BRAZILIAN BLUES

FERNANDO J. CARDIM DE CARVALHO
SENIOR RESEARCH SCHOLAR – LEVY INSTITUTE
MINSKY CONFERENCE 2016
CONTEXT

• FALL IN GDP 2015-2016: ABOUT 8%, RISING UNEMPLOYMENT
• INFLATION RATE (CONSUMER PRICES) ABOUT 10%
• BUDGET DEFICIT/GDP): ABOUT 10% IN 2015
• PUBLIC DEBT/GDP: ABOUT 68% AND RISING
• OVERNIGHT INTEREST RATE: 14.25% P.A.
• EXCHANGE RATE TO THE US DOLLAR: RISING 50% IN 2015, FALL (APPRECTION OF THE REAL) IN 2016 AND STABILIZATION
• THREATS TO PRIVATE SOLVENCY
  – LOCAL CURRENCY
  – FOREIGN CURRENCY
• MAJOR CORRUPTION SCANDAL AND INVESTIGATION INVOLVING ALL MAIN PARTIES IN GOVERNMENT AND OPPOSITION
• IMPEACHMENT PROCEDURES IN PROGRESS
HOW DID WE GET THERE?

• 1999 TO 2010: EXPERIENCE WITH “NEW MACROECONOMIC CONSENSUS”
  – MONETARY POLICY REGIME: INFLATION TARGETING
  – EXCHANGE RATE REGIME: FLOATING EXCHANGE RATES
  – FISCAL POLICY REGIME: PURSUIT OF FISCAL BALANCE
    (AND REDUCTION OF PUBLIC DEBT)

• LED TO
  – PERMANENTLY HIGH INTEREST RATES
  – OVERVALUED CURRENCY
  – LOW AND VOLATILE GROWTH
  – DEINDUSTRIALIZATION
HOW DID WE GET THERE?

• 2011 TO 2014 (ROUSSEFF’S FIRST TERM IN OFFICE)
• MANIPULATING AND CIRCUMVENTING REGIME RULES (INTEREST RATES, PRICES OF UTILITIES, FISCAL ACCOUNTS, ETC)
• SUPPLY-SIDE EXPANSIONARY POLICIES (CREDIT AND FISCAL SUBSIDIES)
• SUPPLY SHOCKS: DROUGHTS AND FLOODS
• LED TO:
  – CONSISTENTLY LOW GROWTH
  – ACCELERATING INFLATION
  – DEINDUSTRIALIZATION (SUPPLY SIDE POLICIES HAD NO EXPANSIONARY IMPACT ON INDUSTRIAL OUTPUT)
HOW DID WE GET THERE?

• 2015 TO 2016: SUDDEN CONVERSION OF PRESIDENT ROUSSEFF TO AUSTERITY (AFTER BASING ELECTORAL CAMPAIGN ON ITS REJECTION)

• EMERGING CORRUPTION EVIDENCE
  – MELTING POLITICAL BASE
  – PARALYSIS OF GOVERNMENT UNDER THREAT OF IMPEACHMENT
  – SHARP FALL OF OUTPUT AND (NOW) EMPLOYMENT
  – IMPEACHMENT AND OTHER INITIATIVES
THREE LESSONS OF RECENT BRAZILIAN EXPERIENCE

• NEW MACROECONOMIC CONSENSUS LED TO LOW GROWTH AND DEINDUSTRIALIZATION

• TINKERING WITH THOSE POLICIES BY TRICK AND ARTIFICE DOES NOT MAKE THE SYSTEM MORE EFFICIENT

• (SOMEWHAH OBVIOUSLY) THERE IS NO WAY OUT OF ECONOMIC DILEMMAS WITHOUT CLEAR-MINDED POLITICAL LEADERSHIP