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PARTICIPANTS:

Introduction and Moderator:

MAURICIO CARDENAS
Senior Fellow and Director, Latin America Initiative
The Brookings Institution

Panelists:

MARCELO NERI
Director
Center for Social Policies
Getulio Vargas Foundation

CARLOS PEREIRA
Visiting Fellow
The Brookings Institution

DANIEL KAUFMANN
Senior Fellow
The Brookings Institution

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P R O C E E D I N G S

MR. CARDENAS: Good morning. My name is Mauricio Cardenas, and I'm the director of the Latin America Initiative here at the Brookings Institution.

It's a pleasure to welcome you all to this event. Don't get too discouraged if the room is not full. Two days ago, we had Secretary Geithner, and the room wasn't full either. The reason is that there are so many events going on in town these days because of the meetings of the World Bank and the IMF that there are just too many things happening at the same time.

But we're delighted to host this session, which is a session that is long overdue. Brazil is the country of the day. Brazil is the country that is generating a significant amount of attraction in the media, followed by attraction from investors that are flooding into Brazil, and one of the reasons is the transformation of Brazil.

So, we speak a lot about that transformation. We speak a lot about the changes. And there are three kinds of like elements to that change. So, we wanted at the Latin America Initiative to look at these transformations with a more analytical angle. Go beyond what is covered in the media, what we hear every day in all these reports about Brazil. And these three elements of the transformation are essentially the reduction of poverty and the enlargement of the middle class. I think that's one of the elements that gets more attention and it's more frequently mentioned.

The other element is the change in the way political institutions work in Brazil, and how it is now a country where more centrist, market-friendly, common sense policies are adopted, regardless of which party is in government.

And the third transformation is the entire governance structure, which goes beyond the political institutions, affects issues like the effectiveness of government, the quality of the regulations, the way the state is engaged in the economy, rule of law, et

cetera.

So, these are three elements that very nicely fit together because they're usually part of the new language by Brazil. So, what we thought is that we will bring three experts that are quite knowledgeable about these three elements to tell us what are the essential elements of these transformations, and especially to help us understand what is structural, long-lasting, deep-rooted, and what is something that could actually fade away, that is just temporary or is not so well-anchored. I think this is a very important distinction because the general perception is that these are transformations that are irreversible. But when you have an analytical eye and when you're interested in predicting the future, so to speak, it is important, also, to highlight the weaknesses and to understand what are the possible internal contradictions. So, it is with that spirit that we want to hold this conversation.

I think we should benefit, also, from the fact that we're a small group. So, this should very much be considered as a dialogue. And I like the discussants to begin by making the points, sharing with us their views about these transformations. I would very much like to engage you, as well, so that we have a dialogue with them and we understand more, and we take away from these next 90 minutes some concrete ideas about what's right, what's moving in the right direction in Brazil, and, also, what's wrong and can we improve on and what can we highlight as a need for additional progress? So, it's in that spirit I think we should frame this conversation.

So, we're going to start with Marcelo Cortes Neri, who's sitting here on my left. Marcelo is now becoming the most quoted person in Brazil and globally on the ascension of the middle class in Brazil, and I think the reason why he's being quoted so frequently is because he's got the numbers, and he's got the numbers because he's been running for the past few years the Center at the Getúlio Vargas Foundation that is

focusing essentially on this issue of the social transformation of Brazil. So, he's in a privileged position, and we're very happy that he was in Washington and he was willing and gracious enough to come participate in this event.

So, I'm going to start with Marcelo. He'll lay the land, and then I'll introduce the other panelists as they speak. So, let's start with Marcelo, and let's hope he helps us walk through these social transformations of Brazil. So, thank you very much for being here, Marcelo. (Applause)

MR. NERI: Good morning. It's a pleasure to be here again. Thank you very much, Mauricio. I know it's a difficult time, a lot of different events at the same time, so, for me, it's a great honor to be here with you.

So, what I'm going to do here is to basically explore recent data. At the Center for Social Policy, we basically deal with this household data, household surveys, and there is quite a few of them that just came out. So, we have some fresh information on what's going on in Brazil now, is our basic, raw material that we work in our research, and, so, this is the Web Site of this recent research here. And, so, let me give a brief overview of the main transformations that Brazil went through during the last 50 years or so.

So, very briefly, '60s and '70s were the decades of economic miracle in Brazil. We grew it from 1968 to 1973 at 11 percent per year during 6 years, and but was also the period where we had dictatorship and an increase of income and equality, a sharp increase of income and equality during these periods.

This created a demand for democracy. This was the main demand of Brazilians in general, and this happened after the bio-shock in the '70s. Beginning of the '70s, there was these periods that culminated in the '80s, which you may call the decade of free democratization in Brazil. And, but during this decade, this decade was also the

decade of instability in many aspects, economic instability, inflationary instability, a lot of instability going on, and we ended the '80s with two records. First, the record of inflation, March 1980. 1990, we had 80 percent inflation in a single month, as our record. And Brazil, by the way, was until 1995, the country of the world which had the highest inflation, even more than Argentina.

And, today, if you get the full data from 1970 to 2008, including 14 years of stabilization, we have the second post in accumulative inflation. We just lose to the Congo. So, we had the record of inflation. In the end of the decade, the '80s, also, the record of inequality, and, in some sense, these laid the agenda for the two next decades.

In the '90s was, in my opinion, and I think most people agree, the decade of stabilization, achieved in 1994 with the Real Plan. Inflation was 40 percent per month every month, something like that, went down permanently. And this allowed us to look further into the future. So, think about more structure agenda, putting kids in school, and things like that.

We didn't really think a lot about that. We just thought about everyday inflation, inflation every month, et cetera. So, as these kids went to school and became teenagers or young adults in the 2000s, they got into the job labor markets, and the State of Brazil started to redistribute a stable currency through different income policies. Brazil, I think, is the country of income policies. Professor Mario Hekosemose would say that, but with reference to indexation that Brazil has a lot of -- maybe comparable to South Africa. South Africa, there's a lot of income transfers, and, so, in the 2000s, beginning in 2001, inequality in Brazil started to fall, and every year since then, year after year, including the crisis year, including 2010, inequality is falling every single year. So, this is, I think, the main change in the 2000s. Also, another was the generation of formal jobs without any labor reform attached to it. It's quite surprising for most analysts, including

myself.

So, Brazil basically doubled the level of formal employment generation from 600,000 a year, 700, to 1.4, 1.5, and now, we are changing again this. Maybe if it's a new plateau, but now, this year, we generated like 2 million jobs in 8 months. In only eight months. So, it's 300,000 jobs more than the previous record for the full year.

