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Brazil

Another economic model is possible

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The election of 'Lula', Luis Ignacio da Silva, the candidate of the Workers' Party (PT), as president of Brazil in November 2002 was an unprecedented event. The PT is a recent party - founded in 1979 by left activists emerging from clandestinity and trade-union radicals formed during the years of the dictatorship.

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So it is not linked to the history of class collaborationism of social democracy or the submission to the diplomatic interests of the USSR of Stalinism. It is a party in which have cohabited since the beginning revolutionary and reformist currents, and more recently social-liberals. All these currents identify with the history and programme of the PT itself and have acted together within the leading bodies of the party whose level of internal democracy remains an exception.

While the right has made gains over the last few years this polarization has also enabled the left - including Democracia Socialista (DS), the current organizing those identifying with the Fourth International within the PT - to mark itself more clearly. The rightwing shift was clearly visible in the electoral campaign waged by Lula.

The militants of DS did not share the orientation of the electoral campaign and the choices of the PT governmental majority. However, they are a significant current within the party - in the last PT congress their candidate for president Raul Pont came second (with 17.53% of the vote) and the theses on perspectives they proposed came third after another left grouping Socialism or Barbarism (15.86%) while the majority won more than half the votes.

In this situation, given the inclusive traditions of the PT, Lula was obliged to propose their participation in the government and to refuse to accept would have been seen within the party, and in particular among the millions of voters, as avoiding their responsibilities in the hopes for real change. They therefore felt - a decision which has provoked much debate on the left in particular outside Brazil - that DS member Miguel Rossetto should try to implement agricultural reform - a burning question in a country where agricultural property is particularly unequal - as a Minister of agricultural reform and that this could help the self-organisation of rural workers.

At the same time the DS is determined to continue the political discussion within party and has decided to concentrate first of all on the discussion on economic policy. This text was thus submitted by DS to a meeting of the national leadership of the Brazilian Workers' Party (PT) on 15-16th March 2003. At the end of the discussion, in which the minorities were able to express themselves fully, the leadership adopted the majority contribution approving the current policy of the Lula government by 54 votes for, and rejected the contribution of Valter Pomar (Left Articulation current) with 13 votes for and that of the DS (8 votes for). Some members abstained. We should note, however, that in the recent parliamentary vote on the autonomy of the Central Bank, the majority of PT members of parliament voted against.

This document aims to reflect on the impasse of the macroeconomic policies of our government - which represent continuity with the policies government of Fernando Henrique Cardoso, and especially those of its last period. Rather than question the adoption of specific measures, we want to propose a discussion about the global orientation that is being adopted. We want to argue in favour of a different policy, one that aims for a decisive change. This is not only feasible, but in line with the Conceptions and Guidelines for the Programme of Government of PT to Brazil, approved by the 12th National Meeting of the PT, in December 2001, and with Programme of Government of the Coalition for the Lula Presidency, approved by a meeting of the feasible, but in line with the National Directorate in July 2002.

Cardoso's economic model is not only defeated, it is worn out. The implementation of the neoliberal model in Brazil, from Collor's government until the last term of Cardoso, has left an awful legacy. The structural problems that Brazil had as a peripheral country were greatly increased. We went from a situation of a crisis of development to one of permanent stagnation; from one of a limited and always risky national autonomy to one in which we were passively subordinate to the comings and goings of the international markets and a growing external vulnerability. In this context we went from high inflation to a fragile state of price stability, and sadly even this has been challenged during 2002. This economic retreat was followed by political and social regression. The advances that had been made during the 1980s through democratic and popular struggles against the dictatorship, were replaced by a kind of financial oligarchisation of the state. The social crisis that accompanied this process is the deepest the country has ever experienced.

The root of the ruin of the Brazilian economy during the Cardoso years was the deepening of the external dependency, as was pointed out at the 12th meeting of the PT: "raising the needs for external funding to critical levels and abolishing restrictions on the movements of capital, the policies that were applied turned dependency on foreign capital into a mechanism for internalisation of the instability of the global financial market. It subordinated the functioning of the national economy to the priorities and benefits of external creditors and investors." (Conceptions and Guidelines for the Government Programme of PT for Brazil, Â§11, p 21, December 2001).

