A NATIONAL AGENDA FOR DEVELOPMENT

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The article discusses the "shortterm" alienation that has infected most of economists both in the university and government, and even the entrepreneur leadership in the last 30 years. It suggests a thought into a new long-term national project for the Brazilian economy. There is a first reflection, historical and theoretical, on crucial issues affecting the understanding of the key problems of underdevelopment. A second reflection highlights the main challenges for the resumption of development. A third outlines a broader study that allows us to upgrade the diagnosis and structure of the meaning and the main aspects – at the end of the text – that should guide the construction of a new national development project outside the boundaries of neoliberalism.

UMA AGENDA NACIONAL PARA O DESENVOLVIMENTO

O presente artigo discute a alienação "curtoprazista" que contaminou a maior parte dos economistas, na academia e no governo, e as próprias lideranças empresariais nos últimos 30 anos e sugere uma reflexão prévia para que se possa formular um novo projeto nacional de longo prazo para a economia brasileira. Uma primeira reflexão, histórico-teórica, aborda questões cruciais que afetam a compreensão sobre os principais problemas do subdesenvolvimento; uma segunda aponta os principais desafios para uma retomada do desenvolvimento; e uma terceira formula as linhas gerais de ampla pesquisa que nos permita atualizar o diagnóstico e estruturar – na parte final do texto – o sentido e os pontos básicos que deveriam orientar a construção de um novo projeto nacional de desenvolvimento, fora dos marcos do neoliberalismo.

1 INTRODUCTION

The drastic qualitative and quantitative changes observed in the formulation of economic policy and in the occurrence of study and research related to it in general, sectorial and regional levels in the end of the 1980s are relevant enough that it can be said that no future studious of recent Latin-American macroeconomic historiography, and most particularly Brazilian macroeconomic historiography, will be able to ignore the relevance of such shift. *Debt crisis*, *rising inflation*, the many *stabilization plans*, the *fiscal war* and *local development power* have dominated the aforementioned scientific production, and most economists and academics abandoned their long-term concerns regarding growth and development of that region, becoming "short-termists" and focusing their production on *exchange rates*, *interest rates*, *inflation*, and the *competitive city*. As of the 1990s we saw a particular prominence of studies on finance, inflation targets, potential output and equivocal analyses of the gross domestic product (GDP) of municipalities, which acclaimed a modelistic approach and a high dose of sterile econometrics. It is obvious that

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very important changes occurred in the State to allow for such phenomenon to occur, especially in the elaboration and strict handling of its economic policy.

The major circumstances surrounding the international economy greatly contributed to this, among which one cannot neglect to mention, besides the *stagflation* of the 1970s, the international economic and technological restructuring, *globalization* and *neoliberalism*, the downfall of socialist economies - especially the Union of Soviet Socialist Republics (USSR) - and the expansion and transformation of much of the Asian economy which dominated the 1980s and 1990s; only recently, due to the "China effect" - after 2002 – did this scenario seem to foreshadow some new changes. One cannot ignore, above all, the radical changes observed in international geopolitics, which went from a scenario of bipolarity to one of unipolarity, and which only began to bring new doubts, challenges and discussions in terms of its power structures after the 2007 crisis in the United States.

Thus, if in the 1980s most economists were omissive of the problems of long-term and of development, i.e. of the future of the country, they made things even worse since the 1990s by declaring their faith in neoliberalism. From omission they walked towards an overt participation in this sea of misconceptions, in lethal ignorance of the fact that we are underdeveloped - and not an "emerging" economy, as neoliberals have claimed. One cannot ignore, also, the crass "mistakes" committed in our privatization policy, or the nearly US$ 200 billion we squandered, between 1995 and 2002, with our "smart and effective" exchange rate policy. If, between 1990 and 2002, presidentialism in fact obfuscated the power exercised by the Central Bank of Brazil (BCB), we must take into account that, after such date, this power was ostensibly publicized. This State and these economists ended up accepting denationalization, deindustrialization and the continuity of *de facto* power of the financial system as inevitable.

However, these behaviors were not restricted to analysis and to economic policy. They also mimicked, again, much of the bad content produced in theory: the role of neoliberal reforms (Washington Consensus), neoinstitutionalism, neostructuralism, international convergence models, most endogenous growth models and many of the "new theories" of development. From yesterday's developmentists, those individuals proceeded to become the enemies of high growth levels and of industrialists; they conformed to accept the reprimarization of our export portfolio. They exchanged the strategy of a necessary protectionism by the folly of the international opening of the commodities markets in exchange for our vital domestic market of manufacture-intensive commodities. And, even more curiously, they strived to expand the Southern Common Market (Mercosur), while simultaneously endorsing the contradictory idea of *open regionalism*, the "impossible mission" of the new line of thought of the Economic Commission for Latin America and the Caribbean (ECLAC).

From 2003 to 2008, new milestones took place, such as the electoral victory of the Brazilian Labor Party - PT, whose banner (or one of its main banner) was that of being progressive and developmentist, but which continued to practice part of the same macroeconomic policy of the previous governments once it came into power: fiscal surplus, valuation of exchange rates, high interest rates, and short amounts of credit, except for "no-risk credit", name given to the payroll loans given to workers and retirees. Only after 2006-2007 did long-term public lending - through the National Social and Economic Development Bank (BNDES) - grow more expressively, nurturing some small expansion in the investment rate. The BNDES, however, while previously focused on the industry, began to increasingly concentrate its investment on services and programs for exports of primary commodities and semi-manufactured goods. We must recognize as very positive initiatives the new position of the State with regard to the Brazilian Oil Company (Petrobras) - especially with the approach taken for the pre-salt layer - and the creation of the Sovereign Wealth Fund.[1]

The government seems to understand as *inevitable* a policy of high interest rates and low exchange rates, which makes a better protection to the domestic market impossible, discourages investment and also reduces the competitiveness of industrial exports. In order to strengthen the great national enterprise and make it more competitive internationally, the government has been practicing a policy of "aggrandizement" of some of these businesses, including through the financing of foreign private investment by Brazilian companies, thinking to achieve through such strategy the increase of their foreign competitiveness. For that end, it may have borrowed, as external examples, from the famous conglomerates in Japan and South Korea, which were, however, raised and strengthened at another historic moment and under other international scenarios. Internally, it may have based its approach on the case of Petrobras - State-owned enterprise - and Vale - a privatized company which operates under a certain level of presence and power of the State -, both of which operate natural resources under oligopolistic corporate control and are funded with BNDES resources.

However, the current time is one of great uncertainty in the international economy and the risk of new denationalizations and defaults on several other companies is not ruled out. In the area of commodities, with few exceptions, the result of this effort is very difficult to obtain, in view of the international structure of large companies and conglomerates. In the industry area, this policy is further complicated by both groups and businesses that are even greater and by the deindustrialization and denationalization we currently undergo, and also by the policy of furthering the globalization of our economy. On the other hand,

1. Law nº 11,887, from December 24 2008, creates and regulates the structure, sources and applications of the Brazilian Sovereign Wealth Fund.

we are spending much of our modest long-term financing resources to grow the GDP and employment rates of other countries.[2]

It should be remembered that the State is not demanding these companies to establish any economic targets regarding production or exports, nor is it demanding any legal guarantee in order to allow the transfer of its controls to foreign capital. Even when there is such control - as is the case of Vale - the disaster has generally not been avoided: Vale recently ordered 3,000 rail wagons from China, an order it could have made to the Brazilian industry, and has recently sold control of its mines and plants (91% of *Alumínio do Norte do Brasil S/A – Alunorte*, 81% of *Cia. Alumina do Pará* and 51% of *Alumínio do Brasil S/A – Albrás*) as well as of its aluminum segment to Dutch company Norsky Hydro - in exchange for 22% of the stocks of that holding -, a deal which reached the sum of US$ 4.9 billion (HYDRO, 2010). Moreover, this outward aggrandizement at the same time promotes stronger external bonds, which in turn increases the importance of external decisions and interests, leaving the question of to what extent such interest will not be predominant over those connected to the Nation.[3]

There are also strange decisions being taken in internal matters, such as the recent bid for the construction of the hydroelectric power plant of Belo Monte, won by a consortium of private and public companies. This consortium will lead the project, but will provide 49.98% of the capital while BNDES will provide 80% of the financing, in addition to an estimated 30% participation by pension funds of public institutions. It is worth asking: what resources will the private companies participating in the consortium actually contribute with? It is thus doubtful whether this would be a graceful form of privatization of public assets and resources. Moreover, to what strategy could the recent decision to capitalize the Brazilian Electric Power Company (Eletrobrás) be attributed to? Would it be an attempt to cheapen the price of power generation and to force down the current prices charged to final users, mostly practiced by private companies?

