Economic Growth Program and World Economic Roundtable

Brazil's Alternative to Austerity: Increased Employment and Reduced Inequality

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From 2004 to 2010, the Brazilian Economy grew at an annual average rate of 4.4%. This result was double the average growth of the 1981-1993 period, although it did not reach the exceptional average of 7.5% registered between 1947 and 1980. Growth slowed in the aftermath of the global financial crisis, despite the 30 year record high growth achieved in 2010. After decades of stop-and-go growth, the recent period has been exceptional for the marked improvements in employment and the reduction of income inequality. The current unemployment rate averaged an exceptional 6% in 2011 and inequality as measured by the Gini Index has been reduced in each of the years from 2004 to 2011, falling by a total of 10%. This exceptional performance has made possible the long-awaited emergence of Brazil as a significant player in international economic affairs.

The main characteristic of the recent period is the steady return of the role of the state in the design and implementation of longer-term measures to support economic development. The impact was particularly evident in President Lula's second term when GDP growth accelerated, the number of households below the poverty line decreased and millions of new consumers joined the middle class as the result of stable employment conditions and the development of a large scale expansion of domestic consumption. This new development model integrated growth and employment into an approach to macroeconomic stability, defined as control of inflation, lower public sector indebtedness, and lower external vulnerability. The initial measures introduced in the government's first term were focused on demand, including increasing incomes and incentives for family consumption that were complemented in the second term by supply-side measures to support investment and increase productivity. This recent success notwithstanding, in the first 18 months of President Dilma's administration the model has failed to maintain previous performance, and appears to be less appropriate to the new international economic conditions.

This paper presents an overview of the economic policies that led to the exceptional results of the Lula administration, highlighting the main elements of this "new development model." It also presents an evaluation of the use of the economic policy instruments that had an impact on growth, price stability and income redistribution. It concludes with an assessment of the current situation as well as the main challenges ahead, especially those concerning international competitiveness, public finances and investment in fixed capital and innovation. In order to make the presentation simpler, focus will be on the measures undertaken by the federal government.

Brazilian Economic Development: The Shorter-Term View

In Brazil, as in many other developing countries, the financial turmoil at the close of the last century carried over into the new millennium. The Lula administration began with a promise of change and strong popular support, but in an economic environment characterized by market mistrust of the economic policy of the new administration.

Macroeconomic uncertainty at the beginning of 2003 was primarily due to the impact of the currency depreciation of the previous year on the inflation and public finances of the country. During the 2002 presidential campaign Brazil was hit by a strong speculative movement that reduced external capital inflows. Country risk went from 963 basis points in December 2001 to 1,460 basis points in December 2002; over the same period the Real/Dollar (R$/US$) exchange rate went from 2.32 to 3.53 while the net inflow of foreign capital decreased from US$ 27 billion (2001) to US$ 8 billion (2002). The situation was aggravated by the impact of the previous Cardoso administration in raising the overall tax burden in response to the 1999 exchange rate crisis in the presence of largely irreducible government expenditures.

During the campaign, Lula was induced to sign a promise to the IMF to continue to implement the main macroeconomic policies of the Cardoso government. Thus instead of the anticipated change in economic policy, interest rates were increased, the target primary government surplus was raised (and achieved), and investors were assured that the country would not default on its debt. Financial markets responded quickly and enthusiastically. Capital flows returned, producing an appreciation of the currency, inflation decelerated and, after a short recession in 2003, the economy started to expand in 2004, propelled by a strong improvement in the terms of trade that brought an improvement in the balance of payments. It seemed that the time was ripe for the full force emergence of the long-awaited "structural adjustment" of the Brazilian economy, "opening up much more promising possibilities for the steering of the economic policy."[1]

However, the anticipated structural adjustment was not to take place and a new round of monetary tightening started in 2004 due to inflationary fears had adverse effects on growth. Another fiscal adjustment in 2004-05 did not reverse the negative impact on growth or employment and income. As the liberal adjustment policies continued to lead to results which clashed with the campaign promises there were renewed pleas for even stronger social policies. Campaign promises to improve economic conditions increasingly came into conflict with conservative projections of potential economic growth.

Starting Demand-Led Growth

Nevertheless some fundamental changes were introduced at the beginning of the first Lula administration to support household consumption expenditures that generated the improved growth performance that persists until the present. The main factors of this support included: 1) increases in workers' income; 2) increases of social "transfers" and assistance (welfare and other social policies); 3) favorable evolution in the price of consumption goods and 4) an expansion of consumer credit.

