



### **Bresser-Pereira**

*Economist, political and social scientist*

Economist, political and social scientist. Has a degree in Business Administration and Law. Luiz Carlos Bresser-Pereira was Minister of Finance in 1987, and Minister of Federal Administration and State Reform (MARE) from 1995-1998, period in which he was responsible for conducting the managerial reform in the Brazilian state. In an interview to the TCU Magazine, Bresser-Pereira takes stock of the managerial reform legacy to the efficiency in the Brazilian public service and suggests essential actions for the country to have consistent growth. He also addresses the role of the courts of accounts in pursuing greater efficiency in the public sector.

## **Challenges faced by Brazil post Managerial Reform**

**You were at the forefront of the State Apparatus Reform in the 90's, which came up as an answer to the successive political and economic crises that the country faced. Twenty years later, the country faces again economic and political crises. Do you consider that the Brazilian state will need a new reform in order to overcome the present scenario?**

My understanding is that if you work at a relatively high level of management there are only two managerial reforms in a capitalist State. That is, the capitalist state is born patrimonialist, with absolute monarchs associating with the merchants that later turned into industrialists, and public employees. Its court consisted not only of the military but also of bureaucrats who managed public wealth as if it was also theirs. This is patrimonialism. Then the first reform comes up, which is the bureaucratic reform. In English, it is called civil service reform. In French, it is called *la réforme de la fonction publique*. In Portuguese, it would be public administration reform, or bureaucratic reform, which was very important. This is the reform analyzed by Max Weber. Then, from the 1980s the

second reform begins, which was the managerial reform in England, Australia and New Zealand. Brazil was one of the first to begin the reforms. Nowadays it has spread all over the world. Now the reform focuses on increasing efficiency mainly in the public services of the state. Currently, when there is a universal health system, an educational system, a social security system, or a tax collection system, then I need efficiency. These big sectors of public services involve many people.

#### **What are the key objectives of the managerial reform?**

The key objective of the managerial reform of 1995 was to change a bit the logic of management by procedures to management by results and administrative competition, promoting administrative competition by excellence. That is, it is simply the Federal Court of Accounts who is controlling, for example, the Minister of Social Security, who in turn is controlling the National Social Security agencies, comparing the agencies and, under certain conditions, looking at the parameters and targets. Indicators are a product of comparison between them. Which is much better than simply imposing something. However, competition by excellence is something that bureaucrats do not like; it was the most difficult thing for me, because I proposed three things in the management overhaul. Rather than analyzing supervision of physical regulation, direct supervision and strict audits by processes, I stood for results-oriented management and everyone liked that. Social management, everybody also liked that. And it means administrative competition by excellence. Later,

they started to understand, as competition is not really in the logic of public servants, but it is fundamental. It is something that companies widely use. Now the second issue is that, to become more efficient, I classified the agencies as state public bodies, non-state public bodies, state-exclusive and non-exclusive. Then I said that for activities that are non-exclusive of the state, there is no reason for them to be within the state, they can be executed by social organizations. They may be more efficient, more flexible, if transformed into social organizations.

#### **How do you evaluate the fulfillment of these objectives over the years?**

All this has been happening slower than I would have liked. Once I was out, I made a mistake. At the end, in January 2008, that is, in the last of the four years in which I was Minister, I said to myself what I said to the president later. I said I thought that the reform would be approved by the Congress in April, and the new ideas were already circulating, and people were aware of it all, so that, now, the basic principle was to implement the reform. The MARE (Ministry of Federal Administration and State Reform) had no power to implement the reform; it was a very small Ministry. In the United States, there is an office and I was very impressed because when I went to talk with people there they told me the following: do you know what the source of my power is? I said I did not. He answered that the power was next. It was the office of the head of budget planning. Then I said it was better to relocate it to the Ministry of Planning, as they have a budget. Today I think it was a mistake because the Minister

of Planning never took interest in Public Administration and the issue lost its previous status and the focus was reduced. Anyway, I think it (the reform) is happening, because it has happened a lot in the state-level and the most impressive thing was the change in academia. The number of papers and theses, master dissertations and doctoral theses about the reform is amazing.

