

Interview with Brazil's President Luiz Inácio Lula da Silva

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BRASÍLIA

The following is an edited transcript:

The Economist: Next week you will meet British Prime Minister Tony Blair. What will you say to him about the global trade negotiations?

President: We have a fairly full agenda to discuss with Tony Blair. Naturally, the WTO and Doha Round are extremely important, because, as I have already told Tony Blair on the telephone and, afterwards, in South Africa, some sort of gesture is needed in these negotiations. One where neither the rich nations nor the emerging countries are the big winners; where the big winners are the world's poorest nations, whether in Latin America, Africa or Asia, because what we decide in the Doha Round will affect humanity over the next 20 or 30 years.

My point to Tony Blair, who was the first head of state I ever spoke to, is that we can't simply leave these negotiations to the negotiators, the UK representative, the Brazilian representative, the German representative or the US representative. Eventually, we'll have to bring together the heads of state to decide on important matters.

I'm concerned above all about the issue of agriculture for poor countries. I know that in Europe agriculture isn't just an economic issue, it's much more a political one. In France, just 1% of the work force is in farming; in England, it's 2.8%, in the European Union 4.8%. But in Brazil it represents 25%, in Asian countries 50% and in Cameroon 70%.

So, countries with these big farming sectors need to have some encouragement, a gesture so that they can make agricultural trade a little more favourable for the poorest countries. Europe needs to take a more progressive position, a more humanitarian one. Not thinking just about the next elections, but for the next 30 years.

What do we want for the world? I think that peace, the fight against terrorism and the reduction of fundamentalism, are connected to improving the quality of life of the poor. This is one matter I'm very anxious to discuss with Prime Minister Blair.

Another topic high on the agenda, which could be an excellent policy for fragile economies, is renewable energy, especially ethanol and biofuels. Germany has a strong policy here and I believe that the UK could also play an important role.

The Economist: In what sense?

President: We need to use biodiesel as the basis for partnerships with poorer countries, and to develop biodiesel production in these poorer nations. Biodiesel is an important creator of jobs. Here in Brazil, we have gained in-depth experience through five companies that already produce biodiesel. We created something called the Social Seal. Under this system, a company buying vegetable oil from small producers gets a tax exemption. This enables us to create thousands of jobs for small producers of soya, castor bean seeds, sunflower seeds and cottonseed.

Who knows, over the next few decades, instead of talking about "prospecting for oil", we'll plant oil. Instead of drilling a well 2,000 metres deep, we'll dig a little 30-centimetre hole, plant a seed and, after it has grown to 1.80 metres, harvest it and transform it into biodiesel. Now that would be something: less pollution, a job creator, renewable, something to last a lifetime.

The Economist: To obtain this agriculture agreement, is Brazil prepared to substantially reduce tariffs on manufactured products?

President: Substantially, no. Proportionally to the value and weight of our economy. Brazil is prepared to do its part to be flexible in both industry and services proportionally to the weight of our economy. Our discussions must take into account not only the immediate context of the next election, or the immediate context of each individual country, but a more humanitarian context. We are making agreements that could impact humanity for over the next 30 years. So, there have to be concessions, after which the emerging economies can make theirs, followed by the poorest countries. That way, we'll be doing something more equitable, in terms of distributing the results of the wealth we want to produce over the next few decades.

The Economist: So, in proportion to the size of the economy, rather than in proportion to the rich nations' concessions?

President: Look, the rich countries' concessions will also be based on their economic and political needs. In other words, the concessions must be proportional to the offers made by the rich nations, they have to be proportional to the weight of each country in trade. This agreement is more about economics for the poor countries and more about politics for the emerging and the wealthy countries. And this I can say sincerely because Brazil has no fear of competing with rich nations when it comes to farming. We have the technology, the land and all the ideal conditions for competing with any country. So, when we go to the WTO and fight to bring our sugar or our cotton into the European market, we're fighting not only for our own interests but because this helps many other countries, such as Benin, which produces 450,000 tons, on which its economy is built.

I've got great expectations for my visit to the UK, based on our good relationship with Tony Blair. I think

the UK can play an important role in this WTO matter. I see goodwill in Tony Blair. I've just seen a statement by Pascal Lamy [director-general of the WTO], saying that the presidents are not going to interfere, and I just want to say I'm not worried about his statement—he's doing his job. What concerns me is trying to find out what Tony Blair thinks, what Bush thinks, what whoever has the decision-making power thinks.

The Economist: Did you propose a summit meeting?

President: I proposed the need for a meeting some time before the Doha Round. In my case, for example, if in May we have a Latin American and European Union summit meeting, you can be sure that I'll jump on a plane and go to it, if the main leaders are involved. If Tony Blair and Chirac are going, I'll definitely go too, because I'm stubborn and won't give up my ideas. I think the UK could be an important partner in making discussions at the WTO more flexible.

The Economist: Brazil is fighting for a permanent seat on the UN Security Council. How would this help Brazil and the world?

