Highs and Lows of Brazilian "Developmentalism" in the 19th and 20th Centuries

This essay attempts to evaluate to what extent Brazil's economic strategies and policies of developmentalism have contributed to an uneven development process in the context of analyzing the benefits and costs of those policies and reviewing the major contributions both Brazilians and foreigners have made to not only analyze the basic economic variables and results deciding the path of development, but also look at the social and particularly political variables, which played an important role in the outcomes. The most recent developments have led critics to point at the ineffectiveness that this strategy had on moving the economy on to a stable growth path. This essay attempts to point towards the link between that strategy and corruption, which increasingly took place in the first two decades of the 21st century. The New Developmentalism would seem to be more pragmatic, as it has accepted rather orthodox paradigms practiced in the more successful emerging countries of East Asia. However, the proposed policies would seem to be difficult to be undertaken in a country which has become reform fatigued.

Introduction

After two decades of Brazil's very different economic and social developments in the 21st century, has given rise to the issue of how to proceed for a stronger and more stable path is more urgent than ever, made more difficult by the terrible price its population is paying for the COVID 19 pandemic, which the previous federal government was unwilling to tackle seriously. Beyond that, increased unhappiness and unrest of the population has brought one more time the specter of military intervention. For a country which was admired by almost any person visiting or dealing with its people, this is a terrible reversal of good fortune. With a record number of infections and deaths in 2019-21, the country was on its way to become an international pariah, feared for being unable not only to control the pandemic but also having seen it mutating to a more serious virus, migrating to the rest of the world. Since Brazil has built up a health infrastructure which has successfully fought earlier disasters, such as dengue fever and especially AIDS (Wogart and Calcagnotto, 2006), eventually the pandemic was confronted more forcefully.

This essay will not deal with the most recent challenge, but consider the impact Brazil's economic strategies and policies have contributed to an uneven development process in the context of analyzing the benefits and costs of those policies and reviewing the major contributions both Brazilians and foreigners have made to not only analyze the basic economic variables and results deciding the path of development, but also look at the social and particularly political variables, which played an important role in the outcomes. The major issue to be discussed here is examining to what extent the country's rather persisting strategy of pursuing "developmentalism (DEVM)" – old and new --

has helped or hindered economic and social progress and with it have the country enjoy a more rapid and consistent success to elevate the incomes and wellbeing of the majority of its population.

DEVM has to be seen in the context of its long-lasting controversy that this school of thought had with the "orthodox" economic policies, which were based on the traditional economic theories developed and taught at the leading universities in the US and Europe on the one hand and the followers of the radical "dependencia" school, which combined post Keynesian and neo-Marxist's ideas, on the other. The heterodox approach also went under what became known as "structuralism," first and foremost discussed at Latin American academic and regional policy institutions of which the Economic Commission for Latin America played a leading role. (ECLA, 1956. For an excellent review of that controversy, see Hirschman, 1961' pp. 3-42)

After a short review of when and how DEVM was practiced by Brazilian policy makers in the last 80 years, we will turn to the major economic variables, which made a successful implementation of that strategy difficult. We will briefly look at the traditional engines of economic growth, i.e., physical and human capital formation, and then examine the interaction of exchange and interest rate policy as well as the role inflation has played in putting a brake on providing the necessary public and private capital resources required for the kind of large scale and deep industrialization Brazil had expected to accomplish. In that context we will briefly look at the transformation of the East Asian economies and its relevance for explaining the significant differences in building up human and physical capital resources in those two parts of the world.

While it should not be difficult to show that - established and fostered by economic reasoning - the DEVM approach has been accepted by the majority of Brazilian politicians and policy makers during most of the last 80 years, both during the many years of parliamentary democracy and – to a certain extent- even during the intervening military dictatorship, DEVM's impact on the uneven progress is intertwined with a great number of other variables. To accept and pursue DEVM policies, which continued with a strong import substitution industrialization (ISI) bias, the New Developmentalist approach (NDEVM) served policy makers well to also go for export promotion, which succeeded not only to modernize and benefit agriculture and its processing industries but was also successful in advancing a number of nontraditional industrial exports. However, it also served to maintain a power structure which has dominated economic and political outcomes for more than just the eight decades under review. As critics have pointed out that degree of industrialization has been uneven, providing only limited employment opportunities for the large amount of people moving from the countryside to the rapidly growing towns and cities of the country (Evans,1979).

In a recent study with a major focus on sociological and political issues in Brazil, Taylor has examined the durability and influence the DEVM has wielded over the many years. He summarized it as follows: "One factor that helps to explain continuity to change is the influential hold that the developmentalist ideas retained over political and economic elites." (Taylor 2020, p.64). After extensive analysis, he came to the pessimistic conclusion, that at this point in time the DVM strategy in Brazil of having reached a stage of "decadence" from which new impulses for real and dynamic economic and social wellbeing may be very difficult to achieve. While that thesis may surprise economists and other social scientists following the recent efforts of the Brazilian governments to tackle some tough fiscal issues, such as the long awaited pension reform, even the optimists have maintained that the turnaround will require further bold policy action in a country in which the majority of the population has witnessed declining living standards in the last decade, is reform fatigued, and witnessed the attorney general of the Bolsonaro government suspending the "lava jato" task force (The Economist, 6-5-2021).

