Is there a Brazilian development 'model'?

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Guest Editorial

Introduction – Is there a Brazilian development ‘model’?

1. Introduction

Over a period spanning the mid 1990s to the beginning of this decade, Brazil emerged as a leader among developing nations, increasingly influential in geopolitical and economic terms. From the perspective of developing countries striving to achieve success, the points of attraction presented by Brazil’s achievements during this period are multiple: the productivity of its agriculture as a global export leader; low dependence on non-renewables; a sizeable and effective National Development Bank, the stability of macroeconomic policy; a high tax to GDP ratio providing resources for development; and innovative social policies like the Bolsa Família.

The most outstanding general feature of Brazil’s economic performance over this period centred on the socially inclusive nature of its growth. Growth rates, averaging 3% p.a. were unspectacular by comparison to China and India, though sustained in the context of Brazil’s own long term performance. Yet, in contrast to these countries, growth supported substantive reductions in poverty and inequality. Between 1995 and 2011 the Gini coefficient declined notably from 0.6 to 0.53 (IPEA, 2015). The move towards increasing equality was driven by a rapid expansion of income for the lower deciles of the distribution which contrasted with much lower growth for those at the top end. Data provided by the National Household Survey show that those in the bottom decile of the distribution saw their labour income grow by an annual average of 7–8% over the 2001–2012 period, double that of those in the top decile (Ferreira, Julián, & Firpo, 2014). Rarely among emerging economies, Brazil appeared to have turned the longstanding aspiration of ‘growth with redistribution’ into hard reality.

The success encountered in relation to inclusive growth was accompanied by a strong record in countering inflation. Having entered quadruple digit territory in the early 1990s, by the middle of the decade annual consumer price inflation had fallen below 10%. Inflation has remained below this level ever since. Brazil’s economic success also extended to its external accounts. In the 2000s, propelled by surging demand for key export commodities, Brazil began to generate a large trade surplus. By 2011 this had reached almost US$ 30bn and a series of such surpluses had enabled the accumulation of significant international reserves (US$ 352 billion by 2011). The build-up of such reserves was assisted by a significant surge in the net inflow of foreign direct investment throughout the late 1990s and into the last decade. Such investment was drawn in by a combination of trade and market liberalisation, the opportunities offered up by a significant privatisation programme, and the magnetic pull of a rapidly expanding domestic market.

Since 2011, however, the picture has rapidly darkened. This has raised questions as to whether Brazil can hold on to its hard-won socio-economic achievements, let alone build on them. Between 2011 and 2013 annual GDP growth slipped from 3.9 to 2.7%, with growth of just 0.1% being realised for 2014. For 2015 GDP contracted by 3.8%. Worryingly, the slump in growth is being accompanied by a surge in inflation: for 2015 consumer price inflation for the year reached 9.01%, well above the central target of 6.5%. The rise in inflation has forced the authorities to reverse a policy of fiscal loosening (initiated in response to the 2008–2009 global financial crisis) while raising interest rates. The current base rate, at 14.25% in mid 2016, is among the highest for all emerging market economies; it is clearly a serious obstacle in the path of any resumption in growth. Supplementing the gloomy economic picture has been a rise in political uncertainty. Following the launch of a wide-ranging anti-corruption investigation in 2014, President Rousseff was suspended from office in May 2016 pending a trial in the Brazilian Senate. The allegations, unproven at the time of writing, were that the President manipulated public accounts to disguise the impact of favoured spending programmes on the budget balance.

