



Impeachment: End of Line for Brazilian President Rousseff

Monica de Bolle says the Brazilian president's impeachment puts an end to recent turmoil and uncertainty but warns the new government will have a difficult task ahead rebuilding an economy still deep in recession.

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Pedro da Costa: I'm Pedro De Costa, Editorial Fellow here at the Peterson Institute for International Economics. I'm joined by Monica de Bolle, Senior Fellow, to talk about this momentous day, which is the impeachment of Brazilian President Dilma Rousseff. There's been an enormous amount of political and economic drama in the run up to this event. Is the finality of it? Is the overcoming of uncertainty at least a positive development for Brazil?

Monica de Bolle: Well, as you say, there has been a lot of drama, a lot of back and forth. Things have taken on a kind of velocity and speed over the last few weeks that has been very, very hard to keep up with. But overall, I think, this will move the country into some kind of direction, which we hope is positive. But I think one main message that we need to get across and that people need to realize is that impeachment is not the end of the political crisis.

So, the political crisis in Brazil will likely continue, it's very much influenced by the corruption probe. The corruption probe is not stopping. The corruption probe is ongoing. There are still revelations to be made. There are still lots of things that can come out of this corruption probe. There are lots of politicians that are involved that we already know of.

Pedro da Costa: But, tell us about what happens most immediately. The vice president takes over...

Monica de Bolle: So, most immediately the vice president takes over.

Pedro da Costa: What do we know about him?

Monica de Bolle: We don't know very much about him, actually. He hasn't been a political figure who's been out much. He's not an outspoken sort of person to begin with. He is very serious, however, and he has been preparing for this moment for quite some time. So, a while back--this was about sort of late 2015 when things really started moving against the government--he did prepare what was then seen as a government plan. And I think we actually spoke about this in one of our videos. And that plan has really been the basis of everything that he has been doing since.

So, you know, he's been in the process of trying to form a cabinet to basically take over as soon as this happened, as soon as President Dilma Rousseff was impeached. So what we know about him is that he is very serious, he seems to be very committed to doing the kind of reforms that the country needs. He seems to be very committed about having the sort of cabinet that is mainly formed by technical people rather than political appointees. But as I said, the political crisis in Brazil may present some very, very stringent constraint as to how far he can actually go.

Pedro da Costa: And what are, for President Temer now, what are his immediate policy challenges over the coming weeks?

Monica de Bolle: So, his main policy challenge is going to have to be generating revenues, because Brazil is facing this very, very grave cash constraint and fiscal problem. And the first order of business actually is trying to get the congress to pass a tax, which is a very regressive tax, and unfortunately it is the only thing that's been left in terms of immediate measures that the government can actually take.

Pedro da Costa: And in Brazil, it's the CPME. It's kind of a retail banking transaction tax that every day middle class and poor Brazilians pay for even minor transactions.

Monica de Bolle: Exactly. So, anybody who has a bank account in Brazil, and any transaction that is conducted using that bank account is going to be paying tax.

Pedro da Costa: The government goes in and takes their bit.

Monica de Bolle: Yeah. The "upside" of this sort of tax is that it's very, very hard to evade. Actually, it's pretty much impossible and so you don't have any tax collection issues with respect to that tax. And in the past it has been used sort of in these emergency situations as well when the government was facing this very big cash constraint and needed to implement this kind of tax in order to resolve its immediate problems.

Pedro da Costa: But always highly unpopular.

Monica de Bolle: Always highly unpopular. In the past when it was used it was temporary. So, the government, when it proposed this tax, it always said "Okay, this is going to last for two, three, four years, but then we're going to extinguish it." And it's the same thing I think that would have to happen now, but again his first order of business is putting in place a tax that is regressive, that affects the middle class and is hugely unpopular.

Pedro da Costa: And is there anything on the revenue raising side as opposed to the spending cut side that he needs to do?

Monica de Bolle: Well, he does need to approve a sort of legislation that has been in the works every year in Brazil that tries to delink revenues from expenditures. In Brazil there is a very severe budget execution problem, because revenues and expenditures, the way that they work in the Brazilian constitution of 1988 is that there's a lot of earmarking between revenues and expenditures; and there are lots of revenues that are directly linked to expenditure items.

