The State of the Brazilian Economy

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Since the start of the decade, Brazil has faced a deep recessionary phase with relatively high unemployment rates, negative economic growth, stagflation followed by disinflation, and lastly a very unequal share of incomes with a gini index among the highest in the world. This article examines the four economic goals and its statistics of the 'BRIC' country Brazil.

Equity- Another economic goal any country wishes to achieve is equity: fairness and equal chances for all classes. The Gini index allows for countries to measure how equal their country really is, 0 being perfect equality and 1 inequality. Although the most current Gini index Brazil has is from 2015, it stood at 0.513 with not many signs of improvement. Distribution of income is very unequal and the Lorenz curve below highlights it.

Unemployment rates- Along with the decreasing GDP, Brazil’s unemployment rates have reached an almost all time high of 13.10%, with the highest being 13.70%. With 12.96 million unemployed in 2014 (12.2%), Brazil saw another 0.90% increase in the rate of unemployment for their 207.7 million population. The groups that currently face the most unemployment are black women with 7.2% and 14-17 year olds in the workforce facing 39.7% rate. Regardless of child labor being prohibited in Brazil, families struggle to sustain themselves and thus send their children to work, despite many times not being able to be employed and help their family.

Government Policies- In order to attempt to fix the economic situation, the Central Bank has lowered interest rates to promote investments and less savings to prevent leakages in the economy. Along with that, new fiscal and monetary policies were imposed to increase consumer and business confidence, potentially leading to more consumption. The current struggle Brazil still faces is an unequal share of income and increasing unemployment that has not much been talked about by the present-day government that came to power after Dilma Rousseff’s impeachment in 2016. Opposers to the ongoing government question its policies of reducing interest rates as consumption will not increase due to many already being unemployed and unable to spend.

Gross Domestic Product- Ever since the end of the FIFA World Cup in 2014, Brazil’s GDP has decreased from 2,455.99 USD billion to 1,796.19 USD billion (2016). During this contraction in the economy, the GDP for the three sectors of the economy have been hurt. Agriculture in the primary sector for example has had a decrease in GDP from 24,981.64 Brazilian Reals (BRL) to 13,159.91 BRL. Diagram #1 on the left displays the negative growth of the country and decreasing price levels from PL1 to PL2 which reflect the disinflation and growing unemployment further discussed below.

Inflation- Until 2014, stagflation rose above 7% until in the past 4 years, where the country saw some disinflation with the consumer price index decreasing from 6.33% in 2014 to 2.68% in 2018. Despite disinflation meaning average price levels are decreasing, it can also show the decrease in economic growth, which is the case in Brazil’s economy currently. When comparing unemployment rates and inflation, a clear tradeoff is occurring where unemployment rates increase and inflation decreases.
Proposed solutions-

In order to get the economy out of the recession, the first two proposed goals the government should improve is decreasing unemployment rates and economic growth. Spending on infrastructure and education for example is a way to boost GDP and would improve the quality of life of Brazil’s citizens both on the short-run and long-run. Moreover by spending on new infrastructure for the country, the lower working class will have more employment opportunities and with the new income can consume more on goods and services. Graph #4 shows how an intervention from the government (AD2) from the recessionary point Brazil currently is in (AD1 at USD 1796 Billions) can shift aggregate demand outwards back to the full employment level of output. This multiplier effect will lead to more jobs and consumption and can lower the Gini index of the nation as incomes of the lower class increase, creating a more equitable society. A limitation to this proposed solution is the fact that the government ignores opportunity costs; while spending a significantly large amount of taxpayer and/or borrowed money on only education and infrastructure, other alternatives for economic growth are ignored such as helping the agriculture sector of the country, which has faced a large decrease in GDP as mentioned on the first page. The Keynesian multiplier can also get the government in further debt if the money is not paid off once the economy is back at the full employment level of output.

Another proposal that does not include government intervention is lowering costs of production for firms. Short-run aggregate supply would shift from ‘2016’ to the ‘proposed curve’ and price levels would decrease from P1 to P2. By lowering costs, more workers will be employed and the economy will return to the full employment level of output at Yfe1. However, with less costs and more employment, consumption will also increase and can put the country in an inflationary gap, this is shown by aggregate demand shifting from the 2016 curve to the proposed curve to the right of the full employment level of output. Nonetheless, if firms increase the quantity or quality of their goods, the long-run aggregate supply will also shift outwards returning once more to the full employment level of output and ultimately a higher GDP. A flaw with this proposal is that the improvement of the economy is fully reliant on the people’s increased consumption after the lower costs employing more workers. With the state Brazil is currently in, even being employed may not be enough for the people to be confident enough to consume goods and services. If this were to occur, the aggregate demand curve would not shift outwards, causing disinflation and only a slight increase in output and employment. A way to fix the problem could be lowering interest rates in order to make consumers more confident, leading to increased consumption and a successful shift of the aggregate demand curve to the right.
Works Cited


