

Financial crisis: risks and opportunities

Ladislau Dowbor¹
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“The role of those who withstood the agenda of a minimum State and development of public policies in the last decades and resisted to deliver the sort of society to the hazards of the financial casino, choosing to implement social policies to regulate the economy and enhance development must be acknowledged and esteemed.”

Luis Ignacio, Lula, da Silva at the International Seminar on Development, May, 5th 2009

1. Rethink the energy production paradigm
2. Face the challenge of inequality
3. Retrieve the central role of the State
4. Reorient the role of credit
5. Ensure full utilization of labor
6. Boost the economy by productive inclusion
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8. Capitalize the potential of local development
9. Organize the instruments of financial regulation
10. Generate convergent policies in economic, social and environmental terms

This study should not be viewed as a summary - that would be tedious and artificial - of the very fruitful discussions at the International Seminar on Development, but as set of reflections based upon various presentations, aggregating lectures and discussions with the varied sources of information on the main subject about identification of opportunities arising from the crisis. As a matter of fact, in two decades we saw, with the Berlin Wall, the collapse of a static outlook of development and with Wall Street that of a liberal outlook. Likewise we observed the case of unilateral leadership by the United States, that since World War II and the Bretton Woods agreements and later the Washington Consensus, whether we liked it or not, set forth the planet's direction. Indeed, we are only now turning the page of the millennium to become aware of the dimension of these challenges when compared to our meager governance instruments. In the array of outlooks that includes, in the words of Ignacy Sachs, a rethinking of our energy-production paradigm as well as the functioning of our financial intermediation, according to the thinking of Conceição Tavares, a new universe is being designed. Here we sought only a systematization of the challenges encouraged by the diversity of outlooks.

¹ A tenured professor of Economics at PUC, São Paulo and consultant for various agencies of the United Nations., author of *Democracia Econômica (Economic Democracy)* (Vozes, 2008) and of other studies.
<http://dowbor.org>

The tone of the International Seminar on Development was set by President Lula, rescuing the role of the State and the responsibility of politicians to cope with the worldwide financial crisis. For three decades corporations demanded - and obtained – total freedom of action by guaranteeing that, without the State’s presence they would better resolve the planet’s problems and that the market and self-regulation would be adequate mechanisms to ensure the equilibrium of economic processes. The oligopolization of the system drastically reduced the mechanisms of competition between corporations, dismantling markets and self-regulation was shown to be fictional.

1) Rethink the energy production paradigm

“The crisis is a wide avenue, upon which Brazil may pave its future in the 21st Century. Any crisis is a jolt but it is also a hiatus for mandatory reflection and obligatory choices. This country can choose, it is not hemmed in by impositions”.

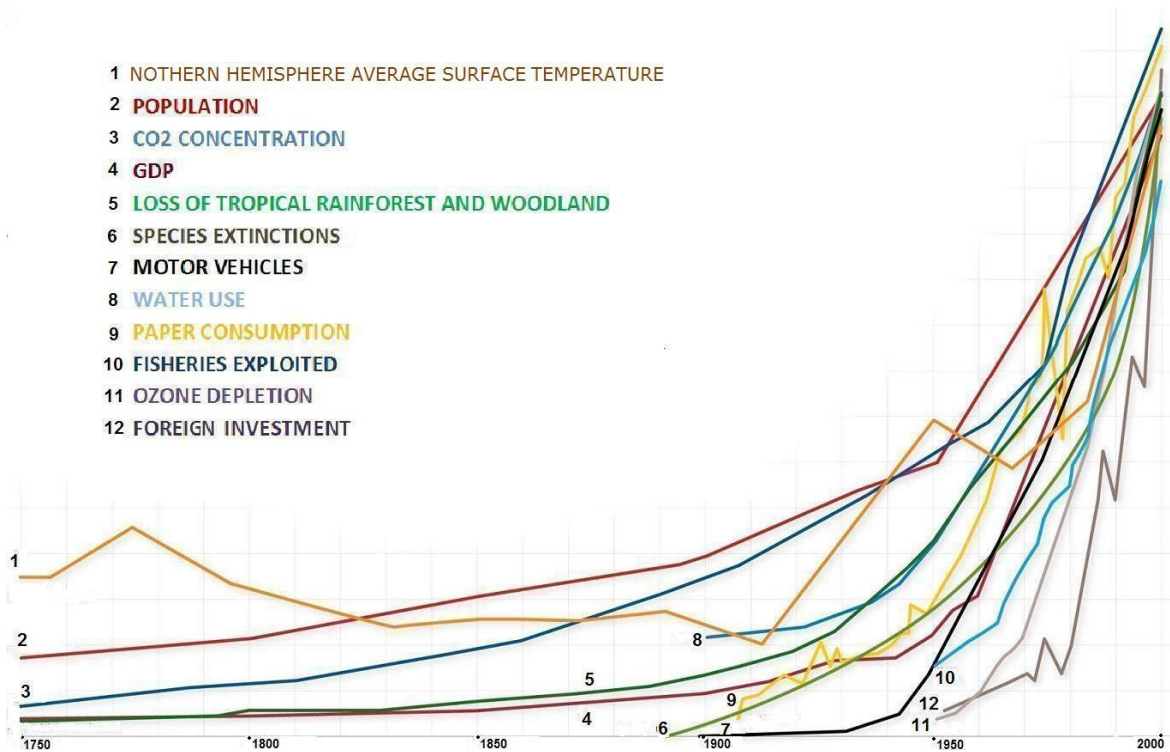
Ignacy Sachs

There is no intention here to enumerate our tragedies. Nevertheless, the fact is that with a little setback, there are no longer sectorial crises but a broader local, national, regional and planetary governance crisis. There is a convergence of growing problems whose synergy makes them more threatening and whose common origin stems from the fact that now our governance mechanisms are inadequate. With globalization, financialization and oligopolization of the major axes of economic activities, the market suffered an accelerated erosion of its regulatory functions. And the alternatives, especially organization of institutions of international orchestration, retrieval of the planning capacity and organized intervention of the public sector, expansion of participatory and decentralized forms of integrated local management, adoption of horizontal forms of management in networks with alliances and partnerships, are barely crawling; The central role of the State must obviously be rescued, but from a much more horizontal and participatory standpoint in the endeavor to play the pivotal role of articulator.

Ignacy Sachs works with the outlook of a convergence of the financial crisis with the energy crisis and the need to rethink our model of development in a systemic manner. Here we are not dealing with an excessive idealism but with a cold assessment of our challenges.

The graph shown below summarizes the macro-tendencies over a historical period from the year 1750 to date. The scales were made compatible and some of the lines represent processes for which only more recent figures are available. But as whole the graph allows joining areas traditionally studied separately, such as demography, climate, vehicle production, paper consumption, water contamination, extermination of life in the seas and others. Synergy of the process becomes evident, as well as the dimension of the environmental challenges.²

² New Scientist, October 18, 2008, pg. 40; to access the graph online see <http://dowbor.org/ar/ns.doc>; the full dossier may be consulted on www.newscientist.com/opinion ; support charts and primary sources may be seen in http://dowbor.org/ar/08_ns_overconsumption.pdf; Tim Jackson, David Suzuki, Jo Marchant, Herman Daly, Gus Speth, Liz Else, Andrew Simms, Suzan George and Kate Soper contributed to the dossier .



Source: New Scientist (October 18, 2008, pg 40).