So, one message, bring some data here, is that Brazil is booming now. Right now, perhaps, the best moment of Brazil, especially in relative terms because the world is not doing very well, it's stagnation, et cetera, in developed countries, and the difference of Brazil with respect to BRICs, the other BRICs, et cetera, is much smaller. And, with inequality falling, that's very different. China, India, inequality is rising. Of course, our inequality levels are much higher than the other BRICs, and this is a key feature to understand both formalization and inequality to understand this rise of this so-called new middle class. So, these were the main.

So, to have an idea that 10 percent poorest in Brazil were growing 7 percent on a per capita, real income. So, discounting population and inflation, the top 10, 1.5. So, before, we're growing like 4.5 times more than the rich. The richest segment. And, year after year.

So, if you look at the map of Brazil, I think Carlos can talk a little bit on the political map. You're going to understand if you put the votes there, you're going to understand what's going on there. I know the northeast is growing much more than the -- São Paulo is the state where we had least growing during this period. Average. And Rio second, and the northeast is booming, but other difference like the poor suburbs are doing much better than the core cities. The income of Afro-Brazilians, blacks, and (speaking in Portuguese: pretos) is growing three times more than whites. So, there are lots of things going on related with this change of inequality. So, a side effect of this fall of inequality after the

end of 2003 recession, Brazil started to grow again.

I just would like to make a small point, which I think is behind. There is a little dissonance about how macroeconomies look at Brazil and how social scientists in general look, and the differences start not only because inequality is falling, that's something that macroeconomists don't naturally look at because the data is aggregate, but if you see mean growth per capita, household income mean growth, and per capita GDP growth, they are very different during this periods, like 1.8 percent per year difference in the average growth rates. A big difference.

So, if you look at national household survey, I think Brazil is booming. If you look at macroeconomic data, not so much. So, I think this is part of this dissonance. And I must say I'm on the side of the National Household Surveys that didn't go into any change. But I think Brazil is really booming more than the GDP data suggests.

Last year, for instance, during the crisis, GDP growth was, per capita terms, minus 1.5 according (inaudible) plus 2. So, 3.5 difference in this year. So, this is behind. Plus, inequality falls. So, what we called the new middle class or the C Class in the beginning of the 90s was one-third of the population. Now it's 50 percent of the population. The poverty is falling; Brazil in 6 years, from 2003 to 2009, poverty fell 45.5 percent in 6 years. So, the millennium development goal would be 50 percent in 25 years. We did nearly that in six years, so, there is really something different going on there.

So, we have now, according to our economic class division from the fundacao half of the population, 95 million in this C Class, which would be the middle class, the Brazilian middle class, not the U.S. middle class standards, but Brazilian and world standards. Brazilian income distributions is not very dissimilar to the world income distribution either in terms of mean or dispersion.

So, going to Mauricio's question, he made this question for the debate: Is this sustainable? Brazil is doing well and equality is falling. Is this sustainable?

My first answer would say it's not as sustainable as I would like because there's a lot of social transfers, et cetera, but when you look at these household surveys, you start to see that Brazilians are investing more into education, professional education, they are getting these formal jobs. So, consumer credit and social cash transfers from the government, official cash transfers are increasing, but if you look at labor income and other sources of income, which are basically these government transfers, they are growing at the same rate, which are high rates, according to these surveys. And if you look at the Northeast, which is known as the Land of Social Transfers, which is true, the same thing happens. Per capita income growth in the Northeast is 7 percent every year on average, 6 years, and labor income is at the same level growth. So, it's more sustainable than just social, even in the Northeast.

We generated an index of production potential using some income equations, et cetera, and one of consumer potential, consumer increases. We have durable goods, et cetera, and the producer side is growing more than the consumer sides. This was a surprise for me. Expect the other way around. So, I think it's more structural than I would think.

And if you talk with people, you go to visit these communities, talk to people, say what's your priority? What do you want? Do you want a car? Do you want a new TV? What do you want? I want to go to the university. That my daughter goes to the university or professional school. So, it's something that really gives me some optimism with respect to there is a change in the mentality of Brazil. We are becoming more like ants than grasshoppers in the sense of the la fontaine fable. We are looking more into the future.

And you see like, for example, the trends of years of schooling, this is improving. So, I think what is key is to differentiate two things: First, the portrait of Brazilian social conditions, including equality leveled and distribution and quality of schooling, et cetera, this is a very bad picture if you compare to other Latin American countries. But if you compare the rate of change, the rate of transformation, this is a good sign. We are changing. We are improving. That's the only advantage of having bad economic indicators is that you can improve them quite fast, and that's what Brazil is doing. But the picture is still very bad, so, a condition of optimism is if we do keep this change forward, Brazil will be different; we'll keep this transformation going.

So, another test that we can have with respect to Mauricio's question on the sustainability, so, how did Brazil do during the crisis? We moved to another data, which it's updated until 2010. So, if you look at many indicators, Brazil did suffer the crisis. This was not just a ripple; it was not a tsunami, as well. It was a very fast and a strong shock, hit Brazilians' purses on January 2009, but, in February 2009, and was already going away in the sense of recovering the fast growth rates. So, it's not according to a lot of data, perhaps, it's difficult to use it, but, according to our data, it's not that Brazil was hit by the crisis in social terms, in employment, incomes, et cetera in January 2009. There was a step downwards, but after that, we recover the fast growth rates. So, it's not that Brazil left the crisis five months ago. No, we left the crisis 18 months ago in the sense of recovering this crisis.

So, we have here the purple. The purple is for the 2010. We are already on the same levels and even higher of income growth and inequality fall. So, of the golden period before the crisis. And this, I think, is good news. Inequality is still falling. That is, perhaps, would have some a priori expectations that it would reduce inequality fall. Inequality is still falling. Brazil labor income, as I said, we are breaking out the

record of formal employment, et cetera.

And, actually, you see all different classes. For example, poverty in the last 12 months until August 2010, it fell 9 percent, 2010, with respect to 2009. So, even higher than the golden periods.

During the crisis, poverty fell a little bit, which may be as a good result. And if you open this through different months, January, so, it's like July and August the data is doing pretty well. It's booming. This, of course, is a different year because it's an election year. Election in Brazil. I don't know how it's in other countries, but you look at the indicators, social indicators. They always do very well during elections. Here, we have a recovery from 1981 onwards.

Our election years, which are the green, income booms, median income, median voters always is booming during election years, and has a very bad result during the post-electoral years. So, to understand what's going on now in Brazil, we have to take into account that today, this year is an electoral year, and, so, we wouldn't pass the anti-steroids test this year. It's in the series, but it's when the poor gets the benefits, so, perhaps, we should have elections every year. That would be a --

MR. CARDENAS: Politicians may not like that, Marcelo.

MR. NERI: Sorry?

MR. CARDENAS: Politicians may not like that.