#### **In your opinion, what are the proposals that would help to enhance efficiency in the Public Administration?**

The Getúlio Vargas Foundation in São Paulo offers an undergraduate course in Public Administration since 1970 and, since the mid-1980s, a graduate course. I was the coordinator and reformed the whole course soon after I was Minister of Finance in 1988 and 89. I said to my colleagues that we have very few students. That is, everybody wants to be a Management student and nobody wants to be a Public Administration student. I already knew the reason; there were no civil service entrance exams. What I meant is that these people do not promote civil service exams, as there is no regular demand for students. Thus, when I arrived here in the Ministry of Finance, I said I wanted to issue an ordinance. I decided that all state careers are to have entrance exams every year and that these exams should be selective instead of approbatory. I took office and soon created the formula for the number of vacancies in the entrance exam and the formula for writing the exam notice. You take the number of vacancies that the career needs – let us say there are 1500 employees for a given career. Then you divide 1500 by the average amount of years the

employee stays in the career. The result would be the number of vacancies that should open every year. This provides for a number of employees that enables you to have a balanced age proportion and constant oxygenation in that career. Then I also supported high wages for the employees. At the time, it was very low. So, I propose these two measures: regular public entrance exams and wage increase.

**In this new context, are the assumptions of the managerial reform still applicable or does the Public Administration need to search for new foundations to reshape itself?**

It is still valid with concern to management. You always have to improve; there are new problems, new imagination, but the fundamental problem continues to be making Public Administration more efficient as a whole through changes in the management mechanisms. What was my main objective in relation to all this? To make the state apparatus more efficient, but why? In my opinion, the state is the major instrument of collective action of the Brazilian nation. Therefore, it is through the state that I look for the great political objectives of modern societies. Liberty, economic development, social justice, the protection of the environment and security. These are the five objectives. Well, what was I interested in then that I am still interested in now? I was interested mainly in increasing the size of the state in the social sector. Because, in my opinion, a fair society is necessarily a society that has a large tax burden and has large expenditure on health services, on the great social services of the state. The Constitution of

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1988 had pointed in that direction. And I needed, then, to legitimate this, but why exactly? Because liberals are obviously terrified by all of this. They want a very small state, financed by regressive taxes. This is what they want, because in Brazil taxes are regressive, but the state is huge, mainly in the social area. In 1985, it represented between 11 and 12% of GDP, today it has swelled to 23, 24%, therefore, it doubled, but I needed to legitimate this, in other words, I had to stand for the welfare state against those gentlemen that shout “I don’t want to put good money over bad Money. It is unnecessary. All public employees are corrupt and inefficient”. To show and tell that they are not right, I had to show that the state is efficient in providing these great social services. Therefore, the money that I am putting into this is good money, and it is the underlying logic. Then I will say that it looks like I failed. And why did I fail? I think I noticed many improvements. This reform was inevitable and will continue because there

is no alternative to it. Countries that delayed these reforms, such as Germany and France, are already doing it too, each in their own way, but always in this direction. Now, the problem is that Brazil had a downturn in the last 3 years. Brazil was dominated by liberals determined to show that the welfare state did not work and willing to reduce the size of the state. To that end, they approved the budget ceiling, which freezes public expenditure. The Brazilian population will keep growing, the GDP will continue to grow very modestly, because it grows very little, but will keep growing, and the services for education, health, social security, and social assistance will keep shrinking. This is what is happening. Thus, in this sense, I failed. However, I am very happy with the reform I created, which I helped to create, and, after all is said and done; I say I conquered the heart and the minds of the upper echelons of Brazilian Public Administration.

**What are the main advances achieved by Brazil in terms of efficiency since the managerial reform?**

I think these are the advances. Today management is much more defined by results than before, social control is better than before and this social control was already in its beginning stages back then. I mean, it all has improved a lot. Social organizations, especially in São Paulo, are very successful both in the hospital and in cultural areas. In other places, it did not go so well, because they are not any magical solution. Is simply a mechanism that if managed and audited well works better than before.

**What about the obstacles?**

The obstacles are difficulties of human nature. We are prone to failure. I have a very simple perception on what the administrative process is. There is no flight in cruise altitude: an airplane that is cruising, when it gets up there, it flies straight, but still could encounter some violent turbulence. In other words, the last thing that there is in management is cruise flight. You have to make corrections all the way, as things are always going out of control. Making these adjustments are an everyday challenge. These are some of the major obstacles which derive from people's interests, and you have to motivate them in a correct way. In other words, the difficulties derive from permanent attempts to loot public property.

