5th Workshop on New Developmentalism: Theory and Policy for Developing Countries

Session:
New developmentalism, the exchange rate, and the case of Brazil

"The prosperous years of 2004–2013
and new developmentalism"

Demian Fiocca

The background debate

Mainstream media and liberal economists:

*"A look at the trajectory of the Brazilian economy in the last four decades, when the pace of growth dropped to a level well below the one recorded in previous decades, shows that, most likely, the country has not yet finished dismantling the development model that failed in 1982." **

Two messages:

(1) "Last four decades" comprise a single economic phase;

(2) The incumbent economic policies would not be accountable for the economic performance. Whatever was unsatisfactory, it is "previous model's fault".

* Cristiano Romero, "Brazilian stagnation", Valor Econômico, 01/29/2020.

The background debate

“ New developmentalism attributes the quasi-stagnation of Latin American countries, including Brazil, since 1990 to three policies and one omission:

(a) trade liberalization, which meant that the country failed to neutralize the Dutch disease through import tariffs and export subsidies on manufactured goods;

(b) financial liberalization, which eliminated the possibility of enforcing the country having an exchange rate policy; and

(c) the establishment of a high-interest rate level around which the Central Bank manages the perform its monetary policy. (…)

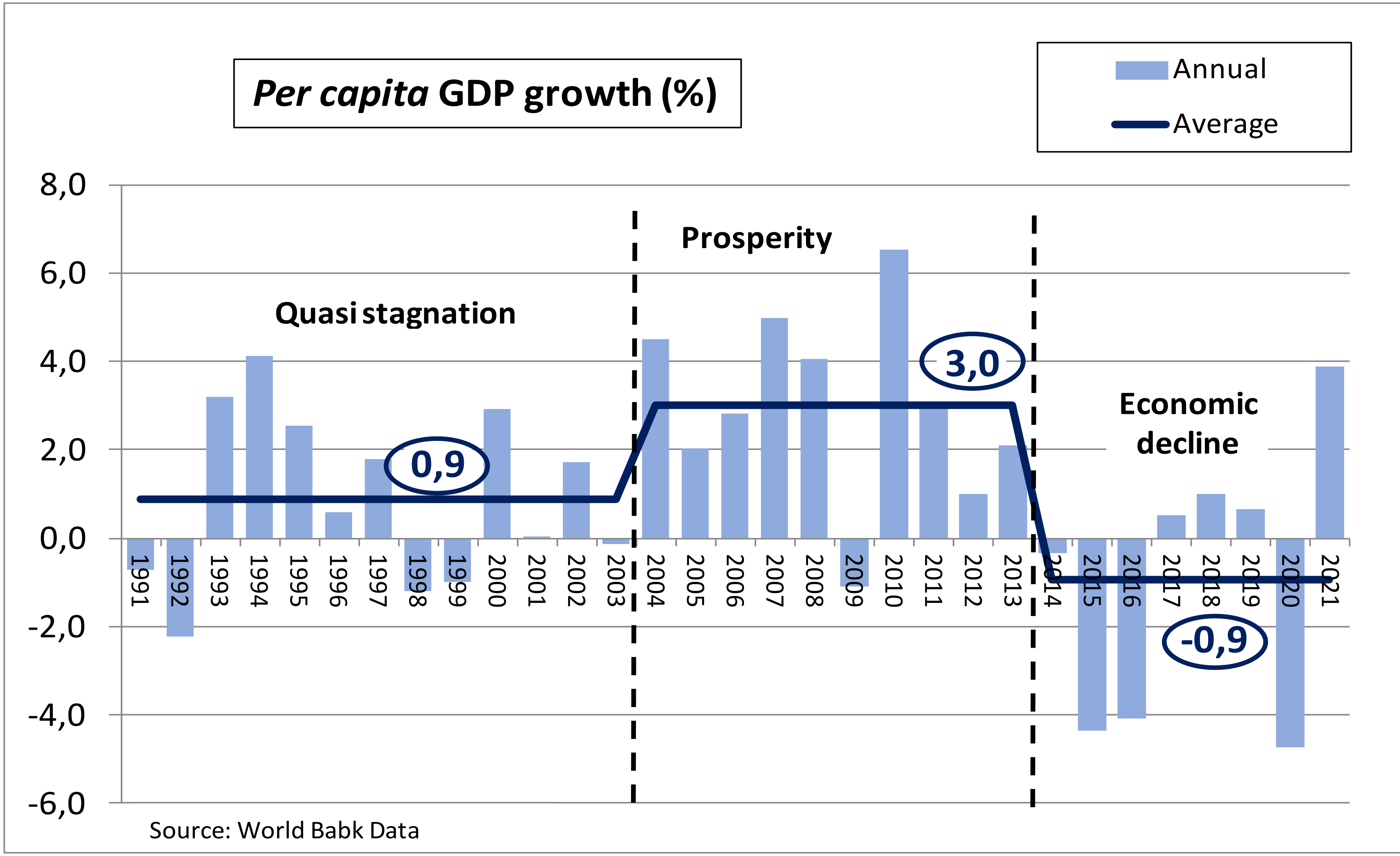
*(d) The political omission refers to the government's lack of interest in increasing public investment “ **