President: Let's turn this question around. Brazil is fighting for a deep reform of the UN. The UN has been around for 60 years, and the conflicts for which it was created are no longer there or, at least, not to the same extent. The UN must consider the new geopolitics. The bipolar world has gone, along with the Cold War; democracy is firmly consolidated in many more countries. So, what do we want? We want the UN, not just the Security Council, to more fully represent today's political world. The Security Council must change. We must equip the UN with mechanisms that give it the credibility to make decisions. After the UN is reformed, Brazil, obviously, as the largest country in Latin America, is applying for a seat. Others will apply. We believe that the continents need to be better represented. Africa has 59 countries, so it should have at least two representatives on the Security Council. Here we have Brazil, we have Mexico, we have Argentina, all of them countries that could apply. I had the opportunity to discuss this with [Chinese President] Hu Jintao. Why can't Japan, one of the largest economies in the world, be [on the Security Council]? We can't allow the problems of the last century to influence decisions that will affect future centuries.

Occasionally, I come across a political leader worried about something that happened in the 19th or 18th century, for heaven's sake! I believe we need the maturity and sensitivity to consign these events to history and to find ways to make new agreements for the future. After all, we don't govern for those who went before; we govern for those who come after. This should be the basis for the UN reform. A UN prepared for the future is a stronger and more democratic UN, one that is more decisive in [resolving] conflict and faster to take action. And here is where we need the weight of the more important countries. Often, the UN takes a decision but, if that decision isn't backed by the US or China very often it simply isn't implemented. So,

what we want is for all of us to take these decisions together after the necessary discussions. But, when the decision is taken, it must be implemented. That will apply to Israel, to Palestine, to China, to the US, to Brazil, Bolivia.

The Economist: Your counterpart, [Venezuelan President] Hugo Chávez, is an elected President, but he does not govern very democratically. International observers have called for a new electoral authority for the presidential elections. Brazil seems reluctant to criticise Hugo Chávez. Why is that?

President: First, because it's not Brazil's job to criticise governments democratically elected in their own countries. I have a warm personal relationship with President Chávez, and Brazil has a trade, economic and infrastructure investment relationship with Venezuela. It was Brazil that proposed forming the Group of Friends of Venezuela to consolidate the referendum [seeking Mr Chávez's recall], with the involvement of people like Jimmy Carter, who played an important role in producing a carefully monitored and well-structured referendum. I remember, on the 25th of January 2003, I hardly knew Chávez when I proposed the Group of Friends, and asked the US and Spain to take part. Why did I suggest the United States and Spain? Because these are two countries that had the biggest conflicts with Venezuela. The United States as the focus of conflict with President Chávez and Spain because it had recognised the coup in Venezuela. And I told Chávez that it only makes sense to form a Group of Friends if they are not friends of Chávez. They have to be friends of Venezuela and of Venezuelan democracy. And today, thanks to this Group of Friends, after much discussion, much to-ing and fro-ing, with the help of the OAS, we managed to make sure that things went well in Venezuela.

Right here in this room, I told President Bush that, before my term of office ends, I want to see him and Chávez seated at the same table to discuss their differences. Chávez is convinced, and claims to have proof, that the coup against him was organised to benefit the United States. Mr Bush doesn't accept that. This will only be resolved if they talk. It's very funny, because the United States needs Venezuela.

The Economist: In what sense?

President: Because a lot of the oil consumed in the United States comes from Venezuela. And Venezuela needs the US, precisely because it sells a lot of its oil to the United States. In other words, Venezuela is interested in selling and the US is interested in buying. It's a basic rule in politics that you can't let rumours get in the way of the truth. And if these two presidents don't talk, if neither is even willing to talk and settle their differences, there'll never be a solution. That's why I work so hard towards an understanding between Venezuela and the US, because I believe the world needs more peace and fewer problems. Venezuela needs to develop; economic growth is essential for the country after so many years of lagging behind. Chávez is a President of great value to Venezuela. Sometimes I worry about certain articles

in the US press opposing Chávez, which then lead Chávez to write big articles against the United States; it doesn't help. One day President Bush and President Chávez must talk. If there were errors in the past, we must now construct a path to the future, as if we were rebuilding a bridge that had been destroyed. And I – you may think I'm a dreamer here – but, I really believe this is possible, because Brazil would do everything we can to avoid conflict in South America.

The Economist: Do you agree with Chávez that the Free Trade Area of the Americas [FTAA] is dead?

President: When I took office the FTAA was a highly ideological matter. Brazil was divided: those against the FTAA were on the left; those for it were on the right. So, what did we do about it over these 36 months? We removed the ideological baggage from the discussion and emphasised instead rebuilding Mercosur, so that, at the WTO, we could discuss the construction of the G-20 [a group of developing countries lobbying for access to rich countries' agricultural markets], created at the Cancun meeting. It's vital not to confuse trade with ideology. [At a recent summit in Mar del Plata, Argentina] President Bush stressed the importance of first settling WTO problems, and later discussing our trade problems here. Today, neither the United States nor Brazil is making the FTAA a priority.

In our last meeting there was a difference of opinion between Mexico and Venezuela, published in the Argentine press and, also, I think, in Brazil, where the FTAA was defended by Mexico and opposed by Chávez. I said, this is not how to discuss it: one party is ideologically opposed and the other is ideologically in favour. Let's first settle what needs to be settled. Let us prepare ourselves for the Doha Round.

When this event is over, let's see what we can do here. Many countries have discussed free trade with the United States. The US is Brazil's biggest individual trade partner. We want to improve this relationship, without creating any situation where we could undermine smaller countries' development potential. So, I don't see the FTAA as an ideological problem. It is not something we debate today the same way we did four years ago. I believe that we have all matured; we are aware that, in this globalised world, we need each other much more than we did during the Cold War.

