# Are we mortgaging our future?

The 1988 Constitution quite rightly calls on Brazil to take care of the poor. The question is whether we're doing it the right way.

From 2001 to 2011 the Brazilian government managed to keep direct operating and fixed capital expenses stable, but transfers for the social safety net surged. During that time transfers to households took up 70% of government primary spending. That left only 29% for education and health and barely 0.3% for investment. In fact, Brazil spends twice as much on pensions as the OECD average.

As the current pension system is designed, it offers incentives for Brazilians to leave the labor force—just when Brazilian companies are desperate for more and better skilled employees. By squeezing out education and health, the system also makes it harder to educate people, young or old, for the jobs that are begging for candidates.

There may also be international repercussions: Vagner Laerte Ardeo says that "If the market believes that our fiscal stance is not sustainable because of social security commitments, Brazil can fall out of favor." The social safety net is enmeshing every aspect of Brazilian life and trade.

Like everyone else, we're delighted that so many more Brazilians have joined the middle class. However, members of the the new middle class are prevented from increasing their productivity and wealth because public health and education are poor, infrastructure is in ruins, and the government overregulates the economy. So the new middle class is paying for transfers for the social safety net and public employee salaries and getting little in return. Properly supported, a dynamic new middle class would be the key to generate wealth and tax revenues so that Brazil could balance its budget.

Professor Francisco Lopreato thinks it's possible that Brazil can invest more without changing the current model of transfers to the poor, but there are a lot of ifs in his prescription: "If we can reach international interest rate levels," we can lower public debt. If we fully exploit deep sea oil, it could produce tax revenues equal to 3.5% of GDP. In other words, if all goes well . . . maybe years down the road, social transfers will no longer dominate the budget.

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Meanwhile, the budget outlook for this year is already worrisome. Brazil is expecting lower GDP growth and less tax revenues, and besides what has to be spent on infrastructure to meet our international commitments, José Álvaro Moisés points out another problem: "The tendency to spend more in election years is part of the Brazilian political culture," he says, "but from the standpoint of fiscal policy, it's a structural problem."

There have been proposals that might relieve some of the fiscal pressure, like the Supplementary Pension Fund for Federal Public Employees. But the Brazilian economy cannot function well as long as the administration and the legislature are only willing to consider short-term solutions when the problems require that they think long-term, beyond the next election and the next pension payment — and that they also think about the implications of their short-term decisions for coming generations of Brazilians.

Maybe, in fact, what Brazil really needs now is a fiscal equivalent to the Real Plan. However, it's difficult to figure out what the Rousseff administration's long-term strategy really is. Perhaps we'll finally learn in 2012.