

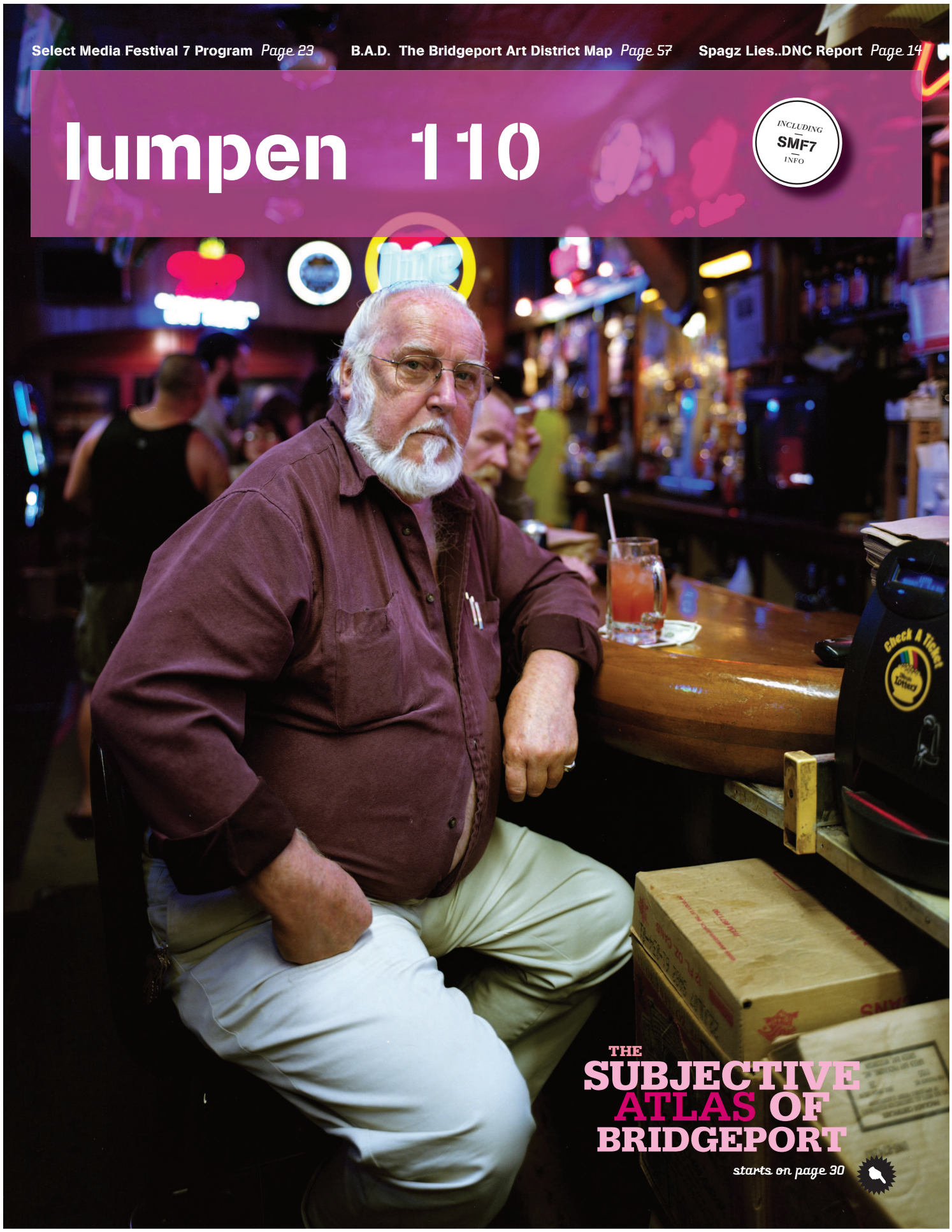


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THE  
**SUBJECTIVE  
ATLAS OF  
BRIDGEPORT**

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15 Minutes With

# SERGIO BAIERLE

INTERVIEW BY BRIAN MIER

Participatory Budgeting is a system, originally created by grass-roots pressure on the Porto Alegre City Government in the 80s, that increases popular control over city spending by turning control over a large percentage of the annual investment budget to democratically elected volunteer councilors who represent different neighborhoods. There is no one “official” way to implement participatory budgeting, and since its first inception in Porto Alegre in 1987 it has spread to dozens of cities around the world. But in general, the system works in the following manner: periodic neighborhood meetings are held in which city officials explain how they plan to use the budget and listen to feedback from residents. Elections are held in which one voluntary delegate is created for every 10 people who show up for the meeting. Every two years, each group of 10 delegates elects voluntary councilor who represents his or her neighborhood in negotiations on city investment spending. The councilors are given deliberative power over a certain percentage of the investment budget. The end result is greater efficiency of public works and a leftist shrinking or “withering” of the state, as a certain function of the government is taken over by volunteer citizens.