Even more recent is the announcement of the "resurrection" of the Brazilian Telecommunications Company (Telebrás), to expand access to broadband network with a view to increasing social inclusion. The point is that the connection of these networks with households will be undertaken by private companies, who will, as usual, keep the profits to themselves and burden the State with the costs. Only in places where private enterprises are not interested in working will Telebrás provide direct services to the public. These are important issues about which the public knows little or nothing.

2. The Central Bank of Brazil estimates that the foreign investments made by national companies in 2010 (US$ 15 billion) will triple compared to 2009. Cf. *O Estado de S. Paulo*, São Paulo, March 23rd 2010, p. B3.

3. Incidentally, this important issue was the subject of extensive article by Magazine *IHU*, with seven relevant interviews with Brazilian intellectuals, on which some words of caution can be read regarding this official policy (A REESTRUTURAÇÃO..., 2010).

Also worth of highlight is the fact that the new government had the courage to implement some social policies, such as a minimum income program (*Bolsa Família*), the real increase given to the minimum wage and the institution of payroll loans to employees and retirees, which culminated in creating incentives to the internal market. In addition to the political purposes behind such policies, the higher growth of GDP - mainly in the exporting sectors and consumption - enhanced by these policies and the so-called "China effect" also contributed to the fostering of the internal market. The China effect, even though it has boosted exports of commodities, further extended the regression we have suffered in our export portfolio, the contents of which in 1985 had reached 55% of manufactured goods, stagnated until 2000 and from then retreated to numbers around 43% in 2009 and 41% from January to May 2010.

This new ideology and the cuts on public funds for research - notably collective research - also affected in the same way the production of studies and research in academia: "short-termism", exchange rates, interest rates, inflation, neoinstitutionalism, globalization, pricing of the environmental issue, neostructuralism and "developmentist" models were the predominant themes. Academia as a whole was affected, although it has managed to preserve, at least in part, some of its traditional lines of research.

After 20 years of the importing of neoliberalism, its most perverse effects – insecurity, violence, denationalization, higher vulnerability to external factors, low growth rates, deterioration of labor relations, deficient health and education services, political corruption and corrosion, etc. - are now more serious, more perceived and more strongly felt by society. And that has encouraged us to revise our attitudes and our work to rethink the meaning of underdevelopment and the role of the State. From this, recent events have been timely encouraging of reflection on the academic field, through the increasing number of seminars to discuss this issue and our role in the formulation of new research proposals and the building of new alternatives for the national economic policy. Such efforts are also being undertaken by other institutions, such as the Center for Strategic Studies and Management (CGEE) linked to the Ministry of Science and Technology (MCT), the Regional Council of Economics of the State of Rio de Janeiro (Corecon/RJ) and also by government institutions such as the Ipea and the Secretariat of Strategic Affairs of the President's Cabinet (SAE/PR).

In April and May 2010 statements were made by prominent economists, both here and abroad, that this crisis of capitalism, although not yet the "final crisis", represents, however, the possibility of profound changes in the system, such as a return to financial regulation and more effective combat against financial speculation. They have also said the crisis would represent the "exhaustion of the troubled point currently reached by the financialization of capitalism". However, the most recent facts knock such optimism down, as is shown below (subsection 4.1).

In view of the fact that the crisis, as I see it, can lengthen and deepen, and as I have advocated since 1990 for the rupture with the neoliberal model and the resumption of the developmentist State, I understand that one cannot keep "waiting for Godot." Thus, the purpose of this text, and concomitantly with what I mentioned in two recent seminars, is to discuss and propose the content of what should be the new Agenda for Macroeconomic Research, whose ultimate goal is to examine what would be the *key challenges* for Brazil. Namely, it is the preparation of a macro-diagnosis that could allow us to formulate a more concrete agenda for a project of national development. It must be noted that, in proposing this macro examination, I'm not ignoring the micro plane. It is obvious that from the elaboration of a macro agenda a plethora of questions should inevitably arise that can only be investigated and clarified with the input from companies, entrepreneur leaderships, consultants and other institutions. But I insist: this can only occur after the establishment of a macro agenda.

The preparation and implementation of these efforts, however, is no simple task, given that the country is in crisis since 1980, and not only, as many think, in 2008-2009. Therefore, in consideration here are 30 years of delay in investment, technology, social reform and other issues which, together, form a puzzled skein of complex problems that require much thought to their fullest understanding. At the same time, we must restore some ideas that were discarded, such as that of planning and the active role of the State, and bring back those who have distanced themselves from these ideas and from the understanding of what is an underdeveloped economy.

Besides this introduction, this text also includes four sections. Section 2 tries to fill the need for prior discussion, theoretical and historical, on the issue of development and underdevelopment. Section 3 attempts to inquire about the nature of our main macroeconomic and political challenges. Section 4 proposes what I believe to be our major research themes. Section 5 outlines the main lines that should constitute an agenda for a new program for national development.

2 SOME THEORETICAL AND HISTORICAL ISSUES WHICH MUST PRECEDE THE DISCUSSION

2.1 Development, underdevelopment and the national State

We must recall that there is not, in the economic history of capitalism, any case of a country that has developed without significant assistance of its national State. And this role, internally, is fulfilled via induction, stimulus, fiscal, exchange rate and financial incentives, government procurement, technological research and development, etc. Externally, it translates into the defense of its national currency, its military force and its diplomacy. In the cases of Germany and Japan, the strong presence of the national State was unquestionable. In the case of the

UK, for ideological reasons, there are those who give credit to the market, but we cannot ignore the establishment of institutional, military, commercial and material foundations created by the two English revolutions of the 17th century, as well as the power of the British Navy, its currency, its diplomacy and its support of imperialism and colonialism.

Also in the case of the United States, the State was crucial for the enlargement of the bases of the national market, with initiatives such as: the Homestead Act (the world's largest agrarian reform in the 19th century); specific pieces of legislation; the Civil War which abolished slavery and the stimulus for the formation of large trusts and cartels of the late 19th century (the financial, industrial and railway trusts); its international military prowess - which is fed by the military-industrial complex that supports the US's imperialism; and also its currency and its diplomacy.

Except for the known cases of capitalist development that have emerged between the late 18th and 19th centuries, one can mention the following exceptions: *i*) the reconstruction of Japan and Germany at the end of the Second World War: at that moment we had a case of "development by invitation" from the United States, through military occupation and to meet their more direct interests, and *ii)* in the cases of South Korea and Taiwan, and more recently China, also "at the invitation of the United States", which involved, internally, strong presence and action of their own States.

Although all currently developed countries have had a long history marked by strong social injustices, inequalities, etc., as they consolidated their processes of industrialization and urbanization, those social constraints were markedly reduced, even if at the expense of strong anti-establishment social movements and their claims, but all with the seal of the State. The consolidation of the USSR, the "1929 Crash" and the new international geopolitics of the post-war era constituted a strong spur to this process.

2.2 Development: economy and politics

In very general terms, ideas and goals for growth, employment and improvement of living conditions are shared interests of different social groups - classes, regions, sectors etc. But when it is considered that *development* means not only growth but also structural changes that require different forms of taxation, appropriation and distribution of income and allocation of surpluses, *social conflicts* arise, and the economist needs to understand that this issue transcends Economics and ventures deeply into the field of Political Science and Sociology.

Culture, history and power are key issues to be examined in development processes, and constitute tools that are useful to the economist for the reflection necessary to the confrontation and solution of these conflicts. It is essential, for example, to undertake a preliminary examination of power structures - national, regional, sectorial, class, etc. - without which the economist can hardly perform his duty of diagnosis and formulation of economic policy. That does not mean condoning with certain structures, but rather know them to reflect on possible ways to overcome these conflicts.

2.3 Is development possible for all peoples?

No, we were taught by Celso Furtado, who showed that underdevelopment is not a stage of development, but a historical process created from the way we are inserted into the international capitalist economy as producers of raw materials and food and buyers of manufactured goods, as colonial, and in most cases, slave-based economies, characteristics that have marked off our heritage and our power structures.