MR. NERI: Yes. So, I just want to end to introduce you to the Web Site of this latest research. It's available. You have the address on the top there. And, so, you are invited to access the research. Some of you got the thing.

So, my message is the following: Answering Mauricio's question, Brazil is more structural, especially if you look at household surveys, the improvement of Brazil with education, through formal jobs, and this is the main symbol, what is the main symbol

of this new middle class. It's not having a new car, it's not having a fridge or a TV, et cetera, it's to get a formal job, and this is really booming. And if you look at education, professional education, and look at the data, you see a 75 percent increase from 2004 to 2010. So, there are things going on there, and when you talk to people, you have this idea that people really -- and one key aspect of the rise of this new middle class in Brazil is the fact that they have less kids. Fertility rate is going down. So, families are having to support fewer kids, but they're really taking care of their kids. Like you go to the poor people house, you see the main room, the big photograph of this only daughter, and, so, I think this is what gives me some optimism with respect to Brazil in the future.

And we did some forecasts in the previous research. It was before the European Crisis. It's there in our Web Site. If we keep the same pace of growth, household survey growth, 5.3 percent from 2003 to 2008 -- we didn't have the 2009 data, which was the crisis here, and the same pace of inequality reduction, poverty in Brazil could fall another 50 percent in 5 years, and the AB Class, which is above this new middle class, would rise by 50 percent. So, of course, it's before the European Crisis came out. So, it's a bit optimistic with the news we have, but I think that Brazil, in five years, we could have until 2014 another reduction in poverty. So, in 2003, we have 50 million poor people. Now, we have 28 million people. It could go down to 14 in 2014.

And if you look at the retrospect of Brazilian main transformations, just to finish, they always happen in a year ended by four. Okay, 64, 74, 84, 94. So, 2004, I don't have time to explain. So, we could expect maybe some transformation not during this election year, but in the next one, in 2014.

Thank you.

MR. CARDENAS: All right. Thank you very much. (Applause)

So, with that optimistic note, let me now, turning to the two gentlemen on

my right. One of the big advantages of being here at Brookings is to have great colleagues that you learn a lot from, especially if they're your neighbors, your same floor. And that's the case with both Carlos and Danny. So, but we are kind of running short of time, so, let me ask now Carlos to join in.

Carlos Pereira is a visiting fellow here at the Brookings Institution. He's a Brazilian, he's a political scientist, and he's specialized on a lot of work throughout his career on political economy issues. So, what does all this mean from the political point of view? I mean, what is the change to the political institutions? In some degree, to what extent the growth of the middle class also has these kind of like (inaudible) and causal relationship with what's going on in the political system.

So, Carlos, welcome, and thank you for joining us.

MR. PEREIRA: Thank you, Mauricio, and thank you Marcelo. And, so, I'll try to be even more optimistic than Marcelo, if it's possible. And let me put my presentation here.

And I would start with this graph, and trying to suggest this kind of ideal threshold of 20,000, that very few countries have crossed that threshold, that 20,000 in real GDP per capita, and, actually, in the last 50 years, only 2 or 3 countries have managed to become developed: Spain, Ireland, and I will argue today that Brazil is on the road to good governance. It's on the road to cross that threshold soon. And I will argue from the perspective of political institutions. And I will strongly point that the Brazilian politician institutions have been able to generate cooperation among politicians, and democracy is more alive than ever, and extremely competitive, and democracy became the only game in town in Brazil, and I would justify that based on institutional aspect of the political system.

And so, the main puzzle that we start is why, constitutionally speaking

and also politically, a very powerful, left-wing president like Lula, with very different preference from his predecessor, rather than putting forward his own agenda, he decided to keep his predecessor's agenda. So, for me, this is a very important counterfactual that's how political institutions shape and constrain politicians' behavior.

I will argue that Lula's Government is no more than an autopilot of his predecessor. By saying that Lula's Government is an autopilot, I'm not trying to decrease his achievements, actually, quite the opposite. Actually, Mauricio yesterday told me that what we really expect from when we are in a plane is that the autopilot does mostly and save us to all the turbulence, right? So, we do need good autopilots, but autopilots in the sense that we did not have too many innovations and reforms, and, actually, because he was a very good autopilot, he deserves to claim credit for the achievements. It's not by coincidence; it's not a coincidence that his rate of approval reaches 80 percent of the population.

So, but my point is that Lula is not an autopilot only because of his choice, but because he has constraints, he has not only international constraints, but also internal constraints. Voters in Brazil are no longer willing to concede and degrees of freedom on macroeconomic policy. So, inflation control became more imperative in Brazil, and whoever deviates from this imperative gets immediate punishment, and Lula realized that quickly, and help the government to stay in the right track, and, as such, I would argue that Brazil is on the doorstep, is the doorstep, and to use a phrase of Douglass North, of development. It's not there yet, but it's on the right track.

So, and how is this possible from the political perspective? And, until recently, these institutional combinations that we have in Brazil used to be considered an atomic bomb, right? What do we have? We have a multi-party system, a very fragmented. Actually, the most fragmented party system in presidential regimes, and lots

of parties, and, at the same time, we have a very fragmented party system. We have a very strong president. We have a president with all those powers. And the president has the power of decree, has a power to request urgency to a particular bill, has the power of discretion over the budget, and line veto, total veto. So, the president is very powerful.

It's, by the way, not a function of any unilateral decision from the executive. Actually, it was the decision for the majority that decided to delegate those powers to the president in the construction of 1988. So, but, at the same time that the Brazilian president is very powerful, and someone might see as a danger, right? We have all the experience in Latin America of very powerful presidents with very bad results.

Mauricio presented yesterday the report and the numbers from Venezuela tells, and for itself, right? And, but, at the same time, we do have in Brazil several checks. We do have several institutions. So, in other words, a powerful president in Brazil doesn't mean a blank check for the executive.

There are several institutions that are capable of making the executive responsible, accountable for, and we have very independent judiciary public prosecutors and governors are still very strong at this national level. No longer that strong as they used to be at the national level, but very strong yet at this national level, and we have rules that regulate, and governors behave at the national level for the Fiscal Responsibility Law. Also, we have all the institutions and a very independent media. So, all those institutions check the executive all the time, and, actually, several occasions, and those checks and balance institutions, they behave against the executive's preference, which is very, very good for the perspective of governance, right?

And, so, because we have this multi-party collation-based presidential regimes, the executive has been able since they had democratization with the exception

of the (inaudible 36:16) and he decided to manage his government and with independent players. But since they had democratization, all presidents have been able to build, and only build, but sustain majority coalitions in Congress. And Congress has been extremely inactive, as well, but supporting the executive's agenda. So, most of the executive's agenda have been approved by this majority coalition that the president has been able to build and sustain.

