Land of promise
Brooke Unger

Brazil is big, democratic, stable and rich in resources, says Brooke Unger (interviewed here). So why is it not doing a lot better?

Reuters

ON THE right bank of the wide channel that constitutes the port of Santos, Brazil's biggest, the Orange Wave awaits a charge of orange juice for delivery to New Jersey. The North King, of Panamanian registry, is taking on soya grown somewhere between Brazil's temperate south and the savannahs of the centre-west. Further on gleaming ranks of cars await their vessel. Portside terminals, once owned by the state, now display corporate heraldry: the logos of COSAN, a sugar and ethanol producer; Bunge, a global food trader; and America's Dow Chemical. Last year Santos broke its 1909 record for exporting coffee, the commodity that midwifed the port in the 19th century.

Exchange rates
Brazilian *real*, March 30th 2007

$1=	2.05	€1=	2.72
¥100=	1.73	£1=	4.01

The Victorian majesty of berthed ships gives no hint of the difficulties the cargo must overcome on its way to and from Santos, which handles 27% of Brazil's international trade. For soya these can start in the field, where scarce storage sometimes forces growers to dispatch it to port regardless of price. Then it faces a bumpy journey on potholed roads (80% of the cargo arrives in Santos by lorry rather than by rail). Privatisation of the terminals and better traffic management have boosted the port's efficiency, but ships must still await high tide to clear the channel, which is 2m (over six feet) shallower than it should be. The state environment regulator is withholding permission to deepen it. Transport costs consume nearly 13% of Brazil's GDP, five percentage points more than in the United States, according to Paulo Fleury of COPPEAD, a business school in Rio de Janeiro. And that is only a small part of the burden that businessmen refer to despairingly as custo Brasil (the cost of Brazil).

Fecundity and frustration sum up the state of Brazil these days. It is bursting with the commodities coveted by the rising economies of Asia, from soya to iron ore. No other country is better placed to cash in on the global craze for biofuels. Yet Brazil refuses to grow in line with the expectations of its 188m people. Since the end of the “miracle years” of the 1960s and 70s, when it was the world's second-fastest-growing large economy, Brazil has lagged (see chart 1). In the past four years, whereas developing countries as a whole have grown at an average of 7.3%, Brazil has loped along at 3.3%.

In 2003 Goldman Sachs, an investment bank, selected Brazil, along with Russia, India and China, as one of the four "BRICs"—the developing countries that would share dominance of the world economy by 2050. It has been the slowest-growing by far, leading some Brazilians to wonder whether the "B" would be dropped. South Korea's income per person overtook Brazil's in the 1980s; it may not be so long before China's and India's do the same.

Brazilians have non-economic grounds to fret, too. In its first crack at national power the Workers' Party (PT) of President Luiz Inácio Lula da Silva—which used to crusade against corruption—orchestrated a baroque scheme involving bribes to Congressmen in exchange for votes, known as the mensalão (monthly allowance). The Congress that ended its four-year mandate in December is widely reviled as "the worst in history". Within the past year Brazil's two biggest cities, São Paulo and Rio de Janeiro, have been terrorised by gangs operating from inside the prison system. Education, perhaps Brazil's biggest failing, seems to be getting worse rather than better. Air travel has been crippled following the mid-air collision last year between a passenger plane and an executive jet. Brazil is "falling to pieces", lamented Lya Luft, a columnist for Veja, the biggest news magazine, last year.

What's the problem?
If so, many Brazilians appear not to have noticed. President Lula resoundingly won re-election last October, largely on the strength of support from the poor. Their living standards have been soaring, thanks in part to handouts from the federal government. Income inequality, from which Brazil suffers more than most other countries, has at last begun to shrink.

The same is true of inflation and its lingering symptom, high real interest rates. The introduction of the real as Brazil's currency in 1994 ended decades of high inflation. Many observers feared that Lula would rekindle it when he was first elected president in 2002. His PT had opposed the Real Plan. The risk premium on Brazil's bonds soared. But Lula realised that inflation hit the poor most. Defying his companheiros, he has entrenched stability, faithfully sticking to the policy "tripod" put in place by his predecessor and political foe, Fernando Henrique Cardoso: a primary surplus (ie, before interest payments) high enough to reduce debt as a share of GDP, a floating exchange rate and inflation targets.

Helped by global enthusiasm for Brazil's goods and financial securities, the Cardoso-Lula tandem has wrought an economic miracle of a different sort. Inflation last year was only 3%, below the target of 4.5% set by the central bank. The markets expect it to remain below target this year. Real interest rates are at their lowest level since 2001. The risk of a panic abroad triggering a crisis at home, which often happened during the 1990s, has diminished. Exports and the trade surplus have soared (see chart 2), pushing foreign-exchange reserves above $100 billion. When Brazil became independent in 1822 Britain insisted that it assume the debts of the Portuguese crown. Now Brazil's government is an international creditor. An investment-grade credit rating is probably only a matter of time. When Lula finishes his second term in 2010 Brazil will have enjoyed “16 years of stability and predictability”, says Mailson da Nóbrega, a former finance minister who now heads Tendências, a consultancy. That is an important and sometimes underrated discount on custo Brasil.

In some ways Brazil is the steadiest of the BRICs. Unlike China and Russia it is a full-blooded democracy; unlike India it has no serious disputes with its neighbours. It is the only BRIC without a nuclear bomb. The Heritage Foundation's “Economic Freedom Index”, which measures such factors as protection of property rights and free trade, ranks Brazil (“moderately free”) above the other BRICs (“mostly unfree”). One of the main reasons why Brazil's growth has been slower than China's and India's is that Brazil is richer and more urbanised.

This survey will argue that disgruntlement persists because Brazil is a battleground between progress and inertia. Since independence was proclaimed by the son of the Portuguese king, Brazil has been adding layer upon layer of change rather than sweeping away the old and starting afresh. The 1988 constitution, which restored democracy after 20 years of military dictatorship, did not abolish the culture of cordialidade, which in politics means the primacy of personal bonds over rules. Liberties and electoral rights are entrenched, says the former president, Mr Cardoso, “but there's a lack of citizenship, of respect for the law. Democracy means that, too.”

Too much, too soon

The constitution too readily created rights—of bureaucrats to job protection, of sub-national governments to tax revenues, of ordinary citizens to government transfers—that Brazil can ill afford. They help explain why real interest rates remain among the highest in the world, why public investment in roads, ports and other infrastructure is stunted and why the tax burden befits a rich European welfare state rather than a young developing economy.

Brazil is thus in the midst of a slow metamorphosis in its economy, society and polity. “Contemporary Brazil is a hybrid between two moralities: one unequal and hierarchical, the other universal and egalitarian,” argues Jacqueline Muniz, an anthropologist in Rio de Janeiro. Rigid legalism sits alongside rampant illegality, and a vibrant private sector coexists with a

sclerotic state. President Lula, who presented himself as the scourge of old-style oligarchs, now governs with their help. Few modernisers are untainted by the past.

Although progress is slow, Brazil's institutions are now strong enough to make it reasonably sure. Goldman Sachs recently reaffirmed the country's BRIC status. Economic growth may top 4% this year. When GDP figures were revised in March, Brazil discovered that it was richer and less indebted than it had thought. It could do better still. But that would require another insight from Lula, as important as his conversion to low inflation: that the main obstacle to progress is the state itself.

Fonte: The Economist, v. 383, n. 8524, p. 3-4, a special report on Brazil, 14 April 2007.