He also explained the neuralgic issues of underdevelopment: the unequal distribution of wealth, which fixates a certain profile of demand and supply structure; and the major structural imbalances: in the balance of payments, in fiscal and tax structures and in long-term financing, besides the colossal underemployment rates and dormant inflation.

Worldwide statistics show that, except in rare or episodic exceptions, developing countries have positive average growth rates, and our social indicators became less sufferable than in the past, but not only do average national statistics persist, but they also continue to reveal deep inequalities among members of their populations. These statistics, however, clearly show that although our per capita income has grown, the distance between it and that of developed countries has increased: in the early 1960s, average incomes - measured in current dollars - from Argentina, Brazil and India amounted respectively to 38%, 22% and 6% of that of the U.S., while in 2006 they had decreased to, in Argentina and Brazil, 13% and in India to meager 1.8%.[4]

This also allows us to conclude that there is little or no use to neo-classical theoretical constructs about the so-called "models of convergence" and most of the so-called "new theories of development" and their endogenous growth models. With our history, we have learned that we can grow and soften our ills, but not meet the standards of developed countries. There will always be a gap, primarily qualitative, between us and them, which has grown significantly over the past three centuries.

2.4 Historical heritage

Our great masters have taught us that developing countries suffer from cumulative historical processes that, in many cases, are the root of detrimental effects on our economy and society:

4. The sources are the Annual Reports of the World Bank (IBRD) and from the Organization for Economic Cooperation and Development (OECD).

1. The heritage of our underdeveloped origins, since colonization and the institution of slavery, and our insertion in international trade, within which, until the crash of 1929, we were exporting only primary commodities.
2. Between 1930 and 1980, we felt as if we were on the path of development and national sovereignty, a period that not only provided us with urbanization and industrialization, but also with the opportunity to transform the national State, put it in the service of development and allow it to aspire to higher standards of living. However, since 1980, when we entered the so-called "lost decade" and subsequently neoliberalism, we have already lost 30 years, and it might be worthwhile to ask, even if pessimistically, if from this moment on "the dream is not over" or, optimistically, if it would be possible regain our positive attitudes towards development, albeit within the framework of an underdeveloped economy.
3. The legacy of the military regime of 1964 - 1985, from which we inherited not only massive debt, but also a profound deterioration in the quality of urban life, education and public health and the corrosion of national political institutions.
4. The "lost decade" of the 1980s, which superimposed to the legacy of the perverse effects of the so-called Debt Crisis.
5. The neoliberal legacy that we carry from the end of the 1980s. About the matter, I recall that in 1997 I warned that the dynamics of the new model and the resulting economic policy made it impossible to obtain, in a persistent manner, high rates of growth of GDP and employment. I have also shown that that model not only debased our rate of accumulation but also deteriorated investment in qualitative terms. I explained at that time that such scenario resulted from the effects of unbridled openness, exchange rate valuation, privatization and denationalization, which deepened the current transaction deficit, only bearable via persistent and increasing and uninterrupted external funding, which, as we know it to be so, is impossible.[5]

Between 2002 and 2008, when the economy had achieved average growth rates higher than those verified between 1980 and 2002, the false euphoria tried to spread the idea that we had "resumed growth." However, few realize that the new bases in which this "resuming" took place, through the "China effect" and the

5. See Cano (2000) for the verification of this statement and the theoretical macroeconomic outcomes for the average of Latin American and those specific to the seven countries studied: Argentina, Brazil, Chile, Colombia, Cuba, Peru and Venezuela.

growth of household consumption, cannot guarantee the persistence of the current external and internal commercial and financial bonanza in order to keep growth rates high and persistent, even if they may result in higher rates for a given period.

However, few wonder about the level and structural quality of investment, or care about deindustrialization: for verification of such fact, one needs little but to see the strong regression in the level of manufacture-intensive exports in our portfolio[6], the strong rise in trade deficits of industrial products of medium to high technology,[7] or even the pronounced decrease in the share of GDP contributed by the manufacturing industry, which, after going from about 19% in the 1950s to 36% in 1980, violently regressed to 19% in 1990 and to 15.6% in 2000. It is considered that the current crisis is already over. Such claim is made by individuals who are deceived by positive growth rates, with no assessment of its continuity and the main structural changes involved, such as investment, employment, industrial production and foreign trade.

3 WHAT ARE OUR MAIN CHALLENGES?

As in 1930, even if not under the same circumstances and structures, we are faced once more with a severe international crisis, for which great doubts arise concerning its effective overcome in the short term.[8] Domestically, the improvement of various economic indicators has provided the very optimistic with a true "bed of roses" in the sense that the crisis had passed and we would have already returned to a new round of high growth rates, estimated at between 5.5% and 7.3% for 2010 according to the Brazilian Central Bank. However, the poor performance of the trade balance, the current deficit in the balance of current transactions, the small increase in the rate of inversion and the structure of industrial investment discourage the cautious from sharing the same optimistic views. Our caution is reinforced externally by the delay of the U.S. recovery and the recurrence of the crisis in Western Europe.

But these moments of crisis are precisely the ones that best allow for more significant changes in political structures and in the possibilities of formulating new economic policies. *New* in the sense of seeking to protect the economy from the crisis that affects it and allow for a look at the long term and a change of the route so far taken. In our case, the route in question has been that of an economic policy that, in its main bare essentials, has been supportive of neoliberalism. As will be discussed further ahead, my proposal is to break with this *neoliberal order* so that we can reassume, with the necessary sovereignty, control of our destinations.

6. About the internal determinations of this regression, see Pires de Souza (2010).
7. On this particular technological backwardness, see Alem (2009).
8. The main reasons - known by the end of 2009 - for this uncertainty are summarized in Cano (2009). Further along, recent data will be added regarding new facts made public.

Let us recall that, in the Crash of 1929, we gained some level of freedom in the management of our economic policy, through which we abandoned the liberal economy, built a developmentist State, and dared to outline some economic objectives and build long-term national development policies.[9] We dared to pursue a route for us until then unknown: the transition from a liberal primary-commodity-export economy to one which saw stark State intervention as the only path to industrialization. Certainly, though this path has been abandoned, it is not impossible to try to resume it and update it.

But, for that end, there are many challenges we still must face. Let us briefly examine those we believe to be the key ones as far as the economy is concerned, not ignoring, however, that their resolution runs into (or can run into) serious external and domestic political constraints.[10]

3.1 External challenges

1. Although the post-2002 foreign policy has changed for the better, opening up new political horizons for the country, the Brazilian trade policy, albeit more active, requires new attitudes of negotiation that are more objective and radical, particularly with countries like China, Russia and India, given the changes and growing strategic role that these economies have been given in the international arena and their relations with Brazil.

2. We will need to establish a – hard – negotiation framework with China, given that *times have changed*. This country has already emerged at the forefront of nations trying to reverse their main form of growth to the scope of its domestic market. The China gravy trains (Chinese deals, as the expression goes in Portuguese) grew strongly in prices and quantities, and in recent years not only has Latin America turned into China's main supplier of commodities, but they also replaced part of their manufactured exports from Mexico, Central America and also from Brazil to the U.S. market.

3. China is now performing, in many developing countries, the reprise of the British role in the nineteenth century, creating new markets for their industrial products and large emporiums to buy cheap commodities. On that note, the Chinese state-owned enterprise State Grid recently bought from Spanish companies, for US$ 1.7 billion, seven power plants in Brazil and, before that, had already bought part of Itaminas - Eike Batista's company - for US$ 1.2 billion, for the building of the Port of Açú steel-

9. In that respect see Cano (2007a).

10. See Cano (2007b) for details of these major constraints and challenges. Ipea has recently produced a compilation on these issues, organized by Cardoso Jr. (2009).

works. Moreover, the Votorantim group recently signed on a US$ 400 million deal - part of the US$ 2.6 billion total future investment - with the Chinese for the sale of *Sulamericana de Metais* (South American Metals) and an iron ore mine, from which it estimates to generate an estimated 25 million tons / year of ore, about 20% of their current purchases in Brazil. Will we, besides all this, also lose the African market to China?

