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The Main Trends in the Brazilian Economy over the Last Ten Years

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Abstract

Although the 21st century has just begun, it is already possible to notice important differences from the preceding decade’s standard in the Brazilian economy. More precisely, from 2003 onwards, Brazil has passed through an incipient process of income distribution that is still modest to face the exorbitant inequalities, but is relevant due to its unprecedentedness. Therefore, does this mean that a new model of growth has been erected in Brazil? Is it possible to suggest that Brazil has finally taken a consistent road to development? This research aims to shed light on these questions. The paper proposes that the main achievements of Brazilian economy in the last ten years are the amelioration in income distribution, reduction of poverty, decline in the unemployment rate and decrease in external vulnerability. However, the crucial problem is that these achievements have not yet been perennially obtained. They are based in social programmes and government decisions, although it is unsure whether they would be kept and deepened in the future. Moreover, it is not possible to know how long these achievements would last with lower rates of economic growth. Therefore, the objective now must be to return to high rates of growth. Since the international trade will not be as vigorous as before the crises, the Brazilian economy also has to count upon domestic demand sources. In this sense, it is necessary to have a stimulus from the demand side in order to put the Brazilian economy on a sustainable growth path. In determining a recommendation, two crucial aspects must be highlighted: first, that the public debt in Brazil is absolutely under control (and, additionally, the public sector has now a relief on the payments of the debt service due to the decline in interest rates); and second, that Brazil still suffers from a dramatic lack of infrastructure and public goods. Connecting these two pieces of evidence with the necessity to foster economic growth, it is possible to propose that public investment should be used as the main demand source in the coming years. With a higher level of investments and higher rates of growth, it would be important to keep working on consolidating and strengthening the achievements of the last ten years, while facing the challenges that still remain, that is, reverting the de-industrialization process, diversifying exports and undertaking agrarian reform.

Keywords: Brazilian economy, economic development, Lula’s government, Dilma’s government.

JEL: E6, O11, O54

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I. Introduction

Brazil is a country that attracts the attention of several researchers in different branches. With a huge territory, a population of 200 million people and counting on important natural resources, the Brazilian economic potential is unquestionable. Nevertheless, its economic performance throughout history is far from homogeneous.

For a large part of the last century, the Brazilian economy has obtained high rates of growth, with a reasonably consistent process of industrialisation and import substitution. One might say that a “catching up” process was taking place.

However, in the two last decades of the century, the Brazilian economic performance was somewhat deceiving, not only due to the international context, but also due to the national policies that have been adopted.

During the 1980s, Brazilian economy faced huge external debt crises and consequently a fragility of public finances and the hyperinflation process, engendering the so-called “lost decade”. On the other hand, the country lived its neoliberal decade in the 1990s, with a fast process of openness of the economy, the constitution of a new role for the State (associated to the privatisation of several public enterprises) and the stabilisation of prices being the absolute priority. In both decades, the average economic growth was quite low.

Although the XXI century has just begun, it is already possible to notice important differences from the preceding decade’s standard. More precisely, from 2003 onwards, the Brazilian economy has passed through an incipient process of income distribution that is still modest to face the exorbitant inequalities, yet is relevant due to its unprecedentedness. Even in the decades of huge dynamism (e.g. the 1970s), economic growth in Brazil favoured income concentration and, in some sense, it has been different in this recent period. Therefore, does this mean that a new model of growth has been erected in Brazil? Is it possible to say that Brazil has finally taken a consistent road to development? The current paper aims to shed some light on the aforementioned questions. The remainder of this article is constructed as follows. Section II presents an overview of the Brazilian economy, mainly focusing on the main macroeconomic variables (GDP growth, balance of payments, unemployment rate, etc.). Section III conducts a survey of the last ten years of the Brazilian economy (i.e. the period in which Brazil had a Workers’ Party government), considering the international context, the domestic policies (monetary policy, wage policy, etc.) and the main economic outcomes (economic growth, macroeconomic prices, etc.). Section IV discusses the main achievements of the last ten years and the main challenges to the Brazilian economy in the near future, before Section V concludes with some final remarks.
II. Overview of Brazilian Economy

Before going into the details of the Brazilian economy, we would like to present an overview of its main macroeconomic indicators, such as economic growth, macroeconomic prices and labour market statistics. Moreover, in order to fulfil the main goal of the paper of allowing a consistent evaluation of the last ten years, it is necessary to adopt a broader view about the Brazilian economy, as well as observing its performance over the previous decades. Given that the Plano Real, the stabilization plan that aborted the hyperinflationary process, was implemented in 1994, it is convenient to span the analysis in the post-1993 period. Therefore, this section presents an overview of Brazilian economy from 1994 to 2012, mainly focusing on the abovementioned macroeconomic variables.

The Brazilian economic growth since 1994 has two main characteristics: its modest rates and its inability to be sustained at a greater level for more than a few years. Chart 1 shows that the Brazilian economy had some years of moderate growth over this period, alternated with years of semi-stagnation. This standard was termed by some authors (e.g. Carneiro, 2002) as a “stop and go” pattern. Especially in the first half of this period (until 2003), the Brazilian economy did not grow with a rate higher than 2.5% for two consecutive years (with the exception of 1994-5). Both external and internal factors played a role in this low and unsustainable growth rate. The external factors are related to the instability of the world economy and its recurrent crisis throughout the 1990s (e.g. the Mexican, Asian and Russian crises), the events of 9/11 in 2011, as well as the Argentinian crises and the ENRON scandals in 2002. The domestic reasons are mostly related to the macroeconomic policy that was used to prevent inflationary pressure (based upon a tight monetary policy) and decelerated the growth path\(^2\). By contrast, the Brazilian economy experienced higher growth in the second half of the period, namely the period between 2004 and 2008. Section III will explain both of these phenomena in details.

\(^2\)This policy of decelerating growth rates to avoid inflation pressures is generally based on interest rate elevation. For details, see Serrano and Summa (2010) and Carneiro (2002).
As already mentioned above, the hyperinflation process ended before the starting point of our study. However, it is still important to study the inflation rate and the measures taken to control it in order to understand the Brazilian economic performance in the last ten years.

3 For readers who are not accustomed with the Brazilian economy, following information might help them to know the hyperinflationary process of the 1980s and the beginning of the 1990s in Brazil. In 1989, for instance, the inflation rate in Brazil reached 1972.9% in only one year.

4 The inflation rate in 1994 was 916.5%, because the stabilization plan was implemented in July – so this year was omitted from the chart to avoid distorting the scale.
This reduction in the inflation level was mostly due to a modification in the exchange rate regime. In fact, the stabilization of the exchange rate against the US dollar reflected one of its major pillars in the stabilization of prices achieved by the Real Plan. The exchange rate was kept inside a narrow band that moved upwards in a managed way (Chart 3). This regime of exchange rate management was held until President Fernando Henrique Cardoso was re-elected, before being replaced by a floating exchange rate regime in January 1999.

Once the exchange rate regime was changed, a new macroeconomic policy architecture was erected in 1999, trying to combine the stability of the prices with exchange rate flexibility. This policy was based on three pillars: a floating exchange rate, inflation targeting policy and the quest for primary budget surpluses. While this “macroeconomic tripod” will be explained below, it is important to analyse the exchange rate path after 1999 and its effects over the external accounts.