In fact, it was this dependency that led to the deepening of the crisis during 2002. Starting from a combination of internal and external factors, we saw an intense flow of capital from the country. The resulting devaluation of the Real [1] led to an explosion in prices, especially those of privatised public services and oil derivatives. To guarantee that inflation would remain below the specified limits, the Central Bank followed the orthodox policy of raising interest rates and restraining credit - that means restraining inflation through decreasing demand. Both the devaluation of the Real and the raising of interest rates, however, resulted in an increase in the public debt. To avoid further increases, the Federal government cut public spending, to try to improve the gross budgetary surplus. Measures like these further decrease demand and, therefore, lead the economy to stagnation. One of the various negative consequences of this is an increase in unemployment.

Crisis like the one Brazil experienced in 2002 are frequent in third world countries, where the movement of capital is deregulated. If the Central Bank does not control the flow of capital to force it to meet the needs of economic growth and increase employment and if does not restrict its volatility, these flows cause trouble either as they come in or go out, at the same time deepening the dependency of the economy.

Maintaining the free flow of capital and accepting the deepening of the dependence of the Brazilian economy was, however, in agreement with the concept of 'development' put forward by Cardoso's government. They believed in the illusion that the deregulation of the markets, particularly the financial markets, would stabilise external savings, and, consequently, economic growth to the country.

Thus, their economic model was based on two principles:

1 To renounce national sovereignty. Deregulation implies the acceptance of an economic policy dictated from abroad, by the international flow of capitals, the institutions of neoliberal globalisation (like the IMF), and the bigger imperialist states, especially the USA. This implies a deep denationalisation of the national power centres and the almost complete elimination of the capacity for macroeconomic policy to be defined on a national basis;

2 The restriction of the state by economic power, leading to the elimination of democratic achievements and confrontation with the popular-democratic movement that, after the defeat of the dictatorship, were important in Brazil until today - and were certainly decisive in electing Lula.

This elimination of the representative institutions and of the elements of democracy won by the overthrow of the dictatorship has especially expressed itself in those macroeconomic policies that, besides increasingly denationalising, started to build an economic sphere under the control of the so called markets, especially (national and international) financial markets.

Beyond economic stagnation and the increasing unemployment, this conception had other negative implications. Interest rates, under Cardoso's government, were always among the world's highest. Now, high interest rates do not only mean bigger fiscal difficulties and lessening of demand: but they also transfer revenue to rich financiers. Moreover, they tend to establish a floor for rates of profit, leading to a demand for wage cuts. This way, high interest rates enormously enhance the concentration of wealth.

Dogmas like the one that states that the free flow of capital is beneficial, or that any increase in inflation must be avoided by raising interest rates, are not compatible with a development project, as this experience of the last few years has shown, and even less compatible with social justice. Nevertheless, they correspond perfectly with the interests of financial capital. It is easy to understand the conceptions of the Cardoso government if we remember that the biggest banks and financial institutions were the core of the social coalition that supported it.

The fact that this economic model was running out of breath and failing became obvious in 2002, when even control of inflation, which had seemed to be the great achievement this government, started to slip. The rejection of this model and the desire for the country to take a different paths were central to the victory of the PT.

A transitional period? But the series of economic measures taken by the new government have shown a worrying continuity with the defeated economic policy. It is remarkable that we have kept high interest rates (nominal rates were increase twice in the two first months of the PT government) and the rise of the gross budgetary surplus targets from 3.75% to 4.25% of Gross Domestic Product (GDP). [2]

Moreover, one of the most prominent economic spokespersons of the new government - the president of the Central Bank - has announced on several occasions his complete agreement with the former management guidelines.

The measures indicating continuity with Cardoso's economic policies, acknowledged as 'bitter measures', were justified by the external vulnerability, the financial fragility of the Brazilian economy, and thus the need to make an effort to get the trust of the markets. In addition, it has been argued that during the electoral campaign the PT said there would be a 'transitional period' at the beginning of the new government.

As a matter of fact, the idea that the new government could not immediately implement its entire programme was incorporated since the publication of the Letter to the Brazilian People by the Lula campaign in July 2002. Therefore the idea of a transition period was put forward. This concept was later included in the Government Programme of the Lula President Coalition, approved by the National Directorate at its meeting of July 2002.

