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The prosperous decade of 2004-2013 and new developmentalism

A década de prosperidade de 2004-2013 e o novo desenvolvimentismo

DEMIAN FIOCCA*

RESUMO: Desde os anos 1990, a economia brasileira passou por três fases marcadamente distintas: 13 anos de quase estagnação (1991 a 2003); 10 anos de prosperidade (2004 a 2013); e 8 anos de declínio econômico (2014 a 2021). Importantes autores novo-desenvolvimentistas apontam políticas introduzidas nos anos 1990 como causas da redução no crescimento. Este artigo sustenta que, mesmo que tal hipótese esteja correta, é inadequado tratar os últimos 30 anos como uma única fase econômica. O trabalho também compara as políticas de 2004-2013 com as recomendações desenvolvimentistas, concluindo que na maior parte são compatíveis. Por fim, aponta mudanças ocorridas no contexto internacional e brasileiro entre os anos 1970 e a atualidade, que reforçam a importância de analisar a experiência de crescimento mais recente.
PALAVRAS-CHAVE: História econômica do Brasil; desenvolvimentismo; progresso social.

ABSTRACT: Since the 1990s, three different phases marked the Brazilian economy: a 13 year long “quasi-stagnation” (1991-2003); a decade of prosperity (2004-2013); and an 8 year period of economic decline (2014-2021). Leading new developmentalist authors identify policies introduced in the 1990s as causes of slower economic growth. This article argues that, even if that hypothesis is correct, it is still inadequate to treat the last 30 years as a single economic phase. We then compare policies implemented in 2004-2013 with developmentalist recommendations, concluding that most of them are compatible. Finally, the article highlights changes in the international and Brazilian contexts between the 1970s and the present, which reinforce the importance of analyzing the most recent growth experience.
KEYWORDS: Economic history of Brazil; developmentalism; social progress.
JEL Classification: N1; B5; O54; N16.

* Doctoral student of development economics at Faculdade de Economia e Administração da Universidade de São Paulo – FEA-USP, São Paulo/SP, Brasil. E-mail: dfiocca@uol.com.br. Orcid: https://orcid.org/0000-0002-6837-4477. Submitted: 4/April/2022; Approved: 11/May/2022.

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INTRODUCTION

Economic growth, social progress, and building a nation that is capable of carrying out its own development project can be considered to be the great aspirations of the developmentalist thought. These are objectives that should be linked.

In contemporary history, industrialization was a significant parameter of development. Initially in Europe and later in countries worldwide, industrialization helped increase the production capacity at an unprecedented rate. As rising productivity and social fight lead the working conditions in industry to surpass the very poor standards of the early periods from the late 18th to early 20th century, jobs in industry come to be differentiated as more skilled and better paid positions. Currently, industrial workers have a higher income level than those in entry-level positions in the agricultural and service sectors. The more qualified nature of an industrial worker confers greater prestige. Industrialization has been a source of social progress.

1. THE LONG PERIOD OF INDUSTRIALIZATION AND GROWTH

In Brazil, the period from 1930s to 1970s was marked by high growth rates. The state was directly involved in establishing fundamental industries, and policies were implemented to promote the development of national private industries, mostly through import substitution. The country has thus built an important industrial park. Such economic process was associated with urbanization, the expansion of middle classes and the formation of working classes with higher qualification and income levels than those of the rural worker. Equally important, industrialization was a process that transformed the economic structure toward greater complexity and technological sophistication boosting productivity and per capita income.

In the 1940s to the 1960s "developmentalism" or "development economics" as Hirschman calls it, provided theoretical foundations to the notion that "certain special features of the economic structure of the underdeveloped countries make an important portion of orthodox analysis inapplicable and misleading".[1] In Latin America, the works of Raúl Prebisch, Celso Furtado and others legitimized industrialization as a goal and a greater role for active economic policies and state intervention in promoting economic development.

Disadvantageous conditions in international trade should be addressed through tariffs, subsidies, and exchange rate measures. In Brazil, given the still incipient levels of private capital accumulation, state companies accelerated the construction of capital-intensive basic industries (e.g., mining, steel, oil & gas and power generation) and national infrastructure. The participation of the state in the coordination of a development strategy would contribute to the formation of a class alliance that favored industrialization.

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[1] Hirschman (2013, p.53).

In the description given by Bresser-Pereira of the conceptions of the Economic Commission for Latin America and the Caribbean and that of important nationalist intellectuals of the 1950s and 1960s:

> [The] development should be the result of a national strategy defined with the participation of national bourgeoisies and state technicians.
>
> (...)
>
> [The] development of underdeveloped countries would only be possible if it were the result of planning and strategy, with the State as the main agent.
>
> (...)
>
> Development is a process of capital accumulation and incorporation of technical progress, through which the population's living standards increase in a sustained manner.[2]

2. THE CRISIS OF THE 1980S AND THE QUASI-STAGNATION OF 1991-2003

In the 1980s, the Brazilian economy was deeply affected by the external debt crisis and by a fiscal crisis. The country suffered strong restrictions on imports, two recessions, and uncontrolled inflation. The country's re-democratization and the 1988 Constitution promoted important advances in social rights; however, such policies also exerted fiscal pressure on public investment.

