

## Coronavirus Reverses Brazil's Economic Revolution

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(Bloomberg Opinion) -- When Paulo Guedes, Brazil's University of Chicago-schooled economy minister arrived at his desk in January of 2019, he came with an aggressive market-friendly vision for re-founding Latin America's biggest economy. His plan, cheered by captains of finance and industry: Slash the federal bureaucracy, hurl down trade barriers, curb the nation's fiscal eating disorder and sell everything. Brazil's state owned companies? "Runaway children who are now addicted to drugs," he quipped. All those public sector employees? "Parasites."

The coronavirus has torn up Guedes's textbook assignment. A rare economic liberal in a hemisphere of dirigistes, he is now the warden of a nearly \$100 billion bailout, one of the biggest rescue operations in the emerging markets. The big state is even bigger. Those truant public institutions and their civil servants are all that stands between Brazil and the economic ventilator.

The overgrown government savings bank that Guedes grudgingly spared from the state company auction bloc, Caixa Economica Federal, is rolling out emergency aid to at least 54 million working poor, jobless and underemployed Brazilians. The mission of identifying and parsing eligible recipients and crunching the numbers has fallen to Dataprev, the social security data processing company that Guedes had been grooming for privatization.

Socialized medicine would give any self-respecting capitalist warrior apoplexy. And yet no one needed to tell Guedes that Brazil's best hope for healing the stricken in the accelerating Covid-19 contagion is bolstering the Universal Health System, or SUS, which treats anyone without charge. "Without SUS, we'd be in a ditch. It's a Brazilian benchmark," said Adriana Dupita of Bloomberg Economics. "There's no way you can fight this, no matter what your ideology."

Brasilia also has committed to lavish as much as \$15 billion in near unconditional aid on state and local governments, just the sort of giveaway Brazil's signature fiscal hawk had vowed to extinguish. One former central banker even suggested, egad, that Brazil should print money until the worst is over. "Guedes went to sleep a Chicago Boy and woke up a Keynesian," Fernando Schuler, a political analyst at the Sao Paulo business school Insper, told me.

In Guedes's defense, so has everyone else. As the pandemic takes down markets, animal spirits have surrendered to central banks and bourses to bureaucracies. All the more vexing to Guedes, the country's top economist is not even the one driving the new agenda. As President Jair Bolsonaro continues to thwart international health protocols for social distancing and toss out pesky critics like his health minister, his government has forfeited the policy initiative to congress.

That has created an opportunity for Rodrigo Maia, the crafty speaker of the house. At first, Maia and Guedes had been allies, working to advance a passel of structural reforms such as the signal pension overhaul and other market-seeking workovers. Coronavirus has scuttled that pact and resuscitated liberal taboos that challenge Guedes's privileged place and his raison d'etre in the errant Bolsonaro government. Once the legislative quarterback for reforms, Maia has become the leader of expedited bills to expand safety nets and emergency fiscal spending for distressed businesses and local governments. "The public health crisis has completely flipped the terms of debate," said Dupita.

If it were up to the populist Pangloss in the palace, Brazil's course correction would be limited and the country barely winded. Just a month ago, on March 16, with a handful of stricken patients and no Brazilian fatalities, Bolsonaro and his officials were still lowballing the economic contagion. Chiding the country's "defeatist psychology," Guedes touted the economy to grow by as much as 2.5% even "as the world economy falls," and he announced a meager \$1 billion help line for the health ministry. Then he doubled down on market reforms, suggesting swifter privatizations, a financial transaction tax and selling off hard currency reserves if the crisis deepened. All of those laudable objectives are now beside the point.

A month on, with almost 39,000 Brazilians afflicted, 2462 dead and the economy set to contract by as much as 5.3%, the tone at the top has changed. To his credit, Guedes has pivoted into the role of Brazil's first responder. He had little choice. "Sure, he wanted his own marker on the Brazilian economy as the one who pulled off structural reforms. Those reforms and fiscal controls are necessary, but that game is over," said Monica de Bolle, a senior research fellow at the Peterson Institute for International Economics. "Guedes is not going to be judged badly because he blew up spending in an emergency. Everyone is doing that. What he needs to realize is that managing the crisis has become his only job."

Some worry that Guedes may be bending over too far backward. "It's like a contest to see who can give more," said economist Marcelo Neri, who studies social policy at the Getulio Vargas Foundation. It's not that the government should nickel and dime the needy; but in the rush to rescue them, it risks losing control of the money hose.

Brazil has a sophisticated, decade-plus system for distributing social benefits to the poor, starting with the 13.2 million families who draw the Bolsa Familia cash stipend through a magnetic banking card. It also pioneered biometric identification cards to register and vet voters. And yet in widening the net to include other families now in harm's way, the government chose to collect names online by self-declared tax identification numbers, a process vulnerable to error and fraud. The result was a list of 35 million applicants for emergency relief, even as census data reported less than half that many are jobless, underemployed or low-earning self-employed.

More alarming, the government apparently has caved to congressional demands to rescue outbreak-challenged states and municipalities, many of which were fiscally delinquent long before the pandemic and will owe little in return. This bill, now on a congressional fast track, is part of a broader drive to marshal a "war budget," a constitutional amendment to greenlight extraordinary spending and exempt the federal government from the so-called fiscal "golden rule" of balancing the budget through the end of this year. "The risk is that these generous temporary benefits

become permanent,” said Neri. “That’s not countercyclical spending. It’s a counter reform.” In mid-pandemic and bordering on fiscal collapse, that’s the last thing Brazil needs.

At the heart of Guedes’s existential crisis is a quarrel over public goods. If the pandemic has shown anything, it’s that public health is national defense, and that salutary institutions are part of the economic immune system. “We really need to rethink our economic and social pact,” said de Bolle. “This is a humanitarian emergency and we need to decide how to build up public health, strengthen social safety nets. This is not the sort of shock we’ll see just once.” That wasn’t the job Brazil’s ranking Chicago Boy was hired for. But it’s the one Guedes and anyone who follows him will have to do.

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