However, an analysis of the first economic measures and the proposals that have been announced by the new government in the economic area do not suggest that a transition is taking place. After all a transition implies some change, even if it is gradual.

What is actually happening is quite the opposite. Besides the continuity of the policy over the Central Bank, among the measures that have been announced there are some that - if they are carried out - would represent a complete consolidation of some aspects of the former government's policies. This is the case of with regard to the privatisation of state banks and, most importantly, in conceding 'operational autonomy' to the Central Bank.

It is necessary explain what role the Central Bank plays in economic policy. Besides being responsible for monetary policy, it manages the exchange policy, regulates and supervises the banking system, and regulates capital flows. The Central Bank has had a decisive role in discussions with IMF.

It is also important to point out that monetary policy includes setting interest rates, which in the Brazilian case has huge implications because raising interest rates implies raising the public debt and what must be paid to service that debt. Exchange policy also has implications because large percentage of the internal public debt - and all the external debt - is corrected according to exchange rate variations.. In fact, one can say that the amount of the gross budgetary surplus (government income less expenditure) that is needed to avoid the increasing of the ratio public debt / GDP, which is the cornerstone of the demands from the IMF and the market demands, are determined in great part by variables that will be the responsibility of the Central Bank ie interest and exchange rates.

Operational autonomy of the Central Bank will formalise the freedom of action it already has. Because its directors will be appointed for a fixed term, it will be more difficult to replace them based, for instance, on a government decision to changing its economic policy.

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Naturally, according to the project under consideration, the Central Bank will have to hit targets defined by the Ministry of Finances. This is the economic policy started with Arminio Fraga, [3] of using 'inflation targets' as an anchor to monetary policy.

However, apart from the fact that this is a highly questionable model of economic policy, defining inflation targets are too feeble an orientation: The Central Bank will have total freedom in conducting monetary policy to hit those targets.

In fact, instead of the Ministry of Finance guiding the practice of the Central Bank, what has been happening since Cardoso's days is that the Central Bank determines the boundaries of the freedom of the Ministry of Finance, through its influence on the tax situation. For the record: the PT was always against the autonomy of the Central Bank, in any of its versions.

The very logic of the strategy of "getting the trust of the markets", that seems to dominate the economic policy in this initial phase of the new government is against the idea of transition. In other words: if the trust of the markets is achieved with some policy, later changes could lead to the loss of that confidence.

In fact, all the logic of the policy implemented so far suggests that the transition is only about increasing the room for manoeuvre while maintaining the present macroeconomic policy, and not a process to change that policy. In other words: we remain dependent on the international situation and the whim of the market. If the international situation stabilises, we would have greater room for manoeuvre in terms of the economy. But the last decade has demonstrated that this is a naive expectation, and instability will be a permanent consequence of this kind of strategy.

'Transition' according to the Government Programme

Transition to a new model, as defined in the Government Programme, is clearly different from the measures taken until now. Let's see what the Programme says:

"26. The key issue for the country is to return to a position of growth - keeping a balance between the fields of

agriculture, industry, trading and services. The return to growth is the medicine to avoid the vicious cycle between high interest rates, exchange instability and the increasing of the public debt compared to the RIP. (...) The overcoming of these obstacles to resume growth will happen through a lucid and sensible transition from what we have today to what the society demands.

27. (...) We already had the exchange trap. We got out of it in 1999 with a lot of pain but we survived. Now we get the dilemma of budgetary constraints. The question is how to overcome this without threatening the stability of the economy. Our government will maintain the gross budgetary surplus as long as necessary, to prevent the raising of public debt compared to the RIP, that could destroy the faith in the capacity of the government to meet its obligations. But we will work hard to reduce the external vulnerability and, with that, the interest rates that today suffocate the public accounts and the productive business sector. (...) our government will neither break contracts nor revoke established rules. The necessary changes will be done democratically, within the institutional bounds.

29. The rigidity of the present economic policy can cause loss of direction and credibility. Brazil has shown, historically, a tendency to have a growth rate around 7% per anum. It is this capacity that our government will restore, working day and night to bring the country from a situation of budgetary restrictions to one which benefits from the engine of development. Brazil needs to sail in the open sea of growth. Or are we debarred from entering the harbour of social and economic prosperity?

[The next paragraph opens a section of the programme entitled "Transition to the new model aimed at growth".]