The extended period of crisis and the inability to provide a lasting solution to the high inflation rates contributed to the rise of a more conservative agenda, less committed to industrialization and economic growth and more focused on controlling inflation. At the end of the decade, a process of import tariff reductions and privatizations of smaller companies began.

With the Brady Plan for restructuring and securitizing defaulted sovereign debts of developing countries, the foreign debt crisis was finally overcome in the early 1990s. Since its first version, sponsored by Baker, Secretary of the Treasury before Brady, the indebted country was required to promote reforms toward trade liberalization, a more liberal stance in relation to foreign direct investments, and promote privatizations:

> The plan called for structural reform by the debtor countries. It stressed three areas: trade liberalization, the liberalization of policies toward direct foreign investment, and reform of the state enterprise sector, including through privatization.[3]

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[2] Bresser-Pereira (2005, p.201; 208).

[3] Cline (1989, p.3).

In the 1990s, trade liberalization policies are deepened, with lower import tariffs. The privatization process is expanded, reaching some of the most important companies in the country. Further liberalization of the Balance of Payments capital account is promoted.

In mid-1994, the "Plano Real" (Brazil's new Currency Plan) managed to eliminate inertial inflation and, once access to international financial markets had been restored, the US dollar was used as the nominal anchor for the new Brazilian currency. In the weeks following the monetary reform, given the inflow of short-term resources, the Central Bank allowed the nominal exchange rate to appreciate from 1.00 R$/US$ to 0.83 R$/US$.[4]

As of 1995, the Central Bank adopted a crawling peg exchange rate regime. The real exchange rate was then maintained at a stable and overvalued level for four and a half years, supported by double-digit interest rates in real terms.

In January 1999, after losing reserves for months, the floating exchange rate regime was eventually adopted, and the Brazilian Real suffered a 50% devaluation.[5] In 2000, once the depressive effect of the exchange rate appreciation had been overcome, the economy stabilized and was able to resume growth. However, an energy crisis slowed economic growth in 2001 once again, and GDP increased by only 1.4%.[6] In the second half of 2002, a new confidence crisis and pressure on international reserves caused strong exchange rate depreciation and high inflation, which rose by 3.0% in a single month (November/2002). By the end of the year, the National Broad Consumer Price Index (IPCA) had risen 12.5%. The 2003 economic growth was then compromised by contractionary policies – fiscal restraint and higher interest rates-aimed at reversing inflation and the external crisis.

Thus, between 1991 and 2003, the Brazilian economy went through a period of quasi-stagnation, with an average per capita Gross Domestic Product (GDP) growth of 0.9% per year.[7] During those years, industry value added per capita growth was 0,0%,[8] and manufacturing industry per capita growth averaged only 0.3%.[9]

3. THE DECADE OF PROSPERITY (2004–2013)

In 2004, the country began a phase of 10 years of prosperity. Despite facing, in 2009, the world's worst financial crisis since 1929, Brazil's per capita GDP growth

[4] Banco Central do Brasil (2022a)

[5] Banco Central do Brasil (2022a).

[6] World Bank (2022a).

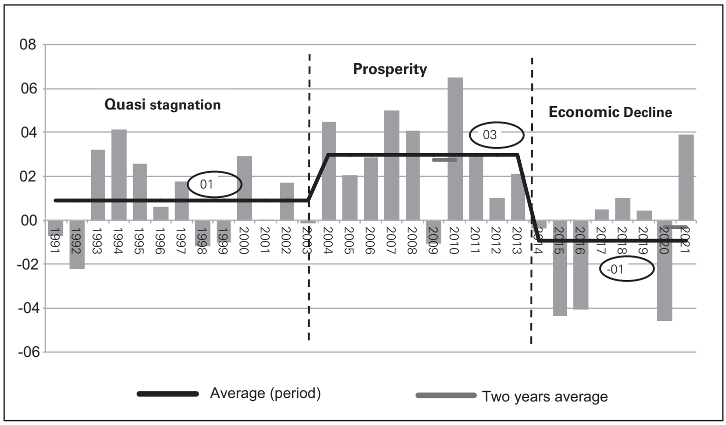
[7] World Bank (2022b).

[8] World Bank (2022c, 2022d).

[9] Fundação Getulio Vargas (2022); Instituto Brasileiro de Geografia e Estatística (1992, p.8); World Bank (2022d).

averaged 3.0% per year between 2004 and 2013,[10] close to the 3.7% benchmark that the fast-growing countries of East Asia (except China) have shown between 1991 and 2019. [11]

Graph 1: *Per capita* GDP growth (%)



Source: World Bank (2022b).

