

# Celso Furtado and the Resumption of Construction in Brazil

## Structuralism as an Alternative to Neoliberalism

by  
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*An analysis of Lula's economic and social policy during his first term (2003–2006) shows the degree to which Celso Furtado's predictions about the outcome of market fundamentalism in Latin America and the direction of the Lula government in Brazil have materialized. Faced with the daunting task of administering Cardoso's legacy of massive indebtedness, Lula's priority was to ensure debt-service payments and gain international credibility by strictly following the prescriptions of the old and the new or revised Washington Consensus, thus breaking his promise of a social transformation with a new development model. The central question now is whether a second Lula administration (2007–2010) will represent a transition to a national strategy capable of producing economic growth with social inclusion. Furtado's structuralist insights provide the basis for the elaboration and implementation of an alternative development project for the country and the region at large.*

**Keywords:** Celso Furtado, Lula, Structuralism, Neoliberalism, Workers' party

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The periphery of the international capitalist system has lost one of its most influential twentieth-century intellectuals and humanists. The Brazilian political economist Celso Monteiro Furtado died on November 20, 2004, at 84 years of age. Furtado devoted his life to the study of Brazilian and Latin American underdevelopment with a passion rarely seen and contributed mightily to overcoming this historical obstacle by combining theory and political action.<sup>1</sup> His project, consisting of a nationally integrated capitalist development combined with local decision-making centers capable of improving the quality of life of the population at large, sounds like a fresh proposition for renewing the development debate interrupted by the hegemony of *la pensée unique* for the past two decades. The challenge, as Furtado often said, is to give priority to the social and develop our own policies for an autonomous integration into the global economy. The Brazilian economist Luiz Gonzaga Beluzzo (2004) captured Furtado's fundamental contribution: "We owe to Furtado our understanding of the specificity of underdevelopment and of a central question: peripheral countries are condemned to 'invent' their own development strategies. Otherwise, they will abandon their fate to the processes that generate dependence and backwardness."

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This article attempts to renew the development debate by bringing back Furtado's structuralist theory and his concrete policy proposals for overcoming the Latin American underdevelopment that has been deepened in the neoliberal globalization era. It shows empirically the extent to which Furtado's predictions about the outcome of market fundamentalism in the region and particularly about the direction of the Lula government have materialized through an analysis of the president's economic and social policy during his first term (2003–2006). It demonstrates that, faced with the daunting task of administering Cardoso's legacy of massive indebtedness, Lula's priority was to ensure debt-service payments and gain international credibility by strictly following the prescriptions of the original and the new or revised Washington Consensus, thus breaking his promise of a social transformation with a new development model. The central question now is whether a second Lula administration (2007–2010) will represent a transition to a national strategy capable of producing economic growth with social inclusion. Furtado's structuralist insights provide the basis for the elaboration and implementation of an alternative development project for the country and the region at large.

### THE EXTERNAL AND INTERNAL ROOTS OF UNDERDEVELOPMENT

Latin American countries indeed "invented" their own strategy: import-substitution industrialization with the developmentalist state as the leading agent of change, assuming the role of strategic planner. Here lies, in the words of Cristóbal Kay (1989), "the challenge from the periphery" to the prevailing paradigm, the liberal neoclassical/modernization growth theories of the 1950s and 1960s—precisely the same ones that made their reappearance in the guise of neoliberalism in the 1980s and 1990s. Structuralist theory, the center-periphery paradigm of asymmetric relations in the global capitalist system, was developed at the Economic Commission for Latin America (ECLA), the first development school established in the Third World. Furtado joined Raúl Prebisch's team in Santiago de Chile in 1949, and the concrete project of internal transformation was launched. State-led import-substitution-industrialization policies were designed to overcome the underdevelopment associated with Latin American countries' subordinate integration into the world economy; specializing in and exporting primary products, they were increasingly experiencing deterioration of the terms of trade within the prevailing international division of labor. Industrialization, ECLA argued, would transform the domestic market into the fundamental motor of national development, promoting long-term sustained growth and reducing external vulnerabilities.<sup>2</sup>

The central proposition of ECLA's structuralism—that development and underdevelopment are aspects of a single historical process of the expansion of the international capitalist system—stimulated Furtado's powerful contribution to a Latin American theory of underdevelopment (see Furtado, 1992: 73).<sup>3</sup> Utilizing his unique multidisciplinary historical-structural method for the analysis of economic transformations, he attempted to explain the differences between the social and economic structures of Latin America (giving

special attention to Brazil) and those of the developed countries. In his landmark work *Desenvolvimento e subdesenvolvimento* (1961a) he formulated three fundamental hypotheses:<sup>4</sup>

1. The global expansion of center industrial capitalism through “the penetration of modern capitalistic enterprises into archaic structures” produces profoundly heterogeneous “hybrid structures.”

2. Underdevelopment is an autonomous historical process that tends to perpetuate itself, a process qualitatively distinct from the experience of center countries, and cannot be considered a stage that all societies must pass through on their road to development as Rostow (1960) assumed.

3. Underdevelopment is characterized by an oversupply of labor, and capital-intensive technology imported from the center prevents the absorption of the working masses connected with the vast subsistence economy. The occupational structure of underdeveloped countries tends to perpetuate and exacerbate inequality in income distribution and social injustice.

Furtado's thesis of structural social and economic inequalities in peripheral countries has contributed to the development debate by introducing internal constraints to the problematic. This proposition became central to his later analyses of the limitations of industrialization in the periphery as a strategy for overcoming underdevelopment. Contrasting the industrialization process in the center and in the periphery, Furtado concluded that peripheral industrialization had failed to absorb the unlimited supply of labor and increased income concentration. It was not replicating the historical trajectory of the center countries, where technical progress and increases in productivity in a context of labor scarcity were seized by the socially and politically conscious working class and reflected in higher wages, mass demand for consumer goods, and ultimately the improvement of the quality of life of all members of the society, a process that Furtado called “social homogenization” (1992: 38–39). (This does not, of course, mean uniform living standards but refers to the fulfillment of the basic needs of the population as a whole.) By stressing the internal obstacles to underdevelopment in the periphery, Furtado strongly suggested that they could be removed only by political action—in other words, that underdevelopment was a political choice.

In *Subdesenvolvimento e estagnação na América Latina* (1966) and *O mito do desenvolvimento econômico* (1974), Furtado established the relationship between growth and income distribution in the Brazilian model and the very important difference between economic growth and economic development, the latter being understood as the reduction of social and economic inequalities. In *O mito*, he explained the Brazilian “economic miracle” (1968–1973) under military rule, when GDP growth rates averaged 11.3 percent and per capita growth rates 8.4 percent while the Gini index, which measures inequality in income distribution, increased to 0.64—one of the most extreme in the world. One of his fundamental notions was that economic growth was not sufficient to overcome underdevelopment—that the Brazilian model had a structural tendency to exclude the mass of the population from the benefits of capital accumulation and technological progress.

Furtado's perception of increasing “structural social heterogeneity” as the outcome of peripheral industrialization, whose absorption of modern production technology did not involve the national economy as a whole, reinforced his

thesis that underdevelopment was not simply a stage that all societies would have to pass through but a structural problem that could be overcome only by the state, the fundamental agent of national development. He proposed major structural and institutional reforms—income redistribution and agrarian reform—to transform the domestic market into the dynamic decision-making center of the economy.

### NEOLIBERAL GLOBALIZATION AND THE DEEPENING OF UNDERDEVELOPMENT

Furtado became profoundly disenchanted with the path that industrialization took in Brazil and Latin America during the military dictatorships and particularly after neoliberal globalization became hegemonic among the elite—the middle and upper classes, the agents of the reproduction of the consumption patterns of the center countries and the deepening of underdevelopment. He developed many formulations for explaining the new Latin American reality: dependent patterns of consumption, peripheral capitalism, mimetic development, the modernization of underdevelopment, and the very appropriate cultural dependence. As he recently (2000, quoted by Nogueira Batista Jr., 2004) observed, “We are running the risk of being reduced to the role of passive consumers of cultural goods produced by other people.”

