

The Price of Votes and Prosperity Maintenance A brief background and a socio-political-economic-financial approach

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Since Ancient Greece in the city-state of Athens, the definition of democracy follows its etymology: "demos" (people) and "kratos" (power), or "government of the people". However, "modern democracy" is multilayered and adapts not necessarily to a "representative democracy", or to Abraham Lincoln's "democracy is the government of the people, by the people, for the people", or to Montesquieu, not at all. Quite the contrary, its connotations vary with ideological colors (economic, social and political) wherein, sometimes, even individual freedoms, expression and political rights are limited to adapt to its "principles". For this reflection, briefly, we will address Liberal Democracy – namely, the prevalence of non-intervention by the State –, and Social Democracy – with principles of equality, freedom and social justice.

In any case, although they are not the only solutions to achieve teleological objectives of States, in the democratic regime, the alternation of power is a necessary, but not sufficient, condition for its proper functioning in the long term.

The fundamental point, however, is to merge "freedom" with "social welfare" and sustainable economic growth, with political and governmental stability. This is quite a challenge in such a dysfunctional environment... as a rule, we have seen the breakdown and discontinuity of public policies, precisely because of the ideological clash that embroils them because, even among Liberal and Social Democracies, norms and values separate them irremediably.

Another fundamental condition in the democratic regime is the proper and accurate definition of Institutions. The lack or even the unstable balance among government branches and agencies generates enormous losses and setbacks for society; after all, they are an essential element in the guidance and ordering of the social structure. This is also

where the "value judgment" lies for the Liberals and Social Democrats, as the State agencies have enormous relevance for the economy, in addition to their political and legal impacts. Imposing rules, limits and conduct cannot mean hindering individual initiatives and freedoms, but rather gaining ground with correct incentives to promote growth, freedom of choice and wealth creation. In this sense, it fosters productivity and economic performance, improving resource allocation and removing subsidies, privileges and corruption.

The federal budget, in turn, serves as a vehicle for fueling social and economic progress. As a central planning instrument, by defining sources (revenues) and uses (expenses), it must aim at the allocative efficiency of public resources, with transparency and control (governance). Even following the Federal Constitution of 1988, which established decentralization of tasks as a principle to ensure the best provision of public services, Liberals and Social Democrats differ substantially on this issue. This is because the definitions of lines of



Source: Internet - Pericles's Funeral Oration (Perikles hält die Leichenrede) by Philipp Foltz (1852)

action (already disciplined for the sub-national entities) and above all the release of funds, should be both more "independent" – for the Liberals – and more "dependent" for the Social Democrats, with respect to the federal government. In addition to decentralization, the definition of what is a priority or not also separates the two camps. While in social democracy, budgets generally prioritize investments and expenditures aimed at social welfare – with social policies, reducing inequalities, the environment, etc. –, for liberals, budgets tend to prioritize reducing the size of government, reducing public spending, tax cuts, deregulation and privatization of public services, always focusing on private initiative and the free market. The fact is, however, that in the liberal world, economic efficiency invariably leads to the achievement of social welfare in the

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long term, but not vice versa – examples abound all over the planet.

Macroeconomic policies – monetary, fiscal and exchange rate – comprise the key disagreements and even the destiny of the country. We intentionally left out the “exchange rate policy” due to the (strong) tenet of a floating regime, and, therefore, adjusting to possible imbalances caused by fiscal and/or monetary policies. It is important to note that both policies have very clear goals: the monetary policy must pursue price stability, and the fiscal policy the solvency of the public debt. There is also a need for the necessary

interdependence of the fiscal and monetary dimensions, as even the coordination of these policies is not a consensus, either empirical and theoretical. The problem – and in essence the disagreement – lies strictly in how to achieve each goal as well as successful price stability and social welfare, in an evolutionary and permanent way. In fact, there is no quick and definitive answer.

