What About Brazil? The Rise and Fall of an emerging Global Actor

Ernani Contipelli
Director-General, Center for European Strategic Research (CESR)
Faculty of Juridical Sciences of the Unochapecó, Brazil
ernanicontipelli@gmail.com

Abstract
After the stabilization of the economy brought about by the Real Plan, and the hard-fought social benefits won during Lula's government, Brazil generated great expectations as an emerging global actor that was geared up to emerge as one of the leading economies in the near future. However, this dream turned into a nightmare when Brazil encountered a serious institutional and economic crisis that unmasked the truth about the policies of short-term gains used by the government, thus damaging the image of the country and frustrating the expectations concerning its future. The present article aims to present, in its first part, the arguments exposed by The Economist, and analyze Brazil's economic rise and fall. Thereafter, we intend to submit these arguments for a critical review, to reflect upon what has happened, is happening, and could happen to Brazil and its society, demonstrating the chronic problems that affect its production, industry and investments, and specific points that need urgent reforms to put the country back again on the track of sustainable economic growth.


Introduction
Brazil is world-renowned for its magnificent beaches, the Carnival, soccer, and a few years ago as a new and significant emerging global player that would rise up among the group of countries like Russia, India and China, and that would dominate the future of the world economic system. Brazil would also play a role in restructuring the global order around year 2050, according to the popular article written by the economist, Jim O'Neil, for the Goldman Sachs Bank's report "Building Better Global Economic BRIC's" (2001). This article generated great expectations about the Brazilian economy, and drew the attention of the world community to the country.

Following these expectations, in 2009, The Economist had on its cover page a picture of the statue of Christ the Redeemer ascending like a rocket from Rio de Janeiro under the rubric "Brazil takes off", to express the astonishing Brazilian economic growth. One of the arguments was the stabilization provided by the sociodemocrat, Fernando Henrique Cardoso, during the 1990s, and the acceleration promoted by Lula in the 2000s, a charismatic populist president who consolidated the power of the Workers' Party and groomed his successor, Dilma Rousseff, during two more terms in office.

But all these expectations and successes masked the structural problems that deeply affected the Brazilian economy over a long period of time. These problems emerged in 2012 when the economy grew only by 0.9%, when the people took to the streets in massive protests against the government policies that were not able to reduce the cost of living, to provide decent public services, and to eradicate the corruption that plagued the country. In 2013, The Economist changed its perspective about Brazil when it put on its cover page a picture of Christ lost in his flight over Rio de Janeiro under the rubric "Has Brazil blown it?", to demonstrate that expectations about Brazil were misleading, that its economy was not as solid as it seemed to be, and that the situation was getting worse.

In March 2015, on its cover page of the Latin-American edition, The Economist put on a samba allegory (traditional Brazilian folk celebration represented by the Carnival) "in a quagmire", literally the rubric of the magazine, to express the discontentment of the population with the politicians, government and, especially, the corruption that continued to prevail, by taking to the streets in a massive protest. Moreover, the Brazilian economy did not show any signs of growth but rather walked hand in hand with recession, and high taxes and interest rates.

The present article aims to discuss, in its first part, the arguments presented by the The Economist, to analyze the Brazilian economic rise, losses and fall. Thereafter, we intend to submit these arguments to a critical review to reflect upon what has happened, is happening, and could happen to Brazil and its society, demonstrating the chronic problems that affect its production, industry and investments, and specific points such as the tax system and labor laws that need urgent reforms to put the country back again on track to sustainable economic growth.

1. Would Brazil take off?
In 2009, The Economist put on its cover page one photo of the Rio de Janeiro's Christ launching into the sky to represent the growth of Brazil, highlighting the country as one of the most important current emerging powers. The article referenced the famous report of Goldman Sachs that previewed the economies that would dominate the world in 2050, positioning Brazil along with Russia, India and China, thus generating the acronym BRIC.
During this time, one of the major arguments for justifying the sort of expectations about Brazil was a projection of its economic growth at an annualized rate of 5%, and the possibility of increasing this rate with the new deep-sea oilfields (Pre-salt) and the trade commodities (food and minerals) with Asian countries. Brazil would become the world’s fifth-largest economy by 2014.

