
Interview: Carlos Lessa

The Financial Dragon Must Be Tamed!

Carlos Lessa was named president of Brazil's National Bank for Economic and Social Development (BNDES) when President Luiz Inacio Lula da Silva took office in January 2003, remaining at that post through November 2004. The previous government of Fernando Henrique Cardoso had reduced BNDES to a mere instrument for financing foreign takeovers of the Brazilian state sector, as it was privatized. Lessa, with Lula's authorization, restored BNDES to its historic role as Brazil's national bank for economic development, at the same time that it took the lead in financing numerous infrastructure projects for South America's physical integration.

From the BNDES, Lessa, an economics Ph.D. and author of 12 books, revived the policies of strategic planning and directed credit, which drew the fury of Wall Street and its representatives in Brazil, including the Central Bank head, FleetBoston banker Henrique Meirelles.

On July 17, 2003, at a five-hour meeting of the Presidential Cabinet, BNDES president Lessa presented a detailed study for an ambitious infrastructure plan for Brazil, calling for investments on the order of \$90-140 billion over four years. The newspaper Folha de São Paulo described Lessa's proposal as "a Brazilian adaptation of Franklin Roosevelt's 'New Deal'."

In an interview published May 5, 2004 in the newspaper Jornal de Brasil, Lessa explained his vision: "What is the Brazilian dream? To have a society with a higher per capita income and sovereignty. What is the national mission? It is in the future, and it has no relationship to the market. The market does not build the future; it is for the present. BNDES's role is to build the future. BNDES is the second largest development bank in the world. What backs up BNDES? The country's future. The market doesn't do this. Does the market have any interest in the poor person who doesn't have money for anything?"

Lessa was forced to resign on Nov. 18, 2004, after making public statements criticizing the monetarist policy that Meirelles was imposing through the Central Bank, as "a nightmare." One month later, Lessa explained: "I gave the interview, knowing I might lose my job, after Meirelles proposed that the national system of development banks be destroyed." That was unacceptable, he said, because those sources of credit are the basis for "the reconstruction of the Brazilian developmentalist state, which is, for the neo-liberals, a nightmare."

Lessa, who has returned to university teaching, continues to be a fierce defender of economic dirigism, and of the project

to apply Rooseveltian measures in Brazil. For his part, Meirelles is today facing prosecution on charges of tax fraud and illegal international currency transfers.

Carlos Lessa granted the following interview by telephone to EIR's Dennis Small, on April 18, 2005.

EIR: Regarding the relationship between infrastructure and national development, you dealt with this question in depth, at the National Bank for Economic and Social Development. What is your view of infrastructure and its relationship to development?

Lessa: Look, infrastructure has at least three dimensions which make it fundamental. The first dimension is that it defines the floor for general productivity. Therefore, gaps or poor quality in infrastructure impose high costs. In Brazil, the interruptions and underinvestment in infrastructure because of the budget, and inadequate maintenance, are tragically increasing the general costs to the economy.

For example, 17% of Brazil's GNP is spent on the expenses related to logistics, while the European countries and the United States spend around 10%. This imposes a general loss of macroeconomic efficiency. That is the first dimension.

The second dimension is, that the absence of adequate investments in infrastructure functions as a prohibition on new productive investments, because the difficulties in supplying energy and other logistical problems, reduce private investment.

And finally, insufficiency of investment in infrastructure has a very, very negative effect on the machinery and equipment industry, the construction materials industry, and on employment.

Until more or less the mid-1990s, Brazil was able to build a highly efficient electricity generating system. That system had margins for expansion and was increasingly integrated on a national level. The interruption of investments produced a tragic episode, what we called "the blackout," which was a deficit of energy supply. Now, with a colossal effort, in the coming years, Brazil would be able to address another such episode. We are worried that in 2008, this could happen again.

EIR: And the role of nuclear energy? Today, there is a debate over whether Angra III [Brazil's third nuclear plant] is going to go forward.

Lessa: Yes, Angra III is being debated. Angra III is a plant on which Brazil has already spent \$1.8 billion, and it hasn't



Carlos Lessa (center), former president of Brazil's National Bank for Economic and Social Development (BNDES).

produced anything. We have a frightening amount of equipment, all the plant's equipment, warehoused, but with rising financial cost. We call it a white elephant.