In his last book, *Em busca de novo modelo* (2002), Furtado focused his analysis on the elite consumption patterns that determine the two central features of Latin American peripheral economies: the tendencies toward constant external indebtedness and income concentration. In his view, the beneficiaries of this concentration are not performing the proper role of an elite: they do not save to invest in our nations. They accuse popular politicians of increasing the public deficit and practice an exchange-rate populism aimed at reducing inflation to facilitate the consumption of imported goods. The Latin American elite is socially and politically incapable of promoting the national interest. Only a strong state with broad popular support can implement the fiscal reform required to reduce the conspicuous consumption of the wealthy, redistribute income, and increase domestic savings, thus promoting a development that prioritizes social inclusion and the reduction of the historical dependence on foreign capital.

It is evident that Furtado died frustrated by the disintegration of the nation and the state, the deepening of external vulnerability, and the loss of autonomy with regard to crucial policy decisions for development, rising unemployment, greater poverty, and worsening income distribution produced by neoliberal globalization in Latin America. After the strategy of import-substitution industrialization collapsed with the debt crisis and the lost decade of the 1980s, the region deepened its integration into the global economy through the implementation of the neoliberal growth model prescribed by the International Monetary Fund (IMF), the World Bank, and the U.S. Treasury, the so-called Washington Consensus, consisting of a standardized package of free-market reforms associated with liberalization, privatization, and deregulation combined with heavy doses of fiscal and monetary orthodoxy.

The outcome of the Washington Consensus policy prescriptions for Latin America can easily be grasped in the studies of the Economic Commission for Latin America and the Caribbean (ECLAC). ECLAC (2003a: 2) declared the period 1997–2002 a “lost half-decade” for Latin America:

Half of the region's countries have seen their per capita GDP [gross domestic product] contract in the past five years while the rapid growth once experienced by some individual economies has ground to a halt. . . . In social terms, open unemployment reached 9.1 percent, the highest point in Latin American history, and even higher than it was during the lost decade.

In its *Preliminary Overview of the Economies of Latin America and the Caribbean*, ECLAC (2003b: 9) showed that 2003 was the sixth year in a row lost to the region in terms of economic growth, as per capita GDP stood 1.5 percent lower than in 1997: “The six years of negative per capita growth caused social damage that will take time to reverse. There are 20 million more poor Latin Americans in 2003 than there were in 1997. Unemployment has increased by two percentage points during this period and is now at 10.7 percent.” Significantly, while 2003 was the first time in half a century that Latin American trade surplus (US\$41.1 billion) gave rise to an unprecedented current-account surplus (US\$6 billion), the region recorded a negative net transfer of resources (total net capital inflows minus net payments of profits and interest) for the fifth year running as interest payments and profit remittances rose to US\$54.8 billion from US\$50.8 billion in 2002 and total capital inflows were only US\$25.8 billion. As ECLAC (2003b: 20) states, “This means that, over the last five years, Latin America has witnessed a cumulative outflow of resources equivalent to 5 percent of GDP.” Meanwhile, poverty and indigence increased and income concentration worsened (see ECLAC, 2003c: 6–12). With the failure of neoliberalism as a model to produce economic growth with social inclusion, ECLAC returned to structuralist analyses, some would say neostructuralism (see Sunkel, 1995; Green, 2003; Gwynne and Kay, 2004), emphasizing the fundamental role of the state in designing national strategies to deal with globalization (see ECLAC, 2002).

Furtado showed his profound disillusionment in an incisive critique of social and economic conditions in Brazil (1999: 26): “At no moment of our history has the distance between what we are and what we expected to be been so great.” He had anticipated the increasing center-periphery asymmetries produced by the relentless economic, political, social, and cultural structural transformations in the global economy. In *Brazil: A construção interrompida* (1992: 24), he offered powerful insight into the disintegrative impact of transnational decision-making structures on the periphery with a central question regarding “the future of areas in which the formation process of the national state is prematurely interrupted.” He observed (1992: 30, my translation),

It would be naïve to overlook the fact that technological innovation leads to the internationalization of the economic circuits under the control of transnational corporations. But how can we fail to recognize that the weakening of national decision-making systems will have unexpected consequences for the political ordering of vast areas of the world, in particular for underdeveloped countries with vast territories and profound regional income inequalities such as Brazil?



Similarly, anticipating events that would become a reality in many Latin American countries at the dawn of the twenty-first century, Furtado (1992: 31, my translation) observed, "The breaks in this integration process will come from cultural factors, because it will not be a surprise if population groups struggle to preserve the cultural roots and particular values threatened with disappearance by the homogenization of patterns of behavior that economic rationality imposes."

More recently, responding to a question about the possibility of a victory of the left in the 2002 Brazilian presidential elections and of changes in economic policy as a result of it, Furtado answered prophetically that the economic constraints inherited from the Cardoso government would allow "almost no room to maneuver." The Cardoso government, he explained, had "reduced the nation's capacity to govern itself." Cardoso relied on international financial markets to achieve macroeconomic stabilization, offering very high domestic interest rates, and indiscriminately privatized (denationalized) strategic public enterprises to service the growing foreign debt, transferring crucial decisions for development abroad. "It is as if we were watching the suicide of the country. If this situation continues, it will have social repercussions sooner or later." Anticipating most of the events that would unfold in the country and in the region as a whole, Furtado observed, "The moment will come when Brazil's priority will be centered on expanding exports simply to pay the foreign debt," and warned that the government would have to invest heavily in technological innovation to increase the international competitiveness of the economy, as the experience of Asian countries, particularly India, showed (2004a: 46–50).<sup>5</sup>

In the last interviews Furtado clarified his position with regard to the Lula government, showing profound disenchantment with the president's economic policy. While reaffirming his conviction that the circumstances under which the Workers' party assumed power were very difficult, determining as they did a rigorous fiscal adjustment, Furtado expected from the president, at that time almost two years in power, the political courage, initiative, and creativity required to change the country's development model as he had promised during the electoral campaign. As Furtado observed, "It is evident that it was necessary to increase exports. What is happening is important but not sufficient. It is essential to change the development model, because Brazil is a deformed, mimetic country. The Brazilian middle class reproduces the consumption pattern of the United States" (2004b). Disagreeing vehemently with the permissive monetary and exchange-rate policies of the Lula government, Furtado stressed that "it is necessary to have certain instruments to govern a country. The most important in Brazil, as the past has demonstrated, is exchange controls, exchange discipline. We hear today that the Central Bank will be privatized, and this would mean the loss of control over monetary policy." Returning to his major theses, he emphasized that "renouncing state instruments leaves the country practically in a situation similar to the colonial era, when the Metropolis exercised this function. It is incumbent upon the state to assume the role of conductor of economic policy in underdeveloped countries." His solution for Brazil consisted, as always, in

restoring the domestic market as the dynamic sector of the economy. To do that it is necessary to reverse income concentration by stimulating productive

activities that do not always aim at profit but are essential to reach social objectives. . . . Brazil has enormous possibilities with its domestic market. This cannot be ignored by the ruling class, particularly the entrepreneurial class, when it throws all its chips into exports.

As to how he saw the orthodox option of the Lula government, Furtado answered, "Apparently it is a tactic that is lasting longer than expected" (2004c).

In one of his last public statements, Furtado showed his deep frustration with the priorities of Lula's economic policy, reflected in the repeated dramatic cuts in public investment to meet debt payments (2004d: 484–485, my translation):

To force a country that has not yet met the minimum necessities of the majority of the population to paralyze the most modern sectors of the economy and freeze investments in basic areas such as health and education in order to meet the balance-of-payments adjustment targets imposed by the beneficiaries of high interest rates is something that escapes any rationality. It is understandable that these beneficiaries defend their interests. What is not understandable is that we do not defend with the same zeal the right to develop the country. If the point of view of those who place the interests of our creditors above other considerations in the formulation of economic policy continues to prevail, we will have to prepare for a long period of economic retrogression, leading to the dismantling of a great part of what was constructed in the past . . .

President Lula did not attend Furtado's funeral. Honoring the political economist in an article published in *Valor Econômico*, he concluded, "Now, more than ever, we are heirs to and responsible for the resumption of an interrupted construction whose name is Brazil and whose inspiring master is Celso Monteiro Furtado" (da Silva, 2004).<sup>6</sup> Will the president meet this commitment in his second term?