The sense that the deteriorating macroeconomic (and indeed political) outlook may be endangering the social achievements accumulated during the previous decade and a half is sharpened when trends in unemployment are considered. In April 2016, unemployment reached 11.2% having risen for the fourth consecutive month and having attained a level much above the record low of 4.3% achieved in December 2013. According to data provided by IPEA, the number of Brazilians below the extreme poverty line rose between 2012 and 2013 (from 10.08 m to 10.45 m), the first time a rise has been registered since 2003. Faced with the contrasting picture described above it should not surprising to note that any notion of Brazil’s famed ‘growth with redistribution’ strategy as a reality, let alone a resilient or sustainable reality, is highly contested. Brazil’s growth performance in the past (and not just the recent past) is littered with periods of sharp upward surges swiftly followed by equally sharp crashes; this has been eloquently described by commentators as ‘vôo de galihna’ (literally, ‘flight of the chicken’). Brazil’s leading global role as an agricultural and minerals exporter, a significant strength in the context of high and rising commodity prices, could be seen as a source of weakness given the potential for a reversal in global demand trends. In addition, from the perspective of canonical...
development theory stretching back to Prebisch and Singer (Toye & Toye, 2003), the country’s agricultural and more general natural resources strength could even be viewed as an impediment to industrialisation and structural diversification.

The role of state institutions in supporting and directing development policy in Brazil has met with success in some areas – EMBRAER and Petrobrás, for example – but has failed to ensure adequate transport and energy infrastructure development. Brazil’s successes in reaching low income and vulnerable groups with transfers and basic services have contributed to the reduction of extreme poverty and income inequality. Still, public social expenditure remains worryingly focused on pensions for better off groups, and disparities in the quality of basic services are also a matter of concern. Corruption scandals (including those currently affecting Petrobrás) have also punctuated Brazil’s impressive record of steady macroeconomic management. Interestingly, it is hard to find harsher critics of Brazil’s development than those among the Brazilian research community.

At different times, the development literature has strained to find living ‘models’: Kerala, Costa Rica, Japan, South Korea, the Asian ‘tigers’ have all, at points in the past, shared the limelight. The search for a template or blueprint capable of delivering development is futile. Our interest is in not identifying a policy template, but instead in delivering a deeper understanding of the factors explaining Brazil’s growth with redistribution as a strategy, and to assess its sustainability. This is the primary focus of the papers in this special issue.

Drawing on the papers contained within this special issue this introductory paper briefly addresses two main questions: first, what are the main components of a Brazilian development ‘model’ and, second, especially in the light of recent events, are the model and its achievements sustainable?

2. The emergence of a Brazilian development model and its key components

There is consensus around the view that current development policies in Brazil have their origins in the period immediately following the restoration of democracy in 1985. There is less consensus over whether the break point is provided by the 1988 Constitution which recouped public policy on inclusion, or, alternatively, by the Plano Real in 1994/5 which enforced macroeconomic and financial stability.

The restoration of democracy in 1985 and the extension of the franchise to include the illiterate population, around a quarter of the electorate, set the stage for a far reaching debate on the priorities, values and institutions in Brazilian society, leading to a new Constitution promulgated in 1988. The driving force behind this renewal of the social contract was the need to make society more inclusive. The Constitution acknowledged and extended social rights. During the next few years, these rights were embedded in a legal and institutional framework. The economy was undermined by high and rising inflation, stoked by wage indexation. The Plano Real designed and implemented by Fernando Henrique Cardoso, first as finance minister in 1994, and later, as President in 1995, secured broad support for the lifting of indexation and measures to facilitate fiscal responsibility and macroeconomic stability (Averbarg, 2002). It is important to acknowledge some continuity with the policies pursued in the 1970s and 1980s, especially regarding industrial policy. But the policy paradigm shift can be traced back to the new social contract in 1988, and the stabilisation in 1994/5. Perhaps more appropriately still, it can be identified with the shift in Brazilian society and economy that spanned these two dates. This period saw significant reforms in a number of areas, notably in relation to the health system, trade policy, privatisation and the fiscal relationship between the federal and sub-national governments.

What are the main components of the Brazilian development model which emerged in the 1990s and then continued into the new millennium? The papers in the collection suggest that the key elements here comprise macroeconomic stabilisation, carefully articulated redistributitional social policies, and an adept leveraging of the opportunities presented by a surge in global commodities demand.

