

Productivity and challenges for Brazilian growth



Murilo Portugal

Lawyer and economist, Murilo Portugal has a long career in the public sector and in international organizations. He was the Brazilian National Treasury Secretary from 1992 to 1996, when he joined the World Bank as Executive Director (1996 to 1998). Next, he became the Executive Director (1998 to 2005) and Deputy Managing Director (2006 to 2011) of the International Monetary Fund (IMF). Since 2011, he has been the President of the Brazilian Federation of Banks (Febraban). In an interview with the TCU Magazine, Murilo Portugal talked about productivity and challenges for Brazilian growth.

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Before this scenario of fiscal restrictions, in your opinion, what are the crucial challenges for Brazil to be able to rebalance its public accounts and finance the needs of economic and social development at the same time?

Look, I think the 1995 Constitutional Amendment, which was approved in 2016, is very important for Brazil. The Netherlands were the first country to have a spending ceiling back in the 1990s. Then, Sweden and Norway. An IMF study compared the performance of 57 countries from 1985 to 2012, of which 26 had a spending ceiling, and the other 31 did not. This study verified that countries with spending ceilings presented a better fiscal performance, lower primary expenses, and a greater economic growth. There is a negative correlation between high levels of public debt and economic growth. Growth is not generated by the public sector; it is generated by the private sector. I don't see this dichotomy between economic growth and the constraint of public spending. On the contrary, the private sector, companies, and families are the ones who will finance Brazil's economic development. It is not the government. For this reason, I think establishing a spending ceiling is positive, for this limit will force us to really set priorities.

I worked in the public sector for 33 years, and I have been working in the private sector for the past 10 years. In the public sector, it seems that the idea of giving priority to a sector is related to how much is spent on it. In the private sector, it is how much is being produced that matters. Thus, the goal is to produce more and spend less. In the public sector we have: how much are we going to spend on health? How much are we going to spend on education? There isn't a concern about results. On the other hand, for the population, what matters is how much is produced in health or in education. Now, for those selling products to the government or for those working in the government, the most important thing is how much is spent, rather than the results. We have to shift the focus from spending to producing, because that is how the private sector works. We need to do more with less. It seems contradictory, but the world has evolved in this manner, and that means increasing productivity.

Regarding efficiency and productivity, there is an apparent consensus that Brazil needs to improve the quality of public spending to reach a reasonable standard of sustainable growth. What needs to be done to increase productivity in Brazil and thereby the competitiveness of national products?

Well, productivity is the primary engine for long-term economic development, and several things are needed to drive it: increasing public and private investment rates and building the capacity of workers to increase productivity by introducing new methods and new production technologies. All this is achieved by increasing investment rates. To do so, we need to increase the savings rate sustainably without creating external balance issues. We must increase the rate of domestic savings, which is extremely low. We used to save 16% of the GDP, and now we are at 14%. However, we have invested up to 21% of the GDP. With investments, we can improve workers' qualifications, invest in innovation and technology and make our economy more competitive.



You see, we live in a competitive world. We have to do things better than other countries are doing if we wish to be successful. If not better, then at least at the same level. For that, the Brazilian economy needs more openness: we need to force ourselves to be more competitive and compete internally with foreign products sold here. It is hard to find a country that has done this transition from a medium-income country, which is the case of Brazil, to a developed country without more economic openness. Briefly, the path to be taken is of more investment, more education, more innovation, and more openness of the domestic economy.

To what do you attribute Brazil's difficulty in speaking about economic openness?

I don't know the reason. Perhaps there is an ideology in Brazil that we have to take more advantage of the domestic market instead of trying to compete with the external market. I understand that it is not the most appropriate stance. Maybe it has to do with our heritage; I do not know where this difficulty comes from, but Brazil is a closed country. Our percentage of foreign trade is low. Our exports are close to 12% of the GDP, while in South Korea it is more than 26% of the GDP.

Considering your experience in other countries, what best practices would you highlight to increase productivity? In some countries, such as Australia and New Zealand, there is what I call the "productivity commission" and it shows promising results. In the World Bank "Doing Business" rank, for example, New Zealand is in the first place, which demonstrates the progress the country has achieved. Which path should Brazil follow?

For 13 years, I worked in the United States. First at the World Bank and later at the International Monetary Fund, as Deputy Managing Director. I had 81 countries under my management, including Australia and New Zealand. All across the world, people give great importance to productivity, both in the private and in the public sector. In New Zealand, for instance, competition is fierce. To survive, one must be as competitive as your competitor is. In the public sector, this does not happen much, but there is a focus on the outcome.

And in Brazil, how to integrate this productivity logic to the public sector?

I think it is an immense challenge. When I was the Treasury Secretary, I implemented a performance-based pay system. It was very difficult. That was in 1994. The creation of a productivity performance bonus is from this period. It was a struggle to achieve it, but it had a very positive result in the Treasury. Once it was implemented there, it spread to other entities, but the experience at the Treasury was very positive. During my first week as a Secretary, there was a strike. The National Treasury servers' salary was equivalent to US\$ 300.00. They were on strike for 40 days, and those who did not join the strike had to run the Ministry of War payroll. Despite the effort, in the end everything worked out. At the time, we had the following proposal: those who work more and better will earn more! From there, we created the correct incentives. We summed the number of points. Each point was worth 1 real. This represented half of the Treasury salary and it was about concrete goals, as it was done in the private sector.



Do you think it is the way to go with the public sector?

I do. I think we must also discuss stability in careers that are not State careers. Of course, the Federal Court of Accounts, the Judiciary Power and the Federal Prosecution Service are bodies with typical State careers; but teachers, doctors, engineers, and many other professions do not have this characteristic.

Another issue you have highlighted is about the importance of measuring costs. It seems a little obvious, but it still needs improvement. How do you see the difficulty we have in measuring costs and how could TCU act on it?

It is a difficult and permanent path. Because cutting expenses is like cutting your nails: you cut them and they grow back, you cut them and they grow back... You have to keep cutting all the time. I think TCU could have an important role within the public administration. To know the unit cost of each activity, whether it is health, education or other sectors that are important for the population and that demand significant volumes of public resources. It is necessary to establish unit cost measurements of a certain service, to compare them to the private sector, and to do the same thing regarding quality indicators. Both have to be measured: quality and costs, because taxpayers do not want to know how much is being spent, they care about how much is being produced; it is not a one-to-one relationship, and sometimes expenses increase, but the results do not.