and so on.

This type of insertion, which in all fairness must be called "neoliberal", leaves open only one path of development: the one resulting from external investments, particularly investments from multinational companies (MNCs). These companies do undeniably invest in peripheral countries, particularly in Brazil, which has been one of the largest recipients of direct foreign investments in the Third World. Between 1990 and 1998, China received US$ 247 billion, followed by Brazil and Mexico with 69 billion apiece, Singapore with 61, Malaysia with 38, Argentina with 36, Indonesia with 26, Thailand with 25, South Korea and Hungary with 20 and Hong Kong with 16 billion (SOBEET's Newsletter nº 13).

This list makes it clear that the MNCs invest mainly in semideveloped peripheral countries. They do so to take advantage of the comparative advantages these countries offer, such as low-cost labor with certain skills, gargantuan fiscal incentives and access to markets with growth potential. It is doubtful, to say the least, that investments by the MNCs transfer to peripheral countries nobler functions, such as strategic planning, technological research or new product development. Some MNCs are globalizing their controlling groups, but only within the organic nucleus (such as the new Daimler-Chrysler, for instance). Thus, we may assume that the typical MNC keeps the nobler functions in the country where it has its head office, so that direct external investments in peripheral countries such as ours, do not contribute in the least to the overcoming of backwardness.

The dependence on foreign capital entails increasing imports both of goods and capitals, including loans, because the subsidiaries of a MNC tend to acquire inputs and finance themselves abroad. The result is a quick deterioration of a country's external accounts, followed by capital flight, structural adjustments (more often than not monitored by the IMF), followed by recession that will last until the country's public and external accounts are once again balanced. Brazil has undergone this experience twice in the last 18 years. In spite of the abundant foreign investments since 1995, our development has been mediocre.

Another option open for Brazil's insertion in the world economy is for the country to center its efforts to overcome backwardness on the domestic market, encouraging the emergence of Brazilian (or South American) MNCs, sufficiently competitive to face on equal standing their kindred in the world markets. This option implies challenging the financial domination of the world economy and the ruling neoliberal paradigm. Development would be promoted by means of industrialization policies which associate a productive public sector – electricity, telecommunications, basic sanitation, high technology industries – and companies controlled by residents in the country or in the region.

This kind of insertion might be called *interventionist*, as it puts the command of the development process in the hands of the State, subordinating the workings of the marketplace to its priorities. It does not imply isolation from, but rather insertion in the world economy. An insertion that deliberately provides Brazil the same advantages enjoyed by the organic nucleus. That was the option that enabled Japan and South Korea to overcome their backwardness and is enabling China to do likewise nowadays.

An interventionist insertion does not mean a return to the past, if only because development policies that worked between 1934 and 1980 can hardly be expected to work from 2000 onward. This time, protectionism would have to be selective and combined with plans for competitive gains allowing the gradual reduction of barriers. Measures of fiscal and credit assistance would have to be negotiated through industry-wide boards, with the participation of representatives of consumers and labor, so that the gains might be democratically shared among all participants.

The Development Regime

This dilemma arises from the recent change in the regime of development, the command of which was transferred from the State to the *marketplace*, or rather, to financial capital. The *BNDES* (National Bank for Economic and Social Development) and *Petrobrás* (the Brazilian state owned oil company) are reminiscent of a development regime that is undergoing deliberate wreckage with the privatization of major state-owned companies, including the *Vale do Rio Doce* (one of the largest iron-ore producers and exporters of the world), and of most state banks. Today, development is being led by MNCs in strategic industries, such as finance, telephones and electricity, passively monitored by the Central Bank and by new State agencies, whose mission is to assure that concession contracts be complied with.

One consequence of this option is the renouncement by the federal government to reduce regional inequality, which is still immense in Brazil. Instead of promoting investments in the most backward regions, the government tolerates fiscal warfare, from which the only winners are the investing MNCs.

Another consequence is the gradual liquidation of the Brazilian bourgeoisie, faced with the increasing domination by multinationals of the industrial, commercial and service sectors. As the bourgeoisie, in 1994 and in 1998, overwhelmingly supported the presidential candidate who was responsible for this change of the development regime, it becomes undeniable that Brazil's ruling classes immolated themselves, because either of their neoliberal conviction or of the fear that power might fall into the hands of a representative from the working class.

