

Interview on the Economy and Covid-19 in Brazil

Deirdre Nansen McCloskey

interviewed by Francisco de Azeredo

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-- What have we learned from the pandemic?

We have learned for one thing that a plague does not go away if the premier engages in childish jokes and magical thinking, as Bolsonaro, Trump, and Boris Johnson did. Two of them continue to do so. For the longer term, we learned that we need to spend much, much more on the science of viruses. And we need a public health service truly ready for the next plague, which when it comes, as it will, could easily be worse. Look at ebola. Brazil needs to raise the academic level of its research institutes and medical universities, so that their graduates can staff the health service. Liberals do not oppose governmental action for invasions or forest fires, or plagues, especially if the action is early and decisive – and therefore does not require clumsy mass quarantines later. The mass quarantines are necessary only if the government did not do the job early – as especially in Brazil, the U.S., and the UK, it did not.

-- Some populist leaders have asserted a choice between health and the economy: we have to choose between the social isolation recommendations of the World Health Organization and our jobs. Brazilian president Jair Bolsonaro and his supporters say the country cannot stop and that the quarantine is only good for those who have savings. Can we make the choice?

Populism à la Juan Perón depends on dividing people, so that a big group can blame a small one – the Jews, the foreigners, the capitalists, and now the public-health scientists. It results in death and a ruined economy, both. The unifying strategy, by contrast, does two things: (1.) It follows the standard, and effective, measures for dealing with plagues that have been developed in the past century: test, trace, and selectively quarantine, when possible early. Doing so requires the government to focus on testing, tracing, and selective quarantine, not on making juvenile jokes and defying adult common sense. (2.) The unifying strategy extends the bolsa familia massively at a higher level to all the poor. Doing so takes away the divisive joke of health vs. jobs. It should not be hard for Bolsonaro: after all, his name almost includes “bolsa.”

-- The Brazilian minister of Economics' Paulo Guedes is a University of Chicago Ph.D. graduate in economics. He is radically against increasing government spending. The

Brazilian government is being criticized heavily because Bolsonaro insists Brazilians should go back to work right now. The government has also delayed the announcement of economic measures to help the poor and the jobless. More than half of the Brazilian work force is in the informal economy. What advice would you give Paulo Guedes to help him deal with the economic challenges of this pandemic?

Paulo should remember what we taught him at the University of Chicago, namely, that the best help for the poor in the long term, as he does remember, is an economy producing things – but Paulo needs to grasp that it can't happen in the short term if people are terrified to go to work, or are dead – and that the best help for the poor in the short term, as he appears to have forgotten, is an income transfer, such as Milton Friedman and Deirdre McCloskey taught in their price-theory courses at Chicago: the bolsa familia, for example. Paulo is correct to want Brazil to get away from subsidies, regulations, protectionism, and government expenditure on stupid projects, such as the Brazilian military. So much Paulo learned on the fourth floor of the Social Science Building at Chicago. But Milton Friedman knew that when there is war, you fight it. The only time Milton worked for a government, or accepted money from a government, was during World War II, in the fight against fascism. (By the way, he invented then the withholding tax on incomes, in order to more easily extract the resources to build ships and tanks. It made a very high income tax more acceptable. His wife Rose, also an economist, never forgave him for this innovation in effective statism.) Fascism is the militaristic version of populism, which Juan Perón cleverly realized in the mid 1940s, observing its results in Germany and Italy at the time, was not how to retain power – instead, divide the people by defining some people as unpopular, and then harvest the votes of the popular people for governmental domination of the economy and the polity. Don't, say, invade Uruguay; instead, blame the capitalists and the foreigners.

-- The pandemic has hit countries governed by liberal forces, like France and Korea, and democratic countries ruled by populists like Brazil, the U.S., and the UK. How would you rate the performance of liberal and illiberal nations in tackling the pandemic?

I told you how the democratic populists have done: poorly. Jokes and magic don't stop plagues.

The illiberal governments are good at coercion. Obviously. So some illiberal governments like that of Vietnam have done a good job, so far. Others, like the Russian Federation, have done a bad job – the outcome may yet topple Putin. Even Vietnam, though, depended on arousing public opinion, getting a unified consent of the people, in Vietnam's case by the old techniques of communist propaganda – posters of courageous fighters against the virus, for example.

The liberal and non-populist and quick-witted governments, which combine arousing public opinion and yet following scientific advice, early on – instead of engaging in magical thinking and publicity stunts – have often done very well indeed. True, Italy,

Spain, and France were caught off guard. Germany has done much better, with “only” 8,000 deaths, though also slow to start. But New Zealand and, of all unlikely nations, Greece have now under 200 deaths, South Korea under 300, and Denmark under 600. In the U.S. we will have well over 150,000 by the autumn, the UK about 100,000. Expect the same in Brazil.

-- Right now, borders are closed and some populists are blaming foreigners and immigrants for the virus. After this pandemic passes, what will happen to globalization? Will we be able to keep goods and people flowing?

I don't know. The populist countries will blame foreigners, of course, which is from the Peronist play book. There is a lot of silly talk about “shortening supply chains,” in other words going back to the policy of “import substitution” of Raúl Prebisch, Hans Singer, and Celso Furtado, which ruined Latin American economies for decades. Here I am of course in entire agreement with Paulo Guedes. If import substitution for Brazil is a such a good idea, then erecting tariff walls around Rio would be a good idea, too. Then Ipanema. Then your apartment. Make your own accordion instead of importing it from the Czech Republic; drill for your own oil in the back garden. You can depend on it that businesspeople will think up methods of insurance against future plagues better than government-imposed restrictions on whom you can buy from.