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SAMBA LESSONS FOR GREECE

Could Lula's Brazil provide the precedent for economic renewal?

by Anthony Silberfeld

The nation that founded democracy is teaching the world another lesson in making choices. As Greece prepares for parliamentary elections on January 25, markets are bracing themselves for the fallout from a potential victory by the left-wing Syriza party. The narrative espoused by most financial media is that a vote for the incumbent New Democracy (ND) party augurs stability while a vote for Syriza portends economic ruin. A Syriza victory, however, must not necessarily be all doom and gloom.

More than a decade ago a strikingly similar political and economic scenario played out in Brazil. A 2002 election pitted José Serra, then-President Fernando Henrique Cardoso's preferred candidate, against Luiz Inácio Lula da Silva, who was routinely characterized as a left-wing radical and an extremist. *The Economist* noted that a potential Lula victory "terrified the financial markets" and caused Brazil's currency, the *real*, to fall sharply against the American dollar. The risk premium on Brazilian government bonds jumped to boot.

At first glance, comparing Greece to Brazil is like comparing feta to *feijão* (black beans). Brazil has more than 200 million people and the world's seventh-largest economy. Greece has fewer citizens than there are residents of São Paulo and an economy in desperate need of an overhaul. But by looking at the choices faced by Lula and Syriza's leader, Alexis Tsipras, the former may just offer a roadmap for the latter. Following in Lula's footsteps with a similar ideology and focus on debt repayment, poverty reduction and job creation might give Syriza the chance to rescue Greece and prove the party's critics wrong.

IOU…Too Much

In 2002, Brazil was on the verge of defaulting on its debt when Lula negotiated a US$15 billion loan from the International Monetary Fund (IMF) to keep his country's economy afloat. A commodities boom and responsible fiscal management allowed Brasilia to repay the loan two years early, saving taxpayers US$900 million in interest. The Greek case is more complicated, especially since currency devaluation or depreciation (which Brazil experienced

in 2002) is impossible. There are no panaceas that will allow Greece to extract itself quickly from its economic and fiscal predicament, and ongoing sacrifices will have to be made by the Greek government and people, and their creditors. But Athens has options beyond default and social collapse, and Tsirpas seems to realize this. His initial pledge to annul a US$284 billion bailout provided by the European Commission, IMF and European Central Bank (the so-called "Troika"), has given way to increasingly moderate rhetoric that emphasizes Greece's commitment to the euro and a need to negotiate the terms of the debt repayment.

It's fair to argue that Brazil was able to discharge its debt largely due to a surge in commodities prices, but a closer look at the Greek economy suggests that Athens may benefit from the steep decline in oil prices. In both countries, commodities account for one-third of exports, but if Greece can maintain or improve efficiency in its production of refined petroleum, the country's chief export, it can take advantage of the potential spread between low input costs and high output prices. Between 2008 and 2013, crude oil prices fell by nearly half, but refined petroleum products maintained their 2008 highs. The current glut in global oil supply could present a Syriza government with a unique opportunity to improve Greece's refined petroleum infrastructure and put the country on better footing.

Concerning debt repayment, Syriza officials have repeatedly expressed an intention to negotiate a 50-percent write-down. The party is right to make this a priority, but it should be prepared to compromise on the numbers, not on the tactic. A haircut of that magnitude may, after all, be impossible for the Troika to accept. But a negotiated solution with creditors sent the markets an important signal in the early days of the Lula administration, and a similar move by Tsipras could have an equally stabilizing effect. Greece's debt burden has reached a level that makes full repayment unrealistic. Syriza's challenge will be to strike a balance that allows the country to meet scaled-back loan obligations without compromising its social and economic reform agenda.

Moving on Up

Entering office, Lula ignored a global financial sector that denounced him as a latter-day Fidel Castro and focused on implementing a progressive agenda to lift millions of Brazilians out of poverty. The key to Lula's success was the *Bolsa Familia* program through which impoverished families received a monthly cash transfer of up to US$95, provided they met certain requirements. The children of eligible families, for example, had to attend school (an additional long-term economic benefit). Lula's programs, alongside targeted investments in infrastructure and a focus on job creation, ignited a social mobility revolution that saw 30 million Brazilians move into the middle class and rescued 20 million more from abject poverty.

The disparity between Brazil's "haves" and "have nots" may be more pronounced than in Greece today, but the current economic crisis has created an alarming situation that has left a third of Greeks in poverty. (The Gini index, which measures the degree of inequality in national distribution of family income, ranks Brazil 16th-most unequal country globally while Greece ranks 93rd.) Syriza has called the situation a "humanitarian crisis" and has admirably made poverty reduction a primary objective. The party has proposed a program that includes food stamps, subsidized electricity, transportation and free healthcare for the unemployed. The key question is how to finance an ambitious social agenda that will cost upwards of US$13 billion. Yet the *Bolsa Familia*, widely regarded as one of the world's most effective social mobility tools, came at a cost of just 0.3 percent of Brazil's GDP.

Back to Work

When Lula assumed Brazil's presidency, official unemployment stood at 13 percent. To spur job growth, he created the Accelerated Growth Program, which called for launching public and private infrastructure projects to the tune of US$283 billion over three years. By the time Lula left office, this program was touted as a success and was viewed as a key driver reducing unemployment 4.8 percent. Brazil's poverty rate had also fallen by 27 percent.

Syriza's plan to create jobs lacks detail at this stage, though a Tsipras government would begin with the premise that ending austerity and investing in publicly funded infrastructure projects, particularly in the energy, transport and tourism sectors, will save existing jobs and create new ones. Syriza chief economist John Milios has also proposed a restoration of the pre-crisis minimum wage level of €750 (US$888) per month but has yet to address criticism that this would establish an additional obstacle to private-sector job creation. Still, the experience of Lula-era Brazil suggests that Syriza's approach must not necessarily hamper private-sector momentum. And with more than 26 percent of Greeks out of work, immediate action is necessary.

A Delicate Dance

Tsipras may well be the next Greek prime minister, and he must therefore consider the type of leader he aspires to be. In 2012, he met Lula behind closed doors, and the latter reportedly offered advice on the virtues of moderation. Lula had surveyed his country's political and economic landscape, and determined the advantages of being a radical firebrand on the stump and a pragmatic decision maker in office. Syriza will be well served by remembering Lula's brand of "samba socialism". It is a delicate dance, but the footwork should feel natural for Greece: two steps forward, one step back and turn to the left.

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