Bresser Pereira questions message (2)

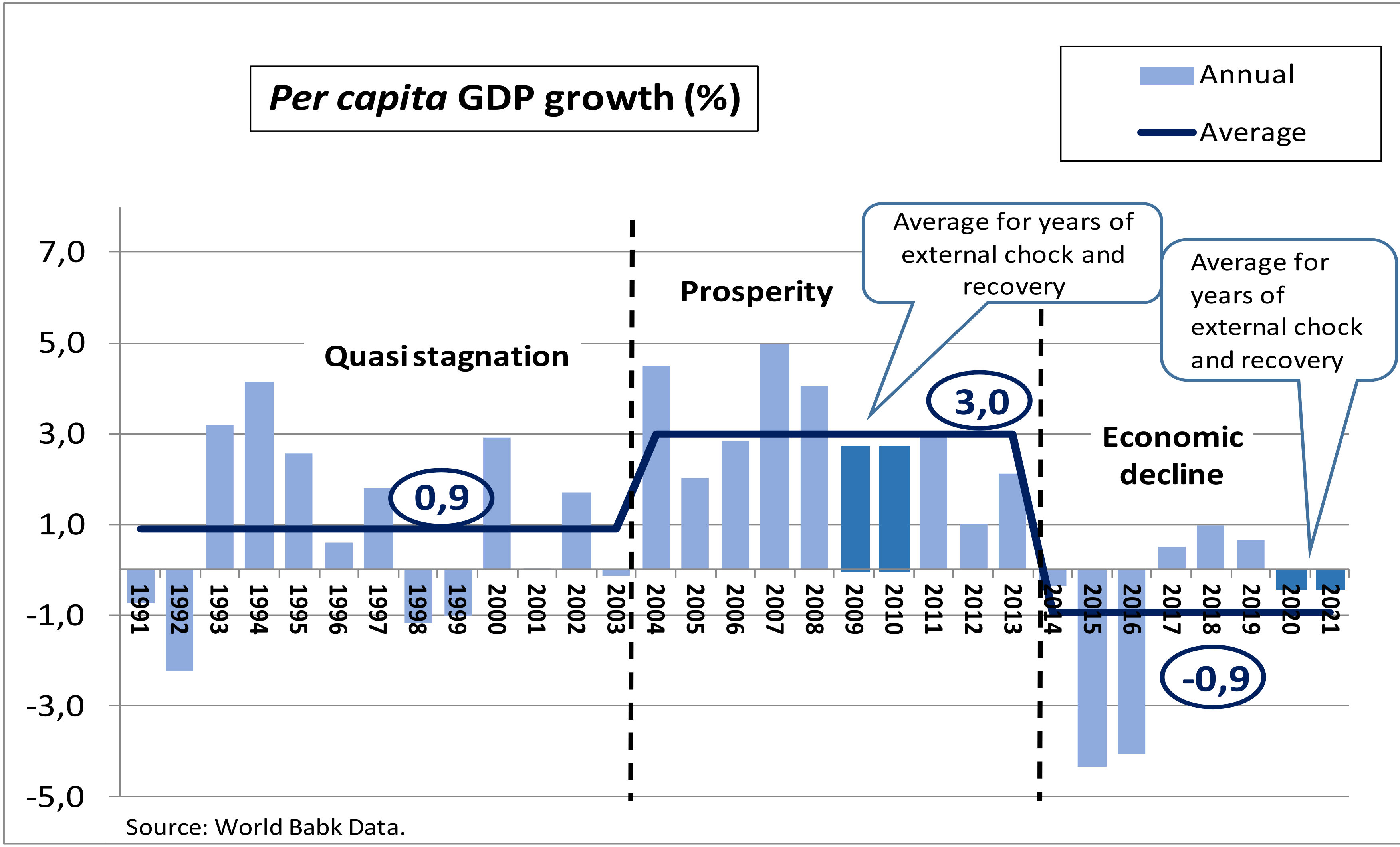
This article questions message (1)