**How can the Federal Court of Accounts and the other courts of accounts act in order to promote reduction in bureaucracy and pursuit greater efficiency and quality of the public services?**

I think the Courts of Accounts can certainly help with all these things. You are not just interested in fraud, but also in efficiency and effectiveness. Effectiveness is about public policy achieving the objective; efficiency is doing

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so at the lowest cost. That is, both things are not easy. You said a third thing is you would do evaluation of public policies. There is a group of trained economists, the social micro economists. After all, I found out that they are, essentially, public policy evaluators. They have a whole methodology, with many econometric methods to do this. Therefore, the Court of Accounts performing its process of evaluation, contacting these people and using their technology would be a very nice thing.

**You have been supporting a new development project for the country, the Project *Brasil Nação*, which lists essential actions for consistent growth. What would be the key points of this new project?**

I have been saying for over ten years that Brazil is an almost stagnated economy. That is, it grows at very low rates. Brazil grew, between 1930 and 1980, about 4% per year *per capita*, between 1950 and 1980 at 4.5% per capita. Since 1980, it grows at 1% *per capita*. Thus, the reduction was huge. Now, since 2014, all this is clear. From 2015 on, we entered in a deep recession, so that if you were to add the negative growth rates of these last years, then it gets even worse.

Since 2001, I have been involved in developmental macroeconomics, or, more broadly, this was the name that stood and it already is the new development concept. It is an attempt to understand why Brazil is growing so little. What is the macroeconomic cause of this? In my understanding, the cause is essentially that Brazil now has a very high interest rates and a grossly valued exchange rate. In the long-term, the consequence is a serious discouragement to invest-

ment. Without investment, there are no savings, without investment and savings there is no growth. Investment comes before savings, according to Keynes. Brazil does not seem to be able to get out of this situation.

Brazil has transitioned into a liberal economic regime, where before it has adopted a developmental ideology between 1930 and 1990, going through a crisis in the 1960s that was overcome and through the last crisis of the 1990s that has not been overcome. Then came neoliberalism, which had taken over the world outside, financial capitalism, rent-seekers, took over Brazil, also during ten years of growth. Since then, our interest rates have skyrocketed and our exchange rates have appreciated. In the northern hemisphere, the rent-seeking financial neoliberalism has entered in a crisis since 2008. Since then, things have become quite complicated for them. Since 2016, they entered in a political crisis due to Brexit and Trump. And we are here, with great determination and enthusiasm, willing to end the Brazilian state and reduce all Brazilians to mere employees of foreign multinationals.

We live in a globalized world where states are in fierce competition, where the most powerful countries, the rich nations led by the United States, have great interest in obtaining our market. In this scenario, I say that in order to develop, you need a strong nation, and therefore, you need to be a nationalist in the economic sense. Economic nationalism is almost the same as developmental ideology. This ideology adds to economic nationalism a sense of moderation in state intervention of the economy. Therefore, if this is

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true, we start to elaborate the plan according to two premises, one of near stagnation of the economy and the other political. We convened a group in the beginning of the year and we finally launched the Project *Brasil Nação*.

In the Project *Brasil Nação* we advocate some general ideas that are also values, we stand for the idea of nation and we proposed five topics for the economy. Of course, there are other fields to develop, but we chose one that I happened to know better and to which I could give some contribution, and also that is more important nowadays. And what are these five topics? They are related closely with this developmental macroeconomics.

The first topic is fiscal responsibility. This is a dispute between myself and my Keynesian friends of this conference. Among them, there are a lot of vulgar Keynesians, or populist Keynesians, or developmental populists who think

that they can solve all the problems of the Brazilian and world economy by increasing state expenditure and causing the state to enter into a fiscal crisis. The same thing happens on the other side, the orthodox liberal economists, who think that they can solve all the problems by cutting state expenditure and plunging into account deficit to create external reserves, and then liquidate Brazil on the other side. It is a perfect alliance between two extremes. Therefore, the first [topic] is that I need a capable state. That is able to intervene effectively to promote economic development in Brazil, to ensure that the five macroeconomic topics are correct, and for that I need a state that is not bankrupt. I need a financially healthy state. This is number one.

The second is the interest rate, which needs to be much lower. There is no reason for the interest rate to be like this. In my opinion, two real percentage points is more than enough.

