President Lula at the first third of his term

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1. Introduction

In his inaugural speech, given at the Brazilian Congress, President Lula emphasized that his Government would bring changes that would tackle the social problems of the country, that would refuel self-sustained growth, solving the problems of unemployment and of distribution of wealth that have plagued the Brazilian society for so long. However, with one year and three months of his four-year term already behind him, unemployment is still rampant, a feeble recovery is trying to assert itself, confidence in the administration is rapidly falling. The political coalition supporting the federal administration in Congress rebels against the general policy directives emanating from the President’s inner circle (known as the President’s hard core). Industrial entrepreneurs flock continuously to Brasilia to demand changes in economic policy. Social movements traditionally connected to the Workers’ Party (WP), such as the Landless Movement or civil servants’ unions, are openly engaged in conflict. Only financial investors, domestic and foreign, seem to support the president’s policies after opposing him strenuously in the electoral campaign. What went wrong?

In this short comment, we try to characterize and assess Lula’s economic policies so far and their impact on the Brazilian economy. These policies turned out to be surprisingly different from those most of the electoral basis of the WP would expect and support. To understand why the President has pushed forward such surprising policies, it is necessary to consider not only the economic constraints on his initiatives but also the political forces that pushed him into his present situation. It is perhaps in relation to political confrontations that the immediate future of Lula’s government will be decided.

In this comment, we briefly recap the story of Lula’s electoral campaign in order to locate the moment and the reasons that led him to adopt a very ambiguous stance while still running and to turn drastically to the right during the appointment of his ministers. In the third section, the main macroeconomic policies implemented by the new government are identified. Section four discusses possible developments, political and economic, of the present situation. The fifth section outlines some elements for an alternative policy strategy. Section six concludes.

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With the benefit of hindsight, one should perhaps not be so surprised with the choices made by President Lula in his first year as head of the nation. Lula had been a presidential candidate three times before 2002, having lost to Mr Collor de Mello in 1989, to Mr Cardoso in 1994 and again to Mr Cardoso in 1998. In the preparations for the 2002 election, a major issue in the strategy debates at the WP, according to the press, was its “policies related to political alliances”. Again, according to press reports, Mr Lula da Silva reluctantly accepted a new nomination as presidential candidate for the WP. Among the reasons for the alleged reluctance was the resistance of his party to accept alliances with more centrist parties that could bring Lula the necessary votes to win a majority vote. Few centrist parties were actually willing to seek a coalition with the WP. In fact, an alliance was celebrated by the WP with the Liberal Party, a small center-right populist group, which had the privilege of nominating the candidate for vice-president.

The question of alliances was important not only because the immediate effect a coalition could have on getting more votes. In fact, the main point of the alliance between the WP and the Liberal Party (probably too small to make a real electoral difference) was to gain the confidence of segments of the Brazilian society traditionally suspicious of the Workers’ Party. All evidence points to the hypothesis that the main lesson extracted by the WP leadership, including Lula, from past electoral defeats was the need to attract, or at least to neutralize, social groups that had aligned in the past with the more conservative leaders, such as Fernando Henrique Cardoso.

An immediate result of this choice of electoral tactics was the noticeable dilution of content that marked Lula’s speeches during his campaign. Benefited by the defensive nature of the campaign mounted by his most important opponent, José Serra, supported by then-President Cardoso, who had to continuously explain how could he defend the extremely poor economic record of the Cardoso’s administration, Lula could adopt a posture that he himself dubbed “peace and love”. While all other candidates attacked Mr Serra furiously trying to position themselves as the runner-up who would face Lula at the second ballot, Lula was able to avoid practically any kind of confrontation that could force him to define his own program for most of the duration of the campaign.