Starting in 2003 there was a sustained increase in average incomes and total payrolls. Initially the increase in total payrolls occurred as a result of increasing employment, and subsequently increasing wages pushed the increased to an annual average of 5.7%. Even in the contraction of 2009 total payrolls increased. More importantly, this expansion in income was concentrated in poorest households. The major share of the improvement in income inequality came through the higher real minimum wage, which had its greatest impact on less qualified workers and on the incomes of pensioners and retired people. In nominal terms the minimum wage tripled from 2002 to 2012, and went from 119.6 in 2002 to 194.2 in 2010 as measured by an index in real terms.

In addition, transfers and welfare expenditures as a proportion of GDP increased markedly, while current expenditures and government employment remained relatively constant. Income transfers went from 6.8% of GDP in 2002 to 8.6% in 2011. This growth is equivalent to the increase in primary expenditures of the federal government up to 2011 even in the presence of the decline in government payroll as a percentage of GDP. The main income transfer measures such as the increase in the minimum wage and the increase in social security benefit of 1% of GDP until 2007 (decreasing thereafter[2]) had a positive impact. The main social assistance program, Bolsa Família, went from 1% of GDP in 2003 to 0.4% of GDP in 2009, and has maintained this level.

Consumption was also supported by a marked decline in the prices of mass consumption goods, particularly electronics. This was the result of both the decline in international prices (due to increasing imports from Asia) and an appreciation of the exchange rate. Cheaper food and manufactured goods prices were supported by the positive performance of the exchange rate and contributed favorably to the improvement in income distribution and expansion in the mass consumption market.[3] Agricultural productivity gains also were transferred to prices, and for most of the period 2002 the increase in food prices was equivalent to the change in the general price index.[4]

Finally, a rapid expansion of consumer credit started in 2004. In nominal terms it grew by over 600 per cent between 2003 to 2011. As a share of GDP it jumped from 5.9 to 15.7% over the same period. After 2009 there has also been and acceleration of housing credit to low income families, tripling as a percentage of the GDP from 2003 to 2011 (from 1.5 to 4.5%). Extension of credit to households was due to the low level of indebtedness of the lowest income families at the beginning of the period, coupled with increases in incomes for these families, and also due to innovative mechanisms such as the payroll-linked loans and extension of repayments terms. With minimal variation, individual default rates have remained stable from 2003 to 2011.

A New "Developmentalism"?

After the first three years of Lula administration Brazil underwent what Peter Hall called a "second order" change[5] in economic policy: the instruments of policy as well as their settings were altered in response to past experience even though the overall goals of policy – monetary stability, primary surpluses and external sustainability – remained almost the same.[6] The hierarchy of economic policy goals that gave priority to fiscal consolidation were subverted through a wide range of institutional innovations which introduced an alternative approach to economic development.

As the needs for stronger fiscal and monetary adjustment receded in 2004-05, a so-called "developmentalist" view emerged, combining three main instruments. First, temporary fiscal and monetary measures were permitted to stimulate and accelerate growth and raise the productive potential of the economy, starting a virtuous cycle of growth in which the increased demand triggered higher profits and productivity, leading to higher investments. Second, expanded income transfers and substantial increases in minimum wages helped combat extreme poverty while they support higher aggregate demand and real wages. Finally, increasing public investment – especially in energy and transportation – were coupled with a renewed emphasis on long-range planning by the state.

These changes in economic policy were seen in the recovery in growth from 2006 onwards: average growth rates increased from 3.2% a year in 2003-2005 to 5.1% in 2006-2008. Inflation remained under control and real interest rates, though still high, decreased markedly. The gradual improvement of the currency and the resumption of large capital inflows lead to a series of fundamental decisions. First in importance was the decision to repay in full all outstanding IMF program loans (US$ 23.3 billion) which also eliminated IMF policy conditionality. Second, a decision was taken to exploit the improvement in external conditions to expand international reserves. The ratio of short-term external debt to foreign exchange reserves, which had reached more than 90% on the eve of the 1999 exchange-rate crisis, fell to about 20% by 2008.[7]

A new approach to economic policy was thus started in 2006, under new management in the Ministry of Finance,[8] through substantial increases of the minimum wage, higher public investments and restructuring of civil wages and career paths. These changes accelerated after Lula's reelection. In January 2007 the government launched the Growth Acceleration Program (PAC). After three decades the government resumed support for private capital formation while simultaneously increasing public investments in infrastructure. In its first version a total of R$ 504 billion (roughly US$ 250 billion) of investments was envisaged for the 2007-10 period; this number was later revised, expanded and upgraded. Tax exemptions to help private investments were an integral part of the PAC as well as of a new industrial policy, the Productive Development Policy (PDP).[9] PAC was met with skepticism by the media, fearful of the (largely imaginary) potential growth constraints. Bureaucratic, legal and logistic problems aside, the program was a success, leading to a constant increase in public investments: fixed capital gross formation reached 19% of GDP in 2008, despite the impact of the financial crisis.