The Economist: You say you placed greater importance on Mercosur, but Mercosur is not doing well: the partners are fighting, there are tariff barriers and Brazil has not incorporated Mercosur norms into its domestic legislation. Doesn't Brazil have to relinquish a little of its sovereignty to improve the group, which is supposed to be the motor of integration for South America. And if so, how?

President: Let's take a look at how Mercosur was when I took office. Nobody believed in Mercosur any more. Reinstating confidence in Mercosur was no easy task. The election of [Néstor] Kirchner [in Argentina], of Tabaré [Vázquez in Uruguay], of Paraguay's Nicanor Duarte were all important and let us show that we don't need to run away from trade disagreements.

They happen. When a country's industrial sector feels threatened, it turns that into a fight with the other country. The leaders have to patiently seek a compromise. As I have said so often, Brazil, as Mercosur's biggest economy, needs to be more generous, must make greater concessions, so that other countries can grow.

When President Kirchner complains, I often sympathise with him, because Argentina was deindustrialised, and it is perfectly normal for the president of a country to try to get industry back.

How long did it take to build the European Union? Many years. And, even now, there has just been a plebiscite where France voted to reject the constitution. The UK did not accept the single currency. In other words, after 50 years of debate, there is still disagreement, and we're talking about people who have more education than ours.

So, please understand our disagreements, because they're normal for emerging countries that are trying to create something very similar to what was built in the developed world, but in a much shorter time. What's important is the political clarity we have today on the importance of Mercosur for all of us. Will there be differences? Of course. You'll always have differences in our globalised world. Right now, there's debate over a pulp plant between Uruguay and Argentina.

I know both Tabaré and Kirchner well. And, God willing, they will find a solution to this problem, because I can't understand how a pulp plant can create such conflict between two neighbouring countries. Both Presidents have similar ideological beliefs; they are both aware of the importance of unity within Mercosur and of the importance of unity between Argentina and Uruguay. Very often, because we put off talking, we start conducting politics through the press. I believe that, very soon, Kirchner and Tabaré will sit down together and find a solution.

The Economist: You said that, in its capacity as the biggest Mercosur country, Brazil should be more generous, but I see few examples of this generosity.

President: The last agreement entered into with Argentina, was a gesture by Brazil to Argentina.

The Economist: ...the safeguards [agreement to limit imports under certain circumstances].

President: This was a gesture by Brazil to Argentina. These things do not happen by decree, they happen by persuasion. I have suggested that Brazilian enterprises invest in Uruguay and Paraguay. These are small economies, so some things can be produced in these countries that will give them greater and more equitable involvement in the Mercosur game. I've had several conversations on this matter with Kirchner and I think we're getting somewhere. When we start demanding too much of Mercosur, we must remember that, historically, Argentina and Brazil have always had many cultural differences—in football, in music. Just to give you an idea, during the military government, when Brazil decided to build the Itaipu

dam, the Argentine military thought this could be used to flood Buenos Aires and they retaliated by threatening to build an atomic bomb. Brazilian diplomats have always had problems with Argentine diplomats who, in turn, have difficulties with their Brazilian counterparts. But this is something that Kirchner and I are in the process of dismantling. Both his and my foreign affairs ministers have worked hard to remove these anti-Brazilians and anti-Argentines from decision-making positions, to enable us to build an alliance between the two most important Southern Cone countries.

The Economist: Could you tell us about your relationship with the new president of Bolivia, Evo Morales?

President: I have known Evo Morales for many years, since the days of the union movement. From a historical and sociological standpoint, the election of Evo Morales is extraordinary, with great prospects and potential for the Bolivian people. Naturally, I'm aware that between theory and practice there is a gulf bigger than the Atlantic Ocean and that, on becoming President, one must combine theory with practice. What's the difference? There's a song by a Brazilian singer saying the difference between the practical and the theoretical is that a theorist sees the day as 24 hours and the realist sees it as split into morning, afternoon and night.

The Economist: Who's the singer?

President: Djavan. This song was written by Djavan. When we win the election and take office—me, Kirchner, Evo Morales, anyone—we discover that the art of governing lies in the art of doing what is possible. And the possible is only a little harder, but it can be achieved. So, Evo Morales could represent a step forward for Bolivia because, for a population that's over 70% indigenous, it's only right that the President be elected from this population, just as in South Africa, where 75% of the population is black, it's important that the President represent the majority. And I believe that Evo Morales is aware, first of all, of Bolivia's difficult situation, and is conscious of the importance of his partners in Brazil who have helped him. I've had meetings with Argentina, with Chávez and with Colombia, and everybody wants to help Bolivia and Evo Morales. Obviously, to the extent he tells us what he needs and to the extent that we can actually do some things. Brazil can help him, especially in infrastructure. I'm convinced that Evo Morales can be a success in Bolivia. It's important to remember Bolivia's political culture, and that President Evo Morales has an extraordinary opportunity to maintain the trust of the country's indigenous population and of Bolivian society as a whole. Slowly, he can create policies that will satisfy the demands of the majority.