There are, of course, many ways in which a system like this can be corrupted or watered down but the success with this kind of volunteer council system, coupled with

constant pressure by social groups, has led to a variety of different types of volunteer councils at municipal, state, regional and national levels in Brazil. With the election of Center-left Lula Inacio da Silva in 2002, many of these councils were given deliberative power over functions of the Federal Government. When Lula created the Federal Ministry of Cities in 2002, he appointed Olivio Dutra as director, the former mayor of Porto Alegre who implemented the first Participatory Budgeting System. A structure was created so that the municipal, regional and national Council of the Cities would be able to control government spending in certain areas, starting with the \$1 Billion National Low Income Housing Fund.

After the Fannie Mae and Freddie Mac bailouts I decided to get in touch with Sergio Baierle to ask for a few suggestions on how Americans can increase popular control over the new State Mortgage Industry. Mr. Baierle is the co-director of CIDADE, an Urban Affairs Think Tank that has given technical support to participatory budget systems in Porto Alegre and around the World for the past 20 years. For more information on participatory budgeting, CIDADE has an English language section of their website at: [www.ongcidade.org](http://www.ongcidade.org)

This interview was conducted over Skype, with the free version of Pamela recording software, which allowed us exactly 15 minutes to talk.



***In your opinion, what are the advantages and disadvantages of having a state-controlled mortgage company in a country like Brazil?***

Well, Brazil has a state bank called the Caixa Economica Federal that finances most of the Brazilian housing industry and is connected to the Federal Ministry of the Cities. The entire credit and finance structure is regulated by the government, as much by the mortgage bank, the Caixa, as by the Central Bank. So there is this whole structure that organizes real estate credit, except that it is very different from what the United States Government is doing right now in the sense that what is going on over there is a rescue operation. There was this situation where they kept deregulating and it ended up generating a system-wide crisis. In the case of Brazil, the advantage of having a public bank financing housing is that, in theory, it increases the chances that you will have policies for the lower income segments of the population. Despite all the problems in Brazil - the housing deficit of 8 million units for example - it has been possible to create a few different lines of credit for people with lower incomes. It doesn't directly help the poorest of the poor, but it helps certain low income segments of the population, the working poor, who can own their own houses. And, still in theory, because it is state controlled it offers more popular control over the resources, which is something that has only begun to happen very recently through the National Cities Council and through initiatives taken by the urban social movements that have successfully pressured for new lines of finance that don't follow the logic of the banking industry. This is only happening recently because during most of the history of the Caixa Economica Federal Bank there was a dictatorship going on and there wasn't any kind of public control over it. So the possibility of popular control over the institutions took time to develop, even after the end of the dictatorship in 1985. These democratic developments have only begun to happen very recently.

In Brazil, there were a lot of restrictions on banks that prevented them from investing in housing during the 90s. There was this logic that first Brazil had to promote neoliberal structural adjustments and that only afterwards you could return to public policies to finance housing. It's very different than what happened in the US or Europe where the incentives for housing were quite intense and where the economy became driven by these mortgage companies. Roughly half of the Brazilian financial system is backed up by treasury bonds issued against the national debt. So in a certain sense Brazil has been rust-proofing its financial sector for some time now because there is guaranteed income. Consequently, Brazil has the highest interest rates in the world, not because there is a demand for credit in the population or that credit is so rare that it generates such high rates, but because the scarcity is induced by the Central Bank. So the Central Bank absorbs everything in the system and generates an elevated rate, as a monetary policy strategy.

***So this would be one of the disadvantages of a federal mortgage bank?***

Well, it's the logic that our system acquired, but it didn't happen this way because it was state run but because it was state run without any kind of public control over it. Consequently, the regulation of

these policies happened in a very bureaucratic manner with a logic that was totally geared towards financial stability. Financial Stability was given priority over any type of policy and this statization of liquidity through the public debt ends up having many perverse effects. It has generated an enormous concentration in the financial sector, for example. The US system has generated fictitious capital through the difference between the real economy, the real value of the properties, and the financial speculation that was generated on top of it. In Brazil this difference is generated on top of the government itself by using around 1/3 of the public budget to feed debt service.