Thus, for the social democrat, the State must boost growth and, as a rule, it must do so by increasing government spending, stimulate consumption, etc. For spending to be financed, tax increases are required, which is not necessarily a bad attitude, if you have a dysfunctional tax structure, that is, rebalancing tax burden can be a good measure, but as a rule, tax cuts are beneficial (see graphs above). The point is that spending, in general, even with tax rebalancing, from the social democrat's perspective, rises faster than taxes (which negatively affects private investments) and, although it can expand output in the short term (with some lag), debt

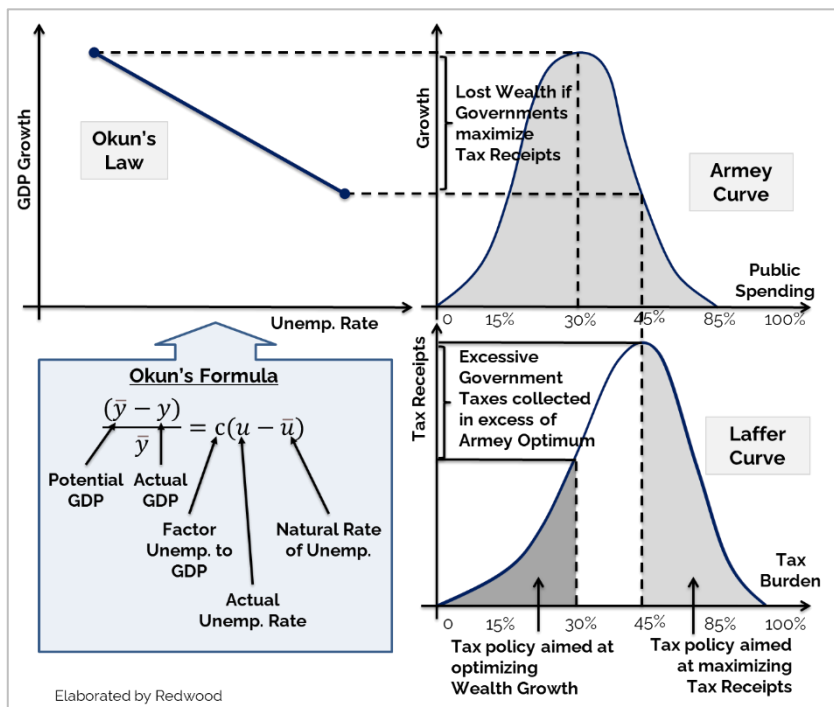
increases (the perception and expectation of which are immediate). As a result, interest rates rise and investments fall, which in turn, in the medium and long terms, tend to run counter to expectations, thereby reducing economic activity, employment and welfare. In short, the rationale is “as simple” as that.

On the other hand, liberals – in this tax rebalancing – ordinarily prefer to cut indirect taxes (IPI, ICMS, etc.) and, if possible, increase direct taxes (IR) – abiding by the principle of progressivity. Furthermore, absolute control of expenses (a variable that is in fact within the Executive's reach) is a *sine*

qua non issue for proper functioning from this political perspective. Small government prevails, and confidence relies widely on private investments. This is an equation in which monetary policy does not tag along fiscal policy, namely, the control of Public Debt precedes and “fosters” investments, giving credibility to the country's solvency, reducing risks, interest

and taxes, creating a pro-employment environment, maximizing both tax revenue and sustainable economic growth.

It doesn't take an economist to understand the social democrats' interest in defending the “coordination” of monetary and fiscal policies, the eternal criticism against BACEN's independence, etc.. They should work as two independent authorities (fiscal and monetary), but in joint and total cooperation and, moreover, mutual agreement as to their movements and decision-making... or would it just be a (unified) authority? We have advanced a lot in our democratic institutional framework, or at least in expectations, to endure such a setback. The cost and likely failure of giving up the



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little we have achieved to date is simply enormous. However, there is no doubt that there are absolutely divergent visions of how to achieve the "common goal" (a thriving economy, job creation, low inflation, etc., and increasing welfare) between liberals and social democrats. It is not clear, for example, that the best social policy would be to start with a fiscally-balanced country.