Compared with China, India and Russia, Brazil presented a set of benefits related to its consolidated democratic system, the absence of internal religious and ethnic conflicts, and the unity of the country. This was further strengthened by the quality of its exports and the respectful treatment of foreign investors, and the efforts to reduce inequalities by developing social policies. Supported by these qualities, Brazil won the right to host football’s World Cup in 2014, and the 2016 Olympics.

According to The Economist, part of Brazil’s current success has its origins in some economic policies that were adopted in the 1990s based on inflation control, open markets to foreign trade and investment, and privatization. This processes “helped spawn a troupe of new and ambitious Brazilian multinationals. Some are formerly state-owned companies that are flourishing as a result of being allowed to operate at arm’s length from the government” such as the national oil company, Petrobras, and the aircraft maker, Embraer. Moreover, the new Brazilian market was able to sustain the growing consumption of its increasing middle class which attracted foreign investment.

However, the article already highlights the unpunished corruption, the excessive spending of public money—especially social security and pension—and the need to improve the education system and infrastructure of the country. Another problem mentioned was the question about incentives for Brazilian industry that suffered with the complex and excessive tax rates and the high cost of its work force, systems that needed significant reforms, revealing some institutional problems that have to be included in the cost of doing business in Brazil, for example, the complex labor tax system and social security charges that require a company to pay at least nine separate taxes. Similar problems can be found in the slow pace of the judicial system, with long-running appeals, even if some progress has been achieved, such as the rationalization of the bankruptcy laws.

The propitious international context, marked by the commodities boom, helped Lula’s government, and his successor would face different problems and challenges especially related to the demand for innovation and diversity in national production. As a result, the article concluded that Brazil seemed to be on the right path, orienting its economy and policies toward a healthy democratic environment, a perspective that has changed in the last four years.

1.1. Real Plan and Family Allowance: Brazil under Cardoso and Lula.

During the early years after the process of re-democratization of the country, Brazil was not able to stabilize its economy, having recourse only to the traditional way of inflationary finance, and borrowing from external and domestic sources to cover the cost of government programs. Just to have a simple idea of this problem for society, in 1993, when inflation reached the unsustainable mark of 2.477%, all price tags had to be adjusted each morning, then again during the afternoon.

Fernando Henrique Cardoso, as Finance Minister of President Itamar Franco, presented a stabilization program based on fiscal adjustment and austerity by balancing the budget, and an indexing system that was bound to the US dollar, that would gradually lead to a new currency, the Real, that was inducted into the economy in July 1994. The first impact of the Real Plan was very positive with inflation rates under control, for example, the cumulative price increase in 1994 was 1.340%, while in 1995 it was down to 46,18%. This initial stabilization provided by the Real was directly tied to the adoption of a restrictive monetary policy, especially using high interest rates to keep inflation down4.

Nevertheless, the problem was that the policy of high interest rates had to be followed by fiscal reform, and a reduction of the debts of the government that would affect the employment of the public sector and the autonomy of the federal entities (member states and municipalities). Hence, Fernando Henrique Cardoso was more concerned with the approval of the Constitutional Amendment by Congress to run for a second term in office that became a reality in October 1998 with his victory in the presidential elections.

According to Edmund Amann and Werner Baer, the Real Plan was introduced in an ingenious way that brought domestic and international context credibility for the Brazilian government, making it possible for the economy to function in a stable manner for a long period. In the meanwhile, with the debt of the government mounting, and fiscal adjustments being constantly postponed, the credibility of the government gradually vanished5, and the path to inducting Luiz Inacio Lula da Silva to the Brazilian presidency was opened.