### POST-NEOLIBERALISM OR ANOTHER INTERRUPTED CONSTRUCTION?

The historic presidential election of Luiz Inácio Lula da Silva, the charismatic former metalworker and leader of the Workers' party, in October 2002 symbolized a turn to the left in Latin America's largest country. Riding on a wave of euphoria and high expectations, Lula came to power in a landslide, securing more than 61 percent of the vote (some 53 million) largely on the basis of his campaign promises to change the country's development model so as to resume economic growth, generate employment, reduce poverty, and distribute income in one of the world's most unequal societies. Lula reiterated his pledges on January 1, 2003, electrifying the masses that flocked to Brasília from all corners of the country to celebrate the inauguration of one of their own as president: "Change. This is the key word. . . . The Brazilian people chose to change. That's why they elected me President of the Republic: to change" (da Silva, 2003).

During his first term (2003–2006), however, and in the face of fierce opposition and dissent within his political and social bases, Lula and his Workers' party continued—and even deepened—the neoliberal experiment of Cardoso's two administrations to build international confidence in the ability of the

government to honor the massive financial obligations it had inherited. The prescriptions of the old and the new or revised Washington Consensus constituted the axis of Lula's economic policy: IMF short-term orthodox monetary and fiscal policy to ensure macroeconomic stability imposed since the 1998 bail-out and the World Bank's institutional and legal reforms to ensure "a better investment climate," the so-called second-generation reforms.<sup>7</sup> As William K. Tabb (2003: 27) has noted, those who produced the old agenda are the same ones who now place the blame for the spectacular failure of the first round of free-market reforms squarely on the Latin American countries themselves for not completing the first-generation reforms and not providing a sound institutional framework to support markets.

Remarkably, in the revised Consensus the old developmentalist state is transformed into a "sensible" regulator (Kuczynski, 2003: 33–47), having a fundamental role to play as creator of better investment climates for market forces or, in the words of John D. Cameron (2004: 101), as "an active and energetic agent and facilitator of economic globalization." Lula adopted this revised neoliberal paradigm as a long-term growth strategy and not simply as a tactic during the "transition period to a new development model" promised to the Brazilian people (see da Silva, 2002a, b; 2003; PT, 2002). As Tarso Genro (2003: 72), one of the Workers' party theoreticians, concluded, "In truth, there is no historical precedent or theory of transition from a model of conservative modernization tied to financial capital to a productive model of accelerated growth and social inclusion."

## MACROECONOMIC POLICY

Lula's orthodox macroeconomic policy was thus centered on three pillars commanded by the Finance Ministry and the Central Bank: (1) the maintenance of high primary budget surpluses (government savings to pay interest on the public debt) to reduce the net public debt in relation to GDP, a fundamental indicator of a country's fiscal vulnerability, (2) an inflation-targeting regime, and (3) exchange-rate flexibility (floating) with free capital mobility. Having inherited from Cardoso a net public debt of 55.5 percent of GDP (R\$881 billion) in December 2002 that had grown during his eight years in power from 28.1 percent of GDP (R\$192 billion) in 1994, Lula successfully administered the legacy by delivering to the international and domestic financial markets exactly what they demanded of him. Ever-larger primary surpluses were produced through dramatic cuts in essential public investment—social programs and infrastructure (particularly transport, housing, water, and basic sanitation)—and increases in taxation.<sup>8</sup> Cardoso's last year in power left the country with taxation on the order of 35 percent of GDP (up from 28 percent in 1995); in 2005 it was 37 percent, leading to increasing social and political mobilization in many sectors of society, including particularly the industrial bourgeoisie and the middle class. Most recent estimates show that Lula ended his first term with taxation near 39 percent of GDP (see Rocha, 2002: 19; IPEA, 2005b: vii; *Folha de São Paulo*, 2005c, d; 2006).

Illustrating the continuity—and the increase—of massive transfers of resources to the financial sector under the Workers' party, thus reinforcing the



country's scandalous income and wealth concentration, the primary surplus grew from 3.9 percent of GDP (R\$52.3 billion) in 2002 to 4.8 percent (R\$93.5 billion) in 2005—beyond the 4.25 percent target originally agreed upon with the IMF and even the 4.5 percent raised by the government itself in 2004 to show its strong commitment to fiscal discipline and gain international credibility. Even during the electoral year 2006, the Lula government produced a primary surplus of 4.3 percent of GDP (R\$90.1 billion). The primary surpluses, however, were not enough to cover interest payments on the order of 8.5 percent of GDP (R\$114 billion) in 2002, 9.3 percent (R\$145.2 billion) in 2003, 7.3 percent (R\$128.2 billion) in 2004, 8.1 percent (R\$157.1 billion) in 2005, and 7.6 percent (R\$160 billion) in 2006 and consequently expanded the public debt. The government did manage to reduce net public debt in relation to GDP for the first time in 10 years from 57.2 percent (R\$913.1 billion) in 2003 to 51.7 percent (R\$957 billion) in 2004—a result associated with the appreciation of the currency in relation to the dollar and higher GDP growth rates led by export expansion in an exceptionally favorable international environment. Despite the severe continuous fiscal adjustment, however, net public debt remained at 51.6 percent of GDP in 2005 and was still around 50 percent of GDP (R\$1 trillion) in 2006, clearly demonstrating the contradiction between fiscal and monetary policy (see Banco Central do Brasil, 2005: 81–89; 2006: 82, 92–94; 2007b).

Thus, in a head-on confrontation with fiscal policy, the number-one priority of the government, the Central Bank pursued an extremely orthodox monetary policy to build market confidence in its ability to meet ambitious inflation targets (5.1 percent in 2005 and 4.5 percent in 2006 and 2007), guaranteeing speculators that their financial gains would not be eroded, and, of course, to enable the Treasury to roll over the huge public debt. Interest rates averaged 23.35 percent in 2003, 16.25 in 2004, and 19.05 in 2005, as the bank initiated another hike in September 2004, culminating in the ninth consecutive rate increase in May 2005. At 19.75 percent in nominal terms until September 2005, real interest rates in Brazil were above 13 percent, increasing debt service and the size of the debt itself. Gradual reductions began in that month, and by December 2006 rates stood at 13.25 percent, still around 10 percent in real terms (with inflation at 3.1 percent, below the target), the highest in the world, to continue handsomely rewarding the country's creditors and ensuring exorbitant bank profits. Equally problematic was the flood of short-term speculative international financial capital to the country, attracted by the huge interest-rate differentials with the rest of the world and the deepening of financial liberalization, with tax exemptions for foreign investments on the domestic public debt and other financial instruments (Provisional Measure 281 of February 2, 2006) and further appreciation of the currency to the detriment of continued export promotion (see Banco Central do Brasil, 2006: 11–12; IPEA, 2006a: A89).

Furthermore, while the government reduced dollar-indexed debt from 22.4 percent in December 2002 to some 2 percent in 2006, public debt linked to domestic interest rates was still around 40 percent. As the *Financial Times* (2006a) has recently observed (revealing, if there was any doubt, the supremacy of the financial markets in Brazil),

The Treasury has been able to remove dollar-linked debt because investors have few concerns over Brazil's external accounts. . . . Investors are confident that

Brazil can pay its bills and see little reason to demand protection against the threat of devaluation. But the Treasury has been much less successful in reducing the amount of interest rate linked debt. . . . To accept fixed-rate debt would be to give a vote of confidence in fiscal policy similar to that given to the current account. This is something investors are reluctant to do.

Because a negotiated restructuring of the public debt has not been on Lula's agenda, this means that the government will have to reassure investors by increasing the primary surplus to service the debt in full through deeper cuts in public expenditures, and material for the deepening of the fiscal adjustment is not in short supply in Brazil. The economist Antonio Delfim Netto, for example, has recently launched a proposal for a "zero nominal deficit" or "long-term fiscal plan," calling for flexibility in federal spending by reducing current expenditures, particularly on universal social programs guaranteed by the 1988 Constitution, and further reducing constitutionally mandated tax revenue transfers to health and education through the extension of a rule (see Delfim Netto and Giambiagi, 2005; Giambiagi, 2006), created in 1993 as part of Cardoso's Real Plan, that allows the allocation to public debt service of 20 percent of the revenues that, constitutionally, would be directed to social programs.<sup>9</sup> As the Instituto de Estudos Socioeconômicos (INESC, 2006a: 1) notes, "To govern for the markets and not for the majority of the Brazilian population is to disregard the message of the 2002 ballot box."

