



Washington Examiner

Why South America's prospects are looking up

Dan Hannan

June 13, 2019

My career as a financial tipster lasted only a few seconds, but, if I say so myself, it went rather well. In the hours that followed Donald Trump's election in 2015, U.S. stocks fell and the dollar weakened. "Buy the dip," I told my Twitter followers, and, sure enough, the spasm passed almost immediately. Within a day, the relevant statistics were above where they had been before the election, and 3 1/2 years on, the U.S. has seen strong growth and the best jobs figures in more than half a century.

How did I know things would work out? Simple: I could see that the immediate market reaction was irrational. Most commentators and international observers were antipathetic to Trump for reasons that had nothing to do with his economic policies. They disliked his character flaws, his readiness to threaten opponents with jail, his abusive language, and his narcissistic tweets. These things upset them so badly that they could not bring themselves to see that his program of deregulation and tax cuts was likely to stimulate the economy.

So here comes my second, and equally brief, spell as a tipster. What was true then of the United States is true today of Brazil. Buy the dip.

I realize I'm swimming against the current in offering such advice. The Brazilian economy appears to be contracting. Provisional figures suggest it shrank slightly in the first quarter of this year, and exports and manufacturing output are both down. The national debt has risen, and youth unemployment remains stubbornly high. Affonso Celso Pastore, the former president of Banco Central, warns of a "depression after the recession." But look a little closer, and you will perceive the snorts and twitches that presage the end of a long sleep. After decades of slumber, that vast, hot, green nation is about to sit up and rub its eyes.

I spent last week in Brasilia and São Paulo, talking to politicians and businessmen about the prospects of a trade deal with a post-Brexit Britain. They were, unsurprisingly, enthusiastic about the idea — British accession to what is now the EU was bad news for Brazilian exporters in the early 1970s. But trade liberalization is just one among many reforms that are about to jolt Brazil out of 20 years of socialist underperformance.

To get a sense of what is about to happen, imagine that the best economists at the American Enterprise Institute and Cato were brought in to run the U.S. Treasury after decades of state control and rent-seeking. With the Brazilian economy in its present state, even mild reforms would go a long way. But Paulo Guedes, the successful entrepreneur brought in to run Brazil's new economics superministry, has bigger ambitions.

Most immediately, he intends to reform Brazil's bloated public pensions system, which acts like a vast lead balloon, pulling the entire economy down. Beyond that, he plans to privatize some of the 400 — yes, you read that correctly, 400 — state-owned companies, to open up the labor market, to remove barriers to investment, to cut the deficit, and to bring in lower, flatter, and simpler taxes.

The formula works every time. Sure, there will be some initial dislocation, just as there was in Britain at the beginning of the Thatcher years. But any government that pursues these policies, especially in a large country with a young and increasingly educated population, can expect to be rewarded with strong growth. So why are investors not falling over each other to get their piece of the action?

For an answer, try Googling the name of Brazil's president, Jair Bolsonaro. To overseas media, he is at best an angry Trumpster, at worst an outright fascist. Like Trump, Bolsonaro has a knack for enraging his opponents with inflammatory remarks about minorities. He has even allied himself more broadly with the Trump administration, ending what he sees as his predecessors' ill-advised flirtation with China to return Brazil unequivocally to the West. But Bolsonaro is no protectionist. As his foreign minister, Ernesto Araújo, told me last week, "Foreign journalists call us Trumpians, but we are really Reaganites — we believe that patriotism and conservative values should go hand in hand with economic liberalization and trade."

Sure, Brazil faces challenges. Successive corrupt socialist regimes have left it sclerotic, indebted, and grumpy. But each problem represents an opportunity, and it is impossible to spend time there without feeling optimistic.

And not just about Brazil itself. Years of leftist populism have lashed down the potential of South America as a whole, especially its two largest economies, Brazil and Argentina. That — I feel it in my bones — is about to change.