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# A RATIONAL STATE IN ECONOMY IS POSSIBLE?

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What can understand how a State with economic rationality? In the 21st century this condition is increasingly acceptance among those States and their Governments being drivers of the development process, by establishing institutions necessary for capitalist development, as the guarantee of property and contracts, productive investment stimuli within a competitive scenario, the institutionalization of education as a factor of citizenship and training that enable increased productivity across the economy. Plus, with fiscal balance.

Taking Brazil as case study at the end of the last century to the present there seems to be the intent, but not convinced that this is the path to be trodden. Of hyperinflation and lack of control of public accounts in the years 1990 to control inflation and fiscal balance initiatives, the country gave reverse, in recent years, from 2011, presenting a gigantic fiscal imbalance, with scene of political, economic and social uncertainty, and with the ethical and moral deterioration.

Even being of an interim Government, launched on 12 may 2016, the Finance Minister, Henrique Meirelles, proposes a group of actions to contain the alarming trajectory of public accounts and reverse the negative expectations of markets, which should be placed in march confirmed the decision of the Senate by impeachment of President Dilma Rousseff.

The first is the consistent resumption of concessions and privatizations, with which the Government hopes to raise about R$ 30 billion in 2017. The second, and more controversial, is the presentation of a draft constitutional amendment (PEC, in Portuguese) which imposes a ceiling for primary expenditure of the current powers of the Union and federal agencies with administrative autonomy, limiting their growth to inflation of the previous year for a period of 20 years (with review provided in half the time), which the Government intends to approve by the end of the year for validity as early as 2017. The third is Social Security reform. They all converge on the fiscal balance of public accounts.

The alarming fiscal situation is the result of 25 years of government expenditure grows more than GDP. During this period, the real expansion of the primary public spending (which excludes interest and compulsory transfers) deflated by the IPCA was approximately 6% per year, for a GDP which recorded average annual growth of just under 3.5%.

And what led to this deficit? The former Minister Delfim Neto responds with the following sentence: "the social expenditure does not fit in the budget". Can be added, in addition to social spending, the Government starting in 2003, also increased spending on other items, is what explains Economist Marcos Lisboa, according to him, there are too many distortions: *"free University for children of rich the BNDES for entrepreneurs, among many examples, it's as if each of the beneficiaries had a half price, which in the end winds up whole entry".*

It is a system that takes the company a high volume of taxes to balance the budget, being too distorted, encouraging businesses to stay small, for example, depressing productivity. The Brazilian Government today is a huge weight on the private economy, either by absorbing savings that should be channeled to private investment, either because the Government has lower productivity than the rest of the economy.

For the economist Samuel person without disarm that bomb the result will be higher inflation, and adds: *"if we don't do something in the next three years, six she will reach 40%".* And more*: "that inflation as a distributive conflict management is only better than civil war".*

Marcos Mendes, head of the special assistance of the Ministry of Finance, highlights within this framework of fiscal deficit, the loss of tax revenue administered by the Government of about five percentage points (from 17.2% in 2006 to 12.4% in the estimate for 2017), thanks to special regimes makes.

World Bank studies indicate that it takes a combination of rules to discipline the fiscal performance, which has been a common choice among various countries. According to the Bank, in 2014, at least 20 countries adopted rules involving the control of expenditure, including Spain, Japan and France. By this optics, in the case of Brazil the single control of the primary deficit has been shown to be suitable because the period of commodity superciclo, it was possible to meet the deficit targets and at the same time expand the expense, thanks to revenue growth. In the long run this was unsustainable, as revenue fell and the expense has become inflexible.

This demonstrates that only the primary result guarantee long-term fiscal health, demanding the supplement provided for in PEC and the other actions proposed. But the arrangement of the fiscal rules – basically to control public debt, deficit and expenditure – depends on the institutional features of each country. In the case of Brazil, where we have a very unequal society and institutions more vulnerable to pressure groups, the combination of primary outcome result with nominal expenditure growth target collaborates to discipline these demands, which end up becoming uncontrolled increase of general expenditure.

Consider that in a democracy to have a rational State in the economy, must be by consent of the electors, which depends on the actual demands, educational level, political awareness without ideological bias fundamentalist. Countries where these conditions are not well placed and politicians rely on populism, it is impossible for the State to have economic rationality, which inevitably leads to the fiscal imbalance with its known consequences, so that the society again pay the Bill through loss of rhythm of development or even with recession. The Brazil lives this moment.