Is Brazil "emerging" into the 1990s?

THESE DAYS, LOOKING at Brazil's GDP performance is like time-traveling: the economy hasn't looked this depressing since the bad old days of the subpar growth of the 1990s. Yet the government can't seem to see past next week. As this issue of *The Brazilian Economy* makes clear, there's a serious disconnect in perceptions: at the end of May the government did reduce its forecast for 2012 GNP growth to 3-4% (News Briefs); meanwhile, independent economists reduced theirs as well—to 1.8% (IBRE Economic Outlook).

In the last few years the government has been propping up the economy—boosting domestic consumption by reducing interest rates, keeping the exchange rate devalued, and targeting tax exemptions. But conditions throughout the world have changed since we first tried that in 2008-2009. Most obviously, China seems to be slowing down, which would mean that Brazil can no longer count on it to boost our economy, because it will be consuming fewer Brazilian commodities. India—which has been growing even faster than Brazil, certainly invests more in research and development, and has a far younger population and thus a greater demographic dividend—has been threatened with loss of its investment grade credit rating. Things may look rosy in Brasilia but the picture in the rest of the world has turned gray.

Short-term stimulus is no alternative to long-term structural change.

Our cover story deals with just one example of the problems that businesses in Brazil must deal with. Even though Brazil's energy resources are incomparable, the price of electricity here is arbitrarily high. The tax burden on electricity rates is one of the heaviest in the world, seriously affecting the competitiveness of our manufactures, the power grid needs to be extended, and there's been no effort to make the regulatory changes necessary to attract investments into the sector. And power is just one on a long list of Brazil's economic liabilities.

The Politics column in this issue sets out the conflict for the administration between immediate stimulus and long-term structural change. In pointing out how reform this year must be set aside until after the local elections in October, the column also underscores another problem, one that is political rather than structural: in a multiparty coalition, no president actually has full control of the cabinet, because each party claims some of the rewards.[1] That is why Brazil has far too many ministries, the responsibilities of which often overlap (as we have seen in previous issues), further complicating the lives of those attempting to operate in the private sector.

Brazilian politicians and pundits seem to treat the Brazil cost as if it were the weather: everybody talks about it but nobody does anything. The difference is that though there's not much anybody *can* do about the weather, there are innumerable options for cutting the Brazil cost. How long will the economy have to spend in revisiting the 1990s before it finally becomes clear that short-term stimulus is no alternative to long-term structural change? ■

[1] India has a similar problem—Russia and China have the opposite problem.