After the implementation of this new regime, the Brazilian exchange rate faced a great variability. It was extremely volatile in the short term, whereas its level changed in such a chaotic manner in the long run, as Chart 3 shows.

Chart 3: Exchange Rate – Brazilian Real x US Dollar

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5 The elections were held in October 1998 and the government feared that a change in the exchange rate regime (and its economic consequences) before the elections could have negative impacts on Cardoso’s popularity.

6 For details concerning the Brazilian exchange rate regime, see Prates (2007).
Those exchange rate variations after 1999 had clear impacts over the external accounts. The speculative pressures on the foreign exchange market engendered a 72% depreciation of the Real against the dollar in only two months (January to March 1999). The Brazilian trade account had experienced recurrent deficits since 1995, mainly due to the use of currency appreciation as an instrument of the stabilization of the prices. After a lag of two years, the depreciation of 1999 had significant impacts on Brazilian net exports (See Chart 4). After experiencing six years of deficit in trade account, it encountered a trade surplus in 2001. However, from 2005 onwards, the exchange rate faced a sustained trajectory of fall. Again, the impacts over the trade account have been clear and the surpluses were recurrently lowered from 2006.

Chart 4: Exports and Imports (US$ million)

![Chart 4: Exports and Imports](image)

Source: Brazilian Central Bank

In a similar way, the Brazilian current account did not have a homogeneous trend over this period (See Charts 5 and 6). The trade account presented a cyclical movement, the service and income accounts exhibited growing deficits, due to travels, debt payments, etc.

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7 The external demand is also important to explain the variations in the external accounts, but it is clear that the different levels of the exchange rate against US dollar has huge impacts on the Brazilian current account, since they change relative prices (national goods vs. imported goods) and hence Brazilian international competitiveness.

8 The external conditions were somewhat responsible for that – principally the commodity prices boom – but also the domestic monetary policy, as it will be argued below.
These two intervals of current account deficits had different consequences for the overall balance of payment, due to the different conditions of external financing: during the 1990s and the beginning of the 2000s, the Brazilian government accessed IMF credit lines to finance its deficits; while in the recent period, despite the external crisis, the financial account surpluses have been more than sufficient to cover current account deficits (even with the considerable decrease of 2012)\(^9\) – see Chart 7.

\(^9\)For details, see Biancarelli (2012).
This induces the fact that the international reserves increased more than seven-fold during the 2006-2012 period (see Chart 8). As a percentage of the GDP, it was 7.1% in 1994, 5.1% in 2000, 7.9% in 2006 and 16.8% in 2012. This reserves accumulation was important in allowing the Brazilian government to practice some anti-cyclical policies in the context of the international crises (Prates and Cunha, 2011).

As mentioned above, these massive capital inflows were not only due to the abundant international liquidity, but also to the Brazilian macroeconomic policy. In terms of the monetary policy, this mostly kept the interest rates at extremely high
levels (see Chart 9). There are some specificities in the Brazilian economy that contributed to these high levels of interest rate, but it may be seen somehow as a political choice because these high interest rates helped to attract international capital and it was important for two reasons: First, these inflows were needed to cover the current account deficit; and secondly, they have been used to keep the exchange rate at a low level (sometimes a declining level), in order to maintain the inflation rate at a moderate level.

Chart 9: Interest Rate –Selic

If the high interest rates succeeded in attracting international capital, the obvious by-product was a pernicious impact on economic activity (mainly – in a Keynesian view – through the discouragement of investment and consumption). The inflation targeting policy established from 1999 onwards (as seen above) states that the National Monetary Council has to determine a target for the inflation rate every year. The Central Bank has the responsibility of achieving this target, whereby its main tool is the interest rate. Hence, the interest rate is the main instrument to refrain economic activity when its pace is creating inflation pressures. Due to these contractive monetary policy measures, economic growth in Brazil has quite often faced deceleration.

This exorbitant level of interest rate discourages investments in production, since credit costs are high and financial investments become more attractive. Chart 10 shows that investment growth rates have been quite modest (or even negative) during a long period.

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10Financial market structure, the absence of a long term interest rate curve, and so on.
11 For details about the usage of the exchange rate as a tool to control inflation, see Serrano and Summa (2012).
After several years of low and negative growth rates, investments in Brazil had considerably high rates only in 2007 and 2008, reacting to four years of huge growth in household consumption. Nonetheless, the growth rates remain far below what is needed for Brazilian necessities and continued to be volatile.

The trajectory of household consumption is extremely interesting and will be elucidated in Section III, due to its significance in the recent dynamism in Brazilian economy. Chart 11 shows that the stabilization of prices engendered two years of extremely high growth of household consumption (1994 and 1995), but from 2004 onwards, this growth has been sustained at a high level for quite a long period.
Proceeding with the analysis of the demand components, it is important to analyse public sector consumption. Despite some volatility, it is possible to notice two standards in its real growth rate (See Chart 12). In Cardoso’s government (1994 to 2002), it was sustained at lower levels, with the exception of the two electoral years (1998 and 2002), when public expenditure was generally used to increase government popularity. In the Worker’s Party governments (2003-2012), real growth has generally been 2%-5% over the interval.

Chart 12 – Public Sector Consumption, Real Growth

Despite the growth of government spending, net public sector debt might not be a real concern for the Brazilian economy nowadays. In the first year after the Real Plan, net public sector debt increased by more than 10% of GDP (See Chart 13). The implementation of the macroeconomic tripod in the 1999 – involving the tight budgetary policy and the necessity of achieving a high primary surplus - succeeded in stabilizing the public debt/GDP ratio, but was unable to lower it until 2002. It was only from 2003 onwards that this ratio has been consistently falling, mainly because of the fact that the economy is experiencing higher GDP growth rates and lower interest rates, which contribute to the alleviation of the debt service.

Chart 13: Net Public Sector Debt (% GDP)
Now let us focus on the employment issues in order to understand some of the results of the abovementioned economic outcomes over the labour market. One can split the 1994-2012 period into two different time periods, namely 1994-2002 and 2003-2012, because the unemployment rate trajectory completely different between these two periods. Official research on employment involved a methodological change in 2002, so the series have to start from that year (See Chart 14). However, a labour union institute makes analogue research for some metropolitan areas and, despite its different methodology – which results in a completely different level for the unemployment – it shows that the unemployment rate had a huge decline over the last ten years12 (See Chart 15).

Chart 14: Unemployment Rate

Source: IBGE.

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12 Official research on employment is conducted by the IBGE, the Brazilian Institute on Geography and Statistics. The alternative one is made by the DIEESE, an institution connected to Labour Unions. DIEESE considers other modalities of unemployment (e.g., persons who abandon job searching because they have no money for this search, but who are still willing and able to work), so the unemployment rate they calculate is higher than that calculated by the official institution (IBGE).
Having provided this broad view of the Brazilian economic performance since the stabilization plan, it is now possible to narrow the focus of the analyses over the period that matters most for the goals of this paper, namely the last ten years. One crucial thing that is made clear in this section is that the last ten years have been completely different from the previous ones in many aspects (higher average GDP growth rates, lower unemployment rate, etc.). It will be possible in the next section to deepen the analysis over some important issues, accentuating the differences of the last ten years and searching for the reasons behind such changes.