48. So, the essential work of our government will be the endless pursuit of resuming economic growth as a way to create new jobs and distribute wealth. This will be the central mechanism to overcome the vicious cycle between external debt, high interest rates, exchange instability and raising the public debt, engendered by the present government. This is the very reason to get the growth efforts structured simultaneously with a sensible transition from what we have today to what the society demands.

That is why the deepening vulnerability of our economy will not lead to changes in the economic model, but to its continuity." [Government programme 2002 of the Lula president coalition, July, 2002, p 16-7, our emphasis].

In face of these quotes we need to ask:

1 What should we do to make the country go "from the tax anchor to the engine of development" structuring the growth effort at the same time as a sensible transition?

2 What should we do to "firmly reduce the external vulnerability" (considering that it will be deepened by the continuity of the present model, we have already pointed out)?

We dare to say that the important initiatives concerning macroeconomic policy have not been taken on these two decisive fronts.

About the first question: the Programme clearly states that resuming economic growth is needed to break the vicious cycle of high interest rates, exchange instability and raising of the ratio between public debt and GDP. The resumption of growth will make the current adjustment of the public accounts easier and, if sensibly directed, will contribute to reduce the external vulnerability. This will allow stabilisation of exchange rates and reduction of the interest rates. This will also help to reduce the public debt and to keep inflation under control.

Thus, concern about stability cannot mean that economic policy will be directed and conditioned by the mechanism of increasing surplus and interest rates, or even by cycles of these two variables entirely dependent on the external cycles of capital flow. However, this is the direction that the PT government's economic policy is taking at the minute.

In terms of the essential problem of reducing external vulnerability, which new instruments were created or have been planned to take steps in this direction? Moves in this direction combined with the important initiatives by the Brazilian Government in defence of democracy in Venezuela and for increasing unity of the Latin countries are fundamental in the face of the USA bulldozer and its policy of imposing the Free Trade Area of the Americas (FTAA).

While we see no progress from these two points of view i.e. resuming growth and overcoming external vulnerability which were considered fundamental to the transition by the Government Programme, the picture is no better for a third element, that is the autonomy of economical policy and of the economic institutions to take decisions in relation to the market.

This autonomy is considered strategic by the Conception and Guidelines text from the 12th National Meeting. On the contrary, adopting as the main axis getting the trust of the markets means that economic policy and governmental agenda start to be guided by them. Markets do not restrain themselves because they trust or distrust: they push to get their demands. So, they 'trust' those who carry out economic policy which is in their favour.

To sum up: practising an economic policy in the name of a transition reinterpreted and limited by the expectancy of getting better results inside the boundaries of the old economic policy, moves away from the very definition of transition stated in the Government programme. This is in opposition to the general meaning of the campaign, which focused on changes and clearly criticised economic policies of Cardoso.

We judge that this line is globally incorrect, and it is possible for us to develop an alternative based on the Conception and Guidelines from the 12th National Meeting and the Government Programme.

Elements of an alternative

Formulating an alternative macroeconomic policy is a task for the whole party, not only those members that are currently part of the Government.

We try to highlight some partial definitions (from Conception and Guidelines and Government Programme) that are sufficiently consistent to serve as guidelines in the definition of new pathways for the economic policy. Based on that, we try to develop some proposals that we think may contribute to the debate in the party and to the synthetic effort that should come from it.

The Conception and Guidelines text states clearly the need for a global rupture with the existing model:

"1. Implementing our democratic and popular government programme for Brazil will mean abandoning the present economic model based on the opening and deregulation of national economy and the resulting subordination of its dynamics to the demands and whims of global financial capital.

21. (...) To those who support not only a continuity without continuums, meaning no the adoption of a developmental policy that sees social questions as secondary, but a very transformation inspired in ethical ideals of radical *democracy and of the enlargement of social justice, there can be no doubt that a democratic and popular government will need to perform an effective and global rupture with the existing model, establishing the basis for the implementation of an alternative model of development.*

22. This project must include the struggle against external dependency and the defence of national autonomy. It must have social issues as its central reference for development, in other words, sustainable development will include in its own internal dynamics the distribution of wealth and income, job creation, social inclusion and the sustainable use of natural resources. It should also be constantly looking for conditions to democratise the state and politics.

