

**Uma agenda econômica para o Brasil: avançando após a
pandemia da covid-19**

**An economic agenda for Brazil: moving forward in the
wake of the covid-19 pandemic**

Fernando Ferrari Filho¹

Resumo: Este breve artigo apresenta os efeitos da crise da COVID-19 na economia brasileira, que contribuiu para a “estagnação secular” brasileira no período 2014-2022, descreve as políticas anticíclicas implementadas pelas autoridades econômicas brasileiras para mitigar a crise econômica durante a COVID-19, e propõe uma Agenda Econômica para o terceiro governo Lula da Silva e o período Pós-COVID-19.

Palavras- chave: Políticas anticíclicas, Pós-COVID-19 e Agenda Econômica.

Abstract: This short article presents the effects of the COVID-19 crisis on the Brazilian economy, that contributed to the Brazilian “secular stagnation” in the period 2014-2022, describes the countercyclical policies implemented by the Brazilian economic authorities to mitigate the economic crisis during the COVID-19, and proposes an Economic Agenda for the Lula da Silva’s third government and the post-COVID-19 period.

Key-words: Countercyclical policies, post-COVID-19 and Economic Agenda.

¹Retired Full Professor of Economics at Federal University of Rio Grande do Sul and former President of the Brazilian Keynesian Association. ORCID: <https://orcid.org/0000-0001-5600-7058>. E-mail: ferrari@ufrgs.br.

Introduction

In March 2020, the world economy faced a serious threat from the COVID-19 pandemic. The World Health Organization recommended a policy of social distancing, which included home-isolation, and remote working to mitigate the economic and social impact of the pandemic.

Unlike other crises, including the 2007-2008 International Financial Crisis (IFC), the COVID-19 pandemic represented a double adverse shock of both demand and supply. On the demand side, consumption and investment decisions were postponed in view of the uncertainty of the future of the economy. On the supply side, due to the lockdown measures that were adopted, firms could not offer their goods and services and workers were unable to work. As a result of the pandemic, the global gross domestic product (GDP) dropped 3.1 percent in 2020 (IMF, 2023). In Brazil, the GDP growth rate fell 3.3 percent (IPEADATA, 2023). Nonetheless, the countercyclical fiscal, monetary, and social policy responses taken by economic authorities around the world limited the extent to which the world economy collapsed.

This short article has two specific objectives: first, it shows the impact of the COVID-19 crisis on the Brazilian economy, that contributed to the Brazilian “secular stagnation” in the period 2014-2022, and describes the countercyclical policies taken in Brazil by the Brazilian Economic Authorities (BEAs); and, second, it presents an economic agenda for the Lula da Silva’s third government and the post-COVID-19 period.

2. The impact of COVID-19 on the Brazilian economy and the response of BEAs

On the eve of the COVID-19 pandemic, the Brazilian economy was in “secular stagnation”, a situation in which the economy presents a chronic lack of aggregate demand², which can be illustrated by low household consumption, private investment, and government expenditures. More specifically, there was a huge recession in 2015 and 2016, GDP dropped almost 7.0 percent, and, in 2014 and between 2017 and 2019, the average growth rate of GDP was 0.6 percent per year (IPEADATA, 2023).

² According to Summers (2016), “secular stagnation” occurs because, despite the monetary policy was in its lower limit, it was not able to stimulate household consumption and private investments, because only an expansionary fiscal policy could expand the economic activity.

Considering this context, the COVID-19 pandemic immediately affected the Brazilian economy. Initially, there were intensive capital outflows and, as a result, a huge exchange rate devaluation; in the beginning of 2020, the exchange rate between the real and the US dollar (USD) was around 4.0, while at the end of April, the exchange rate increased to R\$ 5.4/USD 1.00. Consequently, the liquidity preference (the amount of money economic agents hold in cash) of the financial system increased, credit operations (the bank loans for borrowers) decreased, and there was a pass-through mechanism of exchange rate devaluation (which measures the change of domestic inflation that results from a change in the exchange rate) to domestic prices.

At the end of 2020, GDP decreased by 3.5 percent (IPEADATA, 2023) and there was a general worsening in labor market indicators – the unemployment rate reached 13.5 percent (IBGE, 2023) – and a significant portion of the population experienced heightened social vulnerability.

Despite the short and long term economic consequences of COVID-19, the BEAs believed liberal reforms and an “expansionary fiscal austerity” (that is, the idea that fiscal adjustment, in the context of monetary austerity, stimulates long run sustainable economic growth) were the appropriate responses to tackle the COVID-19 crisis. However, the National Congress and the Supreme Court of Justice forced the Bolsonaro government to change its short term economic policy, and so, the government implemented countercyclical fiscal, monetary, and social policies in April 2020.

The government’s fiscal and social policies were organized in five categories: social protection, employment protection, company relief, health and sanitary measures, and sub-national entity assistance for states and municipalities. The total amount of all fiscal and social measures implemented represented almost 7.5 percent of the GDP.

The Central Bank of Brazil (CBB) also undertook several changes in monetary policy, such as:

(i) The monetary liquidity was expanded to the National Financial System, providing access to capital for consumers and firms.