4. The current crisis has shown unequivocal signs. The sharp drop in oil prices subsided some of the great recent enthusiasm about ethanol and national biofuels. It also showed how volatile the sugarcane ethanol market can be, given the vicissitudes of the market for sugar. It may also probably encompass the expansion of our agricultural frontier in the Center-West and Northeast Regions, which, besides its employment-income effects, would also reduce the migratory flows towards it, directing them to São Paulo, or increasing pockets of poverty in the Northeast.

5. The opportunity that arose for Brazil to change the direction of its economic policy and external relations requires decisive leadership action in South America. Therefore, it is essential to imprint a faster and more responsible pace in the process of regional integration.[11] However, that integration also faces some serious problems:

   a) defeated in their project for the Free Trade Area of the Americas (FTAA), the United States chose to "nibble around the edges" by signing the Free Trade Agreement (FTA) with several Central American countries and also Chile, Colombia and Peru, weakening the effective possibilities of vigorous expansion for Mercosur;

   b) it must be remembered that much of the recent losses of our foreign markets was mainly of manufactured goods, and took place in our three largest foreign markets (U.S., European Union (EU) and Argentina), therefore demanding urgent management initiatives to try and recover those;

   c) Mexico, which had in the U.S. market the destination of 65% of its exports before signing the North American Free Trade Agreement (NAFTA) in 1994, has today increased that number to about 85%. Moreover, its participation in NAFTA imposed its economy's opening and its "welding" with the U.S. economy, shifting, therefore, most of the interests it had for the rest of Latin America, notably the Southern Cone countries;

11. It is important to recognize the significant change in the attitudes of the current government in terms of external relations, with growing Brazilian presence in the international arena, particularly in Latin America.

d) integration with the other countries of South America - in the orbit of the Union of South American Nations (UNASUR) -, if thought of solely in terms of "market", will not yield great effects, since the regional blocs consisting of underdeveloped countries have low rates of intra-bloc trade (5% to 15%) compared to their total exports. Thus, for that figure to grow and really represent an important source of growth for their nations, it takes much more than just thinking in "market" or "positive balance" terms;

e) with regard to the physical integration now underway, we must distinguish between investments of the "export corridor" type to shorten the path of our commodities to the Pacific Ocean and those investments which can really streamline the directions of integration and development for the region;

f) the crisis also affected, on the financing side, the achievement and timing of these works. Moreover, and paradoxically, the very discovery of Brazilian oil and gas in the pre-salt layer of the Santos Basin could derail the important project of the north-south oil pipeline from Venezuela to Argentina;

g) also regarding the pre-salt layer, it is important to heed the warnings recently made by Ildo Sauer, from the University of São Paulo (USP), about the fact that some of these deposits are in the "200 mile" are not recognized by several countries, including the United States. Incidentally, to what extent does the recent (2008) reactivation the U.S. Navy Fourth Fleet (South) constitute (or not) a preventive and threatening attitude? The oil spill in the Gulf of Mexico is threatening the U.S. territory - and not only it - with major ecological disasters, and this could trigger heavy U.S. pressure on this activity in deep waters, even Brazilian ones. For that disaster, in fact, they have already imposed on British Petroleum a heavy fine of US$ 20 billion;

h) in the episodes of the coup in Honduras in 2009 and the earthquake in Haiti in 2010, the attitudes of the United States, partly ambiguous, resulted, in the first case, in the relegation of Brazil's role to a secondary position, rather than protagonist of the solution for this problem. In the second case, in a country in which Brazil had until recently a military force of 1,300 people and led the actions of the body of peacekeepers of the United Nations (UN), the United States acted quite quickly, occupying and controlling the airport in Port-au-Prince and sending a military force of about 11,000 soldiers, much more that the total force of the UN (7,000). They will obviously not allow other countries to exercise leadership in that area, located in the vicinity of the Dominican Republic, Cuba and Venezuela. The "humanitarian" mobilization for Haiti also comprised a large aircraft carrier, 33 aircrafts and many ships. Finally,

i) we must also remember the pressures exerted by the United States in the Security Council of the United Nations, imposing serious sanctions on Iran, blocking most of the agreement signed shortly before between China, Brazil and Turkey on enriched uranium.

3.2 Internal challenges

1. Our perverse social inheritance shows great deterioration of public health, education, housing, sanitation, urban transport, and the dissemination of social violence. In 2000, we accumulated a housing deficit of 7.8 million households, of which 87% are from families whose income is no more than three minimum wages. This deficit, projected for the next 20 years, would shoot up to 25.8 million households. The investments required to eliminate this deficit stand at around R$ 235 billion.[12]

In 2007, the deficit in sanitation, in terms of water services, represented 19% of Brazilian households. In sewage, our situation is calamitous. Only 40% of Brazilian households are provided with sewage services. Although garbage collection meets 91% of the population, 60% of the waste collected is accumulated in the open. To solve the problems of sanitation in the next 20 years, an estimated investment of R$ 226 billion is required.

But the perversity of our crisis and underdevelopment is more starkly manifested, in all the regions of Brazil, in the area of public health, especially regarding major infecto-parasitic diseases, regardless of regional concentrations of production. Among our regions, the Southern one is the least affected, and the highest incidences were concentrated (in 2003-2004) in the following regions (the percentage number in parentheses represents the percentage of that region of the national total): *dengue fever* – North (17), Northeast (52), Southeast (14) and Center-West (15); *visceral leishmaniasis* – North (16), Northeast (55), Southeast (23) and Center-West (6); *malaria* – North (95) and Northeast (3); *leprosy* – North (22), Northeast (39), Southeast (19) and Center-West (15); *tuberculosis* – North (9), Northeast (29), Southeast (45), Center-West (4) and South (11).[13]

Thus, in health, the amount required would be R$ 1,096 billion, and education, R$ 783 billion. In urban transport investments are estimated at R$ 1.5 billion.

12. All data on investment estimates were obtained from volumes I, IV and V of the Study of territorial dimension for planning (*Estudo da dimensão territorial para o planejamento*) (CGEE, 2008).

13. Data from 1st of July 2007, taken from the website of the Secretariat of Health Surveillance (SVS) / Ministry of Health (MS).

2. In infrastructure sectors, the situation is not any milder: in energy and transport, the country would need total investments of about R$ 1.3 billion.

3. The sum of these investments estimated on annually averages for the next 20 years, would stand at around R$ 269.3 billion, which amounts to about 85% of the total national annual investment, or 14% of our annual GDP.[14] It is impossible to meet all these demands simultaneously, all the more so if we maintain our current economic policy, deregulation and disorderly openness.

It should be noted that the productive sector also lacks many resources, given the technological gap that we have accumulated over the past 30 years of crisis and 20 years of neoliberalism, especially in more complex sectors of equipment and electronics, which got hit the hardest by the deindustrialization process. Although several programs have been developed for industrial policy,[15] the constraints caused by macroeconomic policies have hindered their success, given the *de facto* abandonment of the sectorial policy for this segment, and the even greater sin of not having any modern chip factory. To get a practical perspective of this problem, one could mention simply that our foreign trade deficit in chips in 2009 totaled US$ 3.3 billion.[16]

Thus, an initiative designed to tackle these enormous social and economic problems would have to create a national strategy grounded on two main aspects:

a) the strategy should map the main conflicts of interest arising from this decision. For that end, one must design a *de facto* "political engineering" to produce new national political consensus that can balance the conflicts between different social segments of the country;

b) given that the amount of investment resources needed is very large in relation to the concrete possibilities of internal and external financing, we should also implement fiscal and tax reforms so that we can raise the investment rate. Still, it would be necessary to prioritize and scale these expenditures in time and space, because *there will be no resources for everyone and everything at the same time*.

14. At 2004 prices and percentages related to the 2004 GDP.

15. On industrial policy in the period 2003-2010, see Cano and Gonçalves (2010).

16. Moreover, during the negotiation with Japan in 2007 to adopt its system of high-definition (HD) for our digital TV, the government announced that these negotiations would lead to the deployment of a chip plant in Brazil, a promise that was not delivered. It is true that the federal government has been implementing, for 10 years, a small chip plant in Rio Grande do Sul, whose equipment, dating from 2000, were donated by US-based Motorola. This plant is to start its actual production in the coming months.

This strategy should be backed by clear definitions of what the main objectives for the country and its people are and on the decision to resume the use of control mechanisms for the exercise of national economic policy.