Now, Brazil has a potentially very comfortable situation with regard to uranium, because we have very large reserves. We could become the third largest uranium producer in the world. And we have technological mastery over uranium enrichment. This allows us to meet part of the world's requirements for enriched uranium, were we to decide to do so. Personally, I would prefer that Brazil become an exporter of biodiesel and of alcohol (ethanol). Brazil is currently involved in a program, still modest but of real importance, in biodiesel.

EIR: One of the things that has reduced investment in infrastructure in Brazil is privatization. This has been imposed on many countries, including Brazil, for other reasons: international financial reasons, to collect payment on the debt. What options does Brazil have, under these conditions of privatization? And what can be done about this?

Lessa: There is a very serious problem connected to privatization, which was the criterion used for costs in the contracts, for price hikes. For example, in the case of Argentina, since increases were indexed to foreign costs, despite the fact that there was deflation in the country, they had to raise public service rates. In the case of Brazil, there was a terrifying rise in costs, for example, of electricity rates. In telecommunications, which was the most successful privatization, there were also rising prices.

There is a problem—I think a complicated one—which is the following: Many of the privatized sectors do not generate foreign exchange; they aren't exporters. However, when they were taken over by foreign interests, they had to send interest and dividends abroad every year, right? This puts pressure on the country's ability to make payments abroad. It is the case that in the past two years, Brazil had a relatively comfortable situation in this regard. But, in any case, privatization has us very worried.

EIR: On infrastructure, Brazil has worked a great deal on the idea of physical integration with other countries.

Lessa: It is a subject which the current Presidential Administration has made a central issue, and we were oriented from Day One to put all of our effort toward that.

EIR: Right. And BNDES played a very important role, because what is

most lacking is financing.

Lessa: Exactly. We were making a great effort in that direction. Some of these things are now beginning to mature. We are supporting some hydroelectric projects in Venezuela; some hydroelectric projects in Ecuador; we are supporting the new airport of Ecuador; we are helping install sewage systems in two or three countries—one of these is the Dominican Republic; and we are very far along with Argentina in building a new highway, which is key for Mercosur.

With Bolivia, with Paraguay, and with Peru, there are projects which are not yet at the implementation stage, but they are well-identified.

And we have a railway connection between Argentina and Chile, which is vital to those two countries. BNDES is going to help finance it.

And so, these things are moving along. I believe that it is something which is moving well.

EIR: What about the recent summit meeting in Ciudad Guayana, Venezuela, of Lula, [Colombian President] Uribe, [Venezuelan President] Chávez, and [Spanish Prime Minister] Zapatero?

Lessa: It was a very important step forward. I was no longer president of BNDES by then, but the things that occurred were things that, let's say, we were initiating.

EIR: So that meeting was positive, in your view?

Lessa: It was very positive, because for Brazil, the link with Argentina and the link with Venezuela build an axis that

FIGURE 1

Northern South America: Great Waterway and Highway Projects



allows South American integration to go forward. I think it is, let's say, the backbone of an integration process. There are very important possibilities with Venezuela, including the two state oil companies, Petrobras and PDVSA, to begin to develop joint activities. For South America, that would be a spectacular thing, because Petrobras assumed a very important role, together with the second-largest Argentine business group, which is called Pérez Companc. They have gas pipelines in Argentina, and we are even financing the doubling of the southern gas pipeline, to avoid a crisis in the supply of gas to Buenos Aires. And we are probably going to work together with a number of other South American countries. I believe that that combination of Petrobras and PDVSA is very prom-

ising for the continent.

EIR: On an international level, the question of railroads, which you just mentioned, has taken on a great deal of importance, for example in Asia and in Eurasia. There's the famous Silk Road—

Lessa: Yes, yes, yes. The classic route that goes through the Middle East.

EIR: Yes, the classic route, but now with railroads.

Lessa: Yes, it will be a tremendous thing.

EIR: This is moving forward. China, in particular, sees in this the future of its relations with Western Europe, which would export—it is already exporting—capital goods to China for these joint infrastructure projects to achieve integration.

The concept that Lyndon LaRouche has presented on the Eurasian Land-Bridge, emphasizes two central points. First, that it should be not only railroads, but *industrial corridors*, with the development of high-technology industries on both sides of the railroad; and secondly, that this must be integrated with great projects in the Americas, including with the construction of a possible tunnel across the Bering Straits, to connect the Americas with Eurasia.