Let me give you an example. The Biodiesel Programme could be implemented in Bolivia and could help to give the farmer a choice between planting coca and planting biodiesel, by planting vegetable oil crops. I spend a lot of time reading and studying the behaviour of richer nations that want

to wipe out the drug trade. They give money to the country in question, get the armed forces and police to enforce these policies. I often imagine this possibility: what if the US decided to buy all the coca produced in Bolivia and disappeared with it, paying a higher price than the drug traders? Wouldn't that be a better solution? If the richer countries decided to purchase Bolivia's entire coca production, leaving only the volume required to produce the indigenous coca tea, and then vanish with the coca production, wouldn't this be more efficient than using the army? Wouldn't it be more effective? Because, what would happen then? The worst-case scenario would be that the price would rise so much that, maybe, the price of cocaine would become so prohibitive that people would give up their addiction because they couldn't afford to buy the drug.

Also, we have the experience of the last century to prevent us from committing the same errors in this new century. So, I feel very optimistic about Evo Morales, very optimistic. I think he's still at a very early stage of the new government, and the first year is always very difficult, because the previous government drew up the budget, so he can't define his priorities. But I support him and I'll work to help him. I was very pleased when I heard that President Bush had phoned him, because if you don't do that you can sometimes lose contact because someone spoke ill of somebody else. I always say nobody is 100% bad and nobody is 100% good. And, so you build the relationships that can be formed.

I believe that the UK can help Bolivia, as can Brazil and the United States, because this is an extraordinary experience for the oppressed people of Bolivia.

The Economist: Let's talk about the economy. The economy is growing but at half the rate of other developing countries. Why?

President: Firstly, I believe that Brazil's economic health should not be measured just in terms of GDP, because history also shows that other countries have grown, at different times, by over 6% or 7% a year, but with no distribution of wealth the poor stayed poor. We can find examples all over the world where GDP growth does not necessarily mean that the government has introduced social justice. In Brazil, we're not in a hurry to make the economy take off immediately. First, we wanted to consolidate our macroeconomic base for Brazil to achieve a growth cycle that could last ten to 15 years, what the economists call sustainable growth.

You've been in Brazil since the day I took office. You know how Brazil was when we inherited it, how we suffered that first year, because, in 2003, many people who today criticise Brazil's growth rate thought we wouldn't be able to cope with our problems. So, first of all, we need to be very prudent, to not be depressed by criticism, to not let praise go to our heads, to not be influenced by things that seem easy but that, at other times in history, were done by some and were a failure.

And I had on my mind the many times it was announced to the four corners of the earth that Brazil had a new economic plan, a really miraculous one, that would solve the country's problems. I'll

give you the example of the Plano Real. We needed three reals to buy one dollar, and, suddenly the real became more important than the dollar. You needed 81 centavos to buy a dollar. So, this was wonderful. Everybody believed that Brazil had already conquered the world. It hadn't. And there were others—and I won't name names here—other plans existed in 1986, in 1985, in 1990. Every now and again someone would appear and produce a plan. This usually resulted in six months of euphoria and ten years of depression and loss. For Brazil to build a new sustainable growth cycle, first we had to regain our external credibility. Second, we had to control inflation. Third, we had to control public spending, spending only what was absolutely necessary, without spending more than we produced.

I didn't see this as theory; no, I saw it in my daily life. For 27 years, I worked inside a factory, and my wife always said, "Lula, we can't run up debts that we can't pay off. So, if we can't buy a fridge now, we'll wait until we can afford it." Because, very often, you think it'll be easy to pay off 500 instalments, so you buy a pile of stuff and, on the day you start to repay you realise you can't pay it all off.

These were our guiding principles. In other words, we'll make the sacrifice that we must make now to give Brazil the possibility of 15 years of economic growth. I don't want to grow by 10% or 15% a year – that's not what I'm looking for. I want a lasting growth cycle averaging 4% or 5%, so that Brazil can make up for lost time and so people will recognise that there will be no magic in the economy. There'll be no amazing announcement, one of those that looks like the salvation of humanity and the next day leaves humanity in despair.

Do you know what the Brazil risk was then and what it is now? We began the tax reform and the social security reform because I believed we had the necessary political capital to carry out the reform then. There is still the part of the tax reform involving the states, which will end the tax war. Many who campaigned for the tax reform will now have to explain why they didn't do their part. We've done the federal government's part; we're just waiting for theirs.

The Economist: The [state] governors?

President: The governors.

The Economist: You say that it's important, and I agree, to control expenditure, but what happened during your presidency? You achieved very high primary surpluses. But, at the same time non-financial expenses increased greatly the minimum wage increased, which permanently harms the budget. The debt did not drop and interest rates are very high as a result. What must be done to resolve this problem?

President: Look, for many years, Brazil lived an eternal dilemma. First the country had to grow in order to distribute wealth later. And, as we see it, we have to distribute wealth together with growth, so that the gulf between people doesn't get any greater. Increasing the minimum wage is necessary to guarantee that the poorest part of the population has the right to eat. We

went from spending 7 billion reals on social programs to 22 billion reals. We went from spending 2.4 billion reals on family farming to 9 billion. And now we're seeing the results.

The Brazilian press has widely publicised the growth in consumption of the C and D or the E and D classes [lower-income groups]. What we managed with microcredit in this country, what we managed to do with crédito consignado [lending against paycheques], was a revolution from the point of view of placing money in the market for people to be able to consume, and we are seeing results. In 2005, we had a problem because inflation threatened to get out of control, but 2006 will be a good growth year. The foundations are being built for us to make a leap in quality.

