

29 OTTOBRE 2014

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present and future

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**Abstract:** The study analyses developmental state in Brazil using historical and institutional approach within the framework of development economics. The study is in four parts. The first part is a brief theoretical introduction, which discusses and defines developmental state itself and presents the classic model of developmental state and the newer trends, characteristics of a re-considered developmental state. These two concepts serve as a benchmark to analyse the role of the state in fostering socio-economic development in Brazil.

In the next section a historical overview of the Brazilian developmental state is presented. Third part of the study aims to discuss the present situation in Brazil, it analyses to what extent the Brazilian state can be considered as developmental state and what results have been achieved. In the last part we draw our conclusions, and highlight some open questions.

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\* Draft version of the paper to be presented at the international Conference BRICS in the spotlight, University of Parma 6th and 7th November 2014.

## 1. Towards a new model of developmental state.

In this study we analyse the developmental state (DS) in Brazil using historical and institutional approach within the framework of development economics. To set the context first we briefly discuss the classic model of DS. Afterwards we describe newer trends, characteristics of a re-considered DS of the twenty-first century in order to move towards a new model of DS. Model-building itself however is not the aim of this study.

Vast literature on developmental states emerged since the conceptualization of the original idea of Chalmers Johnson's (1982) plan-rational capitalist developmental state, the Japanese model. This classic concept has been applied and expanded to other Asian, and later on European and emerging countries. DS has become 'a generic term to describe governments that try to actively "intervene" in economic processes and direct the course of development rather than relying only on market forces' (Stubbs, 2009:5). To set the cornerstones of the classic model of DS, we rely on the work of Leftwich (1995), who mainly based his work on the Asian DS practices, but also extended it to the cases of Botswana and China. It identifies six main features of DS as (Leftwich, 1995:405): 1. determined developmental elite; 2. the relative autonomy of the state; 3. a powerful, competent and insulated bureaucracy; 4. a weak and subordinated civil society; 5. the effective management of non-state economic interests; 6. and repression, legitimacy and performance.

To re-define the role of state in development, we have to look at changes of the world economy and applied technologies, while also taking into account newer results of modern economic theory. According to Williams (2014:8) we highlight four pivotal challenges in the twenty-first century, which developmental states have to address. First, the challenge of *global economic restructuring*, the shift towards the so called bit-driven economy, where the engine of growth is the knowledge and service sector. Second, the changes in domestic policies, for a large part of the developing countries this means the *process of democratization*, but also factors as the need for deeper embeddedness, extended public deliberation and participation are included. Third challenge is the so called *ideational and epistemic shift* in understanding of development: the new paradigm of development based on Amartya Sen's concept, the human-capabilities approach. Finally the *ecological limits of development* become more and more visible, and the surge for environmental justice cannot be ignored.

For the story of economic restructuring of the twenty-first century and its implication for the Global South see Evans (2014: 227-231). His argumentation in a nutshell is however, that in most emerging and developing countries the shift from agriculture to manufacturing failed to produce a broad working class (blue-collar class) and to substantially increase the well-being of



larger part of the society in the twentieth century. Furthermore in most of these countries globalization has destroyed more jobs in manufacturing than it has created. If we add to these processes the new economic structural changes, the shift toward the knowledge and service sectors, the picture gets even more nuanced. The service sector is namely bifurcated, and only a small minority of the workers has the luck (and capabilities) to get employed in the well-paying business and financial service sector. The majority of the workers will be engaged (if at all) in some kind of interpersonal service (like retail trade, education and health services), which is much less rewarded. Looking at the new theories of development we have to remember that expanding human capabilities are both means and goals of development. Through the pure market logic however there will always be an underinvestment in services expanding human capabilities (such as health and education), as their private returns are much lower than social returns, investing in human being is much riskier than investments in machines, and the time-horizon is also much longer. The only way to get investments in human capabilities closer to the socially optimal levels thus requires *active state involvement*. This is the background for the need for a re-considered developmental state in the twenty-first century, but the question remains what kind of developmental state can succeed and whether the transformation of DS is feasible at all.

The new-type developmental state differs from the old model in its basic characteristics. The new DS has a central role in making development possible, but not in directly implementing it. Beyond traditional state functions the re-defined developmental state has to *actively promote sustainable development* in its wider sense. This means fulfilling tasks such as providing appropriate *institutional and business environment* supporting sustainable economic growth (stable macro-environment, solid financial system, external-orientation, economic and political liberalization) and *additionally* the state has to improve *other dimensions of development*, which vis-à-vis also directly influence economic growth. As up to now he have argued that human development and especially *enhancing human capabilities* is one of the most important new tasks of a re-defined developmental state. Building incentives to accelerate the production of ideas and expanding access to existing stock of ideas has also become of central importance. We did not go into detail with other dimensions of development (like spatial, environmental, generational, etc.), but do recognize their importance as subjects for further research.