The comment of the New Scientist on macro-tendencies focuses directly on our own concept of economic growth “Science tells us that if we are serious about saving the Earth, we must reshape our economy. This, of course, is economic heresy. Growth to most economists is as essential as the air we breathe: it is, they claim, the only force capable of lifting the poor out of poverty, feeding the world’s growing population, meeting the costs of growing public spending and stimulating technological development – not to mention funding increasingly expensive lifestyles. They see no limits to growth, ever. In recent weeks it has become clear just how terrified governments are of anything that threatens growth, as they pour billions of public money into a failed financial system. Amid the confusion, any challenge to the growth dogma needs to be looked at very carefully. This one is built on a long standing question: how do we square Earth’s finite resources with the fact that as the economy grows, the amount of natural resources needed to sustain that activity must grow too? It has taken all of human history for the economy to reach its current size. On current form, it will take just two decades to double.”³

³ See the original. : New Scientist, October 18, 2008, pg. 40

Convergence of tendencies generated for the planet become clear. We can no longer congratulate ourselves with the increase in fishing when we are snuffing out life in the seas, or with the increase in agricultural production when we are drying up aquifers and contaminating planetary freshwater reserves. All this without mentioning increased vehicle production and expansion of other productive chains generating climate warming.

Therefore, when we speak of financial crisis, we unquestionably understand that we are dealing with a subsystem that has become unbalanced and that therefore “we are in crisis”. But if we have a broader approach we will find that it is above all a system that was already unfeasible while it worked. Solutions have to be systemic. This broader outlook may – and may only – enable more extensive changes if it expands awareness of the challenges.

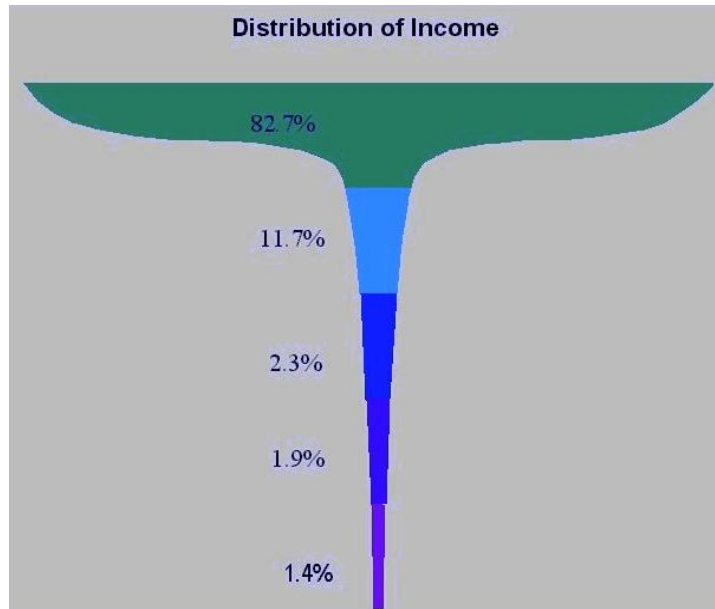
Ignacy Sachs summarizes this dilemma very well: which development do we want? And for this development what State and which regulation mechanisms are required? The dimension of the challenges cannot be minimized. With 6.8 billion inhabitants – and 7.6 million more each year – who seek an increasingly unbridled consumption and deal with increasingly powerful technologies, our planet discloses all of its fragility. The basic issue that remains for the reformulation of the financial intermediation system is that the waste of our savings and of the world potential for financing the global casino is absurd, when we face social and environmental challenges of such a dimension and urgency and that vitally need resources.

2) Face the challenge of inequality

Pochman demonstrated that transfer of income to the financial sector between 1998 and 2003 surpassed total of the GDP, much more than the transfers being made today in developed countries. (Review Panel)

Financialization of the economic processes has been nurtured for decades by appropriation of productivity gains, permitted in a radically unbalanced manner by the ongoing technological revolution. The process is not going to be developed here, however it is important to remember that income concentration on the planet is reaching absolutely obscene levels.⁴

⁴ There is abundant literature on the subject. The graph attached known as “glass of champagne” is from the U.N. Human Development Report, 1992; for an update see 2005, pg. 37. The glass of champagne only narrowed the bottleneck, no significant changes took place. An excellent analysis of the recent worsening of these data can be found in the Report on the World Social Situation 2005, *The Inequality Predicament*, United Nations, New York 2005; The World Bank document, *The Next 4 Billion*, that estimates that 4 billion people are “deprived of the benefits of globalization” is equally interesting – IFC. *The Next 4 Billion*, Washington, 2007; we are talking about two thirds of world population. For an expanded analysis of the processes see Ladislau Dowbor, *Democracia Econômica*, ed. Vozes 2008, as well as the article Social Innovation and Sustainability, both available in <http://dowbor.org>.



Source: Human Development Report (1992 pg. 35 and 2—5pg. 37)

The shape of the glass of champagne is extremely expressive since it shows who takes what of the content and in general, people are not aware of the extent of the tragedy. The wealthier 20% appropriate themselves of 82.7% of the income, as an order of magnitude; the poorest two thirds have barely access to 6%. In 1996, the income appropriated by the wealthier 20% was 70 times the equivalent of the poorest 20%; in 1989 it was 140 times. Currently, concentration of wealth is absolutely shocking and forces us to face the ethical issue of inequality and the tragedy of billions of people, as well as the economic dilemma since we are excluding billions of people who could not only be living better but also contributing in a comprehensive way, with the productive capacity. The planet will not be at ease until the economy is organized in function of one third of the world population.

This concentration is not only due to financial speculation, however the contribution is significant and above all it is absurd to divert capital from obvious planetary priorities. The Economist reports a staggering figure on this appropriation of the social surplus, mainly generated by technological progress in productive areas, by the sector that it qualifies as “industry of financial services”. “The financial service industry is condemned to suffer a horrible contraction. In America the industry’s share of total corporate profits climbed from 10% in the early 1980s to 40% at its peak in 2007.” A clear cleavage is created between those who bring on technological innovations and those who produce useful goods and social services - let us say the engineers of the process – and the system of financial middlemen who appropriate themselves of the surplus and distort the orientation of the whole.⁵

As such, the crisis by virtue of its impact, is simply reestablishing an elementary truth, the financial system is not an end it is only a means that should facilitate socially useful activities, with a reasonable – but not excessive since it is a cost – remuneration in the process. Even The Economist, for so many years, a defender of the “speculative investors”

⁵ See the original The Economist, *A Special Report on the Future of Finance*, January 24, 2009, pg. 20.

explains the dilemma: “In fact, the choice hinges on the interests of the economy as a whole. After all, it is taxpayers and savers who pay for the financial crises”. The report further quotes James Tobin: “I suspect we are throwing more and more of our resources, including the cream of our youth into financial activities removed from the production of goods and services, into activities that generate high private rewards disproportionate to their social productivity”⁶. This is a system that generates a large breach between who productively contributes to society and who is rewarded.

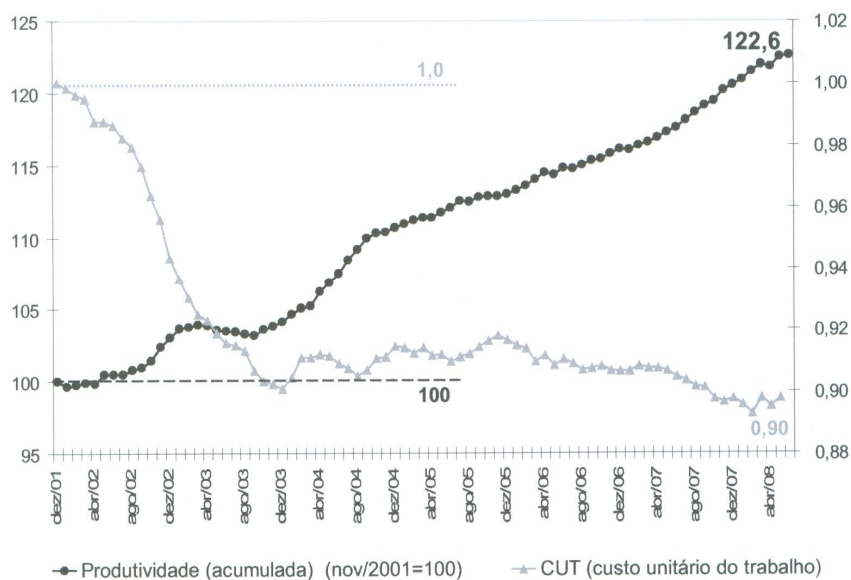
From 2001 to 2008 less than half of the labor productivity gains were passed on to the worker. The unequal relation between increase of productivity of the work and remuneration (CUT _ Unitary Cost of Labor) is clearly seen in the survey of IBGE (Brazilian Institute of Geography and Statistics) and in the comment by IPEA (Institute for Applied Economics Research).⁷

The Monthly Industrial Survey – Physical Production of IBGE, indicates, for instance, that between 2001 and 2008, there was an increase of the physical production of Brazilian industry in the range of 28.1%, with labor productivity gains of 22.6%. The payroll per worker in contrast, grew 10.5% in real terms during the same period. That is why, The Unitary Cost of Labor (CUT) – understood as the relation between the mean real income per worker employed and productivity – dropped 10.2% in the same period. In other words, remuneration of workers has not fully kept pace with gains of productivity of Brazilian industry. If salaries do not fully incorporate gains of productivity, pressure on production costs cannot be perceived, which may suggest some inflationary pressure. Without a full repass of productivity to the workers, expansion of the upper bracket of income distribution in Brazil will be stimulated.