The achievement of macroeconomic stabilisation provided the bedrock upon which Brazil’s socially inclusive growth was built. Stabilisation brought about two important pro-poor elements: a rapid fall in inflation and the eventual creation of the fiscal space needed to launch innovative social policies, notably the famous Bolsa Família. In their paper, Afonso, Araújo and Guebler (in this issue) argue that during the 1990s and early 2000s, despite the success achieved, the institutional reform processes involved in creating the basis for stabilisation, from the formulation of the monetary and fiscal instruments, to their implementation and consolidation, did not result from prior strategic planning. The institutional reforms were instead made in response to a succession of internal and external crises. As each crisis occurred – for example the maxi-devaluation of the currency in 1999 – institutional change was advanced in response, culminating in a framework that has assured relative fiscal stabilisation over the past decade.

However, the paper argues that the very absence of internal (as opposed to international) economic crisis since about 2002 has acted to retard the process of fiscal reform. From the boom in commodities demand to the rise in family consumption, accelerated growth in this period has enabled reasonable fiscal outcomes in the absence of institutional change. Even with the eruption of the global financial crisis at the end of the last decade, the fiscal and monetary reform process did not resume in earnest. This did not mean that the government failed to set in motion counter-cyclical fiscal policy: current spending, in particular with social security and welfare benefits, continued to increase, ahead of the economy and tax collection. Fiscal benefits were rapidly multiplied, from tax waivers to credit subsidies. Fiscal results declined, and the federal government opted for strategams to create a primary surplus artificially rather than reduce the fiscal target.

Another, oft overlooked, component of Brazil’s strategy to achieve greater macroeconomic stability is that of the national development bank, the BNDES. In their paper, Torres and Zeidan (in this issue) argue that the BNDES, since its foundation in the 1950s has undergone something of an evolution in its functions. Continuing to play its original role as a provider of long term credit to industry (to overcome capital scarcity and market failure), in the wake of the 2007–2008 international financial crisis the Bank became an active instrument of countercyclical policy, ramping up its lending in response to official directives. While this policy has been the subject of subsequent criticism (not least with recent allegations of improper allocation of funds), Torres and Zeidan make clear that the Bank’s actions assisted Brazil in successfully navigating the challenges presented by the crisis. The

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2 The papers in this Special Issue derive from research carried out by the University of Manchester-based, DFID-sponsored International Research Initiative on Brazil and Africa (IRIBA). The research is intended to establish potentially valuable policy lessons for countries in Africa stemming from Brazil’s recent development experience.

3 In August 2015 a CPI (Parliamentary Commission of Inquiry) was launched into the lending activities of the Bank, with a particular focus on alleged improper influence by former President Lula da Silva. O Globo, 11.8.15 http://g1.globo.com/politica/noticia/2015/08/cpi-do-bndes-aprova-convite-para-ouvir-luciano-coutinho-na-camara.html.
authors argue that the BNDES experience may have useful lessons to teach other developing and emerging countries whether in terms of countercyclical policy or facilitating vital infrastructural investment. However, they caution that risks exist stemming from the possibility of crowding out investment, the potential emergence of "crony capitalism" and the direct costs to the taxpayer of loan subsidisation.

The translation of Brazil's healthy growth performance up to 2012 into socially inclusive growth depended on the emergence of effective social programs. In their paper, Melo, Barrientos and Canuto (in this issue) analyse how the required fiscal space was created to finance these. Between 1995 and 2010, taxation revenue rose by a remarkable 7 percentage points from 26.9% to 34% of GDP. This rendered possible a combination of pro-poor government expenditures and comparative fiscal orthodoxy. Arguably, this rise in the Tax/GDP ratio forms the foundation stone of a Brazilian 'Development Model', and the clearest demonstration of a renewal in its social contract. What factors explain Brazil's success in raising tax revenue?

