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Next, we head to Brazil and maybe we can find a little ray of hope there somehow?

## Carlos Ivan SIMONSEN LEAL

I think you may find a little ray of hope, if you look carefully. In recent years Brazil has been on the front page of *The Economist*, the Christ in Rio flying like a rocket and then on another issue that same rocket losing its momentum and falling. What happened between the two issues and what was the mistake, I dare to say, behind *The Economist's* analysis?

Brazil at the beginning of the first Lula government, that is 2002, was in a very bad fiscal situation. Lula used his capital to fix that situation, but that was not enough. Brazil benefitted enormously from a surge in commodity prices and, as we say in Brazil, we had an Admiral's sea, perfect wind, perfect light, everything was perfect. For many years we indulged ourselves in many necessary, justifiable social policies, but that were not very affordable in the long run. Not only that, we insisted on giving power to corporations, meaning the judiciary, people in state-owned enterprises. All of that meant one thing, the potential deficit was growing. In the beginning that did not affect the rate of investment but after a while, especially after 2008, 2010; 2008 was not bad in Brazil; in 2009 the GDP fell; 2010 was an extraordinary year but compared to 2009 it just meant that we were growing at 3.5%.

During all that period we were growing at 2% per year more than Europe, then under the Dilma government we started to have a lot of Keynesianism, but they did not study Keynes correctly. They started to intervene in the economy, with the first intervention being trying to change electricity prices, trying to control everything. That did not work, it created havoc and bit by bit the rate of investment started falling. At the same time, we had a central bank dominated by people who I would say were hawks, with a very strong incentive to create a reputation for fighting inflation when the deficit was growing. Instead of focusing on the deficit we increased the deficit by paying more interest. Public debt which was around +30% of GDP is now at around 80%. It is still manageable and by the way we have better public finances than the US. We do not have US navy and we are therefore not an international reserve currency, but if you lend us your navy, we would be the international currency.

The disaster manifested itself at full force after the beginning of the second term for Dilma Rousseff and it was very fast. GDP started falling. The rate of investment fell enormously. There was a lack of trust and Dilma was actually impeached after two years of her second term for disobeying the fiscal laws, something that I have never heard happen in Europe or the US. Merkel was judged by the second chair of German Supreme Court for something similar to what Dilma did, when she saved the German banks from the Greek disaster. However, Dilma was judged by Congress and lost her position. The Vice President entered as mandated by our constitution and immediately started a series of reforms. The most important of those reforms would have been the change in social security, stalled after [inaudible] accusations that he was involved in a corruption scandal. He went to meet a businessman in the garage of the presidential palace and from that moment on, Brazil lost governance.

With the election of a new President we started a new period and we went for recovering the work on social reform and we are almost there thanks to good interaction between the President and Congress. Congress in Brazil, which is ignored by many outsiders, is very strong right now, very powerful. Congress enacted a law concerning the abuse of power by magistrates and judges and the President vetoed 45 items; the veto on 33 of those items was cancelled by Congress. Power is divided and this is very important because we belong to the average Latin American class that started its independence drinking from the French Enlightenment. Therefore, as in France we had our candidates to be



Napoleon, Napoleon III, Thiers, Clemenceau or de Gaulle. We always demand a strong man and of course, Britain did have better credit at the time of Waterloo and could mobilize more people because the decision on the debt was taken by the Parliament. This is a deep and profound move that is now happening in Brazil and it is extremely important for investors; next year the budget is going to be mandatory. Something that foreigners never guess is that we do not have a mandatory budget. If I say in the budget up to this year that I am going to spend 100 billion dollars for education and as President I decide to spend 50 billion dollars, that is okay. Of course, the policy I would develop with 100 billion dollars is different from the policy that I will develop with 50 billion dollars, so the President has tremendous power, and this power has been reduced.

Therefore, do not expect Brazil to fix everything at once, but we are moving in the right direction. Disposal income has grown by 1.7% on average, in Rio 4%, in the last year up to June and this is a good sign. We expect better growth next year and it will take us three or four years to recover full growth, but it is possible provided we continue to stress reforms.

**Jim HOAGLAND**

Thank you, Carlos.