* Bresser-Pereira, Luis Carlos, “Brazil’s quasi-stagnation and the new developmentalism". Brazilian Journal of Political Economy, vol. 42, no. 2

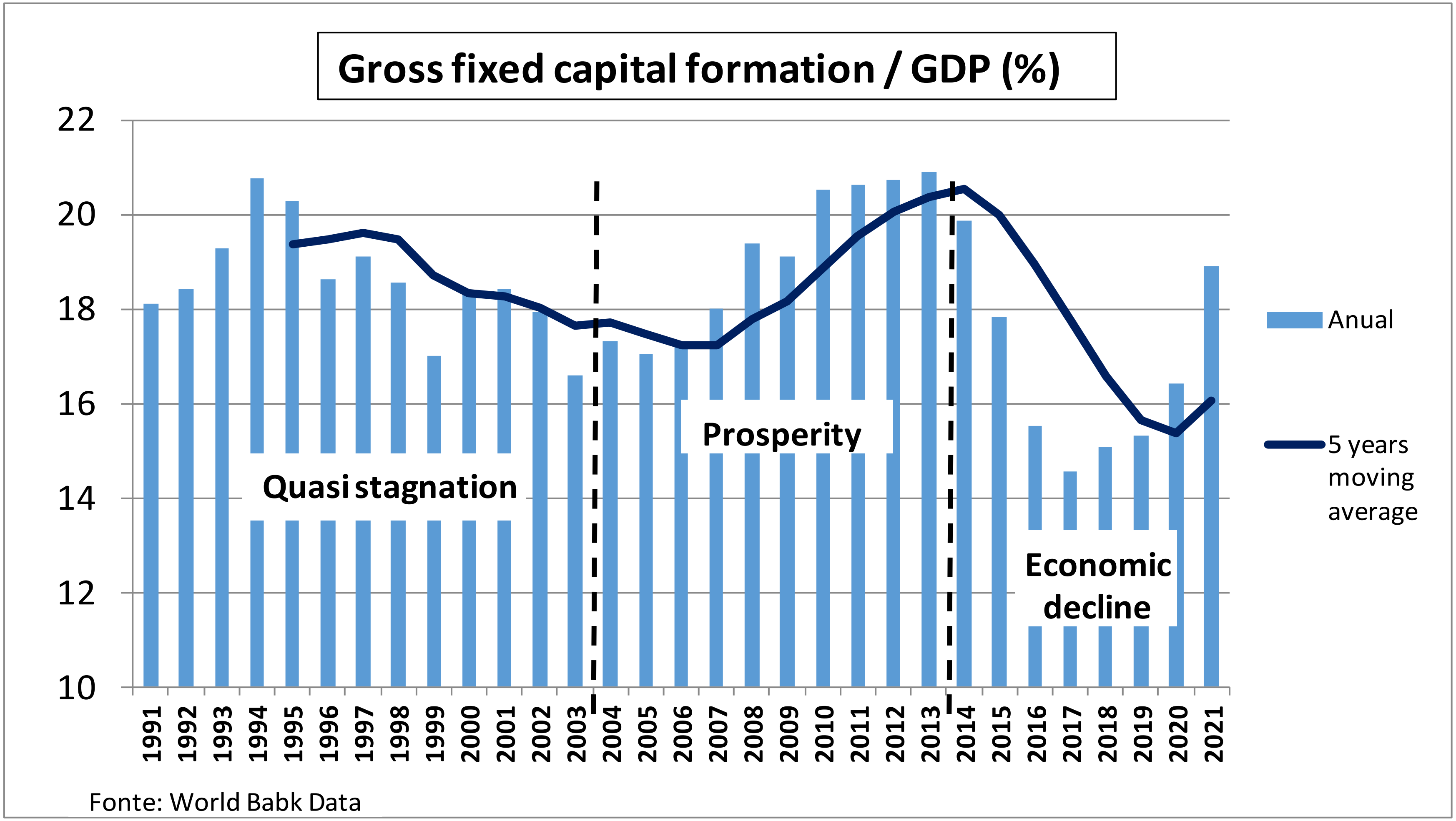
The 1990s and up to 2003 can be described as a time of short periods of growth, interleaved with recessions and stagnation years. One can call those years as a "quasi stagnation" phase.