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1 In the Brazilian electoral system, a candidate to executive posts has to reach 50% plus one of the votes in two ballots to be declared a winner.
The situation changed in mid-2002, when financial markets finally realized that Lula’s leading position in the presidential run was probably unshakeable. As usual, capital flight pushed the exchange rate to the dollar up. A large segment of financial investors refrained to purchase public securities maturing after January 1st, 2003, when the new presidential term would begin. In this framework, two important related developments took place. A new rescue package from the IMF was sought and Lula was faced with a very heavy pressure to show his support for it. In fact, the pressure led Lula’s advisors to prepare a Letter to the Brazilian People, where, although in very vague terms, the candidate announced to the financial markets, rather than to the Brazilian people, his willingness to abide by the rules set by these markets.

It is still too soon to be able to make a cold and objective analysis of the 2002 crisis. Members of Lula’s administration argue that 2002 was an “unprecedented crisis”, which seems to be a wild exaggeration. Some officials, including the finance minister, compare it with the Asian crisis or with the 2001 Argentine crisis, which seems preposterous. The latter were strong attacks mounted against those economies that ended up leading to radical changes in their exchange regimes. Brazil lived through a crisis like that in 1998/9, but to argue that 2002 should be classed as major balance of payments crisis seems to be a self-serving attempt to justify the change in the political discourse.

Be it as it may, Lula’s speeches in the electoral campaign were rich in promises but short in definitions. Lula was supported by the voters’ memory of what he stood for, rather than by a plan of government he in fact never announced.²

It seems to be a reasonable hypothesis that the showdown of mid-2002 was decisive to show wealth-owners in Brazil the extent of their power over the new administration. As in old-fashioned western movies, Lula “blinked” first in mid-2002. Having set the limits to the new president’s power (assuming that Lula had not actually changed his long-held ideas), it didn’t seem to be very difficult to set the terms in which markets would deal with the administration. There were strong indications that the best-known specialist in economic matters in the WP was vetoed by the “markets”, the same happening to several possible names for the Central Bank. An unknown politician from the right-wing of the WP was nominated for the Finance Ministry and a former chair of BankBoston, elected congressman by Cardoso’s political party, was named chairman of the central bank.

3. President Lula’s Policies

² The WP prepared a detailed program to be implemented in case of victory. The candidate himself, however, never showed any special attachment to what was proposed by his party.
Lula’s first year policies were marked by the continuation, and in some aspects radicalization, of F.H. Cardoso’s policies, during his second term, 1999/2002³.

Inflation had accelerated in late 2002 as a result of the devaluation of the real that took place when capital was fleeing the country. Prices of imports rose, but the main culprit of inflation acceleration was the increase in tariffs for public services, that had been indexed to the dollar as part of the privatization deals sponsored by Cardoso. The first meeting of the central bank under the new chairman, to decide on interest rates, identified the risk of propagation of inflation through wage demands by unions. In the face of this threat, the central bank raised interest rates (and kept raising them in the first semester of 2003), following the orthodox guidelines.

In Brazil, rising interest rates have some perverse effects. Most of the financial wealth detained by the private sector is in the form of public debt. A rising interest rate punishes firms, that need credit to operate, and workers, who lose their jobs when firms face difficulties, but rewards rentiers richly. In fact, the banking sector had with Lula profits only marginally worse than they got used to have under Cardoso’s administration.⁴ On the other hand, high interest rates cause fiscal expenditures to rise, deepening any fiscal imbalance that could already be present.

The president seemed genuinely surprised at the depth of the difficulties his policies created. The policy stance, however, was clear. Monetary policy was explicitly recessive, since it is only by choking aggregate demand that rising interest rates can combat inflation. Fiscal policy was less obviously recessive, though. Dominated by the goal of obtaining a primary surplus of 4.25% of Brazilian GDP, to guarantee the service of the public debt outstanding, Lula’s fiscal policy does not really pursue austerity. In fact, in all these years that the federal government has set targets for primary surpluses, budget deficits have been wide open. Primary surpluses are little more than tricks of rhetoric that try to disguise redistribution policies under the cloak of a pretense of fiscal austerity. Public expenditure is not cut to reach these targets, but redistributed in favor of the payment of interest on public debt. In other words, the government is not really saving anything, it is thwarting expenditures in, say, investments towards the payments of the interest bill.