⁶ See the original, “The Economist, *A Special Report on the Future of Finance*, January 24th 2009, pg. 22. The expression “*speculative investors*” used by The Economist is peculiar and shows the discomfort of The Economist that always stood for financial speculation as a factor of capital fluidity and just like Greenspan and many others needs to renew their discourse.

⁷ IPEA – *Pobreza e riqueza no Brasil Metropolitano* – n.7, August 2008, pg. 11(*Poverty and Wealth in Metropolitan Brazil*) – Document available in http://www.ipea.gov.br/sites/000/2/comunicado_presidencia/ReducaoPobreza_CPresi7.pdf

Gráfico 11 – Produtividade física da indústria brasileira e CUT, 2001-2008
(nov/2001=100 com ajuste sazonal)



Fonte: Pesquisa Industrial Mensal (Produção Física e de Emprego e Salário) / IBGE. (Elaboração própria.)

Productivity (accumulated) (Nov.2000 =100)

CUT (Unitary Cost of Labor)

Source Pesquisa Institucional Mensal (Physical Production of Jobs and Salaries) IBGE (self made)

This process only accelerates a historical tendency. Here the concentrating effect of financial intermediation is associated with the failure to pass on labor increased productivity to the workers. In the Brazilian case, the process generated a strong drop in the participation of labor remuneration in the national income during the years from 1995 to 2004, which represents, at the same time a sharper drop than that of the developed countries, seen formerly and an absurdly low absolute level.⁸ Flows of capital, whose origins, as so well expressed by *The Economist*, come from our taxes and from our savings have to be used to support social and environmental objectives.

3) To rescue the central role of the State

With poverty, truly, it is presumably the most effective way to deal with an economic crisis, quite different and much more effective than the strategy to

⁸ The process is global. In developed countries, labor income fell from 68% of the national income in 1980 to 62% in 2005 (IMF, Finance & Development, June 2007, pg.21); in the Brazilian case we are speaking about a participation that plunged in 1995 and 2004, making the comparison difficult due to the change of methodology in 2001. It has been 45%. In 1999 it was 38.3%, in 2006 there was a mild recovery to 40.9%, due to policies of the current government.

give money to banks or large enterprises. That is how you restore the income and capital flows and the capacity to make loan to the population and the system as a whole. James Galbraith

It is fundamental to understand that allocation of resources is made by middlemen, be they government, banks, insurance companies, pension funds, health plans or planetary giants that we call institutional investors. All these institutions collect resources under different justifications. But they are middlemen that is to say; they should allocate the resources to end activities.

The government, the main middleman allocates resources according to a budget discussed in the parliament and approved by law. A significant fact is that the government has to ensure financial funding of what it will invest. The fiscal policies (finances) and application (planning) have to be coupled in the budgetary statement. In the planet as a whole, governments are the largest managers of resources and the wealthier a country is, the larger becomes the government's participation in this median.

The table below is interesting, since it shows this rigorous correlation between ratio of development and the public sector's participation. In the low income countries the share of the GDP accruing to the central government is of 17.7%, elevating in a regular progression as the high income countries are reached.⁹ Speaking ill of governments seems to be a planetary consensus, but we increasingly need them, even in the United States.

Countries of.:	Central government percentage of the GDP, early years of 2000
Low income	17.7
Lower-middle income	21.4
Higher-middle income	26.9
High income	31.9

Source: **Finance and Development, IMF, Dec. 2007**

It is noteworthy that, in the table above, only central government expenditures are dealt with, total public expenditures are much higher. "A decade ago expenditures of the American government were 34.3% of the GDP, compared to 48.2% in the European zone, a gap percentage of 14 points; in 2010 the expected American expenditure is of 39.9% of the GDP, compared to the 47.1%.¹⁰, a gap of less than eight percentage points". Let us recall that the equivalent figure in Brazil is 36%. In Sweden where no one is accused of poor management, it is 66%. And these are figures prior to the State intervention to save the banks.

Therefore, regardless of the policy adopted it is essential to ensure the quality of resource allocation by the most significant actor, the government. This correlation between the country level of prosperity and the public sector participation is no mystery: simply, the

⁹ Schieber, George; Lisa Fleisher and Pablo Gottret - *Getting Real on Health Financing*, Finance and Development, publication of the International Monetary Fund, December, 2007.

<http://www.imf.org/external/pubs/ft/fandd/2006/12/schieber.htm>

¹⁰ The Economist, March 14th-20th 2009, p. 37, citing data from Newsweek.

world is changing. Formerly, we were scattered rural populations and families resolved a large number of their problems individually, such as water in the well and garbage in the bushes. In the city, social investments became generalized, since we need water distribution systems and sewerage, curbs and gutters, school networks, safety systems, solid waste disposal and so on, obviously warranting a strong presence of the public sector.

It must, equally be considered in this growing presence of the public sector on the planet, the changes of the interjectorily composition of our activities. A few decades ago, what we called productive activities were essentially industrial, agricultural and commercial activities. Today, social policies are in the front line. So much so, that the largest economic sector of the United States is not the defense industry, nor the automotive industry, but health with 16% of the GDP and growing. In Brazil, adding the student population, the teachers and the educational area managers, we are talking about 60 million people, nearly one third of the country's population. Social policies are becoming a powerful factor in social restructuring, by their capillary characteristic (health has to reach every person) and it is labor intense. They are areas where, with the exception of high income niches, the public sector has evident priority, often articulated with civil society organizations, another expanding area portraying a non governmental public sector.

A third axis of social transformation is the evolution towards the society of knowledge. Today, almost all activities involve a major incorporation of technologies, knowledge of the most varied types, a set that we have called "intangible" or "immaterial". When the essential part of a product's value resides in the knowledge content, the corresponding forms of organization change. At the base, there is a large social process that involves research from the most diverse sectors, generalization of access to education and information dissemination systems that boost the density of knowledge in society as a whole, with a most powerful participation of public resources at all levels. The natural trend is that knowledge has become a *creative commons*, because of the easy dissemination afforded by modern technologies and the understanding gradually pervading society that knowledge multiplies better when it is shared.

These are *megatrends* that transform society and require from us much more diversified, decentralized and flexible management systems. We are evolving towards a society in networks, towards densely interactive and collaborative systems. Alliances and partnerships between diverse social sectors encompassing public as well as private areas, at the most varied levels of territorial organization are becoming pervasive. Urbanization leads to an accelerated expansion of local management dynamics in which the communities take charge of their own development. Social policies generate participative processes; society of knowledge conducts us to collaborative network processes.