So, we have, just quickly, in those three types of policies, and a policy that has been stable and adoptable over time, macroeconomic policy. So, whoever is in place, they have the imperative to keep this policy. So, this is good because, usually, we have a bias toward change, right? I told Marcelo earlier this morning that we have this bias toward changing, and sometimes keeping good policies is the best thing, and we believe that in the macroeconomic policy, we do have this imperative. But, also, in order to achieve those macroeconomic stabilities, those macroeconomic policies, the executive needs Congress, right, in order to build and sustain the majority coalition that I mentioned before, and the executive has to trade with local policies, right? And the executive trade local policies because those local policies are very important for legislators to survive electorally, right? So, the guys who deliver more on their main electoral basis of support increases their chance of reelection, so, these are typical gains from exchange between the executive in Congress.

And, in addition to those two policies, we have a kind of residual, that's one of them, and I'm considering that it's no longer residual policy, which is poverty alleviation policy, but there are some policies that are rigid in the budget or very volatile, that changes all the time from government to the next, such as agrarian reform, infrastructure, and but poverty alleviation programs have been more stable lately. So, and because of these political systems, Brazil has been able to recover for several

shocks, including this last shock that Marcelo mentioned, but we have also other shocks that the system faces, such as the monetary shock, the devaluation of the Real, the currency in 1999, the political shock of the election of Lula in 2002, also, the corruption and scandal that took place in the early years of the first term of Lula's Administration and the current one. If you see this graph, you see that all those shocks, Brazil managed to recover very quickly.

I would like to highlight the shock generated by Lula's election that the countries start falling immediately after his reelection when he gave clear signals that he would keep macroeconomic stability, and, actually, people argue that this good moment that Brazil is facing today can be a consequence of commodity price, but, actually, when we see this graph, we see that the credibility of Brazil, credibility of Brazilian institutions start falling even before the rise of commodity price, right?

So, just to conclude, and, so, the way I see Brazil today is that Brazil depart from a set of beliefs against an authoritarian government and, also, a repulsion to hyperinflation, and has been able to generate equilibrium, and now, in the last period with economic growth, and low inflation, and incorporation among politicians in an environment that is very competitive and election that even though Brazil is doing so well economically and socially, the candidate of the current administration was not able to win in the first round. So, we'd suggest that the political competition generated by this fragmented electoral system with a very strong president, and can allow power alternation without the risk of taking out the country to the right track and to the world of good governance.

Thank you.

MR. CARDENAS: Thank you, Carlos. (Applause)

Let's now turn to Danny Kauffman. Danny, as you probably know, is a

well-known scholar and person that is very frequently quoted because he runs essentially the leading initiative worldwide to measure governance, the world governance indicators, which actually just released its 2009 version. So, Danny, contrary to both Marcelo and Carlos, is not Brazilian. So, what I thought would be useful from the point of view of this debate is to take a bird's eye on Brazil in a more comparative way to really be able to assess areas of progress, areas of stagnation and this broad concept of governance that, as you'll see, Danny covers a wide range of measures.

So, Danny, thank you very much for having accepted the invitation, and please educate ourselves on where is Brazil relative to the world?

MR. KAUFFMAN: Well, let's not over-promise, especially given the size of the screen, and since my presentation is all data-driven because I let the data speak, I'm not going to suggest that -- I mean, we just heard the illuminating comments, Mauricio, Marcelo, Carlos. They know a lot more about Brazil. And, for full disclosure, I'm Latin American, and I'm from Chile, so, whenever I show a comparison, you will see the bias with Chile. (Laughter)

But the whole point is that such a compelling case has been made by Marcelo, Carlos, and Mauricio mentioned it upfront about what we call in economics and in math about the delta Brazil. What has been happening in terms of the trajectory, particularly in recent times? I'm going to present a somewhat different perspective, as you suggested, which is looking at the whole world, and, through that, I may be giving, perhaps, some perspective, at least for the debate in terms of saying in spite of how much have been traveled in terms of the road, and quite fast in recent times, how daunting it may still be particularly regarding your question about the fundamentals, the road ahead that's still needs to be traveled. And that's why I've even provocatively called these remarks well are Brazilians an imminent super power or are they pretty much

exuberant. I'm concerned about particularly now since now it's election time, and they're always internal factions that would argue so much has been done, it's time for a slowdown in terms of reforms. We are almost there by the sheer important power and size of our country.

So, without further ado, this is basically some of the message to, perhaps, emerge. But there's absolutely no question of what was said, so, I'm not going to belabor too much in terms of some of the main variables of interest where the immense gains in micro stability inflation, the argument today is where it should be eight or six, I mean, compared with ample inflation. The democratization, that comes out also in the government's data growth, and particularly in recent months. We know and you have the new data, there are gains in inequality recently, although, it has not reached the lower levels of the 60s yet. So, it's on the path of where Brazil was 50 years ago, so, let's keep that also in perspective. And what you said earlier about the middle class.

So, one way of starting to look at it is that it's a very simple graph that shows yes, there has been an increase in terms of GDP per capita. It's all in purchasing power parity and in recent times the slope has increased. It doesn't show 2010, which will shoot up again, but in part, it's also catching up to the negative of last year. That tends to happen, but, in Brazil, it's happening earlier than for most of the world, and that's reassuring.

The moment one begins to put a more global perspective, one puts, also, these gains in some perspective. If we put even during that same timeframe what has happened with Mexico, which has not been all the time impressive, but it would see the blue line for Mexico going up, and, to some extent, even more except for recent years. And Chile, we know the story of Chile. It's another slope, but then if we will go even beyond that -- sorry, I didn't show South Korea, it shows even a much, much higher

slope during that time.

The size of the middle class, and just for disclosure, since I used comparative data, I'm using some data based on the World Bank Povcal and (inaudible 47:12) Brookings which the World Bank has analyzed, which is basically the share of the population, the percentage of the population, which runs between \$10 and \$100 a day PPP.

So, in Brazil, we do see, again, that there have been gains, are going to do that, from 1980 to now, or to last year at least, but in 29 and 39 percent of the population. Your graph looks probably different, but, basically, they show the same type of trend. But if we go to the rest of the (inaudible) to some benchmark in countries and we see what has happened in Chile or in South Korea, which has gone from basically the same level in 1980 of also 29 percent or so, to now over 90 percent, being the middle class, it also puts in perspective of what can be achieved. Oh, by the way, this is the graph in terms of GDP per capita, a completely different from the one for Korea.

There has been a lot mentioned about the inflows of foreign direct investment into Brazil. Yes, we see in the green line here recently a (inaudible) forward, but once we measure it in per capita terms, it still shows basically that it's not that high compared with the size of the country and so on, and there are many other countries that have much higher. This summarizes that.