Nevertheless, the impact of the Lula’s fiscal policy (a hardened version of Cardoso’s own policies) on the economy is recessive because it substitutes payments for rentiers for public investment. One

³ Since 1999, Cardoso’s economic policy has been characterized by the adoption of primary surplus and inflation targets and by a flexible exchange rate regime.
⁴ Profits were lower mostly because of the impact of a revalued real on the foreign assets detained by domestic banks.
should expect that rentiers will not spend the money they get from the government (compared to the impact of public investments on aggregate demand). Moreover, it is a deeply regressive policy when considered from an income distribution standpoint. Again, job-creating expenditures are sacrificed to remunerate debt that is held by high- and middle-income groups.

At the same time, liberalizing reforms were promoted, the most important of which was the change in social security benefits for civil servants. An additional agenda was proposed, including giving independence to the central bank, all items foreign to the traditional agenda of the WP.

Supporters of the president argue that Lula had no choice but to accept these policies, given the depth of the 2002 “crisis”. Others remind us that Lula’s administration is not a WP government, but the result of a coalition where more conservative interests have to be contemplated. The fragility of the first argument has already been pointed out. It tries to sell the idea that one should not really count 2003 as governed by Lula and the WP. Only in the future the new administration would really implement its true principles. The first year should be seen, thus, as a transition period, in which Lula had to play for the markets, to calm them down. When Lula accumulated enough credibility with the markets, he would then finally be free to govern. As the president insists, he should be evaluated only at the end of his term, not now. The whole argument is predicated on the idea that, first, you can “play the markets”, convincing them that you are reliable and then showing your true face; and, second, that good results could be accomplished miraculously at the end of the term despite the recessive policies that the president insists in implementing even now, after a third of his term has already passed.

The second argument is even less convincing. Despite the fact that the president himself spent part of 2003 denouncing the ‘damned legacy’ he inherited from Cardoso, the more vocal defenders of orthodox policies are WP politicians, in government and in Congress. Again, the president himself characterized his past ramblings against policies like the ones he has been implementing as “bragging”, stating that this is something one can only do when free of actual government responsibilities.

On the one hand, the consequence of these orthodox fiscal and monetary policies – an increase in the primary surplus target from 3.75% in 2002 to 4.25% in 2003 of GDP (expected to be maintained in the next few years), and an increase in the average basic interest rate\(^5\) from 19.5% per year in 2002 to 23.1% per year in 2003 – allowed Brazil to reach policy credibility with the

\(^5\) This is the interest rate equivalent to the Federal Funds rate in the United States.
International Monetary Fund (IMF), and with domestic and international financial investors. Accordingly, there was a significant improvement on the risk premium charged on Brazilian bonds (at the end of 2003 the EMBI for Brazil was around 460 points, whereas before the presidential election, on October 2002, the risk premium had reached the 2,400 point mark) and an increase in the value of Brazilian C-bonds in the international secondary market (bonds were priced in average 100 percent of their face value by end-2003). In addition to this, two important points that brought some “confidence” in economic agents concerning the Lula’s economic policy was the fact that the inflation rate, despite having reached 9.3% in 2003 (1.3% above the inflation target proposed by Central Bank), was kept within rough boundaries, and the trade balance surplus reached almost US$ 25.0 billion.

On the other hand, the results were far from bright in regard to the real economic activity. The economic policies provoked a recession in 2003: the GDP decreased 0.2%\(^6\), productive capacity declined in several strategic sectors for the continuing lack of investments, the average rate of unemployment increased to 12.3%, and distribution of income deteriorated – according to the IBGE, in general, real wages decreased almost 15.0%. Moreover, as a result of interest rate remaining high, domestic public debt increased from 56.5% in 2002 to 58.7% of GDP in 2003\(^7\).