These are not dreams. That is how society works, when it works and there are examples from the very poor Kerala, in India (poor but with an infantile mortality rate less than half that of Brazil), up to very wealthy Sweden where the State is widespread but decentralized and participatory. An overview of literature that analyzes development and the role of institutions leads us to titles such as "The Good Society" by J.K. Galbraith, passing by basic works by Manuel Castells about the network society and Robert Putman on social capital, evolving to recent works such as "Wikipédia" by Don Tapscott on collaborative processes or "The Necessary Revolution" by Peter Senge on the articulation with environmental dynamics. A guru of management such as Peter Drucker writes a book

called “The Post-Capitalist Society”. David Korten wrote another called “The Post-Corporate Society”, Stiglitz has already delivered his message with the evident boundaries of the financial casino, Hazel Henderson, showed the potential of Win-Win. Yes, a new outlook, in the broadest sense is being constructed. And the crisis, with a much greater intensity is putting the challenges on our desk.

What is indeed taking place is a pervading future shock, and the fall of the Berlin wall as well as the irresponsible malfeasance of Wall Street only awakened, initially on the left, and then on the right, the understanding that changes have to be systemic. The business as usual (BAU) on both sides of the political spectrum is bowing out of the limelight. Production relations, in the broad sense are changing and with them the current regulation mechanisms are becoming to a large extent obsolete. It is no longer a matter of merely warranting that financial intermediation is functioning. It is a matter of warranting that resources flow to where they are needed.

The role of the State as such appears as central, moreover in a world dimension of the crisis. In view of the extreme fragility of the planetary governance instruments, the strategic axis for construction of new regulation systems will pass more through the articulation of public mechanisms than actually through the global sphere. This outlook is clearly formulated by Dani Rodrik of Harvard University who suggests “an architecture that respects national diversity”, where “responsibility to regulate leverage, to establish levels of capital and supervision of financial markets clearly would rest upon a national level”.¹¹ As such, the State appears with an enhanced function on the level of internal balances and on the plan of redefining the rules of the game among nations.

4) Reorienting the role of credit

“As intellectual and researcher I strongly support that we move ahead more quickly in this discussion about the banking spread.” Octávio de Barros Castro

“Brazilian banks never needed to invest in exotic instruments such as derivatives involving American mortgages, essentially because the income provided by the state, the transfer of income of the public to the banks was more profitable still.” Jan Kregel

In Brazil, financial intermediation has a specific role. Fundamentally, few groups rule the market. The ANEFAC, National Association of Finance, Administration and Accounting Executives, publishes monthly an average interest rate effectively practiced with the end borrower, individual or legal entity.¹²

In the table below we see, for the individual, interest rates in the order of 140% in the general average, reaching stratospheric levels for overdraft check, credit card and personal loan charges by financial companies. In Europe these interest rates are at most 6 to 7%

¹¹ Dani Rodrik, The Economist, March 14th 2009, p. 80.

¹² See *Pesquisa mensal de juros*, http://www.anefac.com.br/m3_preview.asp?cod_pagina=10782&cod_idm=1

(annually). For illegal entities yearly interest rates have been steady at 68% for three years, with the corresponding rates in Europe around 3% annually. It is noteworthy that in this period the basic interest rate SELIC dropped from 19.75% to 13.75%, that is to say, 6 percentage points (a 30.4% drop), without there being in the financial market any decrease in the average rate for the legal entity or for the individual .

Interest rate September/2005 X October/2008 - Individual

TYPE OF FINANCING	September/2005		October/2008		Drop in percentage points
	Rate Monthly	Rate Yearly	Rate Monthly	Rate Yearly	
Trade	6.12%	103.97%	6.34%	109.10%	5.13
Credit card	10.30%	224.27%	10.46%	229.96%	5.69
Overdraft check	8.24%	158.61%	7.93%	149.87%	-8.74
PA Banks	3.53%	51.63%	3.25%	46.78%	-4.85
Personal loan-Banks	5.71%	94.71%	5.62%	92.73%	-1.98
Personal loan Finance Companies	11.74%	278.88%	11.62%	274.03%	-4.85
AVERAGE RATE	7.61%	141.12%	7.54%	139.24%	-1.88

Source ANEFAC, Pesquisa de Juros

Interest rate September /2005 X October/2008 – Legal Entity

TYPE OF FINANCING	September/2005		October/2008		Drop in percentage points
	Rate Monthly	Rate Yearly	Rate Monthly	Rate Yearly	
Working capital	4.27%	65.16%	4.18%	63.46%	-1.70
Discount on trade receivables	3.81%	56.63%	3.78%	56.09%	-0.54
Discount on checks	4.01%	60.29%	4.06%	61.22%	0.93
Guaranteed account	5,63%	92,95%	5,68%	94,05%	1,10
AVERAGE RATE	4,43%	68,23%	4,43%	68,23%	0

Source ANEFAC, Pesquisa de Juros

The situation here is completely different from the banks in developed countries that work with low interest rates and very high leverage. Essential, for us, is that to support Brazilian interest rates that are in the range of a thousand percent in relation to those practiced internationally, is only possible by means of a true cartelization. To give an example, Banco Real (Santander, Brazil) charges 146% on the overdraft check in Brazil, while Santander in Spain charge 0% (zero percent) for up to five thousand euros during six months. Profits of foreign groups in Brazil therefore support their headquarters. Let us remember that ANEFAC discloses only interest rates without mentioning the fees charged. A study by IPEA, with another methodology, shows that the real interest rate for individual

(discounting inflation) charged by HSBC in Brazil is of 63.42%, while it is of 6.60% in the United Kingdom. For Santander, correspondent figures are 55.74% and 10.81%. For Citibank they are 55.74% and 7.28%. For a legal entity, HSBC charges 40.36% in Brazil and 7.86 in the United Kingdom.¹³

The results are the spreads and awesome profits of the sector and a volume of credit quite limited as a whole (39% of the GDP) for an economy such as Brazil. Financial intermediation has thus become a central component of the so-called “Brazil cost” and a central vector of income concentration and therefore an impediment of the productive process. Profits are so impressive, that under the shelter of this cartel, even commercial groups, instead of concentrating on rendering good commercial services, today concentrate on financial intermediation.¹⁴

Brazil obviously has a major asset that is the possibility of using official banks to reintroduce competition in the cartelized market, permitting at the same time dynamization of the economy by fostering consumption and investment. This mechanism, apparently, is being progressively implemented. The financial intermediation system of the large groups will have to progress towards mechanisms of competition, if for no other reason than because cartelization is illegal. Another major asset is the possibility of reducing the Selic rate, which has a double impact: by reducing profits of rentiers that invest in government papers, essentially banks, the financial middlemen are forced to seek alternatives in the productive sector, which is equivalent to injecting money into the real economy: and by reducing interest rates on the public debt, frees resources for public investment. Let us keep in mind that with a public debt in the order of 1.3 trillion reais and a debt service (interests and principal) of about 180 billion of reais per year, this is a powerful instrument, notwithstanding that it is necessarily a progressive application.¹⁵

However, in the short run it seems evident that a group of giants with immense profits protected from competition paradoxically generates a more stable situation than that of overexposure of the financial groups of developed countries. Here the problem is that instead of having financial middlemen that facilitate economic initiatives, we have middlemen that make it more expensive. Financial intermediation has, here in Brazil, become one of the main instruments of income concentration and of social unbalance.

¹³ IPEA – *Transformações na indústria bancária brasileira e o cenário de crise (Transformations in the Brazilian banking industry and the crisis scenario)* – Communication from the Presidency, April, 2009, pg. 15.

¹⁴ According to an industrial survey published by the newspaper *O Estado de S. Paulo* “on the average between October and December during the more acute period of the world crisis, that made the cost of financing increase, disbursements for interest payments were 11% more than expenditures for salaries.” Survey of the Federation of Industries of São Paulo State (FIESP) on the Brazilian industry payments for interest (*O Estado de S. Paulo*, 02/02/09, complete survey research available on http://www.fiesp.com.br/competitividade/downloads/FIESP_Custo_Capital_Competitividade_090130.pdf). Profit of one group, Bradesco, was 7.6 billion reais in 2008, when the budget of the “Bolsa Família” Program that reaches 48 million people, and was 11 billion. “Welfare”, obviously does not take place just where one mentions it. Even someone such as Marcos Cintra, cries out against the cartel of commercial banks in Brazil and scandalous (*It's the Spread, Stupid* – Folha de São Paulo, February 2, 2009), pg. 3.