The accumulation of higher international reserves was another policy change introduced in this period that paid off later on during the crisis, reaching US$ 207 billion at the end of 2008, from US$ 55 billion in 2005.

Over the period 2006-08 the labor market conditions also improved considerably in terms of total wages and average incomes. In this period 4.3 million jobs were created, an impressive result taking into account the loss of 600,000 jobs due to the crisis in the last quarter of 2008. Growth in credit markets was also impressive: total credit doubled between December 2005 and December 2008. Capital markets boomed, with primary issues totaling R$ 400 billion. Mandated lending by the publicly owned financial institutions retained its relative share of about 30% of total, with special attention being given to housing credit (mainly through the Caixa Econômica Federal) and the National Development Bank (BNDES) disbursements. The higher growth reduced the commercial surplus (from US$ 44.7 billion in 2005 to US$ 24.8 in 2008) even while exports expanded, as well as external remittances. Foreign direct investment went from US$ 43.4 billion in 2003-05 to US$ 98.5 billion in 2006-08. Inflation remained below the inflation target until the middle of 2007, and never surpassed the upper bound.

Testing the New Model: Overcoming the Financial Crisis

Even though these are exceptional results, they are even more impressive given the performance of the economy during the international financial crisis. At the start of the crisis the government was able to respond with an unprecedented package of monetary and fiscal anti-cyclical actions in order to prevent financial contagion and to restore the positive growth trajectory extremely rapidly.[10]

In this regard it is important to recognize that the actions and programs adopted before the crisis were of fundamental importance in sustaining demand and employment during the crisis. The main structural initiatives were: the greater scope of the social protection net, the higher minimum wage, public investment expansion, the aforementioned tax exemptions of PAC and PDP and the civil service restructuring. The government also introduced temporary actions during the crisis, expanding liquidity in foreign and domestic currencies, utilizing international reserves, reducing banks mandatory reserves and stimulating loans to the private sector. A special credit line of 3% of GDP was made available from the Treasury to the National Development Bank (BNDES) which offered special short-term credit lines to the private sector, mainly to finance working capital. Other public banking institutions (Banco do Brasil, Caixa Econômica Federal) also received incentives to help fund those liquidity-constrained sectors mostly in need such as agriculture, housing, production and commercialization of durable goods. Although there was a delay in reducing basic interest rates after the crisis due to persistent inflation fears, they have been substantially reduced from the beginning of 2009.

An active government fiscal policy response thus compensated the delays in introducing supporting monetary measures (see below). After a technical recession, GDP growth resumed around the middle of 2009, although the final result for the year was negative. There was no negative impact on labor markets. Along Keynesian lines, keeping consumers' expectations high through investment support ultimately allowed growth to resume. The crisis was surmounted with no discernible impact on the overall economic sentiment. In the last year of Lula's tenure the economy was again buoyant at 7.5% growth, a result not seen since 1986, and employment was rising and inequality decreasing.

Summing Up

After 2004, economic performance continually improved. From 2004 until 2010 the Brazilian economy grew, in real terms, at 4.4% a year, despite the crisis of 2009. This is twice the average growth from 1981 to 1993 (2%). The last time such growth was observed was in the seventies, before the never-ending "structural adjustments" began. Even more importantly, the personal income concentration index fell each year in this later period, as measured by the Gini Index, totaling 10% for the whole period.[11] Such an exceptional result in fighting inequality had never occurred, and has few precedents. Public policies – minimum wage increases and social expenditures – were responsible for more about two thirds of this result.[12] Over the same period the number of very poor people reduced by half, according to some estimates.[13]

Growth resumed with inflation, foreign accounts and public indebtedness under control: inflation, measured by the IPCA, was on average 5.3% a year (4.9% if measured by IPC-FIPE), remaining within the bounds of the inflation target since 2004; public sector net indebtedness went from 50.6% of GDP in 2004 to 40.2% in 2010; and the average current account deficit in the

2004-2010 period was 0.5% of GDP. The new cycle of world growth helped remove the "external constraint" on growth, even with a liberalized capital account (heritage of the neoliberal paradigm) and an overvalued exchange rate.