(ii) The CBB was authorized to buy public and private securities in the secondary market to mitigate liquidity preference and prevent financial asset deflation.

(iii) Reserve requirements for financial institutions were reduced from 31.0 percent to 17.0 percent, capital requirements for credit operations for small and medium sized companies were reduced, and the base interest rate was cut to a historic low of 2.0 percent in August 2020.

These countercyclical fiscal, social, and monetary policies mitigated the country's recession in 2020 and contributed to its economic growth in 2021 and 2022, with GDP increasing by 5.0 and 2.9 percent, respectively (IPEADATA, 2023).

However, these expansionary fiscal and monetary policies led to a rise in the inflation rate: in 2021, the inflation rate, measured by the effective consumer price index, reached 10.06 percent. The CBB blamed the rise in inflation on the rise in the country's deficit to GDP ratio to 9.5 percent, with the public debt to GDP ratio increasing to almost 90 percent. In an effort to curb inflation, the CBB increased the base interest rate in the second quarter of 2021 and, following a series of rate increases, the base interest rate reached 13.75 percent in 2022, which was one of the highest interest rates in the world.

In 2022, with the Russia-Ukraine war increasing inflation internationally, the BEAs responded conservatively. The fiscal policy continued to be operationalized by public spending cuts, although there was an increase in expenses for social programs, mainly because President Bolsonaro was running for re-election in 2022, and, on the other hand, the base interest rate, set by the CBB, was kept at 13.75 percent per year.

These economic policies contributed to a slowdown in economic growth and the decision to increase interest rates had several other impacts, including further decreases in economic growth, an increase of public debt as a result of indexed bonds or short-term pre-fixed bonds, and currency appreciation, as a result of capital inflows.

Overall, during the Bolsonaro government (2019-2022) the average growth rate of GDP was 1.4 percent per year. Therefore, since 2014, the Brazilian economy has been in a "secular stagnation" condition. More specifically, the GDP growth performance was à la stop-and-go and the average growth rate was around 0.3% per year.

This poor economic performance was one of the reasons why Lula da Silva triumphed in the last presidential election.

Given that, a question arises: What are the challenges awaiting Lula da Silva's third government and what Economic Agenda can mitigate the main current economic and social problems?

3. An Economic Agenda for the Lula da Silva's third government and the post-COVID-19 period

Given that the main challenge of the Lula da Silva's third government is to overcome the country's "secular stagnation", this section presents an Economic Agenda to achieve

macroeconomic stability and social development, that is, sustainable economic growth, inflation under control, and income distribution. Thus the Lula da Silva's BEAs must implement an Economic Agenda based on short-term countercyclical macroeconomic policies and public and social policies and structural reforms.

In terms of short-term macroeconomic policies, the measures should be as follows:

(i) The fiscal policy measures should expand expenditures on social programs that both reduce poverty and improve the living conditions of the poorest families, such as the Family Allowance Programme (Programa Bolsa Família in Portuguese), the Public Housing Programme (Minha Casa, Minha Vida in Portuguese), and other public health and education programmes. Moreover, the Government should expand public investments and also stimulate a cooperative arrangement between public and private sectors to aim at expanding infrastructure investments. It is important to mention that, despite the expansionary fiscal policy proposal, the Lula da Silva's administration cannot neglect the fiscal responsibility.

(ii) The monetary policy should be guided by employment goals and not only inflation targets. For this purpose, a discretionary monetary policy is essential. Also, macroprudential measures should be taken to mitigate financial risks and manage liquidity.

(iii) The CBB should administer the exchange rate aiming to keep the real effective exchange rate competitive. In addition, capital controls should be used to enhance the CBB's autonomy in setting the nominal interest rate to support domestic objectives, such as preventing the appreciation of the real and averting external crises.

Regarding the public and social policies and structural reforms, it is necessary the following measures:

(i) The real minimum wage must be increased to improve standards of living among low-income Brazilians and implement income policies to regulate wages and prices in line with productivity gains in the economy.

(ii) The Government should enact industrial – horizontal and vertical – and technological policies to coordinate public and private efforts and mitigate the de-industrialization process, and should also invest in research and innovation in pursuit of productivity gains in productive sectors.

(iii) The BNDES has to finance long-term private investment, as well as it is important to encourage an institutional environment to galvanise the capital market and, particularly, private corporate debt market.

(iv) To implement a progressive tax reform (i.e., higher rates of taxation on income and wealth, decreasing the great set of consumption taxes or substituting the existing multiple sets of taxes for only one value-added tax).

(v) Implement trade agreements with other emerging countries, such as Latin American, Asian, and African countries.

(vi) The entrepreneurs should take advantage of the green economy paradigm to boost the development of technology and increase the industrial Brazilian competitiveness in the external market. This is also important to shift the energy matrix of Brazil, reducing the dependence on oil and enhancing the use of renewable sources.

In short, in this Economic Agenda the State, according to Keynes ([1936] 2007: 378), has to “exercise an [...] comprehensive socialization of investment”, as well as, considering the main argument of the “old” North American institutionalists (Commons, 1931; Veblen, [1889] 1973), the institutions have to shape a new political and social project of the Brazilian society.

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