Industry per capita value-added rose by 2,3% per year[12] and per capita growth of the manufacturing industry was 1.5% per year on average during these 10 years.[13]

From 2004 to 2013, there was a consistent increase in the Gross Fixed Capital Formation (GFCF) as a percentage of GDP. The indicator, which had been declining since 1994 and reached only 16.6% of GDP in 2003, started to grow consistently from 2005, reaching a peak of 20.9% of GDP in 2013, with an average of 20.2% between 2008 and 2013.[14]

Not only investment is a key variable to improve productivity and per capita income, but, more specifically, the behavior of the GFCF/GDP is an important indicator to verify the consistency of economic growth. It is appropriate to attribute fragility to economic growth when short-lived GDP growth episodes happen on an eroding base of falling GFCF/GDP, as occurred in the 1991-2003 period. In contrast, except for a single year (due to an indisputably external event), in the period 2004-2013, the GDP grew practically every year, based on a consistent trend of increasing GFCF/GDP.

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[10] World Bank (2022b).

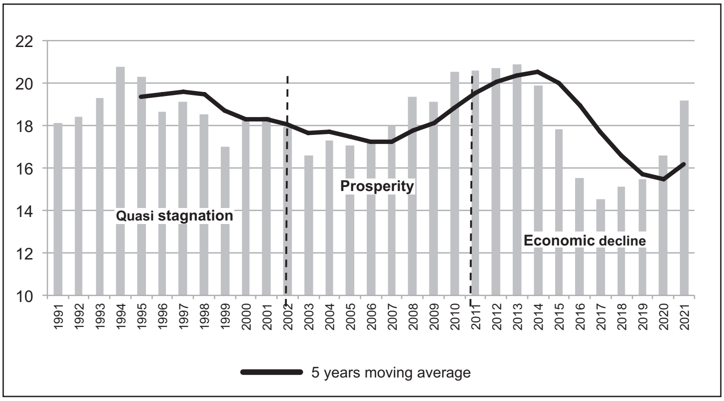
[11] Bresser-Pereira (2022, p.505).

[12] World Bank (2022c, 2022d).

[13] Fundação Getulio Vargas (2022); World Bank (2022d).

[14] World Bank (2022e).

Graph 2: Gross Fixed Capital Formation/GDP (%)



Source: World Bank (2022e).

That period also marked a more accelerated reduction of inequality. The Gini index gradually dropped to 0.527 in 2013, from 0.583 in 2003.[15] Although the income share of the poorest 20% of the population in relation to total income remained very low, due to the historic concentration of income in Brazil, it rose by 35%: from 2.6% in 2003 to 3.5% in 2013. The share of the population below the poverty line decreased to 19.9% in 2013, from 41.5% in 2003. The percentage of the population below the extreme poverty line was reduced even more dramatically, to 3.2% in 2013, from 11.0% in 2003.[16]

These were years of robust employment growth. The unemployment rate dropped consistently during the period, to 5.4% on average in 2013, from 12.3% on average in 2003.[17] With a more than proportional increase in registered employees, the quality of jobs improved as well. The informality rate was reduced to 30.8% of the employed workforce in 2013, from 40.6% in 2004.[18]

Regional inequalities were reduced, with increased growth and rapid improvement of economic and social indicators in the North and Northeast regions of the country. The expansion of access to electricity for rural populations was promoted, in addition to an increase in the access to bank accounts, which helped reduce an important aspect of social exclusion. Furthermore, there was a significant increase in the number of university and technical school students, a strong expansion of funds for primary education transferred from the Federal Government to states and municipalities. The construction of affordable housing reached a much higher lev-

[15] Instituto de Pesquisa Econômica Aplicada (2022a).

[16] World Bank (2022f, 2022g, 2022h).

[17] Instituto de Pesquisa Econômica Aplicada (2022b).

[18] Instituto de Pesquisa Econômica Aplicada (2015, p.318).

el. In short, it was a decade of significant progress, not only in terms of the main economic indicators but also in terms of social policies and indicators.

4. THE 2014 CRISIS AND THE SECOND CONSERVATIVE WAVE

A wave of demonstrations, known as "the 2013 protests," in Brazil was organized in different cities through social media. At first, state and municipal issues, such as subway and bus fares, were highlighted. However, the agendas significantly varied and also affected the federal government, which eventually became the main target.

In 2014, Operation Car Wash (Operação Lava Jato) and its consequences intensified the process of political destabilization. Finally, in 2015, efforts to begin an impeachment process were initiated in Congress, thereby effectively obstructing governability.

In May 2016, the President was impeached and the new government adopted an agenda of conservative economic reforms.

Despite contractionary monetary and fiscal policies being among the obvious causes of the 2015 recession (they were openly championed by the Central Bank and the economic authorities at the time to curb inflation[19]), the new government claims that the resumption of growth would be achieved by tighter restrictions to public spending, including investments, by the reversal of economic promotion policies, and resumption of conservative economic reforms.

