Muddling through

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ONE OF THE DEFINING TRAITS OF Dilma Rousseff's presidency is how little she invests in cultivating the relationships in Congress that are necessary for getting key legislation passed. Instead of using political finesse in navigating bills through congressional committees, the president has relied on her consistently high approval ratings (79% in a March CNI/Ibope survey) and the use of provisional executive decrees instead of legislation. The result is that the government has at times struggled to control its congressional coalition, despite the overwhelming majorities over which Rousseff officially presides, especially when it comes to the more thorny legislative proposals.

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Evidence of this came to light once again last month, when the government very nearly lost its battle to get a ports infrastructure overhaul approved. As the government grapples with this new and more difficult situation, more time and effort will probably be spent in appeasing disaffected allies while mitigating the risk of a successful negative legislative agenda with proposals that either increase the pressure for more spending or curtail some of the executive's prerogatives with regard to shaping the budget and legislating through provisional decrees.

But although managing the coalition has been deficient, reports that the government has all but given up on its legislative agenda for the rest of the year are overblown. It is normal for complex issues to generate congressional controversy. Keep in mind that despite the difficulties, in the end the government has more often than not triumphed. Giving the administration the benefit of the doubt, the likely pause should be viewed primarily as a temporary retreat as the dust settles, giving the government time to regroup before it renews the push to negotiate on other key issues.

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After all, in addition to Rousseff's persistently high approval ratings—the chief component of political capital—the structural drivers of some reforms are still very much in place. For the government, a growing sense of urgency to boost investments is driving its desire to get both tax reform and the new mining code through Congress. While there is a possibility that these reforms will be postponed beyond this year, that decision would be more likely if the economic recovery were more robust. But given a still tepid recovery (in the first quarter of 2013 GDP came in at just 0.6% over the previous quarter)) and deteriorating growth forecasts, it is likely that Brasilia's sense of urgency will increase. The urgency is exacerbated by the electoral calendar. Congressional productivity diminishes significantly during an election year, so the window of opportunity to pass important legislation before the next presidential election in October 2014 will close early next year. It will not reopen until 2015. Thus the time to approve reforms that might help growth can only be 2013.

What has kept the government from a more determined drive for reforms and more constructive (and less interventionist) policies? There are a number of reasons, but the most important is that economic and political constraints have not yet reached the point of generating serious urgency in Brasilia. Abundant global liquidity is an incentive for complacency; it allows Brazilian policymakers to let fiscal accounts deteriorate without having to pay much of a market or economic cost. Lower fiscal results have yet to translate into a rising net debt-to-GDP ratio, so there is no immediate risk of a sovereign ratings downgrade. The combination of both liquidity and no fear of a downgrade has helped feed a perception within government that it is not yet critical to curry investor favor.

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Another reason for complacency, ironically, is the president's popularity. Economic growth has faltered, yet with low unemployment Rousseff's approval ratings are at a record high. As a result, she has not yet had to pay a political price for the economic difficulties. In fact, despite growing uncertainties and challenges, Rousseff is a heavy favorite to win reelection next year.

But economic headwinds and recent troubles in Congress are a reminder that constraints may deepen. On the one hand, next year fiscal policy will probably face increasing pressures from both the unwinding of monetary easing in developed countries and inflationary pressures at home. On the other, the government's coalition management is likely to become more conflict-prone as Rousseff's approval ratings drop somewhat.

While the government is expected to try to muddle through until next year's presidential elections, a more coherent—and constructive—shift in policy will be the order of the day for whoever is sworn in as president in 2015.