There are two periods in Brazil's history when the Tax/GDP ratio rose significantly. The first step rise took place under the military regime in the period 1966–1967. The second step rise spans the 1995–2008 period examined in this paper. Whilst the first sustained rise in the Tax/GDP ratio can be explained by the early introduction of VAT and the modernisation of tax administration, Melo, Barrientos and Canuto argue that the recent rise raises several intriguing questions. First, there are no significant changes in the tax code able to explain the rapid rise in the tax burden and we can also rule out improvements in tax administration. Second, the rise in the Tax/GDP ratio in Brazil has not produced significant changes to the, largely neutral, distributional effects of the tax system taken as a whole. The rise in the Tax/GDP ratio has made little or no contribution in itself to the reduction in poverty and inequality in the country, except through enhancing the distributive capacity of government. Throughout the period, the redistributive capacity of fiscal policy has concentrated on the expenditure side. Third, until recently tax policy had not attracted much public attention. It was only in the aftermath of the global financial crisis, and the public demonstration which began in June 2013, that public interest on the tax burden has risen, as demonstrated by the emergence of impostometros ("tax meters") in many cities.

The absence of significant reforms to the tax code and tax administration indicates that policy models are of limited relevance to explaining the rise in the Tax/GDP ratio. Instead, the paper argues that Brazil's tax revenue outcomes are best studied from a political and political economy perspective.

Although it might be possible to attribute the rise in the Tax/GDP ratio to a combination of fiscal illusion and policy drift, the size of the change and the repeated attempts at tax reform from incoming administrations appear to rule out this option. The paper tests an alternative explanation: that the return to democracy enabled strong preferences for redistribution to be embedded in effective redistributive policies. This involved, *inter alia*, a large extension of the franchise incorporating low income groups, competitive presidential elections awarding power to fiscally responsible programmatic coalitions of the centre-left, executive power to push for innovative policies, and federal ascendency in tax and expenditure policy resulting in large part from fiscal stabilisation policies. Bureaucratic capacity and effective tax administration have also contributed to sustain the rise in Tax/GDP ratio. The political conditions associated with the renewal of the social contract made possible an uncontested rise in the Tax/GDP ratio, as the net political gains from comprehensive tax reform proved to be too small.

Given that the main fiscal drivers of social inclusion have been on the expenditure side rather than on the revenue side, a critical element of the Brazilian model centres on the evolution of social assistance policies. This element of the model forms the focus of the paper by Barrientos, Debowicz and Woolard.

The paper begins by surveying the main social assistance initiatives. Among them, Brazil's *Bolsa Família*, an antipoverty programme reaching 14 million households, including one third of all children in the country, has been particularly influential. It has served as a model for similar programmes in countries across Asia and Africa. Less well known, but no less important, a variety of social pension schemes have pushed pension coverage of people aged 65 and over to just over 86 percent, among the highest in the region. However, other components are important too. *Previdência Social Rural* provides around 7.5 million transfers annually, largely old age pensions, to informal workers in rural areas. The Benefício de Prestação Continuada provides income transfers to 4.2 million older people and people with disabilities in extreme poverty. The two social pensions in Brazil reach over 11 million people and their households with a budget over two times greater than that of the *Bolsa Família*. In the light of this, Barrientos, Debowicz and Woolard (in this issue) argue that is important to consider all the components in the package, and their contribution to inclusive growth.

Very little attention has been paid outside Brazil to the conceptual and normative frameworks supporting the development of social assistance. This paper argues that they are essential to understanding existing social assistance institutions in Brazil. The evolution of social assistance in Brazil has been swift, but far from linear. The 1988 Constitution is the marker for the rapid expansion of social assistance programmes and policies in the years that followed. However, the policy instruments the Constitution supported, *Previdência Social Rural* and the Benefício de Prestação Continuada, were not especially innovative or far-sighted. Their orientation was firmly rooted in conventional welfare policy, on a distinction between individuals with or without the ability to work. They focused on old age poverty and on disability, but failed to address child poverty. The *Bolsa Família* developed instead out of municipal experimentation with *Bolsa Escola*, rooted in a mix of guaranteed income proposals, multidimensional perspectives on poverty, and education interventions. Several income transfer programmes emerged in 2001, consolidated into *Bolsa Família* in 2003. In the wake of the 1988 Constitution, three main inclusion strategies have been pursued: (i) integrating informal workers in social insurance institutions through a special regime; (ii) providing income transfers to older and disabled people in poverty; and (iii) setting up human development income transfer programmes targeted on the population in extreme poverty. They led to the three main components of social assistance in place in Brazil today.