To sum up, the economic policy strategy based on an increased primary surplus target, inflation targeting and flexible exchange rates resulted in (i) restoration of “confidence” by economic agents, specially the IMF and international and domestic financial investors, on the priority of monetary stabilization and (ii) a recession, accompanied by increasing unemployment.\(^8\)

4. Perspectives

Lula’s approach to economic policy seems to be based on either of two serious mistakes. On the one hand, as already pointed out, that you can “play the markets”, building credibility so they will later allow a different policy strategy to be tried, because at some point they will realize that the

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\(^6\) It is important to say that the Brazilian economy did not contract more than 0.2% due to the success of net exports (the trade balance reached almost US$ 25.0 billion, while the current account, after many years of deficit, presented a surplus near US$ 4.1 billion), led, basically, by increasing activity on the part of highly productive agribusiness sector.

\(^7\) Last year, the government’s financial expenditures were around 10.0% of GDP. Thus, high interest rate is the central government’s fiscal disequilibrium. Unfortunately, interest payments are a reflex of the financial priority of the economic policy.

\(^8\) See Table 1, in the appendix, for some macroeconomic indicators of Brazilian economy.
administration is competent and means well. On the other hand, sectors of the government and its supporters seem to believe that there is really no other feasible macroeconomic policy to be implemented, so the WP’s “style of government” would consist in combining liberal economic policies with more efficient social policies.

The first mistake reveals an inability to understand what credibility means, how it is built and how it can be used by an administration. It is reasonable to think that financial markets were suspicious of Lula’s intentions, given his past ideas and the resistance he showed to present any idea in more definite form during the electoral campaign. It is exceedingly naïve, however, to think that suspicion can be overcome and credibility achieved as a blank check because of current good behavior. The new orthodox beliefs of Lula and his team can come as a nice surprise to financial markets, but they are insufficient to demonstrate that there will be retreat to old ideas in the future. The WP will never be given the benefit of the doubt just because it changed its rhetoric. Credibility will be achieved when markets can realize that the bridges were burned. President Cardoso, who also had a suspect past, for instance, reneged his past ideas in public and actively promoted the view that globalization did not leave any choices open. The same is expected of President Lula: that he clearly states that the policies he is advancing were not forced on him, but are his own choices. In the language of the IMF, the president has to own these policies. In this sense, insisting in the use of expressions like “damned legacy” can only raise doubts that the president and his team have been truly converted. In a sense, the president has reached the worst of the two worlds: they have been alienating their political basis, by promoting recession and unemployment, and being unable to advance any long-term strategy that can supersede the liberal strategy advanced by F.H. Cardoso; on the other hand, the “markets” remain suspicious of an administration that vocalizes such strong reservations as to the policies it is implementing, to be point of blaming the “damned legacy” as responsible for them. Lula’s government finds itself torn between the demands of clearer definitions both by the social movements that constituted its political basis and by the markets that want a definite and unambiguous denunciation of the WP’s past ideas.

The second mistake is equally damning. It is defended mostly by WP politicians that are convinced that globalization really narrowed dramatically the alternatives one could pursue in terms of economic policy. It is argued that economic policies are in fact determined by financial markets.

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9 Globalization, whatever the word is supposed to mean, is the usual suspect of preventing any other policy to be tried.
10 Yes, it is always the same culprit.
11 A forceful defender of this view is the former Education Minister, now senator, Cristovam Buarque.
12 One is reminded of President Clinton’s political strategist James Carville’s famous statement that if there was reincarnation he would like to come back as the bond market, to taste what was like to have real political power.
and what should distinguish a left-wing party such as the WP was the social policies it proposed. This reasoning assumes that one can have progressive and efficient social policies no matter what economic policy is being implemented. The premises is obviously false. Economic policies have strong effects on the social standing of all groups in society. Just to take the more obvious instance, recessive policies such as those imposed by Lula’s government in 2003 caused unemployment to grow and income concentration to increase since it gave priority to the use of public resources to remunerate rentiers instead of providing public goods to the larger population. Under these circumstances, social policies are in large part constrained to attenuate the perverse impact of the macroeconomic policy rather than pursuing independent goals. Moreover, social policies use resources and the availability of resources is strongly constrained by the economic policies that are implemented.¹³

