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Prof.dr. Edmund Amann

Brazil and its Development Challenges: a Personal View



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Brazil and its Development Challenges: a Personal View

Inaugural lecture by

prof.dr. Edmund Amann

on the acceptance of his position as professor of

Brazilian Studies

at the Universiteit Leiden

on Monday November 20, 2017



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Introduction

Honoured Rector, Your Excellencies, distinguished guests, it is truly a pleasure to stand before you today, on the occasion of my Oratie as Professor of Brazilian Studies here at Leiden University. I do so at a time of considerable challenge and uncertainty in Brazil. My remarks will reflect that reality as well as the opportunities that continue to flow from a country that, as ever, is so replete in promise. Over the next 45 minutes I will offer my personal view of Brazil's progress and achievements, its discontents, frustrations and enduring potential. I will give an assessment of the structural issues which will need to be addressed if Brazil is to embark on a sustained path of inclusive growth. However, I will begin by attempting to conjure up in the minds of you, the audience, a sense of the scope, promise and even magic of Brazil. For it is these that hold out hope for the future and continue to explain why so many of us are drawn to study the country in the first place.

Brazil in the mind of the foreigner can resemble a mysterious, exotic and enticing realm and perhaps something of an enigma. For all the country is firmly anchored in the West and - thanks to the air travel - more accessible than ever, it remains surprisingly little known, visited or understood by outsiders from Europe or North America. Growing up in the United Kingdom and increasingly fascinated by the world beyond, I was assailed by images of the Middle East, the US, South and East Asia. However, media and cultural coverage of Latin America - and Brazil - was much thinner. To the extent that Brazil featured in general UK cultural awareness, it was through the optics of football, Carnaval, wildlife documentaries and the exploits of exiled South Londoner, Rio resident and sometime train robber, Ronnie Biggs. The paucity of international coverage afforded to Brazil remains a mystery. However, for myself and other Brazilianists, the very lack of attention has served as a pole of attraction. I suppose we must be hard wired contrarians!

Yet, for all its unjustified obscurity, Brazil matters and, it is fair to say, its global profile has at last begun to rise. Some simple facts underscore why this is the case. Firstly and most basically, Brazil is by far the largest country by land area and population in Latin America. Geographically and ecologically it is in a class of its own, playing host to the planet's most biodiverse habitats, largest river systems and richest supplies of key raw materials including soya, iron ore and, of course, coffee. Brazil's population, at just over 200 million is characterized by astonishing ethnic, cultural and linguistic diversity. Perhaps unsurprisingly, Brazil has become a leading center of cultural production whether in the fields of music, sport, cinema, literature or art. Following rapid urbanization in the 20th Century, Brazil plays host to two megacities, Rio de Janeiro and São Paulo as well as several urban centers whose populations exceed 2 million. Such urbanization sits side by side with vast tracts of land - millions of hectares - which, despite economic progress, have yet to see any significant habitation.

Arguably, the sense that Brazil really matters centers most on its economy. Despite a sharp recession from which it is only just emerging, Brazil's economic performance over the past quarter century represents a remarkable turnaround. During the 1970s and the crisis-ridden 1980s, Brazil endured repeated bouts of hyper-inflation. During the latter period - also known as the lost decade - inflation accelerated to three and four digits on an annual basis while growth stagnated.¹ These unwelcome developments accompanied the unfolding of the debt-adjustment crisis. This crisis was not unique to Brazil and indeed had been triggered by the Mexican debt default in 1983. In the Brazilian context the debt crisis brought with it a combination of high inflation, declining output and fiscal adjustment. This in turn triggered a rising tide of poverty and inequality. Brazil's transition from military to civilian rule in 1985 could not have occurred in less propitious economic circumstances.