It will only be possible to implement this by starting from the creation of a new coalition of forces that breaks completely with the successive conservative pacts that have dominated the country for decades. It is time to dare, because it is in moments of great global change like this that new possibilities are open to peripheral countries like Brazil to regain its position as a sovereign nation in the world." [from Conception and Guidelines]

The same text also stated that "the new model of development for Brazil must co-ordinate three structural axes: the social, the democratic and the national."

The Government Programme detailed some aspects of the Conception and Guidelines text, changed some of its emphases, and introduced the idea of transition. It did not however contradict what is in Conception and Guidelines. It is therefore correct to consider them together as forming our fundamental reference point in developing new ways of formulating economic policy.

[https://internationalviewpoint.org/IMG/jpg/19bd.jpg]

The idea of a transitional period implies that a rupture with the old model can not be abrupt. It must be carefully prepared. So the question is how to establish the conditions for this global rupture with the model of the Cardoso years?

The central starting point must be building up the political relationship of forces to develop a new economic policy. What we need to change from the beginning of the PT government is the political basis on which Cardoso's economic policy was founded. To make a new economic policy one must redefine what controls that economic policy.

During the Cardoso government it was directed by a combination of a deep process of denationalisation of the decision centres and an intense subordination to financial markets - with their national and international dimensions entirely mixed up.

For our government the making of economic policy must be a more and more sovereign task in opposition to the market and external interference. It must be at the same time coherent with the changing programme and with international initiatives to face the impositions of the neoliberal institutions on developing countries.

Just as neoliberal policies in Brazil came from a political defeat of the democratic and popular forces, now the defeat of neoliberal forces requires a coherent unfolding of formulation and practice of a new economic policy. Building the conditions for change involves many aspects:

1 Regaining national sovereignty to decide about economic policy

The result of more than 10 years of opening and deregulation, made even worse by the IMF agreements since 1998, was a real transference of decisive power abroad. Thus, it is necessary to regain national autonomy of decision making. For this to happen, it is necessary to resume control over financial capital.

There are many ways, and many possible degrees of doing this. It is possible to impose a minimal period of residence in the country (one year, for instance) as it used to be done in Brazil in the past. It is possible to use taxation to inhibit short stays. Only in cases of acute depletion of reserves it is necessary to centralise all exchange operations, establishing a complete control, a procedure that was also used in Brazil previously.

In any of these ways and degrees, exchange control does not mean breaking with the international 'financial community'.

The guidelines of the 12th National meeting go even further in important aspects of the relations with external and financial capital:

"49. (...) Implementation of mechanisms of regulation of the inflow of speculative capital and reorientation of direct external investment with selective criteria that favour the increasing of exports, substitution of imports, expansion and integration of industry of capital goods and strengthen our capacity for technological development. It is essential that foreign capital is linked to the effort of increasing our productive capacity and compensates the for the increasing outflow of profits, dividends and royalties with positive impacts on the trade balance.

50. (...) the regulation of the process of opening up the financial sector. The reduction of external fragility of Brazilian economy involves the elimination of legal flaws that make easier to carry out opaque financial transactions abroad, the reviewing of the schemes for attracting resources used by the banking system to arbitrate the activities of public securities and regulating the entrance of new foreign banks into national financialsystem." [Conception and Guidelines, pp 46-7]

Moreover, it is necessary to create conditions to end the agreement with the IMF, which is after all the institutional instrument that subordinates the whole of our economic policy. The Conception and Guidelines also points out that:

"63. (...) Opposing the monetarist and orthodox monitoring of IMF, the new government will try embark on a whole series of social and economic ideas, according to the aims and priorities of the new development model. In this context, new targets for economic growth, job creation, social investment and inflation should be established in agreement with, and to make concrete, these priorities, making possible at the same time its broad public control." [Conception and Guidelines p 55]

These initiatives must be combined with the struggle to change the international correlation of forces, underlining the movement of indebted countries and the renegotiation of external debt. These positions are in the Guidelines:

"51. (...) concerning the external debt, now mostly private, it will be necessary to denounce politically and legally, the agreement with the IMF, to free our economic policy from the restrictions imposed on our economic growth and on trading defence of the country, and to block the attempts to renationalise the external debt, reducing the emission of dollar-indexed securities of internal debt.

