Brazil and Development

Growth, Equity, and Sustainability into the 21st Century

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Brazil entered the twenty-first century with a stable economy and a tested democratic regime. Few Brazilians were satisfied, but most were inspired by their nation’s triumphs and prospects. The government of President Fernando Henrique Cardoso (FHC) had tamed inflation in the 1990s, but the state of the national currency was still subject to external shocks and continues to invite vigorous policy debate two decades later (Bresser Pereira 2011) (Carneiro and Rossi 2013) (Rossi 2014). Brazilians worry about their economy, the inflation rate and the real’s volatility. They continue to be segregated by a notorious legacy of income and racial inequalities coupled with flagrant corruption that undermines the rule of law. A growing chorus of the nation’s indigenous peoples (Toohey 2012) coupled with an internationalized environmental protection movement now openly protest and push toward sustainable development policies as Brazilian companies and government authorities consider and prepare for a transition to a low carbon development path (Hochstetler and Keck 2007) (La Rovere and Gesteira 2015). What unites Brazil is the future, but Brazilians are divided on how best to get there.

During the first decade of this century, Brazil was heralded around the world as a model emerging economy, yet its development remained firmly anchored to a national development vision tempered from the depths of the Great Depression of the early 1930s, shaped by the remnants of Import Substitution Industrialization (ISI) policies, reliant on public finance for private sector growth, and constrained by the agricultural and trade policies of the advanced industrial nations who often preached economic liberalism to Brazilian policymakers while protecting national producers from Brazilian exports. While Brazil had accomplished much since the transition to democracy in the 1980s, the nation was restless and eager for a transformative leap by the 2002 presidential elections.

Brazilians were increasingly ardent about rectifying the economic and social injustices and inequalities that squandered the lives of millions of Brazilians and split the country into disparate social classes and regions. Most were also curious and progressively committed to exploring a low-carbon, sustainable development path that paralleled the nation’s remarkable natural resources and could serve as the cornerstone of a new national pride (Langevin 2009). Fewer Brazilians believed that God was Brazilian, but swelling numbers of citizens swamped the
polls in 2002 to elect the “cara do Brasil,” Luis Inácio Lula da Silva, son of the impoverished Northeast and trade union leader of Brazil’s militant metalworkers union in São Bernardo do Campo, São Paulo.¹ Lula promised a bigger, more important and prosperous Brazil during his fourth campaign for the presidency while moderating his public policy proposals and expanding his political coalition to include prominent national industrial leaders. Lula spearheaded and personally articulated a “Brasilia Consensus,” as some named his political movement and policy framework (Casanova and Kassum 2014, 26-42). His government pursued a series of policies and programs that renewed the state’s pivotal role in economic development, subsidized national industry to produce and export more, formalized nearly all segments of the labor market, raised the minimum wage to reward workers and drive consumer demand, and institutionalized a national cash transfer program, the Bolsa Família program (BFP), to eliminate extreme poverty.

The Lula administration inherited a stable macroeconomic policy framework from his predecessor and rival, FHC, to serve as the foundation for a more ambitious “Brasil para Todos”² tagged government that advanced shared prosperity and magnified the nation’s global leadership role. Indeed, by 2009, the Brookings Institution asked the debatable question about Brazil in the title of a conference and subsequent publication, Economic Superpower? Understanding Brazil’s Changing Role in the Global Economy.³

Today, this title and the underlying question seem irrelevant. The 2008 global financial crisis dragged Brazil into recession the following year, but the national economy rebounded with a dazzling 7.5 percent growth rate in 2010. President Dilma Rousseff’s first year was a raving success and it appeared that Brazil could finally weather global economic storms, but this perception was short-lived as the country faltered in its search for a sustainable growth strategy in the face of falling global demand and lagging productive investment. Today, Brazil wrestles with inflation, low rates of productivity, increasing unemployment and economic stagnation as the political class and major Brazilian construction firms tend to their defense amidst the devastating corruption and malfeasance uncovered at Petrobras as a result of the Lava Jato (Car Wash) investigation into a far-reaching kickback scheme.⁴ Dilma was re-elected in 2014, but her government now disappoints most as she leads a weakened and increasingly fractured political coalition struggling to keep inflation under control, stop the recent tumble of the real, and rediscover the right policy mix for fiscal stability and economic expansion. Dilma’s

¹ See Lula’s official biography at the Instituto Lula, accessed at: http://www.institutolula.org/biografia.
² In English, “Brazil for all.”
administration must now focus on limiting state expenditures and public debt by scaling down, or even eliminating social protection policies and infrastructure projects in order to achieve much needed fiscal stability in the face of falling global demand and prices for Brazilian exports and dwindling government revenues. Brazil’s future is as uncertain as it was in 2000 while the debate broadens as to how best to restructure the national economy and the state to overcome the current bout of slow growth without surrendering any of the gains made in the first decade of the twenty first century.

