

**INTERVIEW**

## **Brazil's secret is found in its institutions and sense of responsibility**

Browsing through the pages of a newspaper in these last few months, it is clear how the economic situation in Brazil stands out with respect to other countries. In a context of global crisis, Brazil as a country is today experiencing a constant growth phase with clear signs of economic stability and good health. What attracted my attention was an article entitled: "Brasile ultima frontiera del Lusso" ("Brazil: the last frontier of luxury"), a report that highlighted a 20% market growth rate and in the 2005-2011 period the GNP rate (CAGR) was 12%, making the size of the economy more than double. It has surpassed Great Britain to become the sixth economic power in the world as far as GDP is concerned. An unexpected and significant result that illustrates how the world's economic map is changing and well known powers like the USA and Europe are yielding to new markets like Asia and South America. To understand this silent and constant growth phenomenon better, we interviewed Maílson da Nóbrega, Brazil's Finance Minister from January 1988 to March 1990, one of the most difficult periods for Brazilian economy.

Today he is a consultant, columnist and writer of economic and financial topics. In the course of his mandate, Nóbrega re-established rapports with the international financial community, following the erroneous moratorium on foreign debt of 1987. Thanks to his farsightedness and competence developed directly on the field, he modernized public finance through institutional reforms, bringing to fruition a design and modernization process already begun in 1986 following his experience as Secretary General of the Ministry of Finance (from 1983 to 1984).

### Maura Leonardi

Perini Journal: Today, in light of the world crisis, what are the roads to embark on in order to overcome this moment in your opinion?

Maílson da Nóbrega: There are no doubts that this crisis is one of the most serious in recent history, and surely the countries belonging to the European Union play a very important role in this moment. The dealing with the crisis in Greece has allowed breathing a sigh of relief on a worldwide level because failure by Greece would have caused the beginning of a crisis in all of Europe. Normalization of the market and greater stability allow looking to the future with a different perspective; we will be assisting at a slow growth not only of Greece itself but also of Spain and Italy. This climate of crisis that has pervaded Europe and the United States in the last few years did not affect the growth of our country which instead, in a counter-trend with respect to the rest of the world, has undertaken a structured growth path, strengthening both its financial and commercial side, ensuring stability and security through national and international reserves.

Thanks to a farsighted policy, Brazil strongly invested in institutions, reinvigorating democracy, the educational system and the structure of the justice system. A focused strategy aimed at ensuring stability and an orderly, healthy development right from its foundations. If we look at the Pulp and Paper field, expectations are optimal, even though we are speaking of a very competitive market. The paper production industry in Brazil is based on the production of eucalyptus, hence short-fiber raw material, where seven years are needed for a tree to be ready for cutting and where productivity per hectare is very high. Short fibers are the future for tissue paper production; we are one of the main producers and our competitiveness has attracted countries such as Sweden and Finland who are present on our territory with their companies.

Brazil is today a very promising reality where the combination of winning factors such as institutions, a competitive and innovative business class capable of taking on risks and investing, and a solid democracy allow it to look to the future with optimism in terms of stability and progress. Today, we no longer run the risk of returning to a situation of instability like in the past. The only difficulty we may have in the future could be a slow growth due to the inability by politicians to make the necessary reforms at the right time, but certainly not that of becoming an unstable country again. Differently from the past, today Brazil is able to keep inflation under control thanks to organic reforms made in the course of the years that have laid the bases for healthy and strong growth. This is today's reality.

Our country was able to manage change and grow within the change. Democracy is a great form of development; it creates confrontation and discussion and allows building foundations for stable growth. I can safely state that today, democracy and economic stability are the two fundamental components that distinguish my country.

PJL: In your book "O futuro chegou" ("The Future Has Arrived") you try and answer the question: "where are we headed?"

MdN: Through my book, I wanted to launch a provocation because the future is in the future but we can read the signs also in the present. Let me explain myself better. While visiting Brazil some months ago, President Obama began his speech in San Paolo by saying "The future has arrived..." (... I then dreamed that it should be a sign that he had read my book!). But seriously, this phrase summarizes how Brazil has changed today and how for the other countries watching it from the outside, it has become synonymous of the future for the way it has faced the problems of its past. Today, it is becoming a reality to be taken as an example because it has pursued progress in gradual fashion, solving first the serious problems that did not allow the country to "take off" but rather caused it to lag behind other world powers.

PJL: In your opinion, has the recent wellbeing resulting from society's evolution caused the loss of certain values and influenced our children's education?

MdN: I see nothing wrong with evolution that today makes several instruments available to us and allows our children to have a more comfortable life with respect to the past. A surely deeper aspect to be kept in consideration is how to maintain a certain level of income and consequently of wellbeing, in such a way that it is sustainable and does not negatively affect the family budget and hence, the state budget. An important aspect is how wealth is distributed. Today, the standard of living has changed with respect to the past and it is important to control how the State is present in our lives, ensuring us a vital level of wellbeing and not a situation of impoverishment, which, unfortunately, is what is happening in some countries.

We must review our Welfare system so that it guarantees our wellbeing. It is not good to think, as is happening in Europe, that a great way to overcome the crisis is to convince ourselves to work longer in terms of hours and/or age. Instead, I think that a generation change is needed that pushes all of us - especially the young generation - to spur leaders into creating the bases for new jobs.

In Spain, over 40% of the young generation is unemployed, and we know that the passing of time makes us less competitive to find appropriate jobs, and this is not acceptable.

Education is the basis for our development. In Brazil, we still have a few obstacles to overcome in this realm, although many problems have been resolved. Education is fundamental for a country's evolution, progress and innovation. Every Government must govern keeping this important aspect in mind, just like companies who thrive by focusing on training personnel who then come up with innovations. Brazil is looking to make up for lost time and in the last few years we have attained a figure of 98% of children aged between 7 and 14 years attend school. It was just over 80% 20 years ago.