As early as December 2004, Lula's macroeconomic contradictions were captured in an internal Citibank report revealed by *Folha de São Paulo* (2004; 2005a). Establishing a contrast between Brazil and Argentina, Citibank economists clearly questioned the sacrifice Lula was imposing on his country in order to continue servicing the public debt at all costs. Taking into consideration Argentina's dramatic economic recovery and eventual renegotiation of its debt with its foreign creditors, the report concluded that Brazil would be much more vulnerable to international financial shocks than Argentina, whose debt service would be around 3 percent of GDP within the next year or two compared with Brazil's 7 or 8 percent, and that more than half of Brazil's public debt was linked to domestic interest rates. Argentina, therefore, would be an investment option, in the medium term, more attractive than Brazil.

Remarkably, what the Citibank report suggested was that Argentina's autonomous, nationalist, and developmentalist economic policy, whose priority is to stimulate the domestic market rather than to satisfy private creditors and the IMF, could be an alternative for other Latin American countries. Argentina negotiated on its own terms with foreign creditors who held up to 76 percent of the more than US\$100 billion on defaulted bonds since December 2001 and who accepted an unprecedented 70 percent reduction in their claims (*Financial Times*, 2005a, b; *Economist*, 2005b). Argentina's successful debt restructuring has imbued the country with patriotic euphoria, involving GDP growth rates on the order of 8 and 9 percent between 2003 and 2006, trade and primary surpluses achieved through a devalued currency, capital controls on short-term speculative inflows, and taxation on exports and financial transactions—policies intended to increase international reserves and domestic investment and reduce unemployment and poverty carried out by a government whose priority is the defense of the national interest in absolute defiance of IMF orthodox prescriptions (see ECLAC, 2004a: 75–77; 2005: 97–99; 2006c: 9; 2006d: 82–83; see also,

especially, UNCTAD, 2006: xvi). What has not been clearly recognized is the distance of the Lula government from its major Mercosur partner. Amply supported by internal political forces, Nestor Kirchner's courageous confrontation with private creditors and the IMF met with no sign of solidarity from the PT, the party that in the past had defended a total break with the organization.

### MICROECONOMIC POLICY

Lula's microeconomic policy was centered on "building institutions" to promote a "better investment climate" for market forces, and most of the World Bank's prescriptions were implemented by December 2004: a bankruptcy law to protect the rights of creditors, the reform of the judiciary to protect property rights, and the reform of the financial system and the credit markets to increase financing for the private sector at lower cost, in addition to initiating pension reform and tax reforms to simplify Brazil's complex taxation regime.<sup>10</sup> Congress also passed into law Lula's public-private partnership program, whereby the state provides guarantees to foreign and domestic investors in infrastructure projects in priority areas such as transport, thus delegating to the private sector functions that have historically been performed by the state. If during the Cardoso administration public resources were used to finance privatizations, now under Lula they would finance "capitalism without risk," and a public fund of R\$6 billion was established to offer protection to the private partners (see Ministério do Planejamento, 2005a).

Without the decisive role of the state, however, it is unlikely that the public-private partnership will be sufficient to increase the investment rate from its present level of 19 or 20 percent of GDP to 24 or 25 percent, even though the IMF has accommodated the government's request for extra public infrastructure expenditure. Under the so-called Three-Year Public Investment Pilot Program, the IMF has allowed investments of about US\$1 billion a year over three years (2005–2007) in the rebuilding of roads and ports that will then be transferred to the private sector as concessions. The program, designed to ensure that the government continues its austere fiscal discipline to service the public debt, will be strictly monitored by the fund and not excluded from the calculation of the primary surplus as had been expected (see IMF, 2005a; Ministério do Planejamento, 2005b). In practice, the IMF allowance lowers the primary surplus target to 4.10 percent of GDP from 4.25 percent provided that the government use the additional financial resources in IMF-approved projects, an "entitlement" that has raised eyebrows in conservative circles (see, e.g., *Economist*, 2005a; *Financial Times*, 2006b) but is consistent with the organization's attempt to make neoliberalism succeed in Brazil. The compliant Lula government in turn promised to speed up two crucial institutional reforms that have been included in the government program since its inception: the operational autonomy of the Central Bank to reduce political interference (although the bank has been acting with almost complete independence) and the reform of the labor market to increase flexibility. The obvious politically sensitive nature of these reforms, however, is delaying the completion of the IMF and World Bank's agenda for Brazil.

## SOCIAL POLICY

A novelty of the revised Consensus is a concern with social issues designed to put a human face on a development model defined strictly in terms of macroeconomic stabilization and, coincidentally, to minimize the political instability associated with the fiscal adjustment, particularly increased structural unemployment and persistent poverty. The World Bank has been advocating expansion of education and property titles, market-friendly land reform, microcredit programs, and, particularly, compensatory policies through the implementation of safety-net programs tightly focused on the indigent (the so-called targeted social policy). As a recent UNCTAD (2006: 51, 52) study observes,

The disappointing results of policy reforms led to the recognition that the initial reform package would have to be supplemented by measures to mitigate the adverse social effects. . . . But such a policy is unlikely to have a lasting impact as long as structural change remains slow and capital accumulation is insufficient to boost growth, increase productive capacity and create employment for the poor; shifting public finances away from investment that can have long-lasting effects on the causes of poverty to social spending that might temporarily cure the symptoms of poverty can be counterproductive in the long run.

The Lula government faithfully adopted the short-term, fiscal-discipline-oriented social agenda to restore the confidence of foreign and domestic investors in the ability of the government to honor its financial obligations.<sup>11</sup> The president's Bolsa Família (family welfare), combining the targeted social programs inherited from the Cardoso era (i.e., Bolsa Escola and Bolsa Alimentação), is the main cash transfer program, targeting families below the poverty line, with monthly per capita income below R\$120 (less than half of the minimum wage of R\$350 in 2006), and families in extreme poverty, with a monthly per capita income below R\$60 (up to a quarter of the minimum wage). According to the government, the targeted program reached 11.1 million families, some 40 million people, between 2003 and 2006, distributing average monthly benefits of R\$62 (see Ministério do Desenvolvimento Social e Combate à Fome, 2006). Government researchers utilizing household survey data from the Pesquisa Nacional por Amostra de Domicílios (National Sample Survey of Households—PNAD) produced by the Instituto Brasileiro de Geografia e Estatística (Brazilian Institute of Geography and Statistics—IBGE) show that absolute poverty indeed fell from 35.69 percent of the population (some 61.23 million) in 2003 to 30.69 percent (55.38 million) in 2005, while indigence or extreme poverty declined from 15.5 percent of the population (some 25.99 million) to 11.41 percent (20.60 million) (<http://www.ipea.gov.br>).<sup>12</sup> Thus, while transferring a modest 0.3 percent of GDP (R\$7 billion) to the wretched of Brazilian society in 2005, President Lula handed out 8.1 percent of GDP (R\$157.1 billion) to the country's creditors, some 20,000 families, and delivered the largest profits in history to Brazilian banks: R\$28.3 billion, 36 percent higher than the R\$13.9 billion earned in 2004 (see Pochmann, 2005b; *Folha de São Paulo*, 2006i).

In a recent analysis of the outcome of neoliberal reforms in Brazil, Gimenez (2005: 23) concludes: "The very rich are well remunerated with financial gains; the desperate poor are assisted through compensatory policies, and the organized and middle sectors are the preferential target of the structural reforms, since meeting

their demands is extremely expensive for the economic project." In fact, the evidence shows that Lula's neoliberal restructuring led to a dramatic change in his social support. Since its founding in 1980, the Workers' party's social bases had been concentrated in the modern sector's wage earners, industrial workers, and middle-class state employees. Now, the president's social support rests primarily with the impoverished masses, making the Bolsa Família the major instrument guaranteeing his second mandate (see, e.g., the projections of *Folha de São Paulo*, 2006a, f, and *Financial Times*, 2006c, which turned out to be absolutely correct in the 2006 presidential elections). As *Folha de São Paulo* (2006g) reported in special coverage of the targeted social program in the Northeast, "Going through the Northeast backlands, it is not difficult to agree with critics or supporters of Bolsa Família: in the very short term (today and tomorrow) there would be more hungry people without this money; the electoral impact pro-Lula is tremendous, and, without more investment in infrastructure and in birth control, the strong sensation is like 'drying ice.'"