These results were achieved with a large social-safety net in place, including a universal health scheme, the "Bolsa Familia" Program, growth of formal jobs, and higher education disbursements. Problems remain, however. Brazil still has a comparatively high tax burden, insufficient domestic savings, high levels of imports and insufficient technology innovation. On the positive side are the reduced risks of financial instability compared to the rest of the world and rising public investment.

Let us now focus on the developments in the main macroeconomic areas.

Exchange Rate Policy and the External Sector

There has been a tendency to devaluation of the exchange rate from 1999 to 2003, followed by a tendency for a steady appreciation up to 2011, interrupted only by the financial crisis of 2008. The effective exchange rate, which had reached unprecedented levels in the second semester of 2002, decreased quickly during 2003. The exchange rate followed a favorable path for external competitiveness up to 2005. In the wake of an extraordinary situation in international markets, export values doubled between 2002 and 2005. Over the same period, imports increased by 50%, constrained by the exchange rate but also by the application of special taxation (PIS-COFINS). As a result, there was an improvement in the current account balance. After 2005, as a result of higher interest rates, the exchange rate appreciation became sustained, with unfavorable effects for the competitiveness of the economy, especially in the area of manufacturing industrial exports.

External financial flows gradually recovered over the period 2003-05 and the current account balance also provided for increasing international reserves which allowed the previously discussed repayment of the debt with the IMF.

Over the next three years, 2006-08, exchange rate appreciation and expansion of activity levels led to the progressive reduction of the current account balance: after a maximum of US$ 46.5 billion in 2006, it reached US$ 24.8 in 2008. Simultaneously, while interest payments to the rest of the world declined, profit remittances increased at a very fast pace (almost five times from 2004 to 2008). The decline in the current account balance was offset by foreign direct investment, which increased by four hundred percent over the same period. This period was also marked by the formidable expansion of foreign reserves, which grew fourfold to reach US$ 206 billion at the end of 2008. Although this policy had a financing cost (given the difference on the interest rates for the investment of the reserves compared to the costs of domestic debt sales required to sterilize them), it contributed to a smoothing of appreciation pressures and reduced external vulnerability when the crisis broke out, providing justification for the policy. The massive exit of capital – US$ 27 billion in the last quarter of 2008 alone – along with the depreciation of the exchange rate while international liquidity disappeared plus the losses of exporters were all met by the government through liquidity expansion funded with the foreign currency reserves. The Central Bank used part of its international reserves to sell dollars in the spot market and supply short-term credit to exporters, while swap operations were used to cope with the depreciation pressures.

After the crisis the exchange rate again started to appreciate. In order to gain greater control over this process the government introduced a tax on foreign borrowing (Financial Transaction Tax – IOF) from September 2009 onwards.[14] According to the

Ministry of Finance this measure has reduced the volatility of the exchange rate. Reserve accumulation reached US$ 370 billion by middle 2012.

Monetary Policy and Inflation

The transition from the Cardoso administration occurred in a turbulent macroeconomic climate. Inflation was 12.5% in 2012, and was accelerating. The new administration introduced strong macroeconomic adjustment measures: the inflation target was raised, in order to accommodate the impact of the depreciation of the Real. The Central Bank also raised the basic interest rate (SELIC) to 26.5%. The ensuing recession in the first half of 2003, coupled with the reversal of the currency depreciation slowed inflation, and allowed the Central Bank to cut the policy rate (SELIC) to 16.5% at year's end. With lower inflation and interest rates investment and consumption grew, and the priority given to monetary stability led to another round of tightening in September 2004 until May when the SELIC reached 19.75%. The inflation continued to decline – 9.3% in 2003, 7.6% in 2004 and 5.7% in 2005. But the monetary tightening had its price: GDP growth went from 5.7% in 2004 to 3.2% in 2005. This period was also marked by the accelerated expansion of credit to individuals (as mentioned above) and firms, in the latter case helped by a new bankruptcy law.

