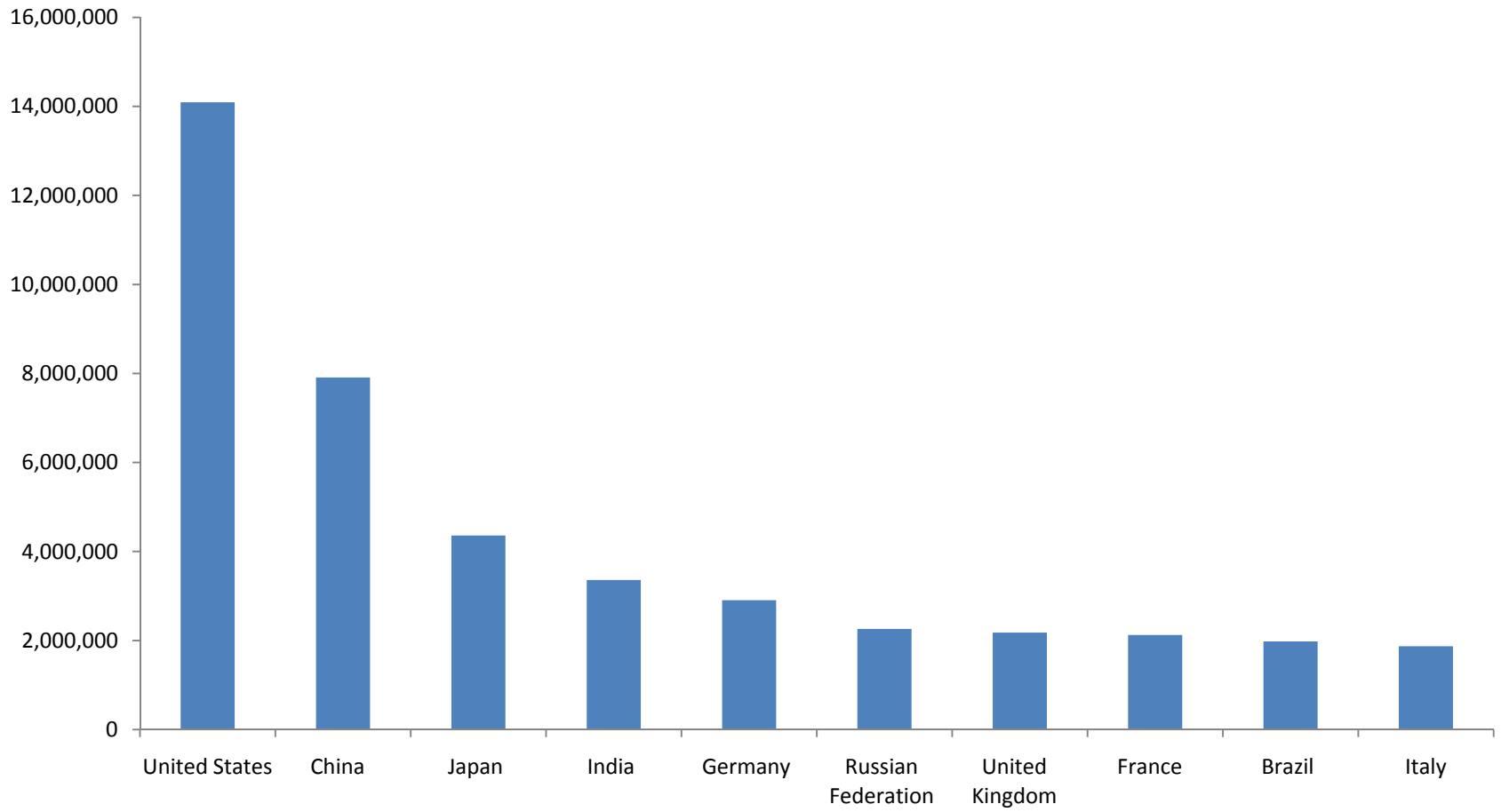


# Brazil 2010

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# GDP in PPP (2008)



# Brazil 2010

- Large internal market
  - Supported by growing incomes and well developed financial system.
- Perception of solid and growing economy
  - Capital flows
- Strong world demand for commodities
  - Efficient agricultural sector
- Some large firms that are very competitive.
  - Brazilian multinationals

# Plan

- How did Brazil get here
- What else needs to be done.

