



Improvement of public policies to increase efficiency and productivity in Brazil



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Regarding average income, some countries are managing to overcome this trap, such as Korea, Taiwan, Israel and Japan; and others are apparently in the right direction, including Colombia, Chile, Vietnam, Malaysia and China. What do the countries that managed to advance have in common? What public policies may have contributed to this?

Perhaps the best example for this transition is China. Peru and Chile are moving forward, but China was the fastest one. There are problems, there are risks, but China did it. I believe that when we talk about such an intensively growing economy, the intensity refers to knowledge, innovation, management and brands techniques, markets, new suppliers, new products, new inputs. We are talking about the extremely high quality of human capital, the capacity for exposure and the capacity for strenuous and creative work. To work harder and increasingly better. Therefore, in this sense, the public policies that can help are those that leverage this potential of human capital. They involve policies of education, capacity building, and qualification of workers. In many countries, it is the policy of attraction, of high qualification. When we talk about education, we mean education in the formal sense as well as the learning environment and cognitive expansion. Thus, there are educational public policies that demand several government interventions. We are increasingly aware of them, so we need, for example, to improve the quality of elementary school. This is an absolute consensus among all political forces. .



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Given what you can already see from the experience of other countries, what would be the best strategy to promote better education?

International experience demonstrates that you have to constantly evaluate learning and motivate schools to train and qualify teachers to deliver results. Additionally, there are other problems. You have to deal with strong unions and resistance against serial evaluation and against syllabus changes and adjustments. We also need to expand high school education. The figures related to high school education are very problematic in Brazil, starting from the way they are disclosed. When you look at the simplest statistics, it seems that, in Brazil, 105%, more than 100%, of students are in high school, which is correct in a way, but wrong if you analyze it. In fact, adults in high school inflate these numbers, they should be in high school, but the disclosure should focus on students at the proper age of high school. You also need to reallocate public resources from the public budget of higher education. Brazil is the country that spends the most on higher education, compared to countries at the same level of development, it spends more than many rich countries. And you also have to create, expand the fairly recent network of pre-school education, nursery schools. And promote inclusion.

It is already known that the cognitive capacity of an adult strongly depends on what happens in the first three years of his life. When I was young, I resisted a lot, as a scholar, against looking at things through an economic point of view because it seems insensitive. It gives the impression



that 'I am not worried about well-being'. You often hear economists saying 'I am worried about the worker's qualification'. Then you say 'but looking from this point of view, and not underrating well-being, it is our life, our well-being'. But the worker's ability and also the ability for well-being depends on him/her being able to, cognitively, understand the complexity of the world. And this is impressive, since it occurs from age 0 to 3. At that point, the window closes and his/her cognitive capacity remains strongly conditioned to what happened in that period, it is the so-called brain plasticity. I am talking about interventions that are quiet simple and that demand little investment.

In some countries, Sweden for example, the political discussion on the topic goes as follows: should I keep the focus on nursery schools or should I - in the case of conservatives - give money to mothers to take care of their children? I do not want to get involved in the Swedish debate, not that it will have any importance, but it is very different from ours. We need to increase the well-being of families that depend on increasingly more women entering the labor market. And it depends on other things that conservatives appreciate, more and more men staying at home with their children, this is a Brazilian problem, but I am not going to approach this discussion.

From an economic point of view, you really need to emphasize this and we are emphasizing the end of the academic journey. We are a country that puts on the market more than ten thousand people with doctorates a year and keeps children in such conditions, which we all have the ability to know, we just need to talk. Perhaps we do not have so much contact with the poor in Brasília, in the Pilot Plan. But you know how the family of your doorman, living in the states of Piauí, Maranhão, Amazonas, take care of children there, without basic stimuli, right? Everyday stimuli, stimuli, routine, physics, optics stimuli. I am talking about basic things, like a mobile over the crib, walls painted with different colors, or talking to the child. From age 0 to 3, how do you rock the child and how does the child become startled? All of those things stimulate brain plasticity. The child learns that movement. So, this is all part of the great leap. Everything else varies a lot. There is no variation from the perspective of government intervention.



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Regarding the economic issue, you usually make an interesting distinction between production, productivity and competitiveness. Could you clarify this differentiation as regards public policies?

