Homework in turbulent times

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Brazil's highest priority in 2009 is to ensure GDP growth in a scenario of global slowdown. The measures announced by the government are welcome and timely, especially flexibility regarding bank reserve requirements, tax reductions for the automotive industry, and increased public investment. Such measures, however, are not sufficient. They are bound to stumble upon structural problems that can hold back the country's response to the crisis.

Among specific issues the most pressing is that related to ensuring that the resources injected into the financial system by reducing bank reserve requirements reach the real economy. Without this practical consequence, the measure is not only fruitless but also superfluous — fortunately, Brazilian banks are not in need of rescue. If this money were not aimed at financing production and consumption, the best thing to do would be to return it to the Central Bank to increase public investment.

One measure that is an important complement to increased credit by using bank reserve requirements is immediate reduction of interest rates. All countries have been slashing interest rates, favoring the promotion of their economies despite an eventual upsurge of inflation. Brazil, however, continues to swim against the current by maintaining the highest real interest rates in the world, despite the fact that most recent projections suggest that inflation will recede in 2009.

Among the structural problems, the most severe is the flawed culture of public spending. As the budget for the current year approved by the Congress shows, the costs of the federal government are incompatible with what is expected from a modern public administration. The budget is a bloated aggregate of expenditures resulting from several decades of mistakes in the management of public entities, which remains a huge burden for taxpayers and is abysmally ineffective in such key areas as health, education, safety, and infrastructure modernization.

In times of plenty such distortions may pass unnoticed; in periods of crisis they reemerge stronger than ever and limit the State's power of response. Obviously, the

measures announced by the government to avoid economic recession would have been more consistent in terms of money resources had those resources not been committed beforehand to maintaining a heavy, anachronistic public administration structure.

Had the costing structure of the Federal government, as well as those of the states and municipalities, been more rational, there would have been a better chance to rescue the economy, both by increasing public investment and by introducing a broader tax reduction plan than the one announced. Both directly (by investing in infrastructure projects and updating public services) and indirectly (by cutting taxes and allowing businesses to invest more in production), the administration would serve the country better than by adopting a budget that is permeated with expenditures that in the present economic situation are superfluous.

The high level of state spending, one must not forget, is also one of the reasons for high interest rates, which reflect the generous yield paid on the government securities with which the administration rolls over its enormous debt, which is currently almost as high as GDP. This is all the more serious in a context of a crisis. In times like these, society and the productive sector find it even more difficult to bear a tax burden as high as that of Brazil. Thus, the government starting yet another new year without having completed fiscal reform leaves a bitter taste, which is further aggravated by the recession in developed countries. It is frustrating to see that not even the draft proposed by the Executive branch, which itself is far from meeting the nation's expectations as far as tax cuts are concerned, has made it through the Congress.

More than ever, as this crisis exposes the country's weak points, the Brazilian government needs to seek solutions to the globalized financial hurricane. We did not do our homework when the skies were clear. We must now see to it in the midst of turbulence.

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