III. Survey of the last ten years in Brazilian economy

In order to present a survey of the last ten years of the Brazilian economy, it is useful to make some analytical divisions to distinguish the reasons behind the economic changes of this period. First of all, it is important to bear in mind the external conditions. Following the international trend and the recommendations from the multilateral institutions (International Monetary Fund, World Bank and World Trade Organization), Brazil promoted a considerable openness in its economy in the 1990s, getting into the so-called financial globalisation. Moreover, due to its peripheral position in the international economy, the movements of the central economies, especially the United States and European countries, might have had important impacts on the Brazilian performance. Broadly, the international context in the last ten years can be divided into two periods: “high dynamism” (2003-2007) and “crises” (2008-2012).
Secondly, it is necessary to analyse the domestic policies of Brazil, paying special attention to the macroeconomic and social policies. In the period of “high dynamism”, there are two clear moments of different domestic policies conduction: the first years of Lula’s government (2003 – first semester of 2005) and the following ones (second semester of 2005-2007). Similarly, in the period of crises, it is necessary again to split the analysis into Lula’s (2008-2010) and Dilma’s (2011-2012) governments.

Finally, this periodization will allow a clearer understanding of the economic results of each of those four periods.


The year 2002 was extremely turbulent in the international economy, when the end of the currency board regime and the political instability in Argentina resulted in a sudden stop of the capital inflow, not only to that country, but also to other Latin American countries, due to the “contagion effect”. In the United States, the effects of the Enron scandal and other fraud schemes were amplified, contributing to a situation of risk aversion by international investors.

However, from 2003 onwards, the external conditions improved substantially and a new phase was launched. Chinese economic dynamism had positive effects over the whole world economy and the international trade significantly contributed to the acceleration of economic growth in many countries. Additionally, the rising volumes of trade associated with speculative actions – notably over future markets – engendered a huge increase in commodity prices. Countries that have an important participation of such goods in total exports, such as Brazil, experienced a great improvement in their terms of trade. In the financial arena, a new international liquidity cycle was initiated and capital again started to flow to Latin America. Now the question is: facing this new situation in the world economy, how did the Brazilian government react? The next sub-sections will show that it is possible to identify two different phases in the conduction of domestic policies in Brazil during this phase of “high dynamism” in the international economy.


During the end of 2002, when the presidential elections were going on, the Brazilian economic situation was unstable, with currency scarcity and rising exchange

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13A fraud in the accounts of some important companies was discovered, prompting doubts about other companies and configuring a pessimistic convention.

14Other than Brazil, almost all of Latin American countries benefited from this commodity price elevation. For details, see Furtado (2008).

15After many decades of worsening terms of trade, as shown in ECLAC works (See Bielschowsky, (1998)).

16For details concerning the international liquidity cycle initiated in 2003, see Biancarelli (2007).
rates. The current President Fernando Henrique Cardoso came to another agreement with the International Monetary Fund (IMF) – in order to access its loan lines – and the candidate Luís Inácio Lula da Silva found it better to sign a compromise that, once elected, he would follow this agreement. He did so, because after three defeats in the previous elections – all democratic elections after the military dictatorship –, Lula and the Workers Party feared the market reactions if he did not publicly recognize his compromise with this agreement.

Hence, Lula was elected and took place on January 1, 2003, already with tight hands. The so-called “tripod of macroeconomic policy” was kept and the actors chosen for the economic arena were both conservative (Antonio Palocci, the Minister of Finance and Henrique Meirelles, the Head of the Central Bank). It was hence clear that Lula wanted to please the markets, fearing that its negative reaction would incite speculation, being prejudicial to his government.

Therefore, due to the turbulences of 2002 and a kind of fear about how the markets would react to a Workers’ Party government, the macroeconomic policy held during these first years of Lula’s first term were more orthodox concerning some issues than that previously held. The macroeconomic tripod was not only kept; rather, some of its pillars were re-erected in a tighter manner. The budget primary surplus, which was around 3.2% of GDP in Cardoso’s government, rose and was kept at a level above 4% of GDP in 2005. Due to the fear of the inflationary pressures, the interest rates were raised in the first months of Lula’s government to a level that was not seen since the 1999 crisis, and only begun to decrease after one semester. In 2004, again, alleging inflation pressures, the interest rates were continuously raised from 16% to 19.75% per year (See Chart 9).

These high interest rates attracted huge amounts of capital inflows, whereby the Brazilian economy consequently faced a continuous appreciation of the national currency after 2004 (See Chart 3). In addition to the interest rate differential\(^{17}\), the foreign investors also gained with this continuous appreciation of the Real, resulting in huge gains and a process of self-determined prophecy (forecasting the Real’s appreciation, foreign investors tended to invest in Brazil, contributing to this appreciation). Additionally, minister Palocci adopted some measures to liberalise the exchange rate market, which also contributed to the appreciation of the Real, as well as the volatile exchange rate (See Prates (2007)).

Despite maintaining the macroeconomic policy held by his predecessor, Lula’s government had promoted an important novelty since its initial years: the deepening of some social policies. The main important measure regarding the social policy was the unification of some dispersed social programmes into the so-called “Bolsa Família”, a family cash transfer programme. This programme aims to fight poverty and hunger through the direct transfer of income to poor families, whereby

\(^{17}\) The spread between Brazilian basic interest rate and US Federal Reserve Fund’s rate.
the amount depends on family *per capita* income as well as family composition (number of children and pregnant women), ranging between something around US$ 5 and US$ 30 in the moment of its implementation\textsuperscript{18}. The number of assisted families increased 147% in the first two years and reached 8.9 million families at the end of 2005. The total transfers in these first two years were multiplied by almost 9 in real terms, reaching R$ 5.8 billion in 2005 (almost US$ 2.4 billion)\textsuperscript{19}.

Besides the “Bolsa Família”, another programme that received special attention since the first years of Lula’s government is the “*Pronaf*”, the Programme for the Strengthening of Family Farming. This programme offers credit lines with special conditions (long maturity, low interest rates and sometimes low – or even no – necessity of collaterals) for the Family Farming. While the programme has existed since 1996, the volume of credit more than doubled and the number of families assisted almost doubled in the two first two years of Lula’s government. In the harvest year 2004-2005\textsuperscript{20}, 1.6 million families received loans from the “*Pronaf*”\textsuperscript{21} and the volume of new credit reached R$ 6 billion, nearly US$ 2.2 billion, in the average exchange rate of the period (De Conti and Roitman (2010)).

In addition to the social policies, the wage policy has also been extremely important to starting a process of amelioration in income distribution. In the same line, the government has considerably increased the minimum wages since 2003 (20% in the first year). Besides the workers who earn a minimum wage, most of the pension and social transfers are calculated as a proportion of the minimum wages; this means that if the minimum wages are incremented, these other transfers are also incremented. Hence, the impacts of this wage policy over the economy are incredibly high.

Not only the abovementioned programme for family farming but also some novelties on the credit sector, specifically in the urban areas, comprised an important policy package in the first years of Lula’s government. Envisaging an increase in the extremely low Brazilian credit rate, a less risky modality was created: the “consigned credit”. This allowed workers to engage in a credit contract whereby their monthly payment was made automatically, with the due amount deducted from their wages. This “automatic” payment reduces the risk of default, providing incentive to the banks to increase their credit supply. Indeed, the credit/GDP ratio had an increasing trend after 2003 (See Chart 16).