It is as if we had two binomials: production x productivity, as an emphasis, as a target for government intervention in the economy; and competitiveness x competition, rivalry. So, we have public policies that promote productivity and efficiency gains from all individuals, companies and regions involved. It is the policies that maintain sustained growth, I will not say forever, but in the long run. Efficiency gains enable you to invest more, save more, better remunerate the workforce, reduce costs and prices, and sell more, so you have a complete mechanism. And this will allow the government to charge less taxes, without prejudice to the revenue, and so on. Policies that promote local production harm the overall productivity of the economy, it keeps companies that buy from a local producer from saving money by buying from those who produce more cheaply. And this would force each producer to specialize.



Thus, when the government promotes local production of anything, first, it does so with very flawed information, not knowing what are the things that are going to be highly demanded and very profitable in the future. It would be like choosing like this: we choose what shares we buy from which company. If you are not an expert, you had better hire one. And the government is not an expert on future, no government is. In addition to not having the perfect information, it is also under the pressure of interest groups all the time, they are all over the place, they are probably here in the Federal Court of Accounts as well: 'I want to represent the rights of my company, I am here to say that you do not have all the information'. And the information is necessarily biased in favor of the company, it does not acknowledge: 'we made mistakes here, we did not make such good use of the subsidy we received, we have had administrative problems'. Thus, policies that promote local production at all costs turn into obstacles that keep the economy from becoming more efficient as a whole, especially concerning those who buy from that producer, since they cannot buy from the competitor, to keep this local producer alive, they are subject to overpricing for much longer than desired. It inhibits the natural dynamics of economy. The producer stays there because he is subsidized and protected.

Another problem is the confusion between competition and competitiveness. Again, the private sector generally advocates policies that allow it to survive, with local production and so on, to be competitive abroad. So you subsidize. Suppose that the private sector can only sell a product abroad at a price of 100, they want a policy, a government aid that would allow lowering the price from 100 to 70, selling at 70 and profiting the 30 that was deducted. This is export subsidy. In theory, you have made the company more competitive, but this is not sustainable, that money is no longer being applied elsewhere. The company's selling price is 100, to sell at 70 they have to innovate, buy from suppliers that are more efficient, learn to produce at lower costs, train and qualify workers to make them more efficient, to lower the price from 100 to 95.90. When this occurs as an export subsidy, in a subsidiary credit, the producer sells more - this is a fact - but it is not sustainable. They will always depend on the continuity of that subsidy, and months before the subsidy expires, they will be here demanding it to be renewed and expanded. What I want to say is: this idea of spurious competitiveness where the private sector constantly asks the government to provide, and that we still do, it does not encourage people to innovate, it encourages them organize a stronger lobby in Brasilia.



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So, is rent-seeking an obstacle to productivity?

What ensures the permanence of these mistaken interventions, which do not promote productivity growth, is the political pressure of interest groups, of companies directly, the strongest ones. They try to amass budget slices, speaking directly to the decision maker, in the executive and legislative branches, and I am sure it happens all over the State. And in the case of companies that are not strong enough to have that structure of interest representation, it is the sectoral

associations that do so. They can be associations of a sector or confederations of industry, of agriculture. They all have an agenda that aims at increasing the profitability of businesses through budget transfer or creating specific rules that ensure an income, which is higher than the adequate figure for that sector. This is what we call “rent-seeking”, the search for an income of privileges, the search for pay through legislation.

I am not saying that everything that the companies and representative entities defend goes against the increase in productivity, I do not mean that. I am saying that the public manager must know how to differentiate one thing from the other and the mechanism that enables it. It is necessary to increase the capacity of the public manager to identify when pressure or policy suggestions target the income of privileges, when it is compatible with the public interest in improving the general productivity of the economy. Emphasis on the qualification of public managers based on good technical training should be focused on knowing the complexity of the world along with the way economy and democracy work in their various aspects. Including internal and external control of administration, in order to know how to establish a priority scale for a governmental intervention that takes into account both the risk of meeting private interests that go against the general interest, and how to contemplate, upon budgetary or regulatory decisions, opportunity costs, risks, or anticipate possible impacts.

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How could the Federal Court of Accounts assist in this decision-making process and help the State make decisions that will lead the country on a path of more effective productivity?