Brazil did not have the money to carry on importing. Today, we have the luxury of repaying the IMF \$15.6 billion. Now, we're paying off the 1986 moratorium bonds and, next, we'll settle our debt with the Paris Club. And, why are we doing this? Because the economy is straightened out, because we have solid reserves. One important thing is that, in 2005, even Petrobras, which always represented a deficit in our balance of trade, recorded a \$3 billion dollar surplus. So, I would say that the ground is reasonably prepared; the base has been consolidated.

Now, for example, we've decided not to make the central bank alone responsible for controlling inflation. Because we set the inflation target, and the central bank must aim for that inflation target and, therefore, when it perceives an increase in demand, its role is what? To reduce demand to control inflation.

But you can't make the central bank the villain, partly because setting inflation targets is not the central bank's job, it's the government's. So, what are we doing? Now, we're in the process of reducing import tariffs on products that we know are increasing in price more than they should. Last year, we did this with steel, which had increased too much. So we reduced the rate and the price stopped climbing. Now, we're using these rates like a sluice on a hydroelectric dam. Need more energy? Open the sluice. Need less? Close it. Or, better still, the opposite. So, with this we guarantee that the central bank takes care of monetary policy, but has the help of the government in fighting inflation.

During the first two years of my government, administered prices were increasing by 30%, 29% while inflation was 10%. This year, these prices are increasing by 2%, 1%. So, things are better managed, more controlled, and it is from this growth will come.

We've just approved another measure. I issued a provisional decree exempting foreigners buying Brazilian securities from income tax. Why? Because, if we compare Brazilian debt with the GDP it is not very high. Many rich countries have a bigger debt than ours. The problem with our debt is the repayment schedule. So, we're placing securities and intend to sell pre-fixed securities for ten, 15 years, and, yes, this will make our economy more robust. In my opinion, this measure will produce very important medium term results.

The Economist: Many people agree that the government

should help the central bank. But I think, as do many people, that a long-term reduction in the deficit is far more important. Recently, your finance minister, Antonio Palocci, advocated a social agreement to reduce government spending and improve its quality. Will you fight for this social agreement? Or do you agree with Minister Dilma Rousseff [Lula's chief of staff], that...

President: Look, there are two important points here. There is no disagreement between Palocci and Dilma on the correctness of fiscal policy. What, in fact, is under discussion is the timing. In an election year it's hard to achieve a social accord, but I am fully aware that, in a quieter period, everyone will agree that we need a commitment not to spend more money than we can. I'm convinced of this, and I know people well enough to be sure that the social movement is willing to do it, the government is willing to do it and I hope Congress is willing to do it. Now what's important for us? The Brazilian state was completely dysfunctional. You saw what happened to us when the international press publicised the increased deforestation of the Amazon region, because we had no inspectors, we had nothing. We had the environment ministry and Ibama [the federal environmental agency], both of them powerless to take action.

What happened after we straightened out the ministry? Minister Marina Silva announced a 31% decrease in deforestation, which proves that there is no truth in this story that the government can't do anything. The government has a duty. The more solid the state, the more flexible it can be, the more organised it is, the more it can withdraw from certain activities. Often, the state is strong if the economy is in a shambles and the state takes over everything. We don't want to be responsible for everything. We believe that business has an important role to play, and we feel that the state does too. We believe the state should gradually withdraw from the economy.

But how do we educate without state investment to bring the teachers back? We had to hire 9,008 teachers to fill positions and cover new courses. We are creating four new federal universities, we are transforming six faculties into universities, creating 32 new university extensions and taking them into the interior of Brazil. And why are we doing this? Because we know that, if Brazil does not invest in education, we'll never make the quality leap that the UK made, that France made, that Korea made. We must make this quality leap.

Congress will vote in the National Basic Education Fund to ensure that our new policy of better serving basic education is sustained. We've increased our children's schooling period to nine years, we're building 32 technical schools, 25 of which I shall shortly inaugurate, because as Brazil grows, we'll need skilled workers. And this will give Brazil comparative advantages in this globalised world. Right, so we hire teachers. Well, do we hire a lot? We hire only the number we need. But how do you take care of health issues without a doctor? How do you take care of education without teachers? Here's an example: We created something called ProUni. With a very small tax exemption, we created the biggest scholarship program in the history of Brazil: 203,000 scholarships

were granted between January 2005 and 2006, 30% of which went to the African-Brazilian community. Now this is an extraordinary achievement. There are 38,000 young black people in university, something unthinkable ten years ago.

So, the Brazilian state...and this comes from the heart. I came from the trade union movement and became President of the Republic, and there's something I always say: I won't throw away this opportunity given to me by the people. I won't throw it away. And I know that, in order not to throw it away, above all, I must show Brazilians how seriously we treat the state, the economy and the social area. And this has been shown. How many countries have achieved what we have: fiscal responsibility and a strong social policy at the same time?

The Economist: Usually governments only manage two or three important changes during each term of office, and usually at the beginning. So, what do you think are the most important reforms that the next president should carry out?

President: Look, first of all we've got to finish the tax reform. Secondly, we need to vote the trade union structure reform in Congress. The National Labour Forum is now discussing labour reforms, and we have to carry out our political reform. The Brazilian political system must be very carefully examined. In any other country, anyone who obtained 49% of votes in the first round [of an election] could be certain of the support of at least 50% of Congress. Under the Brazilian electoral system, I got the 49% but only 14 senators out of 81, and only 90 representatives out of 513. So, we need a political reform that will give Brazil the seriousness it needs to have in the world. And I think these are the priority reforms, because agrarian reform is part of the country's day-to-day existence and is ongoing. But political reform, tax reform, labour reform, which is now under discussion in the National Labour Forum, and the trade union reform – the proposal is ready – have to be voted by Congress.