Lessa: This matter of a connecting tunnel sounds a little like science fiction; it is very important, but it is something that—

But there is something to which I'd like to call to your attention. The United States had three rail connections from the Atlantic to the Pacific, crossing the interior of the country, built in the second half of the 19th Century. South America doesn't have even a *single* viable connection across the interior, from the Atlantic to the Pacific. We have a series of railroads, all different, in terrible shape. So, for Brazil, and I believe for all the Latin countries, the most important thing is transverse railroads, crossing the interior of the continent.

We of BNDES have a project, which is a key integration project. I am going to tell you about this, because perhaps you

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don't know about it.

There is a river, called the Madeira River, which is in the southern Amazon region. This river has part of its basin in Peru, part in Bolivia, and part in Brazil. The hydroelectric potential of that river is very, very great. You can have three hydroelectric plants, with a total hydroelectric project equivalent in capacity to Itaipú, which is the largest hydroelectric plant on the continent, the bi-national Brazil-Paraguay generating plant.

If these three hydroelectric plants were built, two fantastic things would occur. First, Brazil, Bolivia, and Peru would then have 4,800 kilometers of navigable waterway. And the second fantastic thing, is that it would open up 30 million hectares of land to grain cultivation, whether soy, corn, cotton, etc. For the South American continent, this region of the Madeira River is equivalent in significance to the American Midwest for the development of the United States in the early 20th Century. So, the Madeira River potential and its hydroelectric plants represent for South American integration the building up of an interior extremely rich in grain production.

We, of BNDES, believe that that is the most important structural infrastructure project for integration.

Obviously, there is something extremely important, which is geopolitics, which is the union of the countries. And in that, I think that the three countries—Brazil, Venezuela, and Argentina—can build a very important relationship.

EIR: Yes. And the only way to guarantee peace among countries is on the basis of development.

Lessa: I also believe that.

EIR: What you say about the Madeira River is extraordinary. It would also be extraordinary to integrate the Amazon River with the Río de la Plata. . . .

Lessa: That is an old dream.

EIR: Right, since Alexander von Humboldt in the 18th Century!

Lessa: Right, that's so!

EIR: And also the Casiquiare connection with the Orinoco in Venezuela.

Lessa: That connection is something that has already been studied. It is already known; the engineering problems have

been solved, and its cost is not very high. I believe that this will go forward. The other one is much more difficult, because there are really serious problems in making the interconnection with the Río de la Plata. That is much more complicated. But the other, with the Orinoco, the cost is small, in relation to its importance.

EIR: All of these things become feasible if a national policy decision is made. You mention that an area like the Midwest of the United States can be opened to cultivation. This would be like the policy of Franklin Delano Roosevelt in the U.S., with the Tennessee Valley Authority.

Lessa: Of course it is. Let me tell you something. In Brazil, we are politically creating something called a "Movement for Full Employment." The idea is that it is necessary to carry out a policy *à la* Roosevelt—welfare economics and a New Deal—in Brazil. There are already 90 congressmen who have joined this parliamentary movement. And I think that the PMDB, which is one of the three large parties of Brazil, will very probably make this the centerpiece of the platform for their Presidential candidate.

EIR: This would be the idea of full employment *à la* Roosevelt?

Lessa: Yes, as the first point of a program that also had implications for labor, social welfare implications, and was clearly nationalist, without xenophobia, but very strong.

EIR: When Roosevelt was President of the United States, he established a close working relationship with the President of Brazil, Getulio Vargas, which was very positive in my view.

Lessa: Yes, yes.

EIR: I know that you in the BNDES took up the issue of the history of Getulio Vargas.