I'm not going to spend a lot of time for the sake of having some discussion, but this shows the BRICs and some other comparative countries. But, basically, in terms of whether we look at the first few rows, GDP per capita, PPP where it's nowadays, Brazil is where South Africa is, and they have had the same trajectory essentially over the past 15 years. South Africa and Brazil, going from \$7,500 to \$9,500. Very, very similar during that period. South Korea doubled between \$14,000 and

\$26,000, and Chile went from \$8,000 to \$13,000. I mean, just to give some comparator. So, it's too easy to get very focused on the short-term and that it can be significant gains in the very short-term, but more or less, a question of system ability, one has to look at the longer-term and ask the question how these can be sustained for then Brazil achieving the real gains. Russia has increased per capita income much more.

In terms of FDI per capita, Brazil, again, is not that far from where South Africa is, and, in the case of Chile, we are talking about five times more. Of course, it's a smaller country. So, it seems it works in per capita terms, but it shows, also, the potential of Brazil and where it could be.

So, that leads to a question which was already touched upon even briefly, and Carlos mentioned, the whole thing with governance, because if we're going to talk about the medium to longer-term, the whole assessment of governance in terms of assessing what are the prospects for Brazil becomes crucial, and since Mauricio mentioned that I have some data, let me quickly look at it. But it's very important to look at this because governance matters in the medium and long-term enormously for sustained long-term socioeconomic growth and many other things.

There are more complicated reasons also why it matters enormously because when these major periods of crisis where the absolute basics in terms of macroeconomics are not taken care of, like hyperinflation, you had certain crises where it has to be taken care of. As you know, very well (inaudible). Once all the basics and those low-hanging fruits have been taken off, the institutions which take much longer to reform political and others become the binding constraint for sustained, longer-term growth. And it may be the case, and I'll put that for debate that countries like Brazil, these will be the real question mark whether **the gains achieved regarding the poor equality and (inaudible) and so on, well, will Brazil be able to do what's needed to be**

done on the institutions and governance to go and leap to the next stage? Otherwise, that may become the drag in the next stage, which it's not so much a drag when you such a crisis like hyperinflation and other things that you need to take care of. We have that in the general data from the world in terms of research of how much good governance matters for long-term income growth and economy.

I know I'm going to go over that, trust me that at least we have as many papers and other scholars too, we can discuss it later, but for the sake of this quick summary of the next batch of slides, let me just suggest what does the data show in terms of governance nowadays in Brazil? We define basically governance a set of institutions by which authority in a country exercise three major clusters: the political governance clusters, the economic governance cluster, and the institutional cluster or institutional respect. Let me, rather than going through a lot of words and details, let me go immediately to what are the main variables that we have in the worldwide governance, indicators that translate these notions and concepts, which I'm not giving full justice to numbers and indicators.

In the political governance cluster, we have two, it's two each, voice and democratic accountability, as well as political stability in the absence of major violence and terrorism. On the economic governance, institutional context, its effectiveness of state institutions, of the bureaucracy, as well as the quality of the regulatory framework. And institutional respect, would be the quality of the application of the rule of law throughout the country and the extent to which they control corruption.

So, those are the six measures. This is where Brazil is nowadays, and this is in percentage rank for we measure 213 countries. So, I mean, at one level one can say aha, today or end of 2009, the glass is half full or even a bit more than half full. Well, but that's still being in the 55th percentile in most of these dimensions and in rule of

law even below that means that Brazil is ranking around the 80s to the 100s rank, which is not consistent with a sustained super power yet. So, at least just putting these like that raises a question of glass half empty or half full depending what the ambition of Brazil, where it wants to be. So, I'll leave it like that.

Over time, just to show very quickly what has happened over the past dozen years, very consistent to the almost exuberant, but realistic story that was told by both of you on the political governance from voice and democratic accountability to moving in the right direction, political stability, enormous. I mean, it shows very significant. These little thin lines are the margins of error where we try to be careful about that and so on. But on the rest, it's basically the mother middle-land staying a bit stagnant, and if I try to look at more recent times, 2003, 2006, 2009, similarly. So, it's not as if these are a sudden acceleration that we're not seeing in the data.

Let's take regulatory quality. Nowadays, among with many benchmarking and comparator countries, it leaves a lot of room for improvement in terms of comparable countries, where Brazil could be. Where the arrow is, which is very much on the left, is where Brazil is. Even in Mexicos, the Uruguays, the Perus, the South Africas, the Costa Ricas, the Koreas, so on, and all that.

Similarly, in terms of rule of law, I mean, in none of this dimensions Brazil is in governance crisis. That erased over, and that's a great achievement, but you're in the middle, and, so, that's where there's questions, and control of corruption similarly.

On voice and democratic accountability we accept that. That's the democratization that you did show. No one can run some scenarios because what comes out from these is that the potential of -- Brazil is not at its potential, so, the delta, the change has been very significant, and Brazil is not yet at this potential. So, one can run scenarios by taking with Brazil aspirations and human capital, and so on, one can

take the top 10 emerging, and from 2 economies. Let's forget even the richer and more industrialized for a second, but, for Brazil to be a leader among the emerging from the two economies, I ask the question: Where are they, the top 10 today, and say in 5 years, can Brazil be three-quarters of the way, not even fully there, in terms of governance, quality, and different dimensions?

Well, that's what I have on the right-hand side. The Brazil short-term potential. Let's say five to seven years. And on the left-hand is where Brazil is today. It's just to suggest that these, a significant road to travel, taking a realistic approach. I'm not comparing it and saying Finland or the Nordics or New Zealand tomorrow. That's unrealistic and also different types of countries. That's the long-term, but just among the emerging countries, and what comes out is that yes, they said normal homework in that sense.

MR. CARDENAS: But what is benchmark? Which countries are in that benchmark within the --

MR. KAUFFMAN: Well, it varies. It varies by component, but it would be the Costa Ricas, the Chiles, the new European. Quite a few. Or the Eastern Europeans. In some dimensions, the South Korean. In some, but not others, even South Africa makes it there, and it's neighbor Botswana and so on. I count it also for -- there are some islands, but anything less than 1 million I'd say are not relevant for this discussion. But this group.

By the way, that group rates much better than Greece and Italy and the Southern Europe, so, it's also a good ambition, and it's not to say that all industrialized and OECD countries are incomplete a different way, but I'm saying the Nordics not yet. That's unrealistic. And, also, to show that this is not an unrealistic exercise.

The Brazil short run potential, which is on the right, to Brazil now, it's still

below the Chile and the South Korea. But about where India is today. But it showed that are achievable, but I don't know but if there is that discussion (inaudible) on each component on where Brazil wants to be to be consistent with that. Similarly, for rule of law and control of corruption, it is realistic to think about that potential target for five, seven years from now.