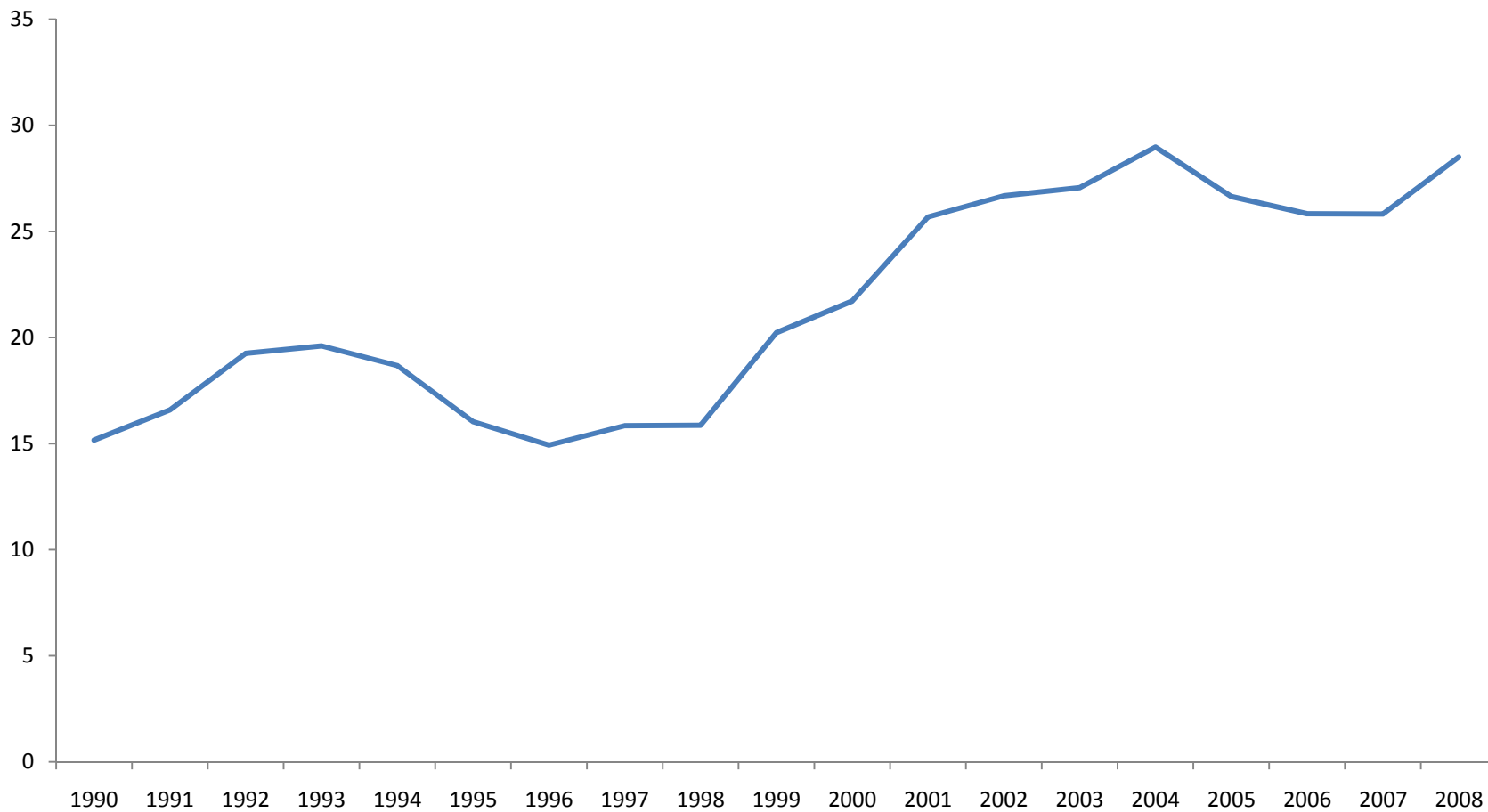
# Brazil circa 1990

- Closed economy.
  - Failure to benefit from comparative advantage and scale economies
- Low rates of investment in education.
  - Low productivity and high level of income inequality.
- History of lax fiscal and monetary policies.
  - High cost of borrowing for government and firms.
  - Low savings rate.
  - Inflation.

# Brazil circa 1990

- Some key sectors monopolized by state firms.
  - Inadequate infrastructure
- High nominal tax rates with little enforcement, and difficult and uncertain business environment.
  - Many informal firms that are too small and have low productivity.
  - Low rates of investment.