Tasks of the state generated by different dimensions of development do overlap, as for example securing stable macro-economic environment does improve the situation of the poorest segments of the society (as shown later in the case of Brazil), however we emphasize that taking into account different components and dimensions of development, latest changes in global



economic structure and modern economic theories does indicate *new or additional state interventions*, which mainly focus on empowering and enabling people – with Sen’s words – “to lead the kind of lives they value and – have reason to value” (Sen, 1999:18)).

The old-style developmental state as *organizer, producer, owner* and *discretionary regulator* aimed often to directly produce and create wealth, or at least directly intervene in economic processes. In contrast the new DS’s functions are primarily to *set the rules, coordinate* and *control*. It needs to intervene actively in certain areas, but types of interventions, tools and methods differ from those of the classic DS. A reformed state is although *smaller in size*, but *stronger in capacities and capabilities*. It has wider and longer scope of planning, its functioning is *more professional, decentralized, participatory and rules-based*. Implementing this shift in governance needs innovations and reforms in institutional and structural spheres. We have highlighted the central role of the educational and health subsystems, but also classic areas, as financial system, labour market, tax system and state administration have to be revised. We could not go into detail in several areas, rather wanted to demonstrate that new insights are available for building a new model of developmental state in the twenty-first century, and further research is inevitable for digging deeper in this topic. Implications for economic policy-making are still somewhat eclectic. While commitment to market-oriented development is strengthened, to secure more effective functioning of the market *active state interventions* are needed. To manage this transformation capacity and quality of government has to be improved, a state reform is inevitable. Still we emphasize that even “good” institutions and policies only do well in *supporting social environments*, thus possibilities of participation in setting community priorities, decision-making, self-organizing capabilities of civil societies are crucial.

## **2. Historical overview of the Brazilian developmental state.**

In the next section we analyse the case of Brazil, the Brazilian Developmental State through the lenses of the twentieth and the twenty-first century’s developmental state models, as demonstrated above.

In order to better understand the Brazilian Developmental State of today we need a historical overview of its evolution, as legacies of the past (such as the import substitution industrialization, or certain shortcomings of the democratization process) affect the present situation. This means that a certain path-dependency prevails, and to be able to answer the challenges of the twenty-first century, it is inevitable to get know former practices, experiences, analyse failures and successes.

Modern economic history in Brazil has been exciting and multifaceted in political, institutional and economic dimensions. It is out of the scope of this paper to give a *full* overview of the economic history of Brazilian state<sup>1</sup>. We look only at the period beginning with 1930 up to date (2013/14). And though certain cyclicity can be observed, we will argue at the end of this paper also for some kind of continuance in developmentalist path, developmental state in Brazil.

Table 1: Variations on economic policies

| Period    | Political cycle                              | Applied economic policies  |
|-----------|--|--|
| 1930-1985 | Estado Desenvolvimentista                    | Import substitution industrialization  |
| 1930-37   | <i>Authoritarian regime</i>                  | <i>Restricted industrialization</i>  |
| 1937-45   | <i>Open dictatorship (Estado Novo)</i>       |  |
| 1945-64   | <i>Populist State (restricted democracy)</i> | <i>Structured, heavy import substitution industrialization (ISI), developmentalism</i> |
| 1964-1985 | <i>Military Developmentist State</i>         | <i>Extended ISI, export-promotion</i>  |
| 1985-2002 | Democratization and the Cardoso era          | Democratization, economic stabilization, opening and structural reforms                |
| 2003-2013 | Governance by Lula and Rouseff               | Towards a social developmental state   |

Source: own construction

We distinguish three phases of the last 80 years of Brazilian state-led development: desenvolvimentista state (1930-1985), state-led governance by the market (1985-2002), social developmental state (2003 – 2013/14).