Third: we should have a small account surplus, as only a small surplus is compatible with an exchange rate that is competitive for technology intensive companies in Brazil, industrial companies. For commodity producing companies this is not a problem, as they have natural advantages. Natural resources grant them (commodities) Ricardian advantages, such as Ricardian income. However, the secondary sector in Brazil needs to compete with foreign companies, but by foreign I do not mean foreign multinationals installed here. Foreign means industries in China, in the United States or in Argentina. Brazilian industry needs to compete with them on an equal footing. I defend that Brazil does

not need protection for its industry, that was needed when the process of industrialization began in the 1930s and 40s. There is no more need for protectionism for some time now, but there is need for equal conditions of competition. When I got notice of this, I finally understood an expression widely used by Americans – I do not know if the English use it as well – “leveling the playing field”. It means establishing equal conditions of competition. For them this concept is key and we do not know this. I discovered that this is fundamental and our industries do not have these conditions.

The fourth topic is recovering the investment capacity of the state. Besides fiscal adjustments in expenditure, I want the State to be able to invest a little. Say, twenty per cent of the total expenditure.

Finally, the fifth point is the one about distribution. We want a progressive tax system. There are three ways to distribute income. One is increasing the minimum wage whenever possible. This was

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done recently done by the Labor Party (PT) government. Getúlio had done this long ago. The other way, which was not done by the PT, but by democratic transition, was the increase in social spending, an increase from 11.12 to 24. The third way, which was not implemented in Brazil, is establishing a progressive tax system. I knew this for a long time, but the fact is that Brazilians have forgotten about this and it has been left out of the agenda years ago. Of course, the issue was left out from the right wing agenda, but it also has been off the left-wing agenda. Four years ago, by chance, I saw a comparison between Sweden and the United States on the distribution of income before and after taxes. In other words, we know that Sweden is one of the most egalitarian countries in the world. And that the United States, amongst the rich nations, is by far the worse, as research shows. The Gini index of both countries before taxes are almost equal, with Sweden having an index that is a little lower, with better distribution, but nothing significant. But the difference widens after taxes. Therefore, the effect is really powerful. Taxes in Sweden are progressive; the rich pay more than the poor proportionally. And in the United States and Brazil taxes are regressive. Thus, we have to put this topic on the national agenda.

**In relation to the progressive tax, one of the topics of this project, what are the measures that the Federal Government could adopt to implement it in the present panorama of fiscal crisis?**

There is no secret about instilling a progressive tax system. You start with income tax and

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then you raise the proportion of the income tax in total revenue, and, at the same time, lower direct taxes such as taxes on goods and services, amongst others. The difficulty is political. No one wants to pay taxes and especially the rich who definitely do not want to pay taxes, and now, they are all powerful as with the failure of the Dilma Rousseff government they felt reinvigorated, they were defeated in the elections, but they found an extremely undemocratic way of toppling the state. Toppling the government that was elected, and now they are having their own soirée against Brazil.

**We would like to hear you particularly about the performance of the Federal Court of Accounts (TCU), a body whose mission is to improve Public Administration through external control. In your**

**opinion, what can be the main contribution of the TCU for the development of a more efficient Public Administration?**

I have never thought enough about this subject in order to give an answer that makes sense. The main thing is that you have so many objectives and my understanding is that modern societies defined for themselves certain key political objectives. They already had the objective of security and in the XVIII Century they defined the objective of liberty and of liberalism, and then the objective of economic development and nationalism, or developmental ideology. Then the objective of social justice and socialism and finally, the objective of environmental protection and environmentalism. Therefore, we have four great ideologies and five objectives. I have not given an ideology for security. But I could have. With this, the State exists to help the Brazilian nation to reach its objectives. For this reason, it needs to have intermediary goals, because these objectives are very general. What is the intermediary goal for which I am so fiercely fighting? It is a small account surplus, because I want a competitive exchange rate. If I had to choose only one objective, it would be this. And curiously, the second objective that we haven't even discussed, my intermediary goal, would be to end with all indexation, it is an economist's thing. Forbid the Brazilian state from having any indexation, as it would lower the costs of inflation control. You are obliged to induce brutal recessions. Thus, the interesting thing is to know what would be the strategic intermediary objective, one or two that the Court of Accounts should have.