In a joint effort of IMF staff members with Brazilian scholars and policy makers have maintained that "evidence from the past suggests hope that Brazil can turn the corner by focusing on much needed macroeconomic and structural reform to place the economy on a stronger footing" (Spilimbergo and Srinivasan, 2018, p.4). It is our task to examine the potential for that recovery. In addition to overcoming the disruption of the pandemic, the wounds of dealing with a major corruption process concerning the country's premier public enterprise and a large number of politicians, will require to examine the link between that problem and DMV as well as probe into possible redefinition and rejuvenation of the NDVM in Brazil in the 2020s.

A Short History of Developmentalism in Brazil

According to Wikipedia "developmentalism is an economic theory which states that the best way for less developed economies to develop is through fostering a strong and varied internal market and imposing high tariffs on imported goods" (http://em.wikipedia.org); 9-20-2021). That definition is both wrong in the first part and incomplete in the second. It is much more an ideology and strategy based on solid experience of the advanced economies to foster industrial development in its early stages. Ever since England engaged in introducing new technologies and then new machinery and equipment to mass produce basic consumer and capital goods, other countries have tried to catch up by protecting their infant industry against the already existing industries of their forerunners. In the early 19th century, the works of Alexander Hamilton and Friedrich List were the most influential to have the then newly industrializing countries of the US and Germany follow their advice. However, tariff protection is only one tool, which has been used in that process. There are a host of quotas and other non-tariff measures which have been and are used to maintain those barriers against free trade in almost every country in the world today. In addition, for various reasons, - among them insufficient capital formation in the private sector - most industrializing countries in the 20th and 21st centuries have established and have been using state run enterprises.to foster the process of industrialization.

The early discussions of the need for following a "developmentalist" approach in Brazil were closely linked to the rise of nationalism, with active involvement of the armed forces, who looked for industrialization as a means to strengthen national security and independence. While Brazil engaged in building up its national steel industry during the 1930s under the populist Vargas regime, it was in the early post WWII period that the DEVM strategy was provided with serious economic analysis by excellent Latin American economists and social scientists, a good number of them working at the Economic Commission for Latin America (CEPAL), located in Santiago de Chile. Brazil's champion has been Celso Furtado, whose historical treatment of Development in Brazil strongly suggested that without a further deepening of the industrial sector, Brazil would remain an exporter of primary products, the prices of which would fluctuate much stronger than industrial goods and with it hinder continued economic expansion and stability. In addition, it would also be impossible to employ the increasing number of people migrating from the poor Northeastern states to the South of the country (Furtado, 1966).

Brazil's enthusiastic period of fostering developmentalism started in the mid-fifties and lasted for about ten years, during which the government of Juscelino Kubitschek tackled several ambitious projects, and with that mobilizing a large number of its citizens to leave home and work at those new projects. The simultaneous establishment of the new capital Brasilia and the investment in roads and rails required for Western expansion, the move into building automobiles and the founding of a development bank (BNDB) to foster transformation of Brazil's poor northeastern region was accomplished within a period of less than a dozen years.

Not surprisingly, those efforts of mobilizing resources were beyond the state's financial capacity and led to accelerated inflation in an increasing unstable political environment, which was halted by a "peaceful" military coup and a rather stringent stabilization program, igniting another controversy between the developmentalists (then called the "structuralists) and orthodox economists. (Skidmore, 1967, Chapter 8 and Appendix). After three years of fighting inflation with limited results in halting the price spiral and enduring a recession, Brazil's policymakers under the guidance of Finance Secretary Delfin Neto undertook not only a pragmatic gradual adjustment program, indexing major price indicators to an ever-decreasing adjustment level of inflation, but also a marked shift from import substation to export diversification with concerted efforts to foster manufactured exports. (Teitel and Thoumi, 1986).

The provided incentives helped a number of traditional and new industries to venture more forcefully into exporting products, ranging from shoes and textiles as well as frozen orange and other fruit juices to the successful move into such sophisticated products as small airplanes, which found a market in the US and Canada. In terms of public investment, however, the country spent large sums to deepen industrial import substitution, particularly in the field of chemicals and petrochemicals and its derivatives, gasoline, and plastic products.

Those efforts were rewarded with strong economic growth rates averaging over 5 % p.a. for a dozen years, which brought improvement on all fronts, but became increasingly more capital and less labor intensive and with it was unable to absorb a rapidly growing labor force, as had been expected by the structuralist school of thought. A frustrated military government handed over the reins to representatives of a renewed democracy in the mid-1970s, who were even less successful to revive economic growth, leading to a decade which has been called the “lost 80s” during which not only Brazil but also its neighbors faced economic stagnation and ever stronger inflation pressures, which rose from an average of 30 to over 300% (Spilimbergo and Srnivasan 2018, p.5) Economic growth slowly got back on track in the late 80s and early 1990s, but so did inflation, now averaging over 1400% p.a., a situation even less sustainable as it had been in the early 1960s. One more time an orthodox stabilization program was considered by the then Finance Minister and later President Fernando Cardoso, who saw himself forced to abandon his beliefs in the viability of the developmentalist strategy, and as President executed not only an orthodox stabilization program, but also ventured into privatizing large public enterprises, which had been considered untouchable under the developmentalist strategy up to then (Cardoso, 2006).