¹⁵ These proposals are well known but curtailed by an opportunistic argument: high interest rates would protect us against inflation. To refute the argument, see work by Paul Singer and by Amir Khair.

In general, in the developed countries, as well as in Brazil, corporate profits are increasingly nurturing financial middlemen generating an extensive class of rentiers. The issue, seen from the standpoint of “who pays” tends to become displaced, from the standpoint of people, to think more about “to whom we pay”. It is a question of savings of the population. This point is essential, because as we are dealing with a casino generated with the population’s money, to protect speculators may legitimately be presented as a protection for the population itself, since it is their money that is at risk. This generates of course, a corresponding position of power (argument of too big to fail). And it allows by passing what would be the central question of channeling savings and not if the middlemen are making or losing money, but to what economic agents, to which activities, to what type of development and at what environmental costs – should these savings serve. Is it sufficient to ensure that a system whose end product does not dynamize the activities needed, does not go broke?

In terms of anticyclic policy, the requirement that financial intermediation serves the economy and not the opposite, becomes evident. The problem is not only ours. The IMF states that “half of the global population, almost three billion poor people do not have access to basic financial services.”¹⁶ In Brazil, in the informal sector that represents 51% of the active population, only 16% have access to credit.¹⁷ It is an expensive elitist system that simply does not accomplish the purposes foreseen in the constitution. As Conceição Tavares comments, if they are not forced they simply will not change.

5) Ensure full utilization of labor

The state would offer a guarantee of a job at a minimum wage for infrastructure works and construction sites, which also implies in the maintenance of the qualification of the workforce during the crisis.

Mentioned by Luciano Coutinho, I. Sachs and Jan Kregel

Labor constitutes an obvious matter of waste. We have 190 million inhabitants in Brazil, of these, 130 million are active age, between 15 and 64 years, according to international criteria. In the economically active population we have 100 million people, which already points to a significant subutilization. In turn, employment statistics show that for this year only, 31 million people are formally employed in the private sector with an official contract. We may add 8 million of public servants in the country and we thereby reach 39 million. Still, we are way off the total. What are the others doing? Of course we have entrepreneurs, as well as a large number of so-called “self-employed”, in addition to some 15 million unemployed. As part of the whole there is an immense sector of people classified under the vague concept of “informal”. They are assessed by IPEA as 51% of the economically active population. The study stresses that the existence of this portion of the

¹⁶ IMF, *Finance and Development*, June 2007, pg. 44.

¹⁷ IBGE, *Economia Informal Urbana*, Rio de Janeiro, 2005, pg. 29-30.

workers at the fringe of the system cannot, under any hypothesis be considered as a solution for the market”. (IPEA n. 346) This “portion” represents half of the country.¹⁸

The essential fact for us is that the current model underutilizes half the country’s productive capacity. And to imagine that growth is centered in transnational enterprises, large areas of soybeans (200 hectares to generate one job) or yet on a hypothetical expansion of public employment, that would permit absorption of this labor is not realistic. It is simply necessary to progress towards alternative forms of organization.

The tragedy in Brazil is representative of a broader universe: “Informal jobs represent between half and three quarters of the non-farming jobs in the majority of developing countries. The share of informal workers in the non-agricultural labor force ranges from 48% in North Africa, 51% in Latin America and the Caribbean, reaching 65% in Asia and 78% in the sub-Saharan Africa.”¹⁹

Therefore, the tragedy of inequality as we have seen above is not merely a problem of fairer distribution of income and wealth: it encompasses decent productive inclusion of the majority of the unemployed, underemployed or those trapped in various types of informal activities. The cluster of propositions that appeared based upon the IWO on decent labor, the standpoints of the World Bank about the 4 billion excluded from the “benefits of globalization” and a set of local development initiatives found their rationale here : a GDP that grows but does not include the populations is not sustainable.

6) Advance economics by productive inclusion

Create “a sustainable cycle of economic growth and promote strengthening of the mass consumer market of our country , by reducing regional disparities, through increased employment and economic assimilation of the more vulnerable segments of society”

Dilma Rouseff and Guido Mantega

As a whole, the problem is quite simple: when financially rescuing different types of financial manipulators who generated the crisis, without changing the rule of the game, we will be going backwards, to the moment that generated the crisis. We will not be solving the issue. According to Amir Khair: “the injection of resources into banks – in the order of R\$ 100 billion –by the Central Bank with a reduction of reserve requirements, did not help much to increase the offer of credit by private banks, that preferred to invest in acquisition of federal government paper, attracted by the high basic interest rate (Selic)”. (*Consumo interno de ativação da economia*, Estado de São Paulo, 01/03/2009)

¹⁸ IPEA – *Brasil, o estado de uma nação – mercado de trabalho, emprego e informalidade* – Ipea Espia, Rio de Janeiro, 2006. “In its most direct expression, the informal sector is viewed as generating low quality and payment jobs, inefficiencies and added economic costs, forming a distortion to be fought” (...) “In 1992 the percentage of informality was 51.9%, reached 53.8% in 1998, returning to 51.7% in 2003 and dropping to 51.2% in 2004”. Data are very similar to those found for all Latin America (pg. 337 and 339).

¹⁹ UN – *The Inequality Predicament*, New York, 2005, pg. 30.

In the United States, the rivers of money in the large funding institutions strengthened bank reserves, but were not transformed into credit to the producer or consumer. Analysis by Michel Chossudovsky, from the Canadian Global Research is that “the largest banks in the USA will also use this money that fell from the sky to acquire control of their weaker competitors thereby consolidating their position. Therefore, the tendency is toward a new wave of corporate acquisitions and mergers in the industry of financial services”. (*America’s Fiscal Collapse*, March 03, 2009, Global Research, pg.2)

The subject matter is fundamental since the goal is not to nurture middlemen but to protect the economy, and furthermore, to engage in the reconversion required by social and environmental tragedy. And if resources injected in the financial system are not transformed into credit, activating the economy, the effort will simply not achieve the goals. In this sense, intervention of President Lula in the International Seminar on Development set the tone: “For the economy to grow one must distribute”. According to Lula, economic policy “means production, job generation and distribution of income”.

In other words, instead of adding more liquidity to systems that leak, the issue is to boost the economy at the base. The United States faced the same dilemma in a broader scale between the feedback of the middlemen with liquidity or boosting the economics at the base, desintermediating the funding up to a certain point and enabling the resources to directly reach those who transform them into demand, production and jobs. The program of greater access to health, for instance, of 650 billion dollars, is an initiative of this kind, even though still very small (it is a 10 year program, this is 65 billion each year), in comparison to the financing granted to speculators. It is a matter of balance of power.

In the Brazilian case, the choice was clearly boosting the economy at the base. In the data presented by Minister Dilma Rouseff, the central role in protection of the Brazilian economy is played by convergence of a set of initiatives: real increase of the minimum wage during Lula’s administration has been 51%, that benefits both the salaries of the social base (26 million people) as well as the retired with a readjustment according to minimum wage (some 18 million people). The increase of the social program “Bolsa Familia” (Family Supplement) in terms of resources as well as coverage includes about 50 million people. The “Pronaf” boosting family agriculture stimulates demand of consumption and production of goods. The program “Territórios da Cidadania” (Territories of Citizenship) makes available some 20 billion reais of resources tied directly to city governments of the poorest regions. Other programs such as “Luz para Todos” (Light for All), “Prouni” professional training and others also create economic inclusion and strengthen internal demand. The PAC, in turn accelerates the economy by investments directly in civil works as well as indirectly by fostering the industry inputs. Another large investment, widely publicized at the Conference is the program for building a million housing units that should essentially meet the low income demand. The BNDES (National Bank for Economic Development) with 168 billion reais available is now one of the mainstays of economic mobilization, by means of large sized projects as well as by directly stimulating the private sector.

