

## ***Reflections and Lessons from a Decade of Social Reform***

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First of all, I would like to thank the World Bank for the invitation to participate in such a distinguished series of lectures in the company of my dear friends, Stanley Fischer and Enrique Iglesias, who has been, in his own way, a “practitioner of development”.

I am also pleased to confirm that the World Bank continues to recognize the importance of addressing the cause of development.

As I will stress during my presentation, I am convinced that the challenge of development deserves as much attention today as it did when the Bretton Woods structure was designed, over half a century ago. It goes without saying that the idea of development has undergone a dramatic conceptual change since the first days of the International Bank for Reconstruction and Development.

In the late fifties and during most of the sixties development was equated with material progress and economic growth. With his five-stage development theory, Prof. W.W. Rostow led the debate. Developing nations were supposed to follow a pre-determined and uniform route towards development, based upon the historical experience of rich countries. History was said to tell that growth would necessarily lead to an upgrading of living standards. The dependency theory then came up with the variable of politics.

It was argued that, depending on how political and social forces were organized, not to mention the role of the state, economic growth could follow different paths, with varying effects on domestic structures. The Brazilian authoritarian experience was there to demonstrate that growth could part ways with equity. The country's high growth rates in the early seventies were not translated into better social indicators. It became clear that, unless development policies were geared toward improving welfare, economic growth could fall short of meeting basic social needs.

Let me recall that, in the mid-seventies, I did some research on growth and poverty in the city of São Paulo. As hardly any attention was being paid by power holders to the need of providing the huge inflow of migrants with adequate public services, economic progress was not improving the lot of thousands of people. On the contrary, the figures we came across were rather disturbing.

The percentage of household with sewage services in the metropolitan area of São Paulo , for example, had fallen from 35% in 1971 to 30% in 1975. It came thus as no surprise that infant mortality rate in 1973 was 45% higher than in 1960. As time progressed, there emerged a plethora of new notions of development. The 1972 Stockholm Conference had introduced the ideal of reconciling economic growth with environmental protection.

The disclosure in the late eighties of the appalling record of former communist countries in environmental affairs made such an ideal all the more pressing. It was then that we bore witness to the emergence of regressive utopias, such as the deep ecology discourse. But rational minds gained the upper hand and, much to the credit of names like Maurice Strong and Ignacy Sachs, the Rio Conference could come up with the forward-looking concept of sustainable development.

From many viewpoints, the Rio Conference was a landmark. It opened the cycle of big UN Conferences in the nineties, among which the Copenhagen meeting, where the concept of social development came to the forefront. Other developments of close interest to the question of development followed suit, such as the Beijing and the Johannesburg Conferences.

Causes like women's rights and struggle against racial discrimination have moved up to the top of the international agenda. What seems to lie behind this deconstruction of the concept of development is the growing perception that economic growth only proves meaningful if understood as part of a larger process.

This entails respect for the environment and promotion of human rights and other collective aspirations. The notion of human development is perhaps the latest and most successful attempt to bring the concept of development in line with the multiple expectations of contemporary societies. As you all know, Amartya Sen stands second to none as the intellectual mentor of the new concept.

I need not stress how honored I felt by receiving a year ago from the Secretary General of the United Nations, Kofi Annan, the first ever Mahbud ul Haq Award for Contribution to Human Development. I took it not as a personal tribute, but as a mostly welcome recognition of the joint effort of the Brazilian State and people to start redressing centuries of negligence with the living standards in the country. Had there not been such an uncompromising collective endeavor, it would not have been possible to move the Human Development Index of the country up from the level of 0,707 in 1991 to that of 0,764 in 2000.

It is worth stressing that the Index went up across the country, as all states and practically all municipalities (99,89%) performed better. Less populous municipalities, whose population is below fifty thousand people, did particularly well, as their Indexes improved by an average of 15%. The Index of the city which had performed worst in 1991 – Euclides da Cunha, in the state of Bahia – increased by no less than 31,6%. The number of the municipalities with low HDI went from 995 down to only 23. Five hundred and seventy-four municipalities are now with high HDI.

As we break the Index up, we notice that progress has been achieved in all its components (family income,

life expectancy from birth and school attendance/literacy). Family income per capita rose from the monthly average of R\$ 228,4 in 1991 to the average of R\$ 297,4 in 2000, which means an increase of approximately 30%. Though the average real incomes have suffered losses over the last three years, due to currency devaluation and fall in employment levels, the average monthly earnings in the period 1994-2002 turned out to be 25% higher than the average earnings in the early nineties.

With regard to life expectancy from birth, the figures show a rise from the ceiling of 66,76 years in 1991 to that of 68,14 years in 2000. Still more significant, the rate of infant mortality (an indicator that is not contemplated by the HDI) dropped from 48,00 deaths per 1,000 live births in 1990 to 28,6 in 2001. The country's poorest region, the Northeast, achieved the greatest gains, with a reduction of 40% (from 72,90 in 1990 to 44,20 in 2000).