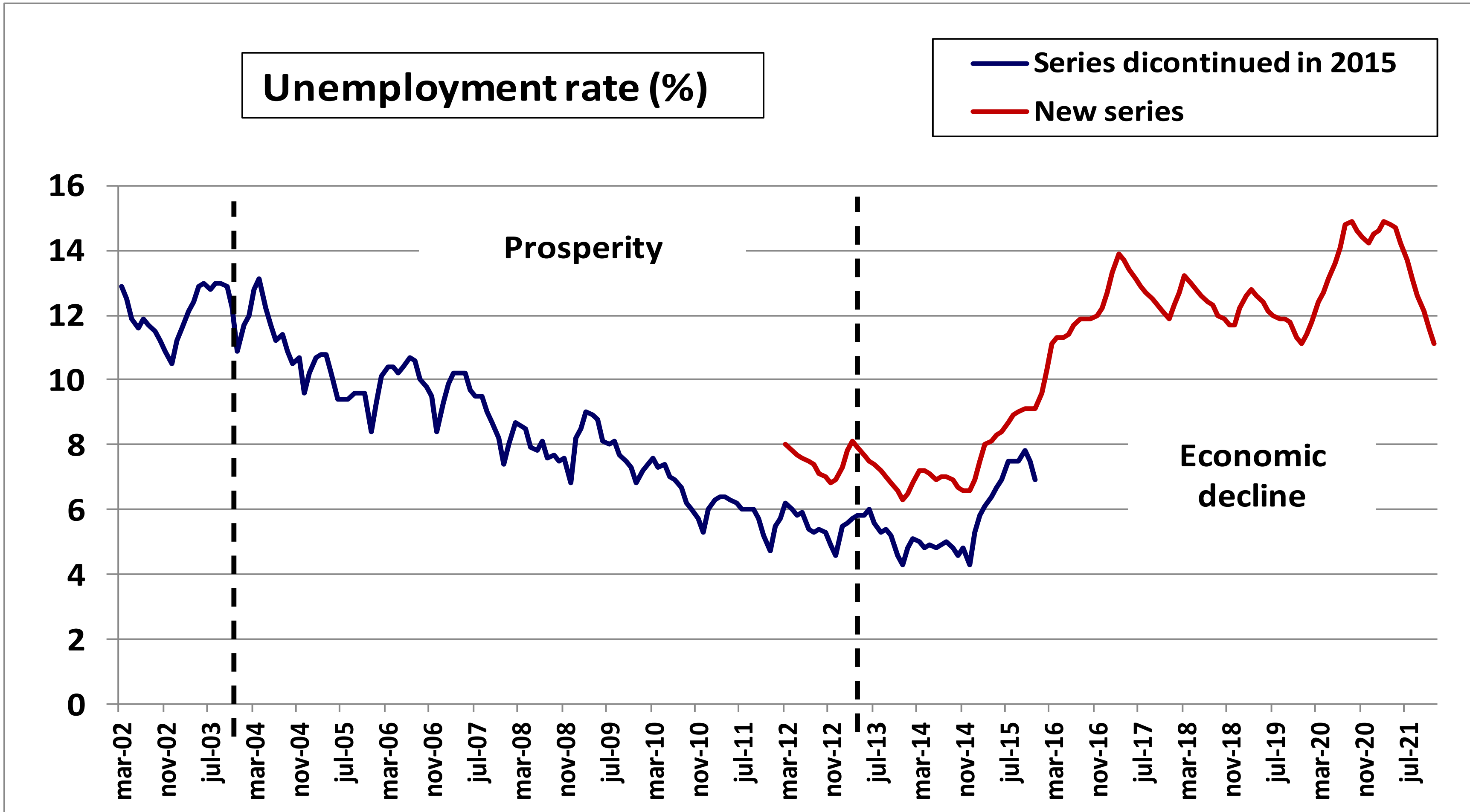
From 2004 to 2013, on the other hand, there were 10 years of consistent growth.
In contrast, during 2014-2021 Brazil experienced a clear economic decline.
This statement holds even if we consider the external chocks of 2009 and 2020.