The contribution of social assistance to inclusive growth will be better understood if an assessment of the distribution of outcomes across municipalities was possible. Estimating a quantile regression model of the distribution of *Bolsa Família* outcomes across municipalities in Brazil in 2003–2009, the paper contributes new information on this issue. The analysis focuses on adult labour force participation and school attendance of children aged 6–15. It finds that, across municipalities the *Bolsa Família* did not exercise significant effects on adult labour force participation rates. The literature to date focuses on mean effects, also finds non-significant effects, but suggests that sample restrictions would find stronger and negative effects in urban areas. The results fail to confirm this hypothesis. Regarding school attendance, quantile point estimates indicate that *Bolsa Família* had positive and significant effects on municipalities with lower baseline school attendance. The effects are small but meaningful in the context of high school enrolment rates. Weighing up all of this evidence, Barrientos, Debowicz and Woolard find that the distribution of *Bolsa Família* outcomes across municipalities has strongly contributed to inclusive growth.

The expansion of tax revenues and social programs noted above would not have been possible without healthy and consistent...
growth. Fortunately, at least up until 2012 growth in Brazil was heavily supported by strong global demand for its key export commodities, whether agricultural products or minerals. Two papers in this special issue (by Mueller & Mueller and Figueiredo) consider the experience of the agricultural sector, respectively focusing on the political economy of the agricultural sector’s development and the increasingly impressive extent to which it generates and absorbs leading edge technologies. In the first of these papers Mueller & Mueller begin by highlighting the enormous expansion in agricultural output over the past 30 years. This period has seen Brazil become one of the world’s pre-eminent agricultural exporters in a range of product areas from soya, to oranges, to beef, to chicken. The rise in output has not in the main derived from an increase in land under cultivation: this has remained largely constant since the 1970s. Instead, rising agricultural production has been driven by a sharp increase in productivity, the rise in which has outstripped that of other major economies such as China and the US.

One might have expected the surge in productivity, output and product diversification – to have sprung from a carefully designed set of sectoral policies implemented in a structured fashion. Instead, Mueller & Mueller argue that this is not really the case. The state – through sector-specific policy – had very limited control over what actually took place; broader institutional changes exercised a more important role. The paper argues that the remarkable transformation in Brazilian agriculture only really got underway when sustainable, inclusive institutions created a fiscal, monetary and political environment in which the sector could succeed. With this in place the collective beliefs and expectations of policymakers and sector participants altered in a favourable manner. This, together with expanded global demand, facilitated investment and productivity-driving technological upgrading.

To understand the latter process more deeply Figueiredo (in this issue) reports on an exploratory study of the role of the knowledge-related institutions and government policies (institutional infrastructures) in contributing to the achievement of world-leading innovative and competitive performance of Brazil’s soybean and forestry-based pulp and paper industries. These industries have benefited from the innovative capabilities of the agricultural research corporation, EMBRAPA, and innovation-supportive government policies, at different stages of their technological development. EMBRAPA’s functioning has been based on application-oriented research, linked with industry needs, and on an increasingly vibrant network of partnerships with other research institutes, universities and companies. As Figueiredo indicates, the effective articulation of innovation networks – in which the state is just one of the actors – has proven vital in enabling Brazil to capitalise upon rapidly expanding global demand for its products. In examining Brazil’s agricultural export success it is thus important to focus on the qualitative upgrading which has taken place, and not just on the rising share of global markets for key products.

