

The Brazilian Experience between 2003 and 2014: Developmentalism?

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Presentation prepared for the Special Plenary IIPPE-SEP-SEPLA in the

6th Annual Conference in Political Economy

IIPPE - University of Leeds, UK – 9/11 2015

The Concept of Developmentalism

- To discuss the meaning of the term “Neo-developmentalism” it is worth starting with the concept of Developmentalism itself.
- In my point of view, Fonseca(2014) offers the best definition we have of this term.
- He first investigated the origin and the evolution of the term between the authors and thinkers who were responsible for its diffusion in the years 1940-60
- However, considering that it is a historically determined term, he also investigated a dozen of concrete experiences happened in Latin America in the same period.
- Conjugating these both ways of research, he produced the following definition of developmentalism:

The Concept of Developmentalism

- “We can understand for Developmentalism the economic policy deliberately formulated or implemented by governments (national or subnational) for, through increased production and productivity under the leadership of the industrial sector, transforming society in order to achieve purposes desirable, notably to overcome its economic and social problems, within the institutional framework of the capitalist system.”

The Concept of Developmentalism

- Therefore, to have developmentalism we need to have simultaneously at least three elements:
 - ✓ 1) a strong intervention of government, which takes principally the form of
 - ✓ 2) a strong industrial policy and which should follow
 - ✓ 3) a national project
- The Brazilian experience with Developmentalism was very strong, having transformed our country from a limited economy, which basically produced agricultural and primary goods, into a complex and complete industrial economy.

The Appearing of the Concept of Neo-Developmentalism

- The international crisis of the 1970's and the crisis of external debt which followed it has imposed difficult times in the 1980's (high inflation, reduced growth) and opened the space for the political victory of the (neo)liberal ideas in the 1990's, under the auspices of the Washington Consensus.
- Therefore, from the beginning of the 1990's until the middle of the 2000's the economic policy followed the rules of the so-called macroeconomic consensus with tight fiscal and monetary policies, huge real interest rates and appreciated exchange rates.

The Appearing of the Concept of Neo-Developmentalism

- In the two last years of the first term of Lula, things changed a little, particularly because of a big program of public investments in infrastructure sectors (PAC) and a strong program in popular housing construction (“My House, my Life” Program).
- From this moment onwards, we began to hear the term Neo-Developmentalism to refer to this change in the economic policy. The prefix "Neo" was introduced because of the consciousness of the analysts concerning the fact that Developmentalism is a historically determined concept.

Two Concepts of Neo-Developmentalism

- In parallel with the continuity of Lula's government (his second term begun in 2007) and particularly because of the international crisis of 2007/2008 and the discussion about the necessity of government intervention to reduce its consequences for the Brazilian economy, the term Neo-Developmentalism gained two new prefixes to refer to two different sets of economic policy:
 - New-Developmentalism; and
 - Social-Developmentalism

Two Concepts of Neo-Developmentalism

	New-Developmentalism	Social-Developmentalism
Orientation	More pro-Market (some confidence in the virtues of the Market)	Less pro-Market (less confidence in the virtues of the Market)
The dynamic element of aggregate demand	External market and private investments	Domestic market reinforced by the distributional policies and public investments
Role of the State	Strong role in managing the fundamental prices of economy to stimulate the local industry (exchange rate, interest rate, wages)	Strong role in making distributional policies and in the improvement of public policies and public services
Monetary policy	Slight monetary policy and reduced interest rate	Slight monetary policy and reduced interest rate
Fiscal policy	Tight fiscal policy (rigid control of public expenditure)	Responsible fiscal policy but possibility of less rigid control in benefit of anti-cyclical policies
Exchange rate policy	Devaluated exchange rate	Devaluated exchange rate but possibility of maintenance of a exchange rate not so much devaluated to preserve the real wages
Employment and wage policies	Priority to the improvement of the jobs with increasing in the productivity of the work and possibility of reduction of real wages if necessary to not prejudice industry	Policies looking for the full employment and the maintenance and increasing in real wages, particularly the minimum wage

Neo-Developmentalism?

- Considering the elements that need to be present to exist developmentalism no one of these two groups of policies could be called developmentalist.
- In the new developmentalism, despite the strong emphasis in the industrial sector, there is so much confidence in market and in private sector (weak governmental intervention, reduced public investments) and it lacks a national project.
- In the social developmentalism, despite the strong emphasis in governmental intervention, there is little preoccupation with industry and it lacks a national project.