A way to check if economic growth of a given year is a short lived demand bubble or if it is consistent with a sustained growth path is to check the behavior of investment. Until 2003 the path of GFCF/GDP corroborates a weakening economy. From 2004 to 2013, a healthy resumption of investment supports consistent growth.

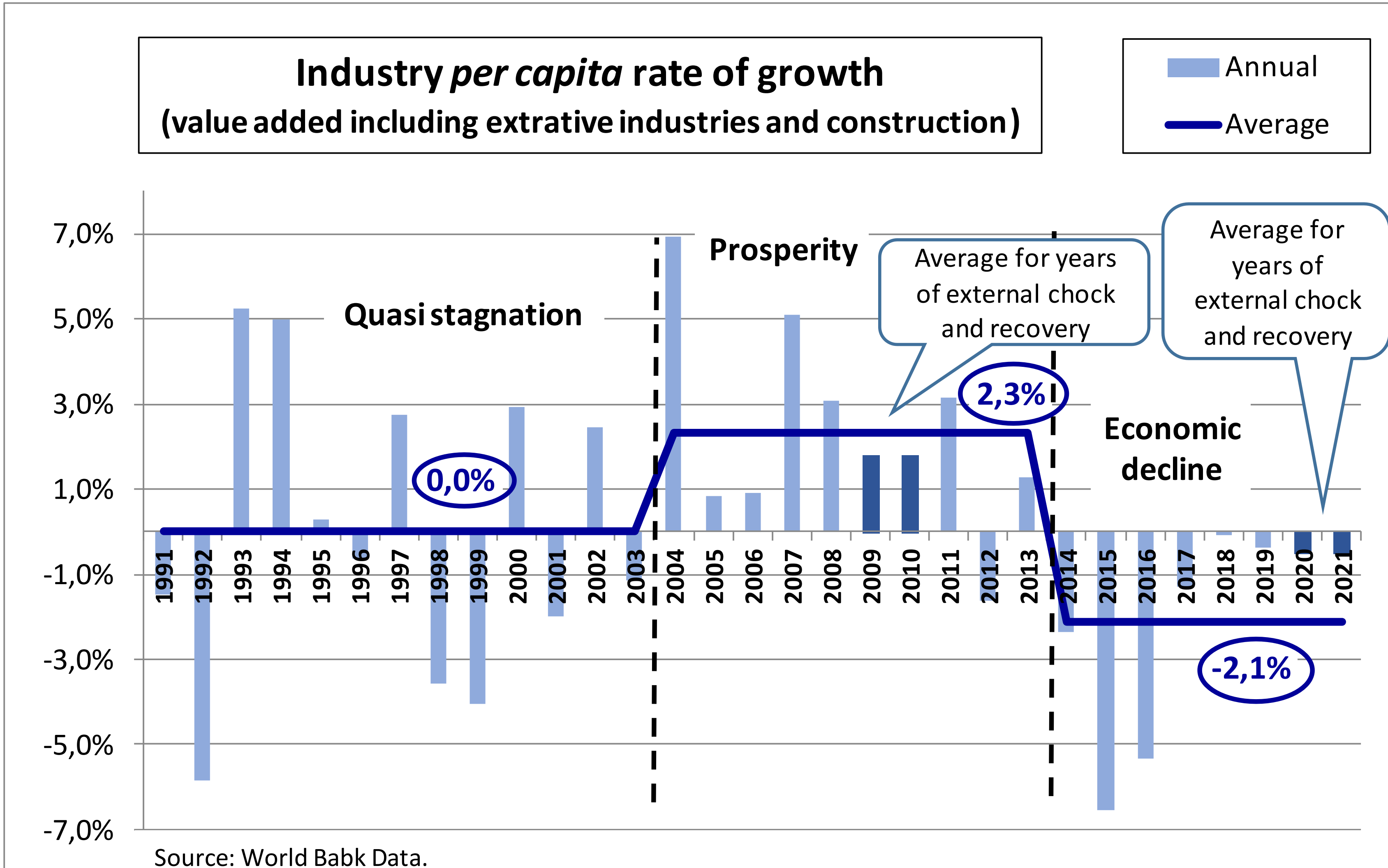


The rate of unemployment is one of the most relevant economic variables to