As to education levels, the country has all but accomplished the goal of having each and every child attending school. Again, the most significant gains were in the Northeast and among the black and low-income populations. From 1992 to 1999, the rate in the Northeast moved from 78% up to 93%, among the black population from 79% up to 93% and among the first decil of income from 75% to 93%. In 2000, the proportion of literate Brazilians aged 15 or more was 86,4%, compared with just 81,9% in 1991.

Again, the most significant gains were in the Northeast and among the black population. In the Northeast, the rate moved from 67,2% in 1992 up to 76,6% in 2002, which means an increase of 28,63%, against a national average of 24,69%. As to the black population, the rate moved from 63,8% in 1992 to 74,4% in 2002, which means an increase of 29,29%.

The objective of reducing regional and social disparities in Brazil was greatly enhanced by the Alvorada Project ("Sunrise Project") developed under the coordination of Doctor Wanda Engel, who is currently sharing her valuable experience with the IDB staff here in Washington. The Project was targeted at the poorest among the poor, benefiting the 2,361 Municipalities (in 23 states) whose HDI was 0.500 or less.

The overall budget of the Project reached the amount of R\$ 13.2 billion (approximately U\$ 3.6 billion), involving 15 government social programs, which ranged from Family Farm Support to Water and Sewage Services. Even more far-reaching in its consequences was the Social Protection Network put in place by the Federal Government over the last decade.

The Network encompassed 13 nationwide programs of income transfer to the most vulnerable segments of society, which amounted to approximately 37.6 million people, including low-income families, the elderly, children, disabled people, pregnant and breast-feeding women, small farmers, among others.

The Network was funded by a budget of around R\$ 30 billion (approximately U\$ 8 billion) every year. This is roughly the amount of income tax collected by the Government from individual taxpayers and corporations each year. It is still too early to evaluate the impact of such broad initiatives on the country's social structure, as some of the programs, such as the School Grant, the Food Grant, the Child Labor Eradication and even

the Harvest Insurance, will produce more tangible effects only in the long run.

But there are already clear signs that Brazil's social picture is changing for better, or for much better. The Gini Index, for instance, has improved in a consistent pace over the nineties, falling from the level of 0,603 in 1993 to that of 0,572 in 2001. The more accurate criterium of decils shows that, while the average income of the richest 10% of the population increased by 13% from 1993 to 2001, the average earnings of the poorest 20% rose by 63%.

As the gap between the rich and the poor is gradually becoming less disturbing, the number of those below the poverty line has fallen dramatically. It is fair to say that Brazil has pursued from 1994 to 2002 the largest sustainable poverty reduction programs in Western history. With the curbing of inflation alone, around 10 million Brazilians crossed the poverty line. And thousands more continued to do so in the following years.

Immediately prior to the Real Plan, in 1992, the percentage of the population in poverty was 40,8%. In 2002 it was 32,9%, which means a decrease of 19,42%. The minimum wage, measured in real terms – that is, discounting for inflation –, increased by 27% from 1994 to 2001, achieving its highest level in forty years. I am perfectly aware that the figures I have just quoted are far from ensuring the social redemption of Brazil. But I am fully convinced that they are robust enough to show that the country was put on the right track.

We still have a long way to go, but, as Vilmar Faria – a bright sociologist and dear friend of mine – used to say, the glass is already half full (rather than half empty). And what is most important: we have devised the ways to have the job duly accomplished. What are the principles according to which human development has been pursued in Brazil?

First of all, we could speak of a virtuous cycle between democracy and human development. The coexistence of growth and poverty increase we witnessed in São Paulo in the mid-seventies is very unlikely to occur in a democratic environment. In order to preserve their legitimacy, elected governments should prove capable of meeting social demands. Governments do not derive their legitimacy any longer from sustaining the “right cause” or launching the “good combat”, but from delivering well what their constituency expect them to.

Today's motto is not “what to do”, but “how to do it” in the most efficient and cost-effective manner. I am not suggesting that values or ethical considerations ceased to matter to public agency. Politics has not been confined to a technical optimization of defined interests. Values continue to be as important to politics as ever, but they import in a different way. Political agents are now supposed to engage in deliberative exercises with a multitude of actors for the definition of the common good.

Rather than a pre-determined variable as in Rousseau and his followers, the general will is seen as the outcome of extensive and open-ended deliberation. Hence the importance that the Modern Prince bears a republican mindset and has a clear view of the ultimate values political decisions should promote. Otherwise he risks being held hostage to corporatist interests.

As ever before, virtues are expected to prevail over vices in the conduct of public affairs. But, again, the Prince is definitely supposed to be more “enlightened” today than in the past. The task of fitting many conflicting demands into policies of common interest can only be successfully pursued if the necessary expertise to evaluate and fine-tune the various inputs is available.

To be meaningful, republicanism has to be effective. Public virtues cannot be cultivated in the abstract. They are to be couched on technical competence. Here comes the second guideline it is worth abiding by: the State should learn how to spend better.