In October 2002, Luis Inacio Lula da Silva won the presidential elections and, as the first left-wing government, he promised institutionalized political and economic welfare reforms to reduce social inequalities, and pledged to eradicate poverty and hunger. Therefore, he expanded and reorganized the existing programs6 and combined all these into one package, the innovative “Bolsa Familia” (Family Allowance) Program in order to allow poor families that were registered with the municipal authorities to receive benefits: a small cash transfer in exchange for maintaining their children in school, and the availability of preventive healthcare visits.
It is important to mention that the Family Allowance program was administratively efficient and provided immediate benefits for millions of people, converting the philosophical basis of the Brazilian social programs from one focused on the poor to a universal one. As suggested by Ted Goertzel, the Family Allowance program is a market oriented program that meets urgent human needs, gives to people money to spend as they choose, stimulates the retail economy, especially in poor and rural areas, and is immensely popular with the poor, so no one denounces it as neoliberal.

In order to guarantee the success of the program, the government significantly increased the number of beneficiaries as well the quantum of the benefits. Thus, during its first decade of functioning, the results of the Family Allowance program were a remarkable reduction in the extreme poverty in the country from 9.7% to 4.3% of the population, and an inspiration for the adoption of the same programs in other Latin American countries and around the world.

The Family Allowance program played an important role in reducing poverty, particularly in the northeast of the country, thus helping to consolidate Lula’s broad electoral majority in the region, but it wasn’t immune to criticism, particularly by the opposition, that often accused Lula of electoral manipulation through the creation of a new kind of populism by buying voter loyalty from the poor families with promises of benefits.

In the economic field, Lula maintained the policies implemented by Fernando Henrique Cardoso based on inflation control and high interest rates, and associated them with certain state activism in order to expand the investments of the public sector particularly through the “Programa de Aceleracao do Crescimento”, PAC (Growth Acceleration Program). The PAC focused on investments in energy and transport, and the renewal of the infrastructure articulating public sector outlays with investments by state-owned and private enterprises, and it was supplemented by a significant expansion of credit by state-owned financial institutions and tax rebates to motivate markets and the private sector.

This favorable social, political and economic situation contributed to the re-election of Lula in 2006, and also made possible the success of his successor, Dilma Rousseff, who, unknown to the massive public voters, was a character constructed by the Worker’s Party based on the strategy of continuity of the Lula government that functioned very well: Dilma is the first woman who won the Brazilian Presidency in 2010, and she was re-elected for a second term of office in 2014.

Unlike her predecessor, Dilma has faced a series of big challenges in her administration, especially the containment of the institutional and economic crisis that took place in the country, in order to stabilize the economy and maintain its high level of growth that was won in the last decade. Also, this was to pacify the political ambience with their supporters, and the opposition and the animus of the population that clamored for changes after numerous corruption scandals involving entities and major authorities from the federal government.

2. Could Brazil blow it? Or is it already in a quagmire?

In 2013, The Economist changed its perspective about Brazil, putting on its cover page one photo of the Rio de Janeiro’s Christ lost in flight, under the emblematic question “Has Brazil blown it?”, because of the deceleration of the economy and the massive popular protests against the government, especially motivated by the “high living costs, poor public services and the greed and corruption of politicians”, which demonstrated the lack of faith in the growth of the country.

Among the issues faced by the Brazilian economy were the fall in commodity prices in the international context, the failure of the government to implement necessary reforms, such as in the fiscal system, and a labor law to stimulate domestic production and make the country more competitive.

Concerning this particular topic, the article stated: “Brazil’s public sector imposes a particularly heavy burden on its private sector. Companies face the world’s most burdensome tax code, payroll taxes add 58% to salaries and the government has got its spending priorities upside down”.

On the other side of the debates, some economists defended the measures adopted by the federal government justifying their arguments on the fact that the increase in the tax burden and the public deficit were effects of the social contract proposed by Dilma which prioritized the reduction of inequality instead of economic growth, thus showing a direct relationship between the escalation of the public deficit and the just redistribution of income among society.