Thus, between 2016 and 2019, the Government approved a ceiling on public spending for the following 20 years, implemented a labor reform aimed at not only amending excesses in the labor case law but also weakening unions, and sponsored a pension reform. Promotion policies were treated as distortions, and the Congress approved the replacement of the long-term interest rate (TJLP) by a new long-term rate (TLP), thereby increasing the cost of the National Bank for Economic and Social Development (BNDES) loans for the private sector. From 2016 onward, under the new management, BNDES disbursements significantly declined.[20]

In October 2018, Paulo Guedes, who would be appointed to the Ministry of

[19] The Central Bank promoted consecutive increases in the Selic rate, starting from 7.25% in 2013 and reaching 14.25% in mid-2015 (Banco Central do Brasil, 2022d). The recessionary nature of the deflationary policy was explicit. In its 192nd meeting, in mid-2015, the Monetary Policy Committee (Copom) reiterated that "the available indicators (…) confirm that the domestic activity expansion pace this year will be lower than the potential" (Banco Central do Brasil, 2022e, p.5, emphasis added). Nevertheless, it "unanimously decided to raise the Selic rate by 0.50 pp, to 14.25% p.a., without bias. The Committee understands that maintaining this level of the basic interest rate, for a sufficiently long period, is necessary for the convergence of inflation to the target at the end of 2016" (Banco Central do Brasil, 2022e, p.6, emphasis added).

[20] BNDES disbursements, in BRL constant prices (June 2022), fell from approximately BRL 19.2 billion on average per month in the 2004-2015 period to only BRL 7.2 billion per month on average in the 2016-2021 period (BNDES, 2022).

Economy two months later, defended the resumption of privatization and explicitly stated that he opposes the policies that had been in place in previous years. He said, "this social-democratic model is bad, we are prisoners of low growth, we have high taxes, (…) we trade with few countries." [21]

At first, mainstream economists and media attempted to remain silent about the decade of prosperity and focused comments only on the 2015-2016 recession, as if it were possible to subsume a decade in two years.

As time passed and the resumption of growth did not occur, mainstream analyses tried to cloud the perception of failure of this second conservative wave and that of the success of the more social-democratic period that preceded it. To cite an example, the January 2020 article "Brazil's stagnation" is solely about the 40-year average of economic growth:

> 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 that one recorded in previous decades, shows that, most likely, the country has not yet finished dismantling the development model that failed in 1982.[22]

This refusal to acknowledge a decade of economic growth starting in 2004, a period of social-democratic government, can also be found in other analyses and commentaries. However, such averages based on 30 or 40 years are misleading about the pronounced differences among the economic phases of 1991-2003, 2004--2013 and 2014-2021.

The poor economic performance that started in 2014 is nothing like the 2004–2013 period.

Between 2014 and 2021, Brazil recorded a negative average per capita growth of 0.9% per year.[23] This is probably the worst phase in the country's economic history.

The year 2020 was affected by an exogenous shock due to the COVID-19 pandemic. Likewise, economic performance of the period 2004-2013 suffered the exogenous shock of the 2009 international financial crisis. In each phase, the average growth of the shock year and recovery year nears the average of the respective period. That is, the average per capita growth for 2009-2010 (2.7%) is close to the average for the period 2004-2013 (3,0%), and that of 2020-2021 (-0.3%) is not far from the average of the period 2014-2021 (-0.9%), as illustrated in Graph 1. This suggests that these events do not significantly change the underlying growth trend of each phase.

Between 2014 and 2021, industry (value added) fell 2.2% per capita per year

[21] *IstoÉ* (2018).

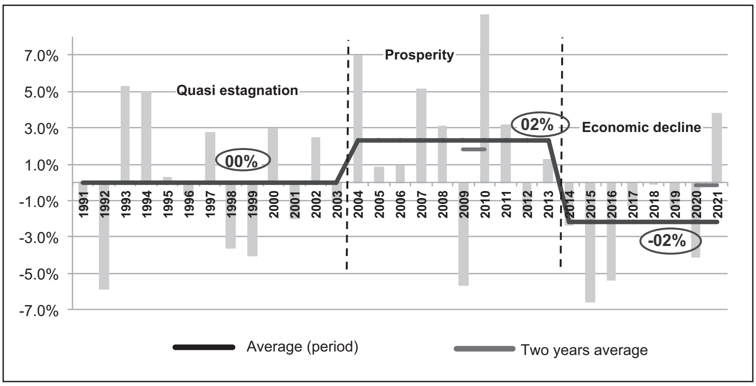
[22] Romero (2020).

[23] World Bank (2022b).

on average.[24] The performance of manufacturing industry also was negative, falling 2.6% per capita per year on average.[25]

When analyzing the performance of industry, as shown in Graph 3, the average for 2009 and 2010, shock and recovery years, was 1.8% per year. This is close to the pattern of the 2004-2013 decade (2.3% per year). In 2020 and 2021, the shock and recovery years showed stagnation on average (-0.2%), but this is still better than the disastrous average for the period 2014-2021 (-2.2% per year).

Graph 3: Industry *per capita* rate of growth (%) – Including Construction



Source: World Bank (2022c, 2022d).

