The grand compact of the elites

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Brazil needs a national compact to release the country's economy from the trap of the elites' growth-disabling "grand compact"

Brazil is in dire need of a national compact to bring basic (macro-economic) prices to their appropriate levels and resume the country's development.

The base interest rate must return to civilized levels; the exchange rate must regain competitiveness; the expected profit rate must become satisfactory for businesspersons and businesspersons must resume investment; wages must rise in line with productivity; and the inflation rate must remain at an acceptable level.

The country needs a national compact to release the economy from the trap of high interest rates, appreciated (low) exchange rates, and a less-than-satisfactory expected profit rate that makes growth unviable.

Such a compact will not bring everyone together. It will be either a developmental compact, rallying businesspersons, workers and the public bureaucracy around the ideals of nation and development, or a liberal compact that gathers rentiers, financiers and foreign interests together, and caters only to the interests of the wealthy. Otherwise, we will continue to face a political void, as seen in the current presidential race among candidates lacking in proposals.

There is no national compact in place, but rather a "grand compact" that may be quite simply described: to rentiers, high interest rates; to large business firms, BNDES-subsidized interest rates; to the poor, high social spending; and to everyone, an appreciated exchange rate.

A single proposal stemming from this perverse compact does serve the public good: high social spending. It stands as an efficient indirect wage, all the more fair because it enables more equitably raising living standards, and at a lower cost than if expressed in direct wages.

A high real interest rate level is the demand coming from rentier capitalists who live off interest, rent and dividends, and from financiers, who manage the wealth of the former. It is the demand from the neo-liberal coalition of classes, which lost much of its power in rich countries since its policies brought about the 2008 crisis, but remains mighty in Brazil.

I speak of interest rate "level" because the Central Bank must retain its power to run monetary policy. Instead of letting it hover around a real 5%, it should remain in the vicinity of a real 2%, at the most.

BNDES-subsidized interest (the Long-Term Interest Rate, or "*Taxa de Juros de Longo Prazo*" – TJLP) is the demand from large corporations that make investing conditional upon a moderate interest rate. Because the power of rentiers prevents the interest rate level from dropping, the TJLP is the necessary solution. But where does it leave small and medium-sized firms? Few have access to the BNDES. And where does it leave every taxpayer?

Finally, an exchange rate that remains overappreciated in the long run artificially increases the incomes of all, be they workers, businesspersons or rentiers. And enables them all to consume more than the economy would allow, even as it removes viability from investment in the manufacturing industry and condemns the country to low growth.

What did the presidential candidates have to say about this? Very little. Either because they failed to perceive the problem and believed it would be enough to perform a fiscal adjustment in order to recover macroeconomic balance (Aécio and Marina), or because, like Dilma, they knew about the problem and, lacking the power to resolve it, chose silence over action.

The President did try to lower interest and depreciate the exchange rate, but stopped mid-way through and had to retreat, because she failed to simultaneously carry out the required fiscal adjustment, and because she lacked support from the Brazilian elites, who are quite comfortable with their "grand compact".

And, finally, because neither the elites nor the people are willing to face the cost of a national compact: they would rather have the immediate consumption that the appreciated exchange rate provides.