Another problem that was forewarned by The Economist in 2009 is related to excessive government spending on the unreasonable Brazilian pension system (despite the young population of the country). On the other hand, the government investments in infrastructure were still insufficient to reduce the cost of production, for example: “In Mato Grosso a soya bean farmer spends 25% of the value of his product getting it to a port; the proportion in Iowa is 9%”.

Furthermore, President Dilma Rousseff seemed to be unable to deal with these complex issues, and shocked Brazil’s reputation that was hard-won during the growing years of its economy, and was now presenting an intervention policy that scared away investors from infrastructure projects, while the interest rates kept rising, causing the ghost of inflation to reappear, and the gross public debt to increase.
The criticism over Dilma’s government began in her first year when she adopted a strong fiscal adjustment and other austerity policies that, in 2011, caused a disastrous fall in public investments of up to 12%. Of course, this fall occurred in the context of deceleration of the global economy, and to reverse the situation, Dilma chose a competitive agenda to stimulate consumption and tax especially for industry. However, the measures weren’t binding on production, export, or investment, and the market response was negative, which caused a large fiscal deficit for the government so that recession and pessimism took hold of the country.

Some sectors sustained good expectations about Brazil, such as food and oil exporters, jewel manufacturing, the development of strategic research (biotechnology, genetic sciences and deep-sea oil and gas technologies), and the consumption of its expanding middle class.

Nevertheless, Brazil needs to implement some urgent reforms to reshape public spending (especially pensions), to make its economy more competitive and attract investments, to rethink its foreign policy and participate in multilateral dialogues that confirm its regional leadership, to review the political system that secures seats in Congress, and other changes to make legislators more accountable to voters. In 2013, The Economist concluded its article stating: “Brazil is not doomed to flop: if Ms Rousseff puts her hand on the throttle there is still a chance that it could take off again”, something that did not happen for the next two years.

After the presidential election that determined a new term of office for Dilma Rousseff, the Brazilian economy is still in a mess with prospects of recession, high inflation, a squeeze on wages, rising consumer debt payments, and especially a vast corruption scandal at Petrobras, the state-controlled oil giant (involving allegations of kickbacks of at least US$ 1.6 billion), putting the country “in a quagmire” that will be hard to escape.

In this political scenario, the country is divided. Rousseff won the election by the narrowest of margins. The effect was the first defeat of Dilma’s candidate at the lower house of Congress, putting her government in a semi-parliamentary model. Moreover, the corruption scandal involving members of her Workers’ Party (PT) is progressively lowering her popularity and putting off investors from the country, which is a sign of a stagnant economy.

The Economist, March 2015, Latin American edition, cover page

Inflation reached 8.4%, the highest level since May 2005, and the interest rate was 13.75%, the highest level since January 2008. Another significant indicator of the Brazilian economic health concerned the “Brazil risk” that was pointed out by JP Morgan. It presented the highest value since May 2009, which reflected the uncertain environment generated in the market as a result of the current institutional crisis of the country.

The problem is that the current economic policy proposed by the Finance Minister, Joaquim Levy11, seems to repeat the same mistakes committed during Dilma’s first term of office, based on the idea that fiscal austerity brings economic stabilization and generates growth. But, in the logic of the productive forces, it isn’t the austerity policy of the government that generates development, instead, periods of fiscal adjustment generate a fall in the demand and a reduction in investments.

In the latest events concerning the Brazilian economic and political crises, more than half a million people took to the streets in a massive protest in the principal cities of the country, the biggest since 2013, to demonstrate their dissatisfaction with the government, especially, the recession that took place and the scandal at Petrobras involving many politicians.

The targets of the protesters demands are Dilma Rousseff and the Worker’s Party. People were clamoring for her impeachment, and on some occasions for a military coup, presenting some risks for the democratic institutions of the country that were considered, especially at the international level, consolidated.