# Trade as % of GDP



Source: WDI

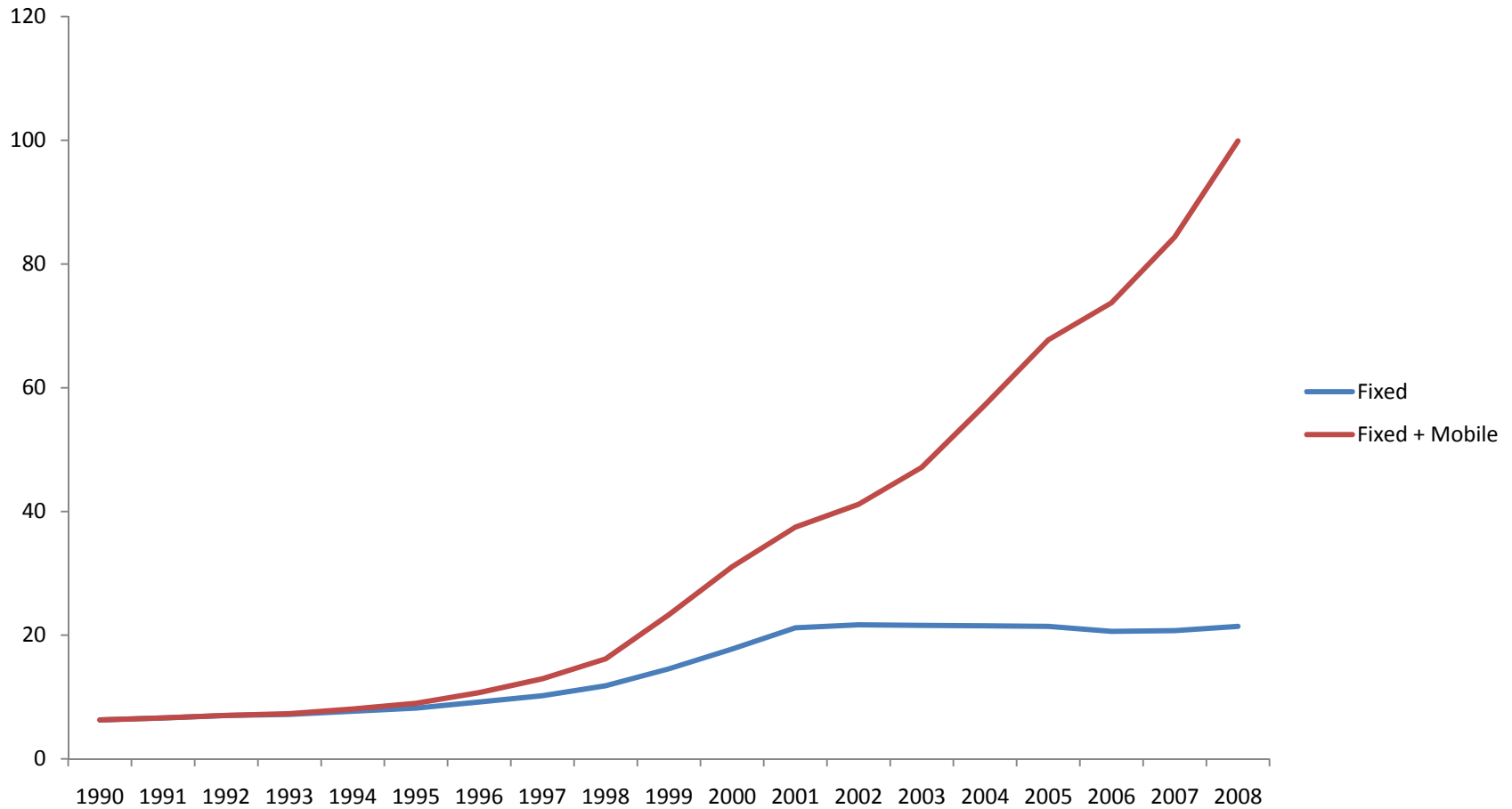
# Social programs

- Investment in education increased since the 90's.
  - In 1990 less than 50% of children of appropriate age were in secondary schools.
  - In 2007, 77%.
- Conditional cash transfer programs
  - Bolsa Familia reaching ~ 12 million families.