Yet, despite this unpromising start and further failed stabilization efforts, by the mid 1990s policy makers had succeeded in taming inflation. In doing so they helped to sow the seeds of a more inclusive and sustainable growth strategy. The new macroeconomic framework - the Real Plan - involved the introduction of a new currency, the abolition of indexation and a measure of fiscal adjustment. In parallel with an increasingly open economy the Real Plan set Brazil on a new course as poverty and inequality began to decline. In the first decade of the new millennium the initial achievements of the Real Plan were built on by the administration of President Luiz Inácio Lula da Silva - universally known as Lula. Among other celebrated initiatives President da Silva introduced the *Bolsa Família*, a conditional cash transfer program.² This, together with booming commodities markets and expanding employment, ensured that Brazil's bull run of growth during the 2003-2012 period was genuinely pro-poor.

By the end of the last decade, Brazil's successful track record on inclusive growth had placed Brazil firmly on the map as an emerging market economy to watch. Thus it was that Brazil became the "B" of the BRIC economies, a grouping identified by then Goldman Sachs Chief Economist, Jim O'Neill. The Lula administration was not slow in capitalizing on Brazil's new found strength and sought to leverage it on the global stage. Through soft power projection initiatives such as development assistance in Africa and forays into international peacekeeping, Brazil at last appeared poised to play the global role so long warranted by its geographical extent, population size and economic heft. As Brazil stood on the brink of global stardom, *The Economist* on a front cover in 2009 famously depicted the Christ the Redeemer statue lifting off like a rocket.³

As we all know now, Brazil's moment in the sun was to prove short-lived. From 2012 onwards a series of interlocking crises began to afflict the country, the roots of which I will explore in more detail later. On the economic plane, a slump in

international commodities prices severely impacted output and demand, contributing to a sharp and prolonged recession. Brazil's post 1985 democratic settlement also appeared imperiled as a series of corruption scandals emerged. These - termed the Lava Jato or Car Wash scandals - have focused on public works contract kickbacks, the proceeds being employed to illicitly finance political parties. Although not directly implicated in the Car Wash scandal, allegations surrounding the misrepresentation of public sector accounts were sufficient to ensure the impeachment of President Dilma Rousseff in August 2016. Her centre right replacement, President Michel Temer, has subsequently attempted to enact a series of free market reforms reminiscent of the early 1990s. While there are signs of recovery - and inward foreign direct investment is at record levels - considerable uncertainty surrounds the near term future, in particular the outcome of the October 2018 Presidential election. It is far from clear, even this close in, what the range of candidates is likely to be.

As ever, Brazil continues to confound, fascinate, frustrate and charm in equal measure. It can resemble a sequence of piquant, unpredictable events racing past the observer like a sped up, oversaturated Technicolor film. Making sense of this reality is not for the faint hearted. As Tom Jobim said himself, "Brazil is not for beginners". Nevertheless, and perhaps foolhardily I will attempt to set out what I conceive to be some regularities or constant features associated with Brazil's long term development process. To begin doing this I would like to expand on Brazil's long term progress and achievements. I do this for two reasons. First of all I believe in the current crisis it is all too easy to overlook the enormous strides forward made over the post World War 2 period. A corrective to commonplace current negative perceptions is long overdue. Second, to the extent that anyone sets out to recommend changes to Brazil's development strategy, it is at least as important to reflect on what has worked as well as what has not.

Progress and achievements

The Brazil that we experience today is very much the product of an era which could be loosely termed “developmentalist”. This era dates back to the Vargas years of the early 1930s, through World War II and into the 1960s and 1970s. Curiously, while the country adopted a more neo liberal course in the 1980s and 1990s, much of the policy and institutional architecture of developmentalism was never really dismantled. Indeed, under the Lula and Rousseff administrations (2003-2016) it made something of a comeback.⁴ This was evidenced by the reinforcement of industrial policy and the sharpened focus on poverty alleviation. What, then, do we understand by developmentalism? What are its dimensions in concrete policy terms?

To gain real insight, for once a dictionary-style definition is not a lame starting point. In Portuguese, the word for development - *desenvolvimento* - connotes a process of breaking away from the past, from inherited circumstances. It conjures up a sense of rupture and the erasing of structural impediments retarding progress. Starting in earnest in the 1930s successive Brazilian administrations - both military and civilian - conceived policies that aimed to set Brazil on a new course. A colonial style ‘model’ based on primary product exports was rejected. This was because such a model had resulted in geographical and economic disarticulation. Instead, policymakers would focus on measures that promoted greater national integration and economic self-reliance.⁵ This, it was assumed, would insulate Brazil from the kinds of global shocks exemplified by the Wall St. Crash. Such measures would also facilitate the modernization of economic, social and political structures. In a sense, the developmentalist ideology has long roots. It can arguably be traced back to positivist thought in the 19th Century. Such sentiment was especially influential among the military whose political fortunes would wax after the War of the Triple Alliance.