From the discussion so far it should be clear that a number of distinct elements came together to form the platform upon which rapid economic and social progress was realised between the mid-1990s and the start of this decade. Collectively, these could be said to form the basis of a Brazilian Development Model. Macroeconomic reforms facilitated the emergence of steadier, non-inflationary growth. This in turn supported the real incomes of the poor. At the same time, social policy innovations such as the Bolsa Familia helped to drive progressive poverty alleviation and the emergence of a less skewed income distribution. Meanwhile, growth was supported by the emergence of a favourable external environment in which global demand for Brazil’s key exports, among them agricultural products, surged. All of the elements came together in the context of stable macroeconomic policy following the successful stabilisation plan in 1994–1995. Combined, they allowed Brazil to set a new course. However, they could not have worked effectively without the forging of a broad consensus across the political spectrum, encompassing key actors in business, the labour movement and civil society.

As noted at the beginning of this introduction, though, this model is now under acute pressure. This is the product of less favourable global economic circumstances and lingering internal structural challenges. It is to these issues, and potential ways out of the current crisis, that the discussion now turns.

3. The sustainability of the model and the need for further reform

No one would pretend that Brazil’s transition from poverty and instability to steady and inclusive growth is finished business; it is still very much a work in progress. Indeed, opinions within and outside Brazil remain divided on the sustainability of the ‘model’ (see, for example Baer, 2014, Fishlow, 2011). The Brazilian economy weathered the 2008 global financial crisis without a blip, but the secondary impact of the global trade shock on emerging economies, in particular a fall in Chinese demand for commodities exports, led to a sharp fall off in growth in 2012–2015. Poor performance in the international PISA tests has rekindled debate on the quality of education, with implications for Brazil’s capacity to raise labour productivity in the future. And the demonstrations in June 2013 provided a wake-up call to policy makers regarding the upward shift in expectations concerning quality of public services among Brazilians. Substantive challenges remain surrounding the quality and extent of infrastructure, the prevalence of corruption, the incomplete nature of fiscal adjustment, ingrained deficiencies in the stock of human capital and the over-reliance of the export sector on a select few commodities.

To some extent, the present difficulties encountered by the Brazilian economy are the product of changing external circumstances. In the two decades up to 2012 Brazil generally enjoyed buoyant international demand for its key export commodities, especially meat products, iron ore, soya and coffee. As Mueller & Mueller and Figueiredo make clear, Brazil’s response to these favourable conditions was far from reactive. In fact, considerable resources were invested in upgrading technologies and production processes right across the natural resources and natural resource-based products sectors. This allowed Brazil to capture rising market share in an expanding global market. As this process unfolded, the relative share of natural resource-based products in overall exports rose, rendering Brazil more vulnerable to any commodities price downswing.

Against this background, it should not be surprising that the growth has suffered so much as commodity prices have fallen and global demand for these products stalled. This suggests a limitation to the Brazilian development model and underlines the need for stronger future sectoral diversification in exports. Notwithstanding this, it should be recognised that Brazil has built on outstanding natural comparative advantages in agriculture and minerals extraction, raising productivity levels and adding value to the commodities it produces (Perez, Marin, & Navás-Aleman, 2014). This will ensure that Brazil will remain a world class participant in global commodities markets, well placed to benefit once prices begin to firm. While the steep depreciation of the Real since 2012 has only sharpened Brazil’s competitive edge in commodities, it should also encourage the sectoral diversification of exports that is so badly needed. However, such a broadening of the export base will also require the maintenance of macroeconomic stability, greater investment in skills, more cost effective access to finance, and improved infrastructure. These issues highlight some of the key flash points of the current crisis and it is to these that the discussion now briefly turns.
Notwithstanding the fiscal pressures which are now beginning to emerge (in part as the result of the global commodities slump), the paper by Afonso, Araújo and Guelber (in this issue) suggests a dearth of proposals on the horizon to revise or restructure monetary, tax and fiscal institutions. The paper argues that weight of political and institutional opposition – much of it originating from sub-national levels of government – underpins the current inertia. One of the unfavourable consequences of the failure to accelerate reform is that investments form an ever-smaller portion of the budget, while the overwhelming majority of expenditure is committed, contractually or politically to current expenditures, notably on pensions and debt servicing. This state of affairs is partly to blame for the lack of infrastructural investment highlighted by Amann, Baer, Trebat and Villa Lora elsewhere in this issue. Faced with the need to restrain rising inflation and to reassure international investors, the authorities (under more hawkish Ministers of Finance, Joaquim Levy and Henrique Meirelles) have been compelled to adopt tougher primary surplus targets since 2014. In the absence of further reform, these will limit still further the scope for growth promoting public investment, whether in infrastructure or training and education.