Economic Growth

Throughout its history, Brazil has undergone periods of dynamic growth and economic development followed by economic and political crises that suspend the national campaign for “grandeza.” Since the conclusion of World War II, Baer identifies three distinct periods of growth and development framed by the evolution of the country’s Import Substitution Industrialization (ISI) policy framework (2014, 401). The first period, from 1950 to 1962, featured the establishment of a broad array of consumer and intermediate goods industries through substantial state subsidies, investment, protection from imports, and regulatory control. The second period, following the abrupt transition to military rule in 1964, is commonly referred to as the “Brazilian Miracle” with fast paced growth fueled by both investment and trade liberalization blended with ISI policies that deepened industrialization between the years of 1968 to 1973 and continued to propel the economy until the early 1980s.

From one phase to the next, national industry moved from lower valued added industries, including food and beverages and textiles, to the inclusion of more capital-intensive industries such as chemicals and machinery. Concurrently, Brazilians moved to the cities en masse and transformed the nation from a largely agricultural society to a densely urbanized nation with glaring inequalities and mounting demands upon the state for new and expanded public services. These conditions led to the formation of social movements (including Lula’s novo sindicalismo or the renewed labor unionism) and political organizations that successfully pushed for the end of military authoritarianism and advocated for the transition to democracy, culminating with the enactment of the 1988 Federal Constitution and the direct presidential election in 1989.

The last period of sustained economic expansion, following the so called “lost decade” of the 1980s, began with successive efforts to halt hyperinflation through heterodox policy combinations of trade liberalization, fiscal policies to slow government spending, increasing taxation and public debt, privatization of state owned enterprises (SOEs), and increasing experimentation with social protection policies to address extreme poverty. After the impeachment of President Fernando Collor de Mello in 1992, the administration of the former vice president, Itamar Franco, eventually ceded economic policymaking to his minister of finance, Fernando Henrique Cardoso (FHC), who led a team of economists to design and implement the Plano Real (Real Plan) beginning in 1994. The Real Plan’s mix of inflation-taming
policies were rolled out in a progressive sequence and appeared to be successful as then-
Minister Cardoso left government to campaign for the presidency in the second half of 1994. 
FHC was elected on the first round ballot in September of 1994 with a strong political mandate 
to swiftly implement a number of constitutional and structural reforms, including trade 
liberalization, deepening privatization of SOEs, the financial services sector reform, and the 
liberalization of oil and gas exploration and production, all of which contributed toward the 
success of the Real Plan. However, economic stability and structural reforms did not lead to 
higher levels of growth or private investment over the long term (private sector investment rose 
momentarily in conjunction with the privatization projects, but even these investments were 
often subsidized by the Banco Nacional do Desenvolvimento Econômico e Social (the Brazilian 
development bank, known as BNDES), although these policies did contribute to measurable 
reductions in income inequality.

Samuel argues that the Real Plan’s historic elimination of hyperinflation was largely dependent 
upon increasing tax collections and public debt, leading to more modest annual average growth 
rates of 2.2 percent from 1995 to 2003 (Baer 2014, 174). Diniz observes that, “At the beginning 
of 2000, however, a new turning point could be observed. The failure of neoliberal policies to 
fulfill the expectation of a return to growth was now widely recognized. The privatization, 
liberalization, and structural reforms of the 1990s had effectively dismantled the old order but 
failed to establish a new developmental path” (2011, 64)."

