

Brazil's Rousseff Comes Out Swinging Against the Economist and in Defense of Lula

Written by Newsroom

Wednesday, 12 December 2012 15:11



The president of Brazil, Dilma Rousseff, once again repeated she would not be influenced by The Economist magazine's call for her to sack Brazilian Finance minister Guido Mantega after a country's growth report that fell short of government forecasts.

"Under no hypothesis will a Brazilian government elected by free and secret vote be influenced by the opinion of a magazine that isn't Brazilian," Rousseff told reporters in Brazilian capital Brasília. "We grew 0.6% last quarter and we'll grow more in the next one."

The London-based publication, in an article, "Breakdown of trust" urged Rousseff to fire Mantega for misleading investors with growth forecasts that were double the expansion registered in a third quarter report last week.

"She should fire Mr. Mantega, whose over-optimistic forecasts have lost investors' confidence, and appoint a new team capable of regaining the trust of business," the magazine wrote.

"In no way will I take under consideration this, shall we say, suggestion," Rousseff responded. "I will not."

Rousseff added that inflation is under control in Brazil, and unlike Europe, the country is not suffering a sovereign debt crisis.

Mantega was named Brazil's finance minister in 2006 by Rousseff's ally and predecessor Lula da Silva. In 2010, he presided over the country's fastest growth in two decades, when GDP expanded 7.5% and won attention abroad for accusing rich nations of starting a "currency war" fueled by record-low interest rates.

Brazil's Rousseff Comes Out Swinging Against the Economist and in Defense of Lula

Written by Newsroom

Wednesday, 12 December 2012 15:11

The Economist recalls that when President Rousseff was elected the country's economy was booming but then it grounded to a halt and is now struggling to recover.

"Despite increasingly frantic official efforts at stimulation, the moribund creature grew by only 0.6% in the third quarter - half the number forecast by Guido Mantega, the Finance minister. Most market analysts now expect GDP growth to be less than 1.5% this year and not much more than 3% next year."

The motors of growth that powered Brazil in the past decade are sputtering. Prices of commodity exports, though still high, are no longer rising. Consumers are using more of their income to pay off the loans with which they had bought cars and televisions. Low unemployment means there are fewer idle hands to be put to work.

Instead of relying on consumption, growth now has to come from higher productivity and investment. That means hacking away at the "Brazil cost": the combination of red tape, heavy taxes, expensive credit, creaking infrastructure and an overvalued currency that makes it a punishingly expensive country to do business in.

Ms Rousseff has recognized the need to improve competitiveness. Her economic team says its aim is to prompt a supply-side, investment-led recovery. In the past 15 months the Central Bank has slashed interest rates by 5.25 percentage points, to 7.25% (only two points above inflation).

That has helped to weaken the currency and help manufacturers. The government has cut payroll taxes for industry (but not most services). It is also slashing electricity tariffs and inviting private operators to upgrade airports, roads and railways.

Despite all this, investment has fallen in each of the past five quarters. It now amounts to just 18.7% of GDP, against 30% in Peru in 2011 and 27% in Chile and Colombia, Latin America's new high-growth economies.

Brazil's Rousseff Comes Out Swinging Against the Economist and in Defense of Lula

Written by Newsroom

Wednesday, 12 December 2012 15:11

Business is cautious because the government meddles too much. A prime example is its apparent desire to drive down the return on investment by diktat, not just for banks but also for electricity companies and other infrastructure-providers. Even more than her predecessor, Lula da Silva, Ms Rousseff seems to believe that the state should direct private investment decisions. Such micro-meddling undermines trust in macroeconomic policy as well.

The Central Bank may be tempted to react to the latest figures with another interest-rate cut. That would be a mistake. Instead the government should redouble efforts to cut the Brazil cost - by, for instance, tackling labor laws - and thus letting the private sector's animal spirits roar.

The worry is that the president herself is meddler-in-chief. But she insists she is pragmatic. If so, she should fire Mr Mantega, whose over-optimistic forecasts have lost investors' confidence, and appoint a new team capable of regaining the trust of business.

Ms Rousseff's hope seems to be that full employment and rising real wages will be enough to secure her a second term in 2014. But these depend on renewed growth. Lula da Silva won a second term because his policies lifted millions of Brazilians out of poverty.

The electorate similarly rewarded Fernando Henrique Cardoso, Lula da Silva's predecessor, because he slew inflation. And Ms Rousseff? Voters may judge that in trying to juggle so many economic balls, she dropped most of them.

In Defense of Lula

Rousseff, currently on an official visit to France, described as 'regrettable' the accusations against her predecessor Lula published in the daily o Estado de S. Paulo and underlined her respect and admiration for the leader.

"I condemn all the attempts, and it is not the first time to tarnish and dismiss the great respect of the Brazilian people for him" said Rousseff at a press conference in the Elysee Palace next to her peer François Hollande.

Brazil's Rousseff Comes Out Swinging Against the Economist and in Defense of Lula

Written by Newsroom

Wednesday, 12 December 2012 15:11

"I consider despicable and pathetic the attempts to tarnish his image" added Rousseff who praised Lula as the president who 'developed Brazil' and established equal relations among developed and developing countries.

President Hollande joined the praise and said Lula is taken as a 'reference' in France and is considered "a man with a great image who has always defended the interests of Brazil" According to O Estado, the former Brazilian president knew about and used funds from a far-reaching vote-buying scheme to pay for personal expenses, based on the testimony by a convicted former consultant to the ruling Workers' Party.

The testimony, reported on Tuesday by the newspaper was given in September to Brazil's attorney general's office by Marcos Valério, an advertising executive recently convicted as a bagman in the scheme.

Valério also testified that an aide to the former president made veiled threats when the scandal erupted in efforts to keep him quiet, the newspaper said.

According to the report, Valério gave the testimony voluntarily in a bid to reduce his sentence after he and 24 other former Lula da Silva aides and associates were convicted in a landmark trial heard by Brazil's Supreme Court.

Though he still received a stiff 40-year prison sentence, the circumstances of Valério's testimony are likely to cast doubt on his claims. Among other crimes, Valério was convicted for handling the money used in the scheme, which involved payoffs to legislators in exchange for Congressional support.

The trial exposed crimes at the core of the administration of Brazil's beloved former president and was hailed as a sign that the country is growing less tolerant of the corruption long rife in local, state, and national politics.

Lula, still Brazil's most influential political figure has denied any knowledge of the scheme since it first came to light in 2005, roiling the first of his two terms.

Brazil's Rousseff Comes Out Swinging Against the Economist and in Defense of Lula

Written by Newsroom

Wednesday, 12 December 2012 15:11

Though Lula's legacy has been tarnished by the convictions, the trial has done little to sap his star power - even after officials including a former treasurer of the Workers' Party and Jose Dirceu, his once-powerful chief of staff, were convicted.

That could change if the allegations made by Valério were proven. Critics have long alleged that the scheme could not have been carried out without Lula' da Silva's knowledge, or tacit approval, but so far no proof of either has surfaced.

Mercopress