"The new Brazil must face the world"



Albert Fishlow

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More than four decades ago the American economist Albert Fishlow started studying Latin America, with special attention to Brazil. He observed the developmentalism of the 1960s, the economic miracle of the 1970s, the countless crises of the 1980s, and the early recovery in 1990s (led by one of his students, former finance minister Pedro Malan). Last year he published his observations of the last 25 years of Brazil's history in his book *The New Brazil—Political Achievements, Economic, Social and International Relations.* Here Fishlow analyzes the country's prospects and the global economic outlook. With regard to Brazil, he maintains his customary optimism but warns: "You have to grow sustainably in coming decades, which means raising per capita income through increased productivity, not by raising the minimum wage."

***The Brazilian Economy*—Even when there were serious economic problems, you have always been confident about the resilience of Brazil, to the point that your peers considered you overly optimistic. Do the facts support you?**

Albert Fishlow—I remain optimistic about Brazil, but there are a number of problems it must address. . . . The most serious problem at the moment is the lack of domestic savings, which is at about 17% or 18% of GDP. In today's world, to achieve an appropriate degree of development, a country needs at least 5 percentage points beyond that. Brazil is behind Chile, Argentina, and Mexico with regard to domestic resources for investment. In infrastructure, for example, there is much to do—the country will host a World Cup in two years and the Olympics in four. Besides infrastructure, there are needs in educa-

tion, health, and other public services that have not been met. Fortunately, Brazil now has a low birth rate, but a considerable portion of the population is aging, creating a future need for retirement resources. The country currently spends about 12% of GDP on pensions, and the situation will worsen. It is essential to address this problem so that the resources necessary for investments can be obtained to allow for higher economic growth.

What is your assessment of the administrations of Cardoso, Lula, and Rousseff?

As I mention in my book, Fernando Henrique Cardoso had the great merit of managing a transformation in the country's economic policy. No one could imagine a future for Brazil with those very high levels of inflation. At the same time, there was a favorable environment for adoption of laws to control budget deficits and maintain the primary surplus, which was very important. Lula brought to Brazil expansion of the social agenda. The Family Grant program consolidated the efforts made at the end of the Cardoso administration; today it represents about 0.5% of GDP, transferring resources to the poorest and improving income distribution. This clearly is a significant step. Rousseff's challenge now is to support these advances with sustainable fiscal, monetary, and social development policies. Fundamental changes are needed in public and private pension systems, as in Amendment 41 of the Constitution that regulates public employee pensions. We must reverse past practice: the government should save rather than just spend in order to allow adequate growth. Rousseff takes on a country with a slightly different profile. Besides manufacturing, the country now has a strong agricultural sector, which is an important source of exports and productivity increases. There is also the issue of oil, in particular deep sea oil, which will require much investment over the next few years. Oil resources at an enormous depth require cutting-edge technology and logistics to be exploited and transported. This is the opportunity of the new Brazil. Decisions taken now will determine the country's future. Major problems of the past have been resolved, but we must grow sustainably in coming decades—which means raising per capita income through increased productivity, not by raising the minimum wage.

One of the continuing problems is high interest rates. How do you see the Central Bank trying to change this situation?

Reducing the basic interest rate should be viewed as a process. In the 1990s real rates were much higher, above 25%

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a year. They have been falling continuously, but with respect to the cycles, the changes occurring in the world. Continuity of this process depends on raising domestic savings. Despite growth and increased employment in recent years, the social security deficit is still about 3% of GDP. It is necessary to reduce that in order to transfer these resources to investment rather than consumption.

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How can Brazil insulate itself from the global crisis?

It's very clear that Brazil . . . now has much less debt than it used to have, higher international reserves, and a healthier banking system than other countries. This is a great advantage in a world where there are Greece, Italy, Spain, and other ailing economies in Europe. Brazil is receiving huge amounts of foreign investment from around the world. I am optimistic when I compare the current situation with that of 25 years ago when the country's problems seemed insoluble. Today, the problems can be addressed. So instead of worrying so much about the day-to-day, Brazil should seize this window of opportunity to look further into the future. The country should maintain links within Latin America and explore better relations outside the region, not only with India, China, Russia, and South Africa, but also with Europe and the United States. For future development, a diversification strategy is the best option.