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\textsuperscript{18}The average exchange rate in 2003 was 3.07 R$/US$.
\textsuperscript{19}Source of the data: IBGE and Ministry of Social Development.
\textsuperscript{20}The harvest year in Brazil is the period between July of any year and June of the next year.
\textsuperscript{21}1.6 million is actually the number of contracts of the 2004-2005 harvest year. It may happen that a family contracts more than one credit line, so the number of assisted families is not exact here.
Therefore, the economic results of this first period were mixed. On one hand, positive effects came from the external front, while on the other hand, the ambiguous effects (measures that stimulated and measures that refrained economic growth) came from the domestic policies. The high dynamism of the international trade and the amelioration in the terms of trade resulted in an important increase in net exports (See Chart 5 above). In 2003, despite an increase in imports, the trade account surplus attained almost US$ 25 billion. In the next three years, net exports continued growing, until a record of US$ 46.5 billion in 2006.

This increasing growth of the trade account surplus was not a result of domestic policies. From January 2003 to June 2005, the Brazilian currency appreciated by 33.3% against US dollar (See Chart 3 above). This movement in the exchange rate had lagged effects on its trade accounts, which will be discussed accordingly to the next sub-section.

In sum, the external dynamism was not enough to create a high growth rate since the beginning of Lula’s government and the growth rate in 2003 barely surpassed 1%. In 2004, however, the Brazilian economy recorded 5.7% growth, a rate that had not been achieved since 1986 (See Chart 1, above). Nonetheless, Chart 17 shows that this growth was entirely due to external sector demand, with the growth rate subsequently falling to 3.2% in the following year.
Therefore, it is clear that the external dynamism had a positive impact on the Brazilian economy, although the propagation of these effects was not amplified by the domestic policies in the first years of Lula’s government. The macroeconomic policy had a contractionary bias and the effects of the credit, wage and social policies on aggregate demand were not yet completely felt.

\[ \text{Source: IPEA} \]

\[ b. \text{Domestic Policies: 2005-2007 – Fostering Domestic Demand Growth} \]

After the first years of orthodoxy, the domestic policies begun to change in the second semester of 2005, and mostly from 2006 onwards, when Guido Mantega replaced Antonio Palocci as the Minister of Finance.

As already mentioned earlier, the monetary policy, for instance, had been extremely conservative and the interest rates until the first semester of 2005 were still at the same level of Cardoso’s government. In the second semester, it finally started to change and, from September 2005 onwards, the interest rates were continuously reduced over the next two years, falling by 8.5% points, and attained a rate of 11.25% per year in September 2007 (See Chart 11, above). While this was still a high level for the international standards, it was considerably below the previous standard in Brazil.

In the similar fashion, the government also began to alleviate its extreme orthodoxy in the fiscal branch. The primary budget surplus, which was kept above 4% of GDP throughout 2005 – a level even above Cardoso’s one – initiated a declining trajectory, remaining around 3.2% for the next years (See Chart 18). Despite being a modest reduction, this increased government spending possibilities accordingly.
Beyond the direct effects of this macroeconomic policy alleviation, it also had an effect on agents’ expectations, indicating the government pursuing a faster pace for economic growth. Moreover, even if the macro policy was moving slowly, the social programmes were quickly being deepened. For instance, the number of families assisted by the “Bolsa Família” increased by 26.3%, attaining 11.3 million families, while in the “Pronaf”, the Family Farming programme, the number of loans continued increasing, reaching the 1.9 million contracts in the harvest year 2007-2008. In parallel, the urban credit policy was also expanded, as a result of the government’s will, as well as an increase in households’ income.

Therefore, the economic results were more encouraging during this second period of Lula’s government. The international economy was still presenting a high dynamism, having positive effects on the Brazilian economy through the channels of net exports, capital inflows and even the expectations. At this moment, however, the domestic policy contributed to the propagation and even the amplification of this international economic dynamism. The lagged effects of the social, credit and wages policies that have been practiced since the beginning of Lula’s governments finally started to be felt. Additionally, the macroeconomic policy started to provide space for higher growth rates.

First of all, the wage and social policies made possible a rare process in Brazilian economic history, namely the amelioration of income distribution, which will be discussed in details in Section IV. Income redistribution associated with the boost in credit engendered a considerably high increase in household consumption. As seen in Chart 11 above, the real growth in household consumption, which had
been negative in 2003, was around 4% in 2004 and grew continuously up to 6% in 2007.

This process was the main factor responsible for the considerably high GDP growth during the 2005-2007 period. Chart 19 shows that the contribution of household consumption to GDP growth was 2.37% in 2004 and subsequently grew to 3.66% in 2007.

![Chart 19: Households Consumption – Contribution to GDP Growth (%)](source: IPEA)

However, the demand source was not coming only from the households’ consumption. Responding to the stimulus, which was originally proceeding from the external sector and in recent years also proceeding from the households’ consumption, investments rose substantially, hence increasing the Brazilian investment rate (See Chart 20). This rate, which was around 15% in 2003, went up to 19.1% in 2008. While this level remains from what would be necessary to build the infrastructure that Brazil needs, the benefits of this rise cannot be ignored.
Despite the positive aspects associated with this new standard of an economic growth, which is pushed – albeit not exclusively – by the amelioration in income distribution, some negative aspects of Brazilian economic performance over this period must be discussed. One important problem is that the national currency continued its appreciation trend, whereby the exchange rate fell from 3.52 real/US$ in January 2003 to 1.77 real/dollar in December 2007. Observing the effective real exchange rate calculated by the Bank of International Settlements – that takes as its reference not only the US dollar, but rather a basket of currencies weighted by the importance of the economic relation of each of those countries with Brazil – the currency appreciation in Lula’s first term is also astonishing. Chart 23 shows that the effective real exchange rate varied by 65% between January 2003 and December 2006. In December 2007, the Brazilian currency was even more appreciated than in July 1994, when the Real Plan was implemented.
Obs: Increment (resp. decrease) of the rate implies a currency appreciation (resp. depreciation).

One can find a positive aspect about the appreciation, because it contributed in a decisive way to the control of inflation, since the pass-through exchange rate-prices in Brazil is extremely high. Some authors say that the inflation targeting regime in Brazil has been used in a non-conventional way, since this currency appreciation was crucial to achieve the inflation targets (e.g. Serrano (2010)). While this is true, one cannot ignore the fact that the Central Bank continuously tried to intervene in the exchange market to control the appreciation, albeit in vain.

However, this currency appreciation had an important negative aspect over Brazilian net exports. Since the appreciation was continuously observed since the beginning of 2004, the trade account reached a peak in 2006 and started to decline thereafter for the next four years (See Chart 5, above). At this moment, the Brazilian economy fortunately was not facing external constraints, as will be discussed below, although the crucial issue is that it reflects a very important problem, namely the loss of competitiveness of Brazilian industrial sector, which will be discussed in Section IV. Not only the low level but also the high volatility of the exchange rate contributes to this problem.

As discussed above, Brazil did not have any problems in financing its current account deficits at this moment. The volume of inflows in the financial account was high and more than enough to avoid a balance of payment deficit. From 2006 onwards, international reserves were increased from a level of US$ 63 billion in May 2006 to US$ 190 million in December 2007 (See Chart 10, above).