The GFCF/GDP started to decline in 2014 and remained at an extremely depressed level for five years: approximately 15.5% on average between 2016 and 2020. Despite a modest rebound in 2021, GFCF has been as low as 16.8% of GDP, on average, from 2014 to 2021.[26]

The IBGE/PME (Monthly Employment Survey from the Brazilian Institute of Geography and Statistics) unemployment series was discontinued in 2016, and the series IBGE/PNAD (Continuous National Household Sample Survey from the Brazilian Institute of Geography and Statistics) started only in 2012. Even so, the trajectory inversion of the labor market between prosperity years and those of economic decline is obvious in the Graph 4. In the new series, unemployment rate rises from 7.3% in 2013 to 11.4%, on average, in the 8-year period from 2014 to 2021.[27]

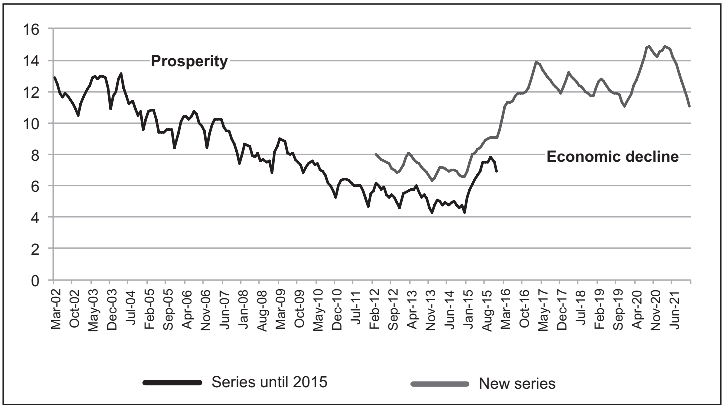
[24] World Bank (2022c, 2022d).

[25] Fundação Getulio Vargas (2022); World Bank (2022d).

[26] World Bank (2022e).

[27] Instituto de Pesquisa Econômica Aplicada (2022c).

Graph 4: Unemployment Rate



Source: Instituto de Pesquisa Econômica Aplicada (2022b, 2022c).

Thus, especially when it comes to the description of facts (e.g., economic growth, stagnation, quasi-stagnation, economic decline), it is not appropriate to treat the last 30 years as a single phase. As observed, since 1990, the Brazilian economy has experienced three markedly different phases in terms of GDP growth, industry growth, GFCF/GDP, employment level, and other important economic and social statistics. It seems more productive to analyze each of these periods in their specificities. Not only this is a more trustworthy presentation of the data, but it also allows drawing more accurate conclusions. A proper explanation for 10 days of sunshine and 10 days of storm will rarely emerge from the hypothesis that one is looking at 20 days of mild weather.

5. A CONTRIBUTION TO THE NEW-DEVELOPMENTALIST ANALYSIS OF RECENT ECONOMIC HISTORY

New developmentalism considers that the policies implemented between 1930 and 1980 contributed to a successful process of industrialization and accelerated growth of the Brazilian economy. The external debt crisis of the 1980s interrupted such successful trajectory.

In the 1990s, when the external crisis was finally overcome, though, the resumption of growth was thwarted. Although not advocating a return to the import substitution model of the previous years, new developmentalism attributes this phenomenon to the adoption of a neoliberal economic agenda and the abandonment of economic policies favorable to growth:

> In the 1980s, the developmental governments in Latin America failed to over-come the Foreign Debt Crisis, and, in the 1990s, they bowed to the new truth that was coming from the North. The countries engaged not only in required structural adjustment policies led by IMF,

> but also in neoliberal reforms coordinated by the World Bank whose validity was questionable. Not surprisingly, the reforms were adopted but the countries failed in resuming growth. Instead, we saw a deterioration: increased financial instability, low growth rates and the deepening of inequality.[28]

The main causes highlighted by new developmentalism to explain the decline in economic growth since 1990 are summarized as follows:

> 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 an exchange rate policy; and (c) the establishment of a high-interest rate level around which the Central Bank manages the monetary policy. (…) Brazil does not consider that an appreciated currency encourages consumption while discouraging private investment in the industry sector. The political omission refers to the government's lack of interest in increasing public investment and, to that end, seeking to recover public savings, which had fallen dramatically in the 1980s.[29]

The criticism formulated here regarding any analysis that treats the last 30 years as a relatively homogeneous economic period also applies to the simplification adopted by Bresser-Pereira in the article "Brazil's quasi-stagnation and the new developmentalism," as cited above. However, it is not the case of refuting or minimizing the relevance of the new-developmentalist diagnosis on the inflection of the 1990s.

In fact, the analysis of the years 2004-2013 conducted herein supports two fundamental propositions: (i) that the economic performance of that decade is quite distinct from previous and subsequent years, thus, it is inappropriate to treat the last 30 years as a single economic phase; (ii) that the new-developmentalist thesis that the policies introduced in the 1990s undermined Brazil's growth rates can still apply.[30] It is possible to recognize the robust growth of the period 2004-2013 as a significant economic phenomenon and still preserve the developmentalist criticism to the 1990s economic reforms. The performance of that decade can then be explained by other policies, new circumstances, and also a different stance when managing the economic arrangement inherited from the 1990s.

Although the definition of any economic phase is always subject to some simplification, its legitimacy must rely on a set of fairly homogeneous characteristics.

