

Brazil's next president faces tough austerity juggling act

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Jorge SVARTZMAN



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Whichever of the Brazilian presidential candidates wins will have their work cut out for them contending with the country's economy

Whoever wins Brazil's presidential election on October 7 will have their work cut out juggling market pressure to implement austerity measures while trying to drag 23 million people out of poverty.

According to a World Bank report presented to the 13 candidates, Latin America's biggest economy is facing "three main challenges: a major fiscal imbalance... a lack of sustainable growth in productivity... (and) the state's ever increasing difficulty in providing basic public services."

In Brazil, "part of the population still lives in the 19th century and the other part is already in the 21st century," says Marcelo Neri, an economist at the socioeconomic think tank Getulio Vargas Foundation.

Neri says millions of Brazilians have a poor education, live without access to water and sanitation, and are confronted by "levels of violence worthy of a war."

As for the economy, it's struggling. Public debt hit 77 percent of gross domestic product in July, up from 56 percent in 2014. The World Bank says it won't stabilize unless Brazil manages an unlikely 4.0 percent annual growth through to 2030.

Without deep structural reforms, the debt could reach 140 percent of GDP, the World Bank says.

While hugely unpopular outgoing President Michel Temer has frozen public spending, he has left hanging the delicate question of pension reform, considered by the markets as a cornerstone to fiscal consolidation.

- Pensions and public deficit -

Most presidential candidates are proposing pension reform and a program to reduce the public deficit, but without going into specifics on the figures for fear of losing votes.

Right wing frontrunner Jair Bolsonaro has proposed a transition towards a system of funded pensions and a 20 percent reduction in the public debt through "privatization and sales."

His closest rival, the leftist Fernando Haddad, is offering the opposite: "an end to privatization" while he intends to "increase employment" and "battle tax dodging" in order to balance the public books.

Former Sao Paulo state governor Geraldo Alckmin has made an ambitious promise to wipe out the public debt "in two years" through privatization and a simplified tax system.

The problem is that while candidates focus on trying to win votes, they might ignore the most pressing issues affecting those most in need.

Neri says the country needs social "inclusion policies" but fears that "the elections aren't heading in that direction."

Six million (33 percent) more people live in poverty than in 2014, the Getulio Vargas foundation says.

There are also 13 million people unemployed in a country with a population of 208 million that ranks ninth in the world in terms of social inequality.

Marcos Lisboa, president of teaching and research institute, Insper, is concerned that all the candidates are traveling a worryingly well-trodden road.

"The worry is that debates on the most urgent problems are ditched in favor of proposals that either reproduce the disaster the country went through these last few years, or that promise the moon," says Lisboa.

Brazil needs to choose the "middle path," says Neri, between those who advocate austerity after two years of recession followed by two more of weak growth, and those who believe that such a policy would finish off the sick patient.