This, of course, will require rapid formulation and implementation of reforms, of real changes for the sake of national interests. As major indicators of these reforms, they should be explicitly focused on maximizing employment and foreign exchange savings and on significant reductions of interest on internal debt, to make room in today's inflexible taxation system.

In this sense, as a means to alleviate some of these conflicts, it would be important to employ efforts to ensure that forecasts - nor the most optimistic nor the most pessimistic - regarding the pre-salt layer are confirmed and that a substantial fraction of the surplus can be allocated to finance a good part of those investments. It would be a good alternative use of scarce resources, especially in a country where public investment was drastically reduced, and where the payment of interest of public debt absorb about 6% of GDP and the orthodox fiscal policy imposes high fiscal surpluses just to cover the cost of such interest.

4. In regional terms, we also have new problems to face. Although there was a modest convergence of state per capita income and agricultural and industrial decentralization, the most serious regional problems (the social ones) had no substantial improvement. It so happens that, with the fiscal crisis and the compromising of our budget with paying interest, funding for the regional area has shrunk, and consequently the formulation and implementation of regional development policies also dwindled, just as the regional development institutions have failed to rediscover their original meaning.

In the so-called political struggle for regional survival, little remained for subnational units (states and municipalities) to do other than intensify a suicidal fiscal war between all the territories, giving private capital scarce resources that should be given to the people.[17]

4 KEY CENTRAL ISSUES FOR THE RESEARCH AGENDA

One must understand that we are faced with the problems of two crises. The current international one, which erupted in mid-2007 and still shows uncertainty of its recovery, and the structural one, which plagues us since 1980 and, even if it has changed part of its structure - external public debt, for example – has accumulated perverse effects that are arduous to overcome. Thus, the itemization of proposed lines of research should be preceded by a discussion of the two crises.

17. About the fiscal war, see the recent doctoral thesis by Cardozo (2010). On the regional issue in the post-1970 era, see Cano (2008).

4.1 The current crisis[18]

Its nature is more complex than that of the previous ones - especially that of 1929 - due to the deepening of globalization and large financial deregulation that have taken place since the late 1970s and the exacerbation of the domain of the international financial system. Though its outbreak has taken place in the international economy, with its epicenter in the United States, this crisis reverberated unevenly in all countries. Thus, one has to consider it in the foreign and domestic plans of analysis.

4.1.1 In the international sphere

There are many uncertainties about the U.S. financial reform and the crisis in the European Union. Indeed, a recent (June 2010) law approved by the United States Congress created a consumer protection agency to better regulate mortgages, loans and other financial practices, as well as an oversight board on systemic risk, which would broaden the authority of the Federal Reserve on major financial institutions and rules so that the liquidation of financial institutions not be held at the expense of taxpayers' money. However, the measures do not affect nor correct, to the required depth, the liberality held by financial capital.

Moreover, the last meeting (June 27, 2010) of the G20 was at best frustrating for those who believed that there would be a general agreement to impose tough rules on the financial system. Europe, notably through the voice of Germany, called for coordinated action for countries to carry out a "sanitization" of their public finances between 2011 and 2013 (the old recession policies) and also impose taxes to discourage high-risk financial transactions. But the recessive suggestions (with the exception of the promises made by the UK and France), did not enthuse many European countries.

In turn, the United States, although they agreed with the proposal rhetorically, voted against it, arguing that it would be up to each country to decide on the matter. Brazil backed the U.S., arguing that the taxation of our financial system was already high and the current regulation was sufficient to control it. Interestingly, the creation of a global tax on international flows of capital was part of the Labor Party's electoral claims at least until 2002.

It is obvious, therefore, that such proposal was left for dead, showing in fact that there is no international political power for such disciplining of the financial market. In other words, capitalism continues to push the crisis forward. However, this increases uncertainty regarding the end of the crisis, and in fact represents an increased likelihood of the establishment of a "programmed recession" in Europe, which, in addition to further undermining the euro, could reverberate throughout

18. Cano (2009) discusses this crisis and its main effects on Brazil and Latin America.

the world, lengthening and deepening the crisis to the point where it could become a depression.

Our research and reflections should also seek to better understand the following issues:

1. There are serious outstanding issues in the United States: the stock market shows enormous uncertainty regarding the possibility of better pricing the remaining "toxic waste"; the form and source of financing of the fiscal deficits of the country in 2010-2012 are still uncertain; and speculation in the derivatives market seems to have returned.
2. Furthermore, data shows that the debt and public budget crises in Greece, Portugal, Ireland, Spain and Italy are profound and severe, Greece being the worst, among other reasons, for its carrying out of financial transactions with Goldman Sachs, thus defrauding its true situation to the European Union. These facts not only undermined the euro but brought even greater reservations about the future of the EU, its economy and the credit and interest rate policies to come. The total funding of these debts with banks is estimated at about US$ 1.5 trillion, and this fact, together with the return of financial speculation, led to an alert being issued by the Bank for International Settlements (BIS) on the possibility of a return of European recession. Accordingly, various recessive measures which have already been taken - cutting public spending, raising interest rates, cutting wages etc.. - are signs of an inevitable prolonging of the crisis. A likely rise in interest rates in the EU and a contraction of its capital outflows to developing countries would be bad for us and contaminate us rapidly.
3. Could China take the role of "locomotive" in the international economy? Will China behave like the British Empire in the nineteenth century, trying to greatly expand the number of areas providing them with primary goods, lower their prices and further expand its overseas markets for manufactured products?
4. What are the main reasons for the poor performance of our recent exports of industry-intensive goods, especially *manufactured* goods, and how can we overcome the problem?
5. What are the possibilities for greater integration in South America and how can we expand the limited economic effects such integration has today?

4.1.2 In the national sphere, one has to ponder and reflect on the following:

1. If we focus on official GDP figures, they show a recovery beginning on the second half of 2009. The output of the manufacturing industry, although

> 7% lower in 2009 than that of 2008, slowed its fall at the year's last quarter. However, it would only reach pre-crisis levels in April 2010, and even so with a few indicators still showing figures below those of the pre-crisis period. The data shows, however, a somewhat slower growth, and the most affected sectors were the most complex branches, mostly those related to capital goods, hit hard in the previous decade. In other words, we are regressing with our industrial structure. Thus, if we want to regain international competitiveness, we must change our industrial structure, by restructuring investment and accelerating the incorporation of technical progress.

The current trade deficit for industrial average-to-high and high technology goods has gone from US$ 18 billion to US$ 23 billion, and the trade surplus for low-tech goods increased from US$ 11 billion to US$ 35 billion (ALEM, 2009). In electronics, the trade deficit in 2008 reached the figure of about US$ 23 billion.

Our innovative skills are low, as has been verified by the Institute for Studies in Industrial Development (Iedi), which claims that, out of the total 4.4 million businesses, only six thousand perform research and development (R&D), and the reason for that lies in the frailty of our industrial policy. Iedi also shows that, out of the total amount of public resources allocated for that end, 61% comes from the Computer Act (a Brazilian law which provides fiscal incentives for computer electronics companies that invest in R&D) and represents, in reality, subsidies to keep the few remaining companies that are still here in the country so as to offset the high tax incentives granted to enterprises in the Zona Franca in Manaus (IEDI, 2010). It is not, therefore, a Science and Technology (S&T) Policy, but one of maintenance of delay.

The crisis that hit the automobile sector - with decreases of 12.4% between 2008 and 2009 - was not due solely to the internal market: between 2005 and 2008, while we increased production by about 900,000 vehicles, our exports were reduced by about 400,000. That is, part of the crisis was due much more to the currency appreciation policy than to the problems of the internal market. However, this sector was the one most privileged by policies to combat the crisis, having received the largest investments and big tax cuts.

Other sectors which enjoyed tax and credit benefits, such as that of durable consumer white goods (major appliances), building materials and the construction sector itself, also played an important role in this *recovery*. However, in late January this year, incentives were ceased for white goods producers; at the end of March, the benefit for the other subsidized products was also terminated - with exception to construction materials; consequently, in mid-May, the trade of consumer durable goods already presented negative figures. In April and May, indicators were already presented in the media which showed isolated contraction of production and sales in some sectors. Currently (June 2010), the auto industry advocates with the government that it permanently reduce its Tax on Industrialized Products (IPI, a Brazilian VAT which is only charged on the manufacturing stage) for flex-fuel vehicles (running on ethanol and gasoline). The government complied extending the reduction until December 31 2010 for trucks, pick-ups and tractors.

