

BRAZIL NEWS: President Jair Bolsonaro is bad for Brazil's economy[Clique aqui para ver a notícia no site](#)

IN SEPTEMBER 2019 Paulo Guedes, Brazil's economy minister, told Congress that it could "make history" by keeping the budget under control, adding that "the political class shouldn't be chasing ministers, begging for money." Now Mr Guedes is backing an underhand government attempt to bypass the constitutional cap on public spending set in 2016, which was a crucial step towards righting the country's finances. Jair Bolsonaro (the president) is preside over not only a return to fiscal continence, but also other economic ills that have plagued Brazil, such as rising inflation, high interest rates, and low growth. The budget shenanigans have created uncertainty about the country's flagship social program.

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In the election in 2018 Mr Bolsonaro's alliance with Mr Guedes, a free-market economist, did much to persuade business people to vote for a former army officer of the hard right who had never before shown any interest in liberal economics. Guedes promised to reform Brazil's inefficient and swollen state. This promise has not resulted in any savings, legal independence for central bank and minor regulatory simplifications. The reform drive is now over. Instead, Bolsonaro has turned to money and political support to purchase popularity and political support.

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To stave off impeachment over his mismanagement of the pandemic and his family's misdeeds (which they deny), Mr Bolsonaro allied with the centrao, a big coalition of conservative pork-barrel legislators. When covid-19 struck the government declared "a state of calamity", allowing it to offer big temporary handouts despite the spending cap. Poverty fell in Brazil in 2020, bucking the regional trend, and Mr Bolsonaro's popularity rose. The government secured an emergency constitutional amendment in March, which slit a hole within the spending cap to allow some payments to continue. The president's declining approval rating is decreasing his chances of winning a second term next year.

A new constitutional amendment would punch two further holes. This would allow the government delay in making payments that have been ordered by courts (e.g. refunding taxes overpaid). And it would exploit a recent leap in prices by indexing the budget to December's annual inflation figure (likely to be over 10%) rather than to June's (8.4%). These changes would give the government an extra 100bn reais (\$18.2bn) to play with next year, reckons Marcos Mendes, a former economic adviser to the Senate.

Some of this money would go to Auxilio Brasil, a revamped anti-poverty programme. This will incorporate Bolsa Familia, the successful anti-poverty scheme launched in 2003 by the president at the time, Luiz Inacio Lula da Silva. It will make it more complicated and uncertain, says Marcelo Neri of the Getulio Vargas Foundation. Marcelo is a poverty specialist. The government has raised the average permanent benefit by 18%, to 217 reais per month. However, Mr Neri points out that inflation had eroded 32% of its real value since 2014. Mr Bolsonaro has also promised a temporary bonus, so that all 17m families in the scheme will get at least 400 reais a month, but only until December 2022. This is not coincidental, as it comes right after the election.

Another large chunk of the extra money would go on less worthy causes, including around 18bn reais to finance opaque budget amendments that grant overpriced public-procurement contracts to individual legislators in return for their support for Mr Bolsonaro. These were an innovation devised by the centrao. These secret clauses were declared illegal by the Supreme Court's majority this week. The lower house of Congress approved the constitutional amendment on Nov 9th. It is not clear if it will pass the Senate.

Either way there will be costs. A defeat would raise doubts about the future financing of Auxilio Brasil. Victory would be nothing but pyrrhic. Four senior aides to Mr Guedes resigned last month over their opposition to the amendment. The official gloss was that they were leaving for "personal reasons". Zeina Latif from Sao Paulo, an economist, says that concern about fiscal policy is "the main fuel for inflation". The spending cap was established to stop the uncontrolled rise in public spending to please insiders. This is neither redistributive nor effective in breaking down the bottlenecks that prevent growth. Its decline shows that Bolsonaro is not only bad for the environment, democracy and human rights, but also for Brazil's economy.

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