The world is having great difficulties in overcoming the crisis that began in 2008. What is your view about the standoff in the eurozone?

The euro is not going to disapear. What is needed is for the eurozone to adopt policies to encourage investment and make it possible to reduce unemployment, which remains extremely high in those countries. The problem of Greece is beginning to be resolved by the decision of private banks to accept a greater share of losses. In practice, we must recognize that it is impossible for Greece to continue having negative growth rates, year after year, with debt of 160% of GDP. The same goes for Italy and Spain. Germany should change trade relations with its neighbors by exporting less and absorbing more exports so the rest of Europe could benefit from Germany's better economic situation. But reversal of the situation must begin with the understanding that one cannot simply reduce and eliminate a fiscal deficit in a continuous and uninterrupted way. It is necessary first to adopt a more tolerant strategy until growth returns to major EU countries like Britain and France.

The U.S. economy registered signs of recovery early this year. But to what extent might the presidential elections constrain the recovery?

It seems clear that there are no great

expectations for the work of Congress this year in terms of legislation. But the U.S. economy has begun to post signs of recovery, with unemployment falling and real estate market activity increasing, though slowly. There is also evidence of investment and positive evidence in areas such as technology. This has enhanced the hopes for U.S. growth in 2012. One hears of a rate of 1.8%, and I believe it can be over 2%. If these estimates are confirmed, there will be a great stimulus to the rest of the world, where expectations are formed mainly by what happens in the United States, Japan, and Europe, which account for the largest share of international income. We know the importance of the BRICS and what Africa's growth represents, but we must recognize that the positive effects on the global economy will be much greater if the United States grows more than expected. President Obama knows the importance of this to his reelection campaign.

In this scenario, what is China's role?

It is very important, particularly because of its high growth rates. But we must not forget India, where 2012 growth is forecast at over 7%. These countries can have a favorable impact on the world economy, especially in Latin America, by increasing demand for agricultural inputs, oil, and metal commodities. Most of the growth in coming years will certainly occur within developing countries.

In Latin America Argentina has recently adopted protectionist measures against Brazil. Do you think that worsening of the external crisis would stimulate spread of this kind of protectionist measures? Is there a future for Mercosur?

Prospects have been better in the past. In the 1990s Mercosur was a basis for economic expansion for both Brazil and Argentina. But in the past decade, it lost importance, particularly for Brazil, which increased trade with other countries, in the region and outside. Argentina is no longer Brazil's main trading partner, falling to third place, behind China and the United States. ... Interest in closer ties, even a common currency, has greatly diminished. It is difficult to analyze the Argentine economy today because of problems with the quality of its reported data. Brazil, I think, is trying to establish closer trade relations with other countries in Latin America, hoping to benefit from above-average growth in Colombia and Chile, for example, to expand its exports. There is also the possibility of closer ties with Mexico, expanding markets for both industry

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and the financial sector. In this sense, I see future Brazilian foreign policy diversifing more within the hemisphere.

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Despite Mercosur's difficulties, do you consider that Latin America may one day emerge as an economic bloc and increase its weight on the world stage?

Considering the current situation in Europe, the difficulties countries have had in forming the euro area and keeping the single currency, I see only with certain reservations Latin America forming a common economic bloc because there are vast differences between countries in the region. Manufacturing is much more sophisticated in Brazil than in Chile, Colombia, or Peru. And those three major economies have commercial interests in the Pacific; Mexico and Central America are more focused on the United States. So I am not sure this would be a good strategy for the region. Brazil, for example, already has a huge market, can use economies of scale in production of cars, and is well positioned to invest in research to advance development of proprietary technologies. Staying within the bloc and accepting higher tariff rates and less access to the world would be worse than seeking greater diversification. The new Brazil must face the world.



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