Throughout his two terms in office (1995-2002), Cardoso implemented a macroeconomic policy 
framework that stabilized the Brazilian economy, set a stronger foundation for future growth, 
and transformed the political landscape in ways that allowed for the election of Lula in 2002, the 
1990s and the subsequent political swing toward a more moderate Lula and his seasoned 
Workers Party were reflected in the symbolic, if not fundamental decision to place José Alencar 
of the Liberal Party and owner of one of Brazil’s largest textile firms, Coteminas, as the vice 
presidential candidate on the Workers Party led electoral coalition ticket. For Diniz, this strategy 
“signified the first step in the restructuring of the labor-capitalist pact” that aimed to renew the 
state’s economic leadership in order to accelerate growth coupled to income redistribution and 
social inclusion (Diniz 2011, 65).

The “Lula years” (2003-2010) were hallmarked by substantial growth, especially between 2004 
to 2008 with 4.8 percent annual average growth and a peak in 2010 at 7.5 percent, largely 
fueled by rapid expansion in agricultural and mineral exports, durable consumer goods 
manufacturing, construction, financial services and consumer credit, and commerce (Baer 2014, 
174). Economic growth was also accompanied by falling unemployment rates and income 
inequality, further boosting demand for wage goods and opening the door to a large expansion 
in consumer credit. This most recent period of economic growth and development stood on a 
sturdy macroeconomic foundation of inflation targeting (between 4.5-6.5% annual increases),
high real interest rates, and a flexible exchange rate policy that contributed toward both economic stability and an appreciating real throughout much of the first decade of the century.

During his first year as president, Lula and his economic policymaking team worked to assure the nation’s creditors, reducing the federal government’s debt by achieving a much higher primary budget surplus than expected (well above 4 percent of gross domestic product). By the end of 2004 his administration enjoyed both the international credibility and political capital to quickly expand the size of the state and renew its traditional developmentalist role through financing and managing a reformed “state capitalism” that positioned the state as both regulator and as a strategic investor, whether through direct control or minority stakes in a variety of enterprises across all sectors of the economy (Musacchio and Lazzarini 2014). This expanded role for the state was responsible for accelerating economic growth throughout the first decade of the century, but by 2015 it became increasingly evident that such a growth model placed too great a burden on public finances, too much reliance on taxation and public debt, and too little emphasis on increasing productive private investment.

There are important policy debates regarding the role of the state in capitalist economic development and the Lula government’s interest in and experience with “reinventing” state capitalism raises important questions that stem from the critical, but often blurred differences between a heavy handed state and one that, as Musacchio and Lazzarini describe, offers a “collection of ‘helping hands’ conducive to industrial and economic development (2014, 295).” However, it appears that Brazil was not ready to rely exclusively on the private sector as the motor of growth and development. As Baer reports, the national economy’s fixed capital formation as a percent of gross domestic product (GDP) held steady at 16.92 percent annually between 2004 to 2008, just a fraction above the average rate reached between 1995 to 2003 (2014, 175). Moreover, as several scholars have studied, the BNDES and public sector pension funds continue to play key roles in providing subsidized financing for large Brazilian firms in the face of shallow and developing national capital markets (Baer 2014, 180-181) (Monteiro 2014, 115-122) (Musacchio and Lazzarini 2014, 233-280) (Park 2012).

Without the Brazilian state as an investor it was unlikely that the Brazilian economy could have achieved the rates of growth or other recognized socioeconomic gains during the past decade. Public finance was essential to pushing economic growth, reducing unemployment, and raising real wages. Private sector investment was insufficient and further complicated by the conditions of high real interest rates and exchange rate appreciation. As Barbosa explains:

Here enters the issue of real interest rates, that is, high real interest rates bring exchange-rate appreciation, which inhibits private investment in the country’s tradable-goods sector, which in its turn is usually the sector with the higher productivity growth in the economy. High real interest rates also reduce the fiscal space for public investment, which harms mostly the country’s economic infrastructure. An increase in the tax-GDP ratio can solve the fiscal problem in the short-run, but taxes cannot grow faster than GDP forever. So in order to
accelerate growth in a sustainable way, it is necessary for Brazil to reduce its base real interest rate (2008, 213).

Barbosa raises a critical, but perplexing issue for understanding Brazilian economic growth and formulating macroeconomic policy as the state loses capacity to invest under conditions of slow growth. The problematic tradeoff between maintaining high interest rates to curb inflation (but that necessarily raise the public debt) and the consequent need to increase taxes to insure public investment for growth and debt service drives the national economy toward a dead end.