The Economist: Will this labour reform introduce more flexibility into the conditions for hiring and even dismissing workers?

President: Look, dismissals aren't a problem any more in Brazil. In fact, there are too many dismissals. I doubt that as many people are fired in the UK as in Brazil. Brazilian turnover is very high. What we're after in this labour reform—and it won't be me doing it; it has to be the trade unions with the government, jointly with the input of business and Congress—is to bring our labour legislation into the 21st century. Our present legislation was enacted in 1943, and it must be updated to address matters that are a problem nowadays. We want to make it easier for a company to hire a worker, to reduce the obstacles involved in hiring, but we also want the worker to be treated with more dignity and respect. I think that, nowadays, there is a meeting of interests between companies, represented by their unions, and workers. I'm confident we'll submit a good labour reform proposal that will be appreciated by Congress. This is mainly because our proposal does

not come from the government, but from the people, like the university reform we're working on. It isn't my reform. Over 2,000 people were involved in this reform; it's now in the hands of Congress. I've told people that university reform isn't the government's; it's society's. So, vote, because this is how we'll give autonomy to our universities.

The Economist: You didn't touch on social security reform, but many people believe that the major long-term fiscal policy problem is the social security problem.

President: Let me tell you something important. We've just carried out a social security reform. We've made good progress in the public sector, the most important part. And we've only worked on a medium and long-term basis, never in the short-term. Our aim is to reduce the social security deficit by about 40 billion *Reais* over the next 15 years.

Right now, we're taking the most thorough census ever taken in the history of social security, to identify the non-contributors who are receiving benefits, to uncover social security fraud. We've updated the social security collection system; we introduced Super Receita, a single revenue collection system for Brazil, rather than two. This will all benefit the social security system. Now, what we need is a little patience, because rushing usually doesn't help in dealing with problems.

Minister Nelson Machado has no doubt that his role is to take that one big step so we can reduce Brazil's social security deficit in both the public and private sectors.

The Economist: But, don't we need a fundamental social security reform, for example by raising the retirement age?

President: Social security is not just a problem in Brazil. The UK, France, Germany, the US, all countries have social security problems. And, as the quality of life and work improves all over the world, as longevity increases, social security will have to adapt. Here in Brazil, we've got 48-year-olds retiring—they're going to spend more of their lives receiving retirement benefits than actually working. And we know this requires a different approach. But, we can only do one thing at a time, because if we try and do everything at once, we'll end up getting nowhere.

The Economist: The planning ministry presented a long-term plan that included a primary expenditure ceiling, delinking the minimum wage from social security, and eliminating the public deficit. Are you in agreement with this plan?

President: First, the Budget Guidelines Law we sent to Congress last June already limited spending.

Second, delinking the minimum wage from pensions is easy to say and very difficult to do. I told my planning minister that, when you have an idea, before discussing it with the press, you've got to run it by the government to convince the government, otherwise it's an aborted child. If there's one thing I won't budge on, in both my private and public life, it's that I can only spend what I've got, that I can't spend

and leave my debt to others. I don't think about Brazil just for my term of office, I think about the Brazil of 30 years from now.

Thirdly, I won't give up on fiscal integrity, because that's what gives me credibility, in Brazil and the rest of the world. Now, at the same time, we're moving along two tracks at once: a solid fiscal policy and a solid social policy. And we've proved that they're not incompatible.

The Economist: But, are they incompatible with a reduced tax burden?

President: Look, what's Brazil's problem? Let's examine this: I've headed up this government for three years, and we haven't increased a single tax rate so far. Why are we collecting more taxes? First, because companies have recorded greater profits, and the big increase we had was from income tax. Second, because effectiveness of the tax collection system resulted in increased tax collections. But also [there is a long list] of the products and other things that got tax relief this year. We reduced taxes on 38 types of construction material to encourage home-building.

The Economist: So, does the present tax burden represent a problem or not?

President: It's a problem. Ideally, as Super Receita starts working right, we'll be able to reduce the tax burden, because you reduce the rate and widen the base of taxpayers. So, it'll be fairer for everybody.

The Economist: If the PT [Workers' Party] wins the election, will the new government be less PT-oriented than this one?

President: Look, there's no such thing as a government that doesn't reflect the party that won the elections. I have no doubt that the UK Labour Party is the face of Tony Blair's government. I really don't think the Conservatives are governing alongside Tony Blair, just as I'm certain that the Republican Party governs the US. Germany's the country with a coalition government, because the election results there practically amounted to a technical stalemate.

In Brazil, we don't have a PT government. [The president mentions 12 non-PT ministers]. I very much doubt that you'll find a party that's won the elections in any country with 12 ministers from other parties.

Ideally, we'd like a government that doesn't represent a single political power. This works better under a two-party system. Here, whoever wins the elections has to form a coalition, because the Brazilian voting system doesn't permit a party to have 300 Representatives, or 50 Senators. So, it's always going to have to form a governing coalition. Now, you only form a coalition with people who want to be part of one. You don't want to form a coalition with the opposition.

The Economist: Will the PT ally itself with centrist parties in the elections?

