

Preserving social progress

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Global markets must be stabilised, credit flows unblocked and income and jobs protected, while avoiding fiscal imprudence

The world is going through an international financial and economic earthquake without parallel in recent decades. It was born and later exploded at the very core of the developed world. Yet, given its depth and breadth, the crisis is still unfolding and no country can fully insulate itself from its still largely unforeseeable consequences.

It is under such challenging circumstances that world leaders from the G20 countries met in London on 2nd April 2009. There can be no room for hesitancy and half measures. Global public opinion expects nothing less than collective and coordinated action from all countries, both developed and developing. Brazil is fully committed to working together with our partners in putting the world economy back on track.

Given the gravity of the situation, long-lasting and structural solutions are required if we are to overcome what is clearly a full-blown systemic crisis. Otherwise, we risk seeing what is still largely a financial meltdown turn into social and even political unrest. And there is a further risk: the poor, in developing countries, may very well become the main victims of a crisis for which they bear no responsibility.

The challenges before us are dizzying in their complexity. Global markets must be stabilised, credit flows unblocked and income and jobs protected, while avoiding fiscal imprudence. Furthermore we need to preserve the hard won social gains made in the developing world over recent years.

In response to the immediate crisis, governments must continue to push anti-cyclical policies that encourage demand, preserve economic activity and, above all, jobs.

Brazil is well equipped to deal with the current economic squall. Even before the crisis, financial operations – especially in the credit market – had been under close government scrutiny. The Brazilian banking system was therefore far less exposed to toxic assets, leaving our banks in a better position to quickly restart the flow of credit to the real economy. Going against the grain of conventional free market ideology, state oversight of the financial sector was shown to be an asset during the financial turbulence.

Thanks to its robust financial and fiscal situation, Brazil has been in a position to put in place active counter-cyclical measures. As a result, major investments

in social and infrastructure already underway since 2007 – known as the Growth Acceleration Plan (PAC) – have not only been preserved, but increased. These long-term projects, together with a nation-wide anti-poverty programme catering to over 44 million citizens, have spurred rising income, employment and credit levels. As a result, buoyant domestic demand has helped sustain economic growth even as the global downturn gripped the global economy. These remedial measures being undertaken point to the central role of the state, especially in times of economic hardship. Only by reinforcing and coordinating these public initiatives will a prolonged recession or even a global economic depression be avoided.

Reactivating trade is a central part of the solution. A speedy conclusion to the Doha Round would decisively help the development of poor agricultural countries and therefore could stimulate global trade flows. If protectionism is left to fester, it will worsen the crisis and cause a domino effect hard to revert later.

An overly deregulated financial system has fostered excesses and generated distortions. Trillions of dollars have simply disappeared. The ensuing financial meltdown has contaminated the real economy, destroying millions of jobs and possibly many more in coming months. Financial agents, often guided by a mercantilist mindset, cannot be allowed to drive the world economy over the edge.

It is imperative to enhance crisis prevention measures. We must start by adopting rules that guarantee transparency. This will ensure that asset values and risk exposures, including those off the balance sheet, are effectively measured and stated.

This will only happen if all systemically important financial institutions, markets and instruments are subjected to an appropriate degree of regulation and oversight, according to internationally defined standards, applied by each country on a national basis. Risk assessment agencies must focus on crisis management in all countries, including developed ones. Multilateral coordination to abolish tax havens will greatly facilitate this effort. Furthermore, eliminating these grey areas will significantly help the fight against international organised crime and terrorism.

Clearly, the renewal of global financial governance cannot be postponed. International organisations and existing financial regulations and practices have failed

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the test of history. The G8 must progressively give way to forums – such as the G20 – capable of providing the right responses to today's key challenges.

Brazil is concerned about the increasing loss of credibility and legitimacy of the Bretton Woods institutions. This is why we have proposed a thorough reform of the International Monetary Fund (IMF) and of the World Bank. These institutions were created in a context that has now been overtaken by the current turmoil. Their structures and decision-making procedures can no longer afford to ignore the emergence of developing countries as indispensable actors in an increasingly interdependent world. This requires an ambitious review of the distribution of quotas and votes at these institutions. The voice of each country, both at the IMF and at the World Bank should be proportional to its economic and financial weight.

In the case of the IMF, a new framework is necessary to set adequate conditionality standards for financial support, especially in moments of financial distress. We need to make surveillance more effective and balanced, establishing the same level of requirements and follow-up for both developed and developing countries.

The World Bank and other multilateral development instruments must use all the tools at their disposal to apply anti-cyclical policies. In light of the current credit shortage and adverse prospects for the immediate future, these financial institutions must give priority to the financing needs of highly vulnerable developing world. If those countries are to overcome the crisis, their social protection networks and credit lines for foreign trade must be preserved.

We are going through an extremely difficult and challenging moment. Confidence in a reformed financial system must be rebuilt. More importantly: growth must be restored; and jobs preserved.

Working together we can achieve these goals. For its part, Brazil has made considerable progress on many of these issues. After over two decades of stagnation, growth has resumed in recent years. Critical to this was a far-reaching income-transfer policy that rescued more than 20 million Brazilians from extreme poverty. They are now consumers and citizens in an enlarged market. Furthermore, exports have grown fourfold. These are today the dynamic force behind Brazil's recent spurt in growth.

In so doing, we have also dispelled other myths. We have shown that it is possible to combine strong growth with macro-economic prudence. In addition, the strengthening of the state – especially in order to overcome strategic development challenges

in infrastructure, for example – has not led to undue market intervention.

Brazil's success so far in riding out the growing turbulence is the result of these anti-cyclical policies adopted before the outbreak of the crisis. Brazil will continue to pursue these policies, even while adapting our responses to a fast changing environment and to the requirements of global coordination. This is reason enough for being confident that we will quickly overcome the present crisis and come out in better shape to deal with the challenges and transformations that tomorrow's world will surely bring.

The true measure of success, for Brazil and all nations around the world, however, is the preservation of the social progress already conquered and the possibility of advancing towards better living conditions for humanity as a whole. **F**