Brazil must adopt an active international position on the question of external debt , joining with allies in the process of auditing and renegotiating public external debt, particularly countries like Mexico and Argentina, which make up a large percentage of the world's external debt and, not by chance, have a majority of their population living in poverty." [Conception and Guidelines pp 46-7].

Besides, it is important to include the aspect of Brazilian trading relationships, trying to make the processes of import substitution and raising the trade balance organic and balanced with respect to the remaining elements of a new economic policy, in order not to repeat the attempts to reduce the external vulnerability based solely on the balance of trade which also lead to recessive dynamics. Due to this, another key question is the position concerning the Free Trade Area of the Americas (FTAA). It is necessary to follow the strategic guidelines indicated in the 12th National Meeting:

"53. Concerning the FTAA, (...) it is not a matter of deadlines or eventual sectoral advantages. As it is, the proposed FTAA is a political and economic project to annex Latin America to the USA, whose main target, due to its potential resources and internal market, is Brazil. What is at stake, therefore, are national strategic interests, to preserve our capability and autonomy to build our own future as a nation. In other words, to reject this proposal as presented is an essential requirement to make possible carrying out our aim of reducing our external dependency and vulnerability." [Conception and Guidelines pp 47-8].

2 Recovering the capability of governmental co-ordination over the decision centres of economic policy, preserving autonomy in decision making in face of the markets and its subordination to the transition programme

Besides nationalising the decision centres of economic policy, it is necessary to integrate them under governmental co-ordination that has as its logic the programme of transition not the interests of the market.

The more important point is the Central Bank. There is a whole argument about the chapter about the regulation of the financial system in the constitution. Starting precisely from conceding more autonomy to Central Bank, that is, giving more legal power to the market and a formally given up control of the fundamental aspects of economic policy, may represent not only an obstacle to any attempt at transition, but have a generally destructive impact on the possibilities the government has.

At this point it is worth, on the contrary, raising general issues about the democratic regulation of the financial system, considering that the management of economic policy, and especially the Central Bank, needs to be subordinated to the elected programme and to the government. What are now tasks of the Central Bank alone, like the definition of interest rates by COPOM (the Monetary Policy Council), must be changed, and ways must be established that are more transparent and less susceptible to pressures from financial markets.

On the other hand, it is necessary to reduce the power of financial capital over the economy. This is a broad question that has repercussions for tax reform (the redefinition of taxes for banks that must weight progressively on the increasing bank profits) the renationalisation (and not privatisation) of the public banks, the strengthening and redirecting of the public banks in agreement with the government programme, among other things.

It is also necessary to address the questions of taxes, interest rates and servicing of public debt.

"60. Putting and end to the fiscal frailty and guaranteeing consistent fiscal policy is a cornerstone of the new development model. This means, first of all, preserving the solvency of the state, translated in a substantive and progressive reduction of the compromise of the public income with payments of interests of the public debt and with its capability to make active and co-ordinated policies of public expenses (including social expenses). The perspective of making the social issues the axis of the development will require a complete review of the present policies that put the financial debt and its creditors as the first priority of the Brazilian state. In this sense, the reduction of the external frailty should result in a reduction of the interest rates charged in the external financing, with positive effects on the short term domestic interest rates, which composes the costs of financing public debt,

reducing the interest load and unpredictability of its trajectory.

61. Given the aim of preserving the solvency of the State, it is necessary to preserve an essential aspect of public expenses, namely: its anti-cyclic and stimulating role on the economic growth. From the cyclic viewpoint, the evolution of the public debt can neither be attached to long term targets nor to anachronistic and markedly monetarist orthodox conceptions that support a balanced budget as an absolute and permanent value. This balance can be achieved by economic growth and macroeconomic stability (that leads to job creation and to maximising tax income)." [Conception and Guidelines pp 53-4].

Obviously these measures will create many conflicts with speculative interests from capital markets. But one can expect that there is a lot of legitimacy - from business and middle class sectors, from trade owners and farmers, from union movement to large popular sectors - to adopt such measures that reduce the profits of speculators in defence of growth, an increase in wealth, and Brazilian jobs. It is not only inflation that eats into the wealth: but the outrageous profits which seriously shatter family budgets, particularly those which are marginal to start with.