President: I don't know, because we haven't yet started

discussing the elections. At least, I haven't started discussing them. But, for sure, the PT will try to form a political alliance with the parties that support it today. Also because it's already clear that the opposition will be today's opposition. So, we're going to try and make a coalition to fight the elections with all the parties that want an alliance with the PT.

The Economist: Has the PT lost the right to claim the ethical high ground here in Brazil [because of the party-financing scandal known as the mensalão]?

President: That's not what the opinion polls say. Let me tell you something: the best character reference the PT needs is the results of the Parliamentary Commissions of Inquiry [CPI].

The problem is that you, living here in Brazil, you personally witnessed the massacre of the PT. The PT deserves some blame. Over the next few years, the PT will have a lot to explain to society. But those people who attacked us gratuitously will also have to reflect on what they've done .

I always say that what gives a political party credibility in society is when its accusers can't provide proof for their accusations, a common event in Brazil. It's the easiest thing in the world here to make accusations: the hardest thing is to then apologise.

The Economist: But a lot has been proved, beyond caixa dois [off-the-books party financing]. Apparently, the Post Office CPI is going to submit evidence that the pension funds, for example, were used to finance various parties, including the PT.

President: Let's wait for the results. As I haven't seen the report yet, and as it could be used to accuse us as much as it could be used to defend us, I'd rather wait for the report. It's not up to the President to prejudge on the basis of what people say. My certainty is that the report, whichever report, will be an important instrument to defend the PT.

The Economist: It will be an important defence for the PT?

President: Yes, just as it will be a weapon of attack for the opposition. Now, after the CPI finishes its report, we've got the federal police, the public prosecutor and the judiciary.

The Economist: But, in a way, isn't this PT massacre justifiable?

President: But I'm not saying it isn't justifiable. I do believe that the PT erred and, for that reason, it will have to explain itself to the country. There will be no impunity for the PT. The PT is very big; it's a party of close to 1m members spread all over. You can't judge a party because a half-dozen people from the party did something wrong. A whole family isn't going to be convicted because one of its members committed a crime.

The Economist: But this mistake was part of the party's financing system, which made it part of the basic system, and

even financed your campaign.

President: When I was running for President, I wasn't the President of the Republic. So the PT couldn't be financed with money from the system, because it was the opposition's. I know nothing about this story, I really don't. For the time being, all we know is what our adversaries say.

I'm a cautious person, I'd rather await the CPI results. I've seen too much accusation madness in Brazil. There was a case, not long ago, in this country, where the owner of a private school was arraigned on paedophilia charges. He lost his family, his school and then he proved himself innocent. He never got his family or his school back.

So, I'm very cautious in these matters. When you reach 60 and your hair starts to turn white, you learn to count to ten before opening your mouth. I accuse nobody without proof, because I realise it's just as bad to accuse someone frivolously as to do something illicit.

The Economist: How can something like this be prevented?

President: I believe that political reform can help. If you create a public fund for elections, prohibit private money and you have better control by the electoral authority, you can reduce the errors that a political party can commit.

The Economist: But Congress has done very little, and the government hasn't done much to reform politics.

President: No, we proposed it. The government formed a commission, headed by justice minister. We gathered up all the proposals from Congress, and took them to the leadership of Congress. The government cannot impose voting schedules, especially in the case of political reforms, because this is not the President's role; it's the role of Congress and the political parties.

The Economist: One root of the problem, I think, is the number of political appointees, about 20,000. Do we need a reform that will reduce the number of political appointments?

President: Yes we do. I'm a firm believer—and we've taken some steps in this direction—that the civil service should have the highest number possible of career staff. It doesn't matter who the President is, or what party is in power, the system carries on, and this is the process that we must build in Brazil.

The Economist: But there's a process going on right now, a basic reform of the...

President: But, we've already done it, we've announced the measures to reduce the number of public positions [probably meaning political appointees]. These things can happen to the extent that the Brazilian civil service becomes more professional, so that we don't have to bring any more people than necessary [from outside] to work in the public service.

The Economist: You spoke of that the importance of quality

in education, but that cannot be achieved by money alone. It also comes from better management of schools. I'd like to know if, for example, you believe it important to give school directors the power to hire and fire teachers, to link their salaries to performance. Would you support these kinds of reforms?

President: Well, look, the university reform is exactly that—giving management autonomy to Brazilian universities.

The Economist: But I'm talking about primary and secondary schools.

President: Well, Brazilian primary and secondary schools are a state and municipal responsibility.

The Economist: I know, but you have a role in...

President: I think it's important. The more freedom and autonomy, the better. I'm one of those people who believe that freedom never hurt anybody. It may lead to argument, but it is extraordinarily important. The federal government is directly responsible for technical education and Brazilian universities, and we're doing a lot. We're doing what hasn't been done for many years in Brazil, because we know that what this country needs is quality schools.

I'll give you a recent example. I decided to ask the Minister of Education to organise the mathematics Olympics. It's said in Brazil that the poor would never take part in any mathematics Olympics, because they only happen in private schools. Do you know how many kids registered? Eleven and a half million. And do you know how many took part in the Olympics: Ten and a half million. Guess how many geniuses we discovered. Thirty thousand kids of potential genius. Do you know who took first place? A blind, deaf and paraplegic child who started school at the age of ten. Now, I'm going to start on the Portuguese language Olympics, too.