What then were the policy measures associated with developmentalism? What have been their lasting legacies and achievements? Without doubt, the crowning accomplishment of developmentalism in Brazil has been the structural transformation of the country whether socially, in terms of economic composition, spatial distribution of population or institutional characteristics. Prior to the onset of developmentalism in the inter-war years - despite limited industrialization associated with the coffee boom⁶ - Brazil’s economic structure remained little changed from the colonial era. It was focused predominantly on primary production with a significant export focus. Brazil, despite some urban development along the coastline, remained a predominantly rural society. An urban industrial working class and middle class did exist but had yet to achieve real heft or political salience.

Yet over a period of less than half a century - between 1930 and 1975 - Brazil was to experience unprecedented change in all these dimensions. During these years Brazil rapidly industrialized.⁷ This process, in turn, resulted in waves of rural-urban migration. Accompanying this Brazil saw rapid social change with the growth in the organized industrial working class and the emergence of a new technocratic elite, alongside a massively expanded urban middle class. As Brazil became an increasingly metropolitan society, so its culture evolved. In the 1950s and 1960s bold new cityscapes formed a backdrop for the urbane melancholy of *Bossa Nova* and helped forge the fresh visions of a new generation of artists and filmmakers.

The centerpiece of all of this was the adoption of a new developmentalist policy, commonly termed import substitution industrialization or ISI for short. This policy involved the domestic production of previously imported industrial goods. It was facilitated through a combination of protectionist measures, close business-government relations,

the establishment of nationalized industries and directed or subsidized credit. Unlike in previous epochs the state assumed a central role in setting strategic priorities for the economy as well as for more general development objectives. So it was that the architecture of Brazilian state capitalism came to be defined. A particular emphasis was placed on infrastructure and the pursuit of national integration. This was a direct assault, in fact, on the spatial disarticulation engendered by colonial era modes of production. Hence this period saw the realization of iconic projects such as the Itaipú dam, the Trans Amazonian Highway and the Rio-Niteroi bridge.

6 Though it would prove unsustainable by the 1980s, in its prime, the developmentalist ISI strategy did deliver average levels of GDP growth well beyond those previously achieved. Significant improvements in living standards did result, at least for those able to find employment in the burgeoning formal and industrial sectors. Many, though, were left behind. This was especially so for those who had been displaced from the land and had failed to find stable employment in the expanding urban centres. Still, the accomplishments and eventual legacy of ISI comprised many genuine advances. I shall briefly reflect on just a few.

The first lasting positive achievement of the developmentalist epoch centered on the forging of a capable state bureaucracy. As in other newly industrializing countries (NICs) such as South Korea⁸, Brazil succeeded in refocusing and expanding the policy architecture of the state. This enabled it to accomplish complex and challenging tasks such as masterminding the foundation of basic industries such as steel, overseeing the rapid expansion of hydropower projects and the formation of a social insurance system for those in formal employment. The creation of such organizational competences and capabilities would have lasting results in the years ahead as the Brazilian state, successfully, took on major logistical challenges. These have included orchestrating the world's largest privatization program, successfully bidding

for - and running - FIFA 2014 and the Rio 2016 Olympics and, most notably, setting up the administratively complex *Bolsa Familia* Conditional Cash Transfer program. Perhaps less well recognized are the considerable achievements the Brazilian state has recorded in the public health domain. The successful battle against HIV-Aids through the then controversial distribution of generic medicines is a case in point. Anyone who still imagines that the Brazilian state lacks administrative finesse need only witness the slick operation which is the nation's electronic voting system. Not a missing ballot paper or hanging chad is in sight!

