Brazil's iron lady?

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CONFRONTED WITH THE risk of losing a hard-fought reelection campaign in 2006, President Lula revived a long-overdue debate to corner his opponent. It worked: presidential candidate Geraldo Alckmin faltered in responding to an accusation that his Social Democratic Party (PSDB) irresponsibly "privatized the country" during President Fernando Henrique Cardoso's administration (1995–2002). Lula was reelected and the rest is history. Or almost.

The debate about market versus state capitalism resurfaced last month after the Dilma Rousseff administration announced an ambitious package of concessions to ramp up private investments in rail and highway infrastructure. The US$66 billion initiative is part of a concerted effort by the administration to respond to lower-than-anticipated growth and mounting concerns about the loss of industrial competitiveness. The figures are likely to go up as the government enlarges the package to cover ports and airports.

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President Rousseff's turn to the private sector is a watershed moment for her administration. Beyond the obvious dissimulation brought about by the concession-is-not-privatization wordplay, the policy announcement is undoubtedly a step away from Lula's opportunistic rhetoric. Regardless of ideology, the decision to go forward with concessions is in the end an acknowledgment that there are limits to the state's role in the economy.

How far the government will go in the direction of more liberal economic policies is questionable, however. Although the concessions are undoubtedly a positive step toward boosting private investment in infrastructure, the government will find it difficult to deliver on the scale of investment in the time allowed. Note that in other sectors, such as oil and gas, the approach to developing promising deep-water oil fields is definitely statist and is not expected to change any time soon. Moreover, the administration's proclivity for frequent and selective raises in import tariffs makes it clear that protectionism is very much alive in Brazil. Finally, even with some airport concessions that are expected to be

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announced shortly, there is a considerable amount of skepticism about how market-friendly the model is.

But given Rousseff's oft-praised pragmatism, it is reasonable to expect that ultimately policy will be driven by results—or the lack thereof. In some sense, the transport concessions package announced last month might be seen as an implied reaction to the inefficiencies of the government growth acceleration program (PAC) in terms of public investment in infrastructure. Despite the administration's persistent desire to keep a tight grip on management of the economy and steer investments, whether these measures are successful will depend fundamentally on the private sector response to the government's proposals.

Policy and pragmatism

The president's pragmatism has been clear when it comes to fiscal policy. In the past few months Rousseff held a hard line with public sector labor unions that were demanding higher wages. Faced with the risk of disruption of essential services and of tensions with an important base of her Workers' Party (PT), Rousseff opted to run the risk and keep payroll expenditures in check. While the government seems to be succeeding in forcing most unions to accept only modest wage increases, demands from organized labor will continue to be a major political challenge for Rousseff in the final two years of her term.

Earlier this year the administration passed an impressive pension reform for public servants, replacing the current pay-as-you-go pension system with one based on individual accounts. The reform is expected not only to relieve the pressure on public coffers in the coming decades but also to create a pool of capital that could potentially fund investment projects. Both the payroll decision and the pension reform are aligned with the broader government strategy that seeks to generate fiscal space to lower interest rates.

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Clearly, there are many challenges ahead for President Rousseff. The risk of caving in to political pressure will always be a possibility. More importantly, regardless of policy preferences the government's role in the economy will remain massive for the foreseeable future through its interests in state-owned enterprises and public banks. Nevertheless, some of Rousseff's recent policy options could at least help to demystify the false polarization that cornered the opposition in previous elections.

If only there was an opposition today . . . but that is another story.