3. But, what about Brazil?
The three articles of The Economist reveal some primary social and economic issues that Brazil should have confronted to promote a real projection of construction of a solid and well-structured state since the moment that the country “took off” in 2009. On the economic side, we can notice that the constant policy of austerity which included fiscal adjustments...
with high tax burdens and interest rates damaged production, and resulted in the current low investments, recession and stagnation.

Concerning social affairs, despite the recent gains, especially related to upward social mobility which has generated an expansive middle class with purchasing power, the income inequality hasn’t achieved the promised growth rates, which represents an institutional problem for the country, considering the recent corruption scandals and inability of the government to deal with this question, which generates frustration and accusations by the citizens.

Considering these two major factors (economic and social), it is important to analyze the arguments that have been exposed by The Economist in its articles in order to explain the rise and the current free fall of Brazil as an emerging global actor.

As we have seen previously, our history begins in the 1990s when Brazil adopted economic policies to control inflation, especially through the “Plano Real” which has a mentor in the former sociodemocrat President Fernando Henrique Cardoso. It is important to clarify that during the 1980s, a period known as the “lost decade”, the political and economic ambience was marked by a period of rising inflation, chaotic macroeconomic policies, and high levels of state intervention. The end of this decade was dominated by a feeling of hopelessness without a vision of any solution for the crisis, and the country on the brink of hyperinflation.

It is a fact that the Real Plan was able to give stability to the Brazilian currency bringing annual inflation down to single-digit levels associated with some neoliberal initiatives, such as trade liberalization, privatization and deregulation to face international competition. Because of all these, the 1990s are characterized as the “decade of market-oriented” 12, but, on the other hand, these economic measures created a perverse logic which imposed on the country a set of macroeconomic imbalances that, in the end, damaged the possibility of sustainable growth.

The Real Plan wasn’t thought of as a long-term project followed by structural reforms oriented to the productive sector that would allow Brazil to develop strategic sectors of its economy. In other words, Brazil changed its traditional policy of the 1980s “stamp money” to cover public deficit, generating inflation for austerity, high tax burden, and interest rates in order to support its economy, instead of investing in the diversification of its industries and human capital.

Furthermore, the policy of privatization proposed by Fernando Henrique Cardoso, among various other reasons, was used to generate financial resources to sustain, in a short term, the economic stability supporting the public deficit, without concern for an infrastructure plan that would give the country the possibility to unite investments of the private and public sectors. Besides, the state monopoly is replaced by the private oligopoly that has as its main objective the recovery of money paid for privatization and, in some occasions, practicing policies that generally are opposed to the traditional ideas represented by the public sector causing a redefinition of the role of the State over the economy and social order.

Of course, privatization played an important role in containing the public debt during Fernando Henrique Cardoso’s government, and to sustain the Real Plan, especially with the large sales in 1997-1998 that attracted foreign investors which helped to finance Brazil’s high current account public deficit that, in December 1999, was 8.4% of its GDP, lower than what it would have been in the absence of privatization13.

During his government, Lula da Silva maintained the economic policies implemented by Fernando Henrique based on high taxes and interest rates, and added to this model a wide net of social programs like the “Bolsa Família” that allowed him to create a strong electoral base that gave the Worker’s Party four consecutive terms at the presidency of the country, 16 years of controlling the nation (two terms with Lula and another two with Rousseff).

Lula’s first government aimed to tackle the fiscal adjustment policies and generation of primary surplus as a way to compensate the public debts that had, as a consequence, the reduction in public investments. In his second term, the economic policies were more flexible and associated with a program of public investment with the PAC, and an extension of the actuation of the BNDES (National Development Bank), allowing the expansion of credit for consumption and a real increase in the minimum wage.

Despite the significant social policies implemented during his presidency, as we can notice, Lula’s economic policies followed the way of his predecessor, Fernando Henrique Cardoso, giving rise to some doubts about the real ideological orientation of the government: was it devoted to the interests of the working and marginalized classes of the society, or was it just a continuation of the neoliberal policies started by the sociocentrists?