An especially notable - and lasting - achievement connected with the Brazilian developmentalist industrialization has been the creation of indigenous technological capabilities. My Brazilian colleague, Paulo Figueiredo and I identified deep learning effects engendered by the ISI regime and the technology policy architecture which emerged as part of it. In the more open market context that followed the crisis-hit 1980s these capabilities provided a springboard upon which Brazilian technologies proved their commercial success around the world. Thus, for example, Embraer - founded as a state-owned enterprise in the 1960s and privatized in 1993- achieved success by applying its technological and manufacturing capabilities to the fast-expanding regional jetliner market.⁹ For this reason, Brazil has become the largest manufacturer of civil jet transport aircraft outside Europe and North America. I do not doubt that many have you have flown on KLM's Embraer fleet out of Amsterdam. The astonishing success of Brazil's agricultural exports over the past two decades can also partly trace its roots to public investment in technological capability building, not least by one agency, EMBRAPA.

Another lasting legacy of the developmentalist era has less to do with shifting the basis of comparative advantage than with the creation of important state and civil society institutions. During the Vargas era and beyond - even during the period of military rule - the trade union movement developed

steadily. In so doing it helped to provide the rapidly expanding urban industrializing spaces with social form and organized representation. In the 1970s and 1980s, it was the trade union movement that provided the basis for the emergence of the PT, or Workers' Party, a new force in Brazilian politics. Other political parties gained form during this period of military rule. The centrist moderate opposition groupings that emerged at this time formed the precursors of the modern day mainstream PMDB and PSDB parties.

In many ways it is possible to trace the more ambitious global role envisaged by recent administrations to an earlier developmentalist era. The military in the 1960s and 1970s advocated a Grande Brasil (Great Brazil) policy. According to this, the nation's global profile would be raised through a combination of regional engagement and increasing cooperation with other countries in the Global South. In this sense more recent initiatives such as Lula's pivot to Africa¹⁰ or, indeed, the formation of Mercosul, have distinct antecedents.

So far, the emphasis has been upon some of the more constructive legacies of developmentalism. I would not want to suggest, however, that some of Brazil's more recent experiments with Washington Consensus-aligned policies have been without positive long term repercussions. The advent of a more neo-liberal policy orientation, the rise of the Washington consensus was the product of the unwinding of the debt adjustment crisis of the 1980s. From the late 1980s into the 1990s, the administrations of Sarney, Collor de Melo, Franco and Cardoso partially dismantled the structures of protectionism and state ownership which had formed the bulwarks of developmentalist ISI. This was achieved through a combination of trade liberalization, privatization and market de-regulation.

The promised gains in terms of productivity and efficiency resulting from these policies were only partially fulfilled; in fact average GDP growth through the 1990s and during the

first half of the 2000s was below that achieved during the first three decades after World War II, a period in which ISI held sway. Nonetheless, greater economic openness combined with effective macroeconomic policy - the Real Plan - provided the basis upon which hyperinflation was vanquished.¹¹ The effects of this were undoubtedly pro poor: the incidence of poverty declined sharply over the 1990s, well before the Bolsa Família cash transfer program was put in place. The opening up of Brazil's economy and a related surge in foreign investment did much to boost consumer choice, quality of service and technological upgrading. This was especially true in relation to telecommunications which, under state ownership, had become associated with long waiting times for telephone installation and poor technical quality.

As noted previously, despite the apparent rolling back of the state, the policy architecture and instruments of developmentalism never really went away. The state development bank (the BNDES), technology and industrial policy agencies such as FINEP and Embrapa, remained in place during the 1990s and early 2000s, the high water mark of the Washington Consensus period. Nor were all State Owned Enterprises privatized: for example, significant chunks of the electricity generation sector stayed in public hands. Petrobrás, the state owned oil company remained under majority public ownership despite a program of share sales. All of this meant that when the PT administrations of Presidents Lula and Rousseff took a more interventionist tack, much of the developmentalist institutional machinery was in working order. This explains why these governments were able to launch and operationalize ambitious programs such as the *Bolsa* so quickly. Less successful initiatives - especially those centering on a new industrial policy for the oil sector - were also swiftly implemented.