However, the recovery process cannot be sustained, in the long term, just by household consumption. Such consumption has grown (besides the effects of the aforementioned credit expansion) mainly due to payroll loans granted by banks and the doubling of the average collection period (from 17 to 31 months), and also to a small improvement in income due to social policies, which caused an increase of the average debt capacity of households which has supposedly affected more than 40% of annual household income originating from work. One must wonder what limit there will be to this process, since it is estimated that defaults will increase in coming months. It is also relevant to point out that industrial unemployment had a record high in 2009 and, therefore, the recovery of gross employment numbers (all sectors average) that can be observed as of the second half of 2009 is basically due to the services sector, where, as we know, informal employment and low salaries proliferate.

Foreign trade data from 2009 compared to that of 2008 shows no recovery: total exports accumulated a decrease of 22.7%, and those of manufactured goods fell even more (27.3%), while total imports fell 26.2% - and did not decrease even further because of the strong currency appreciation. The results were not even worse thanks to the doubling of prices for sugar and the significant increase in the volume of exports of various commodities such as sugar, maize, soybeans, aluminum, cellulose and orange juice.

Only after the second semester could an improvement of various prices be verified, which allowed exports to rise 28.7% and imports by 40.2% between January and May 2010 compared with the same period in 2009; over 2008, however, exports grew only 0.1% and imports 4.7%, as a result of which the trade surplus shrank, amounting to meager US$ 5.6 billion in the same period in 2010. This is worrisome because in the first quarter we sent a net US$ 16.7 billion abroad as remittances of profits, interest rates and purchases of services, resulting into a deficit of current transactions of the order of US$ 14.5 billion.[19] This deficit is estimated at around US$ 50 to 60 billion for 2010. The picture gets even worse given that, over the same period, foreign direct investment (FDI) is 11% lower than in 2009. Fearful of a disaster, the government launched in May this year a "package of kindness" to the export sector which consists of reducing taxes and tariffs, expansion of credit and creation of the Foreign Trade Guarantee Fund, hoping, thereby, to allay the perverse effects of exchange rate appreciation.

19. According to the Central Bank, remittances of profits went from US$ 3.3 billion in 2000 to US$ 33.8 billion in 2008.

2. But what sustentation and capacity for structural transformation can a recovery process have that is grounded on those incentives to expansion of household consumption, weak export performance and modest investment rate? To create more secure mechanisms for raising the effective demand it is necessary to not only move the investment rate sharply upward, but also to change its structural composition. However, in the public sphere, despite the increased investment in the first half of 2010, and even with the Growth Acceleration Program (PAC), the resources for doing so continue to be slim, and, in the private sphere, there is great uncertainty for investment in infrastructure and in the processing industry.

Let us recall, however, that our reversal rate (which had climbed from 20% in the 1960s to 25% in the next decade) dwindled after the debt crisis, decreasing even further after the adoption of neoliberal policies, to about 16%, leveling off at 18% in the 2006-2008 triennium. However, despite this quantitative problem, there is another, qualitative: that its structure has changed, services and other sectors becoming a growing part of it, and the processing industry on the other hand becoming increasingly smaller in proportion. Here lies part of the substantial delay in S&T mentioned above.

For example, for industrial investments estimated by BNDES for 2008-2011, residential construction would account for 44.1%, infrastructure for 19.1% and the rest of the industry 36.8%. However, out of the percentage for industrial investment, energy and mining sectors account for 68.2%, automotive 7.8% and industrial commodities 19.8%, while those areas that are - or should be - considered strategic, such as electronics, pharmaceuticals and software add up to only 4.9%.[20] Estimates for 2010-2013 show that, although the estimated total volume should grow, the structure of investments will present little change.[21]

3. Given these facts, how can we defend from China buying more primary commodities and being even more aggressive in industrial exports to developing countries? And how to accelerate the economic integration of South America?

4. Moreover, this *recovery* does not change the macro framework for the medium and long term: low average growth rates, high interest rates, continued reprimarization of the export portfolio, etc. We may, in 2010, grow somewhere around 5.5% - according to current estimates - but without changing that framework, we will not achieve sustained recovery with persistent elevated rates and the resuming of reindustrialization.

20. See Torres Filho and Puga (2009) on that regard.
21. See BNDES (2010) on that regard.

5. Moreover, a "recovery" that is so distorted and unsustained detracts attention from relevant concerns with the long term and decreases the opportunities for structural changes in the current economic policy.
6. Optimists say we will not have major problems with our external accounts, not only because of high trade surpluses we have been achieving but also because of the large flows of foreign investment that entered the country in recent years, which increased our reserves to over US$ 200 billion and made our net external public debt negative.

However, it is worth recalling some relevant issues. Our trade surplus rose between 2003 and 2007, when they reached US$ 40 billion, but fell to about US$ 25 billion in 2008-2009; decelerated in the last quarter of 2009 and were markedly reduced in the beginning of 2010, with forecasts for the future that can be considered (should the current policy of appreciation be maintained) bad. Spending on services and income - notably remittances of profits and income from government bonds – has grown strongly, given the international scenario. The result is that the balance of current transactions, which was almost zero in 2007, converted in 2008 and 2009 to US$ 28 billion and US$ 24 billion, respectively, and, as suggested, there are worse forecasts for 2010.

This deficit has been covered with leftovers: the sharp increase in direct investment verified since 2003, which reached US$ 45 billion in 2008, but which plummeted to US$ 26 billion in 2009; and the flood of portfolio investments, which went from US$ 5 billion in 2005 to US$ 48 billion in 2007, almost zeroed in 2008 and shot up to US$ 41 billion in 2009. It is true that the external public debt, which stood at US$ 88 billion in 2005, dropped to US$ 69 billion in June 2009. However, private debt, on those dates, jumped from US$ 82 billion to US$ 130 billion, the result of which is that total debt - including the financing of companies - has actually increased from US$ 188 billion in 2005 to US$ 270 billion in June 2009. Considering that foreign capital on August 31st 2009 amounted to US$ 212 billion in equities and fixed income bonds and that these documents, under certain circumstances, can be settled in 24 hours, I do not see reason for great optimism in the face of this colossal increase in external liabilities.

7. The current exacerbation of the stock market shown by the indices of the São Paulo Stock Exchange (Bovespa) is due, mostly, to the huge amount of foreign investment in equities and fixed income bonds, not only because of the feebleness observed in the international market - low asset prices, negative real interest rates, weak dollar, among other things - but mainly due to the magnanimity of the national interest and exchange rates. However, this pinnacle of market activity seems to be reaching its end, with the decline of the Bovespa index in recent months; also, if the bubble bursts, it is not difficult to foresee the explosion of interest and exchange rates. What should we do, in terms of macroeconomic policy, in the face of this possible scenario?

8. And, also, faced with a probable decline of international financial flows, what action may the State take to reorganize and refocus the public and private domestic credit in the long term?

4.2 The structural crisis: 1980 to today

The structural crisis is a cumulative process: new political and economic events that have occurred throughout the entire process amalgamate and accumulate on top of those responsible for its origin. Different dynamics of expansion and crisis are joined together and superimposed. Accordingly, the effects of the more recent crisis also add to the structural crisis. This causes more difficulties and demands more research work for its adequate understanding.

Given that there is a greater availability of studies on the international economy of the past three decades, I see no need to detail them in this study. But we must remember that their analysis is instrumental for us to fulfill our task. Domestically, it is imperative to know the "state of things", namely the need to perform a broad diagnosis in terms of space, sectors and themes, and national and regional issues.

It is worth remembering, initially, that the structural crisis, which also contains the current crisis, *roughly* corresponds to the period from 1980 to today, one of low growth rates, and its division of periods could be subdivided into the following phases:

1. 1980s: corresponds to a period of high inflation, low growth and fiscal and financial crises in the State and in the balance of payments.
2. From 1989 to 2002: not only did the problems of the previous period accumulate, but some of them also amplified and new ones were created. Privatizations, trade liberalization, financial deregulation and currency appreciation are the main milestones of the period. Inflation would be contained after July 1994 – through the Real Plan – but at the expense of a five-fold increase in our real internal public debt, an enormous appreciation of exchange rates – activity for which we squandered US$ 200 billion between 1995 and 2002 – and the placing of real interest rates at absurd levels. With the process of negotiating state and municipal debt with the federal government, the fiscal crisis spreads through subnational entities, bringing public investment down to insignificant levels. The labor market, which had already been deteriorating in the previous period, increases open unemployment and makes it even more precarious.