Developmentalism inside a Financial Regulation of the Economy ?

- Anyway, in my point of view, it is difficult to call “new developmentalist” or social developmentalist the group of policies implemented in Brasil from 2005 onwards.
- Since the beginning of the 1990's, the country was been prepared to integrate the financialized global economy in a active and no more in a passive way. Until that moment, it had been victimized by the financialization, suffering the consequences of the brutal elevation of the international interest rates which generated the huge debt crisis of the 1980's.
- Accepting the parameters of the Washington Consensus and adopting the neoliberal policies, particularly those concerning to the complete financial openness of the economy and the concession of tax benefits to financial gains and combining this with the higher real interest rates in the world it put itself as a platform of international financial valorization and became an “Emergent Financial Power”.

Developmentalism inside a Financial Regulation of the Economy ?

- This situation generated a new form of Dependency which now is concerned to the absorption of great amounts of external savings and no more to the price relations, as it happened in the times of the deterioration of the terms of trade.
- The policies adopted by PT (Workers' Party) in federal government didn't changed anything in this institutional environment, which was sketched to benefit financial sector and activities and to put them in the effective command of the economy (constituting a finance led regime of accumulation). In the beginning of the first term of Lula (2003) they were even deepened.
- To try developmentalist essays in this institutional environment seems to be a contradiction in terms. How to do this with the pair "huge real interest rate/appreciated exchange rate" and with higher primary results in public accounts which practically were present all the time between 2003 and 2014?

Developmentalism inside a Financial Regulation of the Economy ?

- Between 2005 and the international financial crisis of 2008, the country has benefited from the extreme elevation of the prices of the commodities it exports, especially iron.
- Therefore, despite the enormous real interest rate, the huge appreciation of the currency and the continuous efforts to obtain positive primary results in public accounts (necessary to maintain the attraction of the financial external capital), the external demand plus the modest public investments (which began to be made in 2006) could guarantee some years of a little economic growth.
- With the economic growth, the state revenues also grew, allowing the accommodation of the rising demand for public services and for the improvement of the compensatory income programs (especially the Family Allowance Program), beside the continuity of the rising in the real minimum wage.

Developmentalism inside a Financial Regulation of the Economy ?

- With the international crisis and the weakness of the external demand, Lula's government made the bet in the domestic market, particularly in domestic consumption, to work as the dynamic element of the economy, element which would be capable to overcome the consequences of the international crisis for the Brazilian economy.
- The president went to TV and ask people do not stop to consume (and also the entrepreneurs do not stop to invest, but the emphasis was in the first element).
- The continuity of the rising in consumption, became possible because of the continuity of the expansion of the credit policy, which was bringing to the bank and credit markets wide portions of the population, particularly those from the lower income strata.

Developmentalism inside a Financial Regulation of the Economy ?

- In parallel, immediately after the crisis, the government adopted a selective subsidies policy to benefit industries with high multipliers, such as electric home appliances industry and the automotive industry.
- With the same goal - to prevent reduction in sales and induce investments – the government, a little later, added to this policy another one, also selective, which reduced labor charges.
- In Dilma's first term, this later policy was extended to practically all sectors. Furthermore, she also reduced the interest rate to its lowest level in the last two decades, put some control to the capital flows and amplified a little bit the exigencies of national content in some industrial sectors.
- It is because of this group of initiatives that the first term of Dilma is been called for some authors as a neo-developmental essay.

Developmentalism inside a Financial Regulation of the Economy ?

- But things did not go as expected. To do all this with the obligation to maintain the public expenditure under a rigid control, public investments were reduced. Private investments, for their part, did not appear, despite the numerous incentives. The international crisis deepened and the prices of the commodities fell down.
- With weakened investments and weakened external demand and with restricted public expenditure, it left for consumption the difficult role to leverage the Brazilian economy as a whole. But consumption was based in credit, more than in wage growth and the indebtedness of households was near its limit.
- To make Consumption instead of Investment the autonomous and dynamic element of the aggregated demand and, even worse, to base the Consumption in credit is to try to make the macroeconomics wheel works on the contrary.