Summing up, it is important to recognize Brazil's genuine achievements and how these were shaped by aspects of developmentalist project and its neo liberal counterpart.

However deep the current crisis, it is essential to dispense with the notion that the past represents a terrible legacy or trap that has to be escaped from in all its aspects. In other words, one should treat the prospect of a clean break from the past with caution.

Still, especially given the magnitude of the current crisis, it is clearly obtuse to pretend that Brazil's development process has not involved significant disappointments, failures and frustrations. It is to these that I turn next.

Discontents and frustrations

From an economic perspective, the most obvious and persistent difficulty that Brazil has faced relates to growth volatility and the related proneness to periodic crisis and recession. It was earlier noted that Brazil enjoyed favorable *average* growth performance during the ISI period. However, this average concealed phases of rapid output acceleration – for example during the so-called miracle years of 1967-73 – with periods of marked retrenchment and recession. The 1980s marked a transitional phase between developmentalism and the more open Washington consensus period which was to follow. However, this was associated with a steep contraction in output, worsening poverty and income distribution.¹² The embarkation upon a more neo liberal path in the 1990s, though it did produce price stability, could not inoculate Brazil from crisis and GDP retrenchment: witness, for example the crisis of 1998-99. This required IMF intervention and the adoption of a broader exchange rate target band for the *Real*. As if Brazil's bias towards volatility needed greater demonstration we need only witness the events of the past 7-8 years. These have comprised a euphoric expansion in output in 2009-12 followed by a catastrophic recession, the worst Brazil has experienced since the days of the Wall St. Crash.¹³

The surprising thing, when reflecting on Brazil's post War economic history is that no matter the character of the policy

regime du jour – whether developmentalist, Washington consensus- aligned or, under the PT, neo-developmental – marked volatility has remained a constant. All economies, of course, are prone to cyclical fluctuations. However, in the case of Brazil, and certainly compared with its East Asian emerging market peers, volatility and crisis have been far more accentuated features. Not only this, but Brazil's average growth, whether in terms of GDP, productivity or living standards has significantly lagged that of broadly comparable economies such as South Korea and China over the past 40 years.¹⁴

Viewed over the longer term, part of the problem appears to be the difficulty in reconciling accelerated growth with price stability and external balance. This has resulted in what Brazilians have sometimes referred to as the *Vôo de Galinha* – or “flight of the chicken” in which an essentially flightless bird experiences momentary take off followed by a swift descent to earth. However, over the past 20 years, the achievement of price stability has diminished the role of inflation in bringing to an end periods of expansion. Instead, recessions in the contemporary era appear more likely to be triggered by external shocks – as in the case of a commodities slump – and/or adverse investor reactions to unfavorable domestic circumstances. The factors underpinning such economic vulnerability will be discussed in more detail in the next section of this lecture.

The failure to embark on a path of sustained, East Asian style growth has had adverse consequences for the evolution of living standards, poverty and income distribution. Of course, as argued earlier, we need to recognize the genuine progress that has been made in terms of poverty alleviation and the pursuit of greater equity over the past quarter century. Yet it remains the case that Brazil is still a highly unequal society. Its Gini coefficient at 0.54 is one of the highest in the world and entrenched rural poverty and urban marginalization on an enormous scale remain troubling daily realities. The sharpness of interpersonal inequality should not obscure the spatial

dimensions of poverty and inequality. Despite decades of regional policy, the North and North East remain significantly poorer than the relatively more urban, industrialized South and South East. Of course, one does not need to compare geographically well dispersed regions to witness yawning inequality. As anyone who has travelled through urban Brazil will know, spatial differences can be at their most acute at close quarters: witness the sharp divide between Rio's cosmopolitan Leblon and the nearby favela of Rocinha, for example.

The persistence of social division allied to the collateral effects of the global drugs trade - and the war against it - have fueled famously high levels of crime. Lack of personal security on the streets represents a constant reality for millions of Brazilians. In Rio and São Paulo conflict between organized gangs and the authorities has taken on a military character both in terms of the tactics and weapons deployed. A sense of wanton lawlessness is not only confined to the ranks of marginalized urban dwellers: as we have seen a culture of institutionalized corruption has pervaded big business and major political parties. With this fracturing of civilized existence has come a sense of despair and polarization, the like of which I thought I would never witness in such an agreeable country. Yet the cause is far from lost. Remedies are apparent once we begin to reflect on recurrent themes in Brazil's long term development process. It is to these that I turn next.