The Brasilia consensus’ growth strategy broke down in 2011 as global demand for Brazilian exports tanked in the aftermath of the global financial crisis and the limits of taxation for public investment hit the wall. This “quagmire,” as the Economist teased, calls for greater examination of several key economic development questions. First, which policies are needed to increase fixed capital formation and infrastructure investments without increasing taxation and debt beyond prudent limits? Second, how might Brazil’s investment, monetary, tax, and trade policies be reformed to further encourage foreign and national private investment and the deepening integration of national industry into global value chains to boost growth and productivity, spark further innovation, and raise government revenues? Third, would these policies be sufficient to spark a new period of equitable growth; or is Brazilian economic and social development, including income redistribution, dependent upon a strong state that regulates, invests, and even manages strategic elements of the national economy despite increasing economic globalization?

Many of these questions rest with Brazil’s very role in the global economy, including both the limits to and opportunities for national economic development. The most recent period of growth under the Lula administration was fueled by the “boom” in agricultural and mineral commodity exports coupled with the parallel “boom” in consumer credit that increased Brazilian workers’ purchasing power and peaked consumer demand for both national products and imports. Canuto, Cavallari, and Reis (2013) analyze Brazil’s external sector performance to conclude that while aggregate performance was noteworthy with goods and services export growth of 262 percent between 2000 and 2010, well above the global average, it lagged behind the other BRICS countries (a group that includes Brazil, the Russian Federation, India, China, and South Africa). Accordingly, “trade openness in Brazil, considering the level of per capita income, is among the lowest in the world.” (Canuto, Cavallar and Reis 2013, 3)

Canuto, Cavallari, and Reis are careful to remind that large economies like Brazil typically measure below average in trade openness and that the national currency’s appreciation throughout much of the first decade of the century served to undercut international competitiveness, but they also point to the “low and decreasing entry of firms in export markets...” and the “clear decline in the share of products with higher technological content” as worrisome trends (2013, 27). While Brazil cannot be expected to become a “trader” nation...
anytime soon, its rate of investment and growth may now depend on its effective integration into the global economy in general and more complex global value chains (GVCs) in particular. According to Welber Barral,

public policies aimed at integrating Brazilian companies in GVCs have to address several issues in a broad strategy: i) efficiency of logistics and customs; ii) tax simplification; iii) simplifying administrative procedures; iv) openness to international trade; v) secure business and investment environment; among other things. There must be political and social cohesion around an industry project for Brazil that is aligned with what is happening around the world. Encouraging companies to join existing GVCs can be a quicker and less costly road to achieve a higher level of competitiveness (2015).

Eventually Brazil must reconcile the economic roles of the state with a balanced national development strategy framed by fiscal and monetary stability, increasing investment—especially in physical and social infrastructure, and rising productivity, wages, and national consumer demand all managed in concert within an effort to scale up production for export and increase the value added functions and tasks of manufacturing GVCs in such sectors as aviation, biotechnology and electronics. Former US ambassador to Brazil, Thomas Shannon, recently remarked that Brazil confronts four principal challenges to its democratic development strategy in the context of expanding economic globalization, including the need to improve and expand productive infrastructure, overcome the “human resource bottleneck” through improvements in public education and workforce development, erect an effective and efficient regulatory regime that avoids simply piling up new laws on top of old ones, and the need to produce more energy (2015). The policy debate pivots on how best to overcome such challenges. The principal policy question is whether economic orthodoxy, including increased foreign direct investment and trade openness, is compatible with overcoming Brazil’s, “fundamental dilemma: the need to simultaneously maintain economic respectability within a globalized international financial system while attempting to remedy the country’s grave socioeconomic disparities.” (Baer 2014, 168)

Equity

Brazil’s development history unfolds through distinct socioeconomic disparities arising from class, gender, institutional, racial, and regional inequalities that separately and together thwart progress, drag down productivity and social welfare, and challenge elected policymakers at all levels of government. Under democracy, the nation is making measurable progress toward lessening these inequalities. FHC’s successful efforts, as both minister of finance and president, to bring economic stability to Brazil contributed toward eliminating extreme poverty and erecting a structural foundation for income redistribution. Neri reports that between 1992 and 2006 the percentage of Brazilians earning less than US$1 dollar per day fell by 60 percent, thereby reaching an important United Nations Millennium Development Goal (2009, 222). Despite low growth, Cardoso’s modest social welfare policies did reduce inequality and poverty.
in measurable terms, but fell short of rising expectations (Verengo 2007). Also, the Cardoso government coordinated efforts with state and municipal governments to achieve near universal access to public primary school. However, these developmental policies and their outcomes were surpassed by demographic reach and quantitative outcomes by Cardoso’s successor.