Lula’s hybridism was able to preserve part of the ideological left-wing tendency of his political career, and simultaneously combined a pragmatic program for the government that lead to the existence of two blended and apparently contradictory souls at the Workers Party, as suggested by Andres Singer (2010: 110). The guidelines of the federal policies for the periods of 2011 and 2014 reflected these possible contradictions as the economic stability and the defense of income redistribution are in the same plan among the foundations of government proposals.

It is known that Lula was a lucky president, as mentioned by The Economist. He received a favorable international comment on his government because of the boom in commodities which would give Brazil the chance to “take off”. But the problem is that once more the reforms that were necessary for the development of the country were postponed, and the country changed the possibility to rethink its structural idea of State to a short-term policy of gain, focusing its activities in exporting its natural resources with its trading partners, instead of taking the opportunity of the favorable moment to innovate its production and industry with a massive investment in human capital.
All these economic issues that have not yet been solved brought serious consequences for Brazil after the commodities boom. The fall in the prices of commodities in the international scenario associated with the economic recovery of the USA and the European Union, after the crisis of 2008, generated a collapse in emerging countries, such as Brazil. In the domestic context, the new federal government headed by Rousseff, again preferred the path of austerity, thus reducing its investment capacity and generating uncertainties in the market. 

Besides, the social policies and investments proposed by Lula as the PAC became nothing more than a fantasy, deteriorated by the corruption and pragmatic political alliances formulated by the Worker’s Party to win the presidential election with Rousseff.

The Rousseff government is marked by hyper activism. She has made clear her skepticism towards the market, and her preference for State intervention in conducting the process of economic development, constantly imposing changes in several important aspects of the macroeconomic policies such as the rules for foreign investments and the tax systems for some strategic private sectors without concern for their effects creating a high level of insecurities for the market. 

Thus, we can say that Rousseff isn’t as lucky as Lula. In 2011, the year that she began her government, the Brazilian GDP fell to 2.7% from 7.5% in 2010, and currently, the economic growth is coming in at only 0.9%. Moreover, the public sector in Brazil is still a paradox because consumption is at 40% of the GDP, reaching the same level as Europe, without offering the population the same quality in public services.

Brazil wasn’t prepared to face the impact of the ending of the commodities boom. As pointed out before, the country didn’t take advantage of the opportune moment to implement reforms to reduce costs of production, especially its tax system and labor laws, and concentrate its efforts in the trading of commodities. As a result, the economy is stagnant, and the people are clamoring against high living costs, poor public services, and corruption.

Another important factor that contributed to the current crisis is the frustrated expectation about oil extraction from ultra-deep water (Pre-salt) that would turn Brazil into a major energy player. The costs and delays of getting at the oil turned the billions invested in equipments and technology into a problem for Brazil. At the same time, different options of energy sources emerged as the shale gas deposits unlocked by hydraulic fracturing technology (fracking) in the USA presented more possibilities to buyers, and reduced Brazilian enthusiasm about pre-salt.

Furthermore, the government changed the regulatory framework for oil exploration, in the case of Pre-salt, from a concession model (transfer of the activity) to participation (sharing the cost of the production), which was seen by the market as a rupture of confidence on the stability of the juridical order of the country by ideological motivation.

Besides, the problems related to Brazilian oil leads to social claims which are deeply affecting the second term of Rousseff. Petrobras, the Brazilian state-owned oil company, is in the middle of a corruption scandal that implicates important politicians in kickbacks for contracts involving the company which may total US$ 1.6 billion. There are rumors that the money was used to finance the electoral campaign of the Worker’s Party, and also that Rousseff could be involved, as she had previously headed the company’s board of directors during the majority of the alleged events.

With this sort of events, the Brazilian people are getting tired of the attitude of their politicians, demonstrating clearly their intolerance to corruption with massive protests in the major cities of the country. Meanwhile, Rousseff shows her inability, first, to deal with these angry citizens who are clamoring for some dignity and, second, to implement the structural reforms which the country needs in order to recover from its deteriorating economy.