The price to pay was another number of years with stagnation and recession, three of which with negative economic growth rates and very modest advances following. Until 2004, when the rapid growth of the Chinese economy became a major force in stimulating advances in many developing countries, and particularly in resource rich Latin America, which was willing to fill China’s rapidly expanding demand for copper in Chile, iron ore in Brazil, and petroleum and its derivatives from Venezuela and Mexico. Brazil’ exports grew and diversified in terms of products and countries importing them (Sangmeister, 2013). More importantly, those years also realized a gradual but rather constant improvement in social indicators and a decrease in income distribution, supported by the developmentalists government of President Lula. Among others, the “bolsa familia” – a cash payment to poor families helping them to have their children attend school rather than work – became a simple fiscal tool of redistribution, which a number of other developing countries also adopted. (Calcagnotto, 2013)

Unfortunately, those wonderful years when development economists around the world rejoiced over the accomplishments of those “newly advanced” countries, were halted by the breakdown of the American financial system in 2008, which despite serious warnings from economists around the world, policy makers and regulators were unwilling and unable to prevent. It provided not only a serious setback in the US and other fully industrialized countries but also affected the expansion process in the less developed economies and halted development in Brazil and the other Latin American Countries.

In Brazil things turned from bad to worse when a huge corruption scandal in the public petroleum (PETROBRAS) company led to a serious judicial effort to prosecute, both government and businessmen -particularly from the construction sector- who had bribed Petrobras' officials and now opened their books and their intimate relationship with the politicians and government officials. The impact on the economy was devastating, since it stopped many transactions, new investments, and the opening of new ventures.

The consequence of that slow and painful judicial process, to which apparently the majority of the Brazilian population agreed to, led to another halt of economic advancement, and has only started to move on in late 2018, just before COVID 19 put another obstacle into the growth path, a break from which the economy is continuing to suffer from. In the political field, one presatack at the capital ident was impeached, and the former president Lula was stopped from becoming again a viable candidate for Brazil's Workers' Party. (for a thorough discussion of Brazil's corruption problem, see Spilimbergo and Srinivasam, 2070, pp.295 ff). His re-election in 2022 was a very close contest, leading to similar threatening of the losing party members and attack on the capital buildings as had been undertaken in the United States two years earlier.

The Simple Macroeconomics of Brazil's Growth and Development

Besides the drama in the political arena in the last 80 years, there are the simple macroeconomic indicators, which provide the fundamentals for examining the relationship between capital formation and economic growth. The Brazilian policy makers hoped to raise the capital investment not only by using public savings and funds, but also engaging foreign investment and borrowing to raise the investment/GDP ratio. That seemed both feasible and reasonable, since the large potential of the Brazilian market had international investors increasingly interested after the end of WWII. In addition, it was also argued that since those foreign funds could be expected to be efficiently used in industry and other dynamic sectors, the incremental capital output ration could be reduced, and with-it economic growth accelerated.

As the statistics of Table 1 show, the investment output ratio moved up from the early post war years but declined in the "lost decade of the 1980s." When inflation forced stringent stabilization measures in the early 1990s, halting aggregate demand and with-it economic growth, that Investment ratio decreased more significantly and continued to do so in the recent decade, when particularly investment in construction fell, connected to the major firms' involvement in the PETROBAS scandal.

With such a modest ratio of investments as a share of GDP, it would have required a significant rise in the productivity of both capital and labor to boost economic growth. That did not occur, as the second part of Table 1 shows. Total factor productivity has fallen in the last three decades. While human capital per worker did increase in the 1980s and afterwards, there was a significant drop in the contribution of physical capital. In addition to the lack of forceful formation of capital, there has been a decreasing ability of manufacturing industries to absorb higher skilled workers. In the 1980s and beyond, labor absorption had to be taken care of by the service sector, the productivity of which is below the one of manufacturing. An indication of the excess of skilled labor supply in the last thirty to forty years has been the shrinking wage differential between those two different skill level groups diminishing. Together with weak investments and a decreasing share of manufacturing value added to GDP, critics have called it "early de-industrialization" of Brazil. (Ottoni, 2017; Oreiro et al. 2020)

Table 1. *Physical and Human Capital Formation and Economic Growth in Brazil*

	1931-50	**1951-63**	**1964-80**	**1981-93**	**1994-2017**
GDP	5.1	6.9	7.8	2.1	2.4
I/GDP(%)	12.2	19.2	21.9	20.3	18.2
GDP p.c.	3.2	3.8	5.2	0.3	1.1
GDP p. worker	3.3	4.1	4.5	-0.1	0.8
Contribution to GDP/Employment Variation (percentage points)					
PK p.worker	1.04	1.78	1.71	0.07	0.75
HK p. worker	0.1	0.27	0.8	0.92	0.92
TFP	2.07	2.08	2.75	-1.11	-0.28

Source: Spilimbergo and Srinivasam, 2018, p.43 and World Bank
PK = physical capital; HK= human capital; TFP=total factor productivity

The analysis of the major impact of productivity provides valuable insights into the troubles Brazil has run into. However, there are also major monetary variables, which have been made responsible for overcoming monetary and foreign exchange constraints. As Bresser-Pereira has pointed out, two of the major economic policy variables Brazil has used and abused were interest and exchange rates, both of which are intimately involved with domestic and external shocks and change (Bresser-Pereira 2009, chapters. 6 and 8). In the case of interest rates policies, the Brazilian Central Bank has attempted to keep them at highly positive levels in real terms over the last 40 years, first and foremost as an inflation fighting weapon and then as an incentive for foreign capital inflows. In order to mitigate its negative impact on domestic investment, the BNDES provided ample credit at subsidized rates, planned to help small business but actually more extensively used for providing subsidies for large companies, estimated to have been US$4 billion for construction companies alone between 2007 and 2015 (Taylor 2020, p.98).