Source: Bank of International Settlements
In sum, the first five years of the Worker’s Party government coincided with a moment of “high dynamism” in the international economy. The world economy was growing at a faster pace, principally due to the China effect, whereby international trade consequently accelerated, with high international liquidity promoting considerable capital inflows to the so-called “emerging countries”. Due to the “fear of the market”, the first years of Lula’s government took a conservative macroeconomic policy that under-profted the economic dynamism coming from the external front. Nevertheless, from the second semester of 2005, macroeconomic policy succeeded in obtaining a greater margin of manoeuvre, while the effects of the social, wage and credit policies were also realised. This resulted in a growth cycle that had been not since the 1970s – initially pushed by the net exports, and subsequently by household consumption (the main demand driver). Moreover, in response to these other stimuli, investments also contributed to this economic growth (even if in a more timid manner). In the external sector, despite the current account deficits, the reserve accumulation provide the Brazilian economy with some robustness, which somehow allowed it to face the new international context arising from the subprime crisis in USA and its spreading effects all around the world, which will be analysed in the next sub-section.

III.2 External Conditions: 2008-2012 – The Economic Crises

From 2007, the crisis in the real estate market in the United States started changing the international economic panorama. In 2008, the crisis became more profound and widespread, with huge effects over the whole world. Consequently, the international economic dynamism heavily decelerated and the international trade also slowed down.

One can easily divide this entire period into two parts based upon the international capital flows. Initially, the crises engendered a movement of “search for quality”\(^{22}\) by international investors. In a typical “herd behaviour”, agents’ liquidity preference increased and capital flew principally in the direction of the central countries. In the second phase (which started in 2010), due to the expansionary monetary policy enacted in many central countries (especially those with historically low interest rates), in parallel to the restatement of the market confidence in “emerging countries” had determined the reversion of the situation and the capital flows had since re-taken their way in these countries.

Therefore, it becomes clear that the “decoupling hypothesis”\(^{23}\) was not completely right, since all countries suffered due to these crises. It is true that some countries (e.g. China and India) succeeded in maintaining higher growth rates than the world’s average, although the Chinese and Indian growth rates are lower than they used to obtain before the crises. In Brazil, the strategy to deal with the world crises is marked

\(^{22}\)When agents change their portfolio in order to raise the share of more liquid and less risky assets.

\(^{23}\) According to the “decoupling hypothesis”, the “emerging countries” have established an endogenous economic dynamism that is not directly linked to the central countries dynamism.
by two different phases, because in 2011 Lula was replaced by Dilma Rousseff in the national presidency, which meant some changes in the macroeconomic policies. Accordingly, these two phases will be discussed below.

a. **Domestic Policy: 2008-2010 – Countercyclical Policies**

Just before the crises, the Brazilian economy had initiated a process of “introversion”, namely an effort to internalise the economic dynamism. Whereas net exports had been the main driving factor behind the 2003 economic growth, the locomotive of the growth has subsequently been household consumptions. In spite of this, the effects of the crises were felt and Brazilian economic growth in 2009 was negative, at -0.33%.

The government’s response was to promote countercyclical measures in order to avoid recession. Having some policy space provided by the good public revenues of the preceding years (mainly because of the high economic growth), the government simultaneously increased public expenditure and public credit supply and decreased taxes. The primary surplus accumulated in 12 months, which attained 4.1% of the GDP in October 2008, fell dramatically to a level of 1.0% of GDP in October 2009 (See Chart 18, above). This means that the public sector increased its expenditure by around 3% of the GDP, which represents an incredible countercyclical measure. Additionally, aiming to avoid high falls in the private expenditure, considerable tax cuts were enacted in some chosen industrial sectors, notably the durable goods sectors, due to their linkages to other sectors of the economy. Finally, the Brazilian Development Bank (BNDES) launched a program for the “Sustainability of Investment”, offering credit lines with especially low interest rates to foster private investments.

As discussed above, the “decoupling hypothesis” has shown its limits with the current crises, given that they have their epicentre in developed countries, although peripheral countries inevitably suffer their effects. This has not been any different with the Brazilian economy, and in 2009 economic growth was slightly negative. Nevertheless, in 2010, the countercyclical policy was effective and Brazil obtained a huge economic growth at 7.5%. While there is obviously a statistical effect due to the negative growth of the preceding year, this rate is astonishing.

In this context, the unemployment rate did not increase and, on the contrary, jobs continued being created. Avoiding job destruction can be considered the most important and hardest goal in the context of a crisis, yet it was achieved in Brazil. Since job creation has been faster than economic growth, it indicates a decrease in labour productivity, which might be problematic in the long run. Nonetheless, since unemployment rates in Brazil had been incredibly high in the preceding decades, it is necessary to highlight that this job creation pace was something extremely positive.

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Domestic Policies: 2011-2012 – Dilma’s Debut

After President Lula’s two terms, the Workers Party succeeded in making its successor. President Dilma Rousseff, who had been Lula’s Minister for the Civil House, won the 2010 elections and took place on January 1, 2011. Even if this meant the continuation of the preceding government, it is important to notice the changes. The social policies of Lula’s governments were kept and even intensified, as will be discussed below. However, concerning the macroeconomic policies, some important changes can be verified.

The priorities of the first two years of Dilma’s government can be classified according to three categories. First of all, there is an obvious effort in the direction of what can be named as “getting the macroeconomic prices right”. Assuming that the exchange and interest rates are key prices for the economic development, the current government has strongly strived to correct the distortions in these two prices in the previous years. Concerning the exchange rate, there was an implicit quest to keep it in relatively narrow bands, which were not publicly announced, but conventionally perceived. It was clearly the result of a government decision, as well as a new technique of intervention. After some years of unsuccessful interventions in the exchange rate market, the Central Bank seems to have finally obtained an efficient way of influencing the exchange rate, through the introduction of some capital controls – mainly, the imposition of taxes over capital inflows related to portfolio investment with short term maturity – and interventions in the future market (Rossi (2012) and Prates and Fritz (2013)). Hence, it has been possible to keep the exchange rate in a historically stable trend, by avoiding the pernicious effects of the high volatility previously verified (from 1999 to 2009). Besides the preoccupation with the volatility of the exchange rate, there was also an effort to influence its level, since the government has declared that it will not allow a new overappreciation of the Real, owing to its harmful effects over the national productive sector.

Going further in the priority of “getting the macroeconomic prices right”, Dilma’s government has attempted to set the Brazilian interest rates at a reasonable level. The Brazilian basic interest rate fell continuously from 12.5% in August 2011 to 7.25% in October 2012. Therefore, a historical low level in real terms was achieved at the end of 2012, at around 1.5% per year. Although this might still be a high level for some countries, notably in the current crisis, for the Brazilian economy it is a new reality. Undoubtedly, expansionary monetary policy practiced in developed countries after 2008 has contributed to this reduction of the interest rates in Brazil, since the interest rates are all linked in the globalization context (having the FED Fund’s Rate as the main reference). Nonetheless, it is certainly part of the government effort to put the macroeconomic prices in adequate levels. Moreover, the public banks have been

25 This preoccupation with national competitiveness will be discussed below, since it is another priority of Dilma’s government.
26 The official inflation forecast for 2013 was 5.7%.
used to enforce private banks to reduce the interest rates, including for the consumers. In this sense, the public banks have strongly decreased the spreads of their interest rates to stimulate competition. Afraid of losing their market shares, the private banks were obliged to follow the trend and reduce their interest rates.