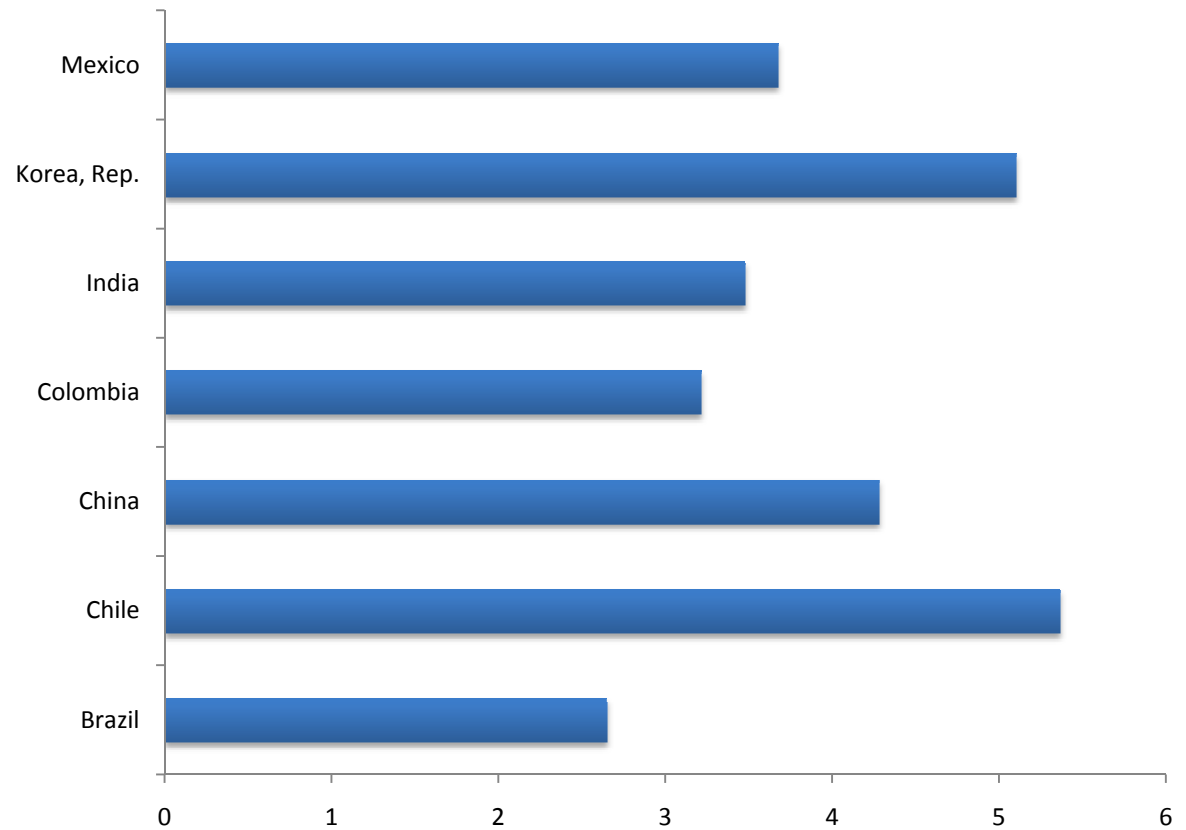
# Monetary and fiscal reforms

- Real Plan to control inflation (1994)
- Flexible exchange rates and inflation targeting after 99 debt crisis.
- Law of Fiscal Responsibility.
- Primary surplus targets.
- Long term policies to achieve fiscal balance.
  - Social security reform during first Lula mandate.
- Brazil is a low inflation country.
- Internal debt/GDP ratio = 52%, external debt is negative (gross external debt = 13% of GDP).