Another important question that I often ask myself is how can we make our children competitive and have a quality educational system? In the PISA1 test (Programme for International Student Assessment) where children from about 60 different countries take tests on math, science, foreign languages, we ranked 54th; of course we still have a lot of work to do, but it is surely a good start. Top ranking are China and Finland, two very different countries one from the other with different educational training methods, but both with excellent results.

PJL: What do you mean by "New Institutional Economics"?

MdN: Through the New Institutional Economics, I try to understand and explain how Europe became rich and enjoys a situation of economic wellbeing. I began my analysis from the Magna Charta Libertatum (1215) passing

through the Glorious Revolution (1688) and other different industrial and political evolutions and revolutions that have characterized England in the first place and then Europe as a whole.

Through the analysis of the research studies, in this book I try to supply a good explanation of how European countries built their wealth and how they have maintained it in the course of the centuries by highlighting the main role that institutions play in the development and growth of societies. Institutions can be formal and informal and they create the ambience that helps people in their quest to find and build a business, to invest and innovate, taking on risks. These were the bases for creating capitalism, where institutions played a key role. Intellectual property of rights and contracts are the two main cornerstones that ensure a country's wealth.

Looking at the future, I can say that today Brazil is a country that can boast healthy and strong institutions that are the main prerogative in an environment appropriate for the development and growth of relationships.

I feel that Brazil is today finding itself in the condition that Francis Fukuyama<sup>2</sup> speaks about in delineating the three main elements that ensure prosperity and its continuation. These fundamental elements were detected by Fukuyama following a survey performed in England, a country that possesses them:

- Strong State.
- Rules of the law.
- Accountability.

I can safely state that these elements are today present also in Brazil, and in particular, they are part of people's common sense. Democracy translates into: Presidential elections every four years, elections of the members of Congress also, etc.; free press as well as freedom of expression. Thanks to the institutions that exist today and that are effectively working, we do not run the risk of slipping back into the past.

PJL: In the course of your career, what are the main lessons you have learned?

MdN: You might have read that I come from a poor family of a small city in the hinterland of the state of Paraíba. My most important life experience can be found in the course of my professional career, with my first job at the Banco do Brasil.

Banco do Brasil was and is a historic Bank founded in 1808; it went bankrupt twice but today it is one of the most important institutions where essential principles such as ethics, honesty, value, discipline, and commitment to the company's future reign.

This first job totally enthused me and gave me a priceless moral and professional training. There, my character and my way of thinking took shape in healthy, true and strong fashion based on discipline, dedication and commitment. In the course of my career, I have had to deal with episodes of corruption where I was contacted by business persons trying to "persuade" me by offering me money or goods in order to obtain favorable behavior in their regards. One of them offered me two first-class tickets for my wife and I to travel through Europe and I refused them. Thanks to my moral ethics. I think I am fortunate because I have worked in healthy environments where episodes of corruption were limited. I also think that prosperity and success are two components of fortune.

PJL: In your opinion what are the costs of sustainability?

MdN: I think that sustainability is based on principles that must be supported and shared because we cannot afford a collapse of our environment. We must protect our environment. But I feel that today there are many exaggerations. I do not think that the world is on the verge of disaster. A former UK Chancellor of the Exchequer (Finance Minister) wrote a book on climate disasters such as hurricanes, etc., highlighting that these took place also in the past and perhaps in the same places when they were uninhabited areas, so they did not have the same resonance that they do today. In any case, we must protect the environment by reducing emissions into the atmosphere and we must have cleaner air. For example, in San Paolo, too, we must use our resources more parsimoniously and try to produce clean energy.

Brazil is the more efficient producer of ethanol from sugar cane, without harming the environment nor the food production. We can double the area of sugar cane without cutting a single tree. In the north of Brazil where the sun shines 300 days a year, we produce a large quantity of solar energy; we produce energy also through windmills. Brazil is very organized in terms of environmental respect. Luckily, the environmental policy pursued by the government was founded on respect for the environment by monitoring every type of industrial and non-industrial activity that has an impact on it.

PJL: Globalization: an opportunity or a failure?

MdN: First of all, we must say that globalization is an attitude on the part of human beings and it tends to benefit the human genre. The failure of globalization is due not to globalization itself but rather to bad government policies. Globalization is - as the name says - a global trend of human nature begun many centuries ago and acce-

lerated in these last years. Let's take for example Rome and the Roman Empire, which was a Global Empire. It arrived everywhere: in Spain, England, Eastern Europe, North of Africa.

Today, we are living just one phase of globalization and its failure was due to the inability to regulate the financial markets. A global society certainly constitutes an advantage that must be managed correctly and energetically.

The clarity and linearity with which Nóbrega described today's Brazil and how it has changed makes us reflect on how many times we underestimate the essentiality of what we have: freedom, democracy and education, which are what the Little Prince described as "the essential (which) is invisible to the eye". •

1 PISA (Programme for International Student Assessment) is an international study which began in the year 2000. It aims to evaluate education systems worldwide by testing the skills and knowledge of 15-year-old students in participating countries/economies. Since the year 2000 over 70 countries and economies have participated in PISA.

2 Francis Fukuyama (Chicago, October 27th, 1952) is a US political scientist. His views have become famous thanks to his work "The End of History and the Last Man" (1992), where Fukuyama hypothesizes that, on an ideological level, with communism and capitalism, humanity has experienced the culmination of political thought, and proposes a modern version of Hegelian dialectics. Starting with the 2010-2011 school year, Francis Fukuyama teaches at the prestigious Stanford University in Palo Alto, California.