The second priority of Dilma’s government is to increase competition in the Brazilian industrial sector. Among other reasons, the three decades without appropriated industrial policy (1980s, 1990s and 2000s), the years of overappreciated currency and the incredible dynamism of other countries (especially China), have resulted in a situation where most of Brazilian industrial sectors are less competitive than the rest of the world. In a situation of increasing international competition, as the one currently observed, the weakness of the Brazilian industrial sector is evident, as will be discussed in details in Section IV. In order to promote economic growth and defend national industry, the current government has the obsession of increasing Brazilian competitiveness, taking measures in this respect including: a reduction in energy prices; decrease in labour costs, through the reduction of labour taxes for companies of certain branches\textsuperscript{27}; and trying to attract high-qualified immigrant labour force, etc.

As the third priority, Dilma’s government has made an important effort to eliminate extreme poverty in Brazil – her main promise in the electoral race. The efforts have been concentrated in a new social programme named “\textit{Brasil sem miséria}” (Brazil without misery), which has aggregated many pulverised actions that were already practiced and other policies that have just been created. The idea is that the extreme poverty might be eradicated through two complementary policies: i) income redistribution; and ii) the improvement of public goods and services (and people’s access to them).

Despite these priorities, which are inherently expansionary, some measures that induce the contraction of demand have been recently practiced. Given the goal of reducing the interest level, inflation pressures have been faced through some “macroprudential measures” that control the credit for consumption (e.g. increase in compulsory deposits). Some authors argue that these measures have been exaggerated, with harmful effects concerning aggregate demand (Serrano and Summa, 2012)). Additionally, the minimum wage had no real growth in 2011 and public expenditure has decreased after 2009, in order to achieve the primary surplus target (3.1% of the GDP in 2011). Serrano and Summa (2012) show that public investments had a heavy decline in 2011, including 12% in the investments of the public administration and 8.6% in the investments of the public companies (both in real terms). If these public investments were replaced by private ones, there would be

\textsuperscript{27}Since this reduction of labour taxes for companies might imply lower revenues for the public sector, the doubt might emerge as to whether it will eventually mean a reduction of social rights. This is a huge problem that the government cannot ignore.
no negative consequence, although the problem is that the government is finding many difficulties in fostering private investments.

Therefore, in the first two years, Dilma’s government was able to somehow correct the distortions in the macroeconomic prices. The exchange rate was less unstable and probably will not fall to the extremely low rates, as earlier happened. While its level remains far below what should be considered a competitive level, the 20% depreciation in 2011 might already have positive effects. The fall of the interest rate to a historically low level is also something to celebrate and its expansionary effects might eventually be felt. In spite of this, economic growth in these two years has been very deceiving. In 2011, Brazilian GDP grew by only 2.7% and in 2012 it reached 1%. Even considering the world crises, these rates are extremely low in comparison to the necessity of the Brazilian economy. The government is preparing the floor for private investment, but it is taking too long to react. The main problem is that without re-taking a consistent economic growth, all the social achievements of the previous years risk being reversed.

IV. Main Achievements and Challenges

After analysing the most relevant policies practiced over the last ten years and their economic outcomes, it is useful to highlight the most important achievements of this period. Furthermore, it is also important to examine the “non-achievements”, which help to understand the future challenges that the Brazilian economy might face in the coming years.

IV.1 Main Achievements of the Last Ten Years

The main achievements of the last ten years can be considered as: a) a decrease in poverty and income inequality; b) a decrease in the unemployment rate; and c) a decrease in the external vulnerability.

a. Decrease in Poverty and Income Inequality

Poverty is obviously a multi-dimensional phenomenon, in the sense that it not only depends on monetary incomes, but also on people’s education, access to public goods and services, and so on. Nevertheless, research focusing merely on the monetary incomes is partial, yet still useful to apprehend some social changes. The calculation of the poverty line is also full of controversies, although they are beyond the scope of this paper. According to FAO (United Nations branch for food and agriculture) and HWO (Health World Association) recommendations, the chosen criterion for defining the extreme poverty line is the required value to buy a food basket with the minimum calories necessary to adequately feed a person. The poverty line is double that of the extreme poverty one. Having said that, the data below are eloquent.
The interruption of the high inflation rates, achieved by the Real Plan in 1994, has promoted a “once for all” fall in the poverty rate (Chart 22 shows that it fell from 43% in 1993 to 35% in 1995). However, in the following years this rate has been kept at the absurd level of more than one third of the Brazilian population. From 2003 onwards, a process of continuous fall of this rate has been observed, meaning that more than 22 million persons surpassed the poverty line by 2009, representing approximately 14.3% of the Brazilian population\textsuperscript{28}. Moreover, 12.5 million persons have surpassed the extreme poverty line, reflecting a 50% reduction in extreme poverty in only six years.

Chart 22: Poverty Rate – Share of the Population whose Income is lower than the Poverty Line

![Chart 22](source)

Source: IPEA. The poverty line is the double of the extreme poverty line, defined below.

Chart 23: Extreme Poverty Rate – Share of the Population whose Income is lower than the Extreme Poverty Line

![Chart 23](source)

Source: IPEA. The extreme poverty line is calculated as the required value to buy a food basket with the minimum calories necessary to adequately feed a person, according to FAO and HWO recommendations.

\textsuperscript{28} Using data from labour market research, Neri (2011) estimates that poverty in Brazil was reduced by 50.7% from December 2002 to December 2010. This means that Brazil has succeeded in one of the eight Millennium Goals (the goal of reducing poverty in 50% until 2015).
Nevertheless, what really constitutes a novelty in Brazilian economy is that this process is the result of economic growth conjugated with income redistribution. Chart 24 shows that the Gini index fell from 0.58 in 2003 to 0.54 in 2009\textsuperscript{29}. While this is a modest reduction, since it has no precedent in recent history, it must be considered as evidence.

Chart 24: Gini Index

![Chart 24: Gini Index](image)

Source: IPEA

This income distribution process can be seen in a clearer manner be splitting the Brazilian population into deciles (according to people’s income) and observing the income growth of each decile. Chart 25 shows that the evolution of real income of each decile during the 2001-2009 period, from the poorest 10% of the population (at the left of the horizontal axis) to the richest 10% (at the right of the same axis). The chart is quite eloquent to demonstrate that the lower the initial income, the higher the real growth rate of this income in the last decade. It is obvious that the current income distribution is still far what can be considered as acceptable. Brazil continues to be one of the most unequal countries of the world and there is a long path to correct these absurd distortions. Nonetheless, it is necessary to highlight that even if the pace of the income distribution amelioration is somewhat slow, this process is a novelty in Brazilian recent history.

\textsuperscript{29}Most recent available data.
Both phenomena – the amelioration of income distribution and the reduction of poverty and extreme poverty – are related, with both resulting from some of the policies practiced during the last ten years.