Let me clarify that I am not denying the importance, whenever macroeconomic indicators so allow, of increasing the volume of social expenditures. Despite the ever-present financial constraints, we have managed in Brazil to increase social spending at a steady pace since 1995. In 1994, the country allocated 11.3% of GDP to social programs. In 2002, social spending stood at over 14% of GDP, the highest level of all times. The annual growth rate of the Federal Government social spending from 1995 onwards was around 7%, significantly higher than the growth rate of GDP.

What matters most, however, is that social spending is focused on the neediest among the needy. Public resources should be put to the service of the misery-ridden segments, rather than being diverted to middle-income strata or channeled to special groups or interests. I have already stressed the extent to which this principle underpinned key-initiatives such as the Alvorada Project and the Social Protection Network.

No less important is the directive that money effectively reached those it was meant to. This entails breaking with long imbedded vices such as clientelism, money-squandering and corruption. New practices were introduced in Brazil, improving the quality or productivity of social spending.

First, services and resources were decentralized through objective criteria. The dramatic improvement in health services in Brazil testifies to the importance of empowering Municipalities to act as actual stewards of the State, as ensured by the Unified Health System.

Second, low-income families were allowed direct access to benefits, without intermediaries, bureaucracy or exchange of favors. This was made possible by the introduction of the magnetic Citizen's Card, which was distributed preferentially to mothers for the withdrawal of their families' benefits.

Third, emphasis was put on enhancing the participation of civil society in the design, implementation and control of public policies, to the benefit of accountability and transparency.

No effort was spared either to foster the value of social responsibility, which produced very positive results. Initiatives like the Solidarity Community only thrive because of the general disposition on the part of business circles and society as a whole to share with the State the task of mitigating social problems.

The HIV-AIDS Prevention Program is another example of the importance of a close partnership between

state and civil society in the design, implementation and control of public policies. A national network on HIV-AIDS and Human Rights gave social and political visibility to a problem that many had assumed to concern only a small number of people.

Advocacy and political pressure led the Federal Government to create, as early as 1988, a national structure entrusted with designing a comprehensive strategy to fight HIV-AIDS. The outcome was a public policy in the truest sense of the word: task and responsibility of all sectors of society and of all levels of government. This largely explains why Brazil was the first developing country to adopt as official policy the free and universal access to life-saving drugs.

I apologize for having overburdened you with so many figures and examples derived from my experience at the helm of the Brazilian government. But I am convinced that the circumstances the Brazilian model was designed to address are, to different degrees, present elsewhere in Latin America and the Caribbean. As a matter of fact, the challenge faced by some of our neighbors is certainly less daunting, especially by those whose social indicators have long been in a better shape.

Let me recall, for example, that Uruguayans have benefited from a network of social welfare ever since the enlightened administration of Batlle y Ordóñez in the 1890s, half a century before the first steps in this regard were taken in Brazil. Argentina's and Chile's historical records are also much more satisfactory than Brazil's.

But there is no doubt that the region as a whole still has a long way to go as far as the improvement of social welfare is concerned. Although latest figures produced by the World Bank show that the headcount ratio of poverty in Latin America declined 3,8% from 1987 to 1998, we know that gains are unevenly distributed among countries, not to mention among social groups. I am sure that exchanges of ideas and experiences like those allowed by the series "Practitioners of Development" might favor the fine-tuning of national policies and, consequently, better results.

Let me conclude by stressing that the transformation of social conditions in Latin America is not contingent on national policies alone. Much depends on the evolution of the international environment. Or, being more precise, prospects for Latin America and for the developing world in general hinge, to a large extent, on the chances of redressing the existing deficit of democratic global governance.

I am used to saying that economy has become global, but politics has not. The interdependence of markets has not been matched by the setting-up of effective mechanisms of political supervision over international trade and finance.

As a result, national governments are under the constant threat of being deprived of instruments and resources necessary for meeting demands from increasingly complex social tissues. Suffice it to mention the damage done to national budgets in the developing world over the last decade or so by protectionist upsurges in affluent countries and by erratic short-term capital flows.

Hence the need to ensure that world trade and finance follow more stable and predictable patterns. Hence the importance of reviving the discussion about updating the international trade and financial architecture. The Bretton Woods structure and the United Nations itself have paid an important contribution to modernize the economic agenda of the developing world.

State reform, poverty reduction policies and, lately, fight for greater equality are examples of causes spearheaded by those institutions and duly adopted by governments throughout the developing world. It is high time then multilateral fora turn their attention to the crucial issue of international financing for development.

I am not referring to the traditional instrument of overseas development aid. I am claiming instead for ways of curbing financial volatility and of expanding financial resources at the disposal of developing nations for the generation of job and income. As Brazil has demonstrated, it is certainly possible for a developing country to do the domestic work necessary to reduce poverty and social inequality.

But after eight years in power and some others as Minister of Finance and Secretary of State, I am convinced that, were Latin America and the developing world in general not faced with obstacles such as the rising US and European protectionism and world financial instability, our chances would be much greater.

Reducing social inequality in Latin America is not simply a question of good practices. It is also a cause that could be greatly enhanced by the pursuit of universal objectives, such as democratic global governance and the availability of institutions prepared to encourage the financing of sustainable development worldwide.

Thank you very much.