***Give me an example of how public control over the Caixa Mortgage Bank has increased over the past few years.***

It's a long process and we haven't arrived at the level of control that we want yet. Ideally we would use a logic for housing that isn't 100% equivalent to that of the commercial banking sector. But what has happened recently, even within this traditional banking logic, is that we have been able to force the Caixa to enable us to use resources like the Federal Guaranteed Severance Pay Fund towards downpayments, and to offer interest that is much lower than the market rates. And these victories were achieved, for example, with help from another one of these volunteer councils called the Federal Severance Fund Council, which pressured the bank for these benefits for years, and more recently through the National Cities Council, which has succeeded in pushing through various new pieces of legislation, such as the Statute of the Cities. These victories happened over time. And these processes are underway that are suggesting that sometime in the near future we may achieve greater public control over the federal management of the mortgage industry, at least over the great majority of this industry that is managed by the Caixa Federal Housing Bank. Of course private sector activity has been increasing. I'd like to mention that this entire system that has led to the collapse of the industry in the United States and in parts of Europe - here in Brazil it's just getting underway (laughs). It's just starting through Lula's new Economic Stimulus Package (PAC) and other measures of credit abundance for the construction industry so it's funny that right as Brazil is getting ready to join the game, all the Banks have broken (laughs).

***That could turn out good because now they hopefully won't follow the hyper-deregulated US model. But anyway. Let's imagine that in the United States, by some freak of nature, the people have gotten the power to decide how this new State Mortgage Fund is managed. What kinds of recommendations can you make based on your experiences with public control over government in participatory budgeting?***

The first thing I would suggest would be to increase the public space where important decisions are made about how this agency is run. What does it mean to increase the public space? It means to increase the number of actors who are involved in the process. You can't just appoint a few economists from the Federal Reserve and the government using a financial logic to exercise control. It has to be opened to other actors who represent other sectors of society and this doesn't have to happen in a centralized manner, for



# WHAT DOES IT MEAN TO INCREASE THE PUBLIC SPACE? IT MEANS TO INCREASE THE NUMBER OF ACTORS WHO ARE INVOLVED IN THE PROCESS. YOU CAN'T JUST APPOINT A FEW ECONOMISTS FROM THE FEDERAL RESERVE AND THE GOVERNMENT USING A FINANCIAL LOGIC TO EXERCISE CONTROL.

example like the US Congress, but could happen in a decentralized way spreading out to the various states, regions and cities so that the people could have more time to participate. This statization represents a brutal use of public resources that is unthinkable in other social areas so it is fundamental that there is a high level of public control over this and I think that it is important that the people appropriate the management of these processes through increasing public space and perhaps through a system of volunteer councils of democratically elected citizen representatives set up at national, state and municipal levels building a system of dialogue about the regulations built on some basic principles, built on some parameters that involve the question of social justice. Because if the system will simply operate according to a financial logic all the people who are having trouble making their house payments now will simply go broke. And that destroys people, you know. What is the logic that you will build so that there will be social justice parameters in place so people have the ability to regulate these processes? So there is the question of public space, of parameters, and it has to be totally open to the public – it can't be limited to certain predetermined actors. It has to be a space open to the widest diversity of actors possible.

*When you talk about the council system, you are talking about a system made of volunteers, modeled on the way it was set up in Participatory Budgeting in Porto Alegre. Do you think that this type of model could work on a municipal, state and national level in a country as big as the US?*

Well, it has worked this way in Brazil. However, any kind of national council needs some type of support from the government to operate so that people can meet occasionally to participate. You look at the National Cities Council in Brazil for example - the national councilors travel expenses are paid for by the government so that they can meet

every few months in Brasilia to vote on policies. But I think that this characteristic of voluntary, unpaid councilors is important because it guarantees that the State doesn't end up taking over civil society. So that it doesn't turn into a civil society that is contracted by the state to act in a determined space. You have to guarantee a minimum of autonomy so that people can participate. I think it's easier to do at the local level because it's easier for average people to show up at the meetings. Now at the more specialized meetings at the national level the question is more difficult.

If you totally decentralized the system, for example into municipal housing cooperatives governed by local volunteer councils...

*It would be a better ideal to strive for because all the systems I've seen that involve city, state and national councils tend to create a pyramid and end up becoming more bureaucratic, so the ideal would be to set it up so it could operate directly at the local level, but there would have to be some kind of national coordination of these multiple local councils so that a system of communications and deliberation could be established. And I think that this is part of the dilemma that we have today in Brazil when we try to move up the scale from local participation to the national level.*

I would like to add, though, that it would be great if something like this could happen but this problem can't just be solved within the US. There has to be a dialogue established with international organizations. Because it doesn't help if you just do it in the US but don't increase public control over the international financial institutions like the WTO and World Bank the IMF and some other key central banks like the EU, Japan, and China.