### 3. Desenvolvimentista state in Brazil (1930-1985) – the ISI developmental model.

In short the story of the period between 1930-1985 is the transformation of Brazil from a mainly agrarian economy based on primary exports to a modern economy and society with urban and industrial base. While analysing this transformation one has to take into account specific characteristics of Brazil: huge size of the country and its population, spatial fragmentation of its old agro-export economy and later on its new industrial production. This economic transformation had resulted in social advances (albeit modest ones compared to other Latin American countries), overall social indicators improved as did access to basic social services, poverty decreased. However this forced modernization process was also contradictory and unbalanced. Although economic growth was strong, it concentrated mainly in the Southern, South-Eastern regions. Income concentration was always extremely high and persistent in Brazil.

<sup>1</sup> For this see: Maddison (1992:19-110), Baer (1995:25-199), Burlamaqui et al. (2006), Baer – Fleischer (2011), Font (2011), Roett (2011:37-72), Ricz (2009:90-107).

Large parts of the society were excluded not just from the economic modernization, but also from political process: whether during the dictatorship of the military regimes or during the interplay between the two, which we can name restricted democracy. This is the complex context, in which we have to regard the role of the state.

The period between 1930-1980 was the era of import-substitution industrialization – although with some variations of the period’s economic policy strategy – with an outstanding economic performance of almost 6 % GDP growth rates on average (Maddison, 2001:74). This period of developmentalism, as shown in Table 1, can be divided into three stages: primary, unstructured import substitution (IS), structured import substitution industrialization (ISI) and extended ISI with export promotion.

The dictatorship of Vargas beginning with 1930 is often seen as the *rise of modern Brazil*, and in contrast to the former mainly liberal approach, the increase of *state interventionism*. The transformation of Brazil from an economy mainly based on primary exports and capital imports towards a more industrialized economy begun, although at the beginning more as an unintended by-product of economic policies (Pinheiro et al. 2001:4). Through direct and indirect state interventions the role of the state in economic (industrial) development increased. This hand in hand with heightened nationalism and central planning were in accordance with Keynesien, neo-Keynesien policies (Peixoto, 2011:19). The economic policy of restricted import substitution is also regarded as the first step towards the formation of the *Brazilian Developmental State*.

After 1950 conscious interventions (artificial price distortions, subsidies and regulations) strengthened the disproportional growth of the industrial sector, with emphasis on heavy industry and consumer durables. High growth rates of this period were however made possible by specific *internal factors* (authoritarian political regime, general belief in and support for developmentalism) and maybe even more important by *external possibilities* (abundant credit in the world market). The role of the state was further strengthened under the era of Kubitschek, the so called “golden age” of developmentalism as shown by the *Plano de Metas* (1955-60). Starting with 1958 however accelerating inflation, sharp decline in growth rates and deep political crises led to military coup in 1964. The military dictatorship thereafter *continued* and even *strengthened* developmental strategies. After an initial period of economic stabilization, economic growth rates were resumed at even higher rates and Brazil entered to the so called *economic miracle* period from 1968 to the mid 1970s (with average annual growth rates of GDP 11,3 between 1968-73 (Roett, 2011:61)). Due to deteriorating international conditions and domestic imbalances economic

growth decreased gradually, and with the country's slide in to the debt crisis at the beginning of 1980s, it turned into negative rates.

During the first half of 1980s stagnating economy and high unemployment rates inherently showed the *failures of the ISI model*: financial vulnerability and distributive shortcomings. Heavy emphasis on income transfers towards domestic economic groups (to promote industrial production), neglecting chronic social needs and repressing political resistance of lower classes of the society (mainly urban and rural workers) was made possible by the authoritarian regime. This led to perpetuate “traditionally” extreme high levels of income inequalities, which is seen as a by-product of Brazilian-style development. By this time it became obvious that nor the Keynesian, neither the developmentalist path could lead Brazil to catch up with more developed countries.

Deep economic recession accompanied by these social processes indirectly forged the democratization of Brazil, and the beginning of a new phase. Before looking at the period beginning with 1985, we try to set cornerstones of the Brazilian model of developmental state.

It is often argued in the literature that in the *transition process of latecomers* like Brazil (also called capitalism tardio countries<sup>2</sup>), the *state* has played a *strong and decisive role*. This leadership implies besides an ideological background, building the material and financial basis, but also confronting the social questions. The movement of large masses of peasants into urban market economies within a short period of time led to the emergence of several social tensions, (e.g. informal employment and housing, emergence of favelas in larger cities). *Social policies* within the period 1930-85 were not solely an answer to these tensions, but also served to raise the regime's *political legitimacy*. Looking at the Vargas strategy, we can see that it aimed the social integration of the urban wage and salaried workers. Other parts of the society, mainly peasants and rural workers constituted the “forgotten class” of this era. Draibe (2007:242) dates to this period the building of the Brazilian Developmental Welfare State (BDWS). She admits however that the evolution of the social protection system mainly concerned *capital and labour relationship*. This *corporatist or conservative* type welfare system was organized around three pillars: the universal public provision; contributory and subsidized programmes; private sector services. Basis of social institutions (such as right to regulated jobs, labour unions and minimum wage regulation, social protection system), however limited and partial, were laid down in Brazil, and this is a merit of this period. Incomplete and insufficient as these “modern” institutions were they constitute the *historical legacies* which any future Brazilian (developmental) state has to cope with. Many shortcomings