The need to upgrade human capital and skills has long been recognised as a critical requirement in Brazil, but one where achievements have fallen well short of aspiration. In particular, an improvement in the skills base will be vital if Brazil is to achieve greater diversification of its export base and so become less vulnerable to the vicissitudes of global commodities markets. The paper by Barrientos, Debowicz and Woolard (in this issue) suggests that social assistance policies have played a valuable role in ensuring school greater attendance. However, there is a broad recognition that more will need to be done. This is especially so in terms of apprenticeships and tertiary education if competitive sectoral diversification is to become a reality. Whether progress can be made here in the light of tighter fiscal policy is clearly open to question.

These two key constraints, skills and infrastructure, of the Brazilian development model have become especially prominent in the past three years, strongly suggesting again that the current crisis has internal as well as external origins. The first concerns a repeated failure to invest adequately in infrastructure. Amann, Baer, Trebat and Villa Lora suggest that the growth enhancing effects of infrastructural investment are very powerful. Against this background it would therefore seem puzzling that infrastructural investment has not proved adequate, despite recent high profile policy measures (such as the PAC – the Growth Acceleration Programme). The authors argue that the reasons for this partly stem from lack of availability of financing, but mainly from regulatory uncertainty. The inconsistent application of regulatory policy towards public utilities allied to the ill-coordinated roles of rival agencies, have combined to slow the pace of investment. Much-needed infrastructural investment is also being retarded (and made more costly) by the scale of corruption which has now been demonstrated to permeate procurement by public sector bodies, notably the majority state owned oil company, Petrobrás.

The corruption issue, more generally, poses severe obstacles in the path of accelerated growth. Prado and Carson (in this issue) chart the scale of the corruption problem in contemporary Brazil and do not deny its extent and growth-retarding effects. However in theorising corruption as a collective action problem, they also suggest that Brazil’s approach to tackling it through a multiplicity of agencies may have significant advantages. Certainly, Brazil’s recent experience indicates an efficiency and fearlessness in identifying corruption and then pursuing perpetrators, no matter how powerfully positioned. This can be contrasted with the far less effective anti-corruption efforts undertaken by Argentina and Mexico. The determination and effectiveness demonstrated by public institutions and civil society in tackling corruption suggests there is a real chance that its incidence will be reduced in the years ahead. If so, this would pave the way for lower transactions costs, a more predictable investment climate and, by extension, accelerated growth.

4. Conclusions

At a difficult time for Brazil’s economy and society, this collection of papers considers the achievements of the past two decades while clearly acknowledging – and analyzing – the challenges which will have to be overcome if progress is to be resumed. In tackling these challenges Brazil will be able to draw on strengths and capabilities built up during the good years, recognizing that real and lasting change has occurred. Brazil’s world-class natural resources and natural-resource-based products sector will continue to provide the economy with enormous underlying resilience, as will its increasingly diverse energy mix. At the same time, while more effort clearly needs to be made, earlier investments in health and education will raise human capital and productivity, among successive cohorts entering the labour market. Finally the ‘productive’ quality of recent social policies, especially antipoverty policy, will help underpin the political and social sustainability of Brazil’s recently acquired success.

We have argued that it is indeed possible to discern the existence of a Brazilian development model. However, we would be the first to acknowledge that presence of such a model remains a matter of debate. Furthermore, even accepting it exists, the resilience of the Brazilian development model is now being tested as never before. Taken together the papers in this special issue throw powerful light on these critical debates and issues surrounding Latin America’s largest economy.

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