These two mistakes do not augur well for Lula’s government. In fact, 2004 has initiated under the sign of political instability, with an increasing number of the WP’s past constituencies advancing demands that show that they may be running out of patience. In addition, opinion polls show that confidence in the president himself has began eroding. Several risks can arise if a situation like this goes on unchecked. Perhaps the main risk is paralysis. The mounting demands of all sectors of society overload the political system blocking its ability to manage conflict and arbitrate solutions. The political coalition that sustains the government may lose force or dissolve, leading to severe political instability, certainly the worst-case scenario A more plausible risk, at least in the short run, is the attempt to hold course while making concessions to the strongest and more organized segments of civil (and, in fact, military) society. In this case, the government loses the ability to lead, and political instability reigns mostly because social groups learn that they may succeed in getting their demands attended if they can cause enough discomfort to the administration.

The most benign scenario, on the other hand, is for the government to ride on the business cycle, trying to get the credit for the recovery that should follow 2003’s bad results. Of course, the plausibility of this scenario depends to a large extent on luck. Exports are the only element of aggregate demand that shows breadth to keep growing. If no external shock (such as a steep rise in interest rates in the United States, for instance, or any other important disturbance in international financial markets) takes place, growing exports could spill out to domestic elements of aggregate demand, such as consumption and private investment. It is hard to believe that this could be the beginning of what President Lula called the “spectacle of growth”, but it could give the government

¹³ No manifestation of this link is clearer than the insistence by President Lula, in 2003, that ministers of “social” portfolios should substitute their imagination and creativity for the resources they lacked.
some breathing space to try to administrate the growing demands coming from several social
groups.

5. Alternatives

It is not possible, of course, to recover the time that was wasted. However, two thirds of Lula’s term
are still ahead. A better mix of policies could still be pursued to strengthen the economy and
promote a more vibrant recovery leading into a sustained period of growth.

Many critics have advanced proposals to change the course of economic policies. Many of these
proposals are designed to reach results that may be more or less radically different from those
pursued so far. Most frequently, it is monetary policy that is singled out. Strong criticism in this area
has come with great insistence from economists such as former Finance Minister Luiz Carlos
Bresser Pereira and former São Paulo State Finance Secretary Yoshiaki Nakano, as well as former
Planning Minister João Sayad. They argue that Lula’s monetary policy, repeating Cardoso’s
monetary policy, is too rigid and insensitive to the need to grow. Pereira and Nakano argue
forcefully that Brazilian central bankers have misunderstood the true causation between interest
rates and country-risk. The latter argue that domestic interest rates are high because of the lack of
monetary and fiscal discipline exhibited in the past. Bresser Pereira (2003), for instance, retort that
the case is in fact the opposite: country risk is high because domestic interest rates are so high that
investors consider the probability of default to be high. The central bank causes country risk to
increase because it imposes a rate of interest that could be simply impossible to pay in the long
term. This view is shared by many economists, including the authors of this note, and implies that
interest rates could be drastically reduced in the short term with virtuous impacts on the economy.14

A second line of criticism, even if agreeing with the point just raised about the need to reduce
interest rates more boldly, insists that it may not be enough. Economists such as Luiz Gonzaga
Belluzzo and Paulo Nogueira Batista Jr defend the view that capital controls should be also adopted
to protect the Brazilian economy against external shocks. The strategic need for a strong growth of
exports, preserving at the same time the feasibility of implementing active development policies,
give trade negotiations, including the FTAA and at the WTO, dramatic importance.15 In addition,

14 See, for instance, Carvalho (2003a; 2003b) and Ferrari Filho and Corazza (2003).
15 One should mention, however, that, as mentioned elsewhere in this paper, Lula’s foreign policies are assessed to be
quite adequate to the present needs of the Brazilian economy.
fiscal policy should be made more flexible in order to make room for badly needed investments in public utilities.\textsuperscript{16}

For the most part, we share the latter view. In this paper, however, we advance what we see as a minimal program, that should be able to satisfy, at least as a first step, most of the critics. A minimal program would be one focused on the attainment of full employment and the creation of conditions for a recovery of private and public investment.

