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**PRODUCTIVITY: KEY TO ECONOMIC GROWTH AND INCOME
DISTRIBUTION**

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Modern economies cannot give up the constant pursuit of productivity and efficiency to continue to grow and promote the distribution of wealth.

The Brazil, especially in the last eight years, with economic policy in line with the growing interference of the state, called "new economic matrix" prioritized income growth at the expense of productivity; yield in the country is reaping in economic terms, in 2015: recession, negative growth and rising inflation.

Propping up the benefit of exceptional external conditions, leading up to the above mentioned period, the government has made social promotion guideline of politics and economy. It was possible to rapidly deepen democracy in socioeconomic issues, and distributional policies proceeded on the pursuit of efficiency.

The income of workers and the standard of living of social layers middle and bottom of the distribution had a much larger improvement than GDP growth. Even the GDP growth, driven by falling unemployment and the demographic bonus, walked well ahead of productivity.

The problem is that the bill arrived and has to be paid by the Brazilian society, as the period lived until 2013 and maintained artificially in 2014 - an election year - set the parameters of the new economic matrix ended. There is nothing to gain in terms of improvement in income distribution without facing the challenge of productivity and efficiency.

Rising incomes above productivity, credit growth and the expansion of social programs gave the keynote of the golden age of social inclusion, putting in the background issues of efficiency and productivity.

By the way the Brazilian productivity is virtually stagnant since the year 1980. The comparison with other countries is alarming. At the same time the Korean tripled and Chinese productivity increased more than tenfold. Even for Latin American countries, Brazil's performance is mediocre.

In seeing this, there is ample debate to understand how it was possible to increase wages - from the first half of the past decade - in an environment where productivity does not show improvement. An explanation is due to the favorable external environment, in which there was abundant liquidity with rising commodity prices, at first, and improved terms of trade in the second. Heating the service sector, intensive hand labor, also contributed to the increase in workers' compensation. This phenomenon was united to aggressive social policies, and a rapid expansion of credit, creating major outbreak of popular consumption continued to intensify until recently.

However, the increase in unit labor cost in the years of euphoria undermined the profitability of companies, affecting investment from levels that were already low. The popular credit cycle has run out, because with inflation increasingly out of control contributes to rising interest rates, which aggravates the economic picture for match sharp deterioration in the labor market. Even with cyclical recovery, will not anything like the boom caused by rapid credit growth from minimum levels as in the past decade.

On the other hand, when it comes to the productivity of attention usually turn to the industry and in Brazil the last few decades for agribusiness. However, as the service sector represents 70% of GDP and uses 63% of the mass of Brazilian workers, productivity developments in the economy cannot move off the services.

At the seminar "Brazil's Growth Agenda", organized by the Getulio Vargas Foundation (FGV/IBRE), in August this year, the researcher Fernando Veloso, the Brazilian Institute of Economics (IBRE), pointed out that about 85% of services in Brazil are in traditional sectors such as personal services, trade, restaurants, etc. It is a portion which tends to have lower productivity than the so-called modern sector of services, such as finance, information technology and others.

Recent studies indicate that there is in services the trend towards international convergence in productivity levels, which occurs to some extent in industry. So make the most productive services necessarily involves a slow and difficult institutional work to be done by each individual country, which seems to be the keynote of the Brazilian

government, and more, there is precious need of extending and improving education as the point focal to be observed.

Other points deserve highlights. Micro and small enterprises are the focus of constant support measures because they are large employers, but the economic literature indicates that potential productivity gains occur more among medium-sized companies, which are better able to converge to the high standards of efficiency of big ones.

That is, between the power of big business and the network of support and encouragement of small and micro enterprises, often there is less presence of medium-sized companies than would be desirable in an increase in productivity perspective - the missing middle problem.

The infrastructure sector is another that leaves much to be desired in Brazil and productivity. For example, because there is no road infrastructure compatible with the size of the Brazilian GDP, productivity of private capital allocated in several markets ends up compromised. Look up the repetitive flow problem of the growing crop of grains in Brazil, which can eliminate the productivity gains occurred in the production system with the latest technology generated by the Brazilian agricultural research.

However, for the Brazilian economy to grow again, and in a sustained manner, and contribute to the distribution of income, there is no other way out but to meet the challenge of efficiency and, consequently, productivity.

The current crisis brings to light this reflection. Are huge challenges that may seem, at first sight, beyond the coping capacity and political will of the government and other Brazilian institutions to carry out. But there is no magic way out and not populist to solve the serious problem of very low rate of efficiency and productivity of the Brazilian economy. But the country must begin to focus on this crucial issue for its development, including the sustainable after years in which notable socioeconomic advances have occurred without the need for major efficiency gains, by the way a Brazilian tradition, perhaps motivated by the size and abundance of resources natural available to the production process.

Thus, in this recession the Brazilian economy, opens up a whole field to new diagnostics and solutions whose adoption can bring positive results as surprising as the degree of virulence of the crisis that now affects the Brazilian economy.

In this new field should be a bureaucratic revolution, with more institutional imagination to create new mechanisms of productive stimulus to replace the subsidy policy used by the government, which placed the country in economic crisis situation that is in 2015. This policy does not raised the investment rate did not increase the rate of technological progress of society.

This change can stimulate the generation of new entrepreneurs so that there is a new profile in the new middle class that emerged in the last decade, so it gets out of demand for the offer. The formation of new entrepreneurs could lead to restructuring of supply chains supported in increasing productivity and efficiency. Brazil needs to catch up on what is in the international ranking of productivity gains in the economy.