Lula's election in 2002 represents a political rupture with Brazil’s tarnished history of injustice and inequality. His multi-party, multi-class electoral coalition sought to reconcile and advance the goals of 1) retaining those policies responsible for economic stability since 1994 (and later the inflation targeting regime instituted after the 1999 devaluation), 2) accelerating economic growth, 3) implementing a set of income and transfer policies to redistribute wealth, and 4) promulgating an array of social development and inclusion policies and programs to prepare all Brazilians for productive and prosperous lives. Upon assuming office in 2003, the Lula government faced a grim situation stemming from the devastating devaluation of the real in 1999 and the speculative run on the currency during much of Lula’s campaign for office in the second half of 2002. This situation was aggravated by mounting short-term public debt that would delay, but not deter the new government’s push to eradicate poverty and redistribute income to workers. Despite his political willingness, if not personal vocation, to confront poverty and inequality, Lula elected to continue a disciplined administration of an orthodox macroeconomic policy program that was heralded by Wall Street, but failed to avert a shallow recession in his administration’s first year.

Fortunately, rising global demand for Brazilian exports, especially iron ore and agricultural commodities, ushered in a decisive period of economic expansion and development tied to the Lula government’s broad policy effort to redistribute income, finance much needed infrastructure projects, and increase social development expenditures that collectively boosted national aggregate demand to push average annual growth rates beyond four percent from 2004 to 2008. This growth allowed the Brazilian government to manage and lessen public debt through large primary budget surpluses devoted to debt interest and principal service while increasing expenditures on education, health, infrastructure projects, and social protection programs to lessen the economic and social disparities that divide the relatively developed south and southeast regions from the impoverished north and northeast regions.

The Lula government instituted a number of income and transfer policies that now serve as the foundation for lessening income inequality in Brazil. First and foremost, the administration acted to formalize many segments of the informal economy, especially those with large concentrations of young workers. This brought a much greater proportion of the workforce into the federally regulated labor market through stricter enforcement of the signed Carteira de Trabalho that serves as the formal, individual labor contract between workers and their

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employers of record wherein employers recognize and comply with federal employment law and carry out the stipulated payroll deductions for such benefits as unemployment insurance and social security. This effort to bring work under federal regulation was also coupled to real minimum wage increases that boosted the purchasing power of the working poor and young workers, especially in the less developed regions of the north and northeast. According to Krein and Santos (2012), the rise in the minimum wage combined with the formalization of marginalized labor market segments rapidly increased the earnings of the poorest Brazilian workers and retirees.

The Lula government also reformed the social security system to lessen inequality and greatly expanded the cash transfer programs with a focus on the Bolsa Familia program to alleviate and ultimately eliminate extreme poverty throughout the country. The BFP was established in 2003 by partially combining such preexisting programs as the school stipend, food stipend, and the gas assistance program while expanding the demographic and regional reach of this social development strategy. According to Neri, between 2004 and 2006 the BFP expanded from 6.5 million families to 11 million or approximately 25 percent of the Brazilian population (2009, 242). By 2012 some 14 million families received variable amounts of benefits through this program (Baer 2014, 157). The BFP was unconditional for the poorest families and conditioned on public school attendance and completion of vaccination protocols by the children of the balance of beneficiary families⁷ at a relative cost of 0.8 percent of GDP (Neri 2009, 242). The former Cardoso government’s success at providing universal primary public school access to all Brazilian children established a necessary condition for the BFP policy, but this cash transfer program was singularly responsible for the rapid elimination of extreme poverty in Brazil during the past decade.

