

Institutions and economic development in Brazil

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Abstract. This paper investigates the role of institutions and economic development in Brazil through a comparative analysis. It first provides a comparative assessment of the level of institutional development of Brazil with other Latin American countries such as Chile and Argentina. It considers data from different institutions which indicate the regulatory costs of “*doing private business*”, such as those related to bankruptcy law, start up costs, employment rigidity, and the expropriation of private investment. In general, Brazil has lower level of institutional development than Chile and Argentina. For instance, the number of procedures to start a business in Brazil is roughly twice as large as in Chile. As a result the average time to start a business in Chile is about a month while in Brazil it roughly three months. We next evaluate the importance of different institutions and economic development using data for a wide cross-section of countries. As in Acemoglu, Johnson, and Robinson (2001), we use the European mortality rate in the colonial period and the “legal origin” to exploit exogenous variation in the level of institutions. We identify issues where institutional reforms are likely to significantly affect per capita GDP, the ratio of private credit to GDP and the ratio of investment to GDP. We then construct three indices developed by Tavares (2004) that measure the potential of institutional reforms by taking into consideration the institutional distance between Brazil and Chile. These indices measure which reforms have the most payoff in terms of economic development, which are “less costly” to undertake and which deliver the best result per required effort.

Keywords: institutions; economic development; Brazil.