In fact, the conditions favorable to the promotion of full employment and the recovery of investments largely overlap. On the macroeconomic side, it is necessary to wake up the animal spirits of entrepreneurs, by signaling that policies supporting aggregate demand, rather than the opposite, will be pursued. This means not only that monetary policies should explicitly consider the goal of maintaining employment stability along with price stability, but also that fiscal policy would be reoriented to privilege public investment rather than debt service or even current expenditure.

Monetary policies should be oriented by employment and inflation targets. There is nothing particularly revolutionary about that. It is in fact precisely the way the Federal Reserve sets policy rates. One could, for instance, propose that the Central Bank should aim at minimizing what was in the past called a misery rate: the sum of the unemployment and the inflation rates. This is, of course, based on the existence of a Phillips-curve-type of relationship between unemployment and inflation. When interest rates were set too high, in such a way that the decrease in the inflation rate would be paid for a disproportionate increase in the unemployment rate, the misery rate would increase and the central bank would revert its policy. The opposite would happen in the converse case.

Fiscal policy, on the other hand, should not sacrifice all other objectives simply to guarantee the service of public debt at any price. There are many ways to try to reduce the burden of the debt on fiscal expenditures, ranging from the more market-friendly use of options to reduce interest rates, to more aggressive initiatives of debt restructuring, involving replacing the securities currently in circulation by securities with different clauses. Bonds indexed to the rate of growth of GDP, as being currently proposed by the Argentine government, would align incentives for the financial sector with the larger interests of society to promote growth. One would not need to violate

\textsuperscript{16} Most of the debate around Lula’s economic policies has taken place, understandably, in the newspapers. The views of Paulo Nogueira Batista Jr, João Sayad, Belluzzo and Bresser Pereira are regularly presented in Folha de São Paulo (http://www1.folha.uol.com.br/fsp). Luiz Gonzaga Belluzzo and Yoshiaki Nakano both write regular columns to Valor (http://www.valor.com.br). Among the still few debates already published as books, one could list Sicsú, Oreiro and de Paula (2003) and de Paula (2003).
contracts to promote such a change: the short maturity of a large share of the total stock of public securities would allow the substitution to take place at the redemption of outstanding securities.

Expansive fiscal and monetary policies should strengthen animal spirits by pointing to the profits that could be earned by satisfying the increasing aggregate demand. The new mix of policies, however, wouldn’t stand a prayer if the current degree of capital account liberalization was maintained allowing residents to promote capital flight as easily as it is the case presently. The reinstatement of capital controls would be necessary to give the time the government would need to show that the policy could work, generating a situation where even financial investors could profit from, mostly from the increasing demand for financial resources that would come from firms and consumers.

Reaching full employment, on the other hand, can be easier than recovering growth. Active industrial policies, probably along the lines that have been announced by Lula’s Development Minister, would be necessary to coordinate private and public efforts at accumulating capital at the necessary rate. One should mention that the lines of industrial policy announced by the administration met with general approval. It would certainly more plausible to assume that growth policies would have a higher probability of success in situations where aggregate demand was not maintained at low levels by macroeconomic policies, as it is the current practice.

In this picture, maintaining and expanding external trade is a strategic element. Resisting the demands of industrial countries to liberalize non-traditional sectors, such as government procurement is essential to make any efficient industrial policy feasible. The position of the Ministry of Foreign Affairs, giving priority to trade and financial partnerships with Mercosur block countries, is important to increase the bargaining power of Brazil and other block countries in trade talks, such as the Free Trade Agreement of the Americas (FTAA).

To sum up, to address the objective of expanding effective demand and stabilizing the inflation process, the Government should (i) operate fiscal policy to implement social programs (such as the Zero Hunger program) and to promote investments, in particular to rebuild public utilities in energy production, road construction, etc, (ii) ensure that monetary policy has a significant positive impact on the level of economic activity, (iii) direct financial markets toward financing development, (iv) adopt incomes policies to regulate wages and prices\(^\text{17}\), (v) create efficient anti-speculation.