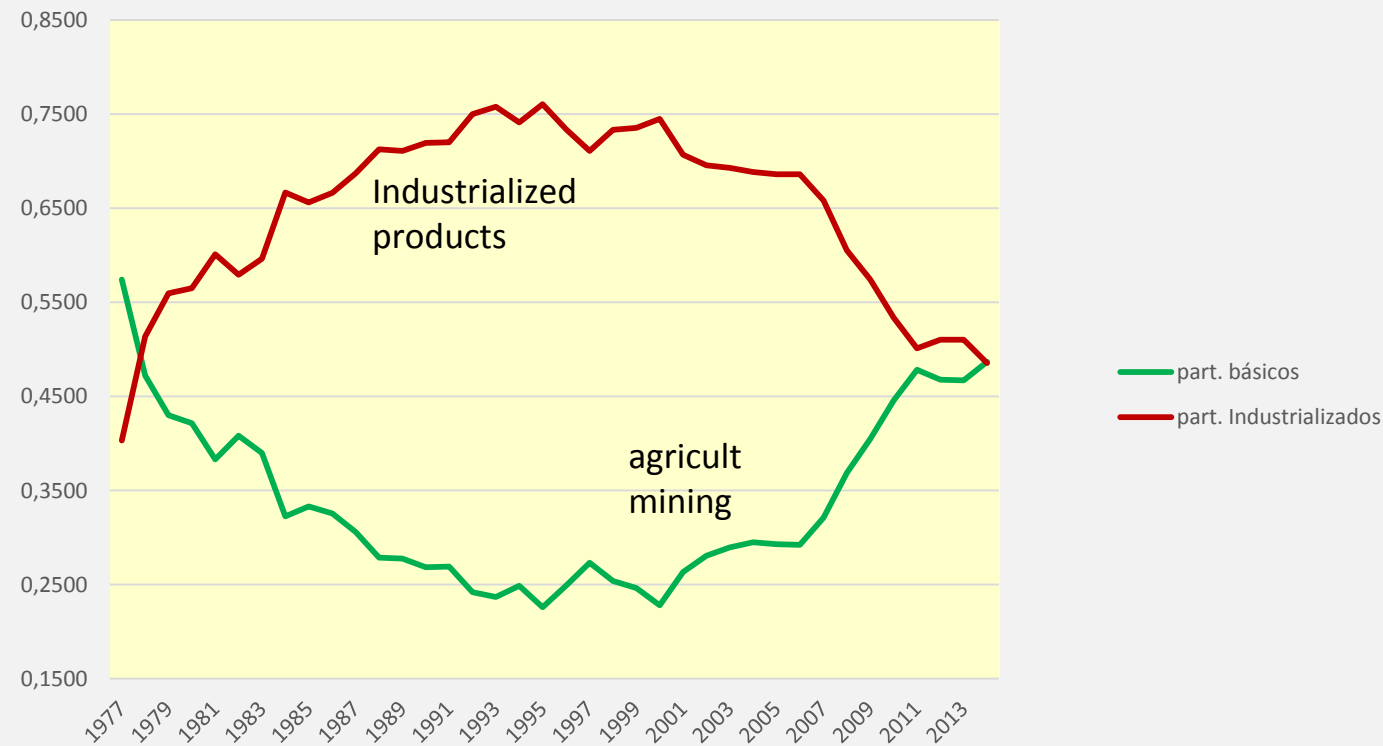
Developmentalism inside a Financial Regulation of the Economy ?

- Nevertheless it was this abstruse arrangement that left in the attempt to do, not a neo-developmental essay, but I would say, only an heterodox essay, amid a capitalist institutionality completely sketched for finance.
- Now, before the end of the story, I will show you only two slides with some data about the consequences of financialization process in Brazilian economy.