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<sup>2</sup> First reference: Cardoso de Mello (1982).



(such as clientelism and patronage) of the system today (though several reforms since then) can be rooted back to this era.

In contrast to these more pessimistic views, Boschi (2011:42) highlights positive continuities within the institutional trajectory of Brazil, rooted in the first Vargas administration: namely the corporatist structure of business interest representation and the labour legislation.

Another important feature of the late transition process is especially true for the case of Brazil: the state played a decisive role in *coordinating* and *providing incentives* to the market, and also it became a *capitalist producer* with strong presence in strategic sectors of the economy.

According to Schneider (1999: 278-280) we highlight four elements of desarrollista state or the so called *ISI developmental model* in Brazil in the period from 1930 until 1980. First *political capitalism*, where profits and investments depended on decisions made by the state. Second economic growth enabled by *state interventions* and promoted through *industrialization* and *import-substitution*. Third *political exclusion* which is not necessarily limited to authoritarian regimes, as during the democratic period 1945-64 in Brazil literacy requirements excluded a majority of adults from political participation. Fourth *fluid, weakly institutionalized bureaucracy*, in which appointments structured power and representation. Schneider (ibid) emphasizes however the systemic interaction of this four components of desarrollista state, as these affect and often reinforce each other.

Main difference in this institutional approach between the East-Asian and Latin-American DS, especially the Brazilian DS is the *dysfunctionality of the appointive bureaucracy*, or more concretely the career patterns within the executive bureaucracy, and thus its consequences (such as low performance, job-insecurity and thus the lack of “embedded autonomy” using Evans’ term). Another main differing feature however is, that in Brazil non-state economic interests were not effectively managed, this means that large land-owners and private capitalists were able to *capture the state*, which thus could not effectively implement top-down structural transition. Finally we highlight two main characteristics of the Brazilian DS within this period, which will be essential by looking at the transition towards the twenty-first century type DS: it was *exclusionary* as regarding civil society and *discretionary interventionist* towards the economy.

To sum up we conclude, that although named developmental state, the Brazilian model differs substantially from the classis-type DS, and despite being “successful” (due to special internal and external conditions), it was not sustainable model neither financially, economically, nor socially or politically.

#### 4. Democratization and state-led governance by the market (1985-2003).

The failure of the *desenvolvimentista* model led to the loss of political legitimacy of military rule and the *democratization process* in Brazil started with inherent changes in social, political and economic spheres.

During the years and decades after the debt crisis, most economic policy interventions aimed at *economic stabilization*: chronic fiscal imbalances and hyperinflation were the two main challenges. High inflation was an inherent feature of the Brazilian economy. Lasting operation of the economy under high and persistent inflation was made possible by institutional solutions (indexation mechanism), however counterproductive ones (Burlamaqui et al, 2006:13). Accelerating inflation threatened to destroy the economy, while social unrest has risen and endangered political stability. Between 1985 and 1994 the Brazilian economy was subject to six heterodox stabilisation plans<sup>3</sup>. The common element of all these plans was the use of price controls and currency reform to abruptly reduce inertial inflation to one-digit levels. After all the way towards less state intervention and more market-friendly economic policies was paved.

In this turbulent and exciting times of the Brazilian history, the restoration of civil and political rights and democratic elections led new patterns of social demands (besides higher salaries, adequate housing, education, health and social security –better social protection) resulting in extraordinary growth of civil society (increased number of social organizations), and also to new forms of political behaviour<sup>4</sup> (Draibe, 2007:261).