\(^{17}\) In addition to this, fiscal initiatives such as introducing really progressive income tax schedules and capital levies, guaranteed minimum income and social expenditure to improve the standard of living of poor people are required to promote personal income redistribution.
mechanisms to control (or regulate) movements of capital in order to prevent monetary and exchange rate crises and augment the autonomy of domestic decision-makers.

6. Conclusion

What is macroeconomic stability? The monetary authorities nominated by President Lula, as those nominated by former President Cardoso, seem to believe inflation stabilization is the only goal of macroeconomic policy. From the fiscal side, all that matters is building credibility with financial agents. As John Maynard Keynes, an economist apparently unknown to political leaders of the country, once suggested, macroeconomic stability should mean a combination of full employment and stable prices. For developing countries, we should add, macroeconomic stability also means long term economic growth and social development.

It is very unfortunate that President Lula has not advanced any new vision or project for this country. His electoral slogan, hope has defeated fear, has been so deflated that not even the president himself mentions it in his speeches. With a full third of his mandate behind him, there is very little to show for hope, but a lot to fear. Unemployment is very high, a weak and tentative recovery after the disaster of 2003 is barely on the way, led almost only by the export sector. No long-term vision of Brazil’s future was offered, so current sacrifices are perceived as being largely gratuitous. Not surprisingly, political unrest has been a permanent feature of these first months in 2004.

Inflation targeting was probably justified in 1999, when the balance of payments crisis led to the change in the exchange regime and a new anchor was needed for nominal prices. Five years later, the regime has become a straight-jacket holding back real activity. Fiscal policies directed toward supporting the service of the public debt outstanding works in the same direction. New policies have to be tried, and President Lula is already facing political difficulties because of his inability or unwillingness to change the policy mix he inherited (and, in fact, radicalized) from President Cardoso. Lula was elected on the promise that he would move the country away from the many years of stagnation promoted by Cardoso. Instead, he produced a recession. Brazil cannot afford another four years of lost jobs and opportunities.
References


Appendix

Table 1

<table>
<thead>
<tr>
<th>Period</th>
<th>Inflation Rate(^1)</th>
<th>Interest Rate(^2)</th>
<th>Fiscal Surplus/GDP</th>
<th>GDP Growth</th>
<th>Net Exports US(^\text{billion})</th>
<th>Unemployment Rate(^3)</th>
<th>Net Public Debt/GDP</th>
<th>Nominal Exchange Rate(^4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>8.94</td>
<td>25.0</td>
<td>3.2</td>
<td>0.8</td>
<td>(1.2)</td>
<td>7.6</td>
<td>46.9</td>
<td>1.8460</td>
</tr>
<tr>
<td>2000</td>
<td>5.97</td>
<td>16.8</td>
<td>3.5</td>
<td>4.4</td>
<td>(0.7)</td>
<td>7.1</td>
<td>49.9</td>
<td>1.9630</td>
</tr>
<tr>
<td>2001</td>
<td>7.67</td>
<td>18.0</td>
<td>3.6</td>
<td>1.4</td>
<td>2.6</td>
<td>6.8</td>
<td>53.3</td>
<td>2.3620</td>
</tr>
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<td>2002</td>
<td>12.53</td>
<td>19.5</td>
<td>4.0</td>
<td>1.5</td>
<td>13.1</td>
<td>11.7</td>
<td>56.5</td>
<td>3.6310</td>
</tr>
<tr>
<td>2003</td>
<td>9.30</td>
<td>23.1</td>
<td>4.3</td>
<td>(0.2)</td>
<td>24.8</td>
<td>12.3</td>
<td>58.7</td>
<td>2.9253</td>
</tr>
</tbody>
</table>

Source: Central Bank of Brazil and IPEADa.  
Notes: (1) IPCA/IBGE; (2) Average Basic Interest Rate, Selic; (3) IBGE; (4) Average exchange rate at the end of period (December).