In the *UN Millennium Project 2005* (UNDP, 2005a: 22), Brazil appeared once again as a country of contrasts, with notable backward regions, such as the Northeast, comparable to western China, southern Mexico, and the Ganges states in India. In the event launching the UN report in Brazil, the local office of the United Nations Development Program (UNDP) presented a map with 13 localities in which 26 million Brazilians lived in poverty, with a human development index equivalent to Uganda's (see *Folha de São Paulo*, 2005b). The UNDP officials also reaffirmed the message contained in the UN report itself (see UNDP, 2005a: 245) that the fiscal urgency of generating high primary surpluses is in need of adjustment in order to increase public investment in human capital and basic infrastructure (water and sanitation) to meet the objectives of the Millennium project suggesting that highly indebted countries should refinance their debt service (UNDP, 2005b). The IBGE (2006b: 2) itself reported in a supplement to its 2004 survey that 72 million Brazilians (39.8 percent of the population) lived in households suffering from food insecurity and 14 million (7.7 percent of the population) were actually hungry, clearly suggesting that poverty in Brazil has been substantially underestimated.

Significantly, illustrating the precariousness of the domestic market, the 2004 survey (IBGE, 2005b: 143–144) showed that 56.12 percent of the employed population (47.4 million) lived on between less than one and two minimum wages in that year. Again, the 2005 survey (IBGE, 2006d: 183) revealed that 59.1 percent of the employed population (51.4 million) lived in the same way. Even the IMF, intending to make a case for labor reform in the country, has observed that more than 50 percent of the labor force is employed by the informal economy (*IMF Survey*, 2005: 115). As Paulo Skaf (2005, my translation), the president of the powerful Federação das Indústrias de São Paulo (Federation of Industries of São Paulo—FIESP), has recently warned: "It is time to observe the reality behind economic numbers. Considering census statistics of 2000, when the total Brazilian population was 170 million people, only 57 million Brazilians were consumers, that is, those with an annual purchasing power of more than US\$7,000. This means that 67 percent of Brazilians consume very little, the minimum, or nothing at all."

Lula's decision to adopt the imported targeted social approach as opposed to the Workers' party's historical commitment to a universal social policy that



improves the quality of life of the population at large while widening the domestic market for self-sustained economic growth illustrates the extent to which he has betrayed his campaign promises of a social transformation by changing the country's development model to one that would take "the social as its axis" (PT, 2002). Such an alternative development model would have involved massive public investment in education, health, housing, water, sanitation, and transport, employment generation, and, of course, a modification of the economic, social, and political structures of the country, particularly the structure of land tenure.

### FOREIGN TRADE POLICY AND PAYMENTS OF EXTERNAL LIABILITIES

Lula's economic priorities were also centered on another policy prescription of the new Consensus, that of "crisis-proofing" through export-led growth and the maintenance of a flexible exchange rate. Remarkably, the creators of the old version, who insisted on sweeping trade and financial liberalization (capital-account liberalization) and applauded currency overvaluation in the 1990s, now fully admit the devastating consequences of these "structural" reforms for Latin America (see especially Singh et al., 2005). Some even prescribe selective controls on capital inflows based on the Chilean case (see Kuczynski and Williamson, 2003: 7, 8), measures that Argentina, China, and India have eagerly adopted to avoid the appreciation of their currencies and protect exports, irrespective of the new Consensus. These late confessions, however, always carry the caveat that the countries did not "complete the reforms" or that they "liberalized capital inflows prematurely" or "liberalized their financial system before necessary institutional preconditions had been satisfied." As John Williamson (2004a: 7), the father of the Washington Consensus, stated, "Where I failed was in not emphasizing the need to accompany financial liberalization by the creation of appropriate supervisory institutions." The hard truth is that liberalization of international capital flows was strongly encouraged by the IMF and the World Bank in the 1990s and produced massive current-account deficits and foreign indebtedness in Latin America, making the economies extremely vulnerable to the international financial shocks that began hitting the region with a vengeance in the second half of the decade. Such was indeed the case of Brazil (see Rocha, 2002).

Having inherited from Cardoso's neoliberal orgy a US\$210.7 billion foreign debt, of which US\$125.2 billion is public, and a current-account deficit of US\$186 billion accumulated between 1995 and 2002, Lula embarked on an aggressive export expansion campaign to increase the trade surplus, reduce the debt, and improve the major indicators of external vulnerability of the Brazilian economy, the ones that are closely watched by international financial markets.<sup>13</sup> With an exceptionally favorable external environment and surging demand from China that boosted the price of minerals and other commodities, the trade surplus rose from US\$13.1 billion in 2002 to US\$46 billion in 2006. Primary products, natural resources, and low-skilled-labor-intensive goods as well as low-technological-content-based products accounted for around 60 percent of the country's exports, illustrating the nature of Brazil's

integration into the global economy and the dangers of a reversal of this dynamic international market cycle (see Carneiro, 2006b). Despite the contradictions, strong export performance reduced the country's dependence on foreign capital. Thus, the deficit of the current account as a percentage of GDP in 2002, minus 1.71 percent (US\$7.7 billion), was transformed into a positive 0.82 percent in 2003 (US\$4.1 billion), a record 1.94 percent in 2004 (US\$11.7 billion), 1.76 percent in 2005 (US\$13.9 billion), and 1.41 percent in 2006 (US\$13.5 billion). Total foreign debt was reduced to US\$168.9 billion in December 2006; debt service (interest payment and amortization) as a percentage of exports fell from 82.7 percent in 2002 to 41.4 percent in 2006, and the very important ratio of net foreign debt to exports was reduced from 273 to 55 (see Banco Central do Brasil, 2004: 128; 2005: 114–115, 175; 2006: 112, 117–124, 166; 2007a, c). Foreign investors' perception of the capacity of the country to honor its external obligations has been amply demonstrated by lower country risk spreads, falling from over 2,000 points during the presidential campaign in 2002 to below 200 in 2006.

The government's recovery of international credibility explains the decision not to renew its borrowing arrangements with the IMF when they expired in March 2005. The US\$41.75 billion stand-by arrangement was originally approved in September 2002 to bail out the country during the presidential campaign, when investors fled in anticipation of default with the prospect of a leftist's winning the presidency. The loan was augmented and extended in December 2003 to support Lula's macroeconomic stabilization program. The decision not to renew with the IMF was a clever political maneuver, but the government removed any doubts as to changes in economic policy. The Finance Ministry immediately announced that the government firmly intended to continue with the "sound fiscal and monetary policies" prescribed by the fund and the implementation of institutional reforms to strengthen confidence and improve the investment climate (see Ministério da Fazenda, 2005b). As the IMF (2005b: 1) itself noted,

In light of the sound macroeconomic and institutional framework in place, the government's commitment to pursuing further reforms, and a balance of payments position much stronger than earlier anticipated, the Brazilian authorities have decided not to request Fund support under a successor arrangement. . . . The authorities are committed to continuing with their reform agenda, and further steps to strengthen public finances, through reforms on the social security system, have just been announced and are welcomed by the IMF and management.

Contributing to an understanding of this landmark decision, the Brazilian economist and critic Paulo Nogueira Batista Jr. (2005) observed that "the IMF has already been 'internalized' by the Brazilian government. Today we can count on the valuable contribution of a domesticated IMF, solidly installed in the Finance Ministry and the Central Bank."

Emboldened by the high trade and current-account surpluses as well as by strong capital inflows that boosted foreign reserves, in another symbolic decision the government announced in December 2005 that it was paying off early all of its existing debt to the IMF in the amount of US\$15.5 billion. Furthermore, with the stated objective of reaching "investment-grade" status from the powerful sovereign-risk-rating agencies (that is, low investment risk and, hence,

cheaper external financing), the government embarked on an aggressive reduction of its external liabilities. The National Treasury has recently announced the completion of what it terms “the cleaning up” of the external public debt, including early repayments of the Paris Club creditors, outstanding Brady Bonds (i.e., bonds related to the restructuring of the foreign debt following the crisis of the 1980s), and various other debt instruments. With all these repayments, the Treasury estimated that the external public debt would be reduced to only US\$65 billion in 2006 and that Brazil would soon reach the historic position of possessing a level of foreign reserves capable of paying off all of it (see Tesouro Nacional, 2006). Joseph Stiglitz, responding to a question whether the Brazilian left had lost a historic opportunity with the path taken by the Lula government, replied, “The disappointment is that Lula could have done much more to fight poverty. He could have used the trade surplus to invest in important actions, such as land reform. This would not have been inflationary or had an impact on public finances, but he preferred to pay off the IMF” (*Folha de São Paulo*, 2006e).