The evolution of credit markets has been impressive since then. In nominal terms, non-directed credit[15] went from R$ 256 billion in 2003, to almost R$ 500 billion in 2006, and has continued to grow.[16] Directed credit retained its relative position until 2007 when it started to expand as public banks responded to the crisis (from 11.7% of GDP in 2008 to 15.6% in 2010 to 18.2% in June 2012). Loans by the National Development Bank (BNDES) expanded, with disbursements of R$ 90.8 billion in 2008 reaching R$ 168,4 billion in 2010 and R$ 140 billion in 2011. Housing credit tripled from 2006 to 2011 (from 1.5 to 4.5% of GDP), and rural credit also expanded (from R$ 53.5 billion in 2005-06 to R$ 76 billion in 2008-09 to R$ 107.2 in 2011-12).

Inflation continued to decrease in 2006 (at 3.14% the lowest recorded in this century), but for the next five years its average was above 5.4%, although it did not surpass the midpoint of the inflation target until mid-2007. Since then, external shocks in non-tradable food supply combined with of strong economic activity and rising commodities and oil prices kept inflation accelerating until the financial crisis. The fall in economic activity as a consequence of the crisis reduced inflation once again, but with the recovery of activity it again increased to reach the upper bound of the inflation target in 2011.

The Central Bank started a gradual reduction in interest rates in 2005, reaching 11.25% in September 2007 when the rate was kept constant for some months, signaling a more flexible administration of monetary policy compared to the first years of Lula administration. Nevertheless, as inflationary pressures mounted, the SELIC was raised again from April 2008, until it reached 13.75% a few days before the Lehman debacle.

The international crisis did not bring immediate reduction in the SELIC, as the Central Bank opted instead for increasing liquidity in foreign or domestic currency. The reduction of compulsory deposits for banks injected the equivalent of 3.3.% o GDP in the banking market, helping to block the effects of the crisis on the Brazilian interbank market. In the event it was the public banks that provided the main response to the crisis through the large credit line provided to BNDES and the special lines to the other public banks to help sustain working capital. The public banks also reduced their spreads while simultaneously increasing credit offerings. The impact of these measures was an expansion of public banks' credit by a third between September 2008 and July 2009, while private domestic banking expanded by only 4%, and foreign banks barely at all (1%).

The main instrument of monetary policy was only reduced at the beginning of 2009, until it reached 8.75% in mid-2009. Inflationary fears lead to another round of increases, this time to a maximum of 12.5% in July 2011. After August 2011 a new round of reductions was put into place, reversing the previous policy to new low levels in September 2012 (7.5%).

Fiscal Policy

At the beginning of Lula's first term the government increased the primary surplus of the public sector from 3.75% to 4.25% of GDP, a measure that reduced primary expenditures of the Federal Government, especially investment, which fell from 1.1% in 2002 – an already small percentage – to a dismal 0.3% in 2003. Almost simultaneously the government increased the brackets of two special taxes: on financial institutions (COFINS – from 3 to 4 %), and service enterprises (CSLL). Measures were also taken to limit the impact of civil servants benefits on the Federal Government Budget.

In the next two years (2004-05) accelerating growth and the above mentioned reforms increased revenues, improved the primary surplus and diminished the size of public debt as a percentage of GDP. Those increased revenues were also used to increase social transfers targeted to lower income families. The decline in the Debt/GDP continued only to be interrupted by the 2008 crisis.

Of fundamental importance were the successive increases on the minimum wage, that not only contributed to generate demand but also increased social security benefits paid by the government, increasing the available income to a significant number of families, and contributing further to enhance demand. Also the integration of government actions to combat poverty in an encompassing Bolsa Familia Program streamlined the poverty policies: by the end of 2005 the 8.7 million families were in the program, at a cost of 0.3% of GDP.[17]

From 2006 on, three main initiatives were the focus of the fiscal policy: increases in the minimum wage (25% over the years 2006-08); an overarching restructuring of civil servants' conditions and remuneration; and the progressive increase of investment, especially after the start of the Accelerating Growth Program – PAC – in early 2007. The investment by the national oil company, Petrobras, was also a main source of growth.
In 2007, with the elimination the tax on financial transactions, the government increased the brackets of the Financial Operations Tax (IOF) and of a Social Contribution Tax (CSLL). With its finances adjusted, the central government primary surplus fell from an average of 2.5% in 2003-05 to 2.3% in 2006-08. Economic growth amplified revenues and financed most of the expansion. Higher growth and lower interest payments reduced public sector indebtedness as a percentage of GDP. Public sector net debt fell from 53% of GDP in 2003 to 37% in 2008.

