BY ROBERT J. BARR0

THE MEN RUNNING BRAZIL STILL DON'T GET IT

JAY REED

GET REAL: Brazil needs to impose fiscal discipline and dollarize its economy, but nationalism and bankrupt ideas are leading it astray

It seems that I cause trouble whenever I go to Brazil. On my trip in August, 1996, I said that the government's fiscal and monetary policies were insufficiently serious. Especially problematic was the slow pace of reform in privatization and social security. There had also been no basic changes in monetary institutions. including a failure to create an Argentine-style currency board. This combination of fiscal and monetary weakness led me to predict that the Brazilian real would eventually be devalued. It took a bit longer than I expected. but it happened last January.

Finance Minister Pedro Sampaio Malan reacted to my comments in 1996 by saying that Brazil did not need nonserious American academics coming to Brazil to say that its policies were not serious. After his remarks appeared in a newspaper, I told a reporter that Domingo Cavallo had recently. been fired as Argentina's Economic Minister and was available to replace Malan as Brazilian Finance Minister. This suggestion appeared in several newspapers and caused considerable distress. Apparently, an Argentinian running the Brazilian economy would be a national disgrace.

ROSY VIEW. On my return for another conference a couple of weeks ago, I saw that not much had changed in Brazil. Fiscal and monetary reforms are still insufficiently serious, and prospects are for more exchange-rate crises and continued volatility in interest rates and inflation. The financial system is temporarily propped up by International Monetary Fund cash, and people are unreasonably optimistic based on short-term favorable moves in exchange and interest rates. Malan is still in charge at the Finance Ministry, and, worse yet, Cavallo is probably no longer available. He seems busy as a senator and presidential candidate in Argentina.

I argued at the conference that the Americas were witnessing the start of a favorable trend toward dollarization. The adoption of the U. S. dollar as a means of payment would eventually create the monetary discipline and stability that has escaped many countries in Latin America, including Brazil. My prediction was that this process would begin in Argentina, a considerable irony because Argentina already had Cavallo's currency board and therefore needed external discipline the least. After Argentina, dollarization would likely spread to Peru and Central America. Then the two most critical places would be Mexico, which might move next, and Brazil, which would likely be among the last countries to act.

A fellow panelist, Aloizio Mercadante, who is vice-president of the Labor Party, reacted angrily to my proposals. He said that following Cavallo's ideas about currency boards was more like following a donkey than a horse (apparently a play on the Portuguese word *cavalo* for horse). He also said that Brazil was a great country and therefore must always have its own money and monetary policy. I suggested renaming the dollar as the America if this would assuage national pride. I also expressed puzzlement about why it was 0. K. for countries to export cars and wheat but not currencies and monetary polities, even though some countries were much better than others at producing monetary services. I argued that the world was moving toward three currency zones-the euro and something in Asia in addition to the dollar-and that Brazil ought to be making plans to join one of these zones.

I was not surprised to learn that Brazil had made little progress in tackling its fiscal and monetary problems. But I was astounded to discover that the state in which the conference took place-Rio Grande do Sul-had joined Cuba and North Korea as one of the world's few remaining Marxist economies. The local governor, Olivio Dutra, was even a dead ringer for Josef Stalin. His economic program seemed to have been inspired by the Soviet Union of the 1950s: an end to privatization, creation of new state companies, coercive agrarian reform, governmental repudiation of contracts with General Motors Corp. and Ford Motor Co., curtailment of foreign investment, and the cessation of payments on debts to the federal government. This local program actually made Brazil's national economic policies look pretty good.

To add to the strangeness, Brazil also appears to be the only major country in the world that imposes cumbersome entry requirements on U. S. citizens. I almost did not make the trip in 1996 because of difficulty in obtaining a visa. Brazilians say the U.S. requires them to get visas to visit, too. So it's just a matter of Brazilian pride. But perhaps in this area. as well as in monetary matters. Brazilians ought to worry more about sound policy and less about nationalism.

Robert J. Barro is a professor of economics at Harvard University and a senior fellow of the Hoover institution (rjbweek@harvard.edu).