Even with the considerable reduction in foreign indebtedness, however, Brazil remains vulnerable to the deterioration of international financial conditions. Under the Lula government, financial liberalization has been deepened, including not only the already mentioned tax breaks for foreign capital investments on the domestic public debt but also further reduction of restrictions on foreign exchange transactions for residents (see Resolution 3.265 of March 4, 2005), making the economy ripe for what the Brazilian economist Ricardo Carneiro (2006a, b) terms “a renewed vulnerability.” Thus, uncertainty about the U.S. economy and prospects that the Federal Reserve would continue to increase interest rates resulted in outflows of short-term speculative capital from Brazil, an expressive fall in the stock market, and the devaluation of the currency during May and June 2006, indicating that this recent cycle of ample global liquidity may be coming to an end. Although the foreign reserves accumulated at the Central Bank were around US\$85 billion in December 2006, allowing it some room for maneuver in the event of an external shock, Brazil’s situation is in striking contrast with the favorable reserve positions of China, India, Russia, South Korea, and Taiwan—countries that have adopted their own national strategies for dealing with neoliberal globalization. Brazil, unlike most “emerging markets” (in Furtado’s view a euphemism for underdeveloped countries) continues to be classified by rating agencies as “high-risk investment.”<sup>14</sup> The government therefore has no alternative but to produce ever larger trade surpluses simply to pay the country’s external liabilities.

In fact, the Workers’ party is doing just that—transferring abroad ever greater resources in the form of debt service, from US\$49.8 billion in 2002 to US\$67.6 billion in 2006 (preliminary figures to September). Profits and dividends have skyrocketed, from US\$6 billion in 2002 to US\$17.3 billion in 2006, suggesting that foreign investors have had a windfall with the appreciation of the currency (see Banco Central do Brasil, 2005: 148, 175; 2006: 141, 166; 2007a, c). According to ECLAC (2006d: 94, Table A-12), net resource transfers from Brazil increased from US\$10.2 billion in 2002 to US\$35.8 billion in 2005. As the IBGE (2005a: 7; 2006a: 2; 2006c: 2) has been reporting, while the year 2004 was marked by increases in amortization of Brazil’s foreign liabilities, 2005 saw the reduction in the financing capacity of the national economy, a

result the institute attributes to increasing net profit and dividend remittances abroad. This deteriorating situation continued during 2006.

### EXPORT-LED GROWTH AND THE NARROWING OF THE DOMESTIC MARKET

The neoliberal “development” model in Brazil has delivered mediocre economic growth, stagnant per capita income, and massive urban unemployment. During Cardoso’s two administrations, GDP grew at an average rate of 2.3 percent and a per capita rate of just 0.7 percent, with unemployment averaging 7 percent. Even with the dramatic export expansion, the Lula government delivered in its first term an average growth of GDP of only 2.6 percent and a per capita rate of 1.1 percent, with urban unemployment averaging 10.9 percent. Illustrating the frontal conflict between macroeconomic stabilization and a dynamic process of rapid accumulation and growth, domestic investment as a percentage of GDP remained low, averaging 19.4 percent between 2003 and 2006. The 4.9 percent GDP growth rate recorded in 2004 was not sustained, falling to a mediocre 2.9 percent in 2006, one of the lowest in Latin America—ahead only of Haiti’s 2.5 percent (Banco Central do Brasil, 2006: 16; IPEA, 2006a: A100; 2006c: 5, A92; IBGE, 2007a, b; ECLAC, 2006d: 3).<sup>15</sup> The evidence thus clearly points to the abysmal economic performance of the country produced by market fundamentalism. UNCTAD’s comment (2006: 61) speaks for itself:<sup>16</sup>

The varying experiences among developing countries suggest that more proactive government policies in support of capital accumulation and productivity enhancement are needed for successful integration into international economic relations and as a basis for sustained improvements in the welfare and incomes of all groups of the population. The market-based reforms pursued in a majority of developing countries since the early 1980s have not lived up to the promises of their proponents. It has not been possible to combine greater macroeconomic stability and external balance with rates of growth that are high enough to close the income gap with the more advanced countries, while at the same time reducing poverty and enabling people.

Still, during his first term Lula constantly defended his orthodox economic policy from virulent attacks by his own left-wing supporters, particularly within the Workers’ party and the government itself, against a model whose major beneficiary has always been financial capital. Increasingly distancing himself from his historical social and political bases, the president strongly proclaimed that Brazil was going in the right direction and that economic policy would not change (see, e.g., PT, 2006).

The export-led growth in 2004, the highest growth rate in 10 years, was hailed by Lula as vindication of his orthodox economic policy. The determinants of this short-lived economic recovery, however, are found in the cumulative effects of the currency devaluation produced by the financial crisis in 2002, the exceptionally favorable external environment, and the brutal fiscal adjustment in 2003–2004 that drastically reduced the dynamism of the domestic market. The average urban unemployment rate increased from 11.7 percent in 2002 to 12.3 percent in 2003 (reaching 13 percent between June and October) before falling back to 11.5 percent in 2004. But, as IPEA (2005a: xi) observed, “The new jobs

created were precarious, paying less than one minimum wage. This means that the growing trend toward informal employment has still not been reversed: even with last year's strong economic growth, informality increased almost 1 percent." Real average wages had been falling uninterrupted since 1996, but in 2003 the fall was dramatic, 12.6 percent in relation to 2002. According to IBGE (2005b: 63), the decline of real average wages was interrupted in 2004, a result indicating that the 18.8 percent real loss in relation to 1996 was maintained (that is, real average wages stagnated in 2004). Measuring domestic consumption by its participation in the components of demand in the GDP, IBGE (2005a: 2) revealed that family consumption fell from 58 percent in 2002 to 55.3 percent in 2004 while government consumption was reduced from 20.1 percent to 18.8 percent. At the same time, the international market was clearly the dynamic decision-making center of the economy, the proportion of the GDP represented by exports increasing from 15.5 percent in 2002 to 18 percent in 2004. As Stephen Roach, chief economist of Morgan Stanley, has recently observed, "Brazil made a great adjustment effort, paying its external debt, reducing inflation, and raising interest rates. . . . Still missing, however, is a model that places the domestic market as a development factor, instead of depending completely on external demand" (*Folha de São Paulo*, 2006h). Echoing Roach, the former FIESP president Horacio Lafer Piva lays much of the blame for the low levels of investment by the Brazilian private sector squarely on the narrowness of the domestic market: "The domestic market is weak, incapable of constructing the middle class that constitutes the base of consumption and support in any developed country. Private investment plans are those in specific areas or with a view to the external market" (*Folha de São Paulo*, 2006k).

This export-led growth was indeed the scenario in Latin America as a whole in 2004 and continued in 2005 and 2006. ECLAC (2005: 9, 40; 2006d: 9, 71, 81, Table A1, and 89, Table A7) estimates the region's GDP growth at 5.9 percent in 2004, 4.5 percent in 2005, and 5.3 percent in 2006, with exports as the driving force behind the economic recovery. The trade surplus increased from US\$60.3 billion in 2004 to US\$103.6 billion in 2006, and the balance-of-payments current-account surplus increased from US\$20.7 billion (1.0 percent of GDP) to US\$51.2 billion (1.8 percent of GDP), making 2006 the fourth consecutive year in which Latin America posted current-account surpluses and paid off external liabilities. Already in 2004, ECLAC (2004a: 20) attributed this externally conditioned recovery of the region to the same factors described in the case of Brazil and clearly questioned its sustainability: "The question arises as to the extent to which the growth observed in the region is based on a solid foundation that can sustain this growth in the medium term, or whether, on the contrary, this performance is merely the outcome of conditions that have been extraordinarily favorable but may deteriorate in the near future." Again in 2006, ECLAC (2006d: 15) stated: "The question that arises, then, is whether the patterns of growth observed in the region in recent years can be sustained."