First of all, the wage policy has been extremely important, since the minimum wage increased 89.8% in real terms from December 2002 to January 2013. Given that the minimum wage is the reference for the incomes earned by a huge part of Brazilian workers, as well as for pension and social transfers, the impact of these increases is wide and deep.

Secondly, the social policies were also very important for income distribution and the reduction of poverty. Even if the income transfers amounts are very modest\textsuperscript{30}, they signify a great alleviation in poor families, while the impact goes beyond, since the multiplier effect of these small amounts in poor regions makes these transfers responsible for giving a huge economic dynamism for these regions. This explains why the poorest regions in Brazil have presented higher economic growth than the national average.

Thirdly, it is important to notice that this process of income distribution, rising wages and economic growth engenders a “virtuous circle” that also comprises the creation of jobs. This can be understood as another great achievement of the last ten years in the Brazilian economy, as will be seen in the next subsection.

\textsuperscript{30} The maximum amount a family may earn from the “Bolsa Família” in 2013 is around US$ 40.
b. Decrease in the Unemployment Rate

In Brazil, unemployment can be considered as one of the principal social problem of the 1990s. The unemployment rate was extremely high and many workers faced continuously a high risk of being fired. Research shows that in 1999, 73% of the workers reported unemployment as their main or one of their main preoccupations, which had fallen to 36% in 2013. In 1999, half of the Brazilian workers felt that there was some or a high risk of being fired; in 2013, this rate fell to 20%, with 75% declaring that they feel no risk of being fired31.

This subjective perception corresponds with the labour market data. The unemployment rate fell from a standard of 12% of the Economic Active Population in 2002 to a level around 5.5% in 2012 (See Chart 14, above). Even during the worst moments of the crises, Brazilian economy has shown some resilience in its labour market.

Another relevant outcome related to the labour market is the important creation of formal jobs. In the 2003-2012 period, the net result of creation and destruction of formal jobs was 13.4 million. This is not only the consequence of the domestic economic dynamism, but also of more efficient supervision by the Ministry of Labour.

It is important to notice that some characteristics of the Brazilian labour market have not changed, including the preponderance of low-paid jobs, high “turnover” rate, gender inequalities, etc. Moreover, despite the abovementioned more efficient supervision, the informality rate is still extremely high in the Brazilian labour market. Nevertheless, it is unquestionable that the amount of job creation (specially the formal one) in the last ten years reflects an important achievement.

c. Decrease in External Vulnerability

Brazilian economic history shows that there are many periods in which a balance of payment constraint aborted economic growth and development strategies. Nowadays, this risk is no longer so imminent. It is undoubtedly true that in the context of financial globalisation, the capital that flows all over the world is capable of destabilizing any national economy. Nonetheless, in the absence of radical turnovers, the Brazilian economy has shown some robustness in the external sector. Biancarelli (2012) highlights this in details and some of the important data will be presented here.

As seen in section II, the accumulation of international reserves has intensified in recent years. These reserves represented only 20% of the external debt in 2002 and

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31Folha de São Paulo, March 24th, 2013.
reached a level of 123% of the external debt in the first semester of 2012. Accordingly, Brazil is now a liquid creditor of the international economy.

However, this reserves accumulation was not the only achievement in the external sector. The mere GDP growth has already alleviated some of the solvency indicators. For instance, the external debt/GDP ratio suffered a huge fall, going from 45% in 2002 to 13% in the first semester of 2012. Putting the focus on the more liquid resources, provided by the exports, the trend is the same, with the external debt/exports ratio falling from 3.5 in 2002 to 1.2 in the first semester of 2012 (Biancarelli, 2012). Observing the recent Brazilian financial account, it is clear that its surplus is more than sufficient to finance the current account deficit. Not only is this surplus a new phenomenon for the Brazilian economy, but also the composition of this surplus has a new characteristic, namely the participation of foreign direct investments (FDIs) being larger than the portfolio investments. In 2011, the respective shares were 61.1% and 31.9%. Given that FDI tends to be less volatile than portfolio investment, this has contributed to reducing Brazilian external vulnerability.

This subsection has highlighted the main achievements of the Brazilian economy over the last ten years, namely the reduction of poverty and the amelioration of income distribution; the reduction in unemployment rate; and the decrease in external vulnerability. Moreover, another important feature is that these achievements were obtained with the maintenance of the inflation rates at a reasonably low level (the inflation targeting of 4.5% with a band of 2 p.p. has been consistently achieved), as well as considerable reduction of the net public sector debt, from a level of 39% of the GDP in 2002 to a level of 32% in 2012 (See Chart 13, above).

IV.2 Main Challenges for the Brazilian Economy

The previous subsection highlighted the main achievements of the Brazilian economy in recent years. As seen, they are not negligible and, on the contrary, they can be celebrated. There are nevertheless some challenges that must be faced in the coming years in the quest for the sought after economic development. Some of these challenges are lacunae in the policies held in recent years and must be now contemplated, while some others are somewhat the results of the economic policies that have been practiced, claiming for the re-orientation of some of these policies. Therefore, the next subsection will discuss the following challenges: the de-industrialisation process; the increasing share of primary goods on exports; the agrarian reform; and the necessity of returning to a sustainable growth rate.
a. De-industrialisation

According to some authors, the Real’s overappreciation and the lack of a well-coordinated industrial policy have promoted a process of de-industrialisation in Brazil (Bresser-Pereira and Marconi (2008); Oreiro and Feijó (2010); and Marconi and Rocha (2011)). The thesis is extremely controversial, because even the concept of “de-industrialization” is not consensual; nonetheless, it is still important to analyze it. The first way of looking for this possible phenomenon is by observing the share of industrial activity in GDP. Chart 26 shows that the share of the industrial sector in GDP has a slightly declining trend since 2004. However, the share of the manufacturing industry added value is diminishing at a faster pace, from a level of almost 20% in 2004 to 13.25% in 2012.

![Chart 26 – Industrial Sector value Added (% GDP)](chart)

Another way of looking at the phenomenon of de-industrialization is through observing the number of industrial jobs as a share of total jobs. These data indicate that this process is going on, but only in the more recent years. By looking at the last decade, one can observe that the share of the industrial jobs was considerably stable at around 20%. The problem is that these data of employment, which have been taken from the National Accounts, are only available up to 2009. Nevertheless, by analysing some research that is specific to the industrial sector\(^\text{32}\), it is possible to conclude something different for the first years of the current decade. Since the industrial job level has stagnated since September 2010 and jobs are being created in other sectors, 

\(^{32}\text{Pesquisa Industrial Mensal de Emprego e Salário – IBGE.}\)
it is possible to conclude that industrial jobs are losing participation at least in this recent period\textsuperscript{33}.

A statement regarding the existence or non-existence of the de-industrialization process would require wider research, which is beyond the scope of this paper. However, it is clear that the industrial sector in Brazil requires stronger support. The currency overvaluation, the lack of a consistent industrial policy and the increase in international competition (notably due to the China) have unquestionably weakened the Brazilian industrial sector, eroding some productive chains and rendering the endogenization of the technological development difficult in some fields. It is particularly problematic due to the importance of the industrial sector for development and national autonomy (due to its linkages to other sectors, the quality of the jobs and the possibility of producing capital goods domestically).

