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BRAZIL: WHERE IS IT, AND WHERE IS IT GOING?

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Simon Kuznets, Nobel Prize in economics in 1971, once said that there were four types of countries: developed, underdeveloped, Japan and Argentina. The Japan was the first Asian country to take part in the rich countries, with a template that has been emulated by Taiwan, Singapore, Hong Kong, South Korea and China. The Argentina belonged to the Club of the rich in the early 20th century and since Perón, in the 40, comes down the slope. Left behind in economic growth, now part of the platoon of middle income countries.

The experiences of various countries in the last 100 years show clear way what not to do in order to achieve development. The greatest tragedy of the last century was the real socialism of the Soviet Union, China, Cuba, North Korea, countries of Eastern Europe and Southwest Asia. Some African countries have embraced socialism and there were also bad. The recent success of China shows that the market economy is a necessary condition for economic growth.

The new populism of South America read Argentina, Bolivia, Brazil, Ecuador and Venezuela, has created many economic crises and no sustained growth. And in the extreme case, which is Venezuela, led to socio-political-economic chaos. The first feature of new populism is the complete irresponsibility in macroeconomic policy: lack of control on public accounts and on inflation, and real interest rates negative for a few privileged sectors. In some countries there are the black market currency exchange and price controls. Corruption is endemic to mining companies and institutions, combined with a speech hypocrite of social justice.

The theory of economic growth had a great progress from the second half of the decade of 1980. This does not mean to say that if you have a prescription ready to be applied in any situation. But any textbook on this topic brings a good indicator on the

variables of economic growth: a) education, namely human capital; b) savings, that is, physical capital; c) absorption of technology and innovation; d) appropriate incentives for the achievement of the three previous items; e) institutions that allow all citizens and businesses – equal opportunities. To get to have economic development in addition to the items already cited: a) income distribution policies via market; b) social inclusion programs well planned and well executed without populist slant; c) market economy; d) democracy; and environmental preservation.

Brazil, from the moment in which the Government adopted as policy the "new economic matrix" indicates then the Peronist model. This model, combined with endemic corruption, put the country in 2015, before two major crises: economic and political.

On economic management of the second Government of Dilma Rousseff has a kind of permanent tension between two streams which propose different actions to anchor fiscal expectations. In the political field she has lost of the support base of the Government in the National Congress and the impeachment factor.

On economic policy, there are those who consider urgent stop the succession of primary deficits, beginning in 2014 and walk to repeat for the third year in 2016, unless drastic changes in the direction of the country, but this is not what presents itself. According to this reading, a positive response in the fiscal results in the short term, it is essential to anchor expectations.

It's an approach compatible with the beholder much result the spoon in the challenge of short and very short term. Probably contains the idea that as the poor results will tax if succeeding, there is a further deterioration of economic conditions and policies that will increasingly hard to reverse them.

Thus, there is no disregard for the reform diary, quite the reverse, but the guidance that, although fundamental, has little power to replace the action in front immediately – not least because the measures are slow in their approval as in their effects.

For the second, the best way to anchor fiscal long-term expectations is through a process of negotiation with the congressmen, which of course is slower. Thus, as the problem is structural in nature, the agenda of fiscal adjustment, through deeper reforms, would be built gradually, with a focus on balance to be achieved, i.e. no disregard for the immediate problem, but probably sees the current deterioration with a

little less alarmed than the first chain-not in the sense that the deficit in the short term should not be tackled but that Act is not so insignificant.

Thus, both views agree about goal-anchor fiscal expectations – and about the central role that the legislative houses have in building the perception of fiscal stability. However, there is disagreement as to the means. The first group does not believe that it is possible to reach the fiscal adjustment needed in the long term without a shock in the management of public finances in the short term. Assign a few pressure groups set off a process that would generate concessions to other organized, which inevitably would remove the necessary adjustments.

For the second current, there is the understanding that, without a comprehensive negotiation with the political class, resistance would be created, which would make it impossible to implement a redirection strategy. However, this current is aware that there is always the risk that the perceived signals by economic agents are ambiguous, and more than that, the ratings agencies to demote the note in the country, which has already occurred.

In the political crisis, the Government, every month that passes in the second term of President Dilma Rousseff, his leadership over his own base of support in Congress, and feel closer to the reality of opening of impeachment of the President of the Republic on the part of the House of Representative.

The prospect of the development of the impeachment process, coupled with the possibility of impeachment of the President of the House of Representative, creates scenarios still unclear about its implications for the economy in 2016. For some analysts, the immediate reaction of the markets to the opening of impeachment of Dilma Rousseff reflects the hope that the entry of Michel Temer (PMDB) allow the arrangement of a broad coalition that mitigate the political paralysis. In this case, he should emulate Itamar Franco's Government, doing a great deal without the participation of the PT, but the support of the PSDB certainly occur if Michel Temer abdicate the right to re-election in 2018 and to commit to a lot of institutional commitment Presidency.

If Dilma win the impeachment battle, either by disapproval of the application for judgment by the House of Representative and later acquittal occurs three possibilities, according to these analysts. The first is that the President can mobilize the national agreement that failed in 2015, allowing the execution of fiscal adjustment. This is the

least likely scenario, due to the style of the President, because I would have to give even more power to allies and the opposition.

The second possibility is the consolidation of the model set from the ministerial reform early October that has shown some results, such as the maintenance of tariff call vetoes pump, which would aggravate the situation of public accounts, and the approval of the fiscal deficit target of 2015. However, this is a very unstable because it depends on the performance of the economy, which still tends to escalate, and the unfolding future of Lava-Jato operation. It is a solution only for the President's survival in the short term, without necessarily lead to advances in the field of adjustments and chances of recovery of the popularity of Dilma Rousseff and PT for 2018.

The third possibility, inspired by former President Lula, is to soften the short-term adjustment with the relaxation of credit restrictions and the States, making it difficult, however, the economic equation. The goal is a political relief with the recovery of the social movements and the business portion and the financial sector that has supported.

Also, one should not ignore the level of uncertainty is high and prevents the development of robust scenarios. Here it is worth remembering the Canadian researcher Philip Tetlock, University of Pennsylvania (USA) which says: *"the average number of hits for long-term analysis is only 15%-the same probability of a chimp target throwing darts at random"*.

But, this is a necessary exercise to try to organize a chaotic reality, which today prevails in Brazil. It is essential that collective reflection about the alternatives available to the country.