3. From 2002 to 2008: includes the recovery of international trade ("China effect").[22] GDP average growth rates were higher than in the previous period due to: *i)* a large expansion of exports of commodities, *ii)* the increase in payroll loans - mainly by public banks and primarily based in household consumption - which is almost without risk to bankers, and *iii)* an expansion, at the end of the period, of public long-term credit - through BNDES - which provided some form of boost to the investment rate. The absurd real interest rates and the scenario observed in the international market favored a stark increase in capital inflows marked by an increase in foreign investment, notably in services - financial, mainly - and in stock market speculation. The brighter side of economic policy was the social policies, with the considerable expansion of the minimum income program (Bolsa Familia) and of the real minimum wage, which decreased the levels of poverty and destitution and also provided for increased levels of household consumption.
4. After the end of 2008: includes the current crisis and contains many uncertainties, both internal and external, as those have been previously mentioned.

The cumulative effects of the bigger crisis are reflected in the economic, social and political structures. They are projected in the radical change of budgets and the pressure exerted on them by interest rates; in the extremely high regressivity of the tax burden; in the deterioration of national and regional development policies; and in the deindustrialization of the country. They implicate, ultimately, in the technological backwardness of the economic and social infrastructures.

It is noteworthy, in regard to production structures, that the openness and the crisis profoundly altered the structure of industrial production and investment. These facts, along with the fiscal crisis and the deterioration of long-term policies, have led states and municipalities to wage fiscal wars, distorting the (already spurious) process of decentralizing regional production. The "China effect" has provided for strong stimulus to global exports of commodities, and this prompted a great expansion of our mineral and agricultural frontiers, greatly exacerbating the seriousness of environmental issues and the urbanization process of the country itself.

Specifically on urbanization, I must mention the warnings I have made, since the 1980s, about the neglect of urban planning, the little attention given

22. It should be understood that the "China effect" is not just the expansive effect - direct and indirect - in the exports of commodities derived from the increase in real growth rates of the Chinese economy and of world trade, because this effect also takes place in a movement towards international financial speculation of bonds and commodities, which culminated in the international crisis that erupted in mid-2007.

to social investment and basic sanitation and the effects of the national housing policy inherited from the military regime, which provided for remarkable increases in urban speculation and would later exacerbate the current urban disasters (CANO, 1989). This would result in a "chaotic and volatile" urbanization, which drove the proletariat into marginal neighborhoods and occupied unsuitable spaces - hills, wetlands, conservation areas etc. - and whose foreseeable results was to be serious disaster, as, regrettably, we are witnessing in recent times. What we're seeing now is deplorable statements made by political leaders attributing these disasters exclusively to the "imbalances of nature", trying to exempt themselves from their responsibility on the matter.

4.3 Itemization of a research proposal

To conclude this section, it is fitting to list the major items that should comprise the Research Agenda, warning however that this is a tentative list which can include many other items or even the further development of some of the ones listed here:

- major structural transformations of the major productive sectors (agriculture, mining industry, processing industry, construction and services) and the segments of infrastructure; technology gaps, supply deficits, deindustrialization and strategic products;
- main national and regional effects of the expansion of agricultural and mineral frontiers;
- programs for the implementation of agrarian reform and their main purposes;
- regional decentralization of industrial production and infrastructure and its major economic, environmental, political and social effects;
- major changes in the labor market;
- major changes in the process of urbanization;
- assessment of the deficit – current and for the next 20 years – in housing and sanitation;
- major demographic changes, inter-regional movements and social conditions of the population;
- critical review of income distribution in Brazil, especially the incomes of properties;
- major structural changes of foreign trade: main products, destination and prices;

- public finance: fiscal effects of fiscal wars, increase in the regressivity of taxes;
- major changes in the national system for public and private funding, growing "privatization" of the public long-term financing system and major perverse effects on the macroeconomy;
- in-depth study of the international economy, its current scenario and key trends; and
- review of the main effects, advances and setbacks in the economic integration of South America.

5 MAIN LINES OF APPROACH FOR A NEW PROJECT FOR NATIONAL DEVELOPMENT

Radical optimists believe, in light of some positive economic data and on their impressions, that "the crisis is gone" and, from 2010 on, we would enter a new cycle of growth whose rates, they estimate, would be at least 5% annually, without questioning the quality of that growth, that is, the structural changes such growth would bring. For those individuals, there is little point in thinking about a new national project for development. Others, not so optimistic, but also believers in that recovery and in the market, at least see the urgent need to recover not only growth but also industrial competitiveness, badly shaken as it now stands. For those, a strategy is needed for this purpose, a "developmentist" one.

For critics, however, all this is necessary, but only as part of what should constitute the new project, which should have as its central policy vector a fully-fledged attack on our greatest inequalities and a real strategy of resumption of industrialization, with a view to achieving an economic growth that is grounded on an environment that can lend it sustainability. This is the content of the *proposal* here being formulated.

I emphasize even further that the current model, in addition to being isolated from industrialization, is unable to maintain annual growth rates that are *high and persistent in the long-term*. Let us go over the issue once more.

5.1 The inconsistency of the neoliberal model

In the macroeconomy which ran between 1994 and 2002, the stabilization policy was the flagship and was based on highly valued exchange rate, high interest rates and the tax base that provided for the payment of the interest rates of our public debt, which at the time amounted to around 8% of the country's GDP. Thus, the resulting external imbalance has resulted in an accumulated deficit of current transactions – between 1995 and 2002 – of about US$ 200 billion.

The more the GDP grew, the more net expenses in foreign currency - in services and payments of income - increased, and thus the consistency of the model was given by the presumption of continuity of large and growing inflows of foreign capital. But this continuity, as we know, is non-existent, given the circumstances of the international economy: crises, interest rate fluctuations, cycles in stock markets etc. Against the opinion of official economists, I discussed this fact in 1997, showing that the model was unable to ensure a high annual growth rate that was persistent in the long-term. The internal and external exchange rate crises of 1995, 1998, 1999 and 2001 demonstrated the reality, and the average growth rate of our GDP from 1989 to 2002 (2%) was as mediocre as those from the 1980s.[23]

In 2003, another meager growth rate: 0.6%. From 2003 to 2008, average growth rates (4.5%) rose again, supported by the growing inflows of foreign capital which ensured high exchange rate expenditures and also allowed for a strong recovery of our reserves. The higher growth rate verified, however, was ballasted on a strong increase in exports ("China effect") and in household consumption, but without recovering the investment rate. With the crisis (2008-2009), paradoxically, we further expanded our net external liabilities, given the international market situation, the generous interest rate and the paradise that the financial market had become, resulting in a manifold increase of capital inflows, especially for the stock market. The result accumulated between 2002 and 2009 is not auspicious, with the average annual growth rate of GDP at approximately 3.2%. But now, since early 2010, when capital inflows have shrunk, we once more envisage the looming threat of a worsened currency mismatch and cast doubts on the continuity of the current growth rate.

However, we repeat, there is another more serious issue, which is the form of growth of recent years. In addition to household consumption, exports were what drove the rise in GDP.[24] But these were predominantly of primary goods, and investment, albeit rising a few points, is still very low - about 18% of GDP. But it is not simply a matter of raising the investment rate: it is likely to rise - according to forecasts from BNDES - already in 2010-2012, by means of inversions that are being prioritized by the PAC for the 2014 World Cup and the Olympic Games of 2016, in addition to those scheduled for the pre-salt layer.

I am not opposed, obviously, to increasing our exports of commodities, and even less so to increasing household consumption and credit. What I criticize

23. See (CANO, 2000) for research and analysis on neoliberalism in the major countries of Latin America and in Brazil in 1997

24. Indeed, the economic recovery in late 2009 is due more to fiscal and credit incentives granted to the most affected sectors. Most of such incentives were due to end in the first quarter of 2010, and the government was to extend several of them.

is that investment moves upwards very little, and, moreover, little of it goes to the processing industry - except for the processors of exports. Needless to repeat the issues already mentioned, such as deindustrialization, reprimarization of the export portfolio, the inadequate supply of infrastructure and our backwardness in science and technology.