Table 2: Main features and cycles of Brazilian government (1985-2003)

| Period    | Cycles of Government      |                          | Features  |
|-----------|---------------------------|--------------------------|---|
| 1985-90   | José Sarney               | Cycle of democratization | New Republic, New Constitution, failure of economic stabilization   |
| 1990-92   | Fernando Collor de Mello  |                          | Neoliberal, structural economic reforms                             |
| 1992-95   | Itamar Franco             |                          | Real Plan, stabilization, statism, economic nationalism, corruption |
| 1995-2002 | Fernando Henrique Cardoso | Cycle of liberalization  | Real Plan, economic stabilization, market-friendly reforms,         |

<sup>3</sup> The Cruzado plan of 1986; the Bresser plan of 1987; the ‘Summer’ plan of 1989; the Collor I plan of 1990 and the Collor II plan of 1991; and the Real plan of 1994.

<sup>4</sup> The latter led to new unionism (of which Lula has been an outstanding leader since 1970s) based on independence or autonomy towards the state.



|  |  |  |            |
|--|--|--|------------|
|  |  |  | pragmatism |
|--|--|--|------------|

*Source: Own construction based on Peixoto (2011:15) and Draibe (2007:265)*

First intrinsic momentum of this period was the New Constitution of 1988 being a result of long-repressed social and political demands of masses. It guaranteed wide-ranging social rights, democratized public policies on a *decentralized* and *participatory* way. Several innovations of the social agenda were introduced by the new constitution, such as the *comprehensive social protection system* (e.g. reinforcement of universal entitlements in health policy; expansion of social rights to new groups, mainly rural workers). Without compromising its progressivity and the shift towards a more inclusive model, after the legislative euphoria new tensions came to light (Kerstenetzky, 2014:174): social rights and public responsibilities were laid down in great, however insufficient detail (leaving space for discretion and imperfections in realisation and implementation). To these tensions we have to add, that *expectations* were curbed high not only by the new social pact, but also by the failure of Sarney and Collor de Mello to stabilize the economy after the debt and fiscal crises of the 1980s and early 1990s. They have not only failed on the economic front, but also failed to relieve urging social tensions: social spending was cut, income distribution worsened and social indicators stagnated. Itamar Franco's economy minister Fernando Henrique Cardoso managed to get under control the inflation and stabilize the economy with the so called Real Plan in 1994, a success which helped him to defeat Luiz Inácio Lula da Silva in the presidential elections in 1995.

After this "short" interplay of political and economic stabilization, a new era started, which is often called the *state-led governance by the market* (Kerstenetzky, 2014:175) and lasted from 1995 until 2003.

The Cardoso era is often called the period of *re-democratization* (Arbache, 2004:13), a relative stable political term free of corruption scandals, characterized by unified consensus in politics and backed by economic stabilization. Changes in policies, structural and institutional reforms, and as a result of these, incoming foreign direct investments made it possible to get out of the crises. Finally we can state that Brazil broke up with developmentalism and the dirigiste approach.

With the ideological background of the neoliberalism, most important cornerstones of the market-oriented transition of Brazil, were besides economic stabilization, structural reforms as well-known from the Washington Consensus: liberalization, privatization and deregulation.

The evaluation of Brazil *privatization* is overwhelmingly negative in economic literature (see for example Baer-Bang, 2002). As it is often the case, driving forces of privatization were ultimately



to generate fiscal revenues, substantially reduce public debt and consolidate price stability (instead of increasing efficiency or competitiveness).

Until the end of the 1980s Brazil was one of the most protected and closed economies of the world. *Trade liberalization* began in 1988 with some modest tariff reduction and the lifting of some redundant barriers. Major break with the ISI protectionism, a drastic trade liberalization cycle took place between 1990-93, when most of the complex and bureaucratic non-tariff barriers had been removed, and a new tariff structure was imposed. First steps towards South-American regional integration were also made: after the trade agreement between Brazil and Argentina in 1988, with the accession of Uruguay and Paraguay, the Common Market of the South (Mercosul) was founded in 1991.

First steps towards *deregulation of markets* were introduced in 1990 to stimulate competition and strengthen the role of market. Numerous restrictive rules and laws were removed, price controls and restrictions to entry were eliminated (especially in manufacturing and service sectors), anti-trust legislation was strengthened, consumer protection law and new legislation on the protection of intellectual property rights were put in force. Several constitutional amendments were approved to eliminate discrimination against foreign capital, and to discontinue public monopoly rights in oil exploration, gas, electricity, telecommunications, infrastructure, among other sectors. By the end of 1990s FDI flows increased significantly into Brazil, although according to Pinheiro et al. (2001:23) deregulation was only a necessary condition for this. Macroeconomic stabilization, the restoration of market confidence and favourable international context as well as the already mentioned regional integration process (Mercosul) also played important role.