In the case of the exchange rate, Brazil's inability to overcome its continued dependence on foreign exchange inflows from primary products led to a double effort by accumulating foreign exchange in good times, which ushered in a rise in imports. The ensuing overvaluation of the Brazilian currency led to tough times for manufacturers who had found niches in foreign markets. The overvaluation of the Brazilian currency in good times, and rapid loss when both the world economy and the efforts to attract those dollars in tough times through high interest rates failed too. (Balassa, 1982).

The modest saving and investment capacity of Brazil and with it the difficulty to have stronger and more constant economic growth as well as the questionable use of some major policy tools are linked to a number of other factors which have to be explored in the context of following a developmentalist strategy over most of the last 70 years under review.

Impulses and Limits of Import Substitution Industrialization in Brazil

The strong push for moving Brazil into a modern industrializing economic power in the mid-1950s and early 1960s was characterized by a combination of a number of policies, which intended to use public and private capital to achieve that transformation. The political decision to establish a new capital in the interiors provided the base to foster public investments in infrastructure, particularly highways and roads. The installation of the automobile industry used foreign investment to provide the capital and technical expertise, as well as building up supplier industries domestically. Last but not least, the establishment of the Northeast Development Bank (BNB) was to provide investment services to create new employment opportunities in the backward Northeastern states of the country.

All three ambitious efforts were accomplished in just about a decade to the amazement of everybody involved in the execution of development projects. The price to be paid was an accelerating rate of inflation reflected in excessive public sector outlays financed by credit and with it, excess monetary expansion. While that expansion was halted in the mid-1960s, and a new pragmatic monetary and fiscal policies established in 1967, public investment in physical and social infrastructure suffered with negative implication of capital formation in both areas.

As to the modernization and expansion of industrial development, various attempts to get more firms of that sector into exports became a priority and succeeded in several fields. New impulses came from the establishment of new import substitution industries made possible by Brazil’s newfound petroleum reserves in the Atlantic Ocean. However, besides the capital intensity of those projects the effective protection of overall manufacturing industries remained high and difficult to penetrate with the consequent lack of efficiency losses and productivity advances (Tyler 1976).

Even at the height of the ISI period, labor absorption of the newly established industries was less than expected. The capital intensities of the second and third waves of industry was even less able and willing to take on unskilled labor, which had migrated to the major centers of industry in the southern states of the country. While that phenomenon also occurred in countries with more rapid expansion into opening export markets, the Latin American adoption of European labor rules and legislation made the choice to substitute machines for labor all too easy.

The Brazilian industrialization process in the 20th century has been a major topic of analysis and discussion. If any country in Latin America had the necessary size and condition to accomplish a successful outcome, Brazil could be expected to be it. Despite modest labor absorption, the data on labor productivity are not encouraging, lagging most other industrializing countries in general. There were “national champions”, such as Companhia Vale do Rio Doce and Aracruz Cellulose, which were able to use the rich resource base for becoming leading world exporters, and quite spectacularly the producer of airplanes Embraer, “betting big on small jets and turning the outsourcing model upside down (van Agtmael, 2007 chapters 8 and 9). However, what seemed to emerge more clearly was “a highly heterogeneous structure,” which became a major feature of Brazilian industrialization process, losing its strength during the last two decades of the 20th century (Colistete, 2010).

The recent study by Taylor confirmed that observation. In the first part of his book Taylor followed a framework developed in the 1970s by Evans, who analyzed the “triple alliance” among the multinationals, the largest owners of local capital and the entrepreneurial state, which contributed to what he called the “hierarchical” structure of the major Latin American industrialization processes. These three groups consisting of just 241 firms made up 82% of the total net worth of Brazil’s economy (Taylor 2020; p.93). By breaking down industry into the major subsectors, the concentration process is to be overwhelming, both in more traditional as well as in modern industries with very few exceptions.

The concentration of economic power is closely connected with a political structure, which re-enforced the maintenance of the domestic and foreign power elite. That interaction is particularly visible in the nature of effective protection most industries have enjoyed during the whole period of industrialization with very few attempts of forcing the firms to sell into external markets, as is briefly discussed below. While there were and there are periods and points of conflict among those three powerful players, the pattern differed at least in one point significantly from similar power constellation in the East Asian industrialization process, where policy makers made it clear from the beginning that after a limited period of infant industry protection, international competitiveness had to be reached (Birdsall and Jespersen 1997).

The Relevance of the East Asian Experience

The crashed hopes of advancing more rapidly than the fully industrialized countries and narrowing the income gap over a number of decades is even more damaging if one compares the performance of Brazil and its neighbors with the East Asian economies, of which China is certainly the most recent – and for Brazil – most relevant example. Japan’s miraculous recovery after the devastating defeat in WW II has been analyzed and – more importantly copied – not only by its neighbors Taiwan and South Korea, but to a limited and also remarkable extent by the Southeastern Asian economies of Indonesia, Thailand and more dramatically by Vietnam, which let political ideology not stop the execution of pragmatic economic reforms and policies.