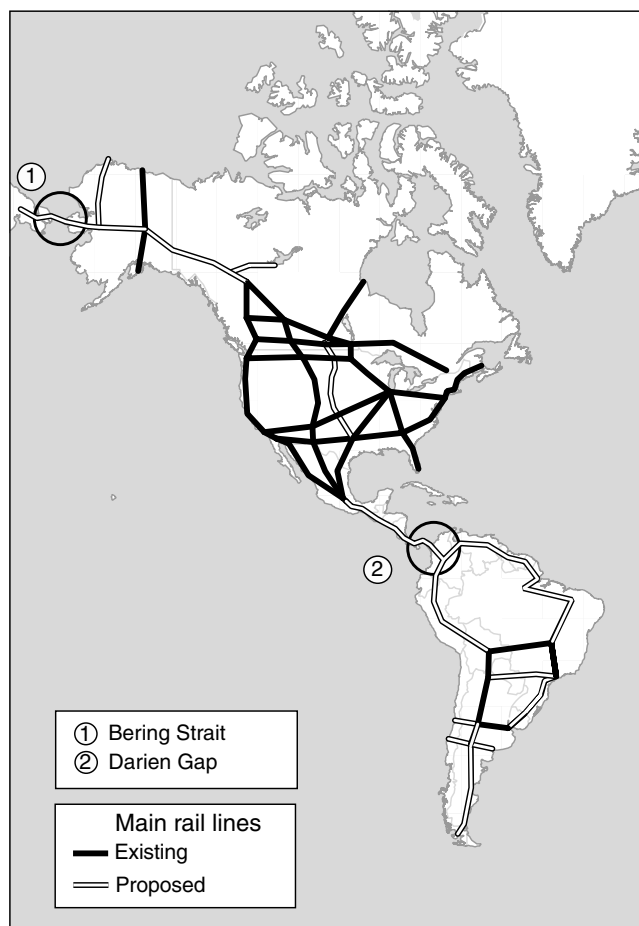
Lessa: Yes, its significance.

EIR: I believe that the San Francisco River project, in particular, is something that has been studied since that era. With this in mind, what should relations between Brazil and the United States be, for example, regarding this question of development?

Lessa: Consider the following. If the United States reduces its aggressivity around the world, and accepts a financial

FIGURE 2

The Americas: Priority Railway Routes



Source: *EIR*.

order of a different nature, I believe that the American economy would once again have an interest in seeing the world economy grow. In that case, I would say that Brazil would clearly be a partner for the United States. But today, the United States is not a partner; it does not represent a guarantee of economic expansion for us. I believe the United States could once again play a central role in world economic expansion, without getting into a fight with any other region of the world.

Now, it is necessary to tame that financial dragon, that monster, which is a monster that is eating the world, but which is also also eating the United States. I think that there is also a very complex phenomenon in the United States, of the appearance of growing social inequalities, of some indicators of social neurosis. I don't know how to describe it, but let's just say that there is a social framework that is not good. It is a society with a lot of fear, no?

EIR: And a lot of poverty.

Lessa: Also. I know, a lot of poverty, and that is absurd. It is an absurdity.

The central concept is that the economy depends on the productive base, and the financial superstructure must be at the service of the productive base, and not the other way around. It is possible that this crisis to which you refer could push the world towards a new discipline, which would be more civilized.

EIR: This question of subduing the financial dragon is what Roosevelt did in his time, and it is exactly what LaRouche is proposing to do also.

Lessa: Perfect.

EIR: What do you think of LaRouche's idea of creating a New Bretton Woods, which proposes a new financial order?

Lessa: I think it's perfect. One of the very complicated things is that there is *one* country in the world that is controlling things and making its money the basis of the world economy, and that is what allows this financial madness to occur, because there are no limits, no possibilities for discipline.

I think LaRouche is correct. In addition, I would say that there is an entire generation of important economists who, for some time, have been saying that it is not possible to keep going this way. We in Brazil have been worrying about this for more than 20 years; but we are on the periphery, we have not been able to change things. Instead, we are being suffocated.

EIR: Yes, but Brazil also plays a very important role, not only in Ibero-America, but in the entire Third World. I was very impressed with the economic and political potential that I saw in Brazil.

Lessa: Brazil is very impressive, because Brazil has three very curious features, which are a very significant potential. First, it has very, very extensive territory, and all of it easily usable. Because we don't have frozen lands, we don't have tundra-like land. The 8.5 million square kilometers that is Brazil are nearly all usable. That is the first point.

The second point is that we have a population with very special cultural characteristics. I think that we are a human society that is less arrogant, more cordial, less full of itself, more sensitive, because we don't have great arrogance, which is a very positive factor from the standpoint of the world.

In the third place, we already have a well-developed industrial base; a reasonable agricultural base; and we have—it's not yet very important, but we already have the foundations for a science and technology system.

So these components could easily allow Brazil to have annual growth rates of more than 5%.

EIR: The only thing missing, then, is—

Lessa: The dragon!