So, every year the government needs to propose an amendment to the constitution whereby, yes, it's a crazy process --

Pedro da Costa: It's a budgetary doom loop it sounds like.

Monica de Bolle: It is a doom loop. And it's a process where the government proposes this year we're going to delink these sets of revenues from these sets of expenditures. This sort of amendment that was due to be passed last year for 2016 was never voted because of the political crisis, so this is the second thing that he's going to have to --

Pedro da Costa: And is this a constitutional reform or is this something that can be done without constitutional changes?

Monica de Bolle: Well, this is something that needs congressional approval. So it does need to go through the political process. And again, we are going to have the workers party, the previous governing party now in the opposition doing their best to halt all of these things from taking place.

Pedro da Costa: And what about on the spending side? We know that Brazil has some problems with pensions. What can he cut that will help bring the budget in line?

Monica de Bolle: Okay, everything is very unpopular. The things that he would need to do apart from things like raising the retirement age, which in Brazil – Brazil doesn't really have a retirement age - but on average people retire when they reach 55, which is extremely young and this has, of course, generated a huge strain on social security. So, medium term, he's going to have to propose an increase in the retirement age. This is in his government plan that I mentioned before that he was working on and released last year.

Secondly, he is going to have to look at how these social security benefits are indexed to things like inflation, past inflation to the minimum wage which is itself indexed to inflation. So some of these mechanisms are going to have to be broken, because unless you do that you really cannot get a handle on the growth of social security spending that's already happening and ballooning.

Pedro da Costa: And to get even more cheerful. Talk a little bit about the economic backdrop that Brazil is facing and will continue to face. They're in a very deep recession, the deepest in decades and that's likely to continue for the foreseeable future. Is that your outlook?

Monica de Bolle: Yeah, that is. There are two things. On the one hand, yes the recession is still ongoing so we still have to see how all of these things are going to come together and when actually the economy is going to stop its downward spiral and basically stabilize. I don't think we're there yet. And it will be a while for us to get there. But apart from that there is the issue of unemployment. Unemployment is something that, as we know, usually reacts with the lag to whatever is happening to GDP. And one thing that we will continue to see even if the economy --

Pedro da Costa: And it's already starting to climb, right?

Monica de Bolle: Yeah, it has already started to climb quite a bit. It hasn't actually reflected the severity of the economic situation in Brazil. So, one thing that I do expect is that even when the economy stabilizes, you will still see unemployment rising. And this is the kind of very, very challenging and difficult scenario that the new president is going to face.

Pedro da Costa: Well, if I could end our chat on a more positive note. I feel like from our previous conversations, while this scenario you've painted is bleak, it's less bleak than the stasis or political paralysis that might have taken place had this impeachment not happened, right? We had a continuation of that uncertainty that might have deepened the financial morass even more. So, if I can find an upside to what you've told me is that at the very least the impeachment vote lends a finality and at least gives the new government an opportunity to

try something new, even if as you pointed out the conditions facing them are going to be difficult.

Monica de Bolle: That is a very fair point and in fact my own view is, if we had not had the impeachment taking place, if this government had continued, we would have probably seen what we have not seen in Brazil so far. What we have seen in Brazil so far is a very deep economic slump, rising unemployment and all of the other difficulties that this brings to the economy. But we have not seen a balance of payment crisis, we have not seen a fiscal crisis of the sort where suddenly the government has to declare that it needs to restructure its debt or something to that effect.

Pedro da Costa: Or get IMF help.

Monica de Bolle: Or get IMF help. So, we have not seen any of these things developing in Brazil. I have very little doubt that were this government to remain that would be where the country would be heading. That would be the end game.

Pedro da Costa: I'm glad we're not heading in that direction.

Monica de Bolle: So am I.

Pedro da Costa: Thank you so much, Monica. I appreciate it. I'm sure we'll be back very soon talking about this very issue.