The industrial development strategies were not that different from those undertaken in Brazil. There have been and there are import substitution policies in place, which followed classical patterns of earlier attempts in advanced and other developing countries. However, the shift toward export expansion under competitive conditions became one of the most important issues, which involved in some countries not only a well-organized bureaucracy under Ministries of Industry and Trade, but the involvement of the heads of State themselves.

In addition, the drive of satisfying consumption of the population, a trait which is so dominant in the Americas, was controlled by both, an inclination of a large majority of people to save rather than to spend and governmental policies to stimulate and maintain that behavior. The numbers showed the outcome of this behavior pattern only too clearly. Already in the 1960s East Asian economies' aggregate saving and investment ratios were way above the ones realized in the Latin American countries. Not surprisingly, following the way simple growth theory predicts, economic growth in those countries were not only substantially higher but also more stable.

Of equal if not greater importance was the investment in human capital, i.e., education and health. Again, the gap in putting money and efforts into those social sectors paid off well, as these countries climbed up the ladder of ever more sophisticated production of industrial export articles, which competed head on with industries in the advanced countries. A comparison of educational advances in Brazil and South Korea shows the differences increasing over the post war years and have continued to do so in the more recent past.

As study after study has shown, that total productivity, consisting of capital, labor and the all-important third factor (innovation, education, and technology improvements) have been modest in Brazil since the 1980s, and hardly climbed beyond 2.7% even in the best period in the 60s and 70s. (Spilimbergo and Srinivasan, 2016 p.43). As mentioned earlier, Brazil's major policy tools with respect to foreign exchange failing to compensate for the "Dutch disease" and the shift towards neoliberal policies after the stagnation in the 1980s led to what has been named the "middle income trap." (Bresser Pereira, 2019). While it would be oversimplified to blame "wrong" economic policies on the significant difference in the outcomes, it is clear that developmental ideologies, such as the structuralists and developmentalists have not reached the lofty goals the defenders of those ideologies had hoped for 60 years earlier.

Using the comparative framework, sociologists have investigated the different performance under the aspect of "discipline" or the failure to discipline the state and its representatives. (Davis 2004). While most of the above discussion has demonstrated the wide difference between larger and smaller economies in the two regions in terms of simple economic indicators, it is more important to examine the major factors which have influenced behavior differently in the two continents. From theories of "relative backwardness" which makes it more urgent to move ahead to religious and ethical differences and of course the simple need to survive against threatening neighbors, as was and is the case in Taiwan and South Korea.

What is, however, particularly interesting in Davis' analysis is the role the agricultural policies in a wider sense have played, avoiding mass migration to urban centers, which were unable not only to employ many of the migrants but also to house and feed them. As Davis put it: "agriculturally based self-employment or the demand of small-scale rural population will generate or sustain a self-disciplinary ethos and is frequently acknowledged in the work of classical consumption." (Davis, 2007, p. 13).

Although the DVM approach and strategy did not get involved into the importance of agriculture for overall economic development and its impact on the wellbeing of the population, transformation, and deployment have been rapid and substantial, particularly in the export area. However, policy makers have been concentrating on supporting technically and financially the ever-increasing large land estate owners, being unable to meaningfully help small scale agriculture and unwilling to get involved in any real land reform. The results have been conflicts at the countryside and an inflow into the large urban centers of the Southern region of the country.

There has been a school of thought, which was closely aligned to the above-mentioned groups, which were united under the banner of the "dependencia" theory, which – simply stated – blamed the above-described failures to perform on the inability of the Brazilian and other Latin American countries' to "free" themselves from the dominant influences and consumption patterns of the advanced countries in general and the United States in particular.

Indeed, there is evidence that foreign investments, which were to support and enhance capital formation in Brazil, were not as fruitful as the major accounts would seem to indicate. Studies on the interrelationship between financial crisis and firms' financial management have shown that through creative invoicing and currency speculation those investors may have earned more net income than through the regular business they pursued at those times, making the financial instead of the production or marketing director the most important manager of those companies (Correa, 2014).

While of relatively lesser importance, foreign investments and capital flows have also played a positive and negative role in East and Southeast Asia. The Asian Financial Crisis in the late 1990s is a spectacular example of the vulnerability of developing countries' companies in over indebting themselves in times of prosperity, only to learn the hard lesson when they are forced to repay early, and during the stabilization process requiring devaluation, losing millions in revenues, and with it incomes. However, while that crisis seemed to have taught those economies an important lesson, which they intended not to engage in large scale external borrowing again, Brazil and its neighbors have fallen to external crises over and over again without being able to build up a system which would be less vulnerable to currency speculation and its damaging results.

Sociologists and anthropologists have also pointed out that – at the end of the day – there are cultural factors which have provided an overarching and crucial explanation for those different experiences between Latin America and East Asia, or such large economies as Brazil and China. The populations of the Americas are largely dependents of immigrants, whose aim was and still is to make it in their new country and show it not only through strong efforts but also generous spending on consumer goods. Often, expenditures and debts were incurred before increases in incomes and profits could be maintained. In short, the capacity to save has been and still is low compared to most Asian countries. Even the best educated and smartest policymakers have no tools to change those patterns, even if one abandons democracy and installs military regimes, as Brazil and its neighbors have tried with apparently little success.