Let me wrap up then with just a few concluding reflections which are for debate. So, from these types of perspectives, the assessment of Brazil is that there are very significant achievements, also, but, also, challenges. So, it's a complex picture. Exuberant yet. It may be premature yet. Brazil compared with its past is one thing, and Brazil compared with its peers today is another, and I think at some point the latter needs to be integrated into the analyses.

There's also a question, and I'm assuming in the audience, I know are experts that one has, which you alluded to, the importance -- and you are the expert, but I find that mistake so often of not distinguishing between approximate challenges and fundamental challenges. So, I'm sure the Harvard Group and others, they all say savings are not high enough, and that's a drag to growth. But that begs the question, and you have written about it, of why, and the political economy and the institutional issues and the governance issues do come to the floor. So, I think at some point in looking at even the macroeconomic challenges, one has to link it better with that.

I suggest that governance may become increasingly binding, as other issues, particularly the dimensions governance as other dimensions have been handled, but I'm also suggesting and the data suggests looking at the rest of the world, it's something very hopeful, which is it is possible to leap to a high governance. In fact, other countries have made that leap, that what I showed, Brazil could be to its potential short run in five to eight years, including Mauricio's own country and in part under your and

your colleagues' leadership, we see that. I'm not showing Colombia because that's not the discussion, but we do see that not in one year, but in 5 to 10 years, a country can make an institutional leap of non trivial proportion.

At the end of the day, we have to also ask the question, it didn't come up, about global competitiveness. To be a global power, not even speaking about super power, one has to look at the competitiveness in a global sense, and this is just to wrap up, summarizing in some sense what I've been trying to convey, looking at the recent also index from the global competitor's report of the world economies forum.

So, if I plucked governance on the horizontal axis versus a Global Competitive Index in the vertical axis, we see first, it's a very, very high link, and that has always been known. But much more fundamental, Brazil out of the 135 countries ranked, is 58th today, and the same group that South Africa, also, South Africa, 54, but Vietnam, Russia, and Turkey are all there. Chile and China are 30, Indonesia is 44.

And Brazil is getting a big bonus in its ranking due to market size. Market size has a very important weight. But it's being dragged down. The most important components that are dragging down in the Brazil in the Global Competitive Index Report are two, institutions-governance, and infrastructure, which I don't know much about the situation, but you may comment about it. But it's to suggest, and to end, that, yes, enormous achievements, the delta so far, but, right now, Brazil is in that blue-grey area on the left, and not on the top right-hand side yet.

Thank you. (Applause)

MR. CARDENAS: Well, thank you very much, Danny, for the superb presentation because it really provides a lot of food for thought. I think we should go directly to you and to your comments and get some discussion here. So, I'll set the ground.

Brazilians, I mean, we're all nationalistic, but Brazilians are more nationalistic than anybody else. So, you have to discount that a little bit, but, still, there has been a remarkable change and there is progress, but maybe let's not get carried away with that and let's not overdo it, as Danny said. So, it's an effort of trying to bring this to a sensible center and reality. So, I pretty much think that the world today is taking a very benign view of Brazil, and that's not good for the country, and it's not good for its policymakers. But I think that's a very general statement. We have to go deeper than that and say exactly what is the vulnerability, where is it, and this is very much the conversation we're trying to have here at Brookings, and be able to say that in a more assertive way.

So, Theresa, thanks for joining us.

SPEAKER: Theresa (inaudible) from the IMF. Well, first of all, I want to congratulate all three panelists because, really, this has been an extremely interesting presentation, which brings some dimensions that macroeconomists like myself don't focus as much as we actually should. I tend to agree very much with Danny's assessment that a lot has improved in Brazil in terms of institutions, in terms of social and the political transformation.

I must say that I have been for a long time a great advocate of Brazil when things were not as good as they look now. I am now more concerned, and I'm concerned particularly from the point of view of the sense that I feel that there is a lot of complacency in the government, perhaps, it is pre-electoral, self-congratulatory sort of attitude which is explainable, understandable, but the jury is out as to whether this will change in the next year or so.

I think the macroeconomic policies are not as sound as they appear. Fiscal policy is a lot worse than what the official numbers tell because the primary surplus

has been inflated by sort of revenues which really shouldn't be there by postponements of expenditures. (inaudible) multiplying, and the next government will pay the bill. And a lot of operations that are going below the line. So, I think that the picture even in terms of the actual position is not as good as it looks, and in terms of the structural position, cyclically-adjusted, it is actually pretty bad because the primary surface this year is going to be, at best, with all this maquillage the same as last year, and (inaudible) economy is booming, and, last year, it was quite depressed.

I think that the fiscal stance adds to potential inflation pressure and requires the monetary policy to be very tight, which, of course, then creates the problems of pressure of the exchange rate.

So, I think that there is going to be a big challenge in terms of changing the policy mix for the development, but this is compounded by the fact that there are still very strong structural problems that have not been addressed, even on the macro sort of type of policies, in particular the fiscal policy, and I mean from the tax reform to the pension reforms, I didn't mention the pension reform, but, of course, a very minor pension took place in late '90s and then in 2000.

Frankly, in terms of statutory reforms, the Lula Government has not done very much over the last eight years. It might have been difficult, let's say partly because also there weren't the outside pressures to do so. But I think these things impinge very importantly on the competitiveness of the economy or the potential growth of the economy, and I believe that it is extremely important for the new government to take a strong -- a very sort of (inaudible) look at what are the challenges and how you can best meet them. And I wish you a lot of luck in that.

MR. CARDENAS: Thank you. Thank you very much.

Anyone else? Yes, please.

MR. HARRIET: Yes, Judd Heriot, documentary filmmaker.

I'm very interested in inflation in Brazil. I remember in the '80s and '90s, inflation was always the ugly handmaiden to growth. And it was extremely difficult to control, mainly because of the amount of subsidies that laced the economy.

Could I ask you what has been done? I mean, how has inflation been brought under control recently? And what new policy (inaudible; audio disruption) have been brought there on this issue?

Thank you.

MR. CARDENAS: Thank you.

Anyone else? Vienna?

SPEAKER: Well, Brazil has been one of the few countries in Latin America to focus on Research and Development, R&D, and, so, my question is: Why has it been different in Brazil than many of the other Latin American countries who are now catching up and implementing R&D into their agenda?

And then I believe, Marcelo, you mentioned that Brazilians are now thinking about formal jobs, looking into the future, but are there sufficient jobs to absorb the professionals that will be in the future?

MR. CARDENAS: Yes, in the back?

SPEAKER: Thank you. To my understanding, you were talking about economic, political, and social transformation, which all link together to each other, and they have a different complex causal relationship. My question, and it can be answered by Mr. Neri or Mr. Pereira, maybe. The social transformation that's going on today in Brazil, and which is optimistic, as you portrayed, will it be enough to derive the political transformation or accelerate political transformation?

