

Comment

From soccer defeat to Brics triumph?

The gathering may let the Brazilian government look a bit more purposeful than it has lately

by Jim O'Neill

Brazilians had mixed feelings about the World Cup even before their team's humiliation in the semi-final match against Germany. Now they're left to dwell on what's been spent on the competition and what they got out of it — a pretty dismal return on investment.

While Brazil is chewing that over, the country will be hosting the sixth summit of the Brics (acronym for the grouping comprising Brazil, Russia, India, China, and South Africa) nations this week. Maybe greeting delegations from Russia, India, China and South Africa to discuss the future of the world's major emerging economies will be a welcome distraction. There's real work to be done at this gathering, so it might let Brazil's government look a bit more purposeful than it has lately. Then again, it might rub salt in the wound.

Let's talk about the soccer atrocity first. You'd struggle to exaggerate the disappointment Brazilians feel right now. I saw the fans' delight on Copacabana after their team beat Colombia, and heard their joyful chanting at matches where Brazil wasn't even playing. Other things might let them down, but they could take pride in their football. Then I saw that pride collapse after the game against Germany. It was heartbreaking.

Brazil has a bit of growing up to do when it comes to soccer. It no longer has players of the calibre of its wonder years from the 1960s to the early 1980s. For years, its national teams have been successful, but not as dominant as they once were. In that sense, the expectations had gotten out of hand and the country was riding for a fall. A bit more realism and the sense that football's just a game wouldn't go amiss. Perhaps that kind of maturity is what we're seeing in Brazil right now, despite



Brazil's football team posing before settling for fourth placing behind the Netherlands. On the economics front, now would be a great time for the country to make some decisions and silence the doubters at the summit there this week.

the dismay. Life goes on. That, at least, is what I keep telling myself as a fan of Manchester United.

It's worth remembering that Brazil isn't the first country — and it won't be the last — to spend money on a big sporting event that would have been better spent on other things. The same was true for South Africa for the 2010 World Cup, and probably for both Japan and South Korea for the 2002 World Cup. (In 2006, Germany already had most of what it needed to host the competition.)

Or think of the Olympics, where wasted spending on a vast scale is almost mandatory. Rio hosts the Olympics in 2016, so its planners might have learned a thing or two lately.

Although it's right for Brazilians

to protest about the excessive cost — and a welcome expression of democratic expectations, by the way — the country shouldn't beat itself up too much over its outlays for the World Cup. Much less should it be criticised by foreigners who've made the same mistake.

Meanwhile, Brazil's economy isn't exactly thriving. The past few years have been a letdown. My earlier prediction of 5% growth over the course of this decade is almost certainly going to be proved wrong. The end of the commodity-driven boom years hasn't been easy.

Again, though, one needs to keep a sense of perspective. Brazil only appeared to have grown so strongly in the previous decade because of the soaring value of its currency and rising commodity prices. These

translated into very fast increases in dollar-denominated output and spending. Real gross domestic product growth was less than 4% a year over the decade. Moreover, as disappointing as this decade's growth of roughly 2% a year has been, outright Brazilian-style crises are a distant memory.

Analysts who write about the country's high and rising inflation — currently running about 6% — forget that prices sometimes rose 6% each month in the 1970s and 1980s. The currency lost value so rapidly it had to be repeatedly scrapped and replaced. Those days are over.

Certainly the government has to get out of the way, and stop "doing a China" by trying to direct so much of the economy itself. (Even

China is no longer doing a China.) Brazil needs to be more competitive and more inventive; it needs its private enterprises to invest more in creating wealth and boosting productivity.

In this, the Brics summit could play a small yet useful role. Brazil could push to shape the much-discussed Brics Development Bank in the right way. Where will it be based? How exactly will it be capitalised? What big projects might it help to advance? Maybe some funding for the Rio Olympics?

As the inventor of the acronym, I have a stake in the Brics. I want to see it succeed, and I'm sure it can. For all sorts of reasons, now would be a great time for the B in the Brics to make some decisions and silence the doubters. — Bloomberg View

Toward a 'Rio Consensus'

by Kevin P Gallagher

CONVENIENTLY scheduled at the end of the World Cup, leaders of the Brics (acronym for the grouping comprising Brazil, Russia, India, China, and South Africa) countries travel to Brazil in the middle of this month for a meeting that presents them with truly historic opportunity. While in Brazil, the Brics hope to establish a new development bank and reserve currency pool arrangement.

This action could strike a true trifecta — recharge global economic governance and the prospects for development as well as pressure the World Bank and the International Monetary Fund (IMF) — to get back on the right track.

The two Bretton Woods institutions, both headquartered in Washington, in the US, with good reason originally put financial stability, employment and development as their core missions.

That focus, however, became derailed in the last quarter of the 20th century. During the 1980s and 1990s, the World Bank and

the IMF pushed the "Washington Consensus," which offered countries financing but conditioned it on a doctrine of deregulation.

With the benefit of hindsight, the era of the Washington Consensus is seen as a painful one. It inflicted significant economic and political cost across the developing world.

What is more, the operations of the World Bank and the IMF are perceived as rigged against emerging market and developing countries. The unwritten rule that the head of the IMF is always a European and the World Bank chief is to be an American is only a superficial but no less grating public expression of that.

Worse still is the fact that the voting structure of both institutions is skewed toward industrialised countries — and grants the US veto power to boot.

It wasn't always that way. As Eric Helleiner shows in one of his two new books *Forgotten Foundations of Bretton Woods: International Development and the Making of the Postwar Order*, China, Brazil, India and other countries want-

ed development goals to remain a core part of the Bretton Woods institutions.

Some of their proposals eventually made it into the policy mix of the World Bank and the IMF, including short-term financing, capital controls and policy space for industrial policy.

When these institutions failed to predict the global financial crisis of 2008, however, the Brics and other emerging market and developing countries said enough is enough. First, they tried to work inside the system by proposing reforms that would grant them more say in voting procedures.

However, the US Congress has failed to approve the small step-wise reforms of that process — even though US would have maintained its veto power.

Brics and other emerging market nations also joined the G20 in hopes that it would be a more pluralistic venue for global cooperation.

The G20 did hold a landmark 2009 meeting where a new vision was articulated for global economic governance, but none of the promises — especially the coordi-

nation of macroeconomic stimuli to recover from the crisis and comprehensive reform to prevent the next one — were realised.

Now the Brics is taking matters into its own hands. Its governments have been diligently putting together two new institutions that hold great promise — a new development bank and a new reserve pooling arrangement.

The development bank would provide financing to Brics and other emerging markets and developing countries for infrastructure, industrialisation and productive development. The reserve pool would allow Brics and other nations to draw on pooled reserves in the event of balance of payments crises or threats to their currencies.

When these institutions are launched in Rio this month, Brics could and should forge a "Rio Consensus" — provided it does not make the same mistakes of other, mostly Western-inspired "models" in the past. The key is to make it a model for global economic governance in the 21st century.

The key elements of a Rio Consensus are a definite step in that

direction. At its core is a commitment to financial stability and productive development in a manner that is inclusive, honours human rights and is environmentally sustainable.

Organisations carrying out such a mission should also have a more equitable organisational structure with open and transparent rules. This crucially includes the mechanism for picking leaders and a more equal voting system for existing and new members.

Not only will such a framework and structure enable more appropriate finance for development and stability, it can also serve as a moral model of reform that can someday be achieved in the two Washington-based institutions themselves. This will give Brics more leverage — and an opt-out if the industrialised countries stay set in their ways. — The Globalist

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