Developmentalism and the Role of the State

It was the French experience, which provided Adam Smith with the empirical evidence to write "The Wealth of Nations" in which he convincingly argued that an economy dominated and interfered by the State into the day-to-day business of farmers, merchants, and the upcoming class of industrialists was neither an efficient nor a benevolent system of running an economy. With powerful examples he demonstrated the efficiency and convenience of a thousand plus individual markets creating the basis for which are called today "market economies." While he did point out the need for a clear legal framework and realized the need of the state in limiting the abuse of market power of firms having either reached a monopoly position or banding together in an oligopoly, he did not specify particular rules for infant industry protection, which was left for economists of the second group of industrializing countries to formulate in the early 19th century.

The establishment of public sector enterprises in key sectors of the Brazilian economy became crucial to boost employment and incomes in the depression years of the 1930s, both at the state and federal level. It continued in the early post-war years, with industrial investments following the major public sector outlays for the infrastructure and energy sector. The commercial banking sector started and remained in private hands, but public enterprises played a major role in the development of financing long term investments. Besides the country's Central Bank, and Bank of Brazil, it was the Brazilian Development Bank (BNDES) which has played a decisive and role in providing subsidized credit for investments of small and medium sized firms. However, most of the credit has gone to "selected" large companies, including supporting their expansion abroad. The concentration of financial resources to relatively few firms does not only contradict the Bank's mission and diffusion goals but also strengthened the capital intensity of the industrial and construction sectors.

With the need to finance rapidly rising public expenditures, the government was able to raise taxes from less than 15% of GDP in the early 1950s to 25% in the mid-1960s and further rise to 35% of GDP by turn of the century. (Taylor, 2017, pp.40-41). The efficiency of the fiscal sector in collecting taxes has dramatically increased but so has the regressivity, which was strengthened over time through the increased digitalization of the fiscal authorities. At the same time, so has the transparency of the tax system, which provides compensation for losses of competitiveness, argued to be a consequence of the high Brazilian tax burden. Despite the rise of public sector revenues, public sector investment has averaged a modest 2% of GDP, since spending on the wage bill and pensions provided a high burden for the government. While the pension reform in 2019 helped to somewhat lower that burden, public sector wage levels compared to private sector wage levels are the highest among a large group of countries (Spilimbergo and Srinivasan, 2017, p.229).

Brazil has indeed done its share of institutional reforms, beginning with the 1988 Constitution, which introduced basic social sector allocation of funds, including earmarked expenditures for education and health, social services and social security, Further reforms followed by the 1995 Plano Real, which tackled the currency and inflation issues, and implemented the1995 Public Management Reforms and the above-mentioned Pension Reform of 2018. These multiple reforms helped to put the Brazilian economy on a more stable level and supported growth at the beginning of the 21st century. However, the remaining instability cannot be solved by long term reforms, which need time to mature and become effective.

Bresser Pereira, who is a strong advocate of the new version of having real development encouraged and pursued, has maintained that the time has come to release the State from the difficult task to force increased savings and investment to a moderate subsidiary position, at the same time as there had to be a shift from import substitution to export promotion (2009). In addition, the acceptance of inflation as a possible stimulus to output growth had to be replaced by a more vigilant attitude towards the danger of stopping runaway inflation.

The New Developmentalism

More recently – in connection with citing leading studies of the successful East Asian Industrialization drive - Bresser added major features of the new developmentalism in Brazil, maintaining that “New Developmentalism acknowledges that industrial policy is a crucial tool for economic growth but understands that a country is developmental if, additionally, it manages well the two. Macroeconomic accounts—the fiscal and the current account—and keeps its five macroeconomic prices right” (Bresser-Pereira 2019, pp.6-7). Those “new” features did not only turn out to be significantly different from the previous characteristics of developmentalism, but they also have major features found in the industrial development policies in East Asia.

In the case of the current account concerns, it is the high volatility of the real exchange rate that increases uncertainty and negatively impacts the investment decisions. Indeed, foreign exchange intervention contravenes the implicit rules of a fixed exchange rate regime and may be seen as a policy of manipulating the real exchange rate to gain or avoid losing international price competitiveness. However, what has been called “exchange rate protection” in the case of some Asian economies, policies brings both costs and benefits. The history of the Chinese experiment with that kind of policy suggests that it was considered successful, losing potential interest income but by keeping the currency from becoming overvalued and contributing to keep industrial output and employment rising and rising in the last three decades (Riedel, 2013).

While the prescriptions for the NDVAM are orthodox and in certain aspects even stronger than practiced in the developed countries, the discussion of getting prices right in the areas of interest rate, wages, profits, and inflation has particular relevance in the area of Brazil’s interest rate policy, which has attempted to have the real rate remaining positive for ordinary credit but not for investment credit as discussed above. That has brought significant distortions not only in the real economy affecting the overall productivity of industry but has also contributed to strengthen the power of large enterprises, which had access to subsidized interest rates. In addition, the impact of the high interest rate on foreign exchange flows contributed to unwanted capital during prosperous times, leading to the overvaluation of the exchange rate.