access the state of an economy. The period of 2004-2013 shows an almost text-book growth period, with continuous decline in unemployment. The shift from 2015 on is quite clear as well.



Fonte: IPEA Data

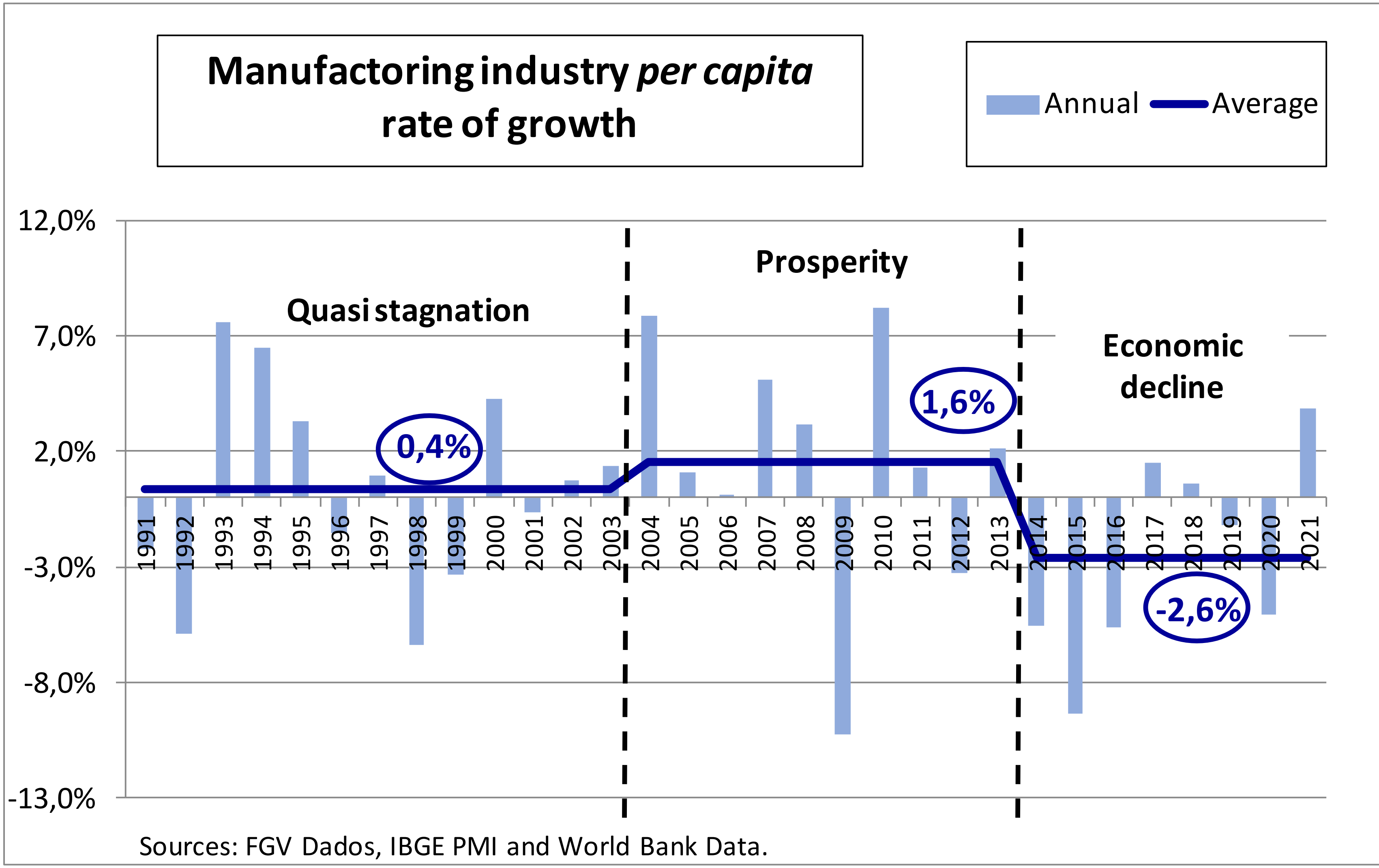
Industry, including manufacturing, extractive and construction industries, show phases very similar to GDP, thus confirming , once more, a clear difference among the three economic phases.