Conclusion

It is obvious that Brazil enjoyed some social benefits with its economic stabilization provided by the Real Plan, particularly, during the Lula government, when poverty and inequality were the targets of his policies, as was the Family Allowance program. It doesn't mean that the struggle is over, although the gains and social issues are still a problem for the country’s development, for instance, in terms of basic education. According to the Organization for Economic Cooperation and Development (OECD) ratings, Brazil is below average.

These sorts of arguments demonstrate that Brazil urgently needs to rethink its political, economic and social behavior in order to structure in a long-term plan for the backbone of the country that could allow it to occupy a place as a regional and international protagonist nation. An overview of the development of Brazil’s contemporary political and economic histories reveals that the country is projected in pragmatic terms creating a perverse logic that damages its society.

Brazil has passed through a lucky period that wasn’t bound to a serious project to develop the policies of the country or to the capacity of the government to overcome its structural problems. All the expectations were related to some pure coincidences, as the existence of a young generation that could be transformed into a productive force occupying 80 million posts in the labor market from 2005 to 2025, or even the discovery of oil under deep sea (Pre-salt) that could make Brazil a major player in the international energy context; and, finally, the explosion of the commodities’ prices (commodities boom) that was able to mask, for some years, the problems related to Brazil’s economy.

Brazil seems to have reached the end of the tunnel, and there is no light in sight. Most of it is because of a series of government policies especially related to strict austerity measures and the management of interest rates in order to control the ghost of inflation that has detoured its way to a sustainable growth, and has deeply installed it in stagnation. The reforms that should have been implemented were postponed, and the country lost the ideal moment to ride the train of prosperity, undermining the proper scenario for political support to achieve the necessary changes, thus imposing an insurmountable challenge for Rousseff in order to overcome the current institutional and economic crises.
Castro (2014) rightly asks “what about Brazil?”, after the Real Plan and its living paradox: the government collects too much, spends a lot, and is always “without financial resources”. We believe that the government has to adopt an entrepreneurship behavior, and invest in a serious, long-term plan of innovation, infrastructure and diversification of the economy, implementing a fair tax system, simplifying its procedures and bureaucracy, stimulating production capacity and industry, and making it possible for Brazil to become the country of “today” as a real global player, and not as the usual “future” that never comes.

**Bibliography**


---

1 The present study was developed within the framework of the working group, Emerging Powers and Global Governance at the Center for European Strategic Research (CESR).

2 Ernani Contipelli is the Director-General and one of the founding members of the Center for European Strategic Research (CESR). Currently, he is a professor of Political and Constitutional Law at the Faculty of Juridical Sciences of the Unochapeco (Brazil). He earned two post doctorate degrees in Comparative Politics at the Universidad Complutense de Madrid and the Universitat Pompeu Fabra (Spain) and a PhD in Public Law at the Pontificia Universidade Católica de São Paulo (Brazil). He has academic field experience working as Visiting Research Professor in different countries such as Spain, Italy, France, Brazil, Mexico, Chile, Korea and China. He has published seven books and several articles concerning his research areas of interests: Constitutional and Comparative Public Law, Comparative Politics and Federalism, Latin American Studies, International Development Cooperation: Europe, Asia and Latin America, and Emerging Powers and Global Governance.

3 To have an idea about the expectations towards Brazil, its economic boom and entrance in the BRICS group, Larry Rohrer, in his book “Brazil on the Rise: The Story of a Country Transformed” (2012: 08), stated that: “For a Latin American country used to having to operate in the shadow of American economic and military might, that is heady company to be keeping. Membership in the BRIC group confers both prestige, for it is the BRIC group that is seen as symbolizing the transformation of the global economy in the twenty-first century, with the torch of dominance passing from the hands of the United States, Europe and Japan and having to be shared with these new powers”.