Brazil's current development regime, in addition to its unmistakable failure in speeding up the country's development, enshrined the unfettered workings of the marketplace – with its propensity to concentrate income and increase economic inequality. As in other countries, this regime abets the swift development of a *new economy* of information technology and telematics, creating a significant number of well-paid jobs that are taken up by young people (who are better adapted to advanced technologies). At the same time, however, it frees competitive pressures that, at all levels, expel a large number of salaried workers from their jobs, producing a *new poverty* that is translated into unheard-of unemployment rates, in terms both of the duration of joblessness and of the number of people afflicted.

In all likelihood, the neoliberal development regime will continue to deepen Brazil's economic and social inequality, already the steepest in the world. The contrast between the recent wealth of some and the recent misery and exclusion of others gives rise to various sociopathologies, such as increasing criminal violence in metropolitan areas, corruption at all levels of government and flourishing consumption of addiction-inducing products and the illegal industry that nurtures it.

The alternative to the neoliberal regime of development is being built by local and state governments which introduce school grant programs that enable the children of the poor to attend public school instead of going to work; develop participative budgets that allow representatives from various localities and engaged sectors to discuss and negotiate priorities in the investment of public funds, or organize the unemployed in labor or production cooperatives, allowing their integration into social production on the basis of self-management.

The alternative development regime takes as its starting point the overcoming of the social crisis. The strategy here is the mobilization of the victims of the crisis by the State, in partnership with churches, labor unions, NGOs and universities. The *Ação da Cidadania contra a Fome* (Citizens' Action Against Hunger), lead by the late sociologist Herbert de Souza, better known as Betinho, that mobilized millions around the country, may be considered its primordial experience. The *Ação* no longer has its initial dimension, but left behind important institutional fruits, such as the *Rede de Incubadoras Tecnológicas de Cooperativas Populares* (Network of Technological Incubators for People's Cooperatives), which is active today in 15 universities spread throughout Brazil, and *ANTEAG* (National Association of Workers in Self-Managed and Stock-Sharing Companies), which has helped workers in more than 70 bankrupt or failing companies to convert them into undertakings possessed and collectively managed by them[1].

At present, these organizations – as well as the *MST* [Movement of the Rural Landless Workers], by creating cooperatives in agrarian reform settlements; the *Bancos do Povo* (People's Banks), by financing microproducers; the *Clubes de Troca* (Barter Clubs, known in English speaking countries as LETS Local Exchange Trade

1. Since this was written the figures have changed. Now, in June 2001, the number of Incubators is twenty and the number of undertakings in *ANTEAG* is about two hundred.

Systems], by using community currencies to create markets; and others – are laying the foundations of a market economy no longer ruled by the profit motive, but by the generation of work and income, a market economy organized on the basis of solidarity around local and regional markets. All such initiatives are still very recent and few have gained effective support from governments. But those of the states of Rio Grande do Sul and Mato Grosso do Sul, together with dozens of municipal governments all over the country, are beginning to change the country's bleak scenario.

The development regime, alternative to neoliberalism, will only become feasible when taken on by the federal government. When this occurs, priorities will change. Economic growth will be conditioned by the demand increased by various national programs of income redistribution and of generation of work and income. Which, in turn, will require new industrialization policies, aimed this time at fulfilling the basic needs of the population as a whole.

Fiscal and monetary policies will then be put at the service of these goals. The stability of prices will be preserved, but no longer by restricting growth and maintaining unemployment. Stable prices will have to be defended from the inherent pressures to raise them from an economy "in a more or less continuous conditions of full employment", to use Keynes' words. This will require the collective contracting of wages and prices throughout the chains of production, by representatives of business, workers and consumers – with the government acting as coordinator and arbitrator of the entire process.

This development regime, which might be called 'solidary', is not incompatible with a certain degree of globalization of the economy, as long as strategic sectors (such as financial intermediation and infrastructure services) remain under the control of investors, workers and users representing the country as a whole. Multinational corporations may continue to participate in the economy, as long as they accept the participation of workers and consumers in the making of certain decisions. If we consider the huge amount of foreign investment in China, whose economy is so little dominated by financial capital, this scenario need not be seen as improbable.

A solidary development regime must be an ongoing project deriving from new social practices. The great historical experiments of solidary economy were always made as responses to great challenges. It should not be different in Brazil.

The new solidary practices are still disperse and many are still unknown. Only now are they beginning to be studied and systematized, that is to say, the project has yet to reach maturity. But, in face of the immensity of the social crisis, it is likely that this alternative regime will be *ready* when political conditions make it the pivot of everyone's hopes.

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