Recurrent themes in Brazil's development process

Brazil's development experience has been marked with triumphs, failures, periods of rapid progress and of retrenchment. Its erratic and uneven course stands in some contrast to the smoother trajectories accomplished by newly industrialized countries in emerging Asia. In one sense, Brazil's volatile flight path can be associated with a lack of consistency in policy regimes over the decades. As in the case of other Latin American countries such as Argentina and Chile, Brazil has enjoyed the dubious privilege of acting as a

laboratory for competing economic theories, even paradigms. Thus, for example, Brazil's immediate post war embrace of developmentalist structuralism witnessed a battle of ideas between those who wished to pursue a more self-reliant, autarchic path and those who wished to make greater use of the opportunities presented by expanding global markets. So it was, in the late 1960s that Brazil abruptly changed course, jettisoning traditional import substitution in favor of a South Korea like export-led growth model known as Post ISI.¹⁵ This regime was effectively abandoned in 1974 with the adoption of the Second National Development Plan. This marked a return to intensified traditional ISI. Import compression was once more seen as a solution to the development challenge facing Brazil, this time in a post OPEC I world.

The eruption of the 1980s debt crisis and the lost decade ushered in yet another volte face - this time involving the adoption of Washington Consensus, free market type policies. The 1980s saw one failed macroeconomic stabilization plan follow another as competing diagnoses of hyperinflation vied for supremacy. Between 1990 and 1994, Brazil embraced an unprecedented program of trade liberalization, only for protectionist structures to re-emerge as part of the neo-developmental wave of the Lula and Dilma years in the following two decades. Since the middle of 2016 the wind has veered violently once more with the administration of Michel Temer re-embarking on the trade and market liberalization drive commenced - but left incomplete - in the 1990s. Only the broad macroeconomic framework centered on the Real Plan has remained in place over the past two decades.¹⁶ It is perhaps significant that the control of inflation is one of the few areas where one can point to genuine sustained economic success. The Plan aside, abrupt changes in policy regime underpinned by ideological and epistemological conflict among economists and policymakers has provided a rocking, unsteady platform for long term investment. It is hardly surprising that it has been impossible to address fully all the structural impediments retarding economic progress.

The failure to achieve reasonable intertemporal policy consistency can be seen as the product of a frustrated search for political consensus. This concerns the very nature of the national development project and the relative balance of state versus market, external versus internal demand within it. It can be argued that the successful East Asian emerging market economies have been able to achieve a reasonable measure of popular assent to such broad principles.¹⁷ Admittedly, though the political cultures and mechanisms found in these countries differ greatly from the Brazilian reality. The case of one party rule in China and South Korean-style corporatism come instantly to mind here. In Brazil, the search for consensus has to contend with a fragmented party structure, strong regionalism, lively - though often fractious - democratic debate and powerful sectoral interest groups.¹⁸

10 Perhaps the most fundamental consequence of the unevenness and volatility of Brazil's economic policy regimes is the persistence of what structuralists would term dualism. Dualism, in a nutshell, refers to the idea that the process of development has only been partially accomplished whether in spatial, sectoral or even inter-personal terms.¹⁹ Thus, modern world leading sectors, such as aerospace can coexist in close proximity to undercapitalized and unskilled informal urban manufacturing enterprises whose workforces subsist on the margins of indigence. The urban landscapes spawned by dualism present a jarring contrast between the ultra-modern and the decrepit; they often make quite an impact on first time visitors to Brazil.