These results meant that the federal government had space to undertake anti-cyclical policies while simultaneously maintaining the social policies that were the pillars of the development model. At the start of the Lehman crises, for example, the government decided to keep unchanged the expenditures on social security programmed for 2009. As a result of this decision, transfers, which had increased from 7.2% of GDP in 2003 to 8.2% in 2008, reached 9.0% of GDP in 2009, helping maintain families' consumption during the worst period of the crisis. Also unchanged were the increases in the minimum wage – a 12% nominal increase for 2009 – as well as the investment programs[18] and tax exemptions introduced in PAC and industrial policy.[19] Temporary fiscal exemptions were put into place from the end of 2008 in order to stimulate sales and consumption, and over the following months sectors such as durable goods, housing material, capital goods, transportation and food benefited.

The overall cost of about 0.3% of GDP was low compared to the boost it gave to consumer's sentiment. The federal government also helped states and municipalities,[20] and raised the period and value of unemployment insurance. Further adjustments in the primary balance supported higher investments in the Oil & Gas sector, already booming due to the discovery of vast oil reserves undersea (the so-called Pre-Salt Basin).[21] The income tax brackets were also enlarged a measure that represented an injection of 0.2% of GDP in the available income of families.

Structural actions were also undertaken, mainly through a change in the income tax brackets, a new housing program ("Minha Casa, Minha Vida" with a goal of one million new houses and public subsidies of 1.2% of GDP) and, finally, the reduction of the basic interest rate. As expected, there was a small and transient deterioration of fiscal indicators that were quickly reversed once the economy recovered in 2010.

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Notes

[1] Abreu & Werneck, 2008: 453

[2] It is currently 7% of GDP.

[3] Although the effects on industry were far from favorable.

[4] Increased resources from the government to sustain minimum prices and credit expansion were also responsible for this result.

[5] Hall, 1993. First order changes involve modification of instruments settings; second order involves changes in instruments and their settings; finally, third order involves simultaneous changes in policy instruments settings, the instruments themselves and the hierarchy of goals behind policy.

[6] Almost in the sense that the inflation target and the primary surplus and were made more realistic, while external sustainability benefit greatly from the external situation and the payment of external obligations, notably to the IMF.

[7] Serrano & Summa, 2011.

[8] Guido Mantega became Finance Minister in March 2006 and still holds this position.

[9] Industrial policy has gone through several different incarnations, first as the Productive Development Policy (PDP), then as the Productivity Development Policy, and lastly as the Plano Brasil Maior, under Dilma Roussef's presidency.

[10] Barbosa, 2010

[11] Prior to 2004, the reduction in inequality was accompanied by an actual decline in share of wages in total income – it appears that the reduction in inequality was coming at least as much form a fall in higher-wage incomes as from an increase in the wages of poorer workers. Average household incomes started to grow after 2005, not only due to the faster economic growth and greater formal employment, but also because of the policy of adjusting the real minimum wage faster, with wage share also starting to grow. (Serrano & Summa, 2011)

[12] (Hailu & Soares, 2010)

[13] (Osorio, Soares & Souza: 2011)

[14] The tax was used for some capital categories, such as investment in equities, fixed income and direct loans, depending on the term of the transaction

[15] That is, excluding earmarked resources for the National Development Bank, Rural Credit, and Housing.

[16] As a percentage of GDP it went from 15% of GDP in 2003, to 21% in 2006, and 29.6% in 2010. As of June 2012, it stands at 32.4%.

[17] By December 2011 there were 13.4 million families.

[18] Investment by the Federal Government and Petrobras continued to grow during the crisis, reaching 1.0 and 1.6% of GDP, respectively.

[19] Wage readjustments for public servants and hiring also were maintained during the crisis.

[20] These measures reached 0.2% of GDP, especially due to higher participation in collaborative projects with sub national participants.

[21] Reducing the target for 2009 from 3.3 to 2.5 % of GDP before taking into account public investment (equivalent to 2.8 to1.6% after taking into account) and excluding Petrobras from the calculations. For 2010 the target was kept at 3.3% before public investment, but reduced to 2.6% after it. This is another good example of a change in the settings of economic policy.

About the World Economic Roundtable

The World Economic Roundtable seeks to "remap" the world economy by exploring the changing patterns of global trade, investment, and employment following the Great Recession. The Roundtable brings together thought leaders from business, finance, public policy, and academia in regular meetings to discuss critical questions affecting the global economy. Its work includes bi-monthly Roundtables in New York and Washington, detailed white papers on world economy policy, and special events with DC policy-makers and Wall Street practitioners.

1899 L Street, NW
Suite 400
Washington, DC 20036
Phone 202 986 2700
Fax 202 986 3696

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