It would then seem that with a more pragmatic approach, Brazil and other Latin American countries should follow major policy initiative of the East Asian example and succeed in getting towards a higher and more stable growth path, with the caveat that the dependence on world economic development will probably increase. There is some evidence from a number of the Latin American neighboring countries along the Pacific Coast like Chile and Peru that their opening up to global trade in general, and trade with Asian countries in particular, has contributed to stronger economic performance.

Brazil has shown that it can diversify exports, both in terms of products and countries it is trading with. Table 2 gives a brief insight into the efforts undertaken in moving forcefully into export expansion and diversification in the early 1970s, a time when Brazil’s economic growth averaged over 8% p.a. It seemed again to be the case in the early years of the 21st century when the rise of China ushered in a prosperous wave of expansion for many developing countries in general and for resource rich ones like Brazil and its neighbors in particular.

Table 2. *Growth and Diversification of Brazilian Exports (Million US$)*

Type of Products	**1969**	**1974**	**% increase**
1. Primary Products	2,066	5,804	181
2. Manufactured Products	245	2,147	767
3. Total	2,311	7,951	244
4. 2/3	11%	27%	

IBGE, Annuario Estatistico

Four decades later the situation was reversed, as Brazil suffered a fate which critics named “early deindustrialization” (Orero, D’Agostini and Gala, 2020). The three Brazilian authors showed that the share of manufactured to total exports fell from 48 to 37% between 2008 and 2014, and they maintained that 40% of that reduction could be explained with the overvaluation of the exchange rate, or more precisely with the increasing deterioration of the “equilibrium” exchange rates for industrial exports.

In addition, two events dashed those hopes for Brazil to take advantage of the favorable international situation of the early years of the 21st century. The American Financial Crisis of 2008-9, which negatively affected the economic activity in many crucial fields of industry and commerce, and the political crisis during the second decade of the 21st century initiated by a corruption scandal which affected so many firms and politicians that it may be wishful thinking that even the New Developmentalism will lead to success in the near future.

It can be argued that without those two events, the new developmentalism would have worked for the country, and indeed there were many studies in the first decade and the early years of the second decade which praised the progress made and saw a brighter future for the new developmentalism to lead to further economic and especially social progress, including a lowering of the vast income distribution gap between the top 10% and the rest of the population. (Wogart 2010, Calcagnotto 2014).

The most recent comprehensive study, which concentrates on the viability of the developmentalist approach, old or new, is of another opinion, maintaining that the old ideas of structuralism and developmentalism continued to act as a “ballast” for pursuing rational economic policies. Through the creation of a “hierarchical market economy”, still dominated by the state and a small number of both international and national large firms, which entertained close contacts with politicians and the state bureaucracy, preventing innovation, competition, and discipline. (Taylor, 2020; Dubar, 2021).

Seen in that context, the corruption scandal concentrating on PETROBAS, Brazil’s powerful state-owned petroleum company, is probably less an exogenous event as discussed above, but an unfortunate outcome of the very structure of Brazil’s political economy, which has little changed over the last 80 years. The belief of many Brazilians that a due legal process of pursuing the participants of that scandal in detail and without any interference by political or business elites turned out to be naïve, with the revelation that there is not only a serious problem in Brazil’s legal system, but also with its major representatives.

Developmentalism and Politics in Brazil

In a country in which one of the most successful heads of state in recent times called himself an “accidental president” it is not difficult to accept President de Gaulle’s opinion, expressed during a 1960s’ state visit, when he was wondering whether the country was really seriously pursuing effective policies. Brazil has shown that it can live up to foster development within a democratic framework. What is missing is to identify, agree on, and confront the basic obstacles, which are both in the economic and the political sphere.

Sixty years earlier, Skidmore had already wondered whether a relatively stable economic and political development could be achieved under the kind of democracy under which Brazilians had lived in the early post war years (Skidmore 1967). He maintained that three conditions had to be met including a sound technical assessment of the situation, the selection of a strategy for action, and the construction of a sound political base for the complementary strategy to be adopted. While he found that the first two conditions had been met in the late 50s and early 60s, it was clear then and it has been more obvious ever since that the last condition has not been accomplished by the multitude of political parties and their mixed class and sectional basis with an underlying party structure making it difficult if not impossible to establish a broad basis for joint decision making.

Taylor has gone into greater detail, recognizing “incentive alignments across complementary institutions” which are malfunctioning in an “ineffective developmental state” He examined the interrelationships among four elements in the Brazilian “development state”, which include: (1) the electoral system and the resulting coalitional presidentialism; (2) a hierarchical firm structure within a developmental state economy (3) an autonomous rapidly growing bureaucracy and 4) weak control mechanism to step in when the interactions among those institutions become either too friendly or confrontational (Taylor, 2020, Chapters 5-7).

It is then no surprise that this constellation of institutional forces has chosen “developmentalism” as the most appropriate and most acceptable economic strategy to pursue, were it not for times when high inflation and serious balance of payment problems forced policy makers to adopt “orthodox stabilization” measures. While the combination of those characteristics made the model work satisfactorily in good times, it revealed its weaknesses during times of crisis. not only caused by exogenous but even more endogenous factors, which Taylor characterized as “weak control mechanisms” including a judicial system incapable to throw off its long-lasting negative traditions, which have hampered rather than furthered innovation and development. That problem became a renewed issue as the judicial branch was stepping over its boundaries during the recent corruption scandal, exposing a large number of politicians, businessmen and bureaucrats, and did not stop the third branch of government to interfere in the political process of the 2016 election.