The incomplete nature of the development transition finds its analogue in Brazil's contemporary position within the global division of labor. The developmentalist experiment represented by import substitution did succeed in effecting real structural change in Brazil's economy. New industrial and services sectors were of course established. However, all too often the enterprises and activities involved were not globally competitive; nor were they be able to become so once

Brazil embarked on a path of trade reform and economic opening in the 1990s. One consequence of this was that Brazil has witnessed moderate deindustrialization following the implementation of the Real Plan.²⁰ Allied to a surge in commodities prices, the result has been a reversion to earlier, natural resource-based product, patterns of specialization. While commodities demand surged all seemed well. However, the post 2012 decline in commodity prices has impacted Brazil especially sharply given its increasing trade specialization in this area. One could draw an interesting comparison with the case of Mexico. Thanks to a more diversified export portfolio, the Mexican economy has weathered the past five years rather more favorably than Brazil. Brazil's failure to address excessive reliance on commodities exports represents a long term source of vulnerability. This renders its economy more liable to volatile swings.

Brazil's often frustrated attempts to broaden its productive base have, since the Vargas era at least, rested on close articulation between big business and the state. They have also involved, where deemed necessary, the creation of state owned enterprises and elaborate institutional support mechanisms for industry.²¹ The latter have been realized in a number of forms, whether the through the Ministry of Industry, External Commerce and Services, the BNDES development bank or other agencies such as FINEP. Elements of this model would seem superficially familiar to anyone conversant with the post war Japanese or South Korean experiences with export-led industrialization.

Without doubt, Brazil's statist industrialization drive has registered many achievements - the creation of steel, oil and aerospace industries from scratch, for example. However, as would have been wryly predicted by public choice school critics of industrial policy, the business government relationship has become polluted by rent seeking, clientalism and graft. The Lava Jato scandal has cast a powerful light on the less than arm's length relationship between the state and

several of Brazil's largest enterprises including JBS, Odebrecht and Andrade Gutierrez.

Were corruption merely oiling the wheels of a smoothly functioning machine it might be tempting to look the other way. However, when one reviews metrics such as productivity growth, export diversification, timely completion of infrastructure projects, a lack of business dynamism is apparent. This is perhaps best exemplified by the limited emergence of new enterprises to challenge old incumbents or define new business models. Where are the Brazilian Googles or Apples? One is forced to ask serious questions about whether state-driven Brazilian capitalism has the capacity to cope with, or adapt to, the challenges of the 21st century global marketplace. The balance of the evidence is not flattering. It suggests that, embedded in a comparatively protected market and with state support close at hand, large Brazilian businesses have been too reluctant to engage in processes such as technological upgrading, fixed and human capital investment and product development. To be fair, this shortcoming is perhaps understandable given the perpetual uncertainty surrounding industrial policy regimes and future market conditions.

Another recurrent issue in Brazil's development experience comprises the intertwined themes of education, social mobility and inequality. Without doubt, economic stabilization and targeted anti-poverty programs have had very positive impacts whether on the absolute incidence of poverty or on the distribution of income. However, Brazil remains one of the world's most unequal societies. In the wake of the recent recession, the numbers of those in poverty have risen. The persistence of poverty and inequality over time stems from complex structural issues. These will all require resolution if Brazil's development process is finally to be crowned with success. Perhaps the most significant issue surrounds access to high quality education, regardless of social, ethnic or regional background. While the *Bolsa Família* may have done much to

improve participation rates in basic education, the fact remains that education attainment levels remain poor by international standards.²² As long as this remains the case then a key obstacle to poverty alleviation remains in place. Fortunately there exists what amounts to a consensus that investment in better quality education for all is an essential pre-requisite for achieving critical development objectives. These would include boosting productivity, reducing social exclusion, improving earnings potential and breaking the inter-generational cycle of poverty. The thorny issue, of course, is how to make meaningful progress especially given the more constrained fiscal environment that currently exists.

Education may be critical but it is not the only factor retarding social progress. Access to good quality health care remains heavily dependent on income and place of residence. Access to employment is also impacted by economic and social background. Brazilian labor markets may have evolved over recent years²³ but they remain characterized by segmentation and exclusion based on social, gender, ethnic and other criteria. Another recurring feature of the Brazilian social landscape is the persistence of a strong spatial dimension to the phenomena of poverty and social underdevelopment. As noted previously, despite years of regional policy, the North and North East remain significantly disadvantaged compared to the affluent South and South East. Thus, a question for the future remains one so regularly posed in the past: how to ensure that growth and development are regionally inclusive?

