**Brazil**

**Population**
203 million

**2008 - 5.2**
**2009 - 0.3**
**2010  7.5**
**2011  2.7**
**2012  1.0**
**2013  2.5**
**2014(e)  0.2**
**2015(e)  1.2**

**GDP growth(%)**

17.0  Fixed investment (% of GDP)
6.3   Inflation (Consumer price index, August 2004, % annualized)
3.1   External debt (% GDP)

**7.2** School years (2012)
5%   Unemployment (July 2014)
21.8 Homicides (per 100,000 inhabitants, 2008-2011)

**79th** Human Development Index (UNDP)
**116th** Doing Business (World Bank)
**56th** Global Competitiveness (World Economic Forum)

**How do you see the role of Brazil in South American integration and what about China’s penetration in the region?**
The major impact of the lack of an effective regional integration project has been the loss of markets. We see fraternization and declarations of solidarity at summits, yet Brazil has not opened up or sought open regionalism—a 1990s concept that Marco Aurelio Garcia [advisor to the President of the Republic] considers antiquated. The fact is that over the last 10 years the policy of integration for the region has resulted primarily in captive markets for contractors and capital goods industries in Venezuela and Argentina. China has come to the region to stay, and Brazil will have to adapt and indeed accept integration, as the countries of the Pacific Alliance did.

**In your book, you point out Brazil’s historical tradition of dirigisme and government-dependent development. What do you think about Brazil’s social policy?**
Many of the new social policies, such as the Family Grant program, have positive social impact. They are a necessary response to Brazil’s historical social debt, which has its origins in the end of slavery. My biggest concern is with social policies carried over from the old corporate state, such as the current pension system, rather than with the policies of the New Republic. Going forward, each government will have to undertake a pension reform. Brazil is still young but its pension spending as a share of GDP is similar to that of southern Europe. This is unsustainable. I also think Brazil needs a thorough tax reform so that it can spend more on public health and safety, as the street protests in June 2013 demanded. For this, you need a more efficient and modern government, which is effectively progressive in social policies.

**A talk with Michael Reid,**
Former editor and current columnist for *The Economist* for Latin America, and author of *Brazil: The Troubled Rise of a Global Power*
THE LACK OF DOMESTIC stimulus to growth and productivity, cited by Alejandro Werner, director of the Western Hemisphere Department of the International Monetary Fund, as a common challenge to the countries of the region, seems particularly pertinent to Brazil’s current stagnation. “Domestic policies weigh the Brazilian economy down more than in most countries in the region,” IBRE researcher Samuel Pessôa commented. According to the IMF World Economic Outlook of May 2014, between 2003–10 and 2011–14 Brazil’s growth declined by 2.11 percentage points, while growth in Latin America as a whole fell by 0.66 percentage point and in the world by 0.54 percentage point. “We Brazilians made choices that produce low domestic savings and fixed investment; consequently the economy grows less,” he said.

Pessôa believes social policy choices consolidated as the 1988 Constitution emphasized the democratic features of the country and favored redistribution of income over growth. “We live in a democracy of inequality, where the median voter earns less than the average, which creates demand for income redistribution and tax increases. In this social contract, which favors equality, growth becomes secondary,” Pessôa said. The choice was made apparent over the
past 15 years as government spending went up by 5 percentage points, mostly on pensions, health, education, and social spending, such as the Family Grant Program, wage bonuses, and unemployment insurance. “These expenditures were elected by society for which the Congress established eligibility criteria and values,” Pessôa said. “This is not wasteful or inefficient. It is the social contract.”

The same social contract, however, keeps Brazilian savings growing less than GDP, unlike what occurs in other countries. Pessôa explained that “Whenever there is a favorable situation for the economy to expand, Congress votes to appropriate a significant share of the increase in incomes for government consumption. This makes savings grow less than the expansion of the economy.”

According to Pessôa, this trend has intensified over the past four years as the government moved to participate more in the economy: “The national-developmentalist policy adopted by the government recently was responsible for a reduction in potential growth from 3% down to 1.6%. And 80% of this slowdown is due to declining productivity.” Lower productivity reflects price controls, greater tolerance of inflation, less transparent fiscal policy, the expanding role of public banks in financing investment, and indiscriminate adoption of policies to buy goods and services locally that have increased the cost of fixed investment. “Today’s social contract has resulted from the current political balance, and I think that it will change, because in the long run the emerging new middle class will be more conservative. The new middle class will find that they are getting little from the government in terms of public services and will demand that taxes be lowered,” Pessôa concluded. “If economic policy remains the same, Brazil will not be able to resume 3% growth.”

Samuel Pessôa
“We Brazilians made choices that produce low domestic savings and fixed investment; consequently the economy grows less.”