EDUCATION REFORM REVISITED

It's academic: Brazilian President Dilma Rousseff at a ceremony to promote the government's *Pro-Infancia* kindergarten campaign.

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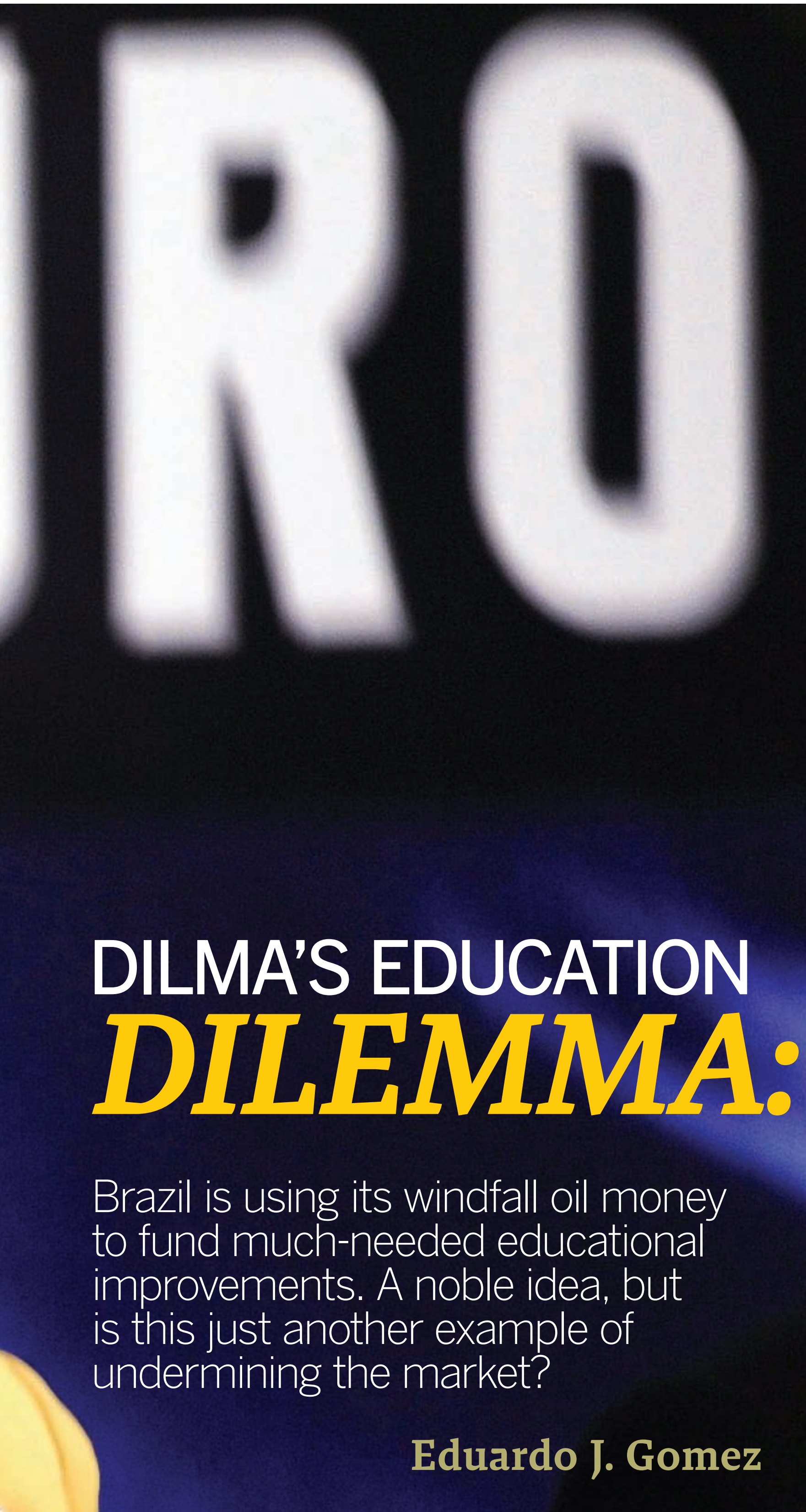

DILMA'S EDUCATION *DILEMMA:*

Brazil is using its windfall oil money to fund much-needed educational improvements. A noble idea, but is this just another example of undermining the market?

Eduardo J. Gomez

More than anything, Brazil's continued economic growth depends on a well-educated workforce. While Brazil is one of the three fastest-improving countries in terms of student test scores among the 65 countries that take part in the Program for International Student Assessment (PISA) tests, educational reform is still a top priority.

Despite the advances, Brazil suffers from high illiteracy rates and—in an already tight labor market—from the lack of a technically qualified workforce to meet the demands of a modern economy. If these aren't addressed, Brazil will not be able to field a competitive labor market in future generations or fulfill its economic potential. President Dilma Rousseff understands this: "Only when there's progress in the quality of education can we form young people that are[...]able to lead the country to the full benefits of technology and knowledge," she said in a February 2011 speech at the Brazilian Senate.[1] But the challenges endemic to the system represent formidable hurdles.