We're working on a young people's education program, various professional training programs. This year, we're going to recruit another 100,000 soldiers, 100,000 more young people who can take a professional training course while they're doing their military service.

To get inner city kids off the streets, we got together with some local authorities and formed the ProJovem Program. These are 18- to 24-year-olds who dropped out of school and are unemployed. We're attracting them back to school, paying them a monthly wage of 120 reais, so they'll finish the course and learn a profession.

We've set up a factory school that already has 11,000 students studying within the factory itself. We've got the ministry of labour's Youth Consortium. We are, I would say, almost manic to make up for lost time in training our young people. This is an extraordinary challenge. And we know that it requires quality education for Brazil to make this leap.

The Economist: Bolsa Familia [a programme of cash transfers to the poor] works well as a social program, but many people

see it as a handout. How could you change Bolsa Familia to make it less like charity?

President: Bolsa Família is the most important income transfer programme in the world. The only thing better than this is fulltime work and a salary, our ultimate goal. The Bolsa Família isn't a permanent program; it's an emergency program. And to make it serious, we imposed certain conditions. Children must attend school, have all their vaccinations, and pregnant women must take all the necessary tests. We formed an association with the state public prosecutors and with communities, which have councils that can improve the quality of the benefits register, because our biggest problem was the register. We've already got 8.7m families. That's a lot of people. Naturally, there is the occasional mistake and somebody who's not entitled receives the grant, but that's not the federal government's fault. We're not the ones doing the registering. It's the towns, the municipal authorities. As we register the families, we also remove some, so that only those who are really in need remain. My dream and my wish is that, one day, we won't need Bolsa Família any more, because it will have generated employment and aided income distribution.

The Economist: Are you convinced that democracy is consolidated and irreversible in Brazil, or will this current political fragmentation lead to problems of governability?

President: Democracy is consolidated in Brazil, the institutions are consolidated, and there is no political earthquake that could destroy the foundations of Brazilian democracy. Divergent opinions in Brazil are no different from those in any other country. Once, in the German parliament, I saw a cup of blood thrown at [former chancellor Gerhard] Schröder.

The Economist: A cup of blood?

President: A cup with something like blood in it. Once, in England, in the British parliament, I saw somebody throw some talcum powder on Tony Blair. Democracy in Brazil doesn't escalate beyond a lot of chatter. Our differences are mostly words. Verbal aggression. That's as much as our democracy will allow.

The Economist: During the elections, there will inevitably be many comparisons between your tenure and that of Fernando Henrique Cardoso, [Lula's predecessor], but I'd like you to compare the Brazil of today with the Brazil of the future.

President: I'm not interested in comparisons with any government. What I have and what I must show the Brazilian people is that, never in the economic history of Brazil, never, even 20, 30 or 40 years ago, did we have the solid foundations we have now for making that quality leap that lies ahead of us. The Brazil risk level is very low, we have a good trade surplus, we have good export levels and we have a good current account surplus. And the Brazil of the future that I want to show is a better Brazil, one that moves beyond today's standards to other better ones. It will be built

on strong investment in education and training, on tax relief to encourage new investment; it comes from big investments in science and technology and, certainly, the result of all this will be economic growth and distribution of income.

The Economist: And from rationalising government? Because you said that it should withdraw from certain activities. Which activities?

President: To be honest, the state has already withdrawn from most activities. Ideally, the state should be as big as necessary, no more than that. Maybe someday I could achieve the level of the UK, German, or US governments. But, right now, without the state, various South American economies wouldn't function, because there are things that either the government does or no one does. For example, last year, we had the PPP [public-private partnership]. The PPP was a project praised in story and song as the solution for mankind. We created the PPP, we approved the guarantee fund, but, so far, we have no PPP project. Why? Because everybody is waiting for the government to do it. And, believe me, I worked to get the PPP off the ground. Because it takes more than waving a magic wand. You build these things. You build and you build and you build and, one day, it happens. And I think Brazil is prepared for it to happen.

The Economist: When I first arrived here, I think it was in February 2003, you took part in the Social Forum and, later, in [the World Economic Forum in] Davos, I wrote an article on you, entitled "Man of Two Worlds". This year you didn't go to either of them. Are you still a man of two worlds?

President: Good question, because it was my idea to go to them both. But, for a President of Brazil to leave the country to take part in another country's forum, amounts almost to a state visit. Very complicated. One idea we discussed was to hold at the Social Forum in Caracas a sort of Mercosur movement, where all the Mercosur presidents could get together and talk. It didn't work out, because every time the state is involved, it's very difficult. I didn't attend the World Social Forum because we couldn't organise it properly. I wanted to go as I went on January 25, 2003, I wanted to go in January 2004 to show what we had achieved in Brazil. But, by the time I had made up my mind, it was too late. All the (slots in the schedule) had been taken and could not be rearranged. But I have faith in the power of God and, on January 25, 2007, if I become a candidate and get re-elected, or even if I'm not a candidate, I want to attend both forums and show the world what has happened in Brazil over these last four years.

The Economist: So, you still see yourself as the bridge between the two worlds?

President: Right, because I've got a good relationship with the two worlds.

The Economist: Thank you, Mr President.

The president's comments are discussed in two articles in The Economist of March 4th 2006:

http://www.economist.com/World/1a/displayStory.cfm?story_id=5578770

and

http://www.economist.com/World/1a/displayStory.cfm?story_id=5582931