Taken as a whole, this is a standpoint where up to a certain degree, the opportunity that arises in a crisis is taken advantage of. Income distribution, productive credit building of

new facilities clearly responds to priority demands of the country, while at the same time meeting the target of reducing vulnerability in facing the crisis. On the lower floor of the economy, no one makes investments hoping for returns, the money circulates immediately and is translated into consumption, demand and jobs. Financial middlemen, accustomed to work with a low volume of credit, a high spread and exaggerated profits will have to gradually adapt.

7) Democratize government

And what we are now seeing is the most absolute inefficiency of the States of the central countries to overcome the crisis.

Jorge Beinstein

To adopt measures that permit accompanying the real progress of society and of the planet is necessary but not sufficient. We have to ensure that society has more possibilities to demand results. Criticisms about the extent of the public sector reflect in general, an ideological outlook with little knowledge of reality. In the words of a director of the École Nationale d'Administration, the famous ENA, to improve productivity of the public sector is the best way to improve the systemic productivity of the entire society. The United Nations World Report on the Public Sector of 2005, shows the evolution that has taken place since the traditional outlook of "public administration" based upon obedience, rigid controls and the concept of "authorities", passing through a stage in which a more entrepreneurial management was sought, along the line of "public management" that gave us, for instance, the concept of "city management" instead of the mayor and is now culminating in the more modern outlook that the report calls "responsive governance".

This latter form of organization implies that in the public domain, good management is achieved by means of an intelligent and balanced articulation of the group of actors interested in development, the so-called stakeholders. This is a management that seeks to respond or correspond to the interests expressed by different groups and it assumes extensive participatory systems and in any case more democratic ones in line with participatory governance.

The chart helps to visualize this evolution:

Evolution of the government concept

	Public Administration	New Management	Public	Participatory Governance
Relation citizen – state	Obedience	Entitlement		Empowerment
Accountability of Senior officials	Politicians	Customers		Citizens, stakeholders
Guiding principles	Compliance with rules and regulations	Efficiency and results		Accountability transparency and participation
Criteria for success	Output	Outcome		Process
Key attribute	Impartiality	Professionalism		Participation

(UN, *World Public Sector Report 2005*, pg. 7)

Evolution of traditional Public Administration to a New Public Management was based upon a privatist outlook of management in the quest for more efficient leadership. The more recent evolution for responsive to governance relies on a more public proposal, where leaderships are more attentive to the citizen and where citizen participation through more democratic processes ensures that administrators will be more efficient, better tuned to what is expected from them. This is the difference between authoritarian efficiency from above and democratic efficiency from the base. Efficiency is not only measured in results but by the process.

“The model of governance... stresses an open government that relates to civil society, more responsible and better regulated by external controls and by the law. It is proposed that society has a say by means of non governmental organizations and community participation. As such, the model of governance tends to concentrate more on incorporation and inclusion of the citizens in all their roles of stakeholders and not limited to satisfy customers, along a line more attuned with the notion of “creation of public values “...”. Governance theory looks beyond management and service reform by pointing to new kinds of state-society relationships and, more distinct and decentralized levels of governing...” Openness and transparency constitute therefore part of this emerging model.” (UN, *World Public Sector Report 2005*, pg.13)

The new model emerging is essentially centered on a more democratic outlook with direct participation of the stakeholders, greater transparency, with a strong openness to new information and communication technologies and organizational solutions to ensure interaction between government and citizen body; This outlook involves “more sophisticated systems of knowledge management” where the best use of information and communication technologies plays an important role.

For our discussion in Brazil and Latin America these are the very important points. They have the advantage of going beyond authoritarian nostalgic outlooks and also the pseudo-modernization that places a manager where there previously was a politician, bringing about a superficial cosmetic change. This evolution seeks the building of a real ability to resolve problems by the necessary agreements with a society that really exists. This systematization of worldwide tendencies attributes more credibility to those who struggle for repossession of policies by citizenship, on the base of society, instead of exchanging one authoritarian solution for another.

8) Capitalize the potential of local development

“Nevertheless, I see the Territories of Citizenship as a twin brother of PAC. Twins in the sense that they are initiatives going hand in hand in a project of economic and social reorganization that makes use of the demands of the crisis to justify new engines of growth”. I. Sachs

With the new millennium, humanity has become predominantly urban. This entails another rationale in the decision making processes and in the institutions that govern us, since today, each region or locality has an urban core able to manage its development and this

core, in turn, becomes a natural articulator of its rural surroundings. Local development permits effective entitlement of development by the communities and, mobilization of these abilities is vital for a participatory development. Numberless experiments throughout the world have shown that that each individual's interest for their progress functions effectively when anchored in the collective self-interest of the territory's integrated development. With simple systems to follow-up the quality of local life and preparation to access resources for structuring local bodies to promote development, the organizational base of a more balanced development is generated. The time when "parachute" projects had any credibility is passed: development functions when it is participatory, (National Policies for Local Development Projects, available in <http://dowbor.org>).

Ultimately, global finances just do not know the final productivity of invested resources, because they are many levels above in the so-called pyramid of debt. Rationally of resource allocation demands last but not least, an efficient assessment of the end use of loans, much more troublesome than securitization and the likes. The credit agent at the local level, who knows his neighborhood and his community, the needs and potentials of the region becomes in a certain way, an endorsing agent for the soundness of resources end uses. It demands a great deal of work, requires knowledge of the people's reality, for follow-up, but it is the only way to transform savings of some into an increased productivity of all, the so-called systemic productivity of the territory.

This is considerable experience in this area, from the Grameen Bank in Bangladesh to the NGOs of financial intermediation in France, the implementation of Community Development Banks and of credit OSCIP – (Civil Society Organization of Public Interest) in a number of municipalities in Brazil. The requirement to invest locally the population's savings with broader compensation rules between wealthy and poor regions by means of a public network, should permit financing of the small and micro enterprise as well as of civil society organizations engaged in social and environmental projects such as local and regional public investments in sanitation, urban maintenance and others.

The different government social programs, from the "Bolsa Família" to the "Luz Para Todos", work together in their impact to boost local access to resources, even in the poorest regions of the country. This convergence is currently strengthened by the program "Territorios de Cidadania" that represents, according to Ignacy Sachs, a Roosevelt type antirecession program able to provide - along with the PAC - a powerful leverage, not only to withstand the current turbulences but to trigger a new dynamic of growth, better balanced from the regional standpoint and able to truly insert the rural populations into 21st Century development. Those are some 20 billion reais for 120 regions of the country.

This outlook, of support to local development responds to an anticyclic policy as well as democratization of the government and redress of inequalities.

9) Organize the instruments of financial regulation

To democratize not only the international agencies but also labor relations - Artur Henrique, CUT

Of course, in view of the political weight of the global speculation system engendered in the last decades, in the media and public decision taking, prevails the quest for a simple repair that allows speculators to go back to the good old days. However, some things changed in an irreversible way, in the form, of systemic shifts. First, comes the fact that credibility of the United States and of its role of planetary leadership, already severely shaken by the blows against the United Nations, the irresponsible wars, the blatant use of torture and the overall contempt for international orchestration - were severely shaken. There was a geopolitical systemic shift towards a multipolar world.

Second, if already after Nixon's default in 1971, with the dollar no longer backed up in gold, there was already talk about the death of the Bretton Woods system, today the outlook becomes much broader, since there has been a generalized breakdown of the regulatory mechanisms that were believed functional. Especially financial regulation that had been set up as an instrument intended to prevent irresponsible behavior by developing countries and the crisis emerges in countries that had proposed themselves as models. For this situation, there are no instruments of multilateral regulation. The image of a Bretton Woods II, in the sense of a systemic renewal of the regulatory processes and rules of the game is looming on the horizon.