Towards a brighter future

The current crisis notwithstanding, Brazil remains a country where it is hard to discard a sense of hope, even optimism. In part this sentiment derives from the country's pervasive vibrancy, its quirkiness, and a preternatural beauty that refuses to fade away. Snapping out of this misty eyed reverie, there are other, more concrete reasons to believe that the future is to be played for rather than feared. As a result of successful

past policy interventions, genuine economic achievements have been realized. New competitive strengths and capabilities have been developed. At the same time, real progress has been made in tackling ingrained poverty and inequality. These accomplishments provide a good base on which to build and further the course of inclusive and sustainable development. In doing so, Brazil will be able to benefit from a global economy that is in better shape than it was at the start of the crisis.

Moreover, the current crisis has demonstrated astonishing institutional resilience in the face of an unprecedented challenge to the post 1985 democratic settlement. Prosecutors have been assiduously and fearlessly rooting out corruption at the highest levels of politics and business. The task of clearing out the Augean stables has been long and arduous. There has been a high economic price to pay. Despite this, the public at large have backed the prosecution effort. They have proved themselves “mad as hell” and no longer willing to accept the old, corrupt order. This may presage the shift in social and political consciousness necessary to underpin vital reforms. The axes of a potential reform agenda will inevitably be shaped by the recurring structural challenges identified earlier. As should be evident, their rectification will be no easy matter. It will require resources, time and, above all, political commitment. Yet, if Brazil is to realize its undoubted potential, there really is no other choice.

Notes

- 1 Baer 2014.
- 2 Barrientos et. al 2016.
- 3 *The Economist*, November 14th, 2009.
- 4 Ioris 2014.
- 5 Thorp 1998.
- 6 Mattoon 1977.
- 7 Baer 2014.
- 8 See Amsden 1989.
- 9 Amann & Figueiredo 2012.
- 10 See IPEA 2011.
- 11 Amann & Baer 2003.
- 12 Baer 2014.
- 13 Amann & Barrientos 2016.
- 14 For a compelling study of the productivity issue see Palma (2010).
- 15 Ioris 2014.
- 16 For detailed discussion of the institutional and political foundations of economic stabilisation see Alston et. al. 2016.
- 17 For a detailed comparison of the political economy of Brazilian and South Korean industrialisation see Kohli 2004.
- 18 Alston et al. 2016.
- 19 See Kay 1989.
- 20 Bonelli & Pinheiro 2016.
- 21 Musacchio & Lazzarini 2014.
- 22 Moura Castro (forthcoming).
- 23 See Ferreira et al. 2014.

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Brazil, Latin America's largest and most populous country, ranks among the world's premier emerging market countries. Over the past two decades the country's international profile has risen steadily and it now forms part of the BRIC grouping of nations. Brazil can be seen as a key player in an increasingly multi polar world. Its rise to global prominence followed victory over hyperinflation and a partially successful attack on poverty and inequality. Yet Brazil's enhanced international standing is now threatened by a deep economic recession and a political crisis that has already claimed one president.

This lecture considers these events in longer term perspective. More specifically, it highlights the recurrent structural constraints which have afflicted Brazil's development process over the decades. These centre on issues such as the dualistic and partial nature of modernization; overreliance on commodities exports; inconsistency in economic policy regimes, and clientelistic relationships between the state and big business. Can these issues be addressed? Can Brazil emerge from crisis and resume its upward trajectory? There are grounds for optimism on these scores.

In first place as a result of successful past policy interventions, genuine economic achievements have been realized. New competitive strengths and capabilities have been developed. At the same time, real progress has been made in tackling ingrained poverty and inequality. These accomplishments provide a good base on which to build and further the course of inclusive development.

Moreover, the current crisis has demonstrated astonishing institutional resilience in the face of severe challenge to the post 1985 democratic settlement. Prosecutors have fearlessly taken on powerful vested interests. The public has proven no longer willing to accept pervasive corruption in government or in business. This may presage the shift in social and political consciousness necessary to underpin vital reforms.



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