In recent years, the government's response has taken a different direction from the neoliberal approach to education reform—such as privatization and bureaucratic downsizing—charted by the administration of Fernando Henrique Cardoso (1994–2002). The Cardoso-era policies would have severely constrained the government's ability to invest more in education today.

In contrast, the administration of Luiz Inácio Lula da Silva (2002–2010) used revenue from the burgeoning oil sector to address the country's educational needs. This was partly accomplished through the creation last year of a state-owned enterprise, Pré-Sal Petroleo SA, which performs a dual role of managing oil production and administering a new social fund for education and other anti-poverty programs. On the presidential campaign trail, Rousseff called this social fund Brazil's "passport" out of poverty and inequality.[2]

There was nothing radically leftist about this approach. Brazil traditionally has maintained state ownership of its petroleum resources, along with a commitment to use the revenues to enhance social welfare.

Like Lula, President Rousseff is equally committed to investing more in education policy. She has adopted and even broadened her predecessor's strategy of extending access to education to the poor. In June 2011, as a sign of her commitment, the president launched an expansion of *Bolsa Família* through an initiative called *Brazil Sem Miséria* (Brazil Without Misery), which aims to eradicate poverty by 2014. The program increases the amount of the monthly stipends given to the poor through *Bolsa Família*, with the hopes of reaching 800,000 more families by the end of 2013.[3] It also focuses on improving access to public services—such as health care, running water, electricity, and education—and achieving "productive inclusiveness" by giving the poor the economic means to overcome poverty through vocational training, microcredit and jobs.[4] In total, this new program anticipates spending $13 billion over the next four years to help the 16.2 million Brazilians living in extreme poverty gain access to a myriad of social services. Like *Bolsa Família*, families will receive monthly payments upon the condition that their children attend school.

But a question remains: at a time when the government is trying to limit public sector spending, can the president achieve her educational goals while reassuring foreign investors that she will not drain resources from other sectors of the economy? Because Dilma is using monies from the oil sector to finance education, a fear persists that she will use revenue from other areas of the public budget to continue funding education and/or other social welfare programs—instead of applying this revenue to deficits. Still, at this point the president seems to be showing a clear commitment to fiscal stability while deepening state control over oil.

Education Woes

Despite the impressive improvement in PISA scores, Brazilian student performance is consistently low. Brazil ranked 52 out of the 65 countries in the 2009 PISA report in overall reading and science. In mathematics, the results were even worse: Brazil ranked 56 out of 65.[5]

According to estimates provided by the Brazilian Institute of Geography and Statistics in 2006, approximately 11.7 percent of the population is illiterate—startling when compared to the roughly 3 percent in neighboring Argentina and Chile.[6] In the country's poorer areas, students often either drop out of school entirely or are forced to stay home to help working parents. Repeating grades and poor attendance are common.[7]

Human resources and infrastructure also pose daunting challenges because of the lack of well-qualified, trained teachers in primary and secondary schools. Studies indicate that teachers in resource-poor settings work fewer hours and can be absent for up to 40 days of the year's 200 school days without losing pay.[8]

Moreover, no federal programs focus on enhancing teacher training or on retention. The Cardoso administration sought to respond to this decades-old problem by increasing the salaries for "active" teachers through the Fund for the Development of Fundamental Education and Enhancement of the Teacher's Profession (FUNDEF), but those reforms were not accompanied by efforts to better train teachers or monitor their performance.[9] According to a 2006 study by UNICEF, teachers—facing little accountability and with inadequate training—often teach subjects they know little about.[10] At the same time, there is a continuing need for teaching materials, desks, school supplies, and larger classrooms in the hinterlands and favelas.

But perhaps the biggest ongoing challenge is funding.

School financing is the responsibility of the states, but in recent years ongoing fiscal imbalances have limited spending options and made federal support increasingly more important. At the same time, federal funding has tended to focus on tertiary education rather than primary and secondary education. The result: while Brazil pales in comparison to other countries in federal per-capita spending for primary and secondary education, spending for tertiary education is consistently well above the OECD average.[11]

These educational challenges will pose the biggest problem when it comes to sustainable economic productivity and growth. In key economic sectors such as engineering, mining and technology, the demand for high-skilled labor far outpaces supply.[12]

Brazil's *Instituto de Pesquisa Economica Aplicada* (Institute for Applied Economic Research) reports that thousands of jobs go unfilled simply because there are not enough academically qualified applicants.[13] Last year, 24.8 million Brazilians looked for a job, but approximately 22.2 percent—roughly 5.5 million people—did not have employable skills.[14]

Considering the massive amount of federal spending for anti-poverty alleviation and health care under Cardoso—and especially under Lula—why is there a shortfall in support for education? Several potential rea-

Hitting the books: A young student at a UNICEF-supported school in Porto Alegre.