In that context it has to be remembered that even at the best of all times, the close connection between the developmental state and corruption have been part of Brazilian political economy. As Skidmore pointed out that "Kubitscheck's freewheeling developmentalism seemed to carry with it many of the unsavory features of the Vargas era- corruption and political favoritism that middle class voters censured" (Skidmore, 1967, p. 169). In a country, in which the developmental state and the developmentalist strategy have to cope with coalitional politics and weak control mechanisms, it becomes clear that there are multiple conflicts and contrary directions, which make a sound economic and social policy framework unlikely to emerge.

Summary and Conclusions

The purpose of the essay was to consider the strengths and weaknesses of a development strategy which has been shared by a majority of the Brazilian population, as well as their elected and non-elected leaders for close to a century. An attempt was made to lay bare the facts why it ran into trouble so many times. Some simple statistics were discussed, indicating the basic shortcomings of fundamental factors in the Brazilian development process, such as the fragile and insufficient formation of human and physical capital formation, required to support Brazil's economic growth in the last 75 years, and then explore which social and political factors lie behind those shortcomings to reach the necessary higher levels of domestic savings and investment in public and private enterprises engaged in infrastructure and industry, fundamental for continuous economic growth and prosperity.

While the developmentalist ideology played a leading part in the formation and execution of the country's economic strategies and policies, it was not able to overcome those fundamental weaknesses of "dependent" development. Unfortunately, that strategy made it possible for major industrial firms to keep being protected for too long a time, leading to inflationary and foreign exchange problems, both of which led to "orthodox stabilization" attempts, none of which achieved an enduring success in shifting the incentive system to those variables important for long run economic growth and expansion. In that respect Brazil is sharing the fate of the majority of the Americas, whose levels of per capita incomes and wealth have lost out to an increasing number of countries in East and South Asia to pass them by and with it making a new dependence on that part of the world increasingly. possible.

Worse than those constraints mentioned above has been the inability to reign in corruption, which Brazil experienced to an ever-increasing degree, resulting in the PETROBAS scandal, which demonstrated that formation and nurturing of public enterprises, which had been considered a strengthening force of a successful developmentalist strategy, turned out be its Achillean heel. Even worse, the judicial branch of government, which was trusted by the population for period of several years, since having full access to material and witnesses of the scandal, abused that information to stop the re-election of Brazil's most popular ex-president in 2017.

If the developmentalist strategy has failed its basic mission and is too "decadent" to be revived, the question then would be, if there are alternatives for the coming years and decades? Neither the "orthodox" nor the "radical socialist" model would seem to have a chance to play a role in helping Brazil recover and move forward again. As important as the ECLA doctrine has been for realizing the necessity to push full industrialization in a large country like Brazil, it has not been able to fulfill its promise to transform the economy and bring it substantially closer to the level of the OECD countries.

As to the role of the New Developmentalism and its major features expressed by Bresser Pereira and discussed above, it is too early to evaluate if policy makers of the new Lula government will be able adopt it successfully, since it would upset the interests the reigning power of the triumvirate i.e. large local firms, public enterprise and bureaucracy and foreign investors. In addition, labor unions would also object, since the prescribed tools of the structural shift of the economy will affect them more seriously than the other three dominant groups in the Brazilian economy.

There seemed to be an alternative to lessen dependence when Brazil became part of four major developing countries to form BRICS, joining Russia, India, China, and South Africa forming a coalition of the largest and most important middle income countries to strengthen the developing world's power at the international economic and political level. By becoming an active member of close economic and political relations by these other "emerging economies", it seemed that the coalition of the largest and most advanced developing countries would indeed become a countervailing power to the OECD economies in general and the USA in particular. The basic idea was to lessen dependence on the decisions of the ruling members and with it increase the freedom of action in a number of policy areas.

However, the BRICS countries form a heterogeneous coalition of often competing powers that seem to share some fundamental political objectives, such as eroding Western hegemonic claims by better protecting BRICS countries' political sovereignty. It has also become possible for representatives of these countries to increasingly penetrate and participate in multinational gathering and decision making, as well as achieve more power in international organizations. However, it has not been possible to be represented as a powerful single block, which has been able to critically change the economic order of world trade and investment. With the major aim remaining to keep and foster the sovereignty in each country and possible conflicts still lingering among members, as is the case between the two largest members China and India, adjustments to worldwide developments mainly – while not exclusively - originating from the richer countries will have to be made in Brazil for the coming decade.

Seen in that context, it would seem that at least part of the New Developmentalist ideas with a pragmatic policy prescription may have a chance to be influential in economic and social policy making in the coming years. (Ferrari and Terra 2023). Among those proposals, changes in exchange and interest policies would be probably the least objectionable changes.

Similarly, the lowering of the power of the state and its enterprises has been already undertaken and could be reconsidered and continued. As shown above, in undertaking the pension reform, proposed fiscal reforms have a chance to be implemented, even if they are incomplete and require additional efforts to make them fully effective. Last but not least, the proposed shift for industry towards openness will require a complete review and some reversal of the multiple and often contrary and opaque incentive system, which the state has been actively pursuing.

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