Before 1994 (the Real Plan) main characteristics of Brazil governance were *discretionary ruling, laxity in fiscal and monetary policies*. Afterwards however political and social consensus emerged, that price stability has to be the first economic priority. The way towards *rules-based fiscal policies* was paved, and in 1998 it became legislated (Goldfajn – Refinetti Guardia, 2004:120).

Though deteriorating balance of payments and the threat of a new crisis economic stabilization yielded for Cardoso the re-election in 1998. After the Brazilian currency crisis in 1999, inflation targeting, restrictive fiscal policies and a more investor friendly macro-economic environment could have led to some optimism. The indebtedness of the country and the stagnant economy in



general, and more specifically the Argentine crisis in 2001, and pessimistic expectations prior to the elections in 2002<sup>5</sup> led again to balance of payments crisis (Bresser-Pereira, 2006:8).

Implicit in the neoliberal model of development was the idea, that the same policies that aimed at economic stabilization, would serve social and in wider sense human development at the same time. As Arbache shows (2004:33) the Real Plan and the elimination of inflation did mean a one-time real income increase for the lower income groups, and thus these changes had an immediate positive impact on poverty, but only a very small impact on inequality. Draibe (2007:265-266) speaks about a *social liberal cycle* referring to the Cardoso years, and highlights three broad areas, which continued the *affirmation of social rights* as started in the preceding decade: universal public social services; new working, employment and income programmes; and the programme against poverty. Evaluation of these steps is still subject to disagreement, but in the light of the democratization cycle, decentralization trends, more participatory character of the political system, and certain steps towards a more inclusive model can be observed.

In general under the Cardoso years low growth rates prevailed, and only modest advances in income distribution and poverty rates were reached. There is still agreement in the literature, that *market-oriented reforms* have laid the groundwork for putting the economy on *sustainable growth trajectory* (de Mello, 2013:295). We refer to this period as *state-led governance by the market*. With the delegation of the state's leading role to market forces in Brazil, and the troubles to stabilize the currency and economy, the public agenda was shaped by the fear of losing market confidence. Though this was the era of neoliberal reforms and “de-statization”, the traditionally oversized state and its widespread interventions still characterized many areas of the Brazilian economy. Further critics of this period concern: the dysfunctionality of the labour market (informal sector's high and increasing share), persistent concentration of land ownership, selective access to capital, credit and quality education. Though unquestionable results in the area of democratization heavy critics affect the system of political representation and the unfinished state reform. The neglect of social issues is also at the heart of critics, as Brazil has one of the most unequal societies of the world. With Kerstenetzky (2014:175) words under the Cardoso era economic stabilization “*became not a step to the development objective but the development objective itself*”.

## **5. Towards a Social Developmental State in Brazil (2003 – 2010).**

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<sup>5</sup> The threat felt by creditors and investors that a left-wing candidate of Workers' Party, Lula would likely to be elected for president.



The failure to resume economic growth, the rise in unemployment and the fall in incomes of the middle classes during the second government of Cardoso were probably the main factors leading to the overwhelming victory of Lula in 2002. He took office under stormy circumstances in January 2003: the context of external crisis, low growth and uncertain domestic political arena all led to speculative attack on real, and its devaluation. The first Lula government has had thus first to restore the confidence of the markets, and continued (in contrast to all expectations) with the economic policies of his predecessor concentrating on the fight against inflation and public indebtedness. At the same time being a left-wing candidate he immediately showed his commitment to social issues. The reform of social security in 2003 has mainly continued the reforms of Cardoso from 1998, but concentrated on issues left out by then (such as restrictions on public functionaries and the introduction of compulsory contributions of retirees) (Draibe, 2007:276). Further *institutional reforms* and the unification of the *federal cash transfer programmes* (Bolsa Família) were however steps towards more inclusive, socially-oriented policies. Regarding the first term of Lula governance, we claim that it was rather dominated by the focus on economic issues, and (also due to more favourable international circumstances) economic indicators started to improve from 2004.

Economic successes went hand in hand with social results: this is called *redistributive* or inclusive *growth*. GDP per capita growth rates were higher in the poorer quantiles of the population, than in the richer groups. Unemployment rates declined, formal employment and average earnings increased. Income inequality (also its spatial dimension) and poverty declined. Partly these results can be explained by friendly international context, however there seems to emerge agreement also on positive effects of public policies.