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[28] Bresser-Pereira (2019, p.227).

[29] Bresser-Pereira (2022, p.517).

[30] Other lines of analysis are not the subject of this paper.

It is possible to identify such homogeneity in each of the three phases described in sections 2, 3, and 4 above, but not in the last 30 years, if treated as a unit. Across all the key variables whose performance distinguishes "growth" from "stagnation," the three phases are clearly distinct. Additionally, important differences highlighted do not refer to a year or two; thus, they can't be considered random oscillations.

This periodization neither uses calendar criteria nor institutional periods (inauguration of presidents or induction of finance ministers). The inflection points in 2004 and 2014 emerge from direct observation of GDP growth data.

The identified phases are all relevant. They are even longer than one of the most consecrated references in the country's economic history: the so called "Economic Miracle" of 1968-1973 lasted for six years only and did not coincide with a presidential term or calendar decade.

To recognize that Brazil has not been quasi-stagnant since the 1990s, but underwent 13 years of quasi-stagnation, 10 years of prosperity and 8 years of economic decline will help strengthen the new-developmentalist analysis.

Another reason for new developmentalism to be vocal about the remarkable economic performance of 2004-2013 is that such experience is still fresh in the memory of a large portion of the population. Explicitly addressing this period rather than subsuming it under an inadequate general description of "quasi-stagnation" should contribute to reinforcing the credibility of the new-developmentalist analyses. Those who have been through that period or have family members who have would know that those years were nothing like a "quasi-stagnation". It also seems difficult to argue that 10 years is an irrelevant time in an analysis of economic history that covers 30 or 40 years in total.

The purpose of this study is not to discuss all of the causes and circumstances that explain the favorable economic performance of the decade that began in 2004. At this point, it claims only for an adequate description of the phenomenon.

Even so, in the sense of demonstrating that new-developmentalist approach can indeed explain the existence of a recent decade of prosperity, without contradicting the four negative factors highlighted in Bresser-Pereira's diagnosis of the changes in the 1990s. Some elements are listed below.

Among the favorable factors to be considered in an investigation to explain the prosperity of 2004-2013, it is possible to include (i) improvement in the external accounts provided by a *commodities* boom; (ii) expansion of social programs and a gradual increase in the minimum wage, with their positive effects on effective demand; (iii) increase in investments by state-owned companies and, albeit modestly, in public investments; (iv) support to private sector investment through promotion policies by public banks; (v) mobilization of previously idle work force, due to previous high levels of unemployment;[31] (vi) coordinating role of the state in the de-

[31] This is an especially interesting aspect to be analyzed under the developmentalist insight that "underdeveloped countries did have hidden reserves (...) not only of labor, but of savings, entrepreneurship, and other resources" and that the challenge is how to activate them (Hirschman, 2013, p.53).

velopment of supply chains of the oil and gas sector; (vii) relaunch of the housing construction industry through a set of legal, tax and financial measures; and (viii) an extremely successful management of counter-cyclical policies in response to the 2008-2009 international financial crisis.[32]

It is very unlikely that any comprehensive economic program will meet political and economic conditions to be implemented in its entirety. Thus, it is important to acknowledge the accomplishments of the times in which much of an economic agenda was implemented, albeit with exceptions. That is another reason for new developmentalism not to be silent about the 2004-2013 outstanding performance: the policies of that period were aligned with several priorities of new developmentalism.

Addressing the main exception initially, the recommendations of new developmentalism regarding full neutralization of the Dutch disease[33] and maintenance of an industrial equilibrium exchange rate[34] were not achieved during the period of 2004-2013. The exchange rate appreciated more than such policies would recommend.

However, it should be noted that the appreciation of the Brazilian Real did not occur without countermeasures, which sought to mitigate it. For six years, except during the semester that followed the 2008 international crisis, the government intervened in the foreign exchange market, buying dollars. Such policy withdrew from the market excesses (or a great part of excesses) of foreign exchange provided by a phase of exceptionally high prices of exported *commodities*.

International reserves, which ranged between $30 billion and $75 billion between 1995 and 2005, thus began to rise sharply in 2006, reaching $370 billion in 2012.[35] During the period when the foreign exchange market was particularly strong, the government also imposed a Tax on Financial Operations (IOF) on a variety of inflows of foreign currency and on foreign exchange swap operations.[36] All those policies are among the instruments with which a new-developmentalist exchange rate policy would seek to achieve its goals.[37]

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[32] In 2009, the federal government's directive to support the expansion of public bank's credit and the coordination of expectations to support the "*animal spirits*" of the private sector were extremely successful, providing a very low cost/benefit outcome in facing the crisis. The decline in GDP in Brazil was only 0.1% (World Bank, 2022a), with a much lower fiscal cost than in developed economies: the nominal deficit was only 3.2% of GDP (Secretaria do Tesouro Nacional, 2022). The US had a recession of 2.6% of GDP (World Bank, 2022a), with a nominal deficit of 9.8% of GDP (Office of Management and Budget, 2022). The Euro Zone registered a 4.5% recession (Eurostat, 2022a), despite fiscal expenditures which caused a public deficit of 6.2% of GDP (Eurostat, 2022b).