Neri’s research indicates that the real rise in wage-based incomes explains half of the reduction of income inequality between 2001 and 2005 while the BFP is responsible for some 40 percent with the 2003 social security reform also contributing to the remaining reduction during this period (2009, 246). The social security reform, one of the first legislative victories for the Lula government, was formulated to rectify the income concentrating effects of Brazil’s contributory and non-contributory social security programs wherein the top decile of income earners received approximately 50 percent of the pension benefits in 2002 (Baer 2014, 159). The 2003 reform increased the minimum retirement age and means tested-contributions and benefits for public sector workers while limiting the benefits of widows and dependent children. The reform also set caps for both public and private sector beneficiaries. These reforms aimed at reducing public pension expenditures and the income inequalities generated by the system itself.

Together, these income and transfer policies rapidly lessened income inequality in Brazil during the first decade of the century. According to the Instituto de Pesquisa Econômica Aplicada (IPEA), “Brazilian income inequality has constantly fallen since 2001. Between 2001 and 2011, ⁷ Although it should be noted that Soares, et al. (2010) conclude that the conditions imposed upon beneficiaries of the BFP were not strictly enforced and did not have an observable impact on child vaccination rates.
the per capita income of the richest 10 percent grew by 16.6 percent cumulatively while the income of the poorest decile grew by a notable 91.2 percent during the period” (2012, 6). Moreover, the growth in per capita income for all Brazilians, especially the poorest, was also matched by regional redistributions. According to IPEA, income in the poor and much more rural northeast rose 72.8 percent in comparison to the 45.8 percent experienced in the more developed and richer southeast while incomes rose by 85.5 percent in Brazil’s poorest rural areas as compared with 40.5 percent in the largest cities and 57.5 percent in towns and medium sized municipalities (2012, 7).

Overall, the rapid and considerable increases in income among the poorest Brazilians also led to significant reductions in the Gini coefficient (or index), a measure of income inequality. From 2002 to 2008, this measure of inequality was significantly reduced, falling by an annual average of 1.5 percent from 2002 to 2008 (before the 2009 recession) and 1.9 percent between 2011 and 2012 (IPEA 2012, 10-11). These reductions lowered Brazil’s Gini coefficient from over 0.60 (one of the highest in the world and indicative of an income distribution whereby the top quintile earned over 60 percent of national income) to just under 0.53 by 2011 (IPEA 2012, 8). Nevertheless, these income and transfer polices did not squeeze out all the inequalities institutionalized by the Brazilian state’s vast maze of incomes, transfers, and tax policies that on balance continue to concentrate income.

The Lula administration’s efforts to redistribute income also paralleled the government’s affirmative actions to address the legacy of slavery and racism as well. Ferres Júnior, Toste Daflon and Campos (2012, 402) note that under the FHC government, Brazil adopted a human rights plan and later launched the Affirmative Action Plan in 2002. During that same year, candidate Lula’s presidential campaign developed and widely distributed a plan of action, “Brazil Without Racism,” to address racial discrimination as part of his plan for government.8 As president, Lula further institutionalized his anti-racism, social inclusion strategy through the establishment of the Secretariat for Policies that Promote Racial Equality (known as SEPIR) in 2003. Also, Lula signed into law a legal mandate (Public Law 10.639) requiring schools to include African history and Afro-Brazilian cultural studies in the curriculum (Feres Júnior, Toste Daflon and Campos 2012, 403). However, the real focus of the government’s affirmative action was directed at the post-secondary level where Afro-Brazilians and other racial and ethnic minorities were underrepresented in the nation’s highly subsidized federal university system. In 2004 the program ProUni was established to provide subsidies and cash grants to racial and ethnic minority students attending private colleges and universities. The Ministry of Education (MEC) reported that ProUni had provided full-time scholarships to 927,319 students and partial scholarships to another 740,619 by 2012 (Feres Júnior, Toste Daflon and Campos 2012, 404). In 2010, the Congress passed and Lula signed into law the Racial Equality Statute (Public Law 12.288) that recognizes Brazil’s multicultural society and identifies distinct social rights for Afro-

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Brazilians. Lastly, current president Dilma signed the more controversial “Quota Law” in 2012 that mandates increased proportions of under-represented racial and ethnic minority students in the federal universities. While it is too early to understand the full effect of the Quota Law, it does demonstrate the broadening of Brazil’s affirmative action policies in higher education and could play an instrumental, albeit gradual, role in lessening racism and achieving greater social equality in decades to come.