A third important point is that, differently from the 1929 crisis where each country retreated to a defensive postures to lick its wounds in protected markets, this time it is a concerted and multilateral attitude to tackle the crisis. The speed at which resources were collected to save institutions whose credibility is exceedingly low, but with an immense power to cause damage, points towards a new culture for the construction of multilateral policies, but furthermore for the great political power of speculators, who will spare no efforts to hold back structural changes.

Fourth, it is of particular importance for us with the successive meetings of the G20, that there is for the first time a planetary recognition that the so-called "developing" world exists, not only as a source of raw material and problems, but also as essential factor for building of solutions.²⁰

Finally, the planetary shock and distrust in financial institutions has no return, since there are millions who have suffered losses of their savings or pensions and all communication means report the double accounting, the use of fiscal havens to fraud the public as well as fiscal obligations, the distortion of data about the real situation of these institutions, the

²⁰ The composition of the Basel Committee on Banking Supervision is eloquent: "The Basel Committee on Banking Supervision provides a forum for regular cooperation on banking supervisory matters. It seeks to promote and strengthen supervisory and risk management practices globally. The Committee's members come from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, United Kingdom and United States." www.bis.org/press/p081120.htm

cronyism that presides in activities of risk assessment agencies. In the case of Enron, after WorldCom and Parmalat, there was a propaganda offensive in defense of the system, suggesting the image of bad apples, in a healthy system. Today, this image has changed and rebuilding trust will only take place in the framework of systemic changes. There are many bad apples.

Here, we do not intend to detail proposals that emerge, we will only look at general trends. It is interesting to consult the proposals listed following the G20 meetings which forcefully describe the articulation of the financial crisis with these social and environmental challenges. The proposals and first actions of President Barak Obama to re-balance the North-American economy (going beyond the financial market) also lead to hope for more coherent policies. Although insofar it has been only a matter of proposals.

Just as Bretton Woods required two years of preparation by technical teams, a real reformulation will not be accomplished quickly. Up until now, it is restricted to a long list of ideas. And we should not forget that those responsible (and beneficiaries) for the system will buy time, hoping that the crisis subsides to avoid any changes. Below, we list some elements of these first proposals, fully aware that they still lack the technical framework of systematization and of political power for their implementation.²¹

Grouping the proposals in accordance with their axis of impact, the most significant are in the area of governance, since clearly, nobody was governing anything. The main issue involves the existence or not of a supranational instrument for global financial regulation, along the lines of the World Trade Organization (WTO). Considering the international character of the speculative processes, their evolution toward rational systems for channeling capital according to real requirements of development, will somehow have to be coordinated at world level. Any option in this sense was vetoed by the United States that included in the resolutions, the statement that the issues will be resolved in the first place by “national regulators”. The United States thereby safeguarded their ability to act worldwide and to regulate themselves nationally. Obviously, with such an attitude there simply will not be any regulation.²²

Concrete measures essentially involve capitalization of the International Monetary Fund whose resources went from 250 to 750 billion dollars and might point to the evolution towards a less dollarized world, insofar as it deals with Special Drawing Rights (SDR) based on a basket of currency. Likewise, the redistribution of votes in the Fund and of other multilateral institutions is proposed. Nevertheless we continue, in the framework of these

²¹ Under this perspective, the broader outlook during the G20 Summit, on April 2, 2009 in London is noteworthy: “We have today therefore pledged to do whatever is necessary to restore confidence, growth, and jobs; repair the financial system to restore lending; strengthen financial regulation to rebuild trust; fund and reform our international financial institutions to overcome this crisis and prevent future ones; promote global trade and investment and reject protectionism, to underpin prosperity; and build an inclusive, green, and sustainable recovery.” The Global Plan for Recovery and Reform, 2 April 2009.

²² “We will implement reforms that will strengthen financial markets and regulatory regimes so as to avoid future crises. Regulation is first and foremost the responsibility of national regulators who constitute the first line of defense against market instability.” (Final declaration of the G20, November 2008, point 8 - www.nytimes.com/2008/11/16/washington/summit-text.html). In the G20 meeting on April 2, 2009 the standpoint is closer to multilateral solutions but the attachment to the final declaration about changes of financial regulation is extremely cautious.

proposals with the central dilemma: finance has become global, but there is nothing that looks like a global central bank. Worldwide flows *versus* national regulation; global processes *versus* fragmented management. Will a cautious strengthening of the IMF be enough?

On this level a central argument has furthermore been put forth: with current fragmented financial regulation, any country that begins to practice some control over the flow of capital in or out, aiming to warrant their productive use, and avoid pro-cyclic shifts, immediately becomes discriminated in the operations by institutional investors as well as by risk agencies. Under these conditions, regulation is either planetary or inefficient.

Contents of the increased regulation proposed are relatively obvious and not too mysterious: it is above all a matter of restricting leverage that reached, as we saw, absurd levels. It is also a matter of ensuring transparency of processes, and of organizing access to information, not only individually, but in systemic terms.²³ Another equally obvious requirement is control of double accounting that has become generalized, as well as control of fiscal havens and frauds associated to the off shore financial transactions. Risk assessment agencies would be subject to a regulatory framework and could not be financed by those whom they assess.²⁴

This type of recommendation constitutes an outlook that the system must be maintained: but that governance must improve. The basic issue, naturally, is the condition of governance itself. The elephant in the living-room, - that you cannot miss it and that it is too big to move - it is the small club of worldwide giants that maneuver the entire process, that unleashed the chaos and that for some mysterious reason we call “market forces”. The delicateness with which this group is handled is touching. In the G20 Summit statement on November 15, 2008, three lines merit highlighting: “Financial institutions must also (!) bear their share of responsibility in the turmoil and must do their part to overcome it, even acknowledging loss, improving disclosure and strengthening their governance and risk management practices”.²⁵

As a whole, it is obvious that a system where a country holds the power to issue a currency, whose use is international, is structurally unbalanced.²⁶ Any proposal of regulating

²³ Various preliminary studies point out that financial institutions made their risk calculations individually but considering that the external environment would remain stable. Thus nobody made a systemic risk assessment, nor organized information on the subject. Stijn Claessens, from the IMF mentions the fact that the information system itself is inadequate: “The crisis has highlighted the size of information gaps we face, both nationally and internationally. More and better information is needed if markets and authorities are to better assess the build-up of systemic risk. Addressing this requires a review of rules on transparency, disclosure and reporting.” - *What G20 leaders must do to stabilize our economy and fix the financial system*, VoxEU.org Publication, November 9, 2008, p. 37 – The document presents standpoints and proposals of 17 specialists in a work coordinated by Barry Eichengreen - <http://www.voxeu.org/index.php?q=node/2543>

²⁴ Willem Buiter, from London School of Economics, suggests: “Make it impossible to combine rating activities with other profit-seeking activities in the same legal entity” – *What G20 leaders must do...* p. 19.

²⁵ *Statement from G-20 Summit*, 15 November 2008, point 8. This caution continues in the statements of the April 2009, G20 .

²⁶ The President of the Chinese Central Bank,, Zhou Xiaochuan, in a letter to the IMF explains : “The desirable goal of reforming the international monetary system, therefore, is to create an international reserve currency that is disconnected from individual nations and is able to remain stable in the long run, thus

planetary giants without having an effective supranational system is structurally inefficient. Indeed, here we are in the realm of wishful thinking, about proposals destined to negotiate the transition until we magically get out of trouble, to hail the return of happy days and wait for the next crisis.²⁷

The great incognita of this beginning of 2009, is the new move of the United States with a government that receives the country profoundly demoralized and chaotic on the political, military, economic and above all, the ethical levels. If the powers that are aggregating around Barak Obama will be sufficiently dynamic to generate institutional changes, is an open question, but, nevertheless presents a potential and an opportunity.