[33] Bresser-Pereira (2008).

[34] Marconi (2012).

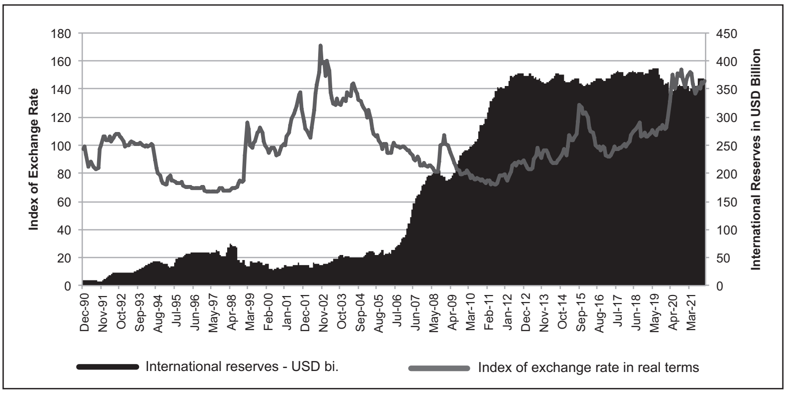
[35] Banco Central do Brasil (2022f).

[36] Cagnin et al. (2013, p. 176).

[37] The possibility of introducing variable taxation on commodity exports according to their international price, described by Bresser-Pereira (2022, p.528), for example, would only have an effect on the

In addition to being a vector against the appreciation of the exchange rate, the policy of accumulating reserves implied that the decade of 2004-2013 marked a qualitative and lasting change in the country's international solvency position, thereby meeting the historical structuralist concern with balance of payments crises. As witnessed in the 1980s, such crises can have devastating effects on growth and inflation.

Graph 5: Foreign Exchange Policy and the Exchange Rate



Source: Banco Central do Brasil (2022f, 2022g).

The 2004-2013 period also outperformed others in terms of the new-developmentalist proposition that growth should not rely on foreign savings. During the quasi-stagnation from 1991 to 2003, the average current account deficit was 1.9% of GDP. In the most recent phase – the economic decline from 2014 to 2021 – this deficit averaged 2.4% of GDP. The boom years – from 2004 to 2013 – recorded the lowest current account deficit of the three periods: 1.2% per year on average.[38] This is far below the reference of 3.0% of GDP often cited by those who advocate growth through foreign savings.[39]

The 2004-2013 period economic policy was consistent with developmentalist priorities regarding aggregate demand and the pursue of full employment. Policies to promote credit for investments and consumption were implemented. Medium-term policies to raise the minimum wage were implemented. Social programs expanded. Public investments increased. Indeed, unemployment has been reduced to levels that can be considered close to full employment. To some extent, monetary

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exchange rate if it were associated with the purchase of reserves in an amount equal to the amount collected. If taxations were introduced and the Central Bank did not buy reserves, revenue would increase; however, the exchange rate would appreciate just the same, as exporters would have to sell dollars to buy the Brazilian Reais with which to pay the new taxes.

[38] World Bank (2022i).

[39] For instance, Franco (1998, p.138).

policy also weighed the objectives of growth and low inflation, having accepted a longer time horizon for inflation to converge to the centre of the inflation target in 2012 and 2013, when economic growth weakened.

Government decisions during the years 2004-2013 were consistent with new-developmentalist stance regarding the preservation of financial stability (although this stance is now quite universal). In facing the severe global financial crisis of 2008-2009, the government supported public banks, which, in turn, implemented bold credit expansion guidelines to counterbalance the *sudden stop* in credit supplied by private banks.[40]

The National Treasury provided additional funding to BNDES, which, in turn, created attractive credit lines to promote investments. Banco do Brasil acquired two medium-sized banks (at least one threatened by the crisis). The scope and strength of the credit guarantee fund (FGC) was increased to support confidence in the financial system. This set of actions prevented a *sudden stop* in the supply of credit to the private sector and averted speculation that a bank run might ensue.

Regarding structural change, although manufacturing industry grew less than the GDP, there was some compensation with the greater expansion of the extractive industry, especially mining, which in the 21st century incorporates more technology than in the 1950s and 1960s, when the structuralism critique of *commodities* production was formulated. The mining industry currently has job positions with salaries similar to those in manufacturing. Moreover, in this vein, the significant formalization of the labor market and the sharp reduction in unemployment are consistent with the historical structuralist concerns over the abundance of labor supply and its negative effect on wages in Latin American countries.

Even when examining the manufacturing industry separately, it does not seem appropriate to treat the following as a single phase: on the one hand, in 10 years from 2004 to 2013, the manufacturing industry grew 1.5% per capita a year; on the other hand, in the previous 13 years, the per capita growth of manufacturing industry was only 0.3%, and in the 8 years following 2013, there was a per capita decline of 2.6% per year.[41]

During 2004-2013, the share of the manufacturing industry in GDP declined, not because the industry stagnated or regressed, but because the GDP grew robustly. Although, according to the new-developmentalist paradigm, industry should lead growth (which, in fact, did not happen) and deindustrialization is commonly measured as a diminishing percentage of industry/GDP, it is critical to distinguish between periods of industry expansion and times of industry stagnation or retraction.