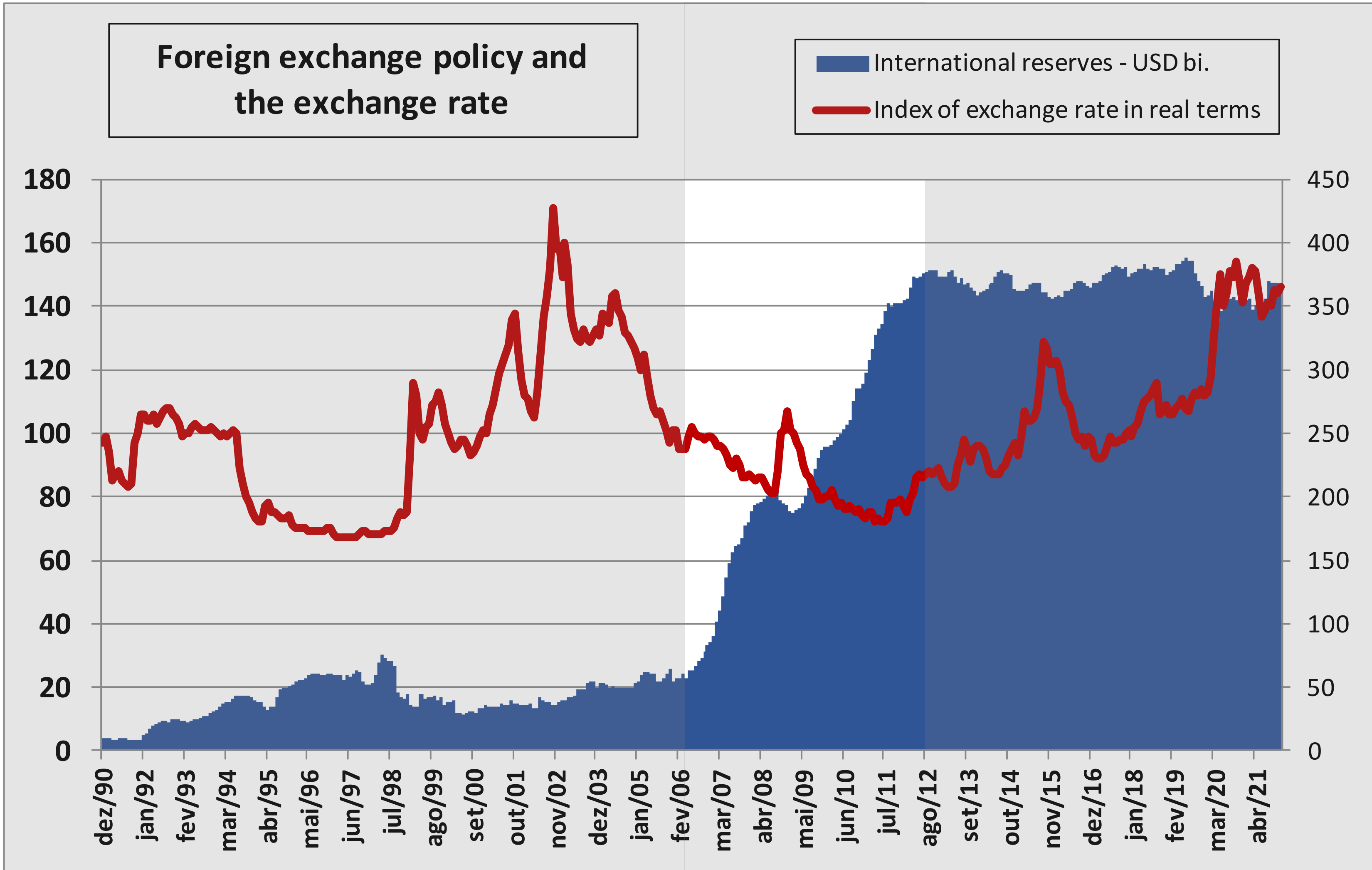
It is very unlikely that any comprehensive economic program will meet political and economic conditions to be implemented in its entirety.