The reason why I'm asking is that I read one of the papers Mr. Pereira

wrote on the political economy in particular in Brazil, and it was clearly showing that there's a problem with the 1988 constitution. And I was wondering if this new social transformation that Mr. Neri talked about will bring a change to the political context in Brazil that can maybe get rid of the inflexibilities that are imposed on the Brazilian state.

MR. CARDENAS: Well, we have three, and we'll close with the three of you.

SPEAKER: Mauricio, thank you. Thank you for the invitation.

I think the table has been very balanced in all the concepts that have been tabled here, the charts, and the figures are very impressive really. I just want to ask regarding the foreign investment in Brazil. I suppose that has been part of the autopilot program.

How does Brazil think this could be improved in the near future? Or does Brazil see it as a problem that it's not attracting enough foreign investment? How do you look at this?

Thank you.

MR. CARDENAS: All right. You had a question?

SPEAKER: Hi. I'd like to know the impact of the "Bolsa Familia" program on the social transformation and if it's sustainable for a long time.

MR. CARDENAS: Good. Very concrete and good question. And we'll close with you.

MS. REED: Hi, thank you. Alexandra Reed from the Council on Hemispheric Affairs.

I want to go back to the sense of complacency on behalf of the government that's brought up and how it relates to the general Brazilian population. I mean, in terms of the elections and Rouseff not winning outright. Are these related to,

perhaps, this unexpected turn in the elections?

MR. CARDENAS: Is that a question about the hard issues not being discussed in the campaigns?

MS. REED: More so in relationship to this suggestion of complacency on behalf of the government in terms of Brazil's progress and how that relates to the sense of the population, rather than the government, and the fact that everyone thought that Rouseff was going to win in this first round, and she ended up not performing as well as expected.

MR. CARDENAS: All right. So, yes, the last brief comment?

SPEAKER: Yes, I have a question about what does the future look like specifically for Afro-Brazilians and their sustained entrance in the middle class, especially when it relates to good governance. Will it be a sustained practice moving forward in the future?

MR. CARDENAS: All right. Well, thank you. I think it's been a quite lively engagement on your part. So, I guess we'll go back to you and maybe in the same order.

You mentioned the "atomic bomb." You said that the political institutions of Brazil could actually go in the wrong direction, too many political parties, a very strong president. That's what happening in Ecuador for example. Pretty much the same, but why is it that Brazil was able to deactivate that political bomb?

MR. PEREIRA: That's good.

MR. CARDENAS: And is it of the activation that we can feel is there to stay or something else can happen, and it's pretty much the same story with the social. There was an atomic bomb because of the high levels of inequality. It's been deactivated. Your question is very relevant. *Bolsa Familia* has played a role there. *Bolsa Familia* is a fiscal

program, and it's part of the fiscal sustainability that Theresa alluded to. So, if suddenly Brazil suffers from decreasing commodity prices and the government is less able to implement these things, will that bomb then explode, or is this basically a reactivation with the river of scientists that are really taking the bomb apart and making sure that it will not be able to be assembled again? Or is it more something that is on the façade?

Anyway, if you want to go in the same order or, Danny, do you have something? Okay, Marcelo?

MR. NERI: Let me try to answer some of these questions.

MR. CARDENAS: Yes. You don't have to answer all of them.

MR. NERI: So, there are two metaphors used, one of the autopilot, the other, the atomic bomb. (Laughter)

So, I think that I'm positive with respect to Brazil, not because of politicians, not because of the management; I think the theme of Rouseff's campaign that you could do more, that's his basic message. I think, for sure, we could have done much more than we do in inequality and poverty, et cetera. I mean, Brazil had excellent - compared to ourselves in the past, but we could do much better than we have done.

For example, to be very concrete to opt more for *Bolsa Familia*, which is very well target, and the poor cost very little, and put less resources to minimum wage, Social Security payments, et cetera. So, but I think that Brazil follows what I'd like to call a middle path. That's because the population has this mean reversion. All this goes to the middle, and I think last week, the election showed Brazilians, we don't like very much extreme solutions. Like if someone is going to win by a lot, well, not so much, so, we have these mean reversion, and I think this is happening, and I think this is good because this gives some discipline for policymaking or to political choices.

I agree completely that the main risk of Brazil is to think that we are

already there, and no complacency and things like -- this is the main risk, and I agree completely with that.

I agree that Lula was a very good autopilot in the sense that gave continuation, but, in a sense, he was the one who could, being from the left, not having so much opposition, could have done much better if took for himself the idea of doing labor reform, Social Security reform, et cetera. He was the one who could do it more than anyone, and he didn't do it. But he really got this autopilot and did a very good autopilot job. He really followed the thing, but I don't think Brazil is only good -- that's the only characteristic.

I think Brazilians, the Brazil Administration is relatively good during crisis. The recent data showed that. The image of the Brazilian driver is very good at rain, when it's raining a lot. That's where Brazilian drivers do a good job, a better job. Everyone slows down, but we don't slow down as much. And, so, I think that the autopilot analogy, it's a good analogy, but we could have done much better than this, if we chose at least another level.

But, at the same time, we are doing well during crisis. It's because we had lots of crises, we know what is -- to go through a crisis. I think that is witnessed a lot of what went on during many crises, so, we had our fundamentals better set than countries that didn't go through crises.

And I think with respect to the atomic bomb, I think that the Brazilian population, we'll always discharge, I hope, atomic bombs. I think the population itself. And politicians, they have to hear the population, otherwise, they don't get reelected maybe. So, I think I would describe Brazil as Washington consensus is not Brazil consensus for sure, but Caracas is not there. We are in the middle. And if you are an economist, you won't like that very much because you would like, perhaps, to have more

like reforms, et cetera, but at the same time, I mean, I'm not saying this is good, I'm an economist, but I'm saying that's what it is.

Brazilians are in this middle path. They don't like too much, so, it's like of buying insurance. You don't grow as much as other BRIC countries, but you don't fall as much; you have some resilience during bad times. So, you wouldn't expect Brazil to be -- we are no Asian tiger. We are too big to be an Asian tiger, cannot give big jumps, but, like a whale; we don't drown during crisis, during storms, et cetera.

Going to the specific questions just very, very briefly, I think inflation, this is a good signal of how much Brazil changes, and I think this gives an idea. If you're going to compare the international comparisons of Brazil, you must understand Brazil; we had the world record of inflation. We had the third-highest inequality. So, Brazil is very different, and that's our comparative advantage is Brazil, we have so many problems that once we start to address this problem, that's what happened. We start to advance a lot, and we can still advance more and more because the problems are there, and I think the inflation example.