Prosperity will occur as a consequence of those who believe in and promote the logic mentioned above, notably following the macroeconomic regime launched in 1999. This regime includes flexible exchange rates, inflation targets and fiscal surplus... which clearly can and should be improved in the true concept of floating exchange rates, "continuous" inflation targets, and clearer and more achievable definitions for public debt. However, preserving the evaluation of new ideas and even some dissent, never a bootleg turn in an approach that has already proven to work very well.

Thus, although freedom of choice must be preserved in a democratic environment, and, therefore, follow the "new guidelines" of a new administration (with ideology and priorities unsuitable to the framework and tools available), the

better it would be to raise public awareness and the strengthening of institutions to stabilize the country. It is clear that this alternation of power will act as a process of learning and self-determination, but without due institutional improvement and respect for the Federal Constitution, we run the risk of provoking a democratic breakdown. In this sense, it is also not very difficult to assess who is more prone to this coordination and central planning. In this line of reasoning - and there are not a few in the current administration who think and see this way - we have several

examples of non-democratic countries (without no alternation of power) with some development but limited freedom: China, Russia, Turkey, etc.. Are these really role models for us?

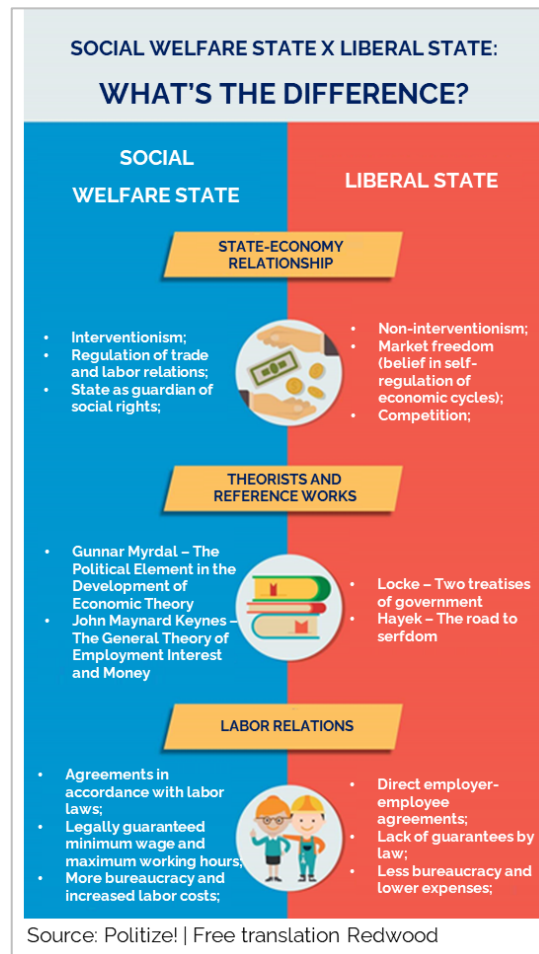
Last but not least, financial markets praise predictability, but at the same time they have no concern for the well-being of the population (nor should it). However, the choices and implementation of government policies are

constantly evaluated and priced and, because the financial market plays a central role in the country's development, it affects the nation's fate in a very short space of time. In this sense, we have a very large asymmetry and potential discontinuity in progress towards societal improvement: on the one hand, a very powerful "mechanism" that reacts and prices in economic policies in the short term, and, on the other, an entire population that can only reverse the situation every four years - although there are interruptions, often traumatic, but nonetheless democratic. It would be very naive to imagine a robust financial market amid "fears of institutional disruption."

It is not about a standard and shared rhetoric, but, back to Montesquieu, the characteristic of

democracy lies in the individual's ability to make decisions for themselves in accordance with the laws and, in the same line, with Stuart Mill, in the freedom of each person to seek their own well-being and as part of a community, achieve the greatest well-being for all. This path refutes "republican democracy", essentially critical of individualism. It is not inappropriate to suggest that we deeply reevaluate both the past and present in order to transform the future.

It seems clear that the vote has an incalculable value.



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