The decade of 2004-2013 and new developmentalism - compatibility check	
Effective exchange rate	−
Policy stance towards FX market	+
Monetary policy	+/−
Securing aggregate demand	+
Actions to prevent financial instability	+
Capital accumulation to support development (GFCF/GPD)	+
Not to rely excessively on foreign savings	+
Structural change	
Manufacturing industry	−
Modern extractive industries and infrastructure	+
Improve quality of jobs	+
Public investment	+
Policies toward social improvement	+
Planning, industrial policies and regional development	+

Manufacturing industry growth during the prosperity years was modest, probably due to an overvalued exchange rate. Nevertheless, the sub-sector still had a better performance during the prosperity decade.



The Brazilian Real has appreciated during the years 2006 to 2012 as a result of booming commodities prices. But that happened *despite* policy interventions in the foreign exchange market directed to mitigate or reverse such effect.



Source: Banco Central do Brasil

Considering (i) that what new developmentalism considers to be an unfavorable legacy from the 1990s was partially in place and (ii) that the exchange rate was below the industrial equilibrium, the article lists other policies and circumstances which might explain the 10 years of economic growth and social improvement.

Circumstances and policies that may have contributed to 10 years of prosperity	
Sizing the opportunity given by a commodities boom to strongly build reserves, an insurance against the repetition of Balance of Payments crisis	✚
Expansion of social programs and implementation of a long term policy of gradual increases in minimum wage	✚
Increase investments by state owned companies	✚
Increase investments by the Government	✚
Expansion of credit from public banks to the private sector in attractive terms to promote investments	✚
Sizing the pre-salt discoveries and the high price of oil to boost the development of supply chains of the O&G industry by a set of policies	✚
Boost the housing construction industry through a set of new policies	✚
Very successful management of counter-cyclical policies in response to the 2008-2009 international financial crisis	✚

Conclusions

1. Brazilian economic performance during the years 2004-2013 was markedly different from that of 1991-2003 and of 2014-2021.

2. The decade started in 2004 shall be highlighted as a successful phase of Brazilian economic history. Actual data on growth, investment, employment and most of economic and social statistics say so.

3. The pertinent criticism of an overvalued exchange rate shall not prevent new developmentalism from underlying a decade of prosperity achieved under social-democratic policies, nor to disregard a more detailed research on which policies helped explain the success of that period and may be emulated.

Thank you!