

(Oportunidade Perdida)

## **Lost Opportunity**

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We need to open our eyes. The world economy is in great shape. According to the IMF, 2007 will be another year of prosperity as world economic growth is expected to be around 4.9%. This will mark five consecutive years of strong expansion, an average of 5% per annum. The last time this occurred was at the beginning of the last century.

More recently, there was a period of accelerated growth from 1970 to 1973, four years, which ended terribly: oil crisis, inflation, high interest rates and recession.

The time frame of 2002-2005 has already surpassed that growth period of 30 years ago. There are no signals of an impending crisis on the horizon. On the contrary, the IMF and many other analysts believe that worldwide expansion can continue into 2008.

Moreover, due to globalization, all world regions are experiencing growth. This is a fact that is worth noting. There is greater stability, as countries and regions support one another. For example, at this moment the U.S. is experiencing a slow down, whereas Japan, and the European Union are accelerating.

However, there are risks on the horizon, such as the enormous US deficit, but it looks like these risks can be managed without a recession.

On the other hand, with the exception of few countries, inflation has been subdued. In the major regions, it is in the range of 2 to 3% per year. In the United States, the index is slightly above tolerable, but once again it can probably be dealt with without recession.

This floor level inflation is a consequence of multiple factors – such as the cheap production of goods by China and other Asian nations – but it is especially due to the goal oriented anti-inflationary measures implemented by independent central banks.

World trade (exports and imports of goods and services) has grown about 10% per year. Countries that are willing and able to produce goods have been doing well financially. Companies have been profitable, their stocks prices are increasing, the world stock markets are booming, and funds are available for investment.

In sum, there is plenty to go around. It's clear that countries with stable politics should benefit from this climate. This brings us back to Brazil. First, let's examine President Lula's luck. He

wins the election and the world is entering a period of spectacular growth. This is the exact opposite to the era of Cardoso, with its highs and lows, and the international financial crises.

Lula did have the wherewithal to maintain the three main reforms enacted during the Cardoso era – initial surplus, inflationary goals and a floating exchange – which allowed for a rapid recovery from the financial crisis. These measures precipitated the strong growth in exports which in its own way brought with it the dollars that eliminated the current account deficit.

The lack of inflation and current account deficits coupled with a primary surplus and reduced public debt; the Brazilian macroeconomic indicators have never looked so healthy. All of these positive factors, which spur local growth, originate from that political economy. For example, the family consumption has increased because of increases in wages and the availability of credit, both of which are direct consequences of the precipitous decline in inflation.

The country is now reaping the benefits that began with reforms dating back to the launch of the real in 1994. At the beginning of the Lula administration, he was no Palocci, and some advances were possible. These include reform of the public welfare and microeconomic measures that bettered macro performance figures. Then it ended.

In some respect, Lula's government has remained this way: a "damned inheritance" maintains economic stability and guarantees a minimum of growth. Moreover, the distribution of public funds to the poorest, via *bolsa familia* and increases in minimum salary, and the readjustment of retirement accounts and pensions, have become Lula's trademarks.

This is simple; the political economy inherited from Cardoso, is now propelled by world growth and stock markets. Consequently, this is why our economy does not grow more swiftly. Growth is dependent on investment which rests on reforms that President Lula has left to the wayside.

The federal government's investment in infrastructure doesn't even reach 1% of GNP. In order to increase investment in infrastructure, it would have to reduce expenditures in pension and retirement funds. This requires reforms in public administration and the pension system.

In order to induce private investment, liberal minded reforms are needed. These include the reduction of the tax burden and employment costs. Furthermore, it is imperative to "ease up on the brakes" in the business world, and proceed with privatization, especially in the public services sector (roads, ports, and airports).

In all honesty, there wouldn't be a problem if the government concentrated on the distribution of income, if it allowed for ample space for private investment. However, public investment is non-existent because of scarcity in funding, due to ideological restrictions and pure incompetency. In conclusion, the country loses the opportunity to amplify its capacity for growth.