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THE NEGLIGENCE OF THE PUBLIC ACCOUNTS IN BRAZIL

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"Economic freedom is an essential condition for political freedom"

Milton Friedman

Nobel Prize in Economics 1976

Brazil had the 1980s as the decade "lost" in the economic plan coming into the next with a hyperinflation which was only quelled by the ingenuity of the Real Plan in 1994. Controlled inflation the country began a guided modernization process in democratization occurred in 1985 at market opening in the strengthening and independence of the institutions.

To contain the fiscal and foreign exchange crisis of 1999, the famous macroeconomic tripod was established by aligning to the orthodoxy of economic policy at the global level. This macroeconomic tripod made up of the inflation targeting system of floating exchange rates and the pursuit of fiscal austerity.

It cames a horizon of hope to the population indicating that the country postulated its entry into the "club" of developed nations. Corroborating this expectation million Brazilians amounted to class. The Workers' Party comes to power democratically in 2002. The equation for development was established with the variables. Not so much! History is not linear.

Internal political events - bribery of parliamentarians to vote with the government known popularly as monthly allowance, discovered in 2005 - and the 2008 crisis, starting with the high-risk US mortgages, whose summit is marked by the fall of Lehman Brothers in September 15, 2008 influence in changing the direction of development that the country had been following.

The change of direction in policy that had been promoting the development had two dimensions: a political and other economic. The first demonstrate that the political coalition that came to power in 2002 would use the more "sophisticated" methods to stay in it, so as not to allow the salutary and indispensable democratic rule of alternation of power between political parties.

On the economic front, under the pretext of protecting the country from the international financial crisis of 2008 the government began to adopt another economic policy known in the market and in academia as **"New Economic Matrix".** The economic policy began to prioritize the domestic market relying on social mobility has become broader from the economic restructuring and after the Real Plan in 1994. In selecting companies to be benefited from tax breaks and subsidized loans from the Bank National Economic and Social Development (BNDES), acronym in Portuguese. In bookkeeping shenanigans in government accounts, in willful decline in interest rates, the suppression of prices administered by the government - fuels and electricity.

To implement that economic policy makers their "forgotten" that the stubbornness of orthodox monetary policy in an inflation targeting regime is to control inflation. One should not nor can from the ideological view that the interest rate needs to be low. The basic interest is that consistent with the inflation control - simple and straightforward without ideology. It was injured, so the first leg of the classic macroeconomic tripod, pegged to the inflation targeting system.

It is noteworthy that in seeking a competitive exchange rate, the government reveals, implicitly, the existence of a goal for the relationship between dollar and real. Moreover, whether competitive or appreciated the exchange, from 2009 onwards is now managed as momentary intentions of the Central Bank, in conflict with the initial idea that the interest rate would be determined by market conditions. By acting in this way it is cut the second leg of the original tripod, that the floating exchange rate.

Regarding the third leg of the macroeconomic tripod government neglected to fiscal austerity, and were systematically unfulfilled the primary surplus targets - how much the government saves without considering the interest expense. The irresponsible fiscal policy is possibly the main cause of the Brazilian stagflation, that because, as well characterized the Nobel Prize in Economics 2011 Thomas Sargent, *"inflation is a fiscal phenomenon."*

By definition, inflation is a general rise in prices. This can only happen in a systematic way to aggregate demand grows more than supply rate. It is observed systematically this: the government leniently spending pushes up aggregate demand without supply track simply because the private sector is expelled by the presence of the Leviathan state in what, in technical jargon, is called crowding- effect out, i.e., the government increasingly occupies more economic space.

Finally, to pretend some balance of public accounts, the government began to adopt **creative accounting,** known by the market and the press of tax pedaling. In creative accounting linger payments and transfers from the public sector, set up triangular negotiations between the various state organizations and charge up fat dividends of joint stock companies, even without their balance sheets permit. Mocked up the Fiscal Responsibility Law.

To return the budget to balance - read up fiscal adjustment - and offset the profligacy of this momentum, the remedy is to increase the savings rate - less consumption - and / or increase taxes. It is the current situation of Brazil in 2015. But it seems that the government prefers the second option, even with a debt ratio above 60% of GDP.

Study of World Trade Chamber (ICC in English) points to Brazil as the most closed economy among the countries of the Group of 20 major economies, the G20. The government in turn increase state presence in the economy from 2008 shows its terrible effects in 2015, as it became apparent the lack of public accounts.

Brazil's Real Plan indicating heading for sustainable development, suffers a major relapse starting to remember the country before the economic stabilization: rising inflation, rising interest rates, devaluation of the currency - the Real-government accounts do not close because spending grows faster than revenue, that is, the moment of truth arrived, the "lunch" the government has to be paid by the people.

Were destroyed, one by one, the three tips of the macroeconomic tripod. Thus, from the implementation of the Real Plan, is born a new Brazil, whose maturity is reached in 1999. That same country, however, begins to die through the new economic matrix.

The government's economic growth Dilma is the lowest since the Collor government, and inflation beyond the control, has surpassed annualized rate of about 10% at mid-year 2015. The country is heading to return to previous conditions to 1994. And now with explicit budget deficit of 30 billion reais.

The deficit framework on public finances, inflation, recession and political uncertainty led international agency risk rating Standard & Poor's (S & P) as of September 09, 2015, withdraw from the Brazil investment grade - a good payer seal gives confidence to investors to apply the money in a country. The agency downgraded the rating of BBB- from Brazil to BB + and maintained the negative outlook of the note. The country, however, still maintains investment grade rating from Fitch and Moody's.

The loss takes place seven years after the S & P had placed for the first time, Brazil in the select group of countries with investment grade notes, after a working over a decade for the country to achieve this feat, due among other things , the moratorium on foreign debt, which took place in the 1980s.

According to forecasts of economic analysts not tied to the government, Brazil will have no growth in 2015 and 2016, from 2017, if rationality in economic policy is established, the country will launch a meager economic growth cycle. Considering that social demands, infrastructure and logistics will continue to grow will have to the end of this decade a repeat of the 1980s, that is, the country runs a serious risk of a new decade "lost" in its development process.

To begin to change this recession is paramount to overcome the serious political and ideological obstacles force in Brazilian politics. Overtaking them, the country will move to a resumption in its development, since some essential conditions are met: carry out the fiscal adjustment; maintenance of floating interest rate; inflation targeting; autonomy of the Central Bank; implementation of the Fiscal Responsibility Law; strength and performance of regulatory agencies; reduce the need to state presence in the economy; cutting red tape; reduce the tax burden; and improving public management; establish permanent dialogue with the institutions of society.

Brazil cannot enter the third decade of this century with an outdated political system, ie the one that is established in ideology or populism, perhaps on both fronts. Sustained and sustainable development will only happen if rationality becomes the keynote of the new political system, and for both society also has to become politicized and charge.