I think the Court is already doing this. I mean, it is already doing enough by bringing to the administration a concern about how this is justified. I think the Federal Court of Accounts has the important role of promoting governance, in addition to many other aspects. The Federal Court of Accounts is an institution that is not affected by the consequences of the political-electoral cycle. Its role is to signal to the new managers what are the aspects that need to be considered at each moment. I believe that the Federal Court of Accounts may also indicate how to improve interagency cooperation, both from an oversight perspective, which is its obvious task, and from the point of view of extenuating the problems caused by the electoral cycle and by the vulnerability caused by external pressure. I think this is a very important task, because there is a very large renovation of top-level managers in Brazil. It is smaller than what the data shows, apparently twenty-five thousand positions, but it is really high and a good part of these positions are occupied by people coming from the administration itself. There is a turnover, both from outside into the public sector, or within the public sector itself, the lateral movement of managers. It all implies knowing the problems, knowing the existing control mechanisms. In this regard, the concern with governance is very important, reaching beyond control, the quality of the capacity of governance agencies, programs, etc.

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And in relation to the State's role as a regulator aiming at boosting productivity, how could the Court help to leverage this improvement in regulation?


The Federal Court of Accounts has this technical capacity. It is infused with the notion of perennial public interest, regardless of the political-electoral cycle. In Australia, they built a commission, and then New Zealand and other European countries began to head towards the same direction, as a lean technical body that evaluates the main areas of activity. It is conditioned to conduct sectoral studies, evaluating how the big projects, the main areas of each body, affect the potential productivity of the country. In some cases, they even submit party programs and they hold tremendous legitimacy, as if they were the Federal Court of Accounts.

As I was getting ready to come to SAE [Secretariat for Strategic Affairs], I was thinking about what could be done in the Presidency of the Republic to improve this. In the United States, for example, there is an independent body, it is not composed of public servants, there is a group of three or four economists, and then, a group of technicians and civil servants coordinated by them. However, they are fully independent, they offer an annual assessment on the status of the nation and key policies. One thing I missed after joining SAE and having to deal a lot with the MDIC [Ministry of Industry, Foreign Trade and Services], Finance, Planning, but also with health and other things, because of foreign trade, is that not only is there a lack of a shared notion of where we want to go, but within the bodies themselves such vision does not exist.

In the bodies, sometimes, the secretaries shoot at opposite targets. It is very difficult. So, I thought: they should have a chief economist, as big entities do today. And why an economist? Because they know how to calculate, they are concerned about efficiency and rationality and understand the incentives. What is each of the ministry policies encouraging? How consistent is it? It is the idea that there should be some level, which is probably the executive secretary, but he/she is under a lot of pressure coming from the day-to-day management.


I conducted a research once. I visited some ministries, before joining the government. There is the expression 'public policies based on evidence', and then I found a group in the Ministry of Health, an extremely marginal group, in the sense that it is given no importance, which had, among its determinations, the idea of public policies based on evidence. Nowadays, there is the very idea of what evidence is. A tie? Only because it works elsewhere? I want to innovate here.

So that's the way it is. There is an important mentality shift, but if we wait for this shift to come spontaneously, it will not happen. We really need to be under pressure. It has happened all over the world. This is what the example of the productivity commission in Australia is. You look at the Australian economic policy from the 1970s to the mid-1980s and it is very similar to that of Brazil. The results are not so bad, because they have inherited the British institutional legal framework, for better or for worse. But it's recent, they started to make reforms, more or less like Brazil. In



1985, the liberal reforms started to take off. The prime minister said that this is a banana country, a banana republic, barely comparing, but it is. By whatever means, this is not how Australia became powerful. It is not a well-solved country, it has not been like that since the beginning, it had many conflicts, many worker strikes. The country was very closed in the past. Until the 90's it was closed, it had seven automakers. Nowadays they have none and they do not resent it.

Today, 30% of Australian export is education. The country managed to transform its mentality and, incredible as it seems, everything was done by the labor party. What happened in Australia is very similar to what happened years later in England, with Tony Blair. Although Tony Blair came after [Margaret] Thatcher. The labor leader came to power at the same time as Thatcher, so he learned in real time. Thatcher was already achieving results when he came to power. So, a few years, six or seven years before Tony Blair, he does what Tony Blair would do later, and without having a Thatcher before him. That is, this group was responsible for making the revolution. It starts with the financial sector, which was awful. And the Australian banks adjust themselves and manage on their own.



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