Unfortunately, many of the efforts to extend social inclusion in education are limited to higher education. According to Beatriz Cardoso (2015), “Despite the Brazilian government spending close to 5% of GDP on education, a ratio comparable to the average for OECD countries, most resources are allocated to post-secondary schools and universities. In 2005, 120% of per-capita GDP was spent on each higher education student, but only 10% was spent on each individual preschooler.” Brazilian educational spending has risen under democracy, but the disproportional spending on higher education concurrent with the rapid increase in public school enrollments have led to disappointing results in academic achievement at the primary and secondary levels. Cardoso claims that one in four public school students fall behind grade level, and asks, “If nearly 60% of third-graders cannot perform simple arithmetic and only 53% possess basic literacy skills, what can we expect to happen once they reach high school?” Despite evident advances in education, future development and successful social inclusion policies require greater academic achievement levels among those Brazilians who cannot take advantage of the well-funded Brazilian federal university system.

Since the turn of the century Brazil has doubled up on policies, programs and spending to address the pervasive inequalities that have beleaguered this nation and constrained its development. FHC initiated and Lula instituted a number of social development and inclusion policies founded upon a political consensus that understands economic growth and political stability as contingent upon income redistribution and extending educational and employment opportunities to all Brazilians. Social inclusion now stands as a central pillar of Brazilian democratic and economic development in the twenty first century, but the process of deepening equality may be slowed, even reversed by the economic slowdown during the second decade of the century.

Several policy questions remain to be answered: What are the relationships between the available macroeconomic policy options and the future success of the income and transfer policies that have been so successful in reducing poverty and redistributing income during the last decade? Can Brazil continue to pursue orthodox macroeconomic policies, including the preservation of comparatively high real interest rates, and still afford to make the public investments necessary for both productive innovation and social inclusion? What are the current and potential future obstacles to broadening and deepening the process of social inclusion? Can Brazil formulate a new generation of efficient social inclusion and protection policies that effectively ramp up educational achievement and workforce development required for Brazil’s integration into high added value GVCs and the global economy generally? Lastly, can
Brazil create more propitious conditions for economic expansion and achieve greater equality and social inclusion while also protecting its environment and moving the national economy to an increasingly sustainable, low carbon development path that mitigates carbon emissions while adapting to climate change?

**Sustainability**

Despite its hallmark natural resources and stunning beauty, Brazil’s development has ravaged the environment. Hochstetler and Keck (2007) and Baer (2014, 315-355) inventory the destruction and pollution, much of it as a consequence of the rapid industrialization and urbanization during the last half of the twentieth century. The global challenge of environmentally sustainable development is particularly important for Brazil due in equal measure to the damage already done as well as the promise of this nation’s global leadership on the issues of climate change and sustainability. Accordingly, Baer notes:

> This country’s steps in recent years to control some of the polluting excesses of industrialization and of its excesses in developing its virgin territories reflect the increasing domestic and world ecological consciousness, exemplified in the 1992 United Nations Conference on the Environment held in Rio de Janeiro as well as the UN Conference held 20 years later, appropriately called Rio+20 (2014, 315).

With an eye on the Amazon, as well as the environmental degradation surrounding most of Brazil’s sprawling cities, increasing numbers of Brazilians and their political representatives are paying attention to global climate change and are willing to incur the costs of responding to it (Langevin 2009). For La Rovere et al., “Brazil is in a privileged position to take a lead in low-carbon economic and social development due to its huge endowment of renewable energy resources” (2013:883). The World Bank also confirmed this positive outlook in its groundbreaking study on low carbon development in Brazil and concluded that,

> Brazil harbors large opportunities for GHG emissions mitigation and carbon uptake. This positions the country as one of the key players to tackle the challenge posed by global climate change… Yet implementing these proposed measures would require large volumes of investment and incentives, which may exceed a strictly national response and require international financial support. Moreover, for Brazil to harvest the full range of opportunities to mitigate GHG emissions, market mechanisms would not be sufficient. Public policies and planning would be pivotal, with management of land competition and forest protection at the center (2010, xxxii).