3 To value the democratic axis of the new development model

The conception of the new development model approved in the 12th National Meeting puts special emphasis on its democratic character. The enlargement of democracy and the building of a participative management are fundamental in themselves, besides being part of the creation of the political conditions to make a new model. These aspects were already considered in the Guidelines approved in the12th Meeting:

"64. The development model directed by the democratic and popular government will be supported by a new social contract, settled on the strategic commitment to human rights, on the defence of a democratic revolution in the country. The alternative proposed will represent a rupture with our heritage of external dependency, social exclusion, authoritarism and (patronizing) clientelism, conciliation, privatisation of the public sector and, on the other hand, with our culture of mercantilization that imposes individualistic and consumeristic values and behaviour, even among the excluded and oppressed sectors." [Conception and Guidelines pp 55-6].

One of the aspects of this democratic axis of the development model is popular participation, that is decisive to make it feasible:

"66. The making of the new development model will be performed under the boundaries of the Law (State of Law). Our proposals for deep changes in the direction of the country will be transparent and predictable, marked by the permanent will for dialogue, always respecting the principles of our project: autonomous development, social justice, democratic participation. On the other hand, the implementation of this new model will confront important legal and institutional limits. This means that the political and institutional reforms will have a decisive role demanding intensive mobilisation and popular pressure as well parliamentary support." [Conception and Guidelines p 57].

The role of the state itself must be redefined. Besides strategic planning (or strategic management), participative management is a necessary condition:

"73. In the end, a redefinition of the role of the state, in the framework of a new model of development, requires a new model of state management, that is displayed in two main categories: participative management and strategic management. The participative management - which is one of our central references for our state (regional) and municipal governments - must also be a basic dimension of the refoundation of the relations between Brazilian State and society, at the central level also. The constitution of new democratic public spheres, directed towards public co-management, to the sharing of the public power, to the co-ordination between representative and participative

democracy, will be, at the same time, a key factor in ending clientelist practices, strengthening the notion of rights, and allowing the participation of new social agents which represent the popular majorities that are presently excluded from the decisions (with rare exceptions). It will be, thus, not only a place of debate and deliberation involving the state and society, but also to fight for hegemony against the culture of clientelism and neoliberal values." [Conception and Guidelines pp 61-2]. Among the modalities of participative managing, the participative budget should be pointed out. Like the "Guidelines" says, its implementation at the central level will be a "huge challenge" [Conception and Guidelines p 62].

4 Recovering the conditions to allow state businesses to take a strategic role

Another aspect of creating conditions for the transition to a new model of development is the removal of the barriers for the functioning of state business.

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Despite the damaging process of privatisation of the state sector carried out mainly under Cardoso government, Brazil has still an impressive number of state enterprises, mainly in infrastructure (especially energy). These enterprises should play, as they did in the past, a leading role in the process of national development.

For this to happen, however, it is necessary to recover their investment capability. The main problem is the absurd technical criterion imposed by the IMF of including investment of state enterprises in the sum of the public debt, and particularly to subtract it from gross budgetary surplus . This way, recent elevations on surplus targets implies the impossibility of state investments.

The criterion of treating investment as part of the public debt is entirely ideological - a direct application of the neoliberal ideology. It has nothing to do with technical issues. Its aim is to make it impossible for the public sector to function. It must therefore be opposed.

We have tried to point out here some aspects of the initiatives, which are in line with the Conception and Guidelines text and the Government Programme, that we believe are necessary to make a new model of development possible. Naturally there are many other fundamental issues, some of them already taken care of by the government. Our aim, as stated above, is to contribute to a debate that belongs to the entire Party.

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[1] The Real is the unit of currency in Brazil

[2] The gross budgetary surplus is calculated by deducting budgeted expenses (excluding financial costs) from tax income. The use by the IMF of this total aims to avoid the inclusion of payment of debt charges in the deficit.

[3] ArmÃ-nio Fraga was the predecessor to Henrique Meirelles as president of the Central Bank. When he was nominated by the government of Fernando Henrique Cardoso, in 1998, the PT was extremely critical of the designation of someone very linked to the international financial markets (Fraga worked for George Soros). In order not to leave any doubt as to what he intended for the Central Bank Henrique Meirelles expressed in January 2003, before the Senate but also when he took up his functions, total identification with the policy of ArmÃ-nio Fraga. He has also kept the whole team put in place by his predecessor.