4 As suggested by Armando Castelar Pinheiro, Fabio Giambiagi and Mauricio Mesquita Moreira (2001: 14), before the Real Plan there were no less than five stabilization plans, based on price freezes or variants, all of which failed. The ingenuity of the Real Plan that made the crucial difference was the existence of a virtual currency known as the Real Unit of Value (URV) attached to the US dollar that worked for a period of four months to allow economic agents to adapt to this new unit. Therefore, the exchange rate, some basic prices such as public sector salaries, pensions, the minimum wage and tariffs charged by public utilities were compulsorily converted into URVs and the private sector could use the same index voluntarily for most other prices. Through this strategy, the government adopted the logic of the *dollarization*, without actually doing it or resorting to establishing a currency board.

5 AMANN and BAER, 2000: 1818.
The Lula’s Family Allowance program was especially innovative in its conditional transfers programs, such as the “Bolsa Escola” (School Allowance), which was an initiative of the federal government to eradicate child labor by entrusting money to poor mothers in exchange for maintaining their children in school. It is important to mention that the basis of Lula’s electoral campaign was the Fome Zero (Zero Hunger) program based on the concept of stimulating family agriculture to supply the local distribution of food to poor families, but this program failed most of the time because of its ambitious proposals and insignificant results. This fact was to focus the attention of Lula’s government on the Family Allowance.

GOERTZEL, 2011: 388.


MORAIS and SAAD-FILHO, 2012: 793.


The current Finance Minister Joaquim Viera Levy, in an article on the way to recuperate Brazilian development (2014), defended that fiscal accountability is essential for the economic growth of the country in order to impart confidence in investors, taxpayers and citizens. According to his ideas, the government must identify objectives for public deficit, more straight in the costs and less pressure on tax collections in order to focus on the reduction of the complexities of the fiscal system and stimulate the participation of the private sector in infrastructure investments.

One significant political fact about Brazil during the 90s is the establishment of Mercosur (1991), the South American free-trade agreement comprising Argentina, Paraguay and Uruguay that launched the country towards the global economic context by attracting foreign direct investments (FDI). Just to have an idea of the importance of Mercosur, between 1990 and 2004 the participating countries received almost US$ 300 billion in FDI that had a considerable impact on the microeconomic but not as much as on the macroeconomic field. Although the effects of the FDI in the Mercosur have not been necessarily uniform and Brazil seemed to be the biggest beneficiary of these investments, playing structural, size of the economy and its industrial development, and public policy factors, such as the existence of regulatory frameworks (CHUDNOVSKY AND LOPEZ, 2007: 20) that consolidate the country’s position as the strongest regional trade partner. Another relevant fact, was that in 2006, Brazil became a net foreign creditor demonstrating monetary reserves that led the country to feature as a real emerging international player who could consolidate this position in a few years if its domestic and foreign policies were conducted properly.

PINHEIRO, GIAMBIAGI and MOREIRA, 2001: 11.

The government’s team counted on focusing on the natural resources and infrastructure through partnership with the private sector, but with the fall in the prices of commodities, it did not seem to be the better choice to attract investments for the country. Besides, the partnership with the private sector takes too long and the major Brazilian companies that could participate in this process are involved in the corruption scandals. The result of this process is certainly recession with risks that put the country in a corner, and the political alliance falling apart creating plenty of obstacles for governance. For sure, as stated by Pedro Paulo Zahluth Bastos (2015), the expansion of public investment associated with a long-term plan of recovery of private sources of investment would be one of the best solutions for Brazil, even with the rise in the public deficit. According to the author, it is better to increase public debt through public investment, which could avoid recession, than to have the reduction of tax collection and escalation of interest rates that are caused by a period of stagnation.

CASTRO, 2014: 36. According to the author, the Brazilian Government took from the tax payers their financial resources that would normally be used for private investments, but didn’t convert this money into public investments or infrastructure works for the development of the country, and the result is that the whole society invests less than it could, always growing less than it potential could.