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[40] On the eve of the crisis, in September 2008, the nominal rate of credit growth (12 months change in outstanding balance) was 34% for public banks and also 34% for private banks. By September 2009, private banks had reduced their expansion to 5%. However, the total growth in the supply of credit slowed only to 15%, thanks to the continued expansion by public banks, at a pace of 39%. Only in December 2010 would private banks (expanding 20% in 12 months) return to the pace of public banks (22% in 12 months). Central Bank of Brazil (2022h).

[41] Fundação Getulio Vargas (2022); World Bank (2022d).

If this is ignored, new developmentalism could fall into the paradox of celebrating a period in which industry falls by 1% per year and GDP falls by 2% per year (as the industry/GDP ratio would grow) and rejecting a phase in which industry grows 2% per year and GDP grows 4% per year (because the industry/GDP ratio drops).

Developmentalism also highlights the importance of capital accumulation as a lever for growth and an instrument for incorporating technical progress. The period of 2004-2013 was marked by a significant increase in GFCF/GDP.

Finally, during the 10 prosperous years beginning in 2004, there were more than one initiative focused on investment planning, industrial policy, and regional development. Although the results were only partial, these measures are coherent with the developmentalist belief that the state and public policies should play a relevant role in national development strategies.

For all these reasons, conveying the idea that the 2004-2013 period is part of what "should not be pursued", namely, a "quasi-stagnation", does not seem appropriate for new developmentalism. It is a decade of undeniable prosperity and much of what has been accomplished (although not everything) has been consistent with what new-developmentalism advocates.

6. FINAL REMARKS

New developmentalism uses the historical-deductive method, which has a long tradition in Western thought. It claims that this is a superior method for social sciences, emphasizing the criterion of adherence to reality. To preserve the merits of this method, it is essential to emphasize relevant historical facts and, thus, continue to refine analyses and theoretical formulations:

> [The] historical-deductive method does not proceed from simple assumptions, but from the observation of a complex and changing reality. (...) starting from observed sequences of facts and following them closely during the deductive process.[42]

An economic analysis of Brazil that seeks to enable new phases of development and ignores the decade of prosperity that occurred in the 21st century will tend to look for national references only in the central decades of the 20th century.

In the post-war scenario, Prebisch correctly pointed to the challenge posed by falling relative prices of *commodities* and the consequent trade balance fragility. During the decade of prosperity in the 21st century, policies aimed to support growth faced the opposite challenge: a rise in the relative price of *commodities* contributing to an excess of foreign exchange, causing appreciation of the exchange rate.

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[42] Bresser-Pereira (2009, p.166).

Just to mention a few references, in the post-war period, foreign exchange supply in the international market was related to the privileged position in which the US emerged from the conflict; to the European economic growth in the following decades; and then to the accumulation of dollars by the Organization of the Petroleum Exporting Countries (OPEC) member countries. Today, China's global supply of industrialized products and demand for raw materials are among the main determinants.

With regard to international capital flows, the current context is also very different from the one that prevailed until the 1970s. The world has gradually migrated from controlled exchange rates and relatively managed capital accounts, to floating exchange rates and less control over capital accounts.

In the post-war decades, oil imports were a critical item to Brazil. Currently, the country is a net exporter. The size of the state and that of the public debt have changed. The competitive position of the Brazilian industry is different. The economic and political relevance of rentier interests has grown.

In the 1950s, 60s, and 70s, the cold war influenced the political landscape. A dictatorship ran the country during half of that period. In the recent decade of prosperity, growth has been achieved within the same democratic framework that prevails today. Present-day political forces are quite different from those of the 1950s, 60s, and 70s. Whereas those who led the country in the decade of the prosperity of the 21st century are the same ones who take office in 2023.

The portion of the population with voting rights, the level of urbanization, the degree of education, and numerous other aspects of the social structure of the decade of 2004-2013 are still contemporary. Those of the post-war period are not.

Following the tradition of political economy, the effort to identify social and political conditions that support economic policies, that make them viable and legitimate, is part of the new-developmentalist agenda.

In every social, political, and economic aspects above mentioned – and in others not listed here – the analysis of 2004-2013 provides additional and more up-to-date evidence on Brazil's economic development experience. As a reference for the formulation of new-developmentalist programs and strategies, the conditions of this decade are much more similar to current ones than those that existed in the mid-20th century.

Incorporating an explicit treatment of the 10 years of prosperity that took place between the quasi-stagnation of 1991-2003 and the economic decline of 2014-2021 lends better quality to the discussion of Brazilian economic history.

An in-depth analysis of the various circumstances, policies, and outcomes of the most recent decade of successful development is a fruitful task that should contribute to further improve new-developmentalist thinking and, overall, to offer a better understanding of contemporary Brazil.

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