Unger and the new public policy strategy

At FGV in May, Minister Roberto Mangabeira Unger discussed the administration strategy for development after fiscal adjustment



Photo: Beto Felicio

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THE MINISTER OF STRATEGIC AFFAIRS of the Presidency of the Republic (SAE) is once again Roberto Mangabeira Unger. His mission is to prepare a long-term development agenda to guide Brazil after the fiscal adjustment. In May, Unger defended proposals developed by the SAE at the Getulio Vargas Foundation in Rio de Janeiro. The starting point of the minister's list is a familiar diagnosis: low productivity. "During the growth period, which was based on the production and export of commodities and consumption, we kept the vast majority of Brazilians employed, but mostly in very low-productivity services," he said.

To move beyond this problem, Unger is recommending three strategies that converge on the same goal: shift the focus from increasing demand to democratizing supply. The first is improving basic education, "whose quality is appalling." The second, what Unger calls "inclusive productivism," in general implies the encouragement of technology-intensive small and medium companies. "The late Brazilian Fordism[1] has achieved standards of excellence, but is still competitive in the world only by keeping labor remuneration low. Now we are pinched between a cheap labor economy and other high-productivity countries," he said. To escape, Unger cited examples among the largest economies in the world, such as the German mittelstand, where medium-sized enterprises concentrated knowledge and start-up innovations that were then absorbed by large corporations. The third guideline is to translate the proposal of productivism into regional policies. "In a country like Brazil," Unger said, "national strategy only touches the ground when translated into regional policy." In his opinion, the country suffers from the erroneous conception that regional policy should be limited to a policy of compensating for their relative backwardness, such as cash transfers from wealthy to poor states. Unger said, "The Northeast has had no strategy since the time of Celso Furtado.[2] The void has been occupied by the marriage of two illusions: encouraging artisanal activities to occupy people in the semi-arid region. And outside the semi-arid region, there is a fascination with large works, such as steel mills, refineries as enclaves, without changing anything. It will be necessary to change this situation to form a strategy."

[1] Fordism, named after Henry Ford, is an economic and social system based on industrialized standard of mass production. It is also associated with mass consumption and changes in working condition over time.

[2] Economist Celso Furtado was one of Brazil's most distinguished intellectuals of the 20th century. He was Minister of Planning from 1961 through 1964.

Asked how long the proposed strategy would take to show results, Unger was emphatic in arguing that the strategy is not a jumble of technocratic actions: "It's a provocation: Preliminary ideas translated into concrete proposals of actions that are also preliminary, with the dual purpose of starting a debate and launching a political articulation." But he recognizes the need to eliminate some blockages, in a move he calls "democratizing institutional innovation." Among the tasks, he lists actions to address law and tax blockages. "The private sector faces legal blockages. The environmental area illustrates the problem: We have delegated discretionary authority to administrative authorities, but have no established rules—for example, rules that differentiate the treatment of areas transformed by human action from virgin land. As a result, environmental licensing becomes a nightmare for the producer," he says. He defended simplification of the tax system by adopting an added-value tax, saying, "This allows for maximum revenue with minimal economic disorder because a value-added tax does not distort relative prices." Unger also pointed out the need for corrections in the credit market: "Public banks played an important role in providing credit with long maturities. Now, however, I believe there is less need to subsidize credit, and I hope credit expansion becomes more important."

After economic adjustment in a scenario of new fiscal realism, Unger advocates using the room obtained from stricter discipline in spending to reduce interest rates to fund fixed capital. He also supports a free-floating exchange rate, but with compensation for importers of high technology for the rising costs caused by exchange rate depreciation. To have innovation, "we also have to give up, even unilaterally, all tariff and nontariff restrictions on imports of technologies," he concluded.

José Roberto Afonso, IBRE researcher, argued for better coordination between development strategy and instruments of economic and fiscal planning. "Of course, the fiscal adjustment is not in itself a reform agenda, it needs to be embedded in a fiscal consolidation strategy of the kind most developed economies adopted after the global fiscal crisis at the end of the last decade," he said. "Especially when you have difficulty delivering results in the short term, it is necessary to adopt structural measures to ensure results in the long term." Afonso noted the importance of such definitions to guide the multiyear budget plan that the government will present this year. He also advocated reinforcing fiscal institutions to comply with the prudential limits of public debt. "We do not have a management board that unites the different spheres of government and could discuss the harmonization of public accounts. It would be positive to discuss the successful experiences of the states," he suggested.

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Rubens Penha Cysne, director of the Graduate School of Economics of Getulio Vargas Foundation Rio de Janeiro, reiterated the importance of fiscal control: "When you submit the country to the combination of fiscal leniency and a flexible exchange rate, it generates very different consequences from combining fiscal leniency with a fixed exchange rate, which is responsible for monetary crises. . . . To the extent that it is necessary to raise interest rates and attract foreign savings, industries that export (on the edge of technological innovation) will lose markets gradually. And to the extent that interest rates rise, national private investment will be crowded out." Cysne defended the use of the budget as a macroeconomic management variable, but noted, "This is an institution that needs to be redesigned: when Congress votes a measure that imposes certain costs, it does not have the political cost of having to identify the necessary cuts in spending or increases in taxes." This, Cysne reflected, shows the need for establishing a more impartial political representation less based on interest groups. "If we cannot show the individual how much he makes a difference and continue to have democratic representation associated with big party donors, we will continue wasting time telling where we would like to go, and we will not be able to get there," he concluded.