

Brazil: Growth is elusive

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ANOINTED AS THE development front-runner for the hemisphere, Brazil has not lived up to its promise—last year it posted the lowest growth in Latin America. Since 2009 an increasingly worried Brazilian government has come up with eight economic packages to try to turn the situation around. They do not seem to be working.

Investment and productivity

Armando Castelar and Regis Bonelli, IBRE researchers, warn of problems associated with the administration's recent strategy of stimulating domestic demand well above the economy's capacity, covering the gap through imports. What made it possible so far for Brazil to pay for those imports were rising prices for its commodities and heavy demand from China. Today export prospects are no longer favorable. Castelar believes that to get the economy to grow, Brazil will have to invest more, and become more productive.

This is where the country's problems begin. In recent decades investments in Brazil have been a minimal 20% of GDP. "The government invests little and has little implementation capacity; businesspeople do not invest because of the uncertainty that still surrounds the world economy and the unfavorable business environment in Brazil," says Bonelli.

Castelar adds that Brazil needs to raise the current level of investment in infrastructure from 2.3% of GDP to at least 4.0%. Government needs not only to invest itself but to foster investment through concessions to the private sector, public-private partnerships, more helpful and cost-effective regulation, and faster action in areas like environmental licenses. "There have been isolated initiatives, but nothing commensurate with our needs," says Castelar. "There has been

resistance from the current and the previous government to expand the role of the private sector in infrastructure," Bonelli notes.

Poor business climate

"Brazil is ranked as one of the worst business climates in the world with regard to size and complexity of taxes, poor infrastructure, complex bureaucracy, and legal risk," Castelar points out. To make matters worse, the government distributes benefits arbitrarily to some sectors and ignores others.

Labor productivity is also not encouraging, Bonelli says, noting that it has fallen in recent years. As population growth declines, the workforce will no longer expand, and neither will GDP growth. So it is even more relevant to make labor more productive; the best way to do that would be to improve the quality of education.

The economists agree that recent stimulus measures will not be very effective. "One cannot continue to expand credit for consumption indefinitely without compromising the financial health of banks," Bonelli warns. Castelar adds that heavily-indebted Brazilian households will pay off debts rather than buy. Growth will slow, he says, noting that sales of durable goods like automobiles and electric appliances will decline because they need replacement less often.

Brazil is risking stagnation. Argentina, Bolivia, Ecuador, and Venezuela have followed traditional Latin American populist policies, increasing spending for political patronage and investing little. Meanwhile, Chile, Colombia, and Peru have been modernizing, improving the business climate, keeping inflation low, and stabilizing their economies. Brazil seems to be heading toward the wrong end of the spectrum. 