A reading of ECLAC's *Preliminary Overview* alongside its *Social Panorama* reveals the true nature of Latin American underdevelopment. First, while export-led growth has produced high trade surpluses, net transfer of resources has risen to US\$102.4 billion in 2006 from US\$37.3 billion in 2003 (ECLAC, 2006d: 94, Table A-12). Second, and in striking contrast to the situation of the vibrant Asian



economies, while the export boom has produced relatively high GDP growth rates after the “lost half decade” of 1997–2002, investment, measured as a percentage of GDP, is still too low, averaging only 19 percent between 2003 and 2006, to sustain a growth rate sufficient to resolve the regions’ persistent problems of unemployment and poverty (ECLAC, 2005: 9, 15; 2006d: 84, Table A-4). Thus, the average unemployment rate fell from 10.7 percent in 2003 to 9.3 percent in 2005 and is expected to fall to 8.5 percent in 2006, but it remains very high, with an estimated 18 million people out of work. Poverty declined from 44.0 percent of the population in 2002 to 39.8 percent in 2005 and is projected to fall to 38.5 percent in 2006, still affecting some 205 million people, 79 million of whom (14.7 percent of the population) are extremely poor or indigent (ECLAC, 2006a: 15, 49; 2006c: 7, 18). Confirming once again that the region has the worst income inequality in the world, ECLAC (2006d: 14–15; also see 2004b: 11) observes,

Latin America’s highly inequitable and inflexible income distribution has historically been one of its most prominent traits. Latin American inequality is not only greater than that seen in other world regions, but it also remained unchanged in the 1990s, then took a turn for the worse at the start of the current decade. According to data from the most recent household surveys, several countries have achieved improvements in distribution in recent years. Although small, these gains at least represent some progress with respect to the rigidity or even the deterioration of distribution in earlier periods.

Brazil continues to be one of the most unequal societies in the world, with a Gini coefficient between 2003 and 2005 of 0.613, and, according to government researchers themselves, in 2005 the richest 1 percent of the population enjoyed 12.98 percent of the national income while the poorest 50 percent lived on 14.07 percent (ECLAC, 2006c: 16; IPEA data).<sup>17</sup>

Furtado must have agreed with these assessments. In his last recommendations for the Lula government, he warned that “globalization is not a mechanical and automatic process, there are many globalizations. Brazil needs to develop its own policies under penalty of continuing to exhibit this odd international show of being the champion of income concentration” (2004b). He also reminded the Workers’ party of one of his central ideas: “To grow without development produces income concentration. And income concentration is antisocial by definition” (*Agência Carta Maior*, 2004).

### THE NECESSARY UTOPIA

Furtado remained politically engaged until the very end. His alternative national development project of internal transformation would have reduced the abysmal income gap in Brazil through income redistribution and agrarian reform designed to promote long-term sustained economic growth by restoring the domestic market as the dynamic center of the economy without excluding strategies to expand the international market. He never lost hope in the reconstruction of the nation and the restoration of the legitimacy and capacity of the developmentalist state for the autonomous integration of Brazil and the whole Latin American region into the global economy. Here lies another major aspect of the relevance of Furtado’s structuralist work: the resistance and the endurance of his central theses, which have remained practically unchanged

and retain the same explanatory power with regard to Latin American underdevelopment.

Furtado's structuralist analyses continue to provide powerful explanations for the increasing center-periphery asymmetries, and his policy proposals are particularly relevant in the globalization era. The relevance of Furtado's message is indisputable: as the historical trajectories of center countries amply demonstrate, the state must be the major agent of internal transformation by supporting investment in infrastructure and technological innovation, enhancing productivity and international competitiveness accompanied by employment creation and wage increases, and ultimately promoting a development strategy that contemplates society as a whole by integrating economic growth with income distribution to stimulate the domestic market and reduce external vulnerabilities. Although the capacity of the state has been reduced by the massive indebtedness built up during the hegemony of neoliberalism, the resumption of its historical function requires the halting of massive transfers of resources to the domestic and international financial system. Even before Argentina successfully embarked on this path, Furtado had a proposal for the impasse in Brazil. Noting that the country was "already in a consented moratorium as the creditors dictated their conditions, imposing one of the highest interests in the world," he suggested a "programmed moratorium" in which the state, supported by a democratic legitimacy and an enlightened public opinion, would negotiate a restructuring of its external and internal financial obligations (2004a: 46, 49). It is only by bringing the developmentalist state back in, prioritizing the national integration process, that global integration will begin to address the increasing divergence between the center and the periphery.

Now that the spectacular failure of neoliberalism as a development model is plain for all to see, Furtado's legacy of structuralist propositions and resistance will continue to inspire Latin Americans who are beginning a new search for a nationally and socially driven alternative. As he put it (2002: 36), "The starting point of any new alternative national project will have to be, inevitably, the growing participation and power of the people in the decision-making process of the country."

## NOTES

1. Celso Furtado is considered one of the major interpreters of Brazilian reality alongside the classics Sérgio Buarque de Holanda and Caio Prado Junior (see Furtado, 1959; Holanda, 1956; Prado Junior, 1942). He attempted to put his theory into practice in various government positions in Brazil: director of the Banco Nacional de Desenvolvimento Econômico (National Bank of Economic Development—BNDE) between 1958 and 1961, first director of the Superintendencia para o Desenvolvimento do Nordeste (Northeast Development Superintendency—SUDENE) in 1961, and planning minister in the Goulart government between 1962 and 1964, when the president was overthrown by a military coup d'état and Furtado went into exile. As the coordinator of the ECLA-BNDE Group between 1953 and 1955, Furtado is credited with launching the basis for the successful target plan of Juscelino Kubitschek, a state-led developmentalist strategy for accelerating industrialization in Brazil.

2. Furtado developed this thesis in 1959.

3. Joseph Love (1996: 153) considers Furtado the first to make this assertion (see also Oliveira, 2003: 109).

4. See also Furtado (1961b; 1964; 1967). It is apparent from my discussion that the dependency theory of the 1960s and 1970s was heavily influenced by structuralism. According to Love (1996: 171), *Development and Underdevelopment* "established Furtado as having a claim to having been the first analyst of dependency." For an analysis of Furtado's historical-structural method, see Bresser Pereira (2004: 19–34). For a discussion of his contribution to structuralism see Mendes and Teixeira (2004).

5. This interview was conducted by Vladimir Safatle, a professor of philosophy at the Universidade of São Paulo, in May 2000 but was published only after Furtado's death.

6. Lula proposed the establishment of the Centro International Celso Furtado de Políticas para o Desenvolvimento (Celso Furtado International Center for Development Policy) at the opening of the Eleventh United Nations Conference on Trade and Development in São Paulo in June 2004. The center was officially established at the Helsinki Conference in September 2005, and its activities were launched with an international seminar on Furtado's thought in Brasília in October of that year. It is now permanently located in the BNDES in Rio de Janeiro, where, under the leadership of the economists Luiz Gonzaga Belluzzo and Maria da Conceição Tavares, intellectuals have initiated a series of debates on economic options for Brazil with proposals based on Furtado's analyses.

7. This orientation is clearly revealed in the landmark document *Política econômica e reformas estruturais* (Ministério da Fazenda, 2003a), prepared by Antonio Palocci, Lula's powerful finance minister, and his orthodox team, setting economic policy for the period 2003–2006 (<http://www.fazenda.gov.br>). It reveals that the major objective of the government is to build confidence in its capacity to honor its financial obligations by reducing the public debt through fiscal discipline. It considers structural and institutional reforms necessary to ensure a better investment climate for market forces and facilitate the definitive fiscal adjustment of public finances; it views a targeted social policy as the answer to poverty and inequality in Brazil. This document reflects the "augmented Washington Consensus" (see Kuczynski and Williamson, 2003; Williamson, 2004a, b; World Bank 2002; 2003a, b; 2004; Burki and Perry, 1998). For a very critical view of *política econômica* within the Workers' party, see *Boletim Periscópio* (especially 2003a, b; <http://www.fpa.org.br/periscopio>). For excellent critical analyses of Lula's economic policy, see Carneiro (2006a: 1–23), Paulani (2005: 49–75), Carvalho (2004: 131–146), and Boito (2003: 10–36). Antonio Palocci resigned on March 27, 2006, after being implicated in attempts to discredit a witness (*Folha de São Paulo*, 2006b). The accusations involving Palocci were part of a scandal over alleged vote-buying in Congress and use of illegal campaign funds that undermined the Lula government between 2005 and 2006. Guido Mantega, a former planning minister and president of the BNDES, was appointed as Palocci's replacement. Known as a developmentalist and a critic of both high interest rates and high primary budget surpluses, Mantega quickly reassured the markets that the economic policy would not change and that the primary surplus was sacred (*Folha de São Paulo*, 2006c). On June 24, 2006, in a speech confirming his candidacy for a second term, President Lula also indicated that the orthodox economic policy would be maintained (PT, 2006).

