Savings: Patchwork solutions versus comprehensive reforms

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In its meeting of March 29 the monetary policy committee (COPOM) reduced its policy rate, the SELIC interest rate, to 10.25% a year — the lowest rate in its entire history. This deserves no celebration, however. The economic environment is one of rough seas after the passage of the American tsunami, which led central banks in the northern hemisphere to cut their rates close to zero. The IPCA (National Consumer Price Index) inflation rate forecast by the market for the next 12 months is about 4.2%. Thus, the annual real interest rate expected for the period is 5.8%.

The reduction in interest rates, nominal and real, might make savings accounts rather attractive because their earnings are not taxable. To deal with the problem of savings accounts having relatively higher yields than other assets, different suggestions have been advanced by the press. An improvised half-measure to solve the problem would be to reduce earnings on savings, taxing the earnings of those accounts in the same way fixed-rate investments are taxed. The income tax would only apply to deposits above a certain value to protect the small saver, who would still be guaranteed his or her full earnings.

Brazilian society in general and economists in particular seem to prefer improvised measures, patching up here and there, instead of adopting comprehensive reforms of inefficient systems and institutions. The financial system is one of these. The cost of financial intermediation reflected in high spreads (the difference between deposit and lending rates) is a symptom that something is wrong. The recent replacement of the Bank of Brazil management will not solve the problem of financial intermediation in that institution. It must be addressed not by substituting people but by redesigning the entire system. Assigning culprits is a typical attitude of our society, in constant search of scapegoats for everything.

During the Castelo Branco administration (1964–1967), the Campos-Bulhões team chose reforms over improvisation. Fiscal, financial, capital market, and social security reforms were carried out. Toward the end of military rule, the reforms were diluted and, because they had been im-
posed by force, did not gather support from society. The Fernando Henrique Cardoso administration introduced a series of reforms, among which the most important was monetary reform. That administration may be criticized for the reforms it failed to introduce, but not for the reforms it did carry out. One that should have been introduced at the time of monetary reform was financial reform. The current crisis opens a window of opportunity for that, but it seems that improvised short-sightedness will continue to prevail.

In the 1980s banks started offering multiple services, and the model of financial market segmentation created in the 1960s was abandoned. It was a natural evolution resulting from the dynamics of the financial sector. Now, instead of operating one company dedicated to real estate credit, another to finance durable goods, and yet another to finance investment, all activities were absorbed by a single institution, the multiple service bank. However, the freedom on the asset side to finance different types of operations has no counterpart in freedom on the liability side because restrictions remain, such as earmarked credit that binds liabilities to assets. Savings accounts are part of this mess. Instead of patching up the old shoes, it is about time to buy a new pair.

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