Neo-Developmentalism? Some Data

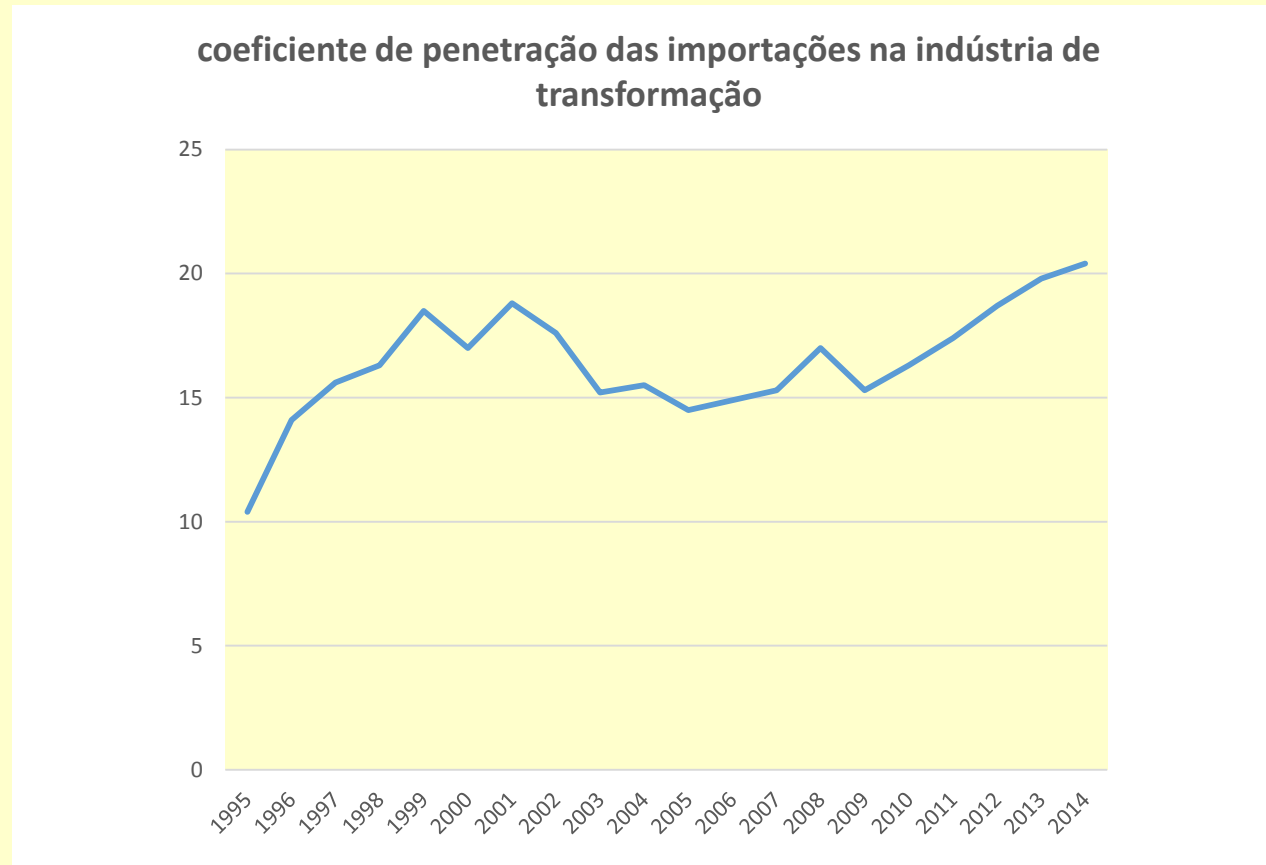
De-industrialization - Reprimarization

Brazilian Exports by sector (%) - 1977/2014



Neo-Developmentalism? Some Data

De-industrialization – Imports Substitution on the Contrary



The End of the Story: the dream is over

- Consumption was not capable to leverage the economy as whole. The growth of GDP was poor between 2011 and 2013 (annual average rate of 2,1%) and null in 2014.
- Dilma's government trying to do an anti-cyclical policy in an electoral year loosened a little bit the controls over the public expenditure and produced, for the first time since 2002, a negative primary result in the public accounts (very little, but negative – 0,6% of GDP).
- This was enough for the strengthen of the forces that sought a change in the economic policy. The conservative interests, the electoral opposition, the orthodox economists (academics and not academics) and the media joined forces to produce a very strong campaign of economic terrorism.

The End of the Story: the dream is over

- With this economic terrorism they intended to induce the victorious candidate to adopt an austerity policy and to put an end in the so called “new macroeconomic matrix”.
- As it is well known, Dilma Rousseff won the presidential elections, but even so the economic terrorism was very successful. She is doing now the economic policy of the opposition.
- Because of the contradiction I tried to pointed out here, the situation of the Brazilian economy was not good in 2014, but it is now worse.

To conclude

- This sad story remembers me a tale written by a friend of mine who is one of the most important intellectuals of Brazil and who is said to be the new Adorno, Prof. Roberto Schwarz. He wrote this tale when he is young, in the beginning of the 1970's.
- In a fictitious country, with a revolution knocking the doors, the elite talked about a proposal of an accord that had been made by the workers' leader. The first nobleman said to the second nobleman: "what he is proposing is not little, because it does not change anything, but even so it is too much."
- For me Prof. Schwartz was premonitory: the PT governments did not intended to do the revolution, did not try to do a developmentalist policy, never had a national project, did not change anything in a strong manner, but even so they could not be accepted.

Thank you