

The Brazilian elections: it is still about the economy

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Brazilians will return to the polls on the 26 October to elect their new president. The runoff election pitches the current incumbent, Ms Dilma Rousseff from the center-left Workers' Party (PT), against the two-time governor of the State of Minas Gerais and Senator, Mr. Aécio Neves of the center-right Party of Brazilian Social Democracy (PSDB).

Ms. Rousseff is seeking a second 4-year term on the back of twelve years of PT governments. The election, however, is taking place at a time when the economy has stagnated, with the forecast for economic growth slashed to 0.2% for 2014. Meanwhile economic growth has been prevalent amongst other countries in Latin America that have pursued economic reform.
(<http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>).

Arguably, the most significant achievement of the successive PT governments was to consolidate and increase the reach of a number of social programs created by the previous PSDB government led by President Fernando Henrique Cardoso. This was no trivial feat. Between 2003 and 2009, approximately 20 million people were lifted out of poverty.
(<http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20754490~menuPK:141310~pagePK:34370~piPK:34424~theSitePK:4607,00.html>).

While the resources boom fuelled economic growth and generated the tax revenue to support these ambitious poverty alleviation programmes, the lack of any substantive economic reform during the last PT governments did not prepare the economy for a downturn.

With the exception of some reforms during the first Lula government, notably a new, modern bankruptcy law and an attempt at reforming the pension and social security system, very little has been accomplished in some of the more fundamental areas of taxation, infrastructure provision, modernisation of the business of government, industrial relations and the fiscal federalism. For example, the growth in the spending of public pensions alone over the last decade, which are indexed to the minimum wage, is equal to almost half of what is spent on welfare transfers.

More concerning is the association of the PT governments to a weakening of public institutions, with the politicisation of the public sector, opportunistic changes in public accounting, and a reduction in the independence of regulators and the central bank. This deterioration of public institutions may well have contributed to the decline in investment and the disappointing economic performance of the last three years.

The ad-hoc, old-style, interventionist policies of Ms Dousseff's government is also linked to Brazil's poor economic performance. Government interventions include tax breaks and subsidised loans

from government banks for particular industries, and artificially controlling petrol prices to counter the inflationary impact of a loose fiscal policy.

Despite having the highest tax burden of the BRICS, at 36% of GDP, the quality of the government spending is questioned. Over a million Brazilians participated in street protests last year over the poor quality of health, education and transport services.

In addition, a bribery scandal in the Brazilian Oil Company, Petrobras, and a number of high-profile party officials, including former ministers jailed for corruption, have contributed further to undermine the confidence in the government.

Ms Dousseff's government has faced difficulties to launch new, and much needed infrastructure projects. The government has spent less than 50% of their budget appropriations in key areas such as ports and airports. This inability to successfully launch new government-sponsored projects is often blamed on bureaucracy, projects that are too ambitious, and corruption.

Mr Neves, in contrast, enjoys a reputation as an excellent governor, turning the state finances around and improving the quality of the services provided to the population. He was re-elected governor in 2006 with 77% of the votes and ended his second term with approval rates in excess of 90%. PSDB has also extensive experience in government, under President Fernando Henrique Cardoso, credited for controlling an inflation of over 900% per year in addition to a number of institutional reforms that provided the foundations for the economic growth that Brazil enjoyed in the 2000s.

The Brazilian election is likely to be decided around the performance of the economy. Ironically, both candidates have had training as economists in Minas Gerais. Ms Rouseff completed four semesters of Economics before she had to move to Rio at the age of 21 to continue to participate in underground activities during the military dictatorship in Brazil. Later in life, after being released from jail, she resumed her study in economics. Mr Neves also studied economics in Minas Gerais and has also played a part, albeit indirectly, in the return of Brazil to democracy. His grandfather, also a former governor of Minas Gerais, died before he became the first Brazilian President after the military regime.

Regardless of who wins the election, Brazil faces the significant challenges of rekindling economic growth to ensure that the social gains that were secured since the end of the high inflation in the late 1990s are not eroded by Brazil's old nemeses: inflation and poor fiscal policies.

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