8. One of the major mechanisms for ensuring the primary surplus target has been the systematic blocking by executive decree of substantial resources authorized by Congress for public investment. Thus, for example, R\$15.9 billion were blocked at the beginning of 2005, and, as the primary surplus target was reached, R\$7 billion were liberated (Banco Central do Brasil, 2006: 77). For 2006, the executive blocked R\$14.2 billion of the authorized budget and reserved a further R\$5.6 billion in the event of loss of revenues for the year (see Ministério do Planejamento, 2006a, b, c). From an already very low average of 0.95 percent of GDP between 2001 and 2002, public investment fell to 0.51 percent of GDP between 2003 and 2005 (see IPEA, 2006a: 94–95). According to the INESC (2006b: 2), 59.5 percent of the 2007 budget has already been earmarked for the refinancing, amortization, and interest payments on the public debt.

9. The IMF, of course, has insisted on this approach: "Directors emphasized that steps to improve the quality of fiscal policies are an essential complement to medium-term fiscal consolidation. In particular, they recommended scaling back revenue earmarking and mandatory spending requirements—including the growing imbalance of the social security system. . . . Such a multi-year framework would provide a context within which to set annual primary surplus targets and to properly sequence fiscal reforms needed to achieve these objectives" (IMF, 2006a: 3; 2006b: 28). The Instituto de Pesquisa Econômica Aplicada (Institute of Applied Economic Research—IPEA), an organ of the Planning Ministry, has consistently recommended this course

of action (see IPEA, 2005b; 2006a, b, c). For critical analyses of this frontal attack on social programs, see Fagnani (2005: 5–18), Pochmann (2005a: 26–31), and Lopreato (2006: 184–205).

10. The commitment to follow the World Bank's directives is seen in the letter of intent of the Lula government to the IMF of November 21, 2003 (<http://www.imf.org>) and in another key document of the Finance Ministry (Ministério da Fazenda, 2004). This document completely follows the prescriptions of the World Bank and should be read as a complement to the Ministry's *Política econômica* (2003a). For a critical analysis of Lula's minimalist development policy, see Amitrano (2006: 206–249).

11. This is revealed in the letters of intent of the Lula government to the IMF of February 28 and November 21, 2003 (IMF, 2003a, b) and also in key documents of the Finance Ministry (Ministério da Fazenda, 2003b; 2003a; 2004; 2005a). The combination of Lula's sound macroeconomic management with a targeted social policy has been celebrated by the World Bank and the IMF on many occasions (see, e.g., *IMF Survey*, 2005: 114–116; IMF, 2006b: 8). In a critique of social targeting, Mkandawire (2006: 4) observes that "the paradigm shift from 'development' to 'poverty reduction' has narrowed the remit of social policies. The preference for targeting reflects the residual role assigned to social policy as an instrument for correcting some of the negative outcomes of macroeconomic policies." For a critical view of the targeted social policy within the Workers' party, see Pochmann (2003). For an analysis of targeting versus universalism, see ECLAC (2006b).

12. Estimates of poverty in Brazil vary with the methodology used (see Pochmann, 2006). Demystifying the Bolsa Família as primarily responsible for the recent decline in poverty and inequality, Soares et al. (2006) provide an unprecedented analysis of the crucial role of old-age pension and disability grant programs as well as of pensions and retirement funds linked to the minimum wage, precisely the universal social programs guaranteed by the 1988 Constitution that are targeted for reduction in "long-term fiscal adjustment" proposals. Compelling analyses in the same direction are provided by Peliano (2006) and Fagnani and Pochmann (2006).

13. Lula's orthodox performance on the domestic front contrasts with his aggressive foreign policy, particularly the establishment of successful South-South cooperation in an international economic forum challenging Northern protectionism and attempting to project Brazil as a regional power. Peter Hakim, the president of the Inter-American Dialogue (2004: 123), is more interested, however, in the domestic success of the market-friendly policies that Washington recommends: "Lula can do more than anyone else to rebuild Latin America's confidence in market-reform programs, restore credibility to IMF and World Bank policies, and open the way for a comprehensive hemispheric trade pact—all of which are central elements of the U.S. agenda in Latin America."

14. This "report card" reflects the opinion of sovereign-risk-rating agencies regarding the capacity of a debtor country to honor its financial obligations and includes the magnitude of the foreign and the domestic public debt. Brazil was upgraded by Standard & Poor's and Fitch from BB minus ("speculative investment") to BB in the first half of 2006, but this new classification still regards the country as "high-risk investment" because of its high domestic public indebtedness and low economic growth. Both agencies suggest higher primary surpluses as the road to an "investment-grade" rating (see *Folha de São Paulo*, 2006d, j). According to Joaquim Levy, the secretary of the National Treasury during Palocci's term, it will take at least five to seven years for the decline in the debt-to-GDP ratio to reach 40 percent, thus qualifying Brazil for the hoped-for "investment-grade" rating (*Folha de São Paulo*, 2005e). The National Treasury has reaffirmed the government's intention to reduce the public debt to less than 40 percent of GDP by the end of this decade, with the stated goal of being classified as "low-risk investment" by rating agencies (see Tesouro Nacional, 2006).

15. In March 2007, the IBGE released extensive revised national accounts for 1995–2006. New methods of calculation include annual surveys, corporate income tax collection data, and up-to-date concepts and definitions following recommendations from the IMF, the World Bank, the United Nations, and the Organization for Economic Cooperation and Development (OECD). The initial reference of the revised accounts is the year 2000, and, according to the Institute, the data for the years 2000–2003 are considered definitive (the release of definitive data for 2004–2006 will be in December 2007). Thus the Institute revised upward real GDP growth rates, relying on an increase in the share of services—regarded as the major structural change in relation to the old methodology (IBGE, 2007c). Accordingly, GDP grew 2.7 percent in 2002, 1.1 percent in 2003, 5.7 percent in 2004, 2.9 percent in 2005, and 3.7 percent in 2006 (IBGE, 2007c, d). Higher GDP growth rates, of course, have lowered key ratios in the economy. Net public debt,

primary fiscal surpluses, taxation, and investment to GDP have all been revised downward. A major implication of the revised GDP growth rates for the second Lula administration may be further cuts in public investment and increase in taxation if it intends to maintain the 4.25 percent primary surplus target to please rating agencies.

16. Its 2006 report offers a compelling analysis of the failure of the neoliberal reform agenda and, calling attention to the successful national strategies of Asian newly industrializing economies, unabashedly prescribes state intervention, including tariff protection and subsidies and heterodox, nonmonetary instruments for price stabilization. The major argument of this report is that the accumulation of capital and structural change that are needed in developing economies cannot be left to market forces alone.

17. Estimates of inequality in Brazil vary with the methodology used. IBGE (2006d: 80) shows the Gini inequality index falling from 0.554 in 2003 to 0.544 in 2005, reflecting gains (especially in 2004) in real terms in the half of the employed population with the lowest wages and a real loss in the half with the highest wages. A recent study by World Bank researchers (Ferreira, Leite, and Litchfield, 2006) reports a Gini index of 0.564 in 2004, down from 0.575 in 2003, which lowers the country's world inequality rank from second (0.63 in 1989) to tenth, behind Bolivia, Botswana, the Central African Republic, Guatemala, Haiti, Lesotho, Namibia, South Africa, and Zimbabwe. This study attributes the decline in inequality to macroeconomic stabilization and structural and policy changes such as increases in social assistance transfers targeted at the poor. The determinants of the decline are also investigated by Neri (2005) and Paes de Barros et al. (2006). This decline has been disputed by Pochmann (2005b) on the ground that IBGE household surveys measure only earnings from employment, leaving out income derived from financial applications, interest, rent, and land.

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