Beginning with 2007 the re-elected Lula was already in the position to be able to concentrate more on social development issues. This together with the adoption of emergency anticyclical policies in the face of the crisis of 2008 has led to a so called internal market alternative to circumvent bottlenecks of growth and employment (Boschi, 2011:37). Brazil was not drastically affected by the crisis, and also recovery was much quicker than in other countries. This is mostly explained by successful economic policies of social incorporation and domestic market expansion prior the crisis and anti-cyclical measures after it.

During the second term Lula continued to prioritize *monetary stabilization* as the first step of development agenda. *Domestic demand* was largely stimulated by government's measures, such as *expansion of social programmes*, credit incentive policies, labour market policies, growing government expenditures (new public investment plan – Growth Acceleration Programme). However an



*ideational shift* in the development discourse has also taken place in Brazil. Boschi (2011:37) calls it the “*revival of state developmentalism*”, although re-defined and re-adopted to new times. It can also be regarded as the move towards a *social developmental state*. The application of *new development paradigm* in public policies can be observed, such as the emphasis on capability-enhancing measures incorporated in constitutional amendments (additional funding for educational purposes, making education compulsory for 4 to 17 year-olds; expanding the reach of the social security system, etc.).

Three elements of the new social developmental agenda can be highlighted (Kerstenetzky, 2014:182-183): the social-economic interaction in the development trajectory; the agenda for the state, such as interaction between the government and civil society and between government and political system; and as third element environmental and agrarian dimensions of development.

The first pillar of the new agenda contained not only the already mentioned consolidation of *federal cash-transfer programmes* to the poor (Programa Bolsa Família – PBF), but also doubling its coverage and increasing its benefits. With a low share of total benefit of the Brazil’s GDP (slightly more than 0.4 per cent) and also constituting to a small proportion of households incomes (slightly less than 0.7 per cent) (Soares, 2012:7) the effect of the programme in reducing income inequality and extreme poverty is widely accepted. This type of social programmes (though some certainly justifiable critics<sup>6</sup>) are in line with the Senian approach.

*Labour market interventions* are another element of Lula’s new social agenda: the minimum wage revaluation policy (that led to steady increase in real minimum wages with the aim to restore its purchasing power) and incentives for formalization of employment (such as tax simplifications, closer monitoring of existing employment) led to more formal jobs and higher earnings.

The introduction of the *infrastructure plan* called *Growth Acceleration Programme* (PAC) investment programme has also some innovative elements: public-private partnerships (encouraged by tax relief and access to credit); involvement of social infrastructure (such as low-cost housing, sanitation, urban transport, etc.); decentralized management.

Looking at the agenda for the state two aspects are here to be highlighted: first, steps towards the *re-professionalization of the public sector* and *reforming the revenue collection* in order to restore government capacities; and second, the *improvements in participation in decision-making and democratic deliberation*. Although basic elements of these latter were laid down in the New Constitution of 1988, and first

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<sup>6</sup> Besides being insufficient to lift recipients out of poverty, and still excluding a lot eligible poor people, most critic imply that it could lead to the increase of patronage and induce a certain dependence on government handouts. For more details see e.g. Lindert et al. (2007) or Hall (2008).



initiatives started under the era of Cardoso, practices of participation improved under the Lula administration and responsiveness of public policies has risen. Still there is place for critics: questions of capacity building connected with decentralization and subsidiarity and in more general terms deviations of legal principles and their implementation practices are mostly highlighted (see e.g. Zimmermann, 2014).

It is out of our scope to examine in detail *environmental and agrarian dimensions* of Lula's policies. In the context of the new development paradigm it is inevitable to make a note also on this topic: it is without any question, that responsibility of the government for issues such as deforestation has been raised, some other policies, such as the implementation of the PAC might have contradictory effects. The same prevails for agrarian issues, were the reform process hardly moves ahead, and land concentration remains an urging issue in Brazil.

All in all, Lula's governance (especially his second term) is mostly cited as a significant step *towards a more inclusive model of development*, and the *revival of a re-considered developmental state*. Though its successes, some traditional shortcomings prevail in Lula's developmental state, as "never-ending stories" of political (Schneider, 2011:129) and state reform (Peixoto, 2011:33).

Boschi (2011:37) argues, that reforms under the Lula administration took place in a way, that lines of continuity dating back to the previous developmentalist model (such as before the era of market-oriented reforms) were kept. He highlights the preservation of a strategic bureaucratic nuclei and patterns of business relations, and regards these as constituting comparative institutional advantages in the era of post neoliberal globalization. In contrast to the emphasis placed on "path dependency", recent debates have stressed the importance of corrections of previous trajectories. Boschi (2011:40) highlights the expansion of *social frontier* as the trademark of the new Brazilian Developmental State and its contribution to the Brazilian productive regime that is a combination of inward expansion and outward-oriented global competition.