The challenge for Brazil is to continue and broaden existing efforts to lower carbon emissions (and other greenhouse gas emissions) and preserve the environment through such policies as the biofuel blend mandates and strict enforcement of the recently promulgated reform of the forestry code. Before the most recent economic stagnation set in Brazilians appeared prepared to extend such efforts with a comparatively high willingness to protect the environment even if...
such measures caused slower growth and loss of jobs (Langevin 2009, 17). Yet, the tide has turned on economic growth in recent years, placing additional pressures on government to ease environmental regulations in order to spur on investment and growth. According to La Rovere and Gesteira,

"the main risk here is the temptation to channel the recently discovered huge offshore oil and gas resources to expand its domestic use through a low pricing policy that would help to curb inflation down. So far, the announced governmental policy, confirmed by Congress goes in the opposite direction, aiming to export the bulk of the oil resources and channel the oil revenue to finance government investments in education and health. It is imperative for the feasibility of a low carbon future in Brazil to stick to this policy, avoiding the use of the newfound oil resources in such a way as to weaken the efforts to foster energy efficiency and renewable energy use (2015, 10)."

The discovery and exploration of the massive pre-salt, offshore oil and gas reserves call into question Brazil’s global leadership on climate change and sustainability as it leverages this natural resource to advance national development in the decades to come. As La Rovere and Gesteira (2015) and the World Bank (2010) detail, all sectors of the Brazilian economy must innovate and discover efficient methods for using energy and reducing greenhouse gas emissions while preserving the environment and carefully employing natural resources for sustainable growth strategies, such as the National Biodiesel Production and Use Program. Preserving the Amazon, employing low carbon, land use methods, and transforming the transport sector are essential challenges to place Brazil on a sustainable path (La Rovere et al. 2013) (Langevin 2011).

Towards this end, La Rovere and Gesteira offer a number of immediate policy and planning measures to deepen sustainability and a “decarbonization” process, including,

"reinforcing the initiatives aimed at curbing deforestation is one such measure to ensure that there would be no major deviations from a trajectory that leads to no illegal deforestation within a decade, at most. A similar priority should be granted to substantially expand the forest plantations in degraded land, providing the appropriate financial schemes to meet the upfront costs. Another effort required is to pass legislation so that the net effect of the system of taxes and subsidies on energy markets favor the widespread adoption of renewable energy and energy efficiency options. To this end, in the near-term it is essential to cut subsidies to gasoline and diesel, and redress the financial health of the electricity generation sector (2015, 10-11)."

These challenges raise perplexing development policy questions: Can Brazil afford to make the transition to a low carbon development path under conditions of stagnant growth and will Brazilians be willing to pay the upfront transitional costs? Will the Brazilian government, now and in the future, be able to overcome the political pressures to ease, or ignore environmental protection regulations and enforcement, especially in the Amazon and Cerrado regions, in order to contribute to growth and meet the demands of a largely urban society? How will Brazil
exploit its tremendous oil and gas resources while implementing sustainable development policies and projecting global leadership on the issue of climate change?

The Future of Brazilian Development

During the first decade of the twenty first century, Brazil has emerged as a significant global economic and political power and achieved notable economic and social development. Brazil continues to seek national development, but must also confront an ever-evolving set of local, national and global challenges and opportunities that complicate development policymaking and often bewilder policymakers.

Can Brazil continue to expand and diversify its economy while also implementing employment and social policies to redistribute income and wealth? Which policies are needed to further defend the Brazilian economy against such external shocks as the Global Financial Crisis and which policies are required to more effectively integrate Brazilian industry into high value-added segments of global production chains that lead to greater investment, innovation and opportunities for Brazilian firms and workers? Which are the most efficient policy models for deepening infrastructure investment and improving educational achievement in the decades to come? Can Brazil renew the Brasilia Consensus to overcome its developmental challenges in the coming decade within an environmentally sustainable and socially equitable framework? What can we learn from Brazil’s development experience that assists policymakers in Brasilia and around the world?

These questions fuel a broader scholarly and political debate about Brazil, its national development experiences, and its evolving role in the global political economy. This debate offers a valuable reflection for development policy scholars, one that extends well beyond the Brazilian experience. Yet for Brazilians, this essential debate will likely determine how they understand their policy options as well as the evident and imagined possibilities for national economic and social development for decades to come.

This paper is based on a symposium entitled, “Brazil and Development: Growth, Equity and Sustainability into the 21st Century,” hosted by the Brazil Initiative, housed in the Elliott School of International Affairs at the George Washington University. All four panels and the keynote address can be viewed here.
References