# Phone lines per 100 people



# Quality of port infrastructure, 2009



Source WEF, scale: 1-7

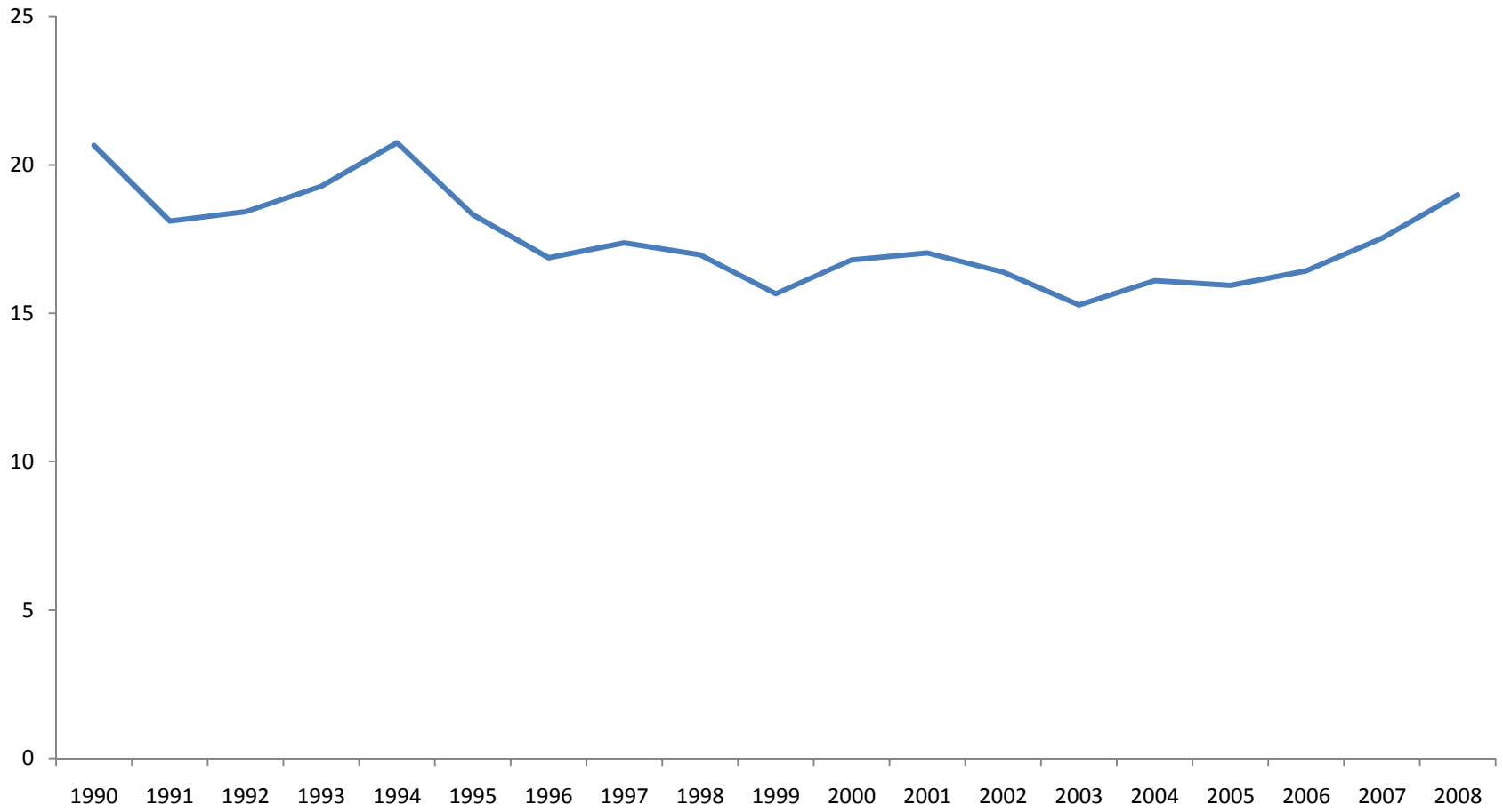
# Infrastructure

- However still problems in infrastructure:
  - Roads
  - Rail
  - Ports
- Better regulatory framework.
- Increase in public savings.

# Micro-economic reforms

- Credit
  - Payroll deduction
  - Mortgages
- Bankruptcy reform.
- **Partial** rationalization of the tax system.

# Investment as % of GDP



# Some remaining challenges

- Education
- Increasing the efficiency of the public sector
- Improving business climate
- Infrastructure
  - Increase in public savings.
    - Given high tax burden requires lower growth of current expenditures.
- Tax reform to increase formality
- Cities
  - Regulation and zoning
  - Crime
  - States
- R&D

# R&D

- Strong empirical evidence that social return to investments in R&D exceed private returns.
  - Justifies government subsidies.
- Finland, Israel and Korea started investing heavily in R&D when their per-capita income was similar to today's Brazil.
- Brazil has 200,000 researchers (10,000+ with PhD's.)
- A few success stories in R&D
  - Embrapa in agriculture.

# Patents granted in US