10) **Generate convergent policies in economic, social and environmental terms**

“An agenda of priorities that reconciles the interests of the economy and society must be adopted”:
President Lula

Therefore, we immediately had numerous proposals to repair the system without interfering with its logical. The intention is clearly to show that the future will be different, since we will have severe and austere governments that will demand results. There will be a posture and ethics in the reformulated system. When the groups responsible for all this that are rarely mentioned in the media when times are good, will begin to behave in a socially responsible manner. Proposals are made even without a solid institutional basis or technical preparation, because a mass of savers on the planet is being directly affected – from the middle class and upwards, by the melting of their savings and hopes for retirement²⁸. And, as long as the financial chaos generated by speculators is affecting the true producers of goods and services, it is the people in general that begin to suffer the consequences. Within the system there is a clear awareness of the situation’s political volatility. Proposals, therefore come forth quickly. Implementation – with the exception of the trillions demanded by the larger groups - will follow other rhythms.

removing the inherent deficiencies caused by using credit-based national currencies.” – Letter to the IMF FMI, in *Wall Street Journal*, March 24, 2009.

²⁷ Proposals at the Davos Forum 2009 disclose this total lack of realism when facing the new dynamics of the so-called “5I Framework” (Insight, Information, Incentives, Investments, Institutions), along the lines of the brief summaries of the management handbooks. The motto of the World Economic Forum seems to be quite unreal: “Committed to Improving the State of the World”. WEF, *Global Risks 2009*, pg. 14 – <http://www.marsh.pt/documents/globalrisks2009.pdf>. The standpoints systematized in the Social Global Forum of 2009, symmetrically, today seem much more realistic.

²⁸ Good humouredly *The Economist* of December 6-12, 2008 shows on its cover a huge black hole with the headline “Where have all your savings gone” (The title is a kind of pun with the music “Where have all the flowers gone” sung by merry people in 1968. However, in truth, it is the savings of an immense mass of people that went down the drain and these people are by no means merry. Indeed, wealth has not disappeared, the world continues to reckon with an immense number of houses, cars etc., It is the right over such things that has changed hands. This appropriation of wealth by those who did not produce it and furthermore disorganized productive processes is one of the key aspects of the system’s deformation.

The systemic chaos generated the evident loss of economic governance, facing the despair of an immense mass of people affected; is generating a new political climate. Possibilities are becoming available of putting more ample proposals on the table, that is to say leading to a logical development. More precisely, a space is being prepared for the emergence of development alternatives and for – it does not seem an exorbitant goal – our own money to serve for useful purposes. One must not dream too much – much of this political space provided depends on the extent of the crisis – and this is an unknown quantity. However it is important to organize systemic alternatives, since what we are suffering is a short and medium term structural crisis within a framework of more extensive crises that are looming, particularly in the social, climate, energy, food, water and other areas.

The new proposals come from people like Jeffrey Sachs who proposes that financial resources be formally tied to building the Targets of the Millennium. Stieglitz's standpoint is that the targets of quality of life should orient the allocation of resources and not only the so-called Gross Domestic Product. Hazel Henderson retrieves the importance of the Tobin tax that would be levied on speculative international transactions to finance a fairer social development. Ignacy Sachs works with an outlook of a convergence of the financial crisis with the energy crisis and the need to rethink our development model in a systemic form. Here it is not a matter of excessive idealism but of a dispassionate assessment of our challenges.

Loss of jobs by people who were carrying out their productive functions, because some irresponsible persons like to earn money with the savings of others, causes righteous anger. The loss of basic survival by some 300 million people on the planet, who lived on fishing, because of large ocean fishing enterprises that are ending life in the seas, is bringing about another level of political irritations. The climate chaos is bringing the first samples of its potential and generating other despair, in addition to greater awareness. Contamination of drinking water by excessive chemicals, glaring inadequacies of sanitation, and depletion of groundwater are leading to a number of sectorial crises that involve not only a decrease of fishing but also to the tragedy of 1.8 million children that die every year because they lack access to clean water and threat of rural regions that relied upon a second harvest with irrigation. To restrict the crisis to financial dimensions is a radical simplification of the challenges.

In the current dynamics there is an overwhelming waste of financial resources. According to the United Nations “measured in 2000 purchasing power parity terms, the cost of ending extreme poverty – the amount needed to lift 1 billion people above the \$1 a day poverty line – is \$300 billion”.²⁹ The fact is that the marginal usefulness of money, in terms of its capacity to generate quality of life, decreases rapidly when income increases. In other words, as more resources are directed towards the lower income, the more useful they become. In prosaic words, they produce better results. To ensure a planetary minimum income makes a great deal of sense, it is a simple way, with current technologies to multiply the true value of resources. Furthermore, since resources that reach the base of the pyramid are transformed into effective demand and not into speculation, as such stimulating production and employment, it is systemic productivity of resources that

²⁹ See original: United Nations, *Human Development Report 2005*, pg. 38. About the minimum income and its universalization, see works by Eduardo Suplicy, especially *Renda de Cidadania*, Cortez/Perseu Abramo, São Paulo, 2006.

increases. The solution allows to simultaneously face the social dramas, environmental challenges and rational use of economic resources relies on the organized response to the most pressing needs of the pyramid's base. We are living in the era of squander. It is time to direct resources towards their most productive ends.

Alternatives will not be constructed from night to day. Some measures are obvious and are already being widely discussed: control fiscal havens, tax speculative operations, organize control and regulation systems of financial middlemen, again separate normal banking activities from institutional investors, create local funding systems and more of the same.

However, in a more encompassing outlook we have to be aware of facing the construction of a new institutionality. The planet does not survive – and much less the biped, curiously called *homo sapiens* - without widespread collaborative processes, in the long term, planning and systemic interventions. The role of the State must be rescued, albeit not as a relief for irresponsible corporate initiatives, but as articulator of a more just, more sustainable development and with a strong participation of organized civil society

Another world is not only possible, it is necessary. The challenge for a progressive world is to take advantage of the windows of opportunity that the financial crisis has opened for us to systematize an alternative outlook. We must show that another management is possible.

Viable? Regretfully that is not the issue. Measures will have to be taken. Global warming for instance, is taking place and we are not given the option of facing it or not, but only that of *how*? The financial crisis represents an opportunity and not an assurance – to organize a convergence of forces by society interested in a development with a minimum of economic feasibility, social balance and sustainability.

As such, we have organized in this study an array of outlooks in terms of 10 challenges that we believe have emerged from the discussions: the environmental challenge and the paradigm energy-production; the tragedy of inequality; the role of the State, the reorientation of credit; participation of the labor force; productive inclusion; government democratization; the potential of local development; financial regulation and finally convergence of economic, social and environmental dynamics. We sought to illustrate these outlooks in an extensive manner, giving the reader, who was not present at the discussions a background of the various issues addressed, making use of the speeches at the Seminar as well to various studies involved in the discussions. We also sought to avoid bureaucratic summaries that often are not trustworthy and unreadable. We believe that we have been faithful to the spirit and fundamental contents of the meeting. And of course, we assume full responsibility for the opinions expressed.

The seminar was unquestionably important and allowed a big step forward in the panoramic outlook of the crisis and its challenges. However, it is an initiative within the context of a discussion that today is planetary. We are all seeking directions in a constructive outlook that really face the key problems with innovative proposals.

Lecturers at the International Seminar on Development

Antônio Neto
Artur Henrique
Dilma Rousseff
Gerardo Caetano
Germano Rigotto
Guido Mantega
Henrique Meirelles
Ignacy Sachs
James Galbraith
Jan Kregel
Jorge Beinstein
José Carlos Bumlai
José Múcio Monteiro
Lincoln Fernandes
Luciano Coutinho
Luis Fernando Rodrigues de Paula
Márcio Pochmann
Marco Aurélio Garcia
Maria da Conceição Tavares
Maurício Botelho
Murillo de Aragão
Octávio de Barros
Oriovista Guimarães
Otaviano Canuto
Paulo Bernardo
Paulo Godoy
Paulo Nogueira Batista Jr.
Robert Guttman
Rogério Studart
Sérgio Haddad
Tânia Bacelar