There are many economists who not only think that this reprimarization is beneficial, but also that industrialization is no longer as important as it once was. Some even praise the "Australian model". They seem to ignore the difference between the deindustrialization of that country and ours; the differences between a developed country, whose per capita income is US$ 44,000, and an underdeveloped one whose income is just US$ 7,000, a figure from which we should discount the high exchange rate appreciation that inflates the number in dollars; and the fact that we have nine times the number of inhabitants that Australia does.

It is worth adding that the current type of growth, besides destroying manufacturing jobs, creates more jobs in the tertiary sector, predominantly low-income and low-skill positions, and therefore is also bad for the urban poor, who will continue to widen even more the so-called "urban swelling". With such a model, we are not going to reduce hidden unemployment. Moreover, we must remember that this growth has narrow limits in face of the possibility of discontinuity of the current external resources and the expansion of consumer credit.

Among the political conflicts that we suffer in Brazil is the one which divides those who desire for high and fair growth and those who profess "stability at any cost". All it took were some signs of recovery and promising estimates that we would grow 5% - or more - as of 2010, and the usual voices have claimed (and already obtained) the resumption of increasing interest rates, but still insist on credit control and on maintaining the fiscal surplus, "to prevent or contain the rise in inflation". The Central Bank took steps, in February that same year, to resume previous levels of reserve requirements for means of payment for the banks, which will be extended from July 2010. In May this year, the annual SELIC rate[25] rose from 8.75% to 9.5%, and in June this year, to 10.25%; and this rate will rise even more. Moreover, the government has already announced a cut of US$ 10 billion in the General Federal Budget (Orçamento Geral da União). With that, and with the end of most of the incentives created during the crisis, the economy was already showing signs of deceleration as of April this year, in face of which the government, paradoxically, has extended the term of the tax incentives. Namely, will we watch, again and "in full fanfare", one more *forced landing* of the flight of the chicken?

25. Special Liquidation and Custody System (SELIC)

5.2 Summarized lines of a new development agenda[26]

This proposal is part of a general assumption, which is the unavoidable necessity of regaining the management of our most sovereign economic policy, and for which there is no escaping the question of breaking with the current model. Such breaking is therefore made much-needed, without which we cannot think nor take the decisions necessary to achieve our goals of growth and social development. It is therefore necessary to regain our lost economic sovereignty.

Obviously, the design and implementation of a new project should be preceded by a transition strategy, which would allow us, in the shortest time possible, to deploy the new national project, i.e. a new model of growth with social redistribution of income and assets.

Given the complexity of social and economic crisis in Brazil and its major internal and external constraints, as well as the variety of stresses and demands of classes/sectors/regions/themes, it would be impossible to choose one only determinant and vector of production growth, be it the well-known “export driver” or the “mass internal market”.

Making a choice for the internal market would strongly affect public spending capacity for the next 20 years with the resources demanded, in face of the accumulation of public and private investments needed and not performed. The export driver vector, on the other hand, would not prevent the growth of imports of inputs and supplies - as well as external services and income - which could impinge upon external constraints.

It is important to remember that, given the conditions of the international economy, it would be impossible to expand our exports further enough to cope with the demand for imports. Much less so in a way through which we could make our exports the main determinant of income and employment.[27]

That would require high-quality industrial production, specialized in large scales, which would require significant imports of goods and technology. As an attenuating factor, certain sectors that are less demanding of imports could be detected - or that generate high levels of exports - but it would still be very difficult to diversify and boost our exports to the necessary levels.

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26. Since 1990, I have been seeking to build such a proposal, and a more detailed one than that which is presented here. See the proposal in Cano (2007b), of which this subsection is a summary. Among other proposals and discussions on the subject, see Gentil and Messenberg (2009), Magalhães (2009), Sicsú and Castelar (2009), Sicsú and Miranda (2009) and Velloso and Albuquerque (2010). The *Isto É* magazine (February 7 2010 edition) published an interview with Minister Samuel Pinheiro Guimarães from SAE/PR, featuring some of the topics that will be soon publicized by the government, such as the Brazil Plan 2020.

27. The more detailed version of this proposal (CANO, 2007b) includes an appendix with some considerations on the difficulties to increase exports at the current origin-destination framework of Brazilian foreign trade.

It is not difficult to deduce that any of the two vectors mentioned would impose serious financing problems in the long-term, internal or external, and, eventually, in inflation and in the balance of payments issues. Moreover, it must be made clear that the growth enabled by any of them alone is insufficient to handle the problem of employment, and even less so that of our social crisis.

That means one must define a strategy that is not excessively reliant on a single vector and which uses "a bit of everything". Such strategy would include several sectors at the same time, giving priority to the technological upgrading of strategic segments, scaling the use of scarce resources in time (exchange rates and public finances). Even an "optimum" combination of sectors in time and space will not prevent our major needs for imports, and this, added to access to modern technologies, would impose pressure on our capacity to meet international payments, forcing us to strengthen an export policy.

The alternative proposed in this study will prioritize the vector of the internal market via growth with income distribution with a view to making use of and expanding our mass market. The main activities covered would be: the housing sector, focusing on the popular segment; sanitation; education; culture and public health; and basic goods.

The second main vector would be production of industrial exports, without neglecting, of course, commodity exports. This would require an accurate and timely strategic selection to recover what we have lost in terms of "potential products and markets", and, in the medium term, the selection of products of higher added value and technological content to diversify our export portfolio and the external markets we can reach.

I am aware that the purposes set out and reforms itemized below may trigger external conflicts - with the United States, the International Monetary Fund (IMF), the IBRD, the World Trade Organization (WTO), international banks and other examples, as well as internal conflicts with national and regional elites, political parties, part of the entrepreneurs, the financial system, some unions etc. - which necessarily implicates the need for the prior construction of a new and difficult pact of political power. This pact will have to go through negotiations between *parties*, *the working class*, *businesses*, *regions and sectors*, requiring accurate and finely tuned political preparation for such end. Without this, it is hard to think of options within the limits of democracy.

It is instrumental to remember that these reforms must be implemented incrementally, in accordance with the prioritization set, with the complexity of external and internal constraints and with developments that may arise in the short, medium and long term. Finally, I present the concise set of policy actions –short, medium and long term – and of structural and institutional reforms needed to implement the new agenda:[28]

1. *State Reform*: greater administrative streamlining, realignment and upgrading of civil service; reassembly of the national system for planning; and reintroduction of selective capacity prioritization.
2. Study and proposal of *special portfolios* for exports and imports that can be created via special agreements for increased trade integration with Latin America and other peripheral countries, especially with the three other "continental" countries, China, India and Russia. These portfolios would have a complementary nature between Brazil and these countries, expanding trade in products who would normally have a lot of troubling entering - or growing in - other markets.
3. Addressing the *external debt and external liabilities service* to match both an exchange rate budget that sustains the resumption of investment and growth, and, mainly, that conditions our ability to amortize them in accordance with monetary and fiscal availabilities.
4. Addressing *domestic public debt* to better match public accounts to accelerated economic growth and contain the structural pressure exerted on the interest rate. Since the three spheres of government are financially compromised, this addressing should cover all those instances.
5. *Progressive fiscal and tax reforms* that could readjust public accounts and regional and local levels of competences, simplify the tax system and offer, in short, the financial conditions required for a modern, efficient and socially just State. It should be a priority to combat the current fiscal war.
6. *Long-term financing*, mainly for infrastructure and industry that are considered heavy or of high technological complexity, in addition to the recent strong efforts to expand long-term credit from public banks - notably by BNDES. Such financing is perhaps the most crucial question of our economic policy, given the enormity of its needs and limitations of its current sources. Thus, it is imperative to restructure the *financial system* to hinder speculation, strengthen the capital market and address the structural bottlenecks of long-term financing.
7. *Social reforms (agrarian, water supply, urban, public health, social security, educational and environmental)* designed both to tackle emergency problems of the poor and to reach the entire society in a long-term perspective.

28. This relation reproduces, almost to the letter, the reforms presented in Cano (2007b).

8. *Enterprise reform,* to allow business to adapt to the new administrative, productive, financial, and social requirements and to allow for greater transparency of their results, their efficiency and their social role in a modern and fairer society.

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