\textit{b. Increasing Share of the Primary Goods on Exports}

Having discussed the phenomenon of de-industrialization, it is now important to briefly analyse the linked process of the increasing share of primary goods in Brazilian exports. In the recent period, the Chinese demand for raw materials and for products that are highly based on natural resources has been incredibly high. Due to this increasing demand\textsuperscript{34}, there has been a rising trend in commodities prices in recent years. Since Brazil has abundant natural resources, it is comprehensible that the country must profit from this situation. However, it is not recommendable to have commodities as the most important products for Brazilian exports: first, because they generally have low added value; and secondly, because commodity prices are completely volatile. Therefore, even if their recently rising prices have meant an amelioration in the Brazilian terms of trade, it might not be sustainable in the long run.

Nevertheless, Brazilian exports have been increasingly based on primary goods in recent years. The data are clear and are shown in Chart 27. Semi-manufactured products have a stable share around 14% of total exports. On the other hand, the share semi-manufactured products has suffered a dramatic decline since 2006, from a level around 55% to 36% of total exports in 2012. In the same period, in a process of almost perfect substitution, the share of basic goods has increased from one third to almost one half of total exports.

\textsuperscript{33}Sarti and Hiratuka (2011) show the effects of the international crises over Brazilian industrial sector.

\textsuperscript{34}Although this is not the only reason for the rising prices. This commodity prices trend was also the result of the speculative investments made in the commodity future markets.
It is important to stress that the rising demand for basic products, coming principally from China, must be seen as a positive source of stimulus for the Brazilian economy. Nevertheless, the important point is that no country aiming to promote economic development should have basic products as those mainly responsible for economic dynamism. As mentioned in the last sub-section and discussed by Palma (2012), Cano (2010) and Furtado (2008), among others, it is necessary to re-stimulate industrial sectors, mainly those technology-based. The challenge here is to integrate the international demand for basic products with a national development strategy.

c. Agrarian Reform

Another important challenge for Brazil in the coming years concerns the necessity of implementing an agrarian reform. Although the social policies of the last ten years have been capable of reducing inequality in terms of income, the wealth distribution has been unaffected. It is unquestionable that the income distribution is a great achievement, as discussed above. Nevertheless, a government that wants to correct centuries of concentration policies also cannot avoid intervening in the stocks of wealth. In this regard, a constant policy agenda that always finds difficulties in implementation is the agrarian reform.

Data provided by the Instituto Nacional de Colonização e Reforma Agrária (INCRA), the national institute responsible for the agrarian reform, shows that on average, the yearly number of families who received land in the recent period was 68,000 families in Cardoso’s government, 77,000 in Lula’s government and 23,000 in Dilma’s government. Moreover, the same institute that shows there are 180,000 families still waiting for land. Assuming that this number is probably underestimated,
given that many families are not even enrolled, it is possible to notice that there is still a long way to go to solve the problem. Given that one of the priorities of Dilma’s government is the eradication of extreme poverty, the attention given to the rural areas must be further increased. The Brazilian poverty map shows that even if only 15% of Brazilian population is in the rural area, half of extreme poverty is there. At least part of this poverty is undoubtedly related to the non-access to lands. An adequate process of agrarian reform would therefore be necessary for both social and economic reasons.

d. Going Back to a Sustainable Growth Path

Throughout a large period of the last century, the Brazilian economy achieved a considerably high growth rate. The international context of the post-Second World War, conjugated with domestic policies, resulted in many years of huge GDP growth. After the external debt crises, the Brazilian economy had the “lost decade” of the 1980s and the “stop-and-go” standard of the 1990s. In the last decade, the Brazilian economy has again obtained—after a very long period—five years of moderate growth, before the world crisis unfortunately interrupted this cycle. Even knowing that the international context is somehow responsible for the modest rates of growth of 2011 and 2012, it is absolutely necessary to re-accelerate these rates.

Section III showed that household consumption continued to grow in a fast pace in 2012, enabled by further expansions in income and credit. However, consumption driven economic growth has shown some limits, because whenever investments decreases, the growth rate is pushed down. Therefore, the problem is that investments until 2012 were not responding to the still-high consumption dynamism.

The current government is trying hard to re-accelerate private investment, although has not been successful in these first two years. As seen in section III.2.b, the major efforts have gone in the sense of “getting the macroeconomic prices right”. While this process is certainly positive for Brazilian economic dynamism, reality is demonstrating that it may not be enough to foster economic growth. The implicit assumption of this policy is that, once having achieved a stable exchange rate—and at an extremely low level—and reasonable interest rates, the private sector would increase investments. Theoretically, it makes sense, but in reality there are many other issues that must be taken into account—or “several slips between cup and lip”, to use Keynes’ expression. Pessimistic expectations generated by the persistent world crisis, huge idle capacity all over the world and Chinese competition might be some explanations as to why investors are still reticent.

However, the crucial issue is that the achievements of the last ten years were somehow related to economic growth. It does not mean that this economic growth was uniquely responsible for the amelioration in income distribution, reduction of poverty, decline in the unemployment rate and the decrease in external vulnerability.
It means, however, that all these achievements can be sustained and deepened in a context of a considerable economic growth. Otherwise, these achievements – and mainly the social ones – may be reverted, as will be argued in the final remarks.

V. Final remarks

The analyses conducted throughout this paper indicate that it is not possible to propose that a new growth model is prevailing in Brazil. Over the last ten years, the national policies have been frequently changed in response to the conjuncture events. Even during Lula’s eight years of governance, it is possible to notice important differences, notably in the macroeconomic policy. Comparing this period to the two years of Dilma’s governments, other differences also become evident. However, despite such changes, it is possible to find some guidelines, mostly related to the goals of diminishing inequality and poverty. Moreover, it is clear that the State has retaken its role as a responsible agent to determine the paths of the national economy.

However, the crucial problem is that the achievements of the last ten years, discussed in section III, have not yet been perennially obtained. They are based in social programmes and government decisions, although it is uncertain whether they would be kept and deepened in the future. Moreover, it is not possible to know for how long this situation of low unemployment rate, ameliorating income distribution and declining poverty would last if economic growth continues to be low in the near future.

Therefore, the objective now has to be to return to high rates of growth. Since the international trade will not be as vigorous as it was before the crises, the Brazilian economy also has to count on domestic demand sources. In this sense, the policy of “getting the macroeconomic prices right” is important, yet insufficient. It is necessary to have a stimulus from the demand side in order to put the Brazilian economy on a sustainable growth path.

In reaching a final recommendation, two crucial aspects must be highlighted. The first one is that the public debt in Brazil is absolutely under control (and, additionally, that the public sector has now a relief on the payments of the debt service due to the decline in interest rates).\footnote{Moreover, this relief is going to increase continuously, since the stock of the public debt is still mostly labelled in pre-fixed – and high – interest rates, although the situation is slowly changing. To illustrate the argument, the amount for the payment of the public debt interest rates fell 8.4\% in the twelve months until October 2012, compared to the previous twelve months.} The second one is that Brazil still suffers from a dramatic lack of infrastructure and public goods. Connecting these two pieces of evidence with the necessity to foster economic growth, it is possible to propose that public investment should be used as the main demand source for the coming years.
With a higher level of investments and higher rates of growth, it would be important to keep working on consolidating and strengthening of the achievements of the last ten years, albeit with facing the challenges that remain, namely reverting the de-industrialization process, diversifying exports and making agrarian reform.

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