## **6. Brazilian Developmental State on the spot.**

Lula ended his second term of governance in 2010, with an unprecedented level of popularity<sup>7</sup>, and was able to choose Dilma Rousseff to replace him. After taking office in January 2011 Rousseff demonstrated to continue the path paved by Lula, but with an even stronger commitment to the *social developmentalist* approach. Soon after inauguration she pledged to end

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<sup>7</sup> Not without any reason: the economy grew by 7.5% in 2010, its strongest performance in a quarter-century. Additionally Brazil was awarded both next year's football World Cup and the summer 2016 Olympics Games.





extreme poverty and set priorities in fields of education, health, gender equality and political reform. The Plan *Brazil Without Extreme Poverty* (Plano Brasil Sem Miséria) of 2011 aimed to lift 16 million Brazilians out of extreme poverty by 2014. With a set of elements called *productive inclusion*, it aimed to promote the access of the poor to vocational training courses, labour intermediation services and microcredit (WB, 2013). However Rousseff also moved towards more *interventionism*, measures introduced mainly on ad hoc basis, *discretionary type* interventions in the economy prevailed (particularly in the energy sector). She aimed to upgrade Brazil's logistics infrastructure (seen as major bottleneck to economic development) through private-sector concessions, but several adjustments had to be made before adequate returns were offered to investors, and this led to delays in many projects.

Though it is too early to evaluate policies of the Rousseff government, less favourable international context (the prolongation of the 2008 international crisis) and internal policy choices have led to definitively less growth since 2011 and forecasts are not substantially better (WDI, 2014). Economic growth in the first two quarters of 2014 showed negative digits, which is called technical recession, and this has put Brazil onto the fore in the international media. This is often explained (mainly by the government side) by temporary factors, like extra public holidays during the football world cup in June 2014, and political instability prior the election in October 2014 (Economist, 2014). Without doubt external factors also play a role: weaker economic outlook for China, and Argentina's recession. Economists however tend to agree that the Brazilian economy struggles in recovering economic growth mainly due to the deeper causes: weaknesses in macroeconomic policy framework; fiscal laxity and excessive rely on expansion of domestic demand; discretionary interventionist policies (e.g. artificial repression of petrol prices and energy tariffs to dampen inflation, special taxes on certain industries); failure to address chronic problems such as deficiencies of infrastructure; underperforming state administration; rigid labour market regulations and last but not least the complex and "burdensome" tax system. Due to all these factors business confidence is at lows last seen in 2008-9 crisis (EIU, 2014). This, hand in hand with social protests (as of in in June 2013 and during the football world cup) signal the failure of Rousseff administration to keep Brazil on the development path paved by Lula, and time will show, whether she gets a second chance to do this.

## 7. Whither Brazil?

We have analysed different cycles of applied development models in the last 80 years in Brazil. While describing the evolutionary path of the Brazilian Developmental State, we showed its



cyclicality but also argued in line with Boschi (2011) for the continuity of developmentalist institutional settings. Under the shadow of social exclusion and extreme income concentration tracing back to the ISI model (and prior), the New Constitution of 1988 paved the way towards the affirmation of wide-ranging social rights, and on the groundwork made possible by market-oriented reforms in 1990s, a step by step a shift towards a socially more sensible, re-considered developmental state can be observed.

Besides the prioritization of poverty reduction and social inclusion, the new Brazilian development model is characterized by domestic market expansion on the basis of sound macroeconomic policies (as inherited and maintained from the Cardoso era), which went hand in hand with strong orientation towards regional integration and diversification of export portfolio towards foreign markets. Under Lula this economic strategy seemed to be successful even in the wake of the 2008-9 crisis.

Recent trends however show the fragility of achieved results and highlight some limitations of the Brazilian model, or at least some “traditional” shortcomings which came to light under the Rousseff administration (as discussed in the previous section). Here we highlight two of these: the need for macroeconomic adjustment and improving the quality of human capital by closing the gap between educational attainment and performance.

Finally, in line with recent economic theories, the Brazilian case, especially contrasting the Lula and Rousseff administrations shows that politics can make a difference. Or with Draibe (2007:268) words: “historical opportunities may be lost, over omissions or bad choices”. The case of Brazil at the present is extremely exciting as the window of opportunity is still open.

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