DANITA DELIMONT/GETTY

sons emerge. First, some claim that Lula never took education reform seriously because of his nonacademic background. He frequently criticized highly educated people for failing to empathize with and understand the poor.[15]

Second, some emphasize his lackluster management of the Ministry of Education, even though investment per student had doubled in real terms by 2009. A final criticism is that Lula was simply too late in his response. He decided only toward the end of his administration to introduce new programs such as *ProUni* (*Programa Universidade para Todos*, University Program for Everyone), which provides 700,000 college scholarships for low-income families, established 180 vocational schools and launched new tests to evaluate student performance.[16]

While better late than never, a lot more needs to be done.

Building on Oil

In a climate of fiscal constraints, the Lula administration turned to oil—especially after the discovery in 2007 of the massive Tupi pre-salt oil reserve off the coast of Rio de Janeiro—to help meet its fiscal and social promises, including improving educational outcomes.

In 2009, Lula submitted a bill to Congress aimed at switching from a model of oil extraction based on concessions to a model based on production-sharing (Bill 5938). He further increased the government's ownership of Petrobras in exchange for stock (Bill 5940), and established Pré-Sal Petroleo SA (Bill 5939), cited earlier, to manage oil production contracts.

Finally, Lula created a social fund administered by Pré-Sal staff that would function as a public savings account for social policies (Bill 5941).[17] Although Pré-Sal comes under the purview of the Ministry of Mines and Energy, it is given a high level of decision-making discretion from the Office of the Presidency, with the ability to veto contractual decisions and to provide contracts to Petrobras if deemed "in the public interest." Yet it maintains no official relationship with Petrobras.

The social fund generated by Pré-Sal is tightly controlled from Brasilia and falls under the oversight of the president.[18] Revenue comes from oil as well as from bonuses and mining activities, with estimates assuming that 50 percent of the savings will be used strictly for education.[19]

But some fear that the president's control over the social fund will lead to political manipulation. This concern stems from allegations around the financial transactions tax (CPMF)—implemented in 1997 and discontinued in 2007—that sought to help fund the universal health care system.[20]

The key to better education? Former President Lula inspects the first canister of oil from Brazil's pre-salt layer in 2010.

Dilma's Strategy

Upon entering office, Dilma shared with Lula an unwavering commitment not only to increase the state's ownership over oil but to use its proceeds to strengthen education. Dilma has pledged to provide more funding to the states for teaching, infrastructure and accountability.

At the same time, she is exploring new ways of introducing technology into schools, such as providing iPads for students through a partnership with Foxconn Technology, the Taiwanese company that manufactures Apple's iPad.[21] This is important to Dilma given her determination to modernize the educational system with the objective of facilitating access to information.

In pursuit of her goals, Dilma happily adopted Lula's strategy of providing increased funding for education through Pré-Sal's social fund. She repeatedly emphasized her belief during her campaign that Pré-Sal would expedite education reform and poverty alleviation—providing the basis for Brazil's socioeconomic advancement and a heightened sense of dignity and pride.[22] In an interview with the *Financial Times* prior to her election, Dilma also suggested that Pré-Sal represented an important tool for new investments in science and technology.[23]

But such comments evoke the image of the statist, anti-market approach that frightens Wall Street. Investors have recently expressed concern that Dilma's control over oil will lead to similar initiatives in other economic sectors.[24] The government's decision last year to order BNDES—Brazil's largest state-owned bank—to provide more credit for home loans for the poor is a case in point.[25]

Nevertheless, the fact that Dilma has recently pursued a reduction in federal spending by $13.9 billion while approving a smaller-than-expected increase in the minimum wage suggests that she is not planning to generate major deficits and undermine the market.[26]

Skeptics point to Brazil's public-sector deficit and Dilma's unwillingness to reduce spending for anti-poverty programs, while at the same time expanding investments in education and a universal health care system, as reasons for concern.[27] It is not forgotten that Dilma helped mastermind Lula's National Growth Acceleration Program in 2007, which sought increased federal spending for infrastructure and development by approximately $4.2 billion.[28]

Reasonable Concern?

While Dilma's commitment to education reform is much needed, will she follow Lula's lead in taking over the oil industry to support these endeavors?

In part, the government's historical interest in controlling oil and democratic constitutional commitments to social welfare make such a response understandable and perhaps even tolerable. The government also has a strong track record of resisting market forces and selectively intervening in particular social sectors.

The government's recent decision to resist free-market prices through the issuance of compulsory licenses for access to antiretroviral medications for HIV/AIDS and the creation of a massive national AIDS bureaucracy provide good examples. This response, along with the government's strategic use of its oil resources, may simply reflect an ongoing commitment to placing the needs of citizens above all else. In a context of extreme poverty and inequality, such a trait could be seen as admirable.

While Brazil's history and policies may be unique, Dilma nevertheless provides a key lesson for other oil-rich states: don't selfishly pocket all of your oil money. There are dozens of oil-rich states that have squandered their windfalls in massive projects of national (or personal) ambition or watched the money fritter away through corruption. Instead, using oil wealth to invest in education holds the promise that this finite resource will have far greater and far wider payoffs for all of society.

As the recent PISA scores show, Brazil is slowly learning how to create a top-rate educational system. The strategic use of its petroleum bonanza will further allow Brazil to sustain its own ambitions to become a global power. The most dependable way of reaching that goal is to invest in the most important natural resource of all: the younger generation.

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