Just two quick answers, with *Bolsa Familia* and with your thing on the fiscal thing, I think that *Bolsa Familia*, we should have a coalition because those who are concerned about fiscal issues and those who lack *Bolsa Familia* because it costs so little, 0.4 percent of GDP reaches 50 million persons, the very poor ones. So, it's a good sign, but the problem that our option, we didn't do a preferential option for the poor for *Bolsa Familia*. Brazil threw money out of the helicopter, so, we could do much better.

Just with respect to the future of Afro-Brazilians, et cetera, this question, I think there are things going on there, like the rate of income change of blacks and (speaking in Portuguese) in Brazil was 3 times higher the rate of change of income, the last 10 years. The first time I see that in the series, three times higher than whites. So,

there is really something going on.

In Brazil, more than 50 percent of Brazilians call themselves blacks or (speaking in Portuguese). It's different than the U.S. Obama was elected with 12 percent of Afro-Americans. In Brazil, more than 50 percent, but this is like not the -- for some reasons, for example, Marina she could get this flag, but this was not touched, but I see on the ground things going on.

And just one last point with respect to Mauricio's point, that Brazilians are optimistic, et cetera. This is completely true. I mean, just to give you some evidence on that, there is Gallop World Poll. Mauricio knows well there is this question: Give a grade from 0 to 10 where you think your life individually is going to be in 5 years. So, I showed here three years ago, Brazil was the highest in the world in 2006 with respect to 2011. So, we just calculated this for 2009 with respect to 2014, where it's still on the top there, and this is a problem, of course, because it's not good for reforms, not good for savings. If individual Brazilians think they're going to be very well -- and I mean the distance to the second place was not little. A big difference in more than 140 countries in the survey.

But when you ask Brazilians give a grade to the country as a whole, not to yourself, but to the country as a whole, then the grading is much worse, and I think this is the problem of Brazil. Brazilians think their lives are doing very well, et cetera, but everything that's systematic that's related with the country as a whole, like informality, inequality, inflation, democracy, which is a collative problem, not an individual problem, we are not doing so well, but the picture is not very good, but if you look like 30 years, we did big changes, and we can still do these changes because the problems are there.

Thank you.

MR. CARDENAS: Thank you. Thank you, Marcelo.

Carlos?

MR. PEREIRA: Very good questions, and I appreciate that. Just a quick comment. By arguing that Brazil is on the road to good governance doesn't mean that it cannot get on the wrong track. It can. Actually, even developed countries, they took wrong tracks, right? So, it's not inevitable ride that is there only one direction. I'm saying that we do have the institutional conditions now to be on the right track. So, if we're going to stay --

SPEAKER: Because use the analogy of the autopilot so.

MR. PEREIRA: Yes, and but I think that especially the political gain in Brazil is in equilibrium. So, the idea of a strong president with lots of governing tools capable of building and sustaining the majority coalitions and do not face too much trouble of governability of approving his or her agenda, that's in place, right? We don't need reforms on that, I think. The political system does not need to be reformed because Brazil is a good example and contradicting the literature that multi-party presidential system can work well. However, there are lots of hardwires and impediments in the constitution that I agree with you, but not in the political system itself, not in the rules of allocation of power or distribution of power. So, that's my point.

I would like to just conclude by raising a question to you, Danny, because I don't know if you have that in comparative perspective, but don't you think that the Brazil stick that you just showed to us would be very similar to other countries that made the transition to developed countries 10 years before they made that transition, like Spain, like Ireland. I don't know if you have those. It would be a good exercise for you to do to see in a counterfactual case, a country that would be on the average level of rule of law of Brazil today, a counter accountability and so on and so forth. The thing is, before they made the transition, just to predict that way would be feasible or not feasible.

MR. CARDENAS: You have the last word, Danny.

MR. KAUFFMAN: Very quickly, yes, but, well, first of all, unfortunately, I mean, these type of very detailed data on governance, they exist since the mid-'90s. However, we can extrapolate, and I've looked into that question a bit. Yes, Spain, but let's face it, Spain 30 or 40 years ago. So, it would be sobering.

The answer to your question would be sobering. Okay, Brazil is on their way, but it's a long road. And that raises two questions which is probably for another panel, but since you mentioned it so importantly, you had such unique characteristics, you had the crisis, you had the unique future of Brazil, the comparative advantage in being different, but isn't it the case that one of your great achievements so far, we talk about achievement, Brazil, if I compare with other countries and other countries have a bit in the past, Brazil has become a "normal country." Normal country with normal problems.

Many of what I showed is not really bad, it's not in crisis. To the contrary, it has achieved a certain level of normalcy. But the challenge is that I don't see any evidence in the medium to long-term from other countries in the world and looking at governance, a country that is normal, that has many choices, but let's say two for the sake of finishing, continue on autopilot or taking the bull by the horns and saying these pending reforms are crucial, and there was some question to that extent. I did not hear anything -- I wish I would have heard more "yes" in corruption, which became an issue in the election, and she lost some points because of corruption, but that's not the issue of that particular scandal. It's whether that's symptomatic of integrity issues.

Much broader on what's happening in Parliament and other rule of law in the judicial and how it's functioning. On there, it's not for me to say, but for you guys to say there's an enormously important agenda that if Brazil continues on autopilot and if structural reforms are not taking place, you're going to continue to grow, but then you

have a crisis and it goes down and so on, and you're not going to have the South Korea graph there. And it's going to be in a decade 3, 4 percent growth per capita is not good enough where Brazil is today. I think that's a challenge.

MR. CARDENAS: Yes. A great note to end. Now, you're going to see all of us running to our offices to see who's going to be the first one to write the story about the autopilot. (Laughter)

So, I'll just say this has been a fascinating panel. I certainly learned quite a bit, and I'll take two main messages. The one is that when you're flying and the pilot says we achieved a cruising speed, we're 30,000 feet, yes, that's the time for putting the autopilot, but not when you're at 10,000 feet. And this is where Brazil is. Right? And that's a danger.

So, you wonder why is Brazil doing that, and it's not just Brazil, other countries, as well. And I'd say that the explanation is called the 80 percent syndrome. The 80 percent syndrome is that once you have that goal in terms of your popularity ratings, you want to keep that, and you want to make sure you keep that, and the best way to keep that is by preserving the status quo. You don't want to deal with difficult reforms; you don't want to touch special interest. You want to make sure you preserve that, and to preserve that programs like Bolsa Familia are very useful. So, the reason why we were flying at 10,000 is precisely that syndrome. And I think we have to aim for better. And it's fine to use the autopilot, but only when you are at 30,000 and to reach that level, we still need another set of reforms, and that's the hard thinking we have to do.

So, thank you very much. It's been a wonderful panel. Thank you, all of you. (Applause)

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I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

/s/Carleton J. Anderson, III